

Buying votes

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Argentina's government wants banks to offer easier credit

The government of President Néstor Kirchner is pressuring financial institutions to make credit more accessible, in a clear move designed to boost votes for his wife, Cristina Fernández de Kirchner, just two weeks ahead of presidential elections. On October 12th he called on banks to lower interest rates and lend more, or risk that the government will impose measures to achieve these goals. Such an interventionist threat is in line with other policies pursued by the Kirchner administration, though it is the first time it has targeted banks. While some agreement with the banks is expected to be announced shortly, it is unclear how significant it will be in practice.

With presidential and congressional elections set for October 28th, the Kirchner administration has taken steps in recent months to bolster economic activity and to reduce inflation. Only a week ago the government convinced supermarkets to roll back prices on some basic goods by 5%, in a bid to tame inflation that is running at an annual rate of 8.6% officially, but is up to 20% according to unofficial estimates. The price accord was also a response to a week-long boycott of tomatoes spontaneously organised by consumer groups on October 10th in the capital, in protest over sky-high prices.

The move to expand credit also can be seen as one to placate voters. The implication that the financial system (largely dominated by foreign banks) is making profits while returning little in the way of affordable loans smacks of the type of rhetoric used by the Kirchner administration since it came to office against foreign-owned utilities and other companies.

In response, the directors of the leading international banks in the country, members of the Banking Association of Argentina (ABA), are meeting on October 16th to discuss ways to address the government's demands. The president of the Association of Public and Private Banks of Argentina (Abrapra), made up mostly of local banks, has already called on its members to comply with the president's request or come up with other alternatives.

Agreement in the making

Press reports suggest that some bankers have met with the government and that the proposal under discussion is to provide peso credit lines at a rate of 9% annually for consumers and 12% for businesses. Such lending rates would be substantially below current market rates—personal and credit-card loans at present average around 24-27%—and, if unofficial inflation estimates are to be believed, would be negative in inflation-adjusted terms, implying losses for the banks.

If the banks announce the availability of these new credit lines, the headlines could well prove politically beneficial to the government. However, it is unclear that bankers will actually approve many applicants for the loans. Something similar occurred a while back when the government called for subsidised loans for renters, but banks rejected many applicants as unqualified.

It remains to be seen, therefore, whether the government's new campaign to lower borrowing costs will amount to mere window-dressing or a more permanent initiative. Certainly an expansion of credit would help to sustain Argentina's four-year-long economic recovery. At present, Argentinian banks loan out about 40% of their deposits, one-half the average rate in Latin America, according to the chief economist of one local bank. Loans by banks are equivalent to about 11% of GDP, compared with up to 30% before the financial crisis of 2001-02.

However, with inflation rising and private depositors slowly dollarising their portfolios, it would be unwise for the Kirchner administration to take measures that would damage a sector that has not fully rebounded from the debt default and financial collapse of 2001-02. Banks reported about US\$11bn in losses after the default and the subsequent huge devaluation of the currency. In 2002, banks were forced to convert dollar assets and liabilities at different exchange rates, further damaging their profitability.

Any heavy-handed moves would also send another negative signal about investment conditions in Argentina, just as Mrs Kirchner has returned from a series of trips around the world to meet with potential foreign investors.

Consequently, it can be expected that an agreement between the government and financial institutions indeed will be announced in the days ahead. However, the risk that interest rates will be regulated by the government in a more permanent fashion is probably relatively low.