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**SOVEREIGN DEBT,  
THE SUSTAINABLE DEVELOPMENT  
GOALS AND TRADE UNIONS IN  
ARGENTINA**



## **Summary briefing – February 2024**

Argentina's decades-long struggle with debt has reached a tipping point that poses a serious threat to living standards and workers' rights, while demonstrating severe inadequacies in how the international financial system deals with debt distress.

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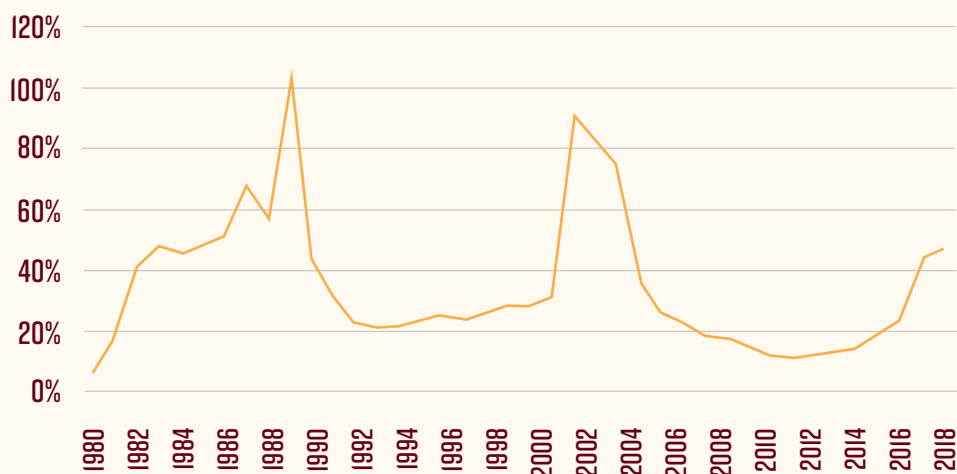
## ARGENTINA'S HISTORICAL EXPERIENCE OF SOVEREIGN DEBT CRISES

Over recent decades, Argentina has been through a traumatic cycle of sovereign debt crises that has seen the country default on its financial obligations five times over the last 50 years: in 1982, 1989, 2002, 2014 and 2020. The country is currently in the grip of yet another serious debt crisis, with the currency depreciating by more than 74 per cent over the last year, and the annual inflation rate reaching over 250 per cent. While the new government's strategy has been to impose a policy of economic 'shock therapy' and make serious threats to workers' rights and

trade unions, recent figures show no improvement and poverty levels have increased sharply from 43.2 per cent in late 2022 to a 20-year high of 57.4 per cent in early 2024.

Figure 1. shows that Argentina's experience over the long run and especially since the 1980s, has seen it suffer repeated cycles of indebtedness. These have seen increasing external indebtedness culminate in periodic debt crises, followed by a restructuring of external obligations. However, the relief brought through restructuring has resulted only in new and increasingly severe cycles of indebtedness and subsequent crisis.

FIGURE 1: EXTERNAL DEBT (% GDP)



## ARGENTINA'S DEBT CRISIS: CAUSES AND KEY ISSUES

The causes of Argentina's long-running debt crisis are complicated but have unquestionably been influenced as much or more by external players than by internal economic factors over the years. Despite its widely acknowledged potential as an exporter, Argentina has struggled to achieve sound management of its external financing within a hyper-globalised financial system. Following a period of financial liberalisation at the end of the 1980s, Argentina's relationship to international financial markets has been punctuated by classic periods of euphoria and depression. These have often been driven by the aggressive and counterproductive tactics of international financial players that have sought to exploit the country's potential and its periodic economic weakness, coupled with a series of disastrous policy decisions by the international institutions tasked with restoring stability. While creditors have continued to be repaid – including via litigation in developed country courts – ordinary workers have been left to suffer the consequences.

Far from behaving in a counter-cyclical manner and promoting policies aimed

at avoiding the negative effects of economic crises, the fiscal consolidation encouraged by the IMF in its programs has arguably provoked or exacerbated economic crisis as the main mechanism to return external debt to a sustainable path. The preferred solution has been to seek reductions in consumption levels to generate the resources to repay external debt. Here, the recessionary and inflationary results that typically accompany such programmes, far from being an anomaly, are in fact the objective. Instead of focusing on measures to alleviate the effects of crises on the living conditions of workers, the central aim has often been to prevent the sovereign debt crises from spreading to other countries and potentially sparking an international crisis.

During sovereign default events suffered by Argentina throughout its history, the reduction of the purchasing power of workers' wages was 9 per cent on average per year. This demonstrates the need for workers and trade unions to be actively involved in economic and political debates on sovereign debt, especially in the current situation in which the country may face a new situation of unsustainable debt shaped, paradoxically, by the magnitude of existing debt to the IMF.



## RECENT DEVELOPMENTS IN ARGENTINA'S DEBT CRISIS

Argentina's most recent crisis began in March 2018 and culminated in the largest loan granted in the history of the IMF to one of its member countries, totalling around US\$ 56.4bn. The Stand-By Arrangement programme promised to "ensure that debt remains sustainable, reduce inflation, and foster growth and job creation while reducing poverty". The key element was cuts in public spending (including the public sector wage bill) that were increased in subsequent reviews of the agreement. Meanwhile, the agreement included a social assistance 'spending floor' that effectively left room for cuts by expanding the number of programmes covered by a floor set lower than had previously been the case.

Early on, however, it was clear that the IMF had underestimated the harsh impacts of the programme, which led only to new catastrophe for workers. One year after the start of the programme, the ITUC remarked that

the massive loan had failed to deliver on these promises and warned that the efforts of the then Macri government to smooth over the negative consequences of the programme by boosting consumption would only lead to a new cycle of indebtedness (ITUC 2019).

There was optimism in some quarters around a new settlement in 2022 on a new Extended Fund Facility agreement with the IMF (e.g., PSI 2022). However, the weight of the historical debt burden being carried by Argentina – now mostly to the IMF itself and subject to its penalty interest rates (see Box 1.) – proved insurmountable when faced with recent global shockwaves. These brutal shocks included the Covid-19 pandemic, international conflict, high levels of inflation, and punishing interest rate hikes in the US. These developments helped fuel capital flight and exchange rate pressure on the country and led to a rapidly deteriorating situation of even greater indebtedness throughout 2023, as they did in many other developing countries struggling with unsustainable debt burdens.

### **BOX 1: THE IMF'S SURCHARGES POLICY HAS PENALISED ARGENTINA AND OTHER COUNTRIES THAT HAVE BEEN MOST IN NEED OF EMERGENCY FINANCING.**

A key issue in sovereign debt today relates to the IMF policy of adding surcharges (additional interest payments) on its loans to countries that already have high or extended borrowings from the Fund. Bearing in mind that these countries have the greatest need for emergency funding, on top of its 'basic concessionary rate' (which is a floating rate and has itself increased significantly in line with recent international interest rates) the IMF charges an extra 2 per cent interest for countries borrowing more than 187.5 per cent of

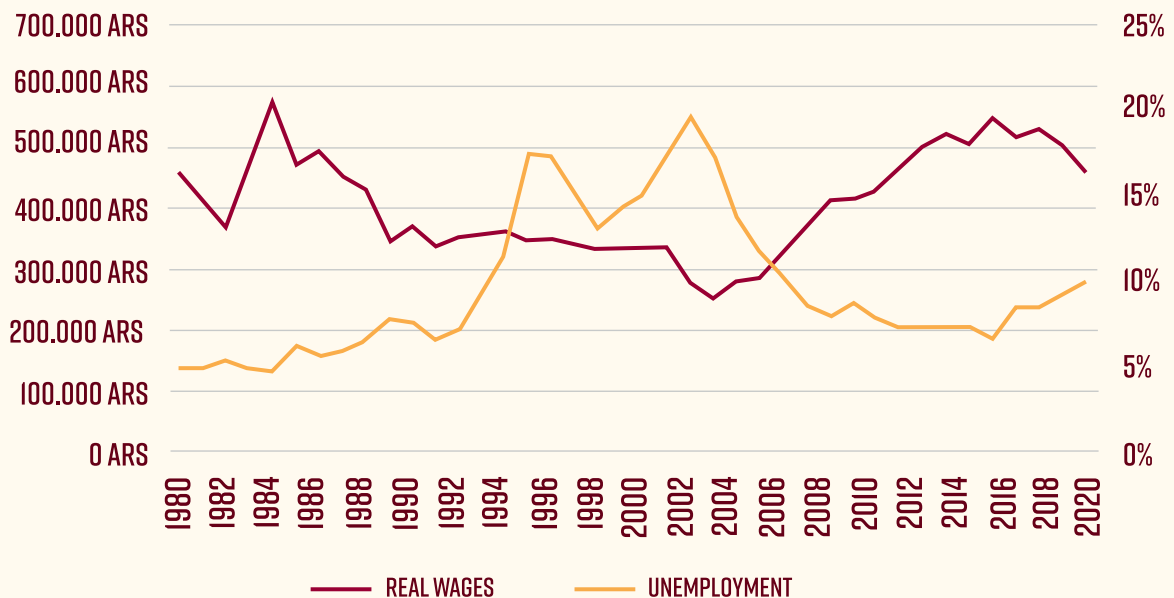
their IMF quota, and 1 per cent in addition if this threshold has been exceeded for more than three years.<sup>1</sup> In practice, this has meant that countries such as Argentina and Tunisia have paid more in surcharges than regular interest on their IMF loans in recent years.

## HOW HAVE MULTIPLE DEBT CRISES IMPACTED THE LABOUR MARKET OVER THE YEARS?

The severe impact of Argentina's sovereign debt issues on workers is clearly visible in an analysis of the relationship between external debt and key labour

market variables (wage and unemployment) during each of its four most recent debt crises (1982, 1989, 2002 and 2018-9).

FIGURE 2: HISTORICAL EVOLUTION OF REAL WAGES MEASURED IN ARGENTINIAN PESOS (ARS) AND PER CENT (%) UNEMPLOYMENT, 1980-2020



<sup>1</sup> Daniel Munevar, "A guide to IMF surcharges," Eurodad, 2 December 2021

History demonstrates how real wages and unemployment have been inversely linked in Argentina: times of relatively low unemployment coincide with times of relatively high real wages, and vice versa (see Fig 2.). The classical theory of how labour markets work would support the idea that reductions in unemployment generally allows workers and their representatives to increase their bargaining power and improve their relative position in the struggle for income distribution. On the contrary, economic crises, with their consequent negative impact on unemployment, weaken the relative power of workers and trade unions, which promotes the acceptance of less favourable conditions in general and real wage conditions in particular.

Looking specifically at Argentina's episodes of external debt crisis events and their effects on the labour market demonstrates how this relationship has affected workers in practice. External debt crises have, in every case,

imposed negative conditions on the labour market, negatively affecting workers' living conditions and weakening the bargaining power of trade unions. Table 1. shows that, on average, debt crises implied a fall of 6.4 per cent in Argentina's economic activity, which induced a significant loss in the purchasing power of the average wage of 15.7 per cent and an increase in unemployment of, on average, 1.4 percentage points. It is worth noting that in Argentina, the main adjustment during debt crises has been to real wages rather than unemployment (even though the latter has clearly also risen during crises). Despite its huge scale, the significant erosion of workers' real wages may be less visible than rising unemployment, but is more widespread and more difficult to cushion. In particular, the effect of debt crises on real wages is one of the key relationships that workers and their representatives should be aware of in their discussions around foreign debt.

**TABLE 1: SELECTED ECONOMIC VARIABLES IN RECENT EXTERNAL DEBT CRISES.**

	<b>1981-1982</b>	<b>1988-1989</b>	<b>2001-2002</b>	<b>2017-2019</b>	<b>AVERAGE</b>
<b>ECONOMIC ACTIVITY</b>	<b>-3.2%</b>	<b>-6.9%</b>	<b>-10.9%</b>	<b>-4.6%</b>	<b>-6.4%</b>
<b>REAL WAGES</b>	<b>-10.5%</b>	<b>-20.3%</b>	<b>-19.0%</b>	<b>-13.1%</b>	<b>-15.7%</b>
<b>UNEMPLOYMENT</b>	<b>0.6</b>	<b>1.3</b>	<b>2.3</b>	<b>1.5</b>	<b>1.4</b>



## WHAT IS THE EFFECT ON KEY SDGs INCLUDING DECENT EMPLOYMENT, INEQUALITY AND GENDER, AND CLIMATE?

In 2022, the ITUC highlighted that despite the impacts of Covid-19 and the overarching economic situation, the past few years had seen significant progress on the SDGs in Argentina. In 2019, prior to the pandemic, Argentina was given a very high rating of 0.845 in the of UN Human Development Index. The response to Covid-19 saw the Government adopt a range of measures to alleviate its social and economic consequences. It extended support through existing universal social protection schemes, with targeted support for the most vulnerable and workers in sectors most impacted by the pandemic (including healthcare, tourism, and culture). Informal workers received a one-off payment through the Emergency Family Income (IFE), and formal workers through Assistance to Work and Production (ATP). Extra payments were made to recipients of child grants, maternity allowances and food aid. Tax relief measures and a short-term moratorium on dismissals and suspensions were implemented. The Government also provided financial assistance to SMEs and larger companies. The year 2020 saw 49.8 per cent of the country's budget go to social security. By 2021, GDP was increasing again as the economy started to recover from the pandemic.

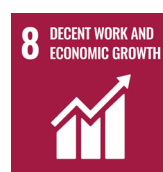
At the same time, there were several other challenges in meeting the SDGs in Argentina even before the acceleration of the latest debt crisis. These include:



Challenges around **SDG 1, to eradicate poverty**. Even though Argentina met the goal with respect to those earning less than US\$ 1.90 per day, in 2020, 42 per cent of the population was living under the national poverty line – a figure that has since increased sharply. Recently, it has elevated to 57.4 per cent as the most recent economic crisis has deepened.<sup>2</sup> Despite a relatively comprehensive social security system, including targeted programmes to reach the most vulnerable (with 94.6 per cent of children and 91.8 per cent of the elderly covered), the minimum retirement benefit corresponds to only half of the income needed to avoid poverty.



While the creation of the Ministry for Women, Gender and Diversity strengthened gender rights (including to tackle gender-based violence), women are still overrepresented in unpaid care and informal work under **SDG target 5.4 (recognise and value unpaid care and domestic work)**. On **SDG target 5.5 (ensure women's full and effective participation and equal opportunities for leadership at all levels)**, a 2017 law on gender parity is starting to take effect: 45 per cent of seats in the national parliament are currently held by women. However, women occupy only 33 per cent of middle and senior management roles.



Major challenges remain under **SDG 8**. Under **target 8.3 (formalisation)**, 33 per cent of the Argentine population are in informal employment and 23 per

<sup>2</sup> "Poverty in Argentina hits 20-year high at 57.4%, study says," Reuters, 18 de febrero de 2024,

cent of employment was classed as vulnerable in 2019. Regarding **target 8.5 (achieve full and productive employment and decent work)**, unemployment is now falling and stood at 8.2 per cent in Q3 2021. There are programmes to train people for the knowledge economy, and there also programmes for unemployed people with disabilities. **The proportion of youth not in employment, education or training (target 8.6)** climbed to 22.3 per cent in 2020. The Government has put in place youth employment, training, scholarship and social inclusion programmes to meet **target 8.b (strategy for youth employment)**. Progress is required on human trafficking and forced labour, under **target 8.7 (end forced labour, modern slavery, human trafficking and child labour)**, although the prevalence of modern slavery in Argentina is low. A small pilot programme to strengthen the labour rights and skills of female trafficking victims is now underway, as is a multi-stakeholder programme to develop and strengthen child labour interventions. Under **target 8.8 (protect labour rights and promote safe and secure working environments for all workers)**, 47.4 per cent of workers were covered by collective bargaining agreements in 2019, and trade union density stood at 27.7 per cent in 2021. An occupational health observatory and national prevention programmes exist. ILO Convention 190 on harassment and violence at work recently came into force; adequate policies for its implementation in all areas still need to be developed. A total of 27 labour rights violations were recorded in 2017.



Argentina faces major challenges to meeting **target 10.4 (achieve greater equality)**, as the share of wage earners in national income declined

sharply to 40 per cent in Q3 2021. The minimum wage was 65 per cent of the average wage in Q3 2021, with workers facing rising living

costs. Regarding **target 10.7 (orderly and safe migration)**, a recent survey showed that 37 per cent of migrants were in unstable employment or unemployed.



**Climate change measures have been integrated into national plans under target 13.2**, overseen by the National Climate Change Cabinet (GNCC).

However, more action is needed at the level of the provinces.



Until recently rights have been protected by law, and legal aid and labour tribunals exist in line with **target 16.3 (promote the rule of law and equal access**

**to justice)**. Trade unions reported violations under **target 16.10 (access to information, protect fundamental freedoms)**. However as mentioned above, trade unions are extremely concerned around recent moves by the new government to implement measures detrimental to citizens, workers, and unionists.

In 2022, the ITUC also reported positive developments in respect of transparency around the SDGs and regular access to information, consultation processes with government and others in Argentina on an agreed agenda for achieving the SDGs, and on tripartite social dialogue to implement and monitor SDGs. However, at the present time with workers' rights under threat, there are fears that such progress will be reversed in coming years.

## WHAT SHOULD TRADE UNIONS DEMAND AND WHAT ACTIONS CAN THEY TAKE?

Over the long term, trade unions in Argentina must collectively strengthen their capacity to monitor and recognise the effects of sovereign debt on the SDGs and on workers' rights and prosperity. Recent developments in Argentina show that there is a clear need for trade unions to challenge not just austerity, as promoted by governments and the IMF, but the increasingly radical economic policies that are being proposed in countries that have suffered through desperate cycles of debt-fuelled catastrophe.

Trade unions must instead champion and fight for alternatives that are based on the eradication of poverty, the maintenance of social protection, including for children and the elderly, gender equality and the recognition of unpaid care and domestic work, labour market formalisation, training and education to achieve full and productive

employment and decent work. In addition, they must ensure that climate change is addressed within the framework of a Just Transition to secure the future livelihoods of workers and their communities during the transition to a low-carbon economy.

The persistent challenges faced by Argentina also indicate that the IMF itself also needs to change its approach, to hear and take greater note of workers' concerns within meaningful dialogue at the national and international level. The clear failure in Argentina of the IMF's largest ever package of loans should demonstrate that involving trade unions in the design of pro-worker programmes based on jobs-led recoveries and a New Social Contract is essential to the success of any programme – in both Argentina, and other countries facing debt crises.

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