

Economics
Latin America / Argentina

Argentina Economics

US voting "NO" on new multilateral lending to Argentina

- ▶ **US Treasury started to vote no on new multilateral lending for Argentina due to the country's default and lack of compliance with arbitration rulings**
- ▶ **For the moment, new lending proposals have been approved, even without the backing of the US**
- ▶ **Lack of new multilateral lending could imply a loss of close to USD2bn annual external funding for Argentina**

The US is opposing to new lending for Argentina - except for loans targeting "poor and vulnerable population" from multilateral development banks, the Inter American Development Bank (IADB) and the World Bank (WB). Though new programs continue to be approved, the US could move on to lobby against other donors approval or exert its veto power at the WB.

If successful in blocking lending to Argentina, this will dry a significant source of external funding to Argentina. In 2010, gross disbursements from the WB and the IADB totaled USD2.2bn, or USD115m more than the total payments made to those institutions. Argentina obligations to IFIs for 2012 stand at USD1.8bn.

Next year's funding gap for Argentina, which we estimate in the order of USD6bn, would be closed by tapping reserves and issuing debt. **If the US succeeds in blocking lending from the multilateral banks, the 2012 gap could increase up to USD8bn, issuing a negative signal for the credit.**

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Javier Finkman

Chief Economist, South America ex
Brazil
HSBC Bank Argentina S.A.
+54 11 4344 8144
javier.finkman@hsbc.com.ar

Jorge Morgenstern

Senior Economist
HSBC Bank Argentina S.A.
+54 11 4130 9229
jorge.morgenstern@hsbc.com.ar

View HSBC Global Research at:
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Argentina S.A.

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US now rejecting new loans to Argentina

At a Congressional hearing on “The Impact of the World Bank and Multi-Lateral Development Banks on National Security,” ([video](#) with the relevant segment starting at the 41:40 mark) that took place on 21 September, Congressman Robert Dold asked about how the US would deal with Argentina's loan requests at development banks express his concern, pointing out that the country has not complied with ICSID rulings, has defaulted, and has disobeyed US court judgments "in spite of holding over USD50bn of reserves". Assistant Secretary for International Markets and Development of the US Treasury, Marisa Lago, acknowledged the same and said that the US government shares the same concerns and stated that "the US will oppose lending to Argentina ... at the WB and IADB". She added that: "We will make exceptions in the rare circumstances were the proposed loan will be targeting very effectively and very narrowly on very poor and vulnerable population". She also mentioned that on 14 September, the US voted negatively in a loan targeting the agricultural sector and that it is looking to engage with other donors that could share the concerns of the US.

New disbursements still going forward

The program mentioned by Lago in particular was finally [approved](#), so we must assume that the US has neither exercised its veto power nor mobilized other donors in such a way to effectively block lending to Argentina so far. Maybe the negative vote is an initial reaction to be followed by stronger actions. Or perhaps the possibility of other EM aligning with Argentina may act as a deterrent of stronger actions

Potential negative for the credit

In any case, it increases the risk of a drying up of a significant source of external funding for Argentina, at a time in which the current account surplus has vanished, the private sector demand for dollars has surged, and the national administration remains reluctant to issue and plan to request over USD5.7bn FX reserves from the Central Bank to pay 2012 debt obligations.

We estimate that next year's funding gap for Argentina stands at USD6bn (see table in the next page), which would be covered by tapping Central Bank FX reserves or issuing to markets. Also, the possibility of reaching an agreement regarding the non-performing debt under the Paris Club agreement would result in a USD1.3bn additional annual obligation.

In consequence, if US succeeds in blocking lending from multilateral banks, the financing gap could increase by up to USD8bn, issuing a negative signal for the credit.

Argentina financing program (USDbn)

	2011	2012
Needs	22.9	21.5
Principal	9.2	6.5
Interest	5.8	5.5
GDP warrant	2.0	2.8
Buyback	2.1	3.0
Treasury primary deficit	2.9	2.7
Funding to Provinces	1.0	0.9
Sources	22.8	15.4
Public sector	20.6	13.6
Central Bank	13.9	6.4
Previous year's earnings	2.1	3.4
Transitory advances	2.2	3.0
Use of foreign currency reserves	9.6	
To pay IFIs	2.1	
To pay private creditors	7.5	
ANSES	4.2	5.0
Portfolio earnings	1.9	1.7
Buyback roll-over	2.1	3.0
Additional issuance	0.3	0.3
Banco Nación (BNA)	2.5	2.2
IFIs gross disbursements	2.2	1.8
Financing Gap	0.0	6.0

Source: HSBC estimate based on government sources

Disclosure appendix

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Issuer of report

HSBC Bank Argentina S.A.
Boulevard 680 Piso 11
Buenos Aires, Argentina.
Teléfono: + 54 11 4320-2800
Fax: + 54 11 4331-5999
Website: www.hsbc.com.ar

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