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Argentina's Default and the Lack of Dire Consequences

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Abstract: We analyze the 2001 Argentine default on its foreign debt and its consequences in terms of the existing literature on sovereign debt default. It is our purpose to evaluate this experience and to see to what extent the Argentine case requires a re-thinking on the nature and consequences of defaults. We show that the Argentine case contradicts many of their standard predictions, in particular its posterior lack of access to international credit, restriction to international trade and negative economic growth. Moreover, it corroborates the historical fact that many defaulters "get away with it."

Keywords: sovereign debt; default; Argentina.
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1. Introduction

Argentina defaulted on its foreign debt in December 2001. Many analysts thought this would lead the country into a long period of stagnation and would make it a pariah in the world's financial markets for a long period of time. This did not occur. It is our purpose to analyze this experience and to see to what extent the Argentine experience requires a re-thinking on the nature and consequences of defaults.

In this article we shall first examine the general views that have prevailed concerning the impact of a default of the sovereign debt. We review the policies implemented during the 1990s and the subsequent collapse of the political and economic regime in 2001-2002. This will be followed by an analysis of the Argentinean experience with its default in the period 2001 – 2005 and its subsequent consequences. We also review the debt restructuring process that occurred during those years. In a final part, we shall speculate on the lessons which can be drawn from this experience and the extent to which the existing perception of the nature and consequences of defaults might have to be amended.

2. Default on Sovereign Debt: definition, causes and consequences

A sovereign debt default occurs when a country does not meet a debt payment (principal or interest), i.e. it fails to meet the terms of a contractual agreement. A country that repudiates its debt faces the threat of sanctions such as loss of access to short term trade credits and seizure of assets. In practice, however, the observed punishment does not correspond to what the theory predicts. Bulow and Rogoff (1989a) state that whereas domestic loans are supported by

substantial collateral, the assets that can be appropriated in the event of sovereign's default are negligible. There are also many uncertainties surrounding the actual damage that a lender can inflict to a defaulting country (see Bulow and Rogoff, 1989b for a discussion on the legal environment). For instance, Lindert and Morton (1989, p.231) examine historical consequences of default episodes and conclude that "The majority of non repayers escaped punishment." Then they argue that (p.234): "(…) defaulting governments have seldom been punished, either with direct sanctions or with discriminatory denial of later credit."

In fact, the correct incentives for avoiding default are not associated with the collateral damage but with the country's reputation. Eaton and Gersovitz (1981) argue that a country's incentive to make repayments is to preserve its future access to international credit markets (for a review of the importance of reputation see Eaton and Fernandez, 1995) and international trade. Moreover, defaulting on sovereign debt may undermine the country's capacity to obtain beneficial deals in multi-lateral organizations.

As surveyed in Rose (1991), losses in trade are perhaps the most important punishment a country may receive after defaulting on its debt. Kaletsky (1985, pp 36-38) argues: "The interruption of trade finance might turn out to be the heaviest penalty for a defaulter. Trade finance is a critical issue because most trade is conducted on a credit basis of one kind or another (...) trade finance could be the 'Achilles heel' of a default strategy." Consistent with this, Cohen (1991, p.1) states: "A defaulting country first loses access to its trade credit. Trade, in general, becomes difficult, exporting is tricky, and so is paying for its imports." Rogoff (1999, p.31) writes "The strongest weapon of disgruntled creditors, perhaps, is the ability to interfere with short-term credits that are the lifeblood of international trade."

A default can have lasting effects on the country's economic growth, trade and the financial sector. Rose (1991) estimates that a default episode may produce bilateral trade to fall 8 percent a year for about 15 years. Sturzenegger (2002) when looking at the output costs of the defaults in the 1980s finds that the average cumulative drop is of about 4 percent over the 4 years immediately following a default.

Reinhart, Rogoff and Savastano (2003) show that the chances of future default increase with past default occurrences. These authors introduce the term "debt intolerance" as the extreme duress that emerging markets face at debt levels that are quite manageable for the standards of industrial economies. Therefore, *default can become a way of life*. As a consequence, the country will have to pay extremely high interest rates for moderate amount of debt.

Why do countries default? Chuhan and Sturzenegger (2003) distinguish three theoretical different causes: (a) *liquidity problem* (only a cash flow problem); (b) *sustainability problem* (the country may never be able to service its debt out of its own resources); and (c) *unwillingness to pay* (a country decides to stop paying it well before it is insolvent). However, ultimately the decision of defaulting resides in the political sphere. On this topic, Bordon and Oosterlinck (2005) show a very interesting approach. Their premise is that the decision to default is a political one, and therefore political variables may also play a crucial role in understanding the decision to default. Their article suggests that defaulting governments may be politically punished for their poor handling of the debt. They found that the likelihood of coups seems higher after a debt default, even when one controls for some political variables. However, in several instances governments manage to "get away with it". They suggest that in these cases, it is either too hard to overthrow the ruling government or that defaulting on the external debt is perceived by the local electors as less harmful than alternative tighter macroeconomic measures.

The cheerful celebration of the 2001 Argentine default by the Argentine Congress certainly shows that the case studied in this paper should be analyzed in these terms.

The fact that defaulting episodes are common also suggests that losses for the defaulter are not big enough. Chuhan and Sturzenegger (2003) state that the welfare effects of the default are unambiguous: on the one hand there are output contractions and financial crises; on the other hand it alleviates the fiscal situation because debt payment falls. Zame (1993) even provides a theoretical justification of defaulting: This paper argues that default plays an important positive role in the economy. If markets are incomplete and traders are only able to enter into contracts that they will be able to execute regardless of future events, contingent contracting may be severely restricted. Moreover, opening new markets may not relieve these restrictions. Default promotes efficiency in a way that opening new markets does not, by making it possible for traders to enter into contracts that they will be able to execute with high probability but not with certainty.

Why do, then, markets lend to countries that defaulted? An explanation is found in the procyclical nature of capital markets that lent vast sums to emerging markets in boom periods (associated with low returns in industrialized countries). In fact, it may be argued that lenders are paid accordingly for the risk they take. However, it is this same process that produces “sudden stops” in borrowing countries, and that triggers default episodes.

Grossman and Van Huyck (1988) introduce the term “excusable default”, defined as those defaults triggered by bad shocks. Both creditors and debtors have incentives to renegotiate, and theoretical results show that it is optimal to have a debt relief (or partial default) that a total disruption of debt. The incentives of lenders and borrowers to reschedule or restructure debt obligations are quite different. The incentive for lenders is to recover as much possible value of

the defaulted debt (provided that the penalty, in terms of seizure of assets, is much smaller than the amount defaulted). The incentive from the borrowers view point is to minimize the output and other economic costs of a default.

3. An historical account of default episodes

Historical evidence suggests that foreign lending to sovereigns has generally been characterized by cycles of boom and bust, and associated debt crises. Lindert and Morton (1989) find that periods of recurrent debt crises periods include the 1820's, 1870's, 1890's, 1930's and 1980's, which usually followed a wave of international lending, like the British lending spurt of the 1850's to finance railroads in Latin America, the wave of European financing to Argentina in the 1880's, the US led bond financing boom of the late 1920's, and the bank lending spurt of the recycled petro-dollars after the first shock of 1973.

Many countries that have defaulted on their external debts have done so repeatedly. Including the most recent episode, Argentina has defaulted 5 times since 1824 (Beim and Calomiris, 2001), repeatedly in every default cycle. This is not an exclusive characteristic of Argentina provided that other countries in the region have defaulted on a similar number of occasions. For instance, Brazil and Colombia has done it 7 times while Venezuela 9 times. Reinhart, Rogoff and Savastano (2003) calculate that Argentina was in a state of default or restructuring 25% of the time in the period 1824-1999, a similar number applies for Brazil, while an even higher percentage (38%) occurred in Colombia and Venezuela. Standard and Poor's

survey of default episodes[4] finds 84 events of sovereign default on private-source debt between 1975 and 2002.

If this historical account tells anything is that defaulting is not new. However, the latest Argentine case in 2001 has some distinctive characteristic that puts it in the Guiness record of the default history: it was the largest in the history of international bonds with over $82 billion.

4. The Collapse of the Currency Board and the Argentine Default

In order to end what had become as a chronic situation of hyperinflation, Argentina introduced a currency board in 1991, the so-called *Convertibilidad*. Among its major features were: 1) the introduction of a new currency, the peso (which amounted 10,000 Australes), which was set at an exchange rate of one peso to one U.S. dollar, and which was perfectly convertible; 2) a new law was introduced which permitted the Central Bank to issue new pesos only against new foreign exchange reserves. The *Convertibilidad* had many aspects of a dollarization: contracts made in dollars acquired the same status as those made in the local currency (including bank deposits and credits, see below).

Table 2 shows the positive results of the *Convertibilidad* regime – inflation came to an end, there was an initial period of high growth rates, and, as shown in Table 3, there was a substantial surge in capital inflows. This new regime did not prohibit the state from having budget deficits. However, such deficits could not be financed by the Central Bank, but only through borrowing. Much of the latter consisted of foreign borrowing.

The first two columns of Table 1 present a fact that was characteristic during the Convertibility: the Public Sector had, on average, primary fiscal surpluses, except on the years

[4] Standard and Poor's definition of a default episode includes any missed principal and/or interest payment as well as outright repudiation. There is thus considerable variation in the severity of the default episodes.

when external shocks affected the economy, i.e. the 1995 *tequila* effect and the Russian crisis of 1998. However, the public sector continued to be in deficit. There are two main explanations for this primary fiscal surplus with fiscal deficit: 1) the payments of the debt services, which grew from approximately 4% of the GDP around 1993 to more than 10% by the end of the decade and 2) the need to finance the social security system with pesos, as most of the young taxpayers had transferred to the private system. In 1994 the Argentine government partially privatized the public pay-as-you-go social security system that had been in existence since 1967. This decision was strongly promoted and supported by the World Bank and the IMF and had a major impact on Argentina's fiscal accounts. Cibils and Lo Vuolo (2007) argue that the lost of revenue, plus accumulated interest costs, amounted to nearly the entire government budget deficit in 2001.

As a by product of the *Convertibilidad* the Argentine economy was especially vulnerable to foreign crises. The Asian crisis caused capital to flow out and the Brazilian devaluation made the trade deficit worse. As dollars were flowing out of the currency board, the decline of the dollar reserves reduced the money supply and raised interest rates, which again worsened the recession.

It is noted in Table 2 that the growth rate of Argentina's GDP began to slow down in 1998 and in 1999 it began to experience a negative growth rate, which would last until 2003. The most pronounced decline occurred in 2001 and 2002, when the country experience the collapse of the currency board system. This decline in growth also produced dramatic increases in poverty. For instance, unemployment grew from 13.2% in 1998 to 21.5% in 2002; the proportion of the population living below the poverty line grew from 35.9% in 1998 to 57.5% in 2002. Moreover the rate of investment, which was already declining in the late 1990s, took a plunge from 1999 on, dropping from 19.1 percent of GDP to 11.3 percent in 2002.

By the time of De la Rua's government, there was a consensus among economists that devaluation was imperative. Policymakers hesitated due to their perceived financial and political risks involved and the De la Rua's government elected in 1999 adhered to the view that the main problem was not the exchange rate appreciation but fiscal deficit. This vision led the government to have a tight fiscal policy with the expectation that fiscal adjustment would entail lower risk premiums and consequently interest rates, which in turn would reduce the debt service payments, one of the principal components of the public expenditure. However, these policies reinforced the recessionary trend and undermine market confidence in the viability of the *Convertibilidad.*

By the second half of 2001 the public began to fear the possibility of devaluation and there was increasing speculation against the peso. The situation was worsened by a unique feature of the *Convertibilidad*. In particular, local banks were able to offer deposits in foreign currency to the general public, and the Central Bank guaranteed that these were secured. Therefore the peso speculation converted into a bank run, as the public withdrew their savings from foreign based accounts into cash.

In order to sustain the *Convertibilidad,* the government established severe restrictions on capital movements and cash withdrawals from banks in December (named the "corralito"). This measure infuriated the general public and produced massive social unrest and political commotion. To avoid a massive peso withdrawal from the banks the government declared a bank holiday on December 20th, which lasted until January 3rd, 2002. The collapse of the De la Rua's government and the successive governments led to the abandonment of the currency board. Moreover, the Duhalde government decided to compulsively convert foreign-currency bank deposits into pesos at a rate of 1.4 pesos per dollar when the market rate was 2 and even reached

4 pesos per dollar (this set of measures is known as the "corralón"). Additionally, to avoid a generalized bankruptcy bank credits in dollars were converted at a rate of one-to-one rate.

On December 24th the service payments of a significant part of the public debt were suspended (it initially affected 61.8 billion dollars in public bonds and 8 in other debt instruments). It did not include debt contracted with multilateral institutions (such as the IMF, the World Bank and the Inter-American Development Bank) of about 32.4 billion dollars and recently issued guaranteed loans (42.3 billions). This turned out to be the largest default in Latin American economic history, as the foreign private debt amounted to US$ 82 billion out of US$ 153 billion.

5. The Resurrection of Argentine's Economy: 2003- 2006

Argentina's recovery from these economic depths was due in large part to the improvement in the trade balance. It will be noted in Table 2 that it went from being negative in the late 1990s to a surplus in 2000, and this surplus rose dramatically in the subsequent years. The surplus was the result of two factors. First, the country's exports, which hardly ever declined, rose substantially, as a result of both a strong world demand for the country's products, and also the substantial devaluation of the peso. Second, there was a dramatic decline of imports, due to both the rise of poverty levels and the decline of investments.

The Argentinean default could have not occurred at a better time: the default itself eliminated one of the principal components of the public deficit, that is, the need to pay huge sums as interest on the debt, and by 2002 the prices of the Argentinean exports were rising dramatically.

Overall the collapse of the Argentine financial system did not have any significant effect on international trade. The fact that there were not disruption after the default may be explained by the fact that Argentine's exports were concentrated on traditional agricultural markets and primary goods with well established financial services and prices on the rise, or tied to the Mercosur with politically managed quotas. As a result, the process was one of a classical competitive devaluation, and this superseded the negative financial effects of the default.

The strong growth of exports also strengthened the finances of the government, as the major export items were taxed (retentions). In fact, the government's budget had a surplus from 2003 on. However, as in the case of government revenues, the level of expenditures also expanded, which, in turn, contributed to economic expansion.

The devaluation of the currency did not produce an immediate rise in the level of prices, mostly due to the existing high unemployment rate and to the freeze of public utilities' prices and other price controls introduced by the Duhalde and (mainly) Kirchner governments. Damill et al. (2005) attributes the economic recovery to the achievement of a new macroeconomic equilibrium. Those authors stress that the policies implemented were different from those common in the 1990s. In particular the new governments imposed new exchange rules that compelled exporters to liquidate dollars in the local market and imposed capital controls. In fact these measures were so successful that the Central Bank was compelled to absorb the excess of foreign currency to avoid the appreciation of the peso.

6. The debt restructuring process

The extra premium paid by Argentine bonds (the so-called `riesgo-país') significantly influenced the Menem and De la Rua's governments' decisions. As financial markets disbelieved

the country's capacity to repay its foreign debt, those governments introduced tighter fiscal policies. However, following the contractionary policies, markets offered a higher discount on those bonds, which in fact worsened the country's financial situation. Figure 1 shows the evolution of this variable for the period under analysis. As expected, the default is followed by an exorbitant spike in this series.

Negotiations with bondholders, which began in 2002, dragged on until June 2005, when President Nestor Kirchner made an offer which consisted of the exchange of old bonds for new ones (for an excellent review of the negotiation process see Damill et al., 2005). The new bonds amounted to 25% of the value of the old debt. Kirchner made it clear that this offer was not negotiable and he gave bondholders one month to accept or reject the offer. Within that time 76% of the bondholders accepted the offer. The remaining 24% were not repaid and as of 2007 were still trying to regain their investment through foreign legal actions.

Mortimore and Stanley (2006) pointed out that the unilateral offer was indirectly supported by the other actors' inaction and lack of initiative, together with extraordinarily good international conditions. Both the IMF and developed countries' governments adopted a *laissez-faire* approach to the sovereign crisis resolution. Moreover, the low interest rates in the United States, and the narrowing of emerging bond spreads improved the conditions of the offer. The government also took for granted the position of local financial investors (mostly retirement and pension administrators who were obliged to invest a certain proportion of their capital in public bonds) which provided a "floor of acceptance" of about 30 percent. Those authors also point out that the Argentinean government had a strong bargaining position due to the atomicity of the shareholders and the coordination problems among them.

7. The Argentinean Default in Historical Perspective

How did the recent Argentinean default and its aftermath conform to default literature which we reviewed at the beginning of this essay?

Immediate Sanctions. Most studies have found that the governments of defaulting countries have assets abroad whose value is small (such as embassy buildings and small implements of diplomacy). In the case of Argentina the value of such assets is minuscule compared to the country's foreign debt. Threat of sanctions and seizure of assets occurred only rarely. In the case of the recent Argentine default some bondholders tried to take legal actions in the courts of New York in order to attach Argentinean Central Bank funds in the New York Federal Reserve. However, it proved difficult for them to convince the courts. The latter held that since Argentinean funds belonged to Argentina's Central Bank, which was considered an entity separate from the Argentinean government, the claims had to be denied.[5]

Future Sanctions. Another type of sanction is the loss of access to international credit. Table 6 contains the amount of international credit and the premium it had to pay in the years 1991 to 2006. It will be noted that the amount of credit declined dramatically in 2001 and reached a low point in 2005 (there is no information for 2002 to 2004 because the country was in total default and there were no financial operations). Credit began to flow in again in 2005 and by 2006 reaching the levels of 1994-5. Thus these type of sanctions were of short durations, and one can conclude that the evidence shows a myopic view of the default.

It should also be noted in Table 5 that net foreign credit to Argentina began to decline before the default. The table shows that net foreign portfolio investment dropped from US$ 11

[5] United States Court of Appeals for the Second Circuit, August Term, 2006. Docket Nos. 06-0403-cv, 06-0405-cv, 06-0406-cv.

billion in 1998 to US$ 8.7 billion in 1999 and to US$ -6.8 billion in 2000. Although the decline in 2002 can be interpreted as reflecting the default, this is not the case of the previous years. Thus the declining in the inflow of portfolio capital cannot be solely blamed in the default, but rather on the deterioration of the economic situation and especially the increased evidence of the lack of sustainability of the *Convertibilidad*.

An important point to be made is that the end of the *Convertibilidad* entirely changes the dependence of Argentina on foreign capital. During the 1990s the emission of debt was mainly associated with the necessity of acquiring foreign reserves to maintain the currency board and the payment of interest. After 2002, both conditions disappeared, and this gave the Argentine government more room to negotiate.

Impact on Growth and Trade Table 2 indicates that the default had little impact on either growth or trade, where the theory predicts the biggest consequences of a default. The dramatic decline of growth in the years 2001-2 was a direct consequence of the collapse of the currency board, and it can be claimed that the default was the result of the crisis rather than the cause of it. The default may not be separated from the deep economic recession and regime's collapse, and therefore its specific contribution may be difficult to quantify. In addition, the resumption of spectacular rates of growth in 2003 had little to do with the default. As far as trade is concerned, exports stayed at about the same level in the years 1997 – 2002, while dramatically rising in the years 2003-2006. As far as imports are concerned, their decline began in 1998, plunging in 2002, but recovered rapidly after 2003. Import declines cannot be explained by a lack of credit related

to the default, but rather by the dramatic decline of the GDP, the decline of investments and the spurt in import prices due to the devaluation of the currency.

In addition, the default did not reduce foreign direct investment (FDI), which was a feared consequence. Table 5 shows that even in the worse time of the crisis, that is 2002, FDI , though substantially lower, never disappeared. Also, the collapse of the financial system should certainly not be attributed to the default but to the non-sustainability of the *Convertibilidad.* The internal financial system recovered very fast after the new macroeconomic equilibrium was put into place. Moreover, when the debt restructuring process was finalized, the 'riesgo-país' reached the same level of 1997, the golden years of the *Convertibilidad* (see Figure 1). Again, this shows that markets may be more myopic than what the literature on defaulting debt believes.

It thus seems that what led to the disaster of 2001-2 was due to internal problems: the lack of an internal adjustment to accompany the currency board, which led to an untenable external debt situation. The default was a "way out" and Argentina got away with it due to the favorable external conditions, leading to huge trade surpluses, which led to growth and the growth led to a softening of the country's bad international reputation in the credit markets. The default could certainly not have been declared at a better time.

Also, the fact that Argentina was smart enough not to default with the multilateral institutions was crucial because this line of credit remained open and the Argentine government made the announcement regarding the debt restructuring proposals at the annual meetings of the IMF and the World Bank (the Dubai proposal, September 2003).

The Argentine default can also be interpreted in terms of Grossman and Van Huyck (1988) term "excusable default": Argentina was in a very deep recession and in order to maintain the *Convertibilidad* and pay the foreign debt, contractionary monetary policies were needed

which would have made the political situation unsustainable. In the same line of thought, Mortimore and Stanley (2006) state that democratic governments, when confronted with a social crisis, put their electorate before their investors. Moreover, in terms of Zame (1993) analysis, where contractual debt obligations could not be changed, the default offered the possibility of a renegotiation of the debt with a capital and interest flow in the range of the country's possibilities.

Was the default really necessary? As can be seen in Table 4, it dramatically alleviated the government's burden, as debt servicing as a proportion of total government expenditures declined to 9.2% in 2004. However, the servicing of the debt might have been quite manageable in an expansionary period. Chuhan and Sturzzenegger (2003) suggest that how the default is implemented is not independent of the motives of the default. These authors suggest that countries with unwillingness to pay are more inclined to broad-based default. However, the fact that the default was done in a climate of political turmoil, mostly as a reaction to the failure of the policies implemented in the previous decade showed that the default was an immediate necessity rather than an unwillingness to recognize the debt. It was celebrated by the Congress as a political triumph with the expectation that it was necessary to avoid further macroeconomic restrictions. In a framework of fiscal, financial and political crisis, defaulting on foreign creditors was a short-term fiscal alleviation whose consequences would be the responsibility of an unknown future government.

In terms of the Bordon and Oosterlinck (2005) analysis of whether governments "get away with it," it should be noted that the temporary president who followed De la Rua and who was responsible for formally declaring the debt default, Rodolfo Rodriguez Saa, may have been punished by a crash in his political aspirations at the national level.

7. Conclusions

The Argentine default provides a very important framework to evaluate the literature on sovereign debt default. The lessons that this experience gives us should be used to evaluate the possible consequences of other future defaults.

Two important points need to be made, which are special features of the Argentine case. First, Argentina faced several favorable conditions in the aftermath of the 2002 economic crisis. The abandonment of the currency board alleviated the government's dependence on foreign capital and placed the country on a positive growth path that lasted several years. Moreover the country's terms of trade entered in a favorable phase which significantly contributed to the economic growth. Second, the fact that the default was declared concurrently with a catastrophic economic, political and social crisis reduced its significance and it made multilateral institutions more sympathetic to the Argentine government debt restructuring process.

Even when it is impossible to isolate the effect of the default from other concurrent episodes, the evidence points to the fact that the long lasting negative effects predicted by the literature were not present in this case.

Table 1 - Argentina: Fiscal Deficit and Foreign Debt

	Primary Fiscal Deficit, National Public Sector without provinces (in millions of pesos of 2004)	Fiscal Deficit, National Public Sector without provinces (in millions of pesos of 2004)	Foreign Debt (In millions of U.S. $)
1990	11347.0	17458.1	
1991	-118.2	5710.5	
1992	-7388.6	1961.5	
1993	-6607.5	65.1	
1994	843.7	1267.7	87,524
1995	4383.8	13589.7	101,462
1996	6041.2	15385.4	114,423
1997	-4192.4	7866.7	129,964
1998	-1177.8	13057.4	147,634
1999	5836.8	23665.1	152,563
2000	-3932.4	17117.2	155,014
2001	9769.8	35049.0	166,272
2002	-7037.7	3108.0	156,748
2003	-15737.1	-6322.4	164,645
2004	-23253.4	-15851.4	171,205
2005	-11169.8	-8384.6	113,804
2006	-14762.0	-9420.7	107,818

Source: Secretaria de Hacienda, Ministerio de Economía.

Table 2 - Argentina: GDP Growth and the Trade Balance

	GDP Growth Rate	Investment/ GDP Ratio (1993 prices)	Exports (millions of US$)	Imports (millions of US$)	Trade Balance (millions of US$)
1993	8.06	19.1	13,269	17,133	-3864
1994	5.84	20.5	16,023	21,675	-5,652
1995	-2.85	18.3	21,162	20,200	962
1996	5.53	18.9	24,043	23,855	188
1997	8.11	20.6	26,431	30,450	-4,019
1998	3.85	21.1	26,434	31,377	-4,943
1999	-3.39	19.1	23,309	25.508	-2,199
2000	-0.79	17.9	26,341	25,281	1,060
2001	-4.41	15.8	26,543	20,320	6,223
2002	-10.89	11.3	25,561	8,990	16,571
2003	8.84	14.3	29,939	13,851	16,088
2004	9.03	17.7	34,576	22,445	12,131
2005	9.18	19.8	40,106	28,689	11,417
2006	8.90	21.6	46,275	39,530	6,745

Source: INDEC.

Table 3A - Unemployment

	May	October
1998	13.2	12.4
1999	14.5	13.8
2000	15.4	14.7
2001	16.4	18.3
2002	21.5	17.8
2003	19.1	15.4
2004	14.6	12.6
2005	12.5	10.6
2006	10.9	9.5

Source: INDEC.

Table 3B - Percent of Households and Persons Living Below Poverty Line.

	Households	Persons
May 2001	26.2	35.9
October 2001	28.0	38.3
May 2002	41.4	53.0
October 2002	45.7	57.5
May 2003	42.6	54.7
October 2003	36.5	47.8
May 2004	33.5	44.3
October 2004	29.8	40.2
May 2005	28.8	38.9
October 2005	24.7	33.8
May 2006	23.1	31.4

Source: INDEC

Table 4 - Argentina: Capital Flows, Debt Servicing and Reserves (millions of US $)

	Net Capital Flows	Debt Service In millions of 2004 pesos	Debt Service as % of Total Public Expenditures	Foreign Exchange Reserves
1993	14,196	5120.7	4.29	17,393
1994	13,781	5995.9	4.63	17,922
1995	7,701	7823.6	6.32	18,506
1996	12, 249	7576.0	6.12	21,578
1997	17,709	10151.1	7.80	24,633
1998	18,354	11850.4	8.52	27,867
1999	13,772	15010.1	10.04	28,765
2000	8,732	20302.5	13.85	28,260
2001	-5,442	23942.1	15.67	18,398
2002	-11,404	9050.6	9.61	10,476
2003	-3,203	6478.9	6.46	14,119
2004	2,022	4563.5	4.05	19,646
2005	3,013	6338.4	5.33	28,077
2006	-5,629	6320.0	4.55	32,037
2007	NA	NA	NA	43,002*

* As of September 18, 2007

Source: INDEC; Secretaria de Hacienda, Ministerio de Economía.

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Table 5 – FDI and Foreign Portfolio

	Foreign Direct Investment (millions of US$)	Foreign Portfolio Investment (millions of US$)
1991	2439.0	483.0
1992	4431.0	4860.1
1993	2793.1	34402.5
1994	3634.9	9461.3
1995	5609.4	2313.5
1996	6948.5	9594.2
1997	9160.3	11024.4
1998	7290.7	8787.8
1999	23987.7	-6784.9
2000	10418.3	-2583.6
2001	2166.1	-9503.3
2002	2148.9	-4640.3
2003	1652.0	-7758.1
2004	4124.7	-9415.6
2005	5265.2	-670.5
2006	5491.0	6531.6

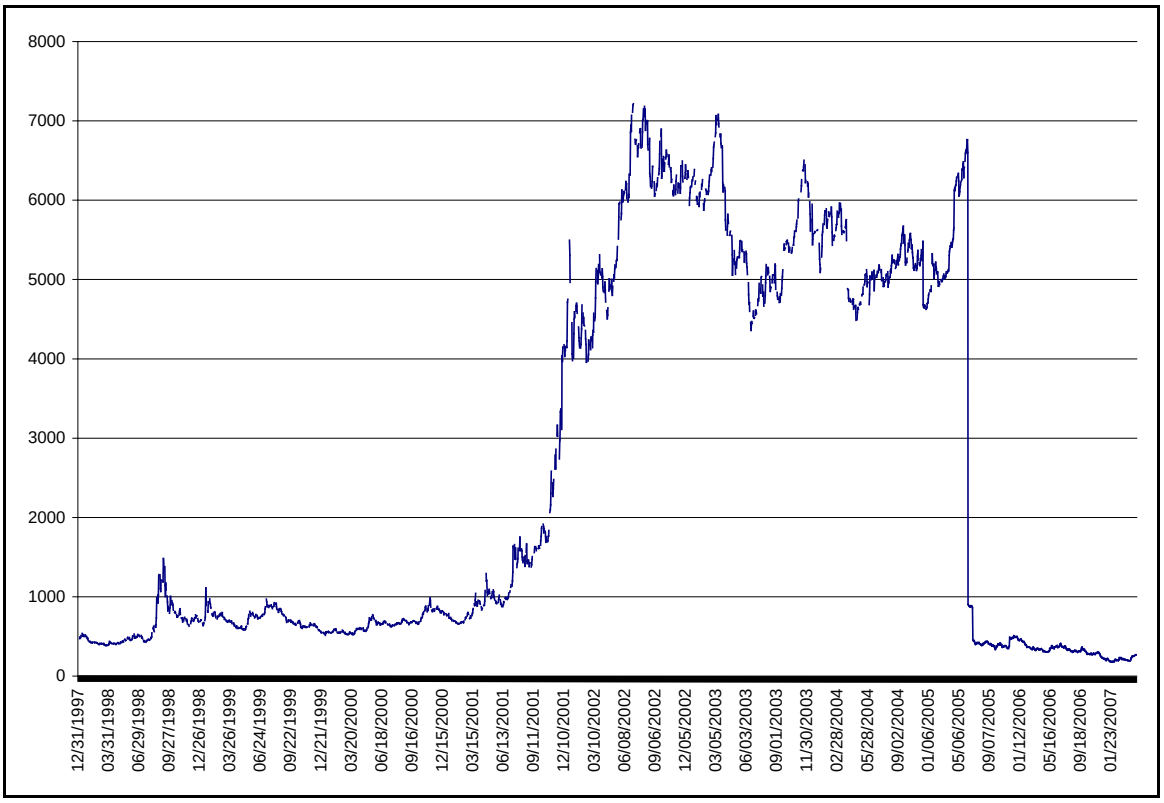
Source: IMF, Balance of Payments Statistical Yearbook

Table 6 - Argentinean Government: Access to Credit, 1991 – 2007

	Issued amount in millions of US$			*Nominal issued amount weighted average*			
Year	***Number of Issues***	***Nominal Value***	***Effective value***	***Life Average (years)***	***Yield (semiannual base)***	***Spread over UST***	***Coupon***
1991	2	500	499	2.0	10.40%	452	10.40%
1992	1	250	250	5.0	8.25%	300	8.25%
1993	6	2,121	2,120	6.9	8.07%	278	8.08%
1994**	19	2,600	2,600	3.3	8.93%	238	8.50%
1995	16	4,726	4,721	3.6	9.98%	365	8.24%
1996	44	13,050	12,879	6.7	8.98%	339	8.87%
1997	44	11,424	11,370	8.4	8.70%	257	8.89%
1998	55	14,990	14,956	10.7	8.63%	421	9.07%
1999	83	15,549	14,820	7.0	10.34%	577	9.89%
2000	80	16,489	16,081	7.6	10.89%	535	10.61%
2001	38	6,280	5,911	9.9	14.22%	970	14.35%
1991-2001	**388**	**87,979**	**86,206**	**7.8**	**9.89%**	**464**	**9.75%**
2005	11	2,986	2,530	5.00	8.38%	418	
2006	14	5,365	4,686	4.40	8.17%	342	
2007	10	6,106	5,581	9.63	9.11%	461	
2005-2007	**35**	**14457**	**12797**	**6.73**	**8.61%**	**407.96**	

* Excluding debt exchanges; **Excluding USD 500-million Syndicate Loan.
Source: Secretaría de Finanzas, Ministerio de Economía.

Figure 1 - Country risk, 1997 - 2007



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