Argentina on the brink of financial meltdown

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The crisis of the Turkish lira, driven by the strengthening of the US dollar, combined with the increase in US interest rates in recent months and sharply exacerbated by the Trump administration's imposition of punishing trade tariffs, has spread to a number of "emerging markets" economies, which borrowed heavily during the years of low interest rates. Argentina has now joined Turkey in imposing currency mega-devaluations, threatening a national economic collapse.

Last week, in a desperate attempt to keep the national currency, the peso, from going into freefall, the Central Bank of the Argentine Republic (BCRA) increased the short-term interest rate to 45 percent, the highest in the world, in a bid to attract profit hungry investors. The Argentine peso closed last Friday at 30.62 pesos to the US dollar, losing 22 percent of its value against the dollar in just the last three months, equivalent to an annualized devaluation of 124 percent.

Above all, the Argentine ruling establishment fears a bank run, which, given the intensification of the class struggle in the country, could detonate mass popular upheavals against the bourgeois state led by right-wing President Mauricio Macri.

The decision to hike the interest rate to 45 percent followed the Central Bank's inability last Thursday to sell sufficient amounts of its reserves to support the peso. Last Thursday, the bank "bid US$500 million, of which it sold only US$55 million," according to the Argentine daily *El Clarin*. The day before, the bank had successfully sold US$781 million. But on Tuesday the BCRA conducted an auction of US$500 million, managing to sell only US$200 million, according to Reuters.

Argentina has a credit rating of B, according to Standard & Poor's—equivalent to the rating of subprime mortgages prior to the collapse of the housing bubble that led to the world financial meltdown of 2008. Argentine country risk remains high at 667 basis points.

With massive outstanding short-term debt, Argentina is facing a potential calamity in the financial sector that provides industry, including transnational corporations, with the necessary credit to function. Access to short-term funds is vital for companies to pay workers' salaries.

In past years, this funding was made available by the Central Bank issuing Letras del Banco Central, Lebac, the Argentine equivalent of US Treasury bills. At this point, there are about 1 trillion pesos or US$33.5 billion of outstanding Lebac.

Since the Fed put an end to its quantitative easing policy, emerging markets are having difficulties in servicing their debt in US dollars, as well as in national currencies that maintain a high correlation to US interest rates.

By May 2018, as the financial crisis became apparent, Argentina secured a loan from the IMF for US$30 billion in a desperate effort to slow inflation and to prevent a bank run.

But the IMF loan was not enough to contain the devaluation of the peso. Over the past month it reached an annualized rate of 199 percent, comparable only to the Turkish lira.

The Central Bank and the Ministry of the Treasury are coordinating efforts to move away from short-term debt, the Lebac—usually with maturities of around 1 month—the Argentine equivalent to one-month US Treasury bills. As long as world interest rates remained low, the Lebac program became a major source of short-term funding.

BCRA President Luis Caputo has declared that the Lebac program needs to be completely dismantled by the end of the year. The notes are a major source of funding for Argentine banks, which hold about 50 percent of the Lebac, with the other 50 percent in the hands of common investment funds, public corporations, enterprises and individuals.

The Lebac will gradually be replaced by one-year maturity notes issued by the BCRA (Nobac) and letters of liquidity (Leliq). The latter is destined to become the main source of funding in the future. The cost of closing down the Lebac program is estimated at US$7 billion, which will come out of the Treasury reserves in US dollars.

In an effort to stabilize the economy, the Argentine government last week placed longer term debt—US$1.64 billion worth of government bonds maturing in 2020 (BODEN 2020) and US$514 million treasury notes (LETES)—with maturities of between 210 and 378 days.

As the US dollar strengthens against all major currencies, Argentina is looking to China to negotiate a currency swap—Chinese yuan vs. Argentine pesos—for US$4 billion, to be used in reinforcing falling reserves. This represents a move away from economic dependence on the US, despite the right-wing Macri's affinity for Donald Trump.

Argentina's inflation reached its peak in 2016 with an annual rate of 40.3 percent, the highest in the world, and in 2017 the Consumer Price Index rose 24.8 percent. It is expected that 2018 will close with an inflation rate of between 30 to 40 percent, more than double the BCRA target.

In remarks delivered Friday in northwestern Jujuy, one of Argentina's poorest provinces, Macri publicly acknowledged the obvious, that both Argentina's financial crisis and the measures his government is taking in response are resulting in the erosion of working class living standards and a steady growth in poverty. "This devaluation brought a rebound in inflation, and inflation is the largest driver of poverty, and regrettably, we are going to lose some of the gains we have made in poverty reduction," Macri told a news conference.

Last year, Argentina's official statistics agency, Indec, claimed that the poverty rate fell to 25.7 percent from 30.3 percent in 2016.

The Argentine economy is projected to contract 0.3 percent this year. In his remarks Friday, Macri offered cold comfort to the Argentine population. "Next year the economy will grow," he said. "Not much, but it will grow."

In the face of inevitable social unrest, the government will have to increasingly resort to repressive measures, including the use of the military. Last month, Maci signed a decree allowing the use of the armed forces in domestic policing for the first time since the savage military dictatorship that ruled the country in the 1970s and 1980s.

The second prop upon which the Macri government depends to suppress the resistance of the working class is the trade union bureaucracy.

Throughout the first half of this year, hundreds of thousands of workers—among them teachers, steelworkers, teamsters and other sectors—have held demonstrations expressing their anger over the loss of real wages to inflation.

This led to a 24-hour general strike on June 24 that paralyzed Buenos Aires and most major Argentine cities. The main trade union, Confederacion General de Trabajadores (CGT), has called a total of three general strikes against the Macri-IMF attacks on workers' living standards. In April and December 2017, workers also staged one-day general strikes.

The CGT's role is to contain the rising movement of the Argentine working class within the confines of capitalism, limiting the general strikes to 24 hours and preventing popular upheavals from challenging capitalist rule.

Meanwhile, the bureaucracy's ostensible "left" opponents, particularly the pseudo-left groups that comprise the opportunistic parliamentary bloc known as the Workers Left Front (Frente de Izquierda y de los Trabajadores, FIT)—the Workers Party (PO), Workers Socialist Party (PTS) and Socialist Left (IS)—seek to channel the working class behind the right-wing unions and the bourgeois state by advancing the call for putting pressure on the CGT's Peronist bureaucrats to fight.

The decisive question posed by the deepening of the economic crisis is the building of a new revolutionary leadership in the working class, based upon the perspective of socialist internationalism fought for by the International Committee of the Fourth International.

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