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Within days of one another, the governments of Brazil and Argentina said they would be paying off their debts to the International Monetary Fund (IMF). Brazil made the announcement on Dec. 13 and Argentina followed on Dec. 15, paying a combined sum of about US$25 billion. The governments of Presidents Luiz Inacio Lula da Silva and Nestor Kirchner have been increasingly distancing themselves from the fund.

Argentina's Kirchner was particularly adamant in his condemnations of the conditions the IMF had imposed on his country's government and the damage those policies had wrought. Some Argentine social sectors, however, criticized his decision and called on the government to direct the nearly US $10 billion toward social spending, a call echoed by some Brazilian social sectors.

Argentina spends US$10 billion to save US$1 billion

Argentina cleared its US$9.8 billion debt with the IMF the first week of January, using central bank (Banco Central de la Republica Argentina) reserves to fully repay its once-crushing debt load. President Kirchner set the payment for Jan. 3 when US financial markets reopened after the long New Year weekend. The decision to repay the IMF debt ahead of schedule earned Kirchner applause at home though financial markets in December responded by temporarily driving down the value of the Argentine peso. Although payments were scheduled to the IMF through 2008, repaying ahead of time saved Argentina about US$1 billion in interest.

The early repayment is Kirchner's second major achievement in a year of paying down Argentina's debt. Early in 2005, Argentina renegotiated US$100 billion in private debt with more than 70% of its creditors, reducing the amount owed by 75% (see NotiSur, 2005-03-11). The Argentine Congress has approved the repayment, which was made from the central bank's foreign currency reserves, which had reached about US$28 billion.

In 2001, Argentina defaulted on a record US$100 billion in debts (see NotiSur, 2001-05-11, 2002-11-22, and 2002-12-20), blocking its ability to trade on international debt markets. It was the largest default in IMF history. After Brazil and Turkey, Argentina was the fund's third-largest debtor. The January payment, which drew the central bank reserves down to US$18.5 billion, was one of the first major acts of newly appointed Economy Minister Felisa Miceli (see NotiSur, 2006-01-06).

Former economy minister Roberto Lavagna pointed out, however, that most of the planning for the payment was done under his management. Lavagna had announced shortly before he was relieved of his post that he intended to enter talks with the IMF regarding a new agreement.

Speaking after the announcement of the planned payoff to business and union leaders, military representatives, and human rights activists, Kirchner said the IMF had "acted towards our country

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as a promoter of and a vehicle for policies that caused poverty and pain among the Argentine people." He has long complained of the "meddling and demands" from the fund, which boosts his popularity with voters.

Rodrigo Rato, IMF managing director, said, "I welcome Argentina's repayment of its outstanding obligations to the fund. The decision has been taken by the government in accordance with its rights as any normal member of the Fund and reflects their confidence that their external position is sufficiently strong to warrant early repayment." The Argentine government reportedly coordinated its plan to pay off the IMF debt with Spain during a meeting there one year ago. First lady Cristina Fernandez de Kirchner, then senator from Santa Cruz, and Cabinet chief Alberto Fernandez took Spanish President Jose Luis Rodriguez Zapatero and other top Spanish authorities their plan to free their country from the monitoring and condition-setting of the IMF.

In November 2004, Kirchner outlined the plan and made his request for financial backing to Zapatero in a meeting in Costa Rica. They also wanted Spain to exercise whatever influence it had with Spanish IMF chief Rato. Both Argentina and Brazil made significant savings on interest by making the payoffs.

Brazil's Finance Minister Antonio Palocci said Brazil would save US$900 million by paying off its debt now instead of waiting until the 2007 expiration date. Critics displeased with debt payment Some Argentines said the money should have been spent on social programs. In the last week of 2005, about 100 retirees held a whistle-blowing demonstration outside Kirchner's office in Buenos Aires to oppose the decision. "The president is paying off the IMF, but he should really be paying off the debt to society. This is our money that is going to pay the fund," said Ricardo Bruno, a 65-year-old retiree.

Opponents of the move said they couldn't remember when the government last increased the monthly pension payments of as little as US$130 that many elderly survive on. Nonetheless, Argentine political analyst Felipe Noguera said the move seems more popular than unpopular because of how Kirchner played it. "When the IMF lends you money it has all these strings attached," said Noguera. "But if you don't owe the IMF money, the IMF can't poke its nose into your affairs even though IMF money is cheaper than the money available on the open market." However, Noguera called repayment a mostly symbolic step, overshadowed by Argentina's renegotiation last year of more than US$100 billion in defaulted external debt to jilted creditors worldwide.

Three years ago, Argentina's economy began growing again after its deepest crisis on record, making the IMF payment feasible. But the economy is far from fully healthy: 40% of the 36 million people remain in poverty and the unemployment rate is stuck in double digits as jobless protests persist (see NotiSur, 2004-03-12, 2004-07-16 and 2005-09-30). Some Argentines strongly supported Kirchner, like shoeshine man Fidel Aquino. "It's good we are finally paying off this debt. It's just like in your home; you've got to pay your bills," said Aquino.

Other Kirchner supporters applauded the payoff as a way for Argentina to reclaim its economic independence after a long and frequently antagonistic relationship with the fund. Estela de Carlotto

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of the Abuelas de Plaza de Mayo, an influential human rights group in Argentina, said the day of the announcement was "a historic day because we have finished with a sickness, a monster that was oppressing us." She said the debt had been set up illicitly under previous regimes and represented the interests of capital and businesses.

Argentine Senate prolongs "state of economic emergency"

Although it regarded itself as flush enough to clear its IMF debt, the Argentine government decided to continue the state of economic emergency in effect since the crash of 2002. Renewing the presidential decree Ley de Emergencia Economica for another six months prolongs a broad swath of parliamentary powers for the president. Kirchner has in particular been seeking to hold down consumer prices as double-digit inflation partially counteracts the benefits of the country's strong growth rates.

Buenos Aires newspaper Clarin, mulling the question of whether the country was still in an economic emergency, quoted one private analyst that it did not name, who said, "The argument for emergency is difficult to support, after the payment of almost US$10 billion to the IMF was announced and when, furthermore, the economy is growing 9% annually. But that doesn't mean that now there is going to be a rain of judgments against Argentina." The paper pointed out that some conditions stipulated in the original declaration of emergency, like "deep paralysis in production" and "the gravest outlook," had ceased to be the case, while others, such as "the intolerable levels of poverty," persisted.

Kirchnerists in the Senate contended that the economic emergency was an argument the government continued using in its legal actions against privatized businesses. The executive may also use the powers to regulate prices and apply maximum prices on certain goods, maintain limits over certain lawsuits against the state, and renegotiate state contracts and tariffs.

On its remaining debt, Argentina may choose to renegotiate with bondholders who did not join last spring's debt swap. The holdouts represent about 24% of bondholders and have titles to US$20 billion in Argentine debt, although Kirchner warned them during the swap negotiation that they would have worthless notes if they did not join. If Miceli and her ministry successfully navigate through the prickly field of such a negotiation, they could potentially announce the total normalization of Argentine debt. Venezuela's government has also said that it will continue its program of purchasing Argentine debt.

The government of President Hugo Chavez, flush with petrodollars after a year of soaring oil prices, has been purchasing regional debt as part of Chavez's "Bolivarian" plans for Latin American integration. Argentina sold US$496 million in seven-year bonds to Venezuela on Dec. 21, helping the country stockpile hard currency that it would use to pay back the IMF. Chavez's government bought US$1.48 billion of Argentine bonds in 2005, making it the biggest buyer of Argentine debt. Chavez said during a visit to Uruguay on Dec. 8 that he wants to make the region less dependent on policies endorsed by the IMF and World Bank and, by extension, the US, which dominates both organizations.

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Brazil clears US$15.5 billion "to walk on its own legs"

Brazil cleared its US$15.5 billion debt on a time frame similar to Argentina's, although its relations with the IMF have been somewhat friendlier than Argentina's.

On Jan. 10, Lula made a joint appearance with IMF head Rato. Lula said the payment of the debt represented the "victorious overcoming of another stage of the Brazilian economic policy and is a message to the country itself and to the world that Brazil 'can now walk on its own legs.'" The payment took place in the last week of December.

Finance Minister Palocci said in December that, even after the payment to the IMF, the reserves of the central bank (Banco Central do Brasil) would be more than US$54 billion. The new president of the Commission of Representatives of the Southern Cone Common Market (MERCOSUR), Carlos "Chacho" Alvarez, said that the coordinated debt clearances by Brazil and Argentina demonstrated that MERCOSUR has "a very synchronized policy" and that the region "is returning to put itself in a place of greater liberty." "It is very important for a vision of self-development," said Alvarez. "What Argentina and Brazil did shows that the good route is what they're taking."

Alvarez, who is replacing former Argentine president Eduardo Duhalde (2001-2003) at the head of MERCOSUR, said the measure "permits [the countries] to recover economic initiative....The fewer conditions one has, the more possibilities to determine for oneself" what economic policy will be. Alvarez said lifting the debt would, in time, guarantee sustained growth.

Rato called Brazil "a very good example to other countries for other emerging economies." He pointed to "coherent reforms, monetary and fiscal policy [that] will yield results and will also bring benefits for Argentina."

The IMF, observing Brazil's economic progress, has said that it has performed well in the months since it decided not to renew an IMF funding deal. In talks on Dec. 7 a week before Brazil announced plans to pay off its IMF debt the fund's executive board said Brazil was in a position to thrive.

The global lender, in a statement released in Washington, repeated its view that Brazil's economy would expand 3.5% in real terms in 2006 after rising 3.3% this year. IMF estimates of Brazilian economic growth have been slightly lower than Palocci's. The fund said inflation targeting was working well and forecast Brazilian consumer price gains would slow to 4.6% in 2006 after a 6.7% increase in 2005, making room for more interest-rate cuts. "The benign inflation outlook provides significant scope for further steady easing of the monetary policy stance," the IMF board said, stressing the need for a "cautious approach."

Prudent fiscal policy would also help, the IMF said in its post-program monitoring, a check-up the fund undertakes with countries after the end of a funding deal. Brazil decided in March to forgo IMF aid for the first time in nearly 7 years, letting a US$41.75 billion accord expire (see NotiSur, 2005-04-15). The IMF board concluded Brazil was "well placed for continued favorable economic performance" and noted strong exports, rising employment, and high real incomes. It warned,

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however, of risks from high levels of public debt, much of which is tied to short-term interest rates. "These factors still leave the Brazilian economy exposed to abrupt changes in global conditions and the domestic political scene," the board said in the review.

The IMF expressed concern that "the political situation in 2005 had delayed the government's reform agenda in Congress" and said it expects "further limitations to progress in the run-up to general elections in 2006."

Brazil also pays off US$5.8 billion

Paris Club debt Brazil also decided in December to cancel its US$5.8 billion debt to the Paris Club of creditor nations. The decision formed part of a broader strategy to improve Brazil's classification among risk-evaluation agencies. The agencies evaluate country risk for nations that have declared moratoria on payments. The goal is to get "investment-grade" classification so that Brazil can have access to the multimillion-dollar pension-fund market.

As part of the strategy, the Treasury took US$4.5 billion in C-Bonds out of circulation, notes given out during the renegotiation of the foreign debt, in exchange for notes with longer expiration dates. Brady Bonds from the debt-renegotiation period, worth a total of US$7.8 billion, are still on the market

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