

**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

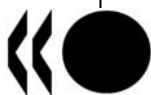
**ROUNDTABLE ON EXIT STRATEGIES**

**-- Note by the Delegation of Argentina --**

*This note is submitted by the delegation of Argentina to the Competition Committee FOR DISCUSSION at its forthcoming meeting to be held on 16 - 17 June 2010.*

**JT03285036**

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## ROUNDTABLE ON EXIT STRATEGIES

### -- Note by Argentina --

1. During the last decade Argentine economy suffered one crisis (2001-2002) and the effects of the international crisis (2008-2009) that affected domestic markets in different ways. This paper summarises how changes in the macroeconomic scenario generated modifications in the legal and regulatory framework and how Competition Policy was applied in that context.

#### **1. Crisis of 2001-2002. Structural macroeconomic changes and Competition Policy.**

2. During the second semester of 1998 Argentine economy entered in a recession and in 2001 entered in the worst crisis since the thirties. Two macroeconomic factors had been identified as the main causes of the crisis. First, the growing public debt occurred during the financing the transition from public to private pension funds system and secondly, the reduction of contributions to Social Security System<sup>1</sup>.

3. In that context, access to international capital was critical to finance public deficit but the former crisis of the emerging markets (South Eastern Asia 1997, Russia 1998, Brazil 1999) also affected the Argentine country risk index along 2000 (the flight to quality effect).

4. To sum up, by the end of the twenty century Argentine economy was in a recession, with a fast growing debt, high expensive access to international capital markets and serious difficulties to afford the maturity of the outstanding public debt.

5. One year later, Argentine economy was paralysed, with an unaffordable public debt, no access to international capital markets (country risk index of 1500 basics points – July 2001), massive outflow of short and long term capitals.

6. In the previous two years, Central Bank reserves had fallen from US\$ 30 billion to US\$ 8 billion and similar tendency had showed the deposits in financial system. Due to the high risk of a generalised bankruptcy, National Government prohibited deposits holders to withdraw money except for small weekly amounts.

7. At the beginning of January 2002 the President of Argentina declared in the Congress the default of public debt owned by private tenants (US\$ 88 billion) and the end of the convertibility system which was replaced by a floating exchange rate. By the end of 2002 the former convertibility parity one peso per dollar reached a quotation of 0.25 peso per one dollar<sup>2</sup>.

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<sup>1</sup> Since 1994 most of the active workers had been contributing to the private system but this generated lack of public resources to afford payments for retired people. The same effect had the reduction in the contributions to social security as a part of a policy oriented to reduce costs and stimulate private investments.

<sup>2</sup> After this overshooting effect the exchange rate was stabilized around 0,33 peso per dollar for the following five years thanks to the purchases and sales of the Central Bank in the exchange market.

8. The new economic rules were based on the “Economic Emergency Law” enacted on 6<sup>th</sup> of January of 2002. Its main clauses in relation to the financial system were oriented to solve the situation of credit takers in dollars who had debts that had been increased by three times due to the devaluation effect and with no changes in incomes that were in domestic currency. Other clauses were oriented to deal with insolvency problems of the financial institutions, in particular with their liabilities in dollars.

9. The Economic Emergency Law had a fast treatment in Argentine Parliament and it was enacted immediately in a situation of high volatility in all macroeconomic variables. No opinion of the Competition Authority was required in its elaboration despite the fact that the Act gives the Government the power and the capacity of intervention in any oligopolistic or monopolistic market for public interest reasons. Government did not enforce these clauses however.

10. The reduction in GDP as a consequence of the crisis was around 20% (1998-2002) but the Argentine economy soon began to recover. Led by strong exports, it grew 8-9 % per year between 2003 and 2007<sup>3</sup>, and almost 7% in 2008. This economic performance gave solid bases to normalise financial system activity. During this period Argentine government carried out a successful restructuring of the debt in default. (March 2005)<sup>4</sup>.

11. The crisis did not produce significant changes in the banking structure. The following table shows that despite of several mergers which took place between 2002 and 2009 the level of competition continued to be high with an HHI index of 659.

#### Mergers in the Bank Sector

Year	Total Mergers	Mergers in Bank Sector
2002	26	2
2003	38	3
2004	45	4
2005	46	4
2006	54	7
2007	42	-
2008	46	1
2009	50	2

12. Just a few foreign banks closed the doors in the domestic market and some Argentine private institutions gained market share but, as the second table shows, among the big banks in Argentina foreign institutions continue accounting for an important part of the financial system (29.2 % of the deposits) which is almost the same market share that have the biggest public banks (29.1) and quite more than the group of main Argentine private banks (21.6%).

<sup>3</sup> It has to be mentioned, also as key factors that let Argentine economy go through the crisis, increases in commodities prices, domestic inflation levels under the devaluation rates, availability of resources not used in the crises and no increases in wages due to the high unemployment rates. In relation to this last factor, the growth in GDP led a significant reduction in the unemployment rate from 22% in the worst phase of the crisis to 7% in 2007.

<sup>4</sup> Basically 76% of the outstanding debt in default was exchanged for new bonds with a reduction in the principal of 65%, longer terms of maturity and reductions in the coupon rates.

**Main Banks in Argentina**

<b>Bank</b>	<b>Market Share</b>	<b>Group Market Share</b>
BBVA Banco Frances	9.9	
Santander Rio	9.8	
HSBC	5.7	
Citi	3.8	
<b>Foreigns</b>		<b>29.2</b>
Nacion	12.4	
Provincia	9.7	
Ciudad	4.8	
Cordoba	2.2	
<b>Publics</b>		<b>29.1</b>
Galicia	7.8	
Macro	6.0	
Credicoop	4.5	
Hipotecario	1.7	
Supervielle	1.6	
<b>Argentine Privates</b>		<b>21.6</b>
<b>Others</b>		<b>20.1</b>

13. Something similar could be said in relation to other segments of the financial and capital markets such as stock markets, insurance, investment funds and over the counter transactions where most of the outstanding public debt is traded.

14. It is important to note that Argentine has deregulated financial and capital markets to the extent that banks, apart from their current commercial activities, own societies that participate in such segments, namely, trading in the stock markets, investment funds, trust funds, insurance activity.

15. It is also remarkable that pension funds had been administrated by companies owned by one or more banks up to the third quarter of 2008. Since then a new Act of the Pension System made the National government the exclusive administrator and the funds were transferred from the private administration to the Argentine State.

## **2. International crises of 2008-2010.**

16. From a structural point of view, Argentine economy has a better position to deal with the international crisis than in 2001-2002 crises, especially it has no weaknesses in its fundamentals. Different factors explain this. First, there are low possibilities of financial contagious, basically because Argentine is not so expose to the movements of international capitals, on the contrary its main offer of international currencies comes from the strong commercial surplus in the balance of payments.

17. Secondly despite of the important outflow of capital in 2008 and 2009<sup>5</sup> Central Bank reserves maintained a high level (US\$ 46.500 in the worst part of the outflow of capital)<sup>6</sup>.

18. Thirdly the reduction in public debt generated by its restructuring<sup>7</sup> plus the fast growing process in the post crisis period let Argentine economy reach a low debt/GDP ratio of 45%.

<sup>5</sup> Private estimations say that in 2008 was around US\$ 23.000 billion and in 2009 US\$ 15.000.

<sup>6</sup> The last official data available is a reserves level of almost US\$ 49.000 billion (end of May 2010).

19. At the same time, in all of the post crisis years until 2008, public budget had a surplus of around 2,5-3,5 of the GDP<sup>8</sup>, even in the recession of 2009 the budget surplus reached 1% , while economic activity was falling (-2,5% according to the IMF estimation 2009). This positive result was possible thanks to the increase in public incomes due to the Nationalisation of the Social Security Private System.

20. The Argentine economy is recovering from the recession. In the first quarter of 2010 GDP grew 6,5%, and depending on the international economic performance, the growth in this year could reach even a higher level.

21. This positive reaction of the Argentine economy is in turn explained for local and international factors. Among them is possible to mention the policy of the national government to sustain the aggregate demand by increasing public expenditures (public works, subsidies to low income population, loans for productive investments etc.). Also the strong increase in the harvest (2009-2010 campaign<sup>9</sup>) and the recovering in commodity prices after their lowest level at the end of 2008.

22. Financial sector did not suffer the effects of the international crisis as it had happened in 2001-2002. There were no important reductions in the global stock of deposits in banks and no restrictions were adopted to withdraw deposits, on the contrary public information from the stock market shows high profits for the lasts years in the biggest private banks.

23. What Argentine government made is to manage traditional instruments of economic policy such as monetary instruments, exchange rate level, taxes, public expenditures, etc. In this context Competition Policy should be understood as a part of it.

24. The crisis of 2001-2002 and international crisis of 2008-2010 had different impact in Argentine economy. While the first was explained mainly for domestic factors that maintained macroeconomic fundamentals out of balance and with high exposition to international capital movements, the present international crises find Argentine economy in a better position to face their effects. Different state interventions permitted to have one of the most important growing processes in the international economy.

25. It is important to note that in neither crisis Argentine State took over the control or any form of share in the main private commercial banks (exhibited above) or in investment banks.

### **3. Development of structured financial instruments.**

26. As it was mentioned above Argentine regulations permit commercial banks or the controlled groups developed activities in different segments of the financial and capital markets. This was possible because in the decade 1991-2001 new legislation and regulations (including deregulations) were enacted to develop capital markets with the outcome of increasing the level of savings and financing investments.

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<sup>7</sup> The restructuring process mentioned, reduced public debt approximately from US\$ 190 billion to US\$ 129 billion.

<sup>8</sup> In the post crisis period it was introduced a system of export duties for commodities whose rates were increased until 2008. These additional resources let public sector maintain fiscal solvency but during the first semester of 2008 new increases generated a strong conflict between national authorities and farmers that affected Argentine productions and also produced a political conflict.

<sup>9</sup> Lack of rains accounted for a reduction of one third in 2008-2009 in the harvest campaign to a low level of 60 million of tons, the estimations for the present campaign reach a level of more than 90 million of tons.

27. Among other laws it can be cited the law of private administration of pension funds (1994), law that introduce financial trusts (1994) and former changes in the law of the Central Bank which had established just stability objectives maintaining the value of the domestic currency.

28. In the context of no inflation, that convertibility system guaranteed, and with the reduction in the interest rates, new conditions were created to develop financial instruments based on the access to the credit for middle income population. This was the case, for instance, with the strong expansion of credit for durable consumption goods, credit cards consumption and mortgages loans.

29. The growth in the demand for credit, particularly for home purchases, and in the activity of construction sector gave the incentives to develop a secondary market for mortgages that the Financial Trust Act made possible. As it is known the basic mechanism consist of transferring packages of mortgages loans from the assets of a bank to a trustee which issues securities demanded for institutional and personal investors, structured in different credit quality parts, with the cash flow of the loan payments as underlying asset. These leveraged operations let banks to expand the supply of loans beyond the limits that otherwise they would respect according to prudential regulations in charge of the Central Bank.

30. However in the Argentine case, being an emerging economy was different from other developed economies, namely United States, to the extent that middle income population with access to financial services was not the majority, so most of the demand for credit could be supplied by current banking mechanisms.

31. Before and after 2001-2002 crisis, the securities issued by financial trusts had important development including a wide variety of underlying assets but they didn't have macroeconomic relevance in terms of their chance to affect negatively Argentine economy as a whole due to the risk and volatility of the assets involved.

32. The only situation where financial trust played certain roll from the macroeconomic point of view was in 2000-2001 when the fiscal solvency problems were evident. Pension funds had legal limits to buy public debt (no more than 50% of the funds) but once they had reached it they began to purchase financial trust securities from off shore trustees with Argentine public debt as underlying asset (with a legal limit of 10% of the funds).

33. In the post crisis period with the fast growing of the commodities prices financial trust securities were oriented to give financial support for agricultural investments projects, mainly soy, strongly demanded for China.

#### **4. Final remarks.**

34. According to the precedent description the present international crisis have more similarities with the former Argentine crises during 2001-2002 than the present Argentine situation.

35. As it was explained the former crisis was originated for the lack of consistency of a macroeconomic policy to sustain fiscal equilibrium with high dependence of external savings to support financial necessities of the public sector and private investments.

36. The macroeconomic scheme has changed since the end of the crisis. Despite Argentine economy has no access to volunteer international capital markets yet fiscal solvency, reduction in public debt after the default and the growing of the economy, among other factors, should be seen as structural changes that permit the reduction of the impact of the present international crises, and till now relatively fast recovering from it.

37. That is why Argentine government has not considered some alternatives to return to more free markets decisions. In that context competition policy is being developed as a part of the current economic policy. This does not mean that competition authority has restrictions to enforce Anti-Trust/Competition Law but that the final decision, that could be appealed to the justice, is made by a Secretary of State appointed for the President of Argentina, who reported to the Ministry of Economy.

38. The success of this process explained why public intervention in some markets should be seen as structural more than a short term reaction to the crisis.

39. The structural changes in Argentine economy also include the integration in global markets. The main policy in this direction is strengthening the Mercosur initiative but involve other important commercial agreements with most Latin American countries and the return to the negotiations between European Union and Mercosur, last may in Madrid, to reach a Free Trade Agreement.