

# Argentinas financial crisis research paper example

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## Introduction

Argentine economic crisis is a crisis that occurred in the Argentine economy in the late 1990s - early 2000s. In terms of macroeconomic crisis began with the decrease in real GDP in 1999 and ended in 2002 with the return of GDP growth, but the reasons for the collapse of the Argentine economy and its impact on the population can be seen today. Sometimes crisis dates back only 2001-2002 years.

The first call was the crisis in Mexico in 1995, which led to the flight of capital losses in the banking system and a short recession. In 1998, the international financial crisis in Asia and the Russian default again created problems for the Argentine economy, which led to the duration of the crisis. In 1999, the GDP of the country once again began to fall, and the government has responded to the recession, higher taxes to finance a growing budget deficit.

The situation began to develop in a spiral, where the government only worsened the situation, and in December 2001, Buenos Aires rocked thousands of demonstrations. They led to the resignation of interim president Adolfo Rodríguez Saa, and then on the eve of the new 2002 Argentina defaulted on its debt in 93 billion dollars. Default led to the fall of GDP by 11% in 2002. This meant a return to 1993 in absolute terms and in per capita terms - in 1968 th.

The culmination of the crisis were riots in December 2001, during which the country a wave of looting. At the same time, Argentina announced the largest default in history (132 billion dollars).

## Causes

One of the causes of the crisis called monetarist reform Domingo Cavallo, during which was privatized state property and put the national currency peg to the US dollar. In addition, foreign investors in Argentina created special conditions - they are completely exempt from 5-25 years, with the result that, according to some estimates, billions of dollars in foreign investment is accompanied by a loss of at least \$ 280 billion profit in a decade.

Rigid peg to expensive currency (dollar) made Argentine goods uncompetitive, which further adversely affected the development of the industry. In addition, because of the rigid peg the Central Bank of Argentina has deprived himself of the possibility of real influence on the situation. Once in 1999, Brazil devalued, its economy has become more attractive to investors than the Argentine. This led to an outflow of capital.

In the 1990s, Argentina started to repay their old debts due to the new debt at higher interest. At the same time loans were taken to cover the budget deficit. Over the years of his presidency Carlos Menem and Fernando de la Rúa government debt rose to 132 billion dollars, which further led to significant costs for its maintenance. Shortly before the default, however, the IMF has refused to grant new loans to Argentina. In this regard, the IMF and the US accused of inconsistency with respect to Argentina, as the IMF has long insisted on holding a rigid fiscal policy and gave Argentina huge loans to cover the deficit, but in late 2001 changed its position.

Argentina, which since 1991 to maintain a fixed exchange rate of its peso eliminated hyperinflation and provide a significant inflow of foreign investments, was then the darling of the Fund and in the summer of 2001

received an additional loan of \$ 8 billion. However, immediately after that the IMF realized that Argentina will not help any additional loans. Argentina immediately ceased to be the darling of the IMF, and in December 2001, the Fund refused to provide her with the next portion of the loan mentioned above.

### **The other reasons that contributed to more serious consequences of the crisis:**

- Imperfection of the tax system, which allowed to evade taxes (VAT evasion is up to 40%).
- Large-scale corruption.
- The region's debt to the central government.
- High annual recurring debt payments - \$ 5 billion a year.
- The global recession and economic crisis in developing countries (South-East Asia and Russia), which led to a reduction in GDP and the outflow of capital from Argentina.
- Unexpected increase in current social benefits despite the fact that a policy of reducing the long-term.

When in 1989 Carlos Menem became president, Argentina was a pathetic shadow of its former self. Authorities have accumulated \$ 65 billion foreign debt, production fell and inflation, which from 1975 to 1988-th averaged 220% per year, increased in 1989 to 5, 000%. Only in July, a month's inauguration Menem, prices have tripled. GDP per capita in 1974 fell by a quarter, and real incomes have been halved.

## Conclusions and Consequences

In the short term in Argentina has fallen sharply the level of GDP, significantly reduced the purchasing power of the population, significantly increased the level of poverty. According to the World Bank, the number of people below the poverty line in Argentina has increased from 28. 9% in 2000 to 35. 4% in 2001 and reached a peak in 2002 (54. 3%), and then began to decline and reached 9, 9% in 2010. In 2001, the ratio of external public debt to GDP was 56. 9% of GDP, but because of the default and the fall in GDP by 2002 this had risen to 153. 2%, and then began to decline by 20-40% per year. Since 2001, Argentina's unemployment rate decreased (18. 3% in 2001, 17. 9% in 2002, 16. 1% in 2003; in 2009 - 8. 6%).

For some reduction effects of the crisis for the population, the Argentine Government has introduced a differentiated approach in the recovery of deposits, resulting in banks suffered losses of 10. 6 billion dollars. The government also refused to commitments in a number of infrastructure projects and thus forbidden to raise tariffs for public utilities. Price controls became one of the most important points of the anti-crisis program.

### **It should be noted that the crisis in Argentina in 2014 is similar to the 1998-2002 crisis.**

Argentina again had to fight with hedge funds, which here is called "vultures". The country once again threatens to default, similar to what happened 12 years ago. In 2002, several American hedge funds, unlike the majority of the creditors of Argentina refused to restructure its debt. And we decided to try his luck in court, where succeed.

New York court ordered the United States to Argentina to return 100% of the

debt hedge fund NML Capital et Aurelius Management, before doling out its debt at bargain prices. Buenos Aires has to fully pay them until 30 July. Because until 30 July Argentina could not agree on the payments do not agree with the restructuring of debt creditors on debt of the country has come a technical default.

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