Appendix A
The Fund Staff Analysis of Argentina's Sovereign Debt Dynamics

The sustainability of Argentina's debt dynamics clearly became an important issue in 2000–01, and the International Monetary Fund staff provided an analysis of this issue in its reports on the Fund's program with Argentina. The staff report of August 2001 supporting the Fund's decision to proceed with a large augmentation of Fund assistance for Argentina has not, unfortunately, been publicly released; and its analysis of Argentina's debt dynamics at this critical juncture is therefore not publicly available. However, the staff report on the May 2001 review of the Fund program with Argentina (which recommended waivers of missed first-quarter performance criteria and modification of performance criteria for the second quarter, in order to proceed with the program) was publicly released as IMF Country Report 01/90 in June 2001 and is available at the IMF Web site, http://www.imf.org/external/pubs/ft/scr/2001/cr0190.pdf. The analysis in this report is revealing about how the Fund's staff analyzed this issue and what it was prepared to say about it in its report to the Executive Board.

The relevant paragraph in that report states:

> Given the authorities commitment to meet the deficit requirements of the fiscal responsibility law of 2001 and beyond, the debt *dynamics analysis remains broadly unaffected* [compared with the previous staff report], assuming that economic activity recovers as envisaged. Valuation changes in the fourth quarter raised the outstanding stock of debt at end-2000 by about 1 percentage point of GDP, to almost 51 percent of GDP. Based on conservative growth and interest rate assump-

tions, the debt/GPD ratio will continue to rise until 2002, partly reflecting continued recognition of past liabilities—when it peaks at about 54.5 percent of GDP. It will start to decline steadily thereafter, but will still be above 50 percent by 2005 (Table 7). As shown in the report for the second review, the debt dynamics are particularly sensitive to the rate of growth of GDP, and less to variations in the interest rate, given the relatively high average maturity of the public debt.

The footnote to the text describing the "conservative growth and interest rate assumptions" states, "It is assumed that growth will gradually accelerate to reach 4¼ percent by 2003. The interest rate on new borrowing reflects the large participation of official lenders in 2001–02, and a rate on market borrowing that starts in the 13–14 percent range in 2001 and declines gradually to about 10 percent by 2005."

Table 7 from this staff report is quite interesting and is reproduced here as table A.1. What should be made of this analysis? The general principle in such matters is that if you are prepared to swallow the assumptions, then you should also eat the conclusions. Or, as we used to say when I was growing up, "If, if, if . . . If my grandmother had wheels, she would be a bus."

As is revealed in the table, the Fund's staff *assumes* that real GDP growth for Argentina will be 2.0 percent in 2001, 3.7 percent in 2003, and 4.3 percent thereafter. But by mid-May 2001, it was abundantly clear that the recession was continuing to deepen in Argentina, and –2 percent growth would have been a more reasonable forecast than +2 percent. There was no evidence of imminent economic recovery, and both the high level of interest rates and the assumed degree of further fiscal tightening suggested continued economic contraction through 2002.

On interest rates, the Fund staff analysis *assumes* that the interest rate on new federal debt would run between 10 and 11.5 percent through 2004. At the time of the staff report, market interest rates on Argentine sovereign debt with maturities running out for 20 years were in the range of 14 to 16 percent.

On the Argentine government's fiscal policy, the Fund staff analysis *assumes* that the "fiscal responsibility law," which placed an absolute cap on the stock of government debt, would be effectively implemented and enforced, despite the absence of concrete measures to achieve this result or any realistic prospect that it would be achieved. As is discussed in the main text, under more plausible assumptions about real growth, about interest rates facing the Argentine sovereign (assuming that it could access private credit markets at all), and about achievable degree of fiscal discipline, by mid-May 2001, Argentina's ratio of sovereign debt to GDP appeared to be headed off toward the wild blue yonder.

Of course, there is room for reasonable disagreement about what are the right assumptions concerning real growth, interest rates, and achievable fiscal outcomes. And a sensible analysis of sovereign debt dynamics should probably contemplate a range of plausible results. But there is a

Table A.1 Argentina: Consolidated public sector debt dynamics (in millions of US dollars)

	1997	1998	1999	2000	2001 (projected)	2002 (projected)	2003 (projected)	2004 (projected)	2005 (projected)
Debt, beginning of period	108,318	111,547	123,508	134,270	144,805	157, 265	165,563	171,502	174,791
Primary balance	788 (0.3)	1,543 (0.5)	–2,133 (–0.8)	1,308 (0.5)	4,642 (1.6)	8,081 (2.7)	11,467 (3.6)	14,973 (4.5)	17,492 (5.0)
Interest payments	6,843 (2.3)	7,858 (2.6)	9,655 (3.4)	11,512 (4.0)	13,902 (4.7)	14,979 (4.9)	16,006 (5.0)	17,062 (5.1)	17,492 (5.0)
Overall balance	–6,055 (–2.1)	–6,315 (–2.1)	–11,788 (–4.2)	–10,205 (–3.6)	–9,260 (–3.1)	–6,898 (–2.3)	–4,539 (–1.4)	–2,089 (–0.6)	0 (0.0)
Privatization receipts[1]	1,264	558	889	166	400	200	200	100	100
Debt consolidation (recognition)	942	1,123	1,546	1,513	2,100	1,400	1,400	1,100	1,000
Other debt creating flows[2]	–2,504	5,081	–1,683	–1,017	1,500	200	200	200	200
Debt, end of period	111,547 (38.1)	123,508 (41.3)	134,270 (47.4)	144,805 (50.8)	157,265 (53.5)	165,563 (54.5)	171,502 (53.9)	174,791 (52.4)	175,891 (50.3)

(table continues next page)

Table A.1 Argentina: Consolidated public sector debt dynamics (in millions of US dollars) *(continued)*

	1997	1998	1999	2000	2001 (projected)	2002 (projected)	2003 (projected)	2004 (projected)	2005 (projected)
Memorandum items (in millions of pesos, unless otherwise indicated):									
Gross Domestic Product	292,825	298,948	283,260	285,045	291,178	303,605	318,202	333,816	350,009
Real GDP growth (in percent)	8.1	3.8	–3.4	–0.5	2.0	3.7	4.3	4.3	4.3
Federal government balance	–4,677	–3,828	–7,156	–6,974	–6,500	–5,000	–3,500	–1,700	0
Provincial governments balance	–1,379	–2,487	–4,632	–3,231	–2,760	–1,898	–1,039	–389	0
Implicit average interest rate (percent)	6.3	7.0	7.8	8.6	9.6	9.5	9.7	9.9	10.0
Interest rate on new federal government debt (percent)[3]	—	—	—	10.9	10.2	10.6	11.4	10.1	9.7

1. Includes one-off gains made in debt management operations.
2. Includes quasi-fiscal surplus not transferred to the treasury, capitalized interest, and valuation adjustments; in 2001, includes also Arg$400 million for payments due to judicial rulings on ANSES (Argentine Social Security Administration) and Arg$800 million for consolidation of INDER's (National Institute for Reinsurance SE) past obligations. In the projection period the quasi-fiscal surplus is projected at Arg$300 million per annum.
3. Assumes a marginal interest rate on market operations of 13 percent in 2001 and declining by 50 basis points every year thereafter.

Note: Figures in parentheses are in percent of GDP.

Sources: IMF Country Report No. 01/90 (June 2001).

critical difference between responsible, professional analysis that honestly attempts to assess central tendencies and reasonable bounds of uncertainty and advocacy analysis that endeavors to support a precooked conclusion favored by a country's authorities and Fund management. In the post-Enron era, when private-sector auditors and analysts are—properly in my view—being held to reasonable standards of professional integrity, the Fund's Executive Board should consider whether it should accept substantially less from Fund staff and management.