INFORME NACIONAL

IDESA

June 30, 2013 – Number 500

COLOMBIA, PERU AND CHILE REDUCE THEIR DEBT MORE THAN ARGENTINA

The Argentinean debt reduction is pointed out as an important achievement. However, compared with other countries of the region, debt reduction in Argentina has been nothing but modest. Nevertheless, what is most worrying is that debt reduction was based on institution destruction and accompanied by a rapid increase in unregistered debt. The experience of other Latin American countries shows that it is possible to cut down public debt with modernizing and rational policies that contribute to sustainable development.

A prerequisite for economic and social development is to count on a professionally managed public sector that keeps a strong consistency between revenues and expenditures and thus holds a prudent level of debt. This is why the deterioration perceived in the quality of the management in many areas of the Argentinean public sector and the growing deficit in the state finance can be considered troubling.

But in terms of debt management, it is emphatically pointed out that the Argentinean state is in a deleveraging process. According to the Ministry of Economy, in 2000 public debt reached 45.7% of the GDP, then the debt level raised to 165% of GDP in 2002 due to the mandatory peso conversion of all dollar denominated assets and the GDP decline, later on it decreased to reach a level of 44.9% by 2012 (including defaulted debt that did not enter the 2005 and 2010 swaps). This means that, compared to the late '90s, the debt reduction process is, at least, difficult to perceive.

Anyhow, the Argentinean debt management was facilitated by the favorable international context of high terms of trade and very low international interest rates that benefited South America. For this reason, it is relevant to compare the Argentina’s process with the public debt evolution in other countries of the region. According to IMF data, between 2000 and 2012 it can be observed that:

- In **Colombia**, public debt fell from **36%** to **33%** of GDP.
- In **Peru**, debt was reduced to less than half, from **42%** to **20%** of GDP.
- In **Chile**, public debt fell from **13%** to **11%** of GDP.

This data shows that some countries in the region have achieved significant debt reductions, which makes the Argentinean deleveraging performance quite modest**. But what appears to be most important regarding international comparisons, is not so much the evolution of the amount of debt of each country, but the difference in the quality of instruments used to reduce it.**

In **Argentina**, in order to reduce the level of debt inherited from the '90s, the government chose to default and apply a mandatory conversion into pesos, and implemented **two debt swaps** ripping of around 75% of dollar denominate assets value, without being able to close this stance since there are still pending lawsuits in court against the country for the defaulted bonds. The **INDEC was intervened** in order to manipulate the CER (coefficient used to adjust the public debt) and pay less interests. The **Central Bank was intervened** in order to allow the use of reserves to pay public debt in dollars and to finance the fiscal deficit with monetary supply (to avoid the need to resort to financial markets to finance the state). In the same goal, **the funded pension system was eliminated** to seize the accumulated pension savings and future contributions to finance the state. Meanwhile, **thousands of lawsuits**, by retirees who were denied the inflation adjustment of their pensions and owners of nationalized companies, **piled up against the State**. This implies an unregistered debt difficult to measure, but large in size.

In contrast, Chile, Colombia and Peru (particularly the last two which had similar public indebtedness at the end of the '90s) show declines in the debt levels in a context of institutional modernization of their information and public transparency systems, independent and professional management in the Ministries of Finance and Central Bank, preservation and strengthening of their pension and savings schemes, fiscal balance and professional public policy management. Therefore, in addition to reduced indebtedness, these countries have received an increase in direct domestic and foreign investment.

The hyped Argentinean debt reduction is not consistent with reality. On the one hand, because the current registered debt is similar to the '90s level and higher if the growth of unregistered public debt is computed. On the other hand, because the instruments used to reduce debt are associated with high economic, social and political costs. Therefore, the current public debt management imposes a burden that restrict the future growth.

Public Debt as Percentage of GDP