

Greece Should 'Default Big,' Says Man Who Managed Argentina's 2001 Crisis

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Mario Blejer, who managed Argentina's central bank in the aftermath of the world's biggest sovereign default, said Greece should halt payments on its debt to stop a deterioration of the economy that threatens the European Union.

"This debt is unpayable," Blejer, who was also an adviser to Bank of England Governor Mervyn King from 2003 to 2008, said in an interview in Buenos Aires. "Greece should default, and default big. A small default is worse than a big default and also worse than no default."

World Bank and International Monetary officials will meet in Washington Sept. 23-25 as European Union officials work to keep the currency union from unraveling and the Greek crisis worsens. Europe is facing "a full-blown banking crisis" said Mohamed El-Erian, chief executive officer of Pacific Investment Management Co., in an interview yesterday.

Rescue programs backed by the IMF and European Central Bank are "recession-creating" efforts that will leave Greece saddled with more debt relative to the size of its economy in coming years and stifle growth, Blejer said. A Greek default would push Portugal to do the same and would put Ireland "under tremendous pressure to at least symbolically default" on some of its debt, he added.

'Totally Ridiculous'

"It's totally ridiculous what is going on," Blejer, 63, said. "If you assume that these countries do everything that is in the program, they do all these adjustments and privatizations, at the end of 2012 debt-to-GDP will be bigger than this year."

Greece's government now expects the economy to shrink more than 5 percent this year, more than the 3.8 percent forecast by the European Commission, as austerity measures deepen a three-year recession. Prime Minister George Papandreou approved a plan to help repair the budget deficit at the weekend amid swelling resistance from Greeks.

It costs a record \$5.8 million upfront and \$100,000 annually to insure \$10 million of Greece's debt for five years using credit-default swaps, up from \$5.5 million in advance on Sept. 9, according to CMA.

Blejer didn't advocate Greece leaving the euro zone, which he said would be a "very complicated" move that would force a rewriting of business contracts and would push more lenders toward bankruptcy. Germany and France will have to bear the brunt of financing efforts to help Greece and other countries that default re-start their economies, he said.

Someone Will Pay

"Someone will have to pay," said Blejer, who is a vice chairman of mortgage bank Banco Hipotecario SA (BHIP) and a board member of energy company YPF SA. (YPFD) "If they are not willing to pay for the euro they will have to get out of the euro."

Greece's 10-year bond yield rose 94 basis points, or 0.94 percentage point, to 24.48 percent at 2:07 p.m. in New York, after earlier climbing to a euro-era record of 25 percent.

Blejer took the reins of Argentina's central bank for five months starting in January 2002, when the country was reeling from the effects of the biggest sovereign default in history and the loss of four presidents in just over two weeks. The government had just ended the peso's one-to-one peg with the dollar when Blejer accepted the position from then-President Eduardo Duhalde.

To help stabilize the currency after the devaluation, Blejer created short-term bonds known as lebac that paid an annual interest rate of as much as 140 percent, he said.

Argentina's economy shrank 10.9 percent in 2002 before starting a nine-year growth streak, aided by rising commodity prices and an expansion in neighboring Brazil.

Blejer left the central bank in June 2002 after disputes with then-Economy Minister Roberto Lavagna over lifting restrictions on the withdrawal of bank deposits.

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