64% favored the fixed parity with the dollar

Economic Situation

Economic problems

- **Internal factors**: The Convertibility Law of 1991 (which ties the peso to the US dollar) has brought stability but made Argentine exports less and less competitive as the dollar appreciated over time. Tax increases and government cuts in late 2000 undermined the possibility of a small recovery.

- **External factors**: Mexico’s devaluation in 1995; 1999 Brazilian devaluation; increasing interest rates in the U.S.; and the 2001 Turkish devaluation.

- **Debt financing**: Argentina’s debt is rising and creating speculations that the country will either devalue or default. This is costing Argentina high interest rates when borrowing abroad (about 14% a year).

- Argentina secured US$40 billion in December of 2000 from the IMF.

- However, Argentina is already out of compliance with the IMF targets for the 2001 first quarter deficit (total for the year is supposed to be $6.5 billion).

Cavallo’s Plan

Minister of the Economy Domingo Cavallo’s recipe aims at cutting business costs by 20% more than cutting government spending. He has laid out the following points to jump-start the economy and meet foreign debt obligations:

- Improve competitiveness of Argentine exports by cutting import taxes on capital goods to 0

- Increase taxes on consumer goods to 35% to protect local industry

- Impose a .25% tax on financial transactions

- Eliminate many subsidies

- Change the peso parity with the US dollar to a new system backing each peso to half-euro, half dollar. The new exchange system will take effect when the euro reaches a complete parity with the dollar.