Turbulence hits emerging markets as Argentina's central bank hikes interest rates to 60 percent

Nick Beams
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After a brief respite, turbulence has returned to so-called emerging markets. The Argentine central bank raised interest rates to 60 percent yesterday to try to halt the slide in the peso. The Turkish lira also fell, moving toward the record lows it reached earlier this month.

The Argentine central bank's move came after the country's president, Mauricio Macri, delivered a YouTube video revealing that the government had asked the International Monetary Fund (IMF) to accelerate payments from a $50 billion package it arranged in May to shore up the government's budget. So far, the IMF has only disbursed $15 billion.

Macri said the decision to seek the speed-up of payments "aims to eliminate uncertainty" in the face of "new expressions of lack of confidence in the markets, specifically over our financing capacity in 2019."

Instead of bringing stability, the announcement sent the peso plunging, a fall accelerated by the IMF's delayed response. It was nine hours before IMF managing director Christine Lagarde issued a statement that "stressed my support for Argentina's policy efforts and our readiness to assist the government."

The Argentine currency has lost half of its value this year and has fallen to a record low against the US dollar, after dropping by almost 16 percent yesterday.

The sell-off in the peso was accompanied by a renewed drop in the Turkish lira, which had recovered some of its value after a plunge earlier this month. It fell by as much as 5 percent against the US dollar. The mounting global instability was underscored by a slide in the FTSE "emerging markets" index, which dropped by 1.3 percent, its biggest decline in three weeks, and a 1 percent fall in JPMorgan's emerging market currency gauge to a record low.

The dramatic drop in the Argentine peso is an expression of the demand by the global financial elites for a stepped-up assault on the working class. Alberto Ramos, the head of Latin American research at Goldman Sachs, told the *Financial Times* that the interest rate decision by the country's central bank was a "bold move" but more was needed.

The Marci government would have to end what Ramos labelled its "gradualism" in cutting the budget deficit. It needed, he insisted, to accelerate spending cuts. "This is a battle that the central bank will not be able to win alone," he said. "They need a fiscal shock. It's politically difficult but it's the least costly option."

In its statement issued on Wednesday, the IMF said that in "consideration of the more adverse market conditions, which had not been fully anticipated in the original program with Argentina, the authorities will be working to revise the government's economic plan with a focus on better insulating Argentina from the recent shifts in global financial markets, including through stronger monetary and fiscal policies and a deepening of efforts to support the most vulnerable in society."

Years of bitter experiences in Argentina and around the world have established the meaning of "stronger fiscal policies." It is code for deepening attacks on the working class, notwithstanding the call to support the "most vulnerable."

The head of research at investment bank Balanz Capital, Walter Stoeppelwerth, told the *Financial Times* that the IMF would likely demand tougher austerity measures. "I expect the IMF to demand an even lower primary deficit in 2019, and social unrest will undoubtedly increase," he said. "Now we are in an

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old-style IMF program with a deeper recession and a large nominal devaluation."

Millions of Argentine workers are well aware of what an "old style" IMF program means, having been plunged into poverty during the financial crisis of 2001 as a result of its dictates.

The international financial markets and institutions are delivering the same austerity message to Turkey. Its currency fell sharply this week, down by more than 11 percent to TL6.80 to the US dollar and approaching the record low of TL7.21 it reached earlier this month.

The Turkish central bank is under immense pressure to lift interest rates when it meets on September 13. On Tuesday, the international rating agency Moody's downgraded its assessment on 18 Turkish banks and two finance companies. It warned they were "highly reliant on foreign currency funding," rendering "the banking system particularly vulnerable to a potential shift in investor sentiment, as these foreign currency liabilities must be refinanced on an ongoing basis."

Moody's warned that in a "downside scenario" there was a risk of a "prolonged closure" of wholesale financial markets, forcing banks to sell off debt or seek external funding support from the government or central bank.

Voicing the opposition of international markets to the control exercised over central bank appointments by Turkish President Recep Tayyip Erdogan, who has styled himself an "enemy" of high interest rates, Moody's pointed to the decline in the effectiveness and predictability of Turkey's policies.

"Since the elections, the central bank has refrained from raising policy rates despite significantly increasing its inflation forecasts for this year and next. The discrepancy between the central bank's inflation forecasts and targets and its unwillingness to pursue an appropriate policy to achieve those targets further undermines the central bank's credibility," Moody's asserted.

The Indian rupee also has fallen to an all-time low against the US dollar and is expected to fall still further after a worsening of the country's trade deficit, which hit $18 billion in July, its highest level in more than five years. The South African rand and the Brazilian real have come under pressure too in the past month.

While particular factors operate in each country, the underlying causes of the increased turbulence are rising US interest rates and the uncertainty generated by the Trump administration's instigation of trade war and boosting of American corporate profits through massive tax cuts.

In a comment piece published in the *Financial Times* in June, the governor of the Reserve Bank of India, Urjit Patel, warned that dollar funding of emerging market economies had been in turmoil for months.

Patel said the moves by the US Federal Reserve to cut its balance sheet, combined with the increase in the issuing of US debt to finance the tax cuts, would "absorb such a large share of dollar liquidity that a crisis in the rest of the dollar bond markets is inevitable."

The turbulence goes beyond "emerging market" economies. This week the *Wall Street Journal* published an article noting that currency traders were watching Australia, New Zealand and Canada for "signs of the sort of malaise that often hits emerging markets when the US dollar is rising."

It said Australia's currency, which has fallen by more than 6 percent this year, had been hit by the Reserve Bank's reluctance to raise interest rates. A depreciating Australian dollar "could curb investor appetite for the country's assets and raise the risk of destabilising outflows of capital."

Household debt as a share of disposable income in Australia has reached 200 percent, putting it among the highest of all developed countries. The *Journal* said those households could be subject to a "severe shock" if the fall in the currency triggered a rise in interest rates.

While Canada has raised interest rates, worries over the future of the North American Free Trade Agreement and a "chill" in the housing market had made investors wary.

The New Zealand dollar has fallen by 5.7 percent this year. The *Journal* cited a statement from the country's central bank noting a slowdown in economic activity "that we project as temporary, but could be more prolonged."

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