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The State and Financial Capital in Argentina Between 2002 and 2012. Public Debt

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Abstract

In order to elucidate the role of financial capital in the dynamics of the Argentine economy between 2002 and 2012, this paper analyzes several aspects of the relationship between financial capital and the State. “Debt reduction” partially dismantled public debt as the backbone of speculative activity, although it maintained its profitability and priority position in economic policy decision-making. On the other hand, financial regulation contributed to keeping the mechanism of debt and did not significantly alter the central role played by financial capital.

Keywords: Economic policy, public debt, financial capital, the State, debt reduction, financial regulation.

INTRODUCTION

In the nineteen-nineties, the government of Argentina played a major role in creating the conditions for financial capital to take center stage in the economy. Debt payments were financed with more debt, due to fiscal imbalances and the current account balance, which the country’s own economic policy only sunk deeper (overvalued currency and monetary base requirements). Via this mechanism, capital flowed into the economy, gained value in the financial market thanks to the interest rate differential, and later decamped abroad, eased by financial liberalization and convertibility (Basualdo, 2006). Finance needs and the monetary and foreign exchange policies made the public debt more profitable in a situation in which it was necessary to make the debt more attractive and offset risk. The monetary and foreign exchange policies, in this sense, served as conduits with a direct influence on the overwhelming role of finance in the convertibility age.

The unsustainability of the economic model spawned the crisis that broke out in 2001, whose aftermath was devastating for the country, as social conditions deteriorated to an unprecedented low, leading to an unemployment rate of more than 20% and a poverty rate of around 40%. In spite of the trade and fiscal deficit, the inability to access international finance, interrupted payment and collection lines, and social unrest, the Argentinean economy rebounded in record time, managing to clean up the public and foreign accounts and reach high growth rates throughout nearly the entire timespan. This performance was fueled, in large part, by a new economic policy stance. However, this shift does not indicate, per se, a change in the position afforded to financial capital.

This paper dives into the role of financial capital, and the degree to which this role has changed or remained the same in the Argentinean economy, by analyzing the relationship between financial capital and the State in the time period 2002-2012.[2] To do so, I analyzed the two factors that turned out to be drivers underlying the role of financial capital in the period prior. The first section analyzes the evolution of public debt and the nuances of the “debt reduction” program. The second examines the effects of financial regulation, which, as will be shown, is closely related to the features of this debt.

1. SCOPE OF THE “DEBT REDUCTION" POLICY

In mid-2000, the governing party began to speak of a "debt reduction” process in Argentina.[3] This stance was justified, in the case of restructuring, by the effects of the clearing out the stock of defaulted debt, the new debt types negotiated, and their impact on debt service sustainability. The main indicator of sustainability, the debt stock as a percentage of the gross domestic product (GDP) has fallen considerably since the first swap in 2005 (CENDA, 2010).

On the other hand, the International Monetary Fund’s (IMF) abstention from participation in this process and the repayment of debt to this international agency were also part of the rationale for the argument, because the plan would reduce foreign debt and augment economic policy sovereignty, both of which were supposed to have led to the end of international financial dependency.

However, certain research papers were published questioning whether the burden on the State would truly be mitigated. It is this critical viewpoint that qualifies the degree to which debt management truly dismantled the already-existing mechanism from the period prior and its implications for the role of financial capital.[4] First, this paper analyzes how the indicators upon which the thesis of "debt reduction" have evolved and, second, it will look at the arguments upon which

the critique of this thesis are based, related to the debt stock, restructuring mechanisms, and the replacement of foreign debt with domestic debt.

1.1 “Debt Reduction” Indicators and the Rise of Public Debt

An examination of the “debt reduction” indicators reveals in Figure 1 that the public debt stock grew significantly over the time period in which payments were suspended (2002-2004), not only due to the effects of the crisis and devaluation, but also because of State intervention, especially in the financial sector. The swap managed to cut the debt significantly, from 191.296 billion to 128.630 billion dollars in 2005.

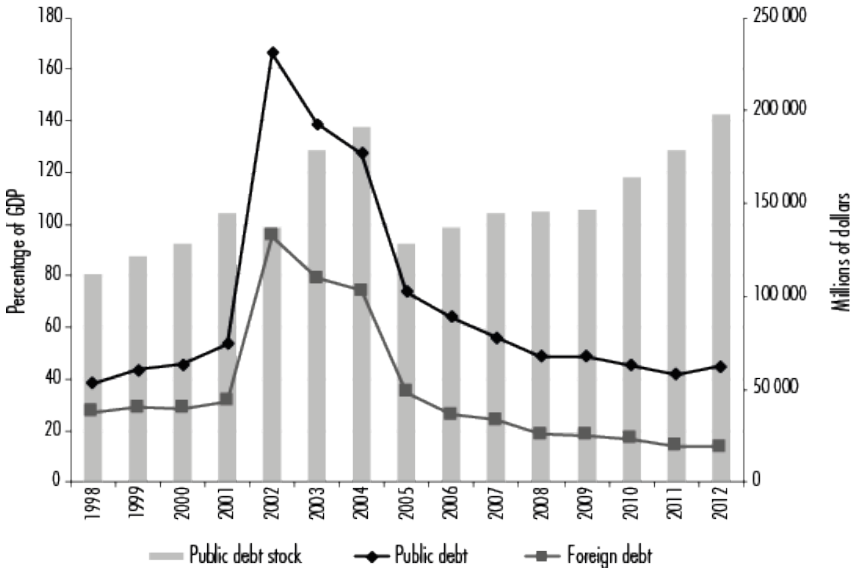
It was from that point forward that the debt began to rise again, reaching 197.464 billion dollars in 2012. However, the "debt reduction" thesis did not take into account this growth, but rather the sustainability of the debt, namely, how manageable it would be to make the debt service payments using the country’s own resources.

The main indicators describing the health of this management include debt stock to GDP, foreign debt stock to GDP, the percentage of debt interests and debt service to GDP.

The debt stock as a percentage of GDP hit a high in 2002, at 166.4%, due to the effect of devaluation on the debt stock, because nearly 80% of the debt was in dollars. The bank bailout and other measures implemented to confront the crisis also drove up the public debt. Even so, the effect of the significant GDP drop on the denominator of this indicator as a result of the economic recession that same year should not be disregarded.

Figure 1 shows that debt stock to GDP began to decline starting in 2002, falling significantly after the restructuring from 127.3% in 2004 to 73.9% in 2005, ending the time period at 44.9%. Although this drop is significant, especially considering the levels in the default years, it should be noted that it never fell lower than the 1998 value (38.2%), at which time the debt was the heart of the economy as the main axis revitalizing speculative activity and underpinning the macroeconomic model.

Figure 1. Public Debt (in Millions of Dollars) and Sustainability Indicators, 1998-2012



Source: Secretariat of Finance at the Ministry of the Economy.

More significant is the second indicator: foreign debt stock to GDP. The ratio went from 31.5% of GDP in 2001 to 24.1% of GDP in 2007, falling significantly in 2012, when the percentage declined to only 13.7% of GDP. As a percentage of total gross debt, the debt in foreign currency fell from 96.9% in 2001 to 52.8% in 2007. In 2012, the percentage rebounded slightly to 59%. This indicator seems to show that, effectively, exposure to foreign debt did fall in this time period.

Both indicators displayed performed better where management is concerned, especially in the case of foreign debt. However, the national public debt stock continued to expand, even in the financial fiscal surplus period between 2005 and 2008, which should have verified a net debt reduction.

Debate then began about the success of restructuring and the end of the foreign debt problem. Its detractors translated the concept of “debt reduction” into the replacement of foreign debt with domestic debt, terming the government policy in this regard a pretext to keep paying back rigorously and punctually debt of questionable legitimacy[5] (Damill *et al.,* 2005; Giuliano, 2006; Lo Vuolo & Seppi, 2008).

1.2 Critiques of the “Debt Reduction” Thesis

The arguments espoused by authors who denounced the "debt reduction fallacy" can be grouped into three: the impact of the new mechanisms imposed by restructuring the debt stock, the impact of these mechanisms on the burden entailed by the repayment of interest, and the replacement of foreign with domestic debt.

The new mechanisms used to restructure the debt for which payments had been suspended included: adjusting the Reference Stabilization Coefficient (RSC) for quasi-par bonds, payable interest, and GDP coupons.

Table 1. Capitalized Interest* and GDP Coupons**, Millions of Dollars

	GDP Coupons	*Capitalized Interest*
2006	389	969
2007	821	990
2008	1 302	1 034
2009	1 417	1 033
2010		1 761
2011	2 487	1 273
2012	3 520	1 030
Total	9 936	8 090

*Data on capitalized interest also includes the interest generated on swap bonds, consolidation bonds (BOCON). **Data in the GDP coupons column derived from economic growth the year prior.

Source: Created by the author based on data from the Fiscal Bulletin (Treasury Secretariat), p. 12, 26 from March 2011, Instituto Argentino de Mercado de Capitales (IAMC) and BCRA.

The RSC and the capitalized interest adjustments alike raised the debt stock over time. In the former case, the impact caused by inflation does not compute until debt is effectively increased. Between 2006 and 2008, the RSC adjustment raised the debt stock by 12.731 billion dollars.[6]

Critical voices have claimed that the high share of debt indexation in the cost of debt was the reason behind INDEC’s choice to change the method it uses to calculate the CPI starting in 2007. The new methodology would underestimate the generalized price increases, undermining the credibility and reliability of the data this body publishes (Lo Vuolo & Seppi, 2008).

After the Retirement and Pension Administrators (AFJP) were nationalized in 2008, most of that debt ended up in the hands of the National Social Security Administration (ANSES). Its profitability was beneficial to the fund paid in to the social security system, but the adjustment for a Consumer Price Index (CPI) less than the existing index compromised a portion of these benefits (Giuliano, 2013). The exact opposite happened in the years 2005, 2006, and 2007, when the RSC adjustment became one of the mechanisms driving the profitability of its principal owner: the local financial system.

According to the data in Table 1, capitalized interests drove up the debt by 8.090 billion dollars between 2006 and 2012. This impact is relevant because the interest payable was calculated on an increasingly large base, which, in the end, entails a larger payment.

Moreover, in constant values, capitalized interest in the time period 2002-2006 represented nearly 40% of the total interest; the annual average of the sum of paid and capitalized interest is close to the value of the interest paid in 1999 and exceeds the rest of the years in the nineteen-nineties (Lo Vuolo & Seppi, 2008, p. 15).

Another element that comes into question when analyzing the debt stock is the holdout debt, or that portion of the debt that was not swapped in either 2005 or 2010. When the “lock law" was done away with and the swap was opened in 2010, the holdout debt became potential debt rather than unrecognized debt (Giuliano, 2013). This debt, in 2012, accounted for 11.482 billion dollars (capital and interest, without late or punitive interest).

The second argument against the “debt reduction” thesis is related to the weight of interest and the debt service. In the past, the enormous weight of the debt service impacted the public deficit and, in turn, the amount of debt to be paid. This higher debt then led to new debt issuances, which needed to be increasingly attractive, meaning accruing greater interest and, therefore, more profitable, even if this would entail a higher cost for the Argentinean economy.

The swap would have meant a reduction in the weight of interest, making the debt problem more manageable. However, both the withdrawal and reduction of interests were offset by restructuring mechanisms that conserved their profitability and, therefore, kept the cost high (Damill *et al.*, 2005; Giuliano, 2006; Lo Vuolo y Seppi, 2008; Capello & Grión, 2010).

At first glance, interest payable fell as a result of the restructuring. In December 2001, this interest was equivalent to 10.175 billion annual dollars. By 2005, it amounted to just 3.205 billion dollars (Lo Vuolo & Seppi, 2008).

However, in the debt negotiations, certain privileges were granted to the suppliers who entered the swap. These included a bond issuance date of December 31, 2003, meaning that even though the swap was performed in 2005, the interest had begun to accrue a year earlier.

The data in Figure 2 (main axis) shows how the ratio of debt service to GDP fell from 15.3% in 2001 to 10.2% in 2007.[7] Even so, if we consider the data from the last years of the decade prior, it continues to be a similar percentage.

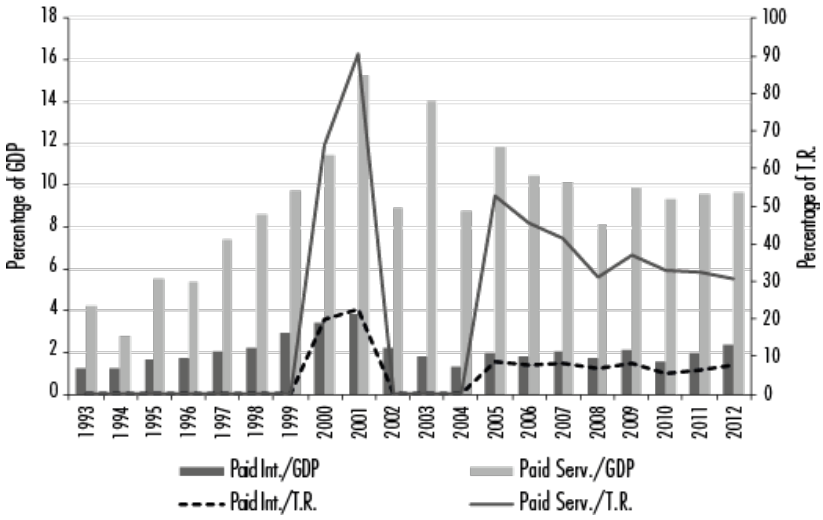
Something similar happened with interest. In 2001, interest accounted for 3.8% of GDP, which fell to 1.9% in 2005. And although since then it has hovered around this percentage, in 1994, it fell to 1.2% of GDP. In other words, the burden in terms of the cost of the debt seems to have fallen significantly, especially when compared only to crisis-period levels.

Aiming for a more nuanced look at the data related to how the weight of debt was reduced in this time period thanks to debt management, the figure below includes data on debt interest and service with respect to GDP since 1993. It appears that this ratio has indeed fallen, but hardly comes close to early-nineties levels.

Figure 2 (secondary axis) also shows the percentage of interest and debt service with respect to tax revenue. In both cases, the numbers fell by more than 50% since 2000. This decrease proves to be a significant boon to debt sustainability, given the rise in fiscal revenue throughout the entire period, not only due to export withholding taxes, but also because tax collection rose due to rising economic growth rates.

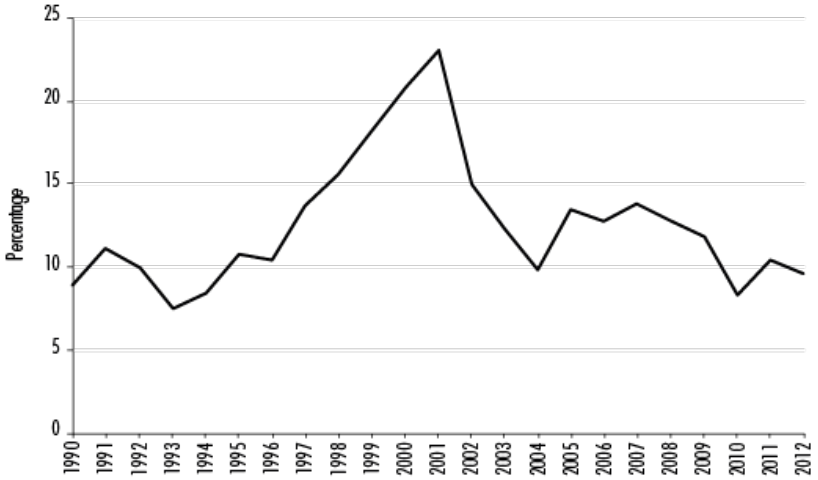
However, if we consider the weight of interest in current spending as the indicator, shown in Figure 3, it emerges that between 1996 and 1998, the level was similar to the time period 2005-2007, at an average of 13% of this spending. This average also held steady between 2008 and 2012; the restructuring does not seem to have lightened the load of public debt on public spending.

Figure 2. Public Debt Interest and Service as a Percentage of GDP and Percentage of Tax Revenue (T.R.), 2000-2012



Source: Created by the author using data on sustainability indicators published by the Secretariat of Finance (MECON). Data on interest and service to GDP for 1993-1999 and 2002-2004 were mined from "Los resultados de la política de desendeudamiento," by Marcelo Capello and Néstro Grión.

Figure 3. Interest Paid as a Percentage of Public Spending, 1990-2012



Source: Created by the author using data from ECLAC Government Transactions (CEPALSTAT).

In addition to interest and service, the cost of debt also includes GDP coupons. These coupons have entailed certain payments practically every year since the first swap was performed, with a total of 9.926 billion dollars paid as of 2012, as can be seen in table 1. The GDP coupon is not booked as certain debt, but rather considered contingent debt, even if the payments have been made. On the other hand, its payment depends on the cumulative growth rate and not only on the rate in the time period in question; it may be paid even if the government grows less than what it has forecasted (Lo Vuolo & Seppi, 2008).

Table 2 summarizes the calculation of the implicit cost of the debt considering increases due to the RSC adjustment and the payment of GDP coupons up until 2007. We see that 1998 and 1999 (6.02 and 6.68%) are not significantly different from 2006 and 2007 (6.71% in both years).

Turning to the restructuring mechanisms implemented and what they meant in terms of profitability, Lo Vuolo & Seppi (2008, p. 25) stated that “the roles of debt continue to provide very high returns in financial terms, for which reason the Argentinean public debt continues to be an important means of channeling liquid savings and financial capital valuation." But it turns out that profitability, at the moment, is tied to interest capitalization and the principal capital adjustment rather than interest paid.

Table 2. Implicit Cost of National Public Sector Debt (Percentage)

	1998	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Interest	6.00	6.60	7.60	8.30	1.40	1.60	1.10	2.80	2.90	3.10
Commissions	0.02	0.08	0.41	0.83	0.01	0.03	0.01	0.02	0.01	0.01
*Implicit cost before the RSC and the GDPCs	6.02	6.68	8.01	9.13	1.41	1.63	1.11	2.82	2.91	3.11
Net RSC	0.00	0.00	0.00	0.00	6.70	0.00	1.10	4.60	3.20	2.70
GDP coupon	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30	0.60	0.90
Implicit cost	6.02	6.68	8.01	9.13	8.11	1.63	2.21	7.72	6.71	6.71

* The pre-RSC implicit cost and GDP-linked coupon (GDPC) are calculated as budget spending on the debt service to total debt.

Source: Special Public Debt Study Report from the General Auditor of the Nation.

These instruments had an impact on the cost and, therefore, the profitability granted to creditors who entered the swap. Lower interest was negotiated and payment terms were extended in exchange for including supposedly random elements.

However, despite the fact that profitability was conserved and that “debt reduction” certainly has its limitations, there is one undeniable aspect that makes the difference when it comes to debt management: reducing foreign debt levels. This factor has, undoubtedly, been one of the consequences of the restructuring. Likewise, it has driven up the state's obligations towards a wide swath of public administrations. This brings us to the third argument espoused by the school of thought critical of public debt management in this time period.

Critics of efforts to replace external debt with internal are divided into two camps. On the one hand, some have challenged the degree to which “independence” from foreign capital has truly been reached; on the other, some have pointed to the consequences for the tapestry of public institutions of increasingly financing the nation-state.

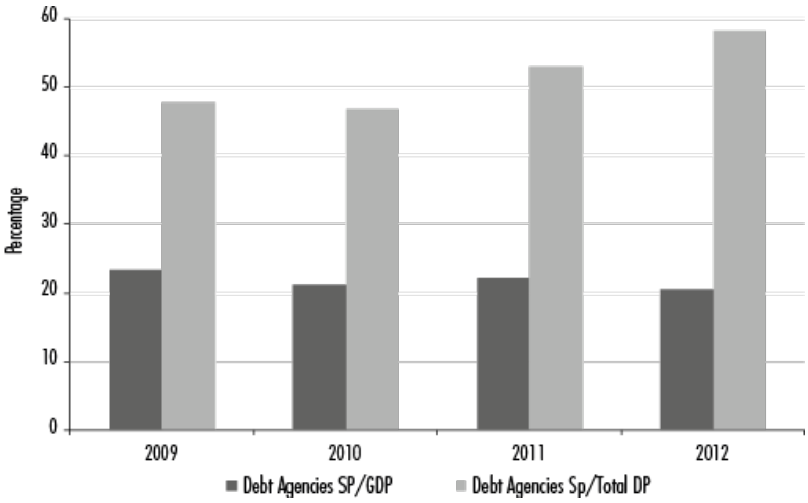
In 2005, the cancellation of debt owed to the IMF was announced. Its main and immediate consequence, for those taking part in the negotiations, was that it brought an end to external conditions imposed on Argentina’s economic policy (Peralta Ramos, 2007). Even though Argentina was able to escape the yoke of IMF conditions and gain a significant margin of freedom to act, certain conditions remained in place due to the restructuring clauses[8] and the debt still owed to the World Bank and the Inter-American Development Bank, whose requirements ran along similar lines as those of the IMF (Giuliano, 2006). On the other hand, the IMF’s debt forgiveness did really "reduce the debt" because, as a counterweight, the country took on debt with the Central Bank of the Republic of Argentina (BCRA).[9]

The decrease in debt in the total public debt stock can be interpreted as the state gaining greater financial independence from international capital. However, the future solvency of public institutions, which replaced external financing, was compromised by the model itself, as the state of public accounts began to deteriorate. Public accounts fell into a deficit starting in 2009, although the primary bottom line did not begin to show negative figures until 2011. There were no net capital payments; all maturities in this regard were covered by the issuance of new debt, mainly owed to public bodies, while the interest was paid as part of current public spending, excluding GDP coupons, which were considered "contingent debt” (Giuliano, 2013).

The figure below reveals that starting in 2011, debt owed to the public sector accounted for over half of official public debt taken out by the central government.

The BCRA tops the list of public creditors, with debt amounting to 62.365 billion dollars in 2012.[10] These obligations are related to international reserve loans for paying foreign debt against the delivery of non-transferrable bills and temporary advances. Other sources of public financing after the BCRA include the ANSES, the Federal Public Revenue Administration (AFIP), the Comprehensive Healthcare Program (PAMI), and state enterprises. For its part, 40% of Banco Nación’s credit portfolio was dedicated to financing the state (Giuliano, 2013).

Figure 4. Public Debt with Public Sector Agencies, 2009-2012



Source: Created by the author based on data from the Central Bank (BCRA) Debt Report.

Figure 5 reveals how the BCRA’s temporary advances became an increasingly important share of the public debt, going from 0.7% of the total in 2002 to 8.7% in 2011. The leap to 13.2% in 2012 coincided with the decline in international reserves.[11]

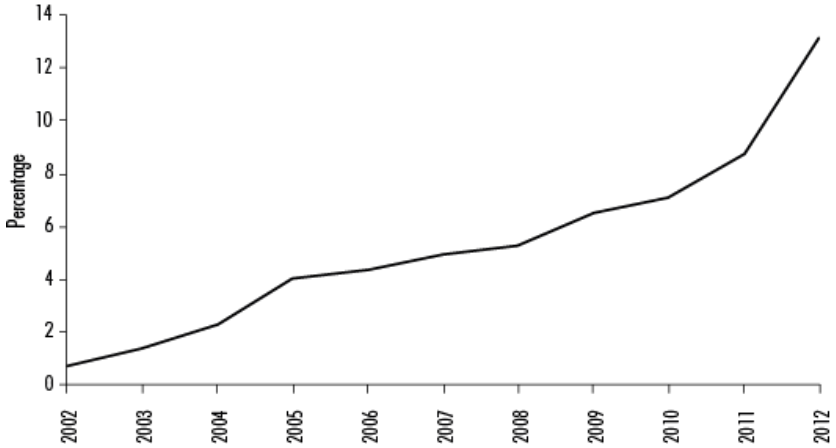
In other news, the issuance of Central Bank Notes (NOBAC) and Central Bank Bills (LEBAC) grew throughout the entire time period. In 2012, they represented 47% of total BCRA reserves, as can be seen in the Figure 6 data. The entity's solvency was compromised by its intervention in sustaining the macroeconomic model (by issuing these instruments to uphold competitive parity) and Treasury funding. This funding is the reason why the BCRA transformed what was initially a reserve accumulation policy into a reserve replacement one. Foreign currency purchases, which augmented NOBAC and LEBAC issuances, entailed a guarantee for the state to pay, in turn, its debt to international creditors.

In the case of ANSES, in November 2011, 57.6% of the Sustainability Guarantee Fund's portfolio was in national public bonds, rising to 61.7% in the fourth quarter of 2012.[12] The move from AFJPs in 2008 did not entail any change in the placement of the funds that comprised the contributions. Their destination continued to be primarily state funding.

This tapestry portrays the institutional sustenance of the public debt system, whose opportunity cost consisted of public bodies diverting funds from specific targets, including social needs and development (Giuliano, 2013). In their place, they continued to finance a payment mechanism and upkeep the competitive parity to the dollar model.

With the passage of time, the public administration's need for resources to continue paying back its creditors in the restructuring swelled, making public debt once again a driver of Argentinean economic policy despite the so-called independence from international capital markets.

Figure 5. Percentage of BCRA Temporary Advances in State Public Debt, 2002-2012



Source: Created by the author based on data from the Secretariat of Finance.

Figure 6. Percentage of NOBAC and LEBAC in Total BCRA International Reserves, 2002-2012

Source: Created by the author using data from the BCRA Annual Balance-Weekly Series.

For that reason, the replacement of external finance with internal and the development of economic policy measures have given some authors reason to gripe about the government's "payment vocation" (Giuliano, 2013; Lo Vuolo and Seppi, 2008). Giuliano (2013) asserted that the government's payment vocation was tied to the need to return debt to the international markets, signaling that the "decapitalization of the BCRA" and the "definancing of ANSES" were the main consequences. This became evident later on with a timid return to foreign debt, for which purpose certain negotiations were carried out.[13]

On the other hand, the rigorous payback of obligations was necessary for the upkeep of the model. Burgeoning obligations owed abroad raised the weight of interest in the fiscal accounts, limiting the resources available to enforce the interventionist policies that defined this time period.

The debt restructuring and cancellation of the IMF debt made public internal debt a key driver of economic dynamics in the Kirchner period. Foreign debt was curbed as a percentage of total debt, due not to an overall drop in debt, but rather to the rise in domestic debt.

As a result of using internal public funding to pay off foreign debt, the trade surplus was subject to a lot of pressure to uphold international reserve levels. Foreign currency turned out to be necessary, both in controlling the exchange rate and in paying off the State's obligations.

Besides the fact that the discussion in this paper casts doubt on the veracity of the "debt reduction" thesis, what is truly meaningful for this analysis is that it challenges the total disappearance of the public debt mechanism as a driver of financial profitability and a conditioning factor behind the march of the Argentinean economy. The fact that its profitability (and therefore its cost) has remained similar to the values seen in the age of "financial valuation"[14] (see Table 2), and that it has conserved its top spot on the economic policy agenda, are all pieces of evidence signaling that public debt continues to play to a certain degree the starring role it had in the nineteen-nineties. In other areas, this drive has become increasingly manifest in higher profitability for BCRA bonds as a corollary to the need to finance payments to foreign creditors and buffer the exchange rate. Because they are in the hands of the banks, the interest rates on these bonds could influence the rates set for their service.

Making the use of resources to pay back creditors a priority made it essential to upkeep the reserves. To do so, foreign exchange market controls (2011) were used and the BCRA Charter (2012) was reformed.

In spite of this, the fact that public debt no longer played a role in attracting foreign currency cannot be underestimated, not only due to the favorable current account conditions, but also to the very nature of the way in which internal and public finance have been managed, although the facts expressed here do question to a certain degree the idea of greater sovereignty when it comes to economic policy measures and respect for independence from foreign capital.

The appeal of debt and its priority place are proof that part of its role as the underlying driver of speculative activity is still there. Even so, it does not play the same role as it did before the crisis, as it is no longer the principal means by which capital enters. Below is an examination of the effects of financial regulation in the time period. The ways in which these regulations diverged from the pre-2001 period could produce other consequences for the State's financing needs or even be more generous to financial capital.

2. THE EFFECTS OF FINANCIAL REGULATION ON FINANCIAL CAPITAL 2002-2012

This section analyzes the effects of measures that influence the connection between financial capital and the State, which, in the time period studied, led to the expansion of finance in Argentina.

The Convertibility Plan made it necessary for foreign currency to flow in to maintain the monetary base via increasingly profitable public debt to attract capital to an increasingly unstable economy. In turn, it guaranteed a return in dollars to investors. Fixed parity and the need to maintain 100% of the monetary base impeded the use of monetary and foreign exchange policy instruments.

In the post-convertibility era, the State revived these instruments and intervened in the private sector through measures such as subsidies and financial bailouts, essential to avoiding a debacle for the entire financial system.

The need for government finance, which in the past conditioned the State’s ties to financial capital and made finance a star player, seemed to be “under control” in those years. Not only due to the end of convertibility, but also to the new public debt management model, which, through domestic financing, would prevent the country from becoming dependent on foreign capital by taking on debt.

Looking at post-convertibility measures, the monetary and foreign exchange policies were used as tools to make Argentinean products more competitive. Keeping an "expensive dollar" benefited the productive sector. At the beginning, thanks to devaluation, the rise in imports spurred an incipient recovery for industry due to import substitution. Later, the effect was undermined, although it remained in place for exports by making domestic resources cheaper (especially the work force). What is not clear, in any case, is whether this benefit to the productive sector negatively impacted finance.

The exchange rate control policy and the sterilization policy[15] benefited financial capital, even if the benefit was less than evident.

A very close tie was forged between the monetary and foreign exchange policies and public intra-sector financing to pay off foreign obligations. In this mix, the BCRA played a key role through its interventions, becoming the principal supplier of resources to the Treasury. It was this financial entity’s choice to invest in bonds that permitted the country to gain control over the exchange rate and accumulate international reserves and, in turn, pay foreign creditors.

This international reserve accumulation was indirectly bolstered with control of the foreign exchange market in 2011, whose intention was to keep exchange rate levels steady for this purpose. In October 2011, in response to capital flight amounting to 8.443 billion dollars, the government decided to implement a series of regulatory changes that affected the deadline for bringing in foreign currency from exports and intensified controls over foreign currency operations on the part of the BCRA. The controls were extended until in April 2012, the choice to suspend purchases of foreign currency for purposes of "amassing it" was made official. These changes also had an impact on efforts by foreign companies to obtain the foreign currency they needed to pay off dividends to their head offices. Beginning at the end of that same year, it was established that any foreign exchange market transaction whose objective was to withdraw foreign currency abroad would need the approval of the BCRA in advance.

In other areas, and much more directly, the reform of the Central Bank's Charter expanded the margin for using reserves in paying state obligations and also expanded their financing through temporary advances (enabling the BCRA to make loans directly to the government for up to 12% of the monetary base and advance funds not to exceed 10% of fiscal revenue from the year prior). All of this to the detriment of how these reserves could have been used in improving living conditions for society.

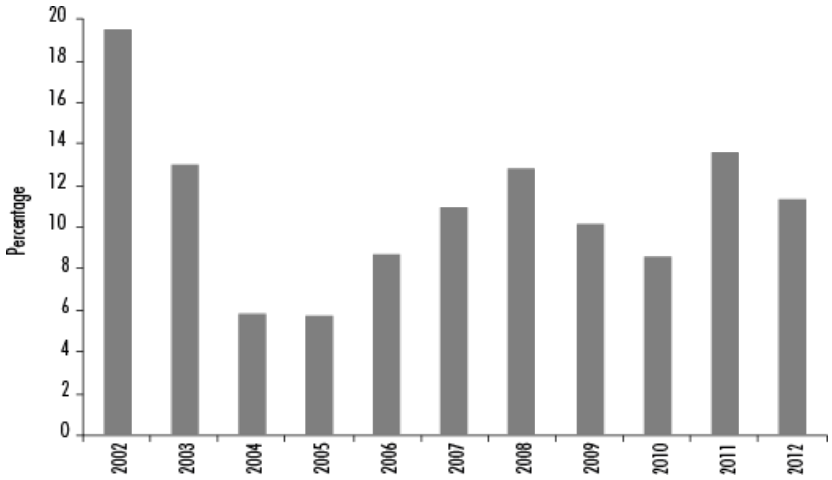
The financial sector plot is rounded off with the finance chain. Most of the Central Bank's debt was in the hands of the Argentinean financial sector, which, in some way, lent continuity to public sector financing on the part of financial entities, a mechanism present in the decade prior. Thus, the sterilization policy became, by way of the BCRA's debt placement in banks, one of the mechanisms that maintained the financing that the financial entity granted in turn to the central government so that it could settle its obligations.

Likewise, the debt derived from sustaining the monetary and foreign exchange policy had its own impact as a financial instrument. Its growing issuance had an impact not only on the BCRA's solvency, but also on the cost of this solvency and, therefore, on the profitability paid to the holders of this debt (financial entities).

As can be seen in Figure 7, the profitability of BCRA-issued bonds, calculated as a percentage of the interest paid in the stock of bonds issued, has remained high in almost the entire period. In 2002, it was very significant, reaching nearly 20%, because the rates were raised to discourage capital investments in the dollar due to its effects on the value of the peso. It falls later, but in 2005 starts to grow again until reaching 13% in 2008. It is no coincidence that profitability starts to grow the very same year in which the defaulted debt was restructured. The state's need for financing also increased at that point in time, as it began to make debt payments that had been suspended and started debt management, including replacing external with internal debt. The rise in profitability matched the growth of the bond stock, responding to the need to make them more attractive.

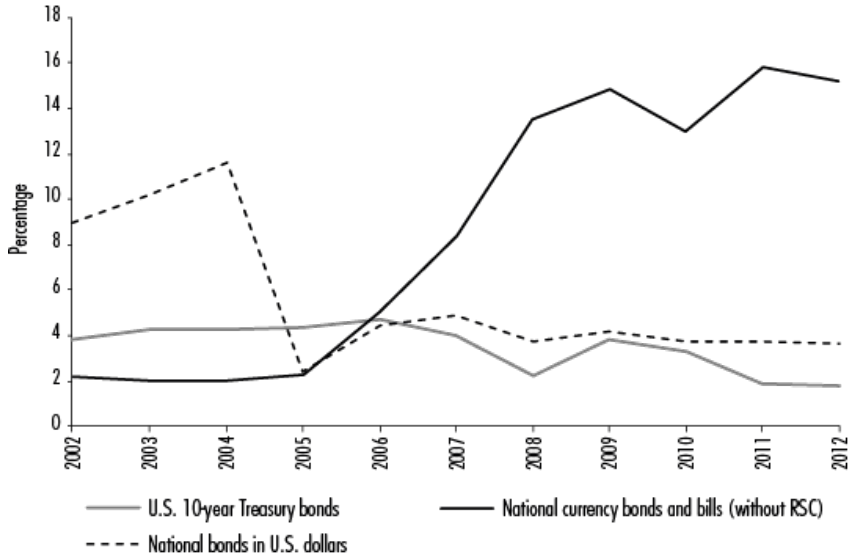
One of the reasons underlying the doubts cast on the sterilization policy was the effect that the growing issuance of NOBACs and LEBACs could have had on the entity's solvency. The bond stock grew at an average rate of 41% in the entire period, going from 3.220 to 99.854 billion pesos (2002-2012). The interest paid by the BCRA, in turn, grew on average 34% in the same time period, moving from 626 million pesos in 2002 to 13.538 billion pesos in 2012 according to data in the BCRA's Accounting Statements. The BCRA's debt had an impact on the financial sector, not only because it represents a large benefit in its power, but also for the influence that the interest rates it offers have had on the rest of the activities in the sector.

Figure 7. NOBAC and LEBAC Profitability, 2002-2012



Source: Created by the author based on data from the BCRA Accounting Statements from 2002 to 2012

Figure 8. Argentinean Debt Interest Rates and United States Treasury Debt, 2002-2012



**The rates for Argentinean bonds are average weighted rates. The North American 10-year bond rate is the annual rate published on the last day of the year.*
Source: Created by the author based on data from the Secretariat of Finance's Debt Report and the 2011 and 2012 IAMC Yearbook.

In this way, it emerges that monetary and foreign exchange regulations favored financial capital, secured the state's debt payments, and fostered high profitability in the sector, beyond just ending the guarantee of the one peso-one dollar parity for investments. In this sense, the financial sector ROE followed an upward trend throughout the entire time period, going from -23% in 2003 to 11% in 2007 and to 24% in 2010, according to BCRA data. From that point on, it became one of the most profitable in the economy (more than 25%). According to Buccieri and Solari (2012, p. 41), the ROE on the rest of activities was less regular but with values similar to those seen in the financial sector in 2006 and 2008 (around 15%), with a peak of 21% in 2007, and lower numbers starting in 2009 (13% in 2012).[16]

The Central Bank's policies also made it possible for this macroeconomic model of which they were a part to be reproduced. The reserve accumulation they prompted made it possible to sustain a circle of financing and, moreover, intervene in the exchange market.

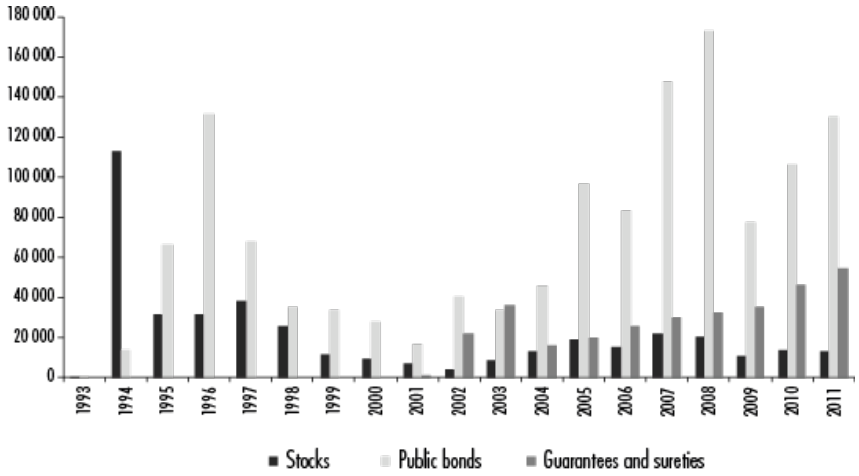
The tie between state finance and debt prevails. Although the advent of withholding taxes on exports and economic growth in this time period served as a source of tax revenue, when this financing start to show signs of limitations (2009), the choice was made to go with debt rather than raising funds through, for example, a progressive tax reform.

On the other hand, the restructuring conserved the privileges given to creditors, even if it did solve the obligation payment problem via new foreign debt. However, the high financial rents returned on the debt in the post-convertibility years allowed it to hold on to its position as a financial asset.

The restructuring mechanisms that kept debt profitable include channels other than just high interest rates fostered by financing needs and the country risk, which were the conduits in the nineteen-nineties. Even so, they had serious repercussions on the cost of the debt, which became evident when the public accounts started to show signs of struggle and then fell into a deficit starting in 2009.

As a financial tool, Argentinean debt continues to be more profitable than the debt of advanced countries. Figure 8 shows the difference between the exchange rates offered on Argentinean national debt and the United States Treasury debt. Although dollar-nominated bond rates declined (they were even lower than the rates for United States debt in the year 2005, the swap year), they began to recover starting in 2006. In national currency-nominated bonds, non-adjustable for inflation, the rates began to be lower than for the other two types of bonds, but the trend turned around in 2006. The rates offered on this type of asset began to take off rapidly from 2.4% in 2005 to 14.8% in 2009 and 15.8% in 2011.

Figure 9. Effective Amounts Negotiated Annually for the Three Instruments with the Highest Negotiating Volumes in Millions of Pesos, 1990-2012



Source: Created by the author using data from the Buenos Aires Stock Exchange.

Public debt remained important as a financial asset. Public bonds continued to be the principal form of taking out debt. The proportion of bonds as a component of debt fell significantly in 2001 and 2004, reaching 48%, the lowest level since 1992. Following the 2005 swap, this proportion rose again in subsequent years, returning to similar levels (67% in 2012, the same percentage as in 1995).[17]

Their importance as a financial asset is also borne out in the amounts negotiated in the capital market. They have been the top instrument measured by annual amounts negotiated, as can be observed in Figure 9. Once again, 2005 stands out, when the amounts negotiated for public bonds grew significantly. In 2007 and 2008, they even overcame the decade prior.

In this time period, the mechanism of debt paid with more debt, which underpinned the economy in the nineteen-nineties, stopped working. Accordingly, debt management and other measures implemented in this age contributed to why the mechanism stopped working.[18] Even so, the economic policy scope must be qualified, first, with the pressure of the inability to obtain capital from abroad in the wake of the default and the existence of high international prices for raw materials to sustain the macroeconomic model. Second, the debt continued to yield great benefits for its holders and payment was made a priority to the extent that it influenced economic policy in the time period. This leads to a third element related to this mechanism: capital flight (the other side of the mechanism described above) is continuing (according to BCRA data, between 2007 and 2012, 82.400 billion dollars left the country) and measures applied in this sense are taken in order to continue making debt payments, not with the intention of doing away with the underlying structure of capital flight. This is evident in the moment when the measures were implemented (when the reserves dropped in 2011, not when flight began in 2007), and in the very nature of the measure in the form of Central Bank authorizations, not through the foreign capital law.

It can be concluded, following this analysis of the ties between the state and financial capital between 2002 and 2012, financial capital held onto its position at the heart of the system. This can be explained, first, by the partial maintenance of the debt mechanism, which conserved its profitability, its features as a financial asset, and its priority spot in regulation objectives. Second, financial regulations have not challenged this position, but have actually contributed to helping uphold the debt mechanism and protect certain interests belonging to financial capital.

CONCLUSIONS

The official discourse throughout this period of study asserts that the economic policy decisions made, which also include measures affecting the financial sphere, served to dismantle the mechanisms that had favored financial capital in the convertibility age.

However, there are certainly still aspects that limited the scope of this disbandment. First, debt management has not entailed true “debt reduction.” Debt reduction is based on partial data, taking into account that both the debt stock and its cost have been underestimated in the official calculations of debt sustainability.

Although the share of debt in GDP has fallen, and foreign debt has been reined in, the scope of the restructuring was limited in terms of its disassembly as the axis of speculative activity. It has held onto its role partially for two reasons. The first, because public debt continued to be an attractive conduit for channelizing external and internal savings and because it continued to serve as the principal financial asset in the stock markets. In addition to indirectly driving the growth of the BCRA’s notes and bills, profitable instruments for the financial markets. Second, because it continued to set the conditions for economic policy, and therefore, prioritized diverting resources to paying creditors rather than to other destinations.

The domestic debt dynamics did not free economic machinations from contradiction. Although more sustainable than in the nineties, by avoiding financing debt with more debt, the debt has only continued to grow. In this sense, the idea that in reality the goal of the restructuring was to return to the international capital markets, and not put an end to foreign debt and the dependency it causes, gains traction.

The regulatory scope has partially altered the ties between the state and financial capital. The fundamental difference is the rupture in the relationship between public debt and the inflow of international capital for the upkeep of the monetary policy and already-existing foreign debt payments. In the rest, the state held steady the conditions for the financial capital to continue being front and center. Monetary and foreign exchange regulations favored financial capital, ensured the state's debt payments, and fostered high profitability in the financial sector. In turn, financial capital did not completely lose its margin of influence. As proof of that, the "restructured" international creditors remained high up on the government's list of priorities.

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[2] For a more thorough review of financial capital, see Golla (2006), Cobe (2009), Kupelian & Rivas (2011), and Golonbek & Mareso (2011). These papers address the resulting changes in the financial system in the post-convertibility years.

[3] See CENDA (2010), Kulfa (2014), and Nemiña (2012) on the “debt reduction” thesis.

[4] It is pertinent to clarify that it is beyond the scope of this paper to go too far into the "debt reduction" debate and all of its various postures and nuances.

[5] For more information regarding the legitimacy of public debt, see Basualdo (2006).

[6] Data from the Fiscal Bulletin (quarterly) from the Ministry of Economy and Production. Treasury Secretariat.

[7] Through the lens of the “debt reduction” theory, some authors have qualified the impact of the declining weight of interest, recognizing that debt payment began to erode public accounts starting in 2007 (CENDA, 2010).

[8] For greater detail on these clauses, see Giuliano (2006).

[9] Nemiña (2012) played down the importance of this internal debt, asserting that the IMF's debt forgiveness spurred growth predicated on domestic market development and saved the country from having to make even more concessions to external creditors.

[10] According to data from the BCRA’s 2013 accounting statements, calculated using the Exchange rate from December 31, 2012.

[11] Reserves fell 6.242 billion dollars between January and December 2011.

[12] Data from the Sustainability Guarantee Fund's (FGS) Monthly (2011) and Quarterly (2012) Report published by ANSES. The FGS is composed of funds that were administered by the AFJPs.

[13] In 2014, an agreement was reached with the Paris Club affected by the 2001 default to pay back the debt. debt is also issued to pay the indemnity to Repsol for the partial nationalization of Yacimientos Petrolíferos Fiscales (YPF).

[14] Name that some authors used to refer to the time period between 1976 and 2001 with respect to the functioning of the Argentinean economy. See Basualdo (2006).

[15] Purchase of pesos resulting from the liquidation of foreign currency through the sale of Central Bank bonds.

[16] Data from this study encompass 134 companies from different sectors, industry, services, construction, electrical power, and oil and gas, trading on the stock exchange, meaning that they are large companies.

[17] According to data from the Ministry of Economy’s Secretariat of Public Finance.

[18] Together with the swap, capital inflow controls were implemented, minimum stay was extended to 365 days, and a rule was made that capital income (excluding that destined for financing primary public and private debt issuances, foreign trade transactions, foreign direct investment, and real estate purchases) should make a non-remunerative deposit of 30% for the same time period. For more information about this measure and its scope, see Borzel (2005).

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