Argentina defaults on loan to World Bank

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Argentina defaulted Thursday on an $805 million debt to the World Bank. The decision by the government of President Eduardo Duhalde not to meet the payment came amid reports of child starvation and other signs of social disintegration within the country and increasing tensions in its negotiations with the International Monetary Fund.

The World Bank responded with a notice that it would halt any new loans and stop payments on $2 billion in old ones by next month unless Argentina made good on its debt payments. Included in the money to be held back is a $600 million in social loans that the country was to receive next week.

In announcing that Argentina would pay only about $80 million in interest on the debt, Duhalde and his ministers pointedly claimed that the default on the World Bank payment was necessary to comply with conditions recommended by the IMF. In particular, they cited the agency’s prescription that the Central Bank maintain reserves of at least $9 billion to back up the country’s currency.

“To pay under these conditions, would be risky for the way in which the economy is developing,” said Duhalde, who declared the government to be in a state of “emergency.”

It marked the first time that the government has opted not to meet debt obligations to the international lending institutions since last December, when, in the midst of massive social upheavals, president-for-a-week Adolfo Rodriguez Saá declared the country in default on some $141 billion in commercial debt.

An Argentine economic mission went to Washington this week with the aim of cementing a deal with the IMF for the renewal of the country’s credit line. Talks broke down, however, as the international lending agency advanced new demands on the crisis-stricken country and objected to limited measures taken by the Duhalde government in an attempt to revive the failing economy.

In particular, the IMF has objected to Duhalde’s announcement of a reduction in the Argentine sales tax from 21 to 19 percent. It has also demanded that the government raise public utility rates and move ahead aggressively in foreclosing on a quarter of a million mortgages that are now in default. Driving tens of thousands of families from their homes is seen by the agency as a necessary measure to restore investor confidence.

Such demands cannot be carried out without provoking another social explosion. Until now, the government has met its payments to the international lending agencies to the tune of some $4 billion over the past year, while enforcing conditions demanded by the IMF that have intensified the suffering of millions of Argentines.

Argentina’s gross domestic product has fallen 20 percent compared to four years ago. Salaries have remained frozen while the cost of living has climbed 60 percent. Unemployment has soared to an official rate of 20 percent, and fully half of the country’s households have fallen below the official poverty line, unable to afford minimum food, shelter and clothing.

In recent weeks Argentina, once among South America’s most prosperous nations and a food exporter to the world, has been rocked by reports that up to half a million children are in danger of starving. The country’s newspapers have carried stories of children eating dirt together with pictures reminiscent of Biafra. In the impoverished northern province of Tucumán, four children starved to death in the space of two weeks.

Among the most persistent demands being made by the IMF in recent weeks are political guarantees that the Argentine government will comply with any agreement that is signed. Duhalde has seen his popular approval ratings fall to single digits. He was appointed by the Legislative Assembly at the beginning of this year to fill out the remainder of the term of Radical party president Fernando de la Rua, who was forced out by a popular uprising.

Duhalde pledged to call early elections in March and turn over power to a newly elected government in May. While the IMF had pushed for the early vote, it has said little about the issue in recent months, while sections of the Argentine ruling elite are pressing for a return to the scheduled date next October.

No candidate has emerged within any of the traditional parties enjoying any degree of support. "Que se vayan todos," or kick them all out, the slogan of the mass demonstrations of last December, remains the popular sentiment towards the country's politicians. Former Peronist President Carlos Menem, whose corruption, sweeping privatizations and close ties to the US are blamed by most Argentines for the country's current crisis, has indicated that he will be a candidate.

In a statement released this week, a group of unions opposed to Menem issued a statement noting that during his 10 years in office beginning in 1989, the IMF "looked the other way when waste, corruption and the introduction of mafias into the state constituted the aims of this administration, which left the country in 1999 with a fiscal deficit of more than $11 billion, with its industrial base and agriculture destroyed, with the greatest unemployment in its history, poverty reaching levels never before seen and a currency fictitiously attached to the dollar." The statement likewise recalled that Menem maintained "carnal relations" with the US—a phrase coined by his foreign minister—and later cemented both a personal friendship and business ties with the Bush family.

Meanwhile, IMF officials have reportedly insisted that the Argentine Congress issue a public declaration promising not to pass legislation extending the moratorium on mortgage foreclosures and not to amend a newly enacted bankruptcy law. This politically humiliating demand is a measure of the agency's lack of confidence that any government will be able to enforce the conditions it is imposing in Argentina.

Duhalde, meanwhile, has called an emergency meeting of provincial governors and national legislators for Monday. "They should tell me what they want to do," he said. In reality, the Peronist president is attempting to corral his political opponents into backing his government's negotiations with the IMF and accepting the new austerity conditions, or take responsibility for scuttling the debt renegotiation talks.

An agreement with the IMF would mean only that Argentina would be allowed to roll over its debt to the agency until the end of 2003, thereby clearing the way to renegotiating its debts with the international banks. The end product of such an agreement would likely be another wave of capital flight rather than any economic revival.