



Capital Market

■ In the third quarter of 2001, the Argentine economic and financial crisis became worse, while assets prices continued falling as they had been done all along the year. The value of stocks listed within the Merval indicator dropped down to some 295 average points, with a 32% fall compared to the 435 points of the second quarter of the year. The main public securities (Brady and global bonds) also declined, so the sovereign risk implicit within their prices increased up to an average level of 1,500 basis points in the period July-September. In October and November, this process continued becoming worse, in a context of a growing flight of deposits from the bank system (more than 20% of the total) and loss of reserves (more than U\$S 10,000 millions), which, in December, provoked a measure restricting investors availability to use their funds. At the closing of this Chapter, after the severe political and social crisis that caused the early resignation of the nation's President and the taking office of an interim President designated until 2003, authorities were studying measures aimed at gradually normalizing the financial system and at making an ordered exit from the peso's Convertibility exchange regime, in force since April 1991. At the same time, the suspension of public debt services was announced.

The international context was characterized by the start of the recession in United States, which became worse after the September terrorist attacks to said country. Such recession came after a strong fall of stock exchanges, in turn reflecting the loss

of profitability of high technology sectors. The U.S. Federal Reserve had been implementing since January an aggressive policy of 11 successive reductions of the short term interest rate, from 6.5% p.a. down to 1.75%. These measures were not enough and the American economy fell into a recession in the second half of 2001. European and Japan's central banks also tried to inject liquidity into their economies, reducing interest rates to soften the global slowdown. Consequently, at the closing of this Chapter, stock exchanges around the world partially recovered, led by the Dow Jones indicator, although they still recorded some year-on-year losses. Also, a strong fall of projected world growth in 2002 (2.4%) was announced.

The domestic context was marked by the deepening of the recession and by the growing difficulties to close the fiscal gap. In the third quarter of 2001, GDP fell 4.9% year-on-year, a much greater drop than the one recorded in the first half of the year. In turn, the national fiscal deficit increased up to U\$S 5,400 millions in the first nine months of the year, with a growing incidence of interests within the total. Thus, the recession now lasted more than three years, becoming the longest of the last 50. The policy of zero fiscal deficit the government tried to implement since August failed due to the continued and growing declines of fiscal revenues. Consequently, in view of the non compliance of the targets agreed upon at the beginning of 2001, the additional financial assistance negotiated with the IMF stopped in December, when said agency failed to

transfer the installment agreed upon. The last and big swap of public securities held by residents in November¹ did not manage to improve expectations and, eventually, at the end of November, a strong run on deposits took place, which finally generated a social crisis that toppled Dr. De la Rúa's government. However, at the closing of this Chapter, the Merval had partially recovered, recording more than 250 points, after having touched the lowest of the Convertibility. The indicator of the J.P.Morgan that measures country risk had rallied up to more than 4,000 basis points, and the domestic scenario showed a great tension and uncertainty.

I. International Outlook

United States

In the third quarter of 2001, the United States economy dropped for the first time in a decade, since GDP fell 1.1% in annual figures, whereas the review of the second quarter had shown a figure near zero. These values establish a strong contrast with the GDP variation for the whole 2000, which had been 4.1%. Consequently, for 2002, IMF forecasts anticipate a strong drop of the growth rate (around 0.7%). It is worth highlighting that the American industrial production has been falling since July 2000, while in 2001 there was also a decline of services. Since consumption had grown in the first half of the year at rates higher than output growth rates, particularly durable goods, the current account imbalance remained at historically high levels, around 4% of GDP, and trade balance was US\$ 360,000 million negative between January and October. In November, unemployment rate continued rising, up to 5.7%, partly due to the fall of the airlines and tourism sectors. It is

important to highlight that after the recession prevailing in the United States, there comes the fall of companies' capital expenditure (due to a relative excess investment in equipment in the last decade), as well as a general drop of corporate benefits, particularly in the manufacture sectors whose competitiveness is affected by a high dollar.

The plunge of technological stocks in the first half of 2001 was followed in the last months by a remarkable recovery, to a great extent provoked by a countercyclical monetary and fiscal policy. Since January 2001, the Federal Reserve implemented an aggressive monetary policy through 11 successive reductions of the short term interest rate. Thus, federal funds rate decreased from 6.5% at the end of 2000, down to 1.75% in December 2001. Said policy was accompanied by an also expansive fiscal strategy, since the American Congress approved a cut for taxes over revenues that would mean, in the next ten years, additional US\$ 1.3 billions available for consumption. The fiscal effect of the measure since the second semester of the year is estimated to be 0.5% of GDP. Consequently, the Treasury surplus foreseen for 2002 drastically declined, although in a context of price stability (retail inflation of 2% p.a.).

United States treasury bonds' short term rates declined systematically during the last months, while, on the contrary, long term rates increased slightly. Thus, the yield differential between short and long term went from one percentage point one year ago to three points and a half in December 2001. At the closing of this Chapter, this process continued, due to the fact that there was a greater demand of short term bonds (very low risk assets) as the consequence of the prevailing economic uncertainty, which caused prices to rise and yields to fall. For example, the American bond 1 year term yield was just 1.8% p.a., and this drop was accompanied by domestic interest rates

¹ A detail of the results of this securities swap is made in an Annex.

TABLE 7.1
International Capital Markets indicators

	End 1998	End 1999	End 2000	30-Mar-01	29-Jun-01	28-Sep-01	31-Oct-01	30-Nov-01	14-dec-01
Interbank Interest Rates									
LIBO US\$ (6 months)	5.08%	6.13%	6.20%	4.71%	3.91%	2.52%	2.15%	2.03%	1.96%
LIBO EUR (6 months)	3.22%	3.52%	5.07%	4.42%	4.37%	3.54%	3.35%	3.24%	3.25%
LIBO YEN (6 months)	0.54%	0.23%	0.54%	0.13%	0.08%	0.09%	0.09%	0.10%	0.10%
Treasury Rates									
US 1 year	4.53%	6.21%	5.10%	4.18%	4.24%	2.85%	2.42%	2.84%	3.15%
US 10 years	4.65%	6.37%	5.11%	4.92%	5.41%	4.59%	4.23%	4.75%	5.19%
US 30 years	5.09%	6.48%	5.46%	5.44%	5.76%	5.42%	4.87%	5.29%	5.59%
Exchange Rates									
EURO/US\$	0.86	0.99	1.06	1.14	1.18	1.10	1.11	1.12	1.11
YEN/US\$	114.90	102.37	114.80	126.33	124.65	119.56	122.42	123.48	127.29
SWISS FRANC/US\$	1.39	1.59	1.61	1.74	1.79	1.62	1.63	1.64	1.63
STERLING POUND/US\$	0.60	0.62	0.67	0.70	0.71	0.68	0.69	0.70	0.69
GOLD US\$/Oz Troy (London)	286.90	287.80	272.30	265.90	270.85	293.25	279.65	274.40	278.45
Stock Market Indexes									
Dow Jones (USA)	9,316.3	11,452.5	10,786.8	9,878.8	10,502.4	8,847.6	9,075.1	9,851.6	9,811.2
NIKKEI (Japan)	13,842.0	18,934.4	13,785.7	12,999.7	12,969.1	9,774.7	10,366.3	10,697.4	10,511.7
FTSE 100 (United Kingdom)	5,882.6	6,930.2	6,222.5	5,633.7	5,642.5	4,903.4	5,039.7	5,203.6	5,061.0
DAX (Germany)	5,006.6	6,958.1	6,433.6	5,830.0	6,058.4	4,308.2	4,559.1	4,989.9	4,909.4
CAC 40 (France)	3,942.7	5,958.3	5,926.4	5,180.5	5,225.3	4,079.0	4,341.3	4,476.1	4,340.0
Latin American Exchange Rates									
Argentina	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Brazil	1.21	1.81	1.95	2.15	2.31	2.67	2.70	2.50	2.38
Mexico	9.94	9.48	9.62	9.46	9.04	9.51	9.26	9.22	9.08
Latin American Stock Markets									
(in local currency)									
MERVAL (Argentina)	431	550	417	444	402	244	225	202	253
BOVESPA (Brazil)	6,729	17,092	15,259	14,438	14,560	10,636	11,365	12,932	12,959
IPC (Mexico)	3,913	7,130	5,652	5,728	6,666	5,404	5,537	5,833	6,139

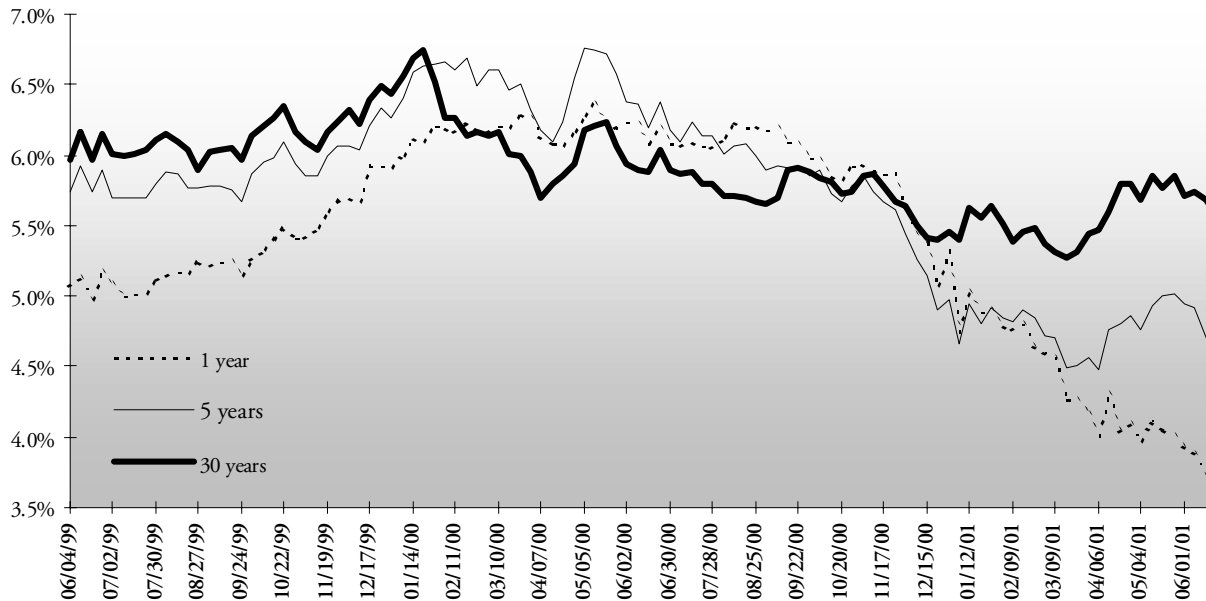
Source: Public Credit National Office, Ministry of Economy.

(term deposits) (Graph 7.1).

The fall of the main stock indexes was deeper after the September terrorist attack, when the New York stock exchange undergone its greatest historical weekly plunge in points. However, in the last months there was an important recovery. At the closing of this Chapter, the Dow Jones was again within the area of the 10,000 points, cutting to 8% the annual loss. In turn, the Nasdaq composite indicator, listing mainly techno-

logical and Internet stocks, recovered up to levels near 2,000 points. However, the stocks drop could still continue, since profits have declined for both leading technological companies (including information technology and telecommunications) and manufacture companies, partly due to the dollar level, not that competitive any more. As an example, both exports and imports decreased almost 5% p.a. between January and October. Nevertheless, the relative strength of consumption and of the real estate sector allows many analysts to forecast that growth

GRAPH 7.1
Yield of US Treasury Bonds



will resume in the second half of 2002.

Europe

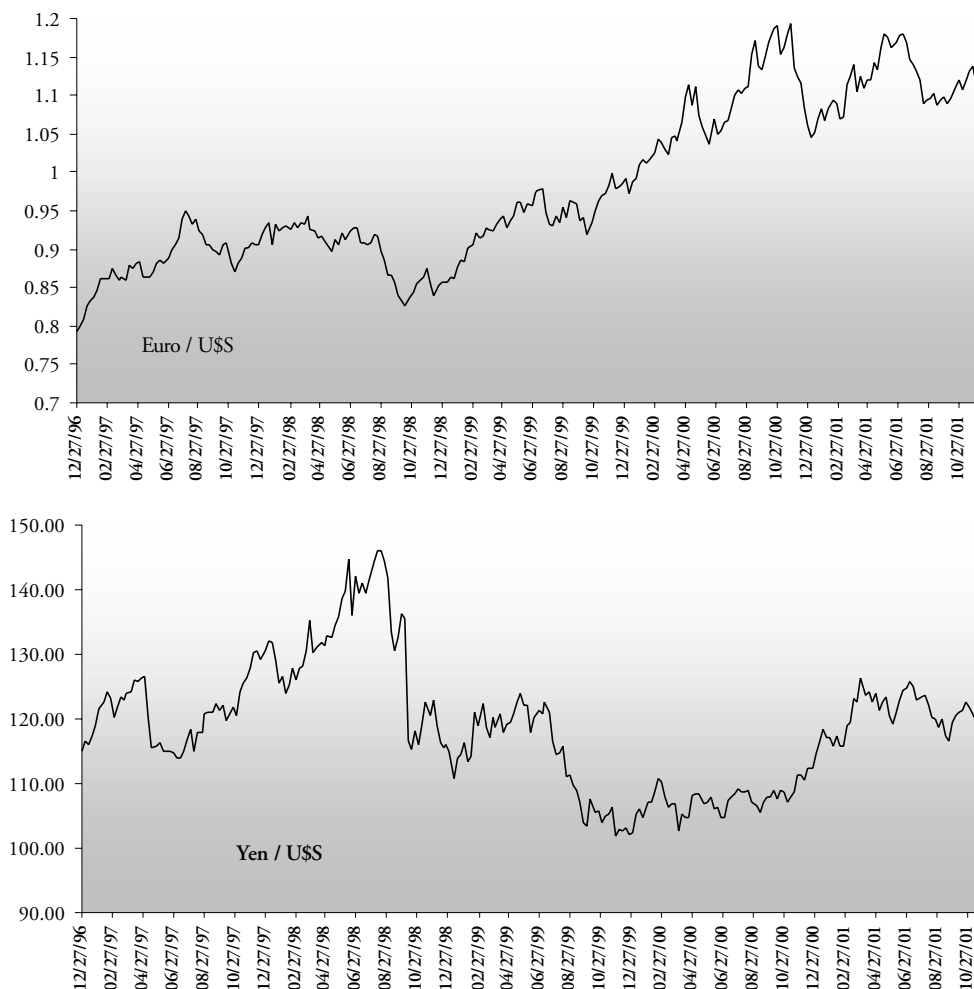
In the third quarter of 2001, the GDP growth pace in the area of the euro amounted to 1.3% p.a., which meant a new fall with respect to the two previous quarters (2.5% in the first and 1.7% in the second). However, in seasonally adjusted figures, the period July-September showed no variation. Growth in Europe was slower, accompanying the global slowdown, and the IMF forecasts a positive variation of just 1.2% for 2002. Simultaneously, the unemployment rate in the area of the euro remained stable in 8.4% in October. Wholesale inflation fell in said month, partly due to the drop of oil prices. In turn, retail prices, as of October, increased just 2.4% compared to the same month of last year, with a sensible drop with respect to the 3.4% recorded in May. The current account deficit also decreased during 2001, to a great extent due to the weakness of the euro. After the generalized stock exchanges fall in Europe in

2000, in the last months, stock markets moved upward, led by Wall Street. Thus, with respect to the figures shown in mid year, stock exchanges in Germany, France, Spain and Italy grew around 10% to 20%, and the United Kingdom rose 5%.

The European Central Bank, which had reduced its short term interest rates along the year from 5% p.a. at the end of 2000 down to 3.75% in September, continued with said policy in the last months of the year, in view of clearer signs of slowdown in the main economies of the region. In November, the short term rate underwent a new cut, set at 3.25%, thus accompanying the United States and the United Kingdom central banks. Since inflation is under control, the main concern of the ECB was to sustain the value of the euro against the dollar, in view of the imminent launching of new bills of the unique currency on January 1st, 2002.

Given the strength of the American economy, the euro had fallen down to 86 cents of dollar in last July. In August and September, there was a new recovery, which placed it around

GRAPH 7.2
Dollar quotation compared to main currencies



90 to 92 cents of the dollar, due to the perception that the recession and the profits fall would be more harmful in the United States than in Europe. However, in the last months, this trend disappeared and the European unique currency fell slightly below 90 cents, practically the same level as one year before. In the last months, the other currencies, such as the pound and the Swiss franc, did not vary much either.

Brazil

In Brazil, after a first quarter with a growth of 4% year-

on-year of GDP, during the second quarter of 2001, the government implemented measures to restrict the consumption of energy in view of the want of electricity derived from the drought in a great part of the territory. The country strongly depends on hydroelectric production, and this shortage coincided with a period of high oil costs, of which Brazil is a great importer. Consequently, in the third quarter, growth practically stopped, and GDP increased 0.3% in annual figures. This slowdown, together with the strong depreciation of the currency (partly provoked by fear of contagion from the Argentine crisis), caused a 8% fall of imports in the third quarter. Estimated growth for 2001 is thus only 1.3%, but forecasts for 2002 are

more optimistic (2%). Inflation is under control (7.6% p.a. in November) and it is estimated that the recent recovery of the real will release pressure over domestic prices. Additionally, in 2001, there was a remarkable fall of unemployment below an average of 7%, the lowest since 1997.

As for the fiscal outlook, in spite of a strong primary surplus (more than 4% of GDP) both the fall of the real and the rise of the domestic interest rate caused an increase of the public debt financial cost. The policy of stopping the rise of the exchange rate through interest rate increases, assumed by the Brazilian Central Bank, raised such cost, which could even reach 10% of GDP during 2001. At the end of 2001, public debt is higher than 72% of GDP. Nevertheless, the country risk indicator has declined in the last two months, down to a figure below 900 basis points at the beginning of December. At the same time, capital inflow seems to have re-started, since the real has regained strength from 2.74 per dollar in October down to 2.30 in December. Up to then, the pressure over the exchange market had been mainly the result of a capital inflow as foreign direct investment that was insufficient for the needs of the country. In fact, the FDI had amounted to U\$S 16,600 million since January until October, compared to a current account deficit of U\$S 20,000 million in the same period.

Japan

During the second quarter of 2001, Japanese GDP fell 0.9% year-on-year, reversing the positive trend change suggested in 2000. Recession continued in the second half of the year and, at present, the IMF estimates a 0.7% contraction for the whole year, with a higher fall for industrial production. In turn, forecasts for 2002 are still more negative (-1%). Thus, Japan would show, for the first time in half a century, two consecutive years of recession, which in turn constitutes the worst result within the main developed economies. This was also the worst perfor-

mance within the G-7 during the last fifteen years, with an accumulated growth of just 3% from 1996 to 2000.

This unfavorable scenario is supplemented by retail deflation (the only case among developed countries) and very low interest rates. Recently, the Bank of Japan again cut short term rates, from 0.25% p.a. to 0.1%. In the last year, the fall of the stock market amounts to 30%, of which more than one half took place in the third quarter. Unemployment increased, officially, up to 5.1%, though western analysts say the real figure is two times that. For the sake of fighting recession, the fiscal imbalance was deeper up to 6% of GDP, through successive and unsuccessful expansive programs. The fiscal imbalance co-exists with a strong external surplus, since the current account surplus amounts to 2.5% of GDP. Since public debt amounts to 130% of GDP, it looks that a quick recovery of growth is improbable. Besides, the financial system records low solvency ratios and non performing loans for a total equivalent to more than U\$S 300,000 millions.

The yen gradually weakened against the dollar during 2001, until exceeding 120 yens per dollar in last November. The reasons were the greatest relative strength of the American economy and the Japanese government economic policy itself, which tried to reduce the cost of its exports by selling yens at the exchange market to avoid its appreciation. The expansion of external demand, up to now the engine of the country's growth, continues being the key for a future recovery, since big corporations are strongly focused on the world market.

II. Evolution of the Argentine Stock market

At the end of December last year, the Merval indicator of leading stocks at the local stock exchange was around 420

points, and even increased in the first quarter of 2001, after the country obtained the loan known as “financial shield”, up to a quarterly average of 470 points. Nevertheless, since March, the stock exchange resumed its upward path due to the greater domestic political and economic problems. The main factor explaining this is the deepening of the recession during the whole year, until the depression recorded in December.

In the second quarter, the average of the local stock exchange remained around 430 points. At the beginning of July, due to the persistence of the recession and the fiscal gap, interest rates rose up to a point when the government decided to announce the pledge of a zero deficit fiscal policy. The nervousness about the country’s capacity to sustain its economic policy, as well as the delay of the IMF to commit an additional financial aid, provoked the first important flight of deposits in July and August. The Merval average fell to 340 points in July, and to less than 320 in August. As a consequence of the fall of world stock exchanges after the attack on the United States, the indicator plummeted

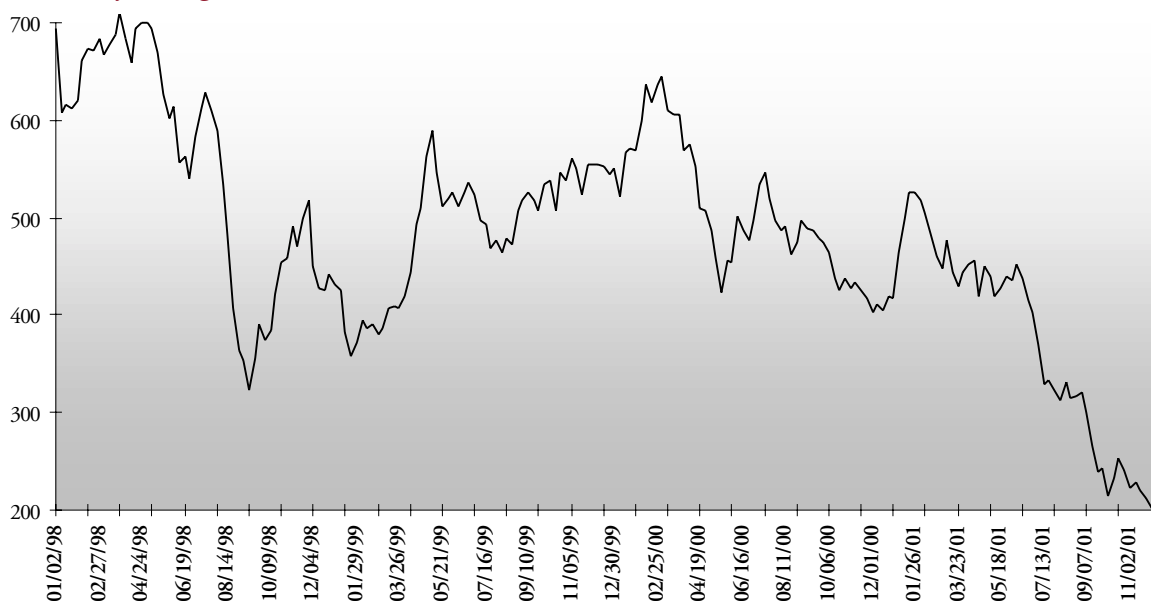
below 250 points in September. In October and November, it continued falling and, eventually, after the second deposits outflow, touched 200 points. However, in December, it showed a recovery and at the closing of this Chapter it again exceeded 250 points. In a long term perspective, one has to go back to 1990, before the convertibility law and state-owned companies privatizations, to find such low values at the local stock exchange.

III. Evolution of public debt quotes and placements

1. Evolution of sovereign risk

In the third quarter of 2001, there was a strong worsening of sovereign risk² implicit in the price of Argentine public securities compared to the previous quarter. The indicator calculated by the J.P. Morgan for national securities (EMBI) in-

GRAPH 7.3
Merval Index
Weekly closing



² Such indicators are defined as spreads between yields of different dollarized national securities and United States Treasury bonds for similar terms.

TABLE 7.2
Evolution of sovereign risk
In basis points

DATE	BRADY BONDS			GLOBAL BONDS			
	PRE 4	PAR STRIPPED	DISCOUNT STRIPPED	FRB	RA 08	RA 17	RA 27
29-Dec-00	823	1,048	1,066	681		789	691
30-Mar-01	1,258	1,233	1,155	1,048		889	805
29-Jun-01	1,521	1,231	1,347	1,292	1,175	1,048	926
06-Jul-01	2,168	1,343	1,294	1,606	1,292	1,150	1,019
13-Jul-01	4,944	1,749	1,606	3,153	1,891	1,573	1,232
20-Jul-01	6,013	1,598	1,616	2,497	1,678	1,447	1,210
27-Jul-01	1,855	1,731	1,738	2,857	1,918	1,639	1,463
3-Aug-01	4,003	1,750	1,777	2,727	1,892	1,626	1,493
10-Aug-01	3,406	1,781	1,882	2,030	1,666	1,469	1,240
17-Aug-01	2,949	1,800	1,703	2,411	1,789	1,563	1,358
24-Aug-01	2,986	1,721	1,708	2,037	1,665	1,517	1,361
31-Aug-01	3,059	1,571	1,568	1,902	1,600	1,393	1,228
07-Sep-01	3,462	1,548	1,533	2,114	1,719	1,475	1,258
14-Sep-01	3,825	1,721	1,654	2,280	1,880	1,702	1,266
21-Sep-01	3,936	1,581	1,579	2,459	1,927	1,643	1,340
28-Sep-01	2,607	1,630	1,728	2,217	1,876	1,591	1,327
05-Oct-01	4,306	1,915	1,745	2,953	2,201	1,788	1,540
12-Oct-01	3,716	1,871	1,800	2,864	2,156	1,800	1,502
19-Oct-01	3,746	1,612	1,727	2,495	1,984	1,658	1,327
26-Oct-01	4,121	1,852	1,863	3,029	2,187	1,729	1,458
02-Nov-01	11,961	2,840	2,008	5,811	3,022	2,406	2,155
09-Nov-01	10,757	2,286	2,287	5,354	2,961	2,462	1,967
16-Nov-01	17,731	2,637	2,144	5,930	3,440	2,613	2,432
23-Nov-01	22,180	2,685	1,937	5,562	3,414	2,562	2,336
30-Nov-01	17,629	3,630	3,910	6,238	3,780	3,109	2,841
7-Dec-01	20,252	4,034	4,042	9,322	3,900	3,181	2,695
14-Dec-01	26,005	3,455	3,412	8,918	3,792	3,689	2,498

Source: Public Credit National Office, Ministry of Economy.

creased from 972 basis points (average for the second quarter) up to 1,500 basis points. With this rise, the EMBI practically doubled the levels recorded in the period January-March 2001. Graph 7.4 and Table 7.2 show the evolution of the main Argentine securities.

The annual worsening of Argentine sovereign risk was very significant, since in said period, the one corresponding to the set of emerging countries had increased only minimally. This was the consequence of the progress made by some European and East Asian markets, whereas Latin America in general declined. Thus, the difference between the average emerging risk and the pure risk attributable to Argentina increased, from just 30 basis points in the first quarter of the year, up to more than 600 in September. In Latin America, the evolution was negative because Argentina dragged the rest of the region until October, although increases were much lower than for Mexico

and Brazil. Later on, the EMBI dropped in those two countries. The Argentine deterioration was the result of the higher recession and the extension of the fiscal gap, which provoked a run on deposits that fed back recession, finally eroded confidence and caused a strong relative setback of public securities prices. For example, the difference between Argentine and Brazilian sovereign risk became negative for the first time in many years in the first quarter of 2001, with a lower risk for Brazil by 22 basis points. This difference increased in the second quarter up to 146 basis points and exceeded 520 points in the third.

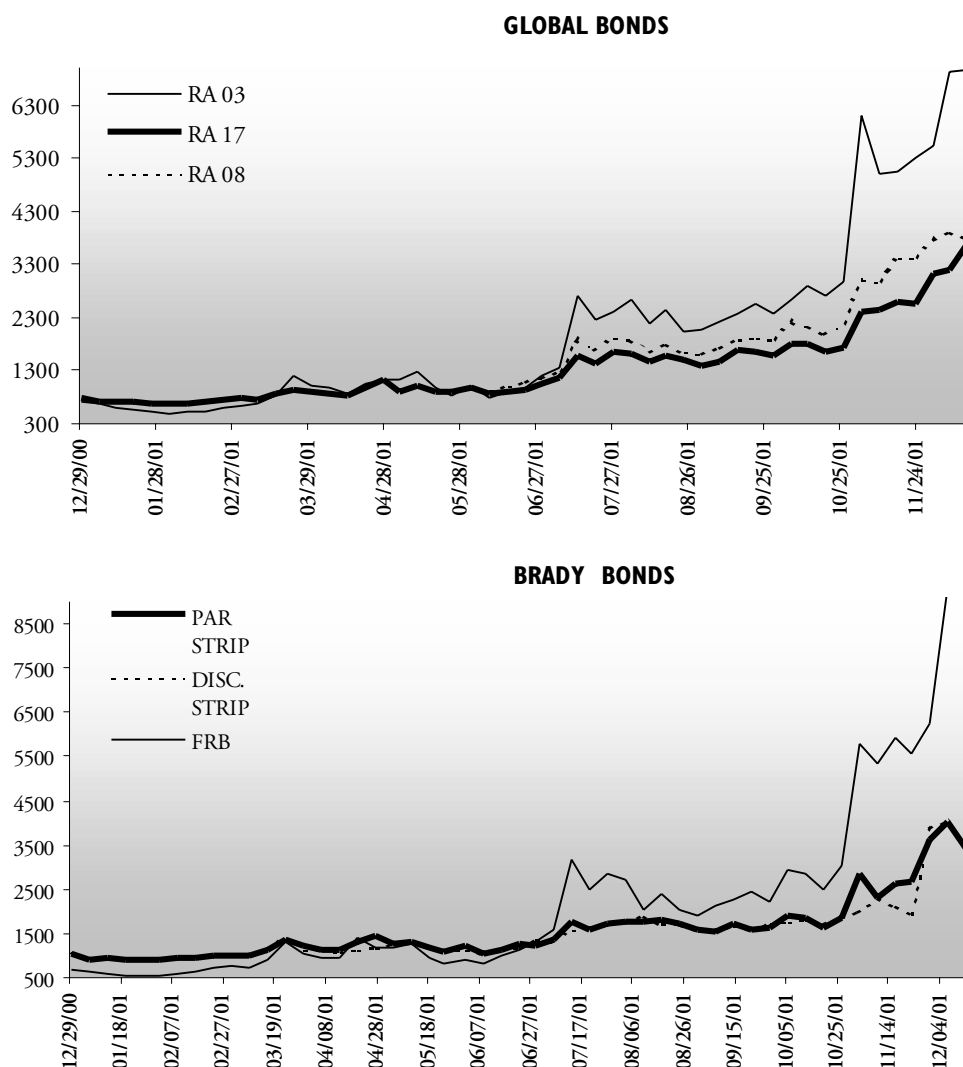
In June 2001, after the implementation of the first public debt swap, the Argentine EMBI had temporarily declined. During July, the announcement of the zero deficit policy did not manage to improve expectations and the indicator increased up to 1,385 points. In August, the difficult negotiation with the IMF caused a new rise up to 1,490 points and, in September, the EMBI was 1,560 points, in view of the fears of a compulsory debt restructure. Successive and higher falls of tax receipts caused risk to boost up to 1,810 points in October and to climb even more, up to 2,740, in November. That month, the implementation of the local tranche of the debt swap was accompanied by the financial freeze aimed at stopping the growing flight of deposits. All this eventually provoked an unprecedented social and political crisis and the government led by President De la Rúa had to resign. At the closing of this Chapter, after the taking office of a second interim government and the formal declaration of default on public debt interests, risk exceeded 4,000 basis points.

2. public debt placements

International Market

Placements at the international market were made only during the first half of 2001. They had amounted to a total of

GRAPH 7.4
Sovereign risk
In basis points



U\$S 32,519 million, a peak for Argentina. But it has to be remarked that said amount includes the debt mega swap transaction for almost U\$S 29,000 million, analyzed in detail in the Economic Report N° 37 of the first quarter of 2001. In addition to that transaction, other placements of debt had been made for U\$S 3,539 million (Table 7.3), including two issues of Global Bonds for U\$S 2,094 million. Maturity terms were agreed upon between 6 to 30 years. In the first semester, the average spread of all these placements over bonds with the same

term issued by the American Treasury was 973 basis points, with an average duration around 16.9 years. This implied an average term 5 years longer than placements made in 2000, though the premium over cost also increased considerably in more than 400 basis points with respect to the average spread of the previous year (Table 7.4).

Later on, in the second half of 2001, as a consequence of the virtual close of the voluntary debt market for the Argen-

TABLE 7.3
International market issues in 2001

Security	Date of issue	Currency	Amount issued (1)	Amount in dollars (2)	Term -years-	Coupon rate	Spread (3)
Global 12.0%/31	31-jan-01	USD	500	500	30.00	12.00%	656
Euro 10.0%/07	22-Feb-01	EUROS	500	470	6.00	10.00%	586
Global 12.375%/12	21-Feb-01	USD	1,594	1,594	11.00	12.38%	720
Reop Global 12%/31	28-Feb-01	USD	250	250	29.90	12.00%	678
Reop Global 12%/31	30-Mar-01	USD	225	225	29.90	12.00%	768
Reop Global 12%/31	26-apr-01	USD	200	200	29.80	12.00%	734
Global 7-15,5%/08	19-Jun-01	USD	11,716	11,716	7.50	(a)	1,092
Global 10-12%/08	19-Jun-01	PESOS/USD	931	931	7.30	(b)	1,086
Global 12,25%/18	19-Jun-01	USD	7,812	7,812	17.00	12.25%	973
New Global 12%/31	19-Jun-01	USD	8,521	8,521	30.00	12.00%	913
Reop Global 12%/31	27-Jun-01	USD	300	300	30.00	12.00%	865
TOTAL				32,519			

(1) In millions original currency

(2) In millions, as of the date and exchange rate of issue

(3) Over U.S. Treasury Bonds of similar duration

(a) Coupon rate is 7% for the first 3 years and 15.5% for the remaining ones

(b) Coupon rate is 10% for the first 3 years and 12% for the remaining ones

Source: Public Credit National Office, Ministry of Economy.

tina, there were no new issues of debt at the international market. By November, a second debt mega swap transaction was implemented with local bond holders (banks, pension plan

managers, insurance companies and individuals), which ended in December and is analyzed separately in Annex to this Chapter.

TABLE 7.4
Bond placements in the international market (*)

Year	Issues Volume	Amount in dollars (1)	Average Life (years)	Spread (2)
1994 (**)	19	2,600	3.3	238
1995	18	6,370	4.0	371
1996	30	10,413	8.2	395
1997	18	10,214	14.9	310
1998	24	11,664	13.3	429
1999	40	11,869	7.6	594
2000	16	12,359	11.8	536
2001	11	32,519	16.9	973

(*) Includes swap transactions

(**) Excludes syndicated loan for US\$ 500 millions

(1) In millions, as of the date and exchange rate of issue

(2) Over U.S. Treasury Bonds of similar duration

Source: Public Credit National Office, Ministry of Economy.

Domestic market

During the second quarter, most Treasury Bills (LETES) scheduled had taken place in the domestic market (Table 7.5). After the first debt swap in June, favorable expectations quickly vanished, when it was again clear the persistence of the recession and the fragility of the fiscal situation. Consequently, in the auction of July 10, the LETES rate amounted to 14% p.a. The government judged this very expensive and decided to suspend the transactions at the time it announced a zero deficit fiscal policy. Since then, usual auctions made through banks stopped and these instruments were placed only for small

TABLE 7.5
Public Debt Issues in the domestic market
In 2001

Treasury Bills (LETES)						
Placement Date	Currency	Amount (l)	Term	Disc. Rate	N.A.Rate	Status
9-jan-01	DOLLAR	369.1	94	8.29%	8.47%	Cancelled
9-jan-01	DOLLAR	362.9	182	8.76%	9.17%	Cancelled
23-jan-01	DOLLAR	356.9	91	6.64%	6.75%	Cancelled
06-Feb-01	DOLLAR	350.0	91	6.60%	6.71%	Cancelled
06-Feb-01	DOLLAR	354.0	182	7.09%	7.35%	Cancelled
20-Feb-01	DOLLAR	350.0	91	6.74%	6.86%	Cancelled
13-Mar-01	DOLLAR	350.0	182	8.50%	8.88%	Cancelled
13-Mar-01	DOLLAR	506.7	364	10.50%	11.75%	Outstanding
27-Mar-01	DOLLAR	353.0	91	10.67%	10.96%	Cancelled
10-apr-01	DOLLAR	350.0	88	10.09%	10.35%	Cancelled
10-apr-01	DOLLAR	350.0	179	11.24%	11.91%	Cancelled
08-May-01	DOLLAR	350.0	91	12.06%	12.44%	Cancelled
22-May-01	DOLLAR	350.0	92	11.73%	12.09%	Cancelled
22-May-01	DOLLAR	150.0	169	11.75%	12.44%	Cancelled
12-Jun-01	DOLLAR	350.0	91	7.74%	7.89%	Cancelled
12-Jun-01	DOLLAR	350.0	182	9.43%	9.90%	Cancelled
26-Jun-01	DOLLAR	350.0	91	8.90%	9.10%	Cancelled
10-Jul-01	DOLLAR	827.7	91	13.53%	14.01%	Cancelled
TOTAL		6,780.3				

(1) Nominal value in millions. Includes an additional 10%, optional for market makers.

Source: Public Credit National Office, Ministry of Economy.

amounts at the retail market, especially through mutual funds.

As for other placements at the domestic market, it is worth pointing out that at the beginning of the third quarter of 2001, there was a small issue of Treasury Bonds (BONTES) for U\$S 22 millions. The discount of promissory notes amounted to U\$S 4,604 millions until September 2001, there being, the same as in the case of the LETES, a rise of interest rates with respect to last year values. This type of operation continued during the third quarter of 2001, particularly with A.F.J.P. [private pension funds managers], directly through financial trusts. Finally, there were also other transactions with banks that implied the partial payment of liquidity requirements in bonds for U\$S 2,000 millions, as well as the exchange of LETES that matured in August for promissory notes.

³ Said fall continued until December.

IV. Private Pension Funds Investments

As of October 31, 2001 the value of pension funds amounted to approximately \$ 20,874 millions, around 7.7% of GDP. This represented an increase of \$ 492 millions (2.4%) with respect to the end of December 2000. However, this amount implied a strong fall of U\$S 1,300 millions with respect to the end of June 2001 and an insignificant variation (\$ 12 million) compared to July. The annual average profitability as of October 2001 with respect to the same month of 2000 was negative (-7.2%), and was some 14 percentage points below the previous year. This poor result was basically explained by the fall experienced by stocks and public securities in the last months, as a consequence of the economic and financial crisis³.

TABLE 7.5 (Cont.)
Public Debt Issues in the domestic market
In 2001

Treasury Bonds (BONTES)					
Placement Date	Currency	Amount (1)	Term (years)	Interest Rate	Spread
7-Feb-01 (*)	DOLLAR	2,608.1	5.2	11.75%	657
30-Mar-01	DOLLAR	420.0	4.1	12.13%	982
10-Jul-01	DOLLAR	22.2	0.8	8.75%	1,242
TOTAL		3,050.3			
"Promissory notes" bonds					
Placement Date	Currency	Amount (1)	Maturity	Interest Rate	Spread
13-Feb-01	DOLLAR	150.0	13-Feb-04	(2) + 435 bp	435
19-Jun-01	DOLLAR	2,060.4	19-Jun-06	(3)	(3)
24-Jul-01	DOLLAR	250.0	24-Jul-06	Badlar + 450 bp	450
3-Aug-01	DOLLAR	150.0	24-Jul-06	Badlar + 450 bp	450
7-Aug-01 (**)	DOLLAR	560.7	7-Aug-02	(4)	(4)
7-Aug-01 (**)	DOLLAR	182.6	7-Aug-02	(5)	(5)
8-Aug-01	DOLLAR	250.0	8-Aug-06	Badlar + 450 bp	450
23-Aug-01	DOLLAR	200.0	23-Aug-07	Badlar + 450 bp	450
04-Sep-01	DOLLAR	300.0	04-Sep-07	Badlar + 450 bp	450
27-Sep-01	DOLLAR	500.0	27-Sep-05	Badlar + 400 bp	400
TOTAL		4,603.7			
Other transactions					
Placement Date	Currency	Amount (1)	Maturity	Interest Rate	Spread
15-Feb-01	DOLLAR	52.0	11-May-01		
26-Feb-01	DOLLAR	50.5	30-Dec-18	10.50%	528
16-Apr-01	DOLLAR	2,000.0	16-Apr-02	9.00%	498
24-Apr-01	DOLLAR	380.0	24-Apr-03	Badlar + 405	405
10-May-01	DOLLAR	906.2	10-May-04	(2) + 495	495
10-May-01	DOLLAR	93.8	10-May-04	Badlar + 298	298
11-May-01	DOLLAR	51.6	10-Aug-01	12.43%	831
28-May-01	DOLLAR	380.0	28-May-03	Badlar + 405	405
21-Ago-01 (**)	DOLLAR	125.0	11-May-04	(2) + 495	495
21-Ago-01 (**)	DOLLAR	416.5	11-May-04	Badlar + 298	298
TOTAL		4,455.6			

(*) These securities were part of a swap transaction

(**) Exchanged for LETES

(1) Nominal value in millions.

(2) Monthly adjusted interest rate by the dollar deposit rate, every term

(3) The interest rate applied is the highest of the one surveyed for

US\$, for 30 - 59 days' terms plus 580 bp. and the Badlar rate in US\$ plus 150 bp.

(4) Survey + 380 bp or Badlar + 300 bp.

(5) Badlar adjusted by Minimum Liquidity Requirements + 75 bp.

Source: Public Credit National Office, Ministry of Economy.

Historically, the system's average profitability was 8.9% p.a. by the end of October 2001, some three points below one year before. The system's concentration increased after the mergers authorized during last year, so the biggest four pension fund managers now account for 78% of the system's total funds and 74% of total contributors, the rest being distributed among eight companies.

During the last three-month period, the number of

members of the capitalization system increased approximately 200,000 persons, up to a total of 8.8 million in last October but, in contrast, the number of effective contributors declined slightly (from 3.3 to 3.2 millions). This implied that the relation between contributors and members fell to lowest figures of 36% in October 2001. It is worth highlighting the fact that 95% of contributors are salaried workers, only the remaining 5% corresponding to self-employed workers. Thus, average accumulated funds by member amount to approximately \$ 2,400.

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Tables 7.6 and A7.4 (the latter corresponding to the statistical appendix) and Graph 7.5 show the detail of the composition of the funds managed by Private Pension Funds. Table 7.6 shows that, during 2001, there were few significant changes of said composition. National public securities retained their share and provincial and municipal securities increased slightly theirs. There was a slight decline

of securities issued by foreign companies, while national corporations stocks, including privatized companies, evidenced the most important fall. On the contrary, fixed term deposits increased, as well as investment funds place in financial trusts.

A detailed analysis shows that National Public securi-

TABLE 7.6
Private pension funds investments
In thousand Pesos

	% Limit (1)	31-Dec-99		31-Dec-00		31-Oct-01	
		Amount	% Fund	Amount	% Fund	Amount	% Fund
I. Cash and Cash Equivalents		163,040	1.0	56,585	0.3	176,148	0.8
II. Investments		16,624,059	99.0	20,324,887	99.7	20,697,635	99.2
Public securities issued by the National govt.	50	8,141,465	48.5	10,050,394	49.3	10,004,660	47.9
Negotiable Publ. Sec. issued by Nat'l govt.		3,731,782	22.2	4,052,240	19.9	2,942,968	14.1
Publ. Sec. issued by Nat'l govt. - Forward		4,409,683	26.3	5,998,154	29.4	7,061,692	33.8
Securities issued by State Organisms	15	637,630	3.8	1,082,266	5.3	684,986	3.3
Negotiable Sec. issued by State Org.		167,600	1.0	124,691	0.6	32,792	0.2
Sec. issued by State Org. - Forward		22,711	0.1	3,200	0.0	0	0.0
Provincial Govt. Securities		391,226	2.3	822,445	4.0	531,570	2.5
Municipal Govt. Securities		56,093	0.3	131,930	0.6	120,624	0.6
Long term Corporate Bonds	28	238,660	1.4	508,609	2.5	338,667	1.6
Short term Corporate Bonds	14	105,466	0.6	62,241	0.3	76,791	0.4
Convertible Corporate Bonds	28	14,245	0.1	0	0.0	0	0.0
Fixed Term Deposits	28	2,597,395	15.5	3,185,743	15.6	3,553,527	17.0
Fixed Term Certificates		2,084,794	12.4	2,884,444	14.2	3,413,476	16.4
Variable return fixed term deposits		512,601	3.1	195,382	1.0	23,741	0.1
Prepayable Fixed term deposits		0	0.0	105,917	0.5	116,310	0.6
Corporate stocks	35	3,199,541	19.1	2,263,352	11.1	1,413,467	6.8
Public companies stocks	14	249,218	1.5	236,030	1.2	147,605	0.7
Mutual Funds	14	1,054,646	6.3	1,673,298	8.2	3,747,181	18.0
Closed Mutual Funds		12,292	0.1	12,495	0.1	11,196	0.1
Open Mutual Funds		592,668	3.5	367,646	1.8	234,747	1.1
Financial Trusts		449,686	2.7	1,293,157	6.3	3,501,238	16.8
Foreign sovereign securities	10	211	0.0	0	0.0	0	0.0
Foreign corporate securities	7	61,263	0.4	910,357	4.5	349,886	1.7
Foreign corporate stocks				799,766	3.9	293,246	1.4
Foreign corporate securities				28,323	0.1	29,921	0.1
Mutual Funds according to article 3 Instruct. 18/00				82,268	0.4	26,719	0.1
Regional Economies	(*)	236,802	1.4	289,587	1.4	323,947	1.6
Real Estate Mortgage bonds and bills	28	14,151	0.1	12,830	0.1	6,093	0.0
Futures and Options	2	40,780	0.2	11,354	0.1	2,836	0.0
Direct Investment Funds	10	32,586	0.2	38,826	0.2	47,529	0.2
Total Irregular Investments, net of allowances						460	0.0
III. Total Pension Funds		16,787,099	100.0	20,381,472	100.0	20,873,783	100.0

(*) This type of investment only applies to Nación A.F.J.P. and has a maximum of 50% of the total.

(1) Maximum percentage per instrument each pension fund is authorized to invest.

Source: Secretary of Economic Policy, based on S.A.F.J.P. [Pension Fund Superintendent]

ties are the instrument with the highest share within Private Pension Funds portfolios, accounting for 48% of investments in October 2001. These percentages are close to the maximum allowed for this investment category, which is 50%, though they have declined slightly with respect to December 2000. Among them, there stand out external global bonds maturing on 2031. A change is seen in the different categories of public securities with respect to December 1999: an increase of the portion of these securities valued on an accrued basis and which will be kept up to their maturities⁴, which now account for than 33.8% of funds, and a considerable decline of negotiable securities (14.1%). Securities issued by other State agencies (mortgage-backed securities, banks, provincial and municipal government papers) represented 3.3% of total funds at the end of last October, with a fall of two percentage point over the figures exhibited at the end of 2000.

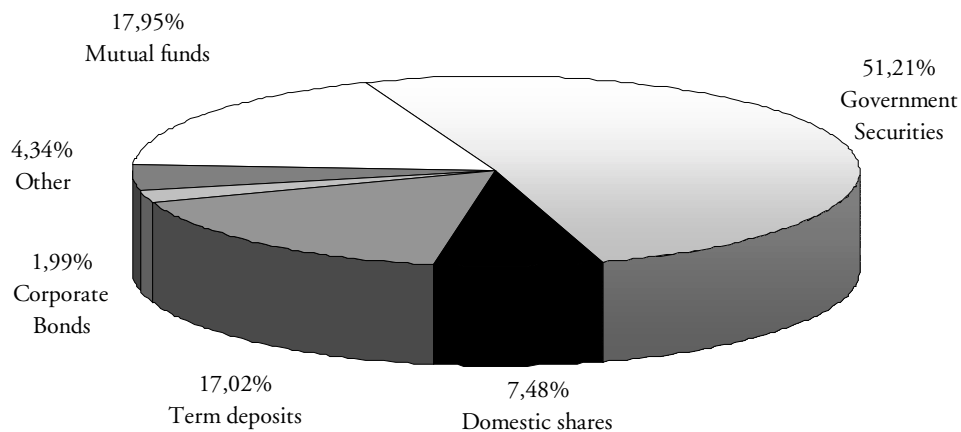
Stocks in their two categories (corporations and privatized state-owned companies) continued losing share within

managed funds. In October 2001, they accounted for just 7.5% of total portfolio, displaced now to the fourth place, due to both the fall of quotations and the decrease of stock volume. This percentage implies a strong decrease of practically two thirds compared to the values recorded at the end of 1999 (20.6%).

Mutual funds gained an important share within private pension funds portfolios during the last year and a half, they showed an almost three-fold increase of their relative share (from 6.3% to 18% of the total). The increase is explained by the amounts applied to financial trusts (16.8% of total pension funds), while the remaining investment funds actually declined. Thus, they occupied the second most preferred place for pension fund managers by the amount of funds invested, ahead of fixed term deposits.

Fixed term deposits ranked third in October 2001 within the preference of pension funds managers, losing their second place to mutual funds. With 17% of total funds managed,

GRAPH 7.5
AFJP Investments as 10-31-01



⁴ It is worth remembering that, in the case of these securities (issued by the Federal Administration or by other state entities), there is the possibility to value part of them, not at their market price, but on an accrued basis, i.e. at their purchase price adjusted by the capitalization of the internal return rate the security had at the time of the purchase, in which case, the security has to be retained until maturity. By valuing the securities in this way, private pension funds try to ensure increases of the value of their shares at low risk. On the contrary, the portion of tradable securities is valued at market price and, consequently, are more subject to capital markets' volatility.

term deposits have risen more than one percentage point with respect to December 2000. Variable yield fixed term deposits (DIVA)⁵ and those that can be collected in advance account for only 4% of total fixed term deposits, the greatest part corresponding to the traditional term deposits with a fixed yield. The increase of fixed term deposits during the last months is the result of both a rise of their rates and their greater relative security in an uncertain economic scenario.

Some investment categories that have risen up to last year, such as the portion of foreign companies stocks (to a great extent, stocks certificates representing privatized companies now owned by Spanish holders negotiated in the local stock exchange), in 2001 went back to 1.7% of investments (compared to 4.5% at the end of 2000). Negotiable obligations also fell (2% of total investments in last October compared to 2.8% at the end of 2000).

Annex: The Debt Conversion Program

Due to the worsening of the fiscal situation at the end of 2001, the National Executive Power decided to promote a voluntary conversion program for the national public debt into collateralized loans or guaranteed national bonds, on the condition that the collateral offered or the debtor change allow for better term repayment conditions and lower interest rates for the National Public Sector. This program was finally implemented through Decree N° 1646 of December 12, 2001. The aim was to decompress the maturities schedule in view of the difficulties derived from the worsening of the recession and the strong falls of tax receipts and, at the same time, achieve better principal amortization conditions and interests sustainable in the long term.

On November 30, the final term established to receive conversion applications for national public securities and provincial loans guaranteed by the National Administration and the Provincial Development Trust Fund respectively, the Finance Secretariat informed they had received offers for a total of U\$S 50,044 millions. From said amount, the portion corresponding to National Administration debts amounted to U\$S

41,069 millions, which were fully accepted, and the rest corresponded to provincial loans. Both local and foreign investors showed a great interest in participating in the swap transaction, total offers exceeding prior estimates⁶. More than 50 banks formed part of the transaction, of which the most important 8, with offers in excess of U\$S 1,000 million each, concentrated more than 82% of total amounts.

Eligible bonds presented were swapped for new collateralized loans, at fixed or floating rate, issued in the same currency as the converted original obligation. They have the same principal maturity schedule, provided the first maturity of the swapped obligation comes later than December 31, 2010. Otherwise, the guaranteed loan maturity will be extended for 3 years. In general, holders of public securities were able to chose between a compounding fixed rate loan or a guaranteed loan with also a fixed rate, bullet and with monthly payments. The maximum interest rate was set at 7% p.a. for fixed rate loans and Libor + 3% for floating rate ones.

Estimated savings for accrued interests by the National

⁵ These deposits are ensured their capital, and their yield is based on the evolution of an underlying financial asset (domestic or international stock exchange indexes, stocks, public securities).

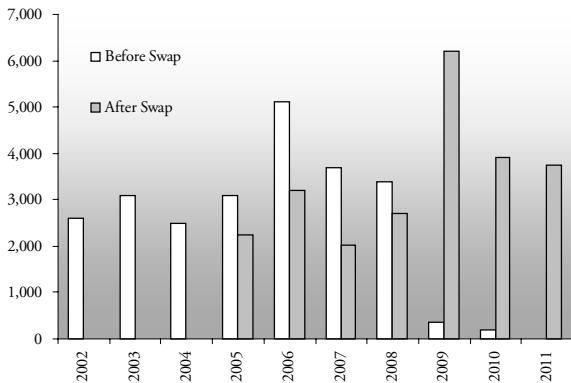
⁶ The maturity of the retail tranche for the National Administration debt and the tranche corresponding to provincial debt securities was extended until December 7.

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and Provincial Public Sectors amounts to U\$S 3,545 million for 2002, of which U\$S 2,357 millions correspond to the National Administration. On the other hand, the reduction of principal amortizations was estimated to be U\$S 2,538 millions for the same year, just for the National Administration too. For the first

five years until 2006, savings for principal amortizations exceeds U\$S 10,000 millions for the National Government, and those corresponding to interests amounts to approximately one half of said figure. Graphs 7.6 and 7.7 show principal and interest maturities profile before and after the debt swap.

GRAPH 7.6
Principal profile of National Public Debt
Before and after December 2001 Debt Swap



GRAPH 7.7
Interest profile of National Public Debt
Before and after December 2001 Debt Swap

