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Argentina Devalues Currency; Braces for Opposition Attacks

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Following Argentine legislative elections that narrowed the gap between the opposition and the ruling party, power groups and major media have pushed President Cristina Fernández de Kirchner (CFK) to devalue the country’s currency. Though opposition parties gained ground, they did not win the election.

The government had held that its efforts to maintain monetary stability was a major achievement allowing it to enrich foreign-exchange reserves and develop social policy. However, on Jan. 24, persistent market movement culminated with the end of monetary stability, one of the pillars of the Kirchner administrations that began in 2003 with the late President Néstor Kirchner (2003-2007) and continued under his wife who was elected following his death in 2007.

The same day as the devaluation, economist Raúl Dellatorre said, "The government had to face a most difficult economic decision, one it had always rejected because of predictable regressive consequences. But it did so without losing sight of its goals of growth, employment, and social inclusion."

Along with the devaluation, the president created the Progresar program aimed at helping unemployed, underemployed, and/or undereducated youth between 18 and 24 years of age. Progresar provides a stipend equivalent to US$75 per month to help youth finish obligatory education and prepare themselves for better jobs. The state earmarked more than US$1.2 billion per year for the program, which is expected to benefit more than 1 million young people. Officials praise this effort as the most ambitious youth-support initiative in all of Latin America.

Government backed into corner

Meanwhile, the government continues governing, or trying to govern, under difficult circumstances. A brutal offensive from right-wing opponents that at times calls for moving up presidential elections scheduled for October 2015 and other times directly insinuates removal keeps the government on the defensive and in a troubled institutional role.

Cabinet members spend more time refuting false announcements than they do presenting new actions. "Don’t get excited; we’re not leaving ahead of schedule," Jorge Capitanich, head of the Cabinet, said Jan. 4.

The crisis that began in early January peaked on Jan. 22, when the Argentine peso fell by more than it had in a decade, while black-market trading in what Argentines now call "the blue dollar" traded at the highest rate. That day, speculation pushed legal exchange rates up 3.47%. The peso depreciated in a matter of 24 hours by the same percentage it had decreased on a monthly basis since last October. An accumulated 9.51% decrease in the first 22 days of January represented the sharpest change in the index since 2002. Black-market dollars shot up, trading 70% higher than the official rate.
"These values are unsustainable in any economy," banker Carlos Heller, president of an association that unites domestic financial institutions, said a few days later.

Beyond the destabilizing action of the markets, the opposition’s first statement about the situation on Jan. 22 indicated it was taking a coup approach and clearly indicated where the speculative wave was headed. Alfonso Prat Gay, former Central Bank president and now a opposition politician, said, "Argentina’s problem won’t be solved with currency devaluation but with a program that the government doesn’t have, in other words, a program carried out by another government."

**New allies in opposition**

This year’s attack on Argentina’s sovereign currency—an action historically the work of the agro-export sector and mass media representing financial capital—was a disturbing surprise. The powerful Sociedad Rural Argentina (SRA) and other smaller agricultural organizations, joined by their usual allies, the dailies Clarín and La Nación, were behind the attack. However, the hit that ended up causing the devaluation came from Anglo-Dutch oil company Shell and British Hong Kong and Shanghai Bank Corporation (HSBC).

"From Jan. 22 on, there were dubious signals that put us on alert, such as a speculative maneuver with protagonists Juan José Aranguren, the Chief Executive Officer (CEO) of Shell Argentina, and HSBC, BBVA, and Citibank," explained Minister of Economy Axel Kicillof. Aranguren ordered the import of US$3.5 million at 8.70 pesos per US$1.00 at a time the dollar traded at 7.24 pesos. The British bank decided to share the order with the two other banks. This created a climate of uncertainty and doubt since not even the banks knew the real legal value of the dollar when the Shell order caused it to jump unexpectedly by 21%.

The three implicated banks are leaders of the Asociación de Bancos Argentinos (ABA), an organization of foreign banks operating in Argentina. Since member banks have foreign headquarters, the name is deceptive.

In ABA meeting rooms, Deputy Sergio Massa, the rising star of the local political right ([NotiSur, Sept. 20, 2013, and Nov. 15, 2013](#)), received five minutes of uninterrupted applause after announcing that, if elected to the presidency in 2015, he would propose eliminating production and financial-intermediation taxes.

Aranguren, accused of financing Massa’s last election campaign, is a longtime enemy of the administration dating back to when the first Kirchner government set fuel price controls. The Argentine government fined the oil company for abusive pricing and creating shortages 23 times between 2006 and 2008 for a total of US$4.6 million.

On Jan. 24, Kicillof explained why Shell chose to lose money by setting the price of the dollar 21% above the official rate. "This shows," he said," that strong interests are willing to pay any price to damage our economic program of social inclusion and income distribution and that by manipulating highly malleable markets such as that of the dollar, they will pay whatever it takes to buy future political will." Kicillof didn’t mention Massa, but it was clear that he was referring to him.

Aranguren’s mere existence is cause for concern for the Argentine government. It is not easy to explain why a multinational as important as Shell has a CEO who takes actions that result in the company unnecessarily paying fines of US$4.6 million and leaving it in the eye of the hurricane.
In a Jan. 29 article in Tiempo, analyst Federico Bernal recalled that, on Nov. 8, 2013, Aranguren’s peers from 100 firms elected the Shell executive "CEO of the year." That day, El Cronista newspaper published an explanation of the selection: "... because the head of Shell had become a personal symbol of resistance against a government that pressured business leaders as a method of political construction." This type of thinking by business leaders, Bernal said, "shows that Aranguren received the award based on his political actions, not because of his entrepreneurial skills."

The head of Shell became the man chosen by the political right. On Jan. 29, deputies from Propuesta Republicana (PRO), an ultraright party currently in power in the Buenos Aires city government under businessman Mauricio Macri, presented a bill calling for Congress "to express its support of, and solidarity for, one of the country's most lucid businessmen [referring to Aranguren]."

Among the many decidedly destabilizing statements, such as those of Prat Gay and Massa, are others by Macri ("Here there’s a political model that happily is in crisis and living out its last hours."), SRA president Luis Miguel Etchevehere ("Given the uncertainty of a government that fails, it is better to speculate than to produce."), and the daily Clarín ("This government had an expiration date, like products that rot after a certain time.")—all quoted in an Associated Press article on Jan. 30 in which Buenos Aires correspondents told the world about the plight of the Argentines.

"Prices are soaring, foreign reserves are falling, and the peso has had its sharpest slide in 12 years. Instead of rioting, though, Argentines are falling back on tried and true survival skills learned in earlier, direr times.

"Some are hoarding dollars, while others stockpile goods or plow their savings into real estate.

"More people ride bikes now following recent increases in public transportation fares. They eat out less and buy cheap, pirated DVD copies of the latest films rather than go to the cinema."

The AP report notes that the last crisis occurred 13 years ago (NotiSur, Aug. 10, 2001, and Aug. 31, 2001) and "was so bad that one of every five Argentines was out of work and some reported going hungry. The peso, which had been tied to the dollar, lost nearly 70% of its value. ... At least 27 people died in protests."

After this dramatic reminder, the AP, in an unusually long 1,500-word story, quoted Jorge Raventos, an established Trotskyite journalist and former spokesperson for the neoliberal government of former President Carlos Menem (1989-1999), saying, "It is difficult to know how much the Argentines can endure without exploding."

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