

Copyright 2003 IPS-Inter Press Service/Global Information Network  
IPS-Inter Press Service

March 4, 2003, Monday

LENGTH: 1016 words

HEADLINE: ARGENTINA: REPARATIONS FOR BANKS, BUT NOT THE  
SAVERS

BYLINE: By Marcela Valente

DATELINE: BUENOS AIRES, Mar. 4

BODY:

The Argentine government is planning to compensate banks for losses suffered as a result of the financial crisis that erupted in December 2001. But savers and others hurt by the collapse are demanding their fair share.

Savers' representatives and some experts argue that the banks have no more right to reparations than the rest who have lost money as a result of the crisis, but the government and financial executives assert that indemnifying the banking system is the only way to achieve a lasting economic reactivation.

Economy minister Roberto Lavagna called a bank leak to the media that the state would give the banking system \$ 2.64 billion "unacceptable pressure". But the letter of intent that Lavagna himself signed with the International Monetary Fund (IMF) calls for total compensation of nearly twice that sum.

The minister reacted angrily to the news report, and postponed the start of negotiations with the banks, but the IMF agreement indicates that the state must compensate the banking system before March 14 with more than \$ 5 billion.

But some banking executives complain that even the IMF-agreed reparations would be insufficient.

In a country where 54 percent of the population lives in poverty -- 20 million people --, the state must realize that it is politically inappropriate to transfer money to the banks, sociologist Eric Calcagno, graduate of France's National Administration School, told

IPS.

"If the banks suffered losses, let them go bankrupt," he commented.

"We lost a great deal of money, some of it we haven't been able to recover. And then the banks demand compensation ... It's inexcusable," says Nito Artaza, a representative of bank clients whose savings were frozen and converted to pesos if the account was in dollars in what is known as the "corralito" (little fence) that went into effect when the crisis erupted.

However, a former banker and current bank adviser who spoke with IPS on condition of anonymity said the government should compensate the banking system for the "discretionary decisions" it made.

According to other experiences around the world, "there is no way to begin growing again if the financial problem is not resolved first," said the source.

In December 2001, Domingo Cavallo, economy minister at the time, moved to halt the run on the banks by imposing the "corralito", ordering restrictions on cash withdrawals for 90 days. The measure prompted massive street protests, which prompted the resignation of then-president Fernando de la Rúa.

But the emptying of bank accounts was not only the responsibility of distrustful savers, says opposition lawmaker Mario Cafiero, who filed a legal claim that in 2001, just prior to the bank freeze, the bank executives themselves sent \$ 25 billion out of the country.

Soon after President Eduardo Duhalde took office in January 2002, there was a sharp devaluation of the Argentine peso. The government lifted the parity regimen that had kept the peso pegged to the dollar for a decade.

The currency depreciation aggravated the crisis, particularly because there were tens of thousands of savers whose deposits were in dollars. Returning their money became extremely difficult for the banks.

The tight limits on withdrawals lasted much longer than the three months originally announced. The government ordered dollar deposits converted to pesos at a rate of 1.4 per dollar, when the market rate had already reached 2.4 pesos per dollar.

This, of course, did not please the savers, but nor were the banks happy. In order to prevent creditors from going bankrupt, banks were forced to continue collecting in dollars the loans that had been granted when the peso-dollar exchange rate was one-to-one.

In mid-2002, Argentina's economy began a tenuous trend towards stability, the price rises came to a halt and the exchange rate stabilized at around 3.5 pesos to the dollar.

This allowed a relative normalization of the banks, which began to return deposits to those clients who had smaller holdings, representing 70 percent of the total that had been frozen.

The crisis was severe but did not cause major structural changes in the Argentine banking system. Two foreign institutions, the Canada-based Scotiabank Quilmes and France's Credit Agricole, moved their operations out of the country.

The total number of bank branch offices shrank from 4,300 to 4,000 and personnel was reduced 10 percent throughout the banking industry.

Today, with more and more deposits and banks once again beginning to offer mortgages and certain types of loans, the authorities believe that the time has come to compensate losses.

The banks, backed by the multilateral credit institutions, are demanding damages for the "asymmetric peso conversion", which entailed peso-dollar parity in collecting on loans, and 1.4 pesos per dollar for returning deposits.

The banks are also demanding compensation for the payments that the courts have forced them to pay during the last year.

Those payments went to 20 percent of some 200,000 savers who filed legal complaints aimed at recovering their money from the frozen accounts. With the courts ruling in favor of the account holders, the banks had to return the balances in dollars, the currency in which the original deposits had been made.

Expert Calcagno considers it "unacceptable" that the government would indemnify the banks but not the other business sectors hurt by the crisis.

The only way that the state could prove it is not being used as a tool in favor of the financial powers is to allow the banks to go under, and to bail out the small savers, he said.

In March 2002, the banks received a hefty compensation package from the government, which allowed them to pay off dollar debts held abroad through a subsidized state bond, costing the treasury \$ 11.4 billion, he said.

This meant a sharp increase in the foreign debt that must be paid by all Argentines through the intensification of the government's fiscal adjustment measures, Calcagno said.