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New Victories for Kirchner

by LADB Staff

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With little more than 100 days in office, Argentine President Nestor Kirchner has new reasons to celebrate. He signed a deal with the International Monetary Fund (IMF), one day after failing to meet a payment, that most analysts saw as a coup for the president. And, his political strength has increased with the victory of candidates he endorsed in elections in several provinces and the city of Buenos Aires.

Kirchner, who marked 100 days in office Sept. 1, has seemed a far cry from recent Argentine political leaders, whether on issues of IMF renegotiations, human rights, relations with the US, trade, or domestic policies. Kirchner continues to enjoy high public support. He has the most prestige of any president in recent years, and few people have much negative to say about him, said political consultant Enrique Zuleta Puceiro of the firm OPSM.

In a recent OPSM poll, respondents gave Kirchner high marks for initiative, independence of criteria, and leadership, with percentages near 70%. Kirchner's popularity was aided by his stance against the impunity of the agents of Argentina's 1976-1983 dictatorship (see NotiSur, 2003-06-06, 2003-08-08). Also earning him high marks has been his presidential style, with frequent unexpected appearances in public.

Kirchner holds out for "good" IMF deal

Relations between the IMF and Argentina have been rocky for some years, with both parties blaming the other for the problems. Kirchner recently added to the tension by saying, "During the last 10 years, some IMF staff gave very bad advice to Argentina." Referring to an IMF demand for increased compensation to banks, Kirchner said, "If we talk about compensating Argentina, [let's compensate] the 50% of the country in poverty."

Eduardo Curia, economist and government adviser, said in early September that poverty and unemployment were the biggest challenges facing the Kirchner administration. But, he said, "if we are to see results in those areas we will have to achieve an acceptable agreement with the IMF."

As the due date for a US\$2.9 billion payment to the IMF approached, the government said it would not use its currency reserves to make payment, and it called for renegotiating the payment schedule. It wanted a three-year agreement that would permit Argentina to just pay the interest on the debt and put more money into social programs. Two key sticking points stalled an agreement.

The IMF said that big banks must be compensated for losses and that utility firms must be allowed to raise prices. Both measures are highly unpopular domestically and perceived to be helping out big business at the expense of the poor. The banks are set to receive about US\$1 billion in

compensation for the cost of returning deposit-holders' savings in dollars when they were forced to accept loan payments in pesos. But the IMF was demanding that the banks be given another US \$2.3 billion for returning the deposits in dollars to account-holders who obtained court injunctions to release their savings from the freeze.

Furthermore, while the IMF wanted Argentina to commit to achieving a fiscal surplus equal to 4% of GDP, the Kirchner administration said it would aim for 3%. "I'm not going to sign just anything, nor agree just to agree," Kirchner said on Sept. 6. "We want to sustain Argentina and give it external integration, but with an agreement that permits the viability of the country."

On Sept. 9, Argentina failed to meet the IMF payment, but both sides said they were confident that an agreement could be reached quickly. "Don't come and try to scare us with talk of chaos and calamity," said Kirchner, referring to the warnings from members of the opposition regarding his decision not to make the payment. "Let's have confidence in ourselves." IMF penalties in cases of default do not go into effect until the end of a lengthy process that can last up to two years, government spokespersons said.

Kirchner received the full support from lawmakers of the ruling Partido Justicialista-peronista (PJ) for his decision and for what they described as the "dignity and strength" with which his administration approached the talks with the IMF.

Cabinet chief Alberto Fernandez said, "The government does not want to repeat the same steps that triggered the recession," referring to previous administrations that agreed to strict fiscal spending targets and policies that contributed to deepening the economic crisis. Fernandez said the administration "does not want to postpone Argentina's economic development any longer. It is a question of reaching an agreement for a socially sustainable country" that will allow us "to live up to our obligations to the international lenders, but without slowing our growth."

"I think Kirchner wants an agreement, but one that will allow him to say this is not a totally shameful agreement," said Alan Cibils, a Buenos Aires economist and research associate for the Washington-based Center for Economic and Policy Research (CEPR). "And at this moment, the IMF needs this agreement just as much as Argentina does."

IMF blinks first

On Sept. 10, the IMF agreed to roll over US\$21 billion in loans, letting Argentina only pay interest for the next three years. Kirchner said Argentina would pay the US\$2.9 billion due the IMF before formal approval of the loan package on Sept. 19 in Dubai. With the agreement, Kirchner got a deal that will protect him for most of his term from the threat of economic destabilization.

The restructuring was a political victory for Kirchner, given that the IMF backed off on several of its main demands, including that Argentina maintain a surplus of 4% and increase the utility rates for services by private companies. Nor did Argentina agree to further compensate the banks for losses.

Political analysts said Kirchner's negotiating position was strengthened by his overwhelming political support and an economy that has grown faster than any in Latin America this year, even without help from the IMF or other international lenders that have frozen Argentina's credit.

Simultaneously, the IMF was in a much weaker position than usual. Argentina is the fund's third-largest debtor, after Brazil and Turkey. Its role in helping developing countries could have been questioned further had it failed to reach an agreement with Argentina.

"This really does show that the IMF needed this agreement more than Argentina did," said Cibils. "Kirchner really got everything he wanted. If Argentina didn't reach an agreement, how much worse could things get? The worst has already happened. But for the IMF, failing to reach an agreement leaves them exposed financially, but it also calls into question the whole basis of their power."

But Martin Hourest, an economist with the Central de Trabajadores Argentinos (CTA), questioned the president's ability to make good the commitments he did make, saying the fiscal surplus goal would be a big obstacle. "Nearly all the growth predicted for 2004 will be channelled toward paying the debt," Hourest said in an Inter Press Service interview. He said the government sees the 3% surplus goal as an achievement, compared to the 4.5% the IMF had demanded. But that 3% implies that next year there will be no salary hikes for public employees or increases in pensions, that unemployment benefits will not be expanded, and that public works will fall to new lows.

"The aim of growth based on the domestic market, which was announced in May, is going to be left pending if workers do not recover their purchasing power and nearly all of the GDP growth is shifted toward paying foreign debt commitments," said the economist.

Kirchner's candidates wins elections

Kirchner got another boost on Sept. 7, when the PJ won the governorship of Santa Fe, the third-most-populous province in the country. Because of the electoral system in which voters opt for a slate of candidates, the PJ's Jorge Obeid won the race even though Partido Socialista (PS) candidate Hermes Binner received more votes. Obeid will succeed Carlos Reutemann, who in turn won a Senate seat.

More victories came on Sept. 14, when the PJ won the governorships of Buenos Aires, Santa Cruz, and Jujuy, and the leadership of the city of Buenos Aires. Gov. Felipe Sola of Buenos Aires province was re-elected with 54.6% of the votes. Anibal Ibarra, the Kirchner-backed independent mayor of Buenos Aires, defeated businessman Mauricio Macri, taking 49.5% of the vote to Macri's 45.5%. Ibarra became the first mayor to serve two consecutive four-year terms since the post was created in 1996. "This is a confirmation of the political project that the president and I want to carry out both here in Buenos Aires and in the rest of the country," said Ibarra.

His opponent Macri, the son of one of Argentina's richest men, is the president of Boca Juniors, the country's most popular soccer team. To some voters, Macri was hurt by his family's close

association with former President Carlos Saul Menem (1989-1999), seen as a symbol of corruption. In the Patagonian province of Santa Cruz, Kirchner's home province, PJ candidate Sergio Acevedo took 81% of the vote. In the northern province of Jujuy, PJ Gov. Eduardo Fellner was re-elected, taking 53% of the votes. Only in the northern province of Chaco, the PJ candidate Jorge Capitanich narrowly lost to UCR candidate Roy Nikish, who took 48% of the vote to Capitanich's 47%.

The victories should help Kirchner consolidate power in the deeply divided PJ and bolster his political standing among those who stressed his weak mandate when he became president (see NotiSur, 2003-05-23). He took 22% of the vote in the first round, then became president when Menem withdrew from the runoff.

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