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Standard & Poor's claims Argentina has "defaulted" on its debt

As the fallout continues from the Argentine primaries last week, which foresees the defeat of right-wing incumbent president Mauricio Macri, the Wall Street credit agency Standard & Poor's declared Friday that the government has effectively defaulted on its debt, sending chills across ruling circles.

Unable to continue servicing the debt, the Macri administration announced Wednesday that it would postpone payments on \$101 billion in borrowings, including short-term and long-term bonds, and that it is re-negotiating its deal with the IMF.

The S&P statement said: "Following the continued inability to place short-term paper with private-sector market participants, the Argentine government unilaterally extended the maturity of all short-term paper on August 28. This constitutes default under our criteria."

After publishing new schedules for payments, the Argentine Finance Ministry said the S&P decision could be reversed, but the S&P's statement itself indicates that its conclusion is based on broader considerations of the global economy, explaining that "the heightened vulnerabilities of Argentina's credit profile stem from the quickly deteriorating financial environment."

These fears and the capital flight itself that deepened the Argentine debt crisis were not the result of fears of a possible government led by the candidates Alberto Fernández and ex-president Cristina Fernández de Kirchner, but of growing social opposition among workers.

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An Argentine banker cited by the *Financial Times* said they are recalling the strikes, riots and bank runs during the last default in 2001 and “are very afraid of what’s going on.”

Bloomberg warns that the vote doesn’t reflect “nostalgia for the so-called pink tide” in Latin America that included Kirchnerism. “This isn’t a revival: it’s buyer’s remorse.”

The financial network in fact applauded the reassurances of Alberto Fernández to IMF representatives last Monday, despite him blaming the IMF deal for the most recent crisis. The candidate reportedly said, “you’ll be able to charge us, and we’ll get along,” while his team members promised “the imposition of adjustments to wages and pensions as a mechanism to seek fiscal equilibriums and reduce pressures on prices.”

The *Wall Street Journal* also praised Fernández for being “pragmatic,” a “veteran politician,” and having “ample ties with the Peronist movement including trade unions, far-left groups and conservative provincial governors.”

Such commentary demonstrates that investors see in Fernández a representative of their class interests, as well as the broader superstructure of Peronist unions, parties and pseudo-left apologists that has constituted the backbone of bourgeois rule in Argentina since 1944. They are simply coming to grips with the fact that they find themselves again depending on these forces to find a resolution to another crisis, which resulted from their own financial predations, while demanding that Kirchnerists re-create the conditions needed to further their financial parasitism upon the social wealth created by Argentine workers.

In the context of a regional economic slowdown, fears of a global recession, “the persistence of income inequality and the vast informal sector,” Bloomberg adds, Argentina and the region are threatened by “extremists.” That is, what the ruling class fears is that future social protests overwhelm the political organizations they control amid a global resurgence of the class struggle and mass social protests.

The last year has seen rising poverty, hundreds of thousands of layoffs and a jump in chronic child malnourishment from 21.7 percent to nearly 30 percent. The Spanish *El País* commented that “Argentina is reaching the limit.”

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Tens of thousands have participated in mass demonstrations across the country in the last week. The entire political establishment and trade unions, however, are working to contain social anger, with protests falling in the hands of the so-called “combative” factions of unions and other organizations that either call for voting Fernández or appeals to the unions to convoke a 36-hour strike.

In an interview with the *Wall Street Journal* on Friday, Alberto Fernández made an even clearer recognition of the role that he and his backers are expected to play, by denouncing the IMF for giving money to Macri, “a compulsive spender,” while indicating that “The ongoing crisis is a déjà vu case,” referring to the 2001–2002 default crisis.

The Peronist unions and the pseudo-left channeled social protests in 2001—after several IMF renegotiations that involved double-digit wage cuts and one austerity package after another—behind the election in 2003 of late Néstor Kirchner. He and his wife, Cristina Fernández, ruled until 2015, paying back more than \$300 billion in debt to creditors. A brief cycle of higher commodity prices allowed for limited increases in social spending, but subsequent austerity led to a series of general strikes and the voting out of Kirchnerism in 2015.

It was precisely the subservience of all political forces to the local and international financial oligarchy that encouraged the reckless speculation and outright criminality that have led to the current debt crisis.

In 2001, the De la Rúa administration had agreed to transforming part of the debt into lucrative credit default swaps (speculative insurances against default) which increased the overall debt to \$53 billion. The Fernández de Kirchner administration investigated the underlying conspiracy between De la Rúa’s officials and banks like Credit Suisse, Santander, HSBC and JP Morgan, and concluded that the deal was a “colossal scam of the public treasury.” However, the Kirchnerists refused to prosecute any major institutions—just like the Obama administration after the 2008 crisis.

The most read article in the Argentine financial daily *Ámbito* by its columnist Pablo Tigani argues that another criminal operation like the “mega-swap” in 2001 is likely. He writes: “The globalization of [financial] markets and the emergence of a ‘casino economy’ has created a lavish pole of speculative demand. Consequently, this derived in an increase in pompous financial products, designed for the management of contingencies. On the other hand, technology has allowed financial institutions, beyond having created these [products], to manage their prices and determine the security needs of their clients.”

When Argentine stock prices in Wall Street, London and Buenos Aires fell dramatically and the peso tanked from 45 to 60 per dollar after the primaries, Macri responded with several desperate measures to prevent a social explosion, as well as to halt further capital flight and inflation. These included suspending the value-added tax on staple goods,

cutting regressive income taxes, and injecting \$350 million in dollar reserves into the bond market, hiking interest rates for short-term bonds to 79 percent, the highest in the world.

This officially broke the terms of the \$57 billion loan agreement with the International Monetary Fund (IMF), which decided to suspend its disbursements, whose ostensible medium-term goal was to prevent a “default,” improve credit ratings and lower interest rates. The essence of the deal was the promises of deep social austerity and even higher regressive taxes to meet a “zero deficit” mark.

While the increases in interest rates last year by the US Federal Reserve and other top Central Banks drove capital away from Argentina, Turkey and other heavily indebted peripheral countries, which led to the Macri-IMF deal, these banks are again cutting interest rates under pressure from speculators demanding more cheap credit.

The renewed capital flight in Argentina, as a weak link in the global economy, signals a deepening crisis in so-called emerging economies as investors rush to find safer assets like long-term bonds in advanced economies, many of which are trading at negative yields. A summit of central bankers last week witnessed warnings that the monetary system “won’t hold,” as well as proposals of a “total re-think of central banking” and for a global fund to deal with capital flight managed by the IMF. The largest IMF loan in history however has failed to appease fears of investors in Argentina.

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