
Argentina's Crises

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INTRODUCTION

Argentina is in the throes of a recession that has lasted for more than 3 years. In 2001, the IMF has had to grant Argentina two loans to ensure that the foreign debt could be serviced. A steady build-up of debt during the 1990s has contributed to the impending suspension of payments. The foreign government debt has gradually reached a level where its sustainability has repeatedly been questioned.

Regrettably, the present crisis is by no means a unique event in the economic history of Argentina – in fact, crises have come in rapid succession throughout most of the 20th century.

This was hardly the development anticipated in the early 1900s. At that time, Argentina was among the richest countries in the world, and the favourable economic climate attracted both immigrants and capital. In several ways the Argentina of that time resembled Denmark. Incomes were at more or less the same level, and the wealth of both countries was based on agricultural exports.

As the century progressed, the comparison between Denmark and Argentina has become increasingly irrelevant. In Argentina's case it was a period characterised by significant relative economic decline. In 1913, Argentina ranked among the top 15 nations in the world in terms of wealth, on a par with e.g. Italy. In 1999, it ranked 56th, at the level of e.g. Hungary and the Czech Republic (Maddison 1989 and World Development Report 2001).

This article outlines Argentina's unusual economic history through the last 100 years, focusing on the successive crises seen in this period.

ECONOMIC GROWTH IN THE 20TH CENTURY

At the beginning of the 20th century Argentina's position was favourable. The Pampas – a large, fertile plain – gave the agricultural sector good conditions and were the basis for strong, export-oriented growth within primary produce (mainly wool, wheat, maize and beef). As the

ARGENTINA'S GDP PER CAPITA RELATIVE TO 16 OECD COUNTRIES ¹							Table 1
Per cent	1900	1913	1929	1950	1973	1987	2000
Argentina's relative GDP per capita	71	80	75	65	47	32	45

Note: Adjusted for differences in purchasing power. The 2000 figure relates to GNP per capita. The present recession is not yet fully reflected in the figures. Thus Argentina's relative level in 2001 must be expected to be lower than the 2000 level.

Source: Maddison (1989, p. 19) and World Development Report 2002 for the year 2000.

¹ Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom and USA. Unweighted average.

country was also short of both people and capital, the high yields on these resources brought massive immigration and high investment rates. The population increased from 3.3 million in 1890 to 7.5 million in 1913, corresponding to average annual growth of 3.5 per cent. In the same period, the capital stock grew by 4.8 per cent annually (Taylor 1992). The standard of living was also high. At the turn of the century, Argentina's GDP per capita was 71 per cent of the average for 16 present OECD countries, cf. Table 1. By 1913, this figure had increased to 80 per cent.

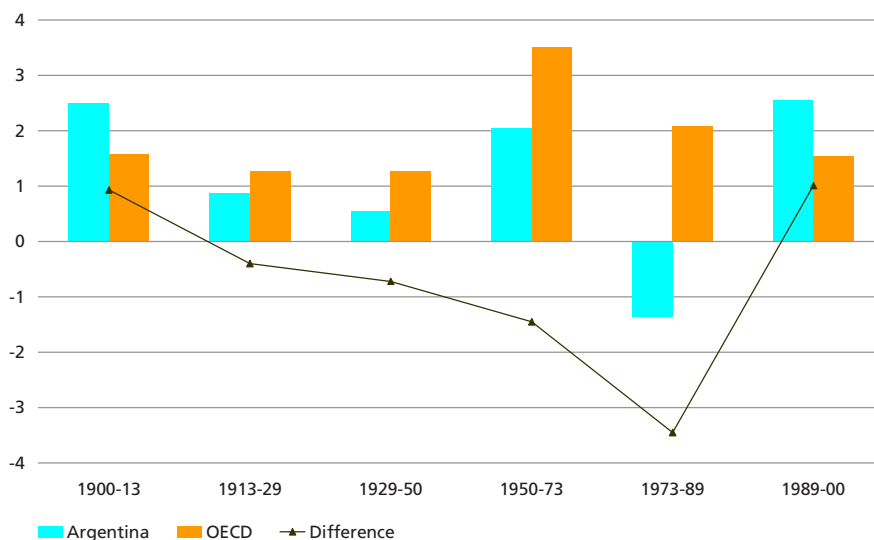
From 1913, the trend for convergence towards the western standard of living began to change, however. Initially, it was a weak, but consistent declining trend. In the second half of the century, the divergent trend accelerated, and in the 1980s Argentina's standard of living reached an all-time low in relation to the OECD countries. In spite of the present recession in Argentina, the 1990s have on average terms been characterised by high growth, and over the decade the standard of living has converged towards that of the OECD countries. In 2000, GNP per capita was 45 per cent of the OECD average.

Chart 1 also illustrates Argentina's relative decline. As can be seen, the period 1950-73, when Argentina did very poorly compared with the western countries, was actually characterised by relatively high annual growth of around 2 per cent in GDP per capita. However, Argentina had only a small share in this golden age for western countries (and for the East Asian tiger economies¹). Furthermore, the period 1973-89 was exceptionally poor, with an average annual decline in GDP per capita of about 1 per cent. Viewed against the background of these later periods, Argentina's relative decline in the first half of the 20th century becomes less pronounced. But a decline it was, and it had dire consequences for the real economy and for economic policymaking that later in the century was to lead to even more significant decline.

¹ Hong Kong, Singapore, South Korea and Taiwan.

GROWTH IN GDP PER CAPITA IN ARGENTINA AND 16 OECD COUNTRIES

Chart 1



Note: The 16 OECD countries are specified in Table 1. For the period 1973-2000, Germany is not included in the calculations owing to the statistical problems related to unification.

Source: Maddison (1989, p. 19), IMF and own calculations.

PROBLEMS IN AN OPEN ECONOMY, 1914-34

With the outbreak of the First World War, Argentina faced problems. International trade contracted during the war, and agricultural exports were hit. When peace came, markets reopened, and Argentina was able to sell its produce once again. However, growth in the 1920s never reached the pre-war level.

In the 1920s the vulnerability of Argentina's open economy became increasingly apparent. Two problems were very evident. Firstly, an economy based on the export of only half a dozen agricultural products is highly dependent on the development in the world-market prices of these products. Economic development in Argentina in the 1920s was thus mainly driven by the development in terms of trade, which in turn was influenced by the price development for a number of agricultural products.

Secondly, Argentina was dependent on foreign capital investments, as domestic savings were limited.¹ Before the First World War, it had been fairly easy for Argentina to procure foreign capital, but this became more

¹ The low rate of domestic savings in Argentina may be attributable to its demographic structure at that time. The population was very "young" – in the years 1914-29 approximately 36 per cent of the entire population was under the age of 15. A high percentage of young people tends to reduce savings and increase consumption (Taylor 1992).

difficult after the war.¹ This was, inter alia, reflected in the development in the foreign ownership share of Argentina's capital stock. In 1913, 48 per cent of Argentina's capital stock was in foreign hands; by 1929, this share had dropped to 32 per cent (Taylor 1992). As a consequence of the lack of foreign capital inflows, investments declined. In the period 1890-1913, the capital stock had grown by 4.8 per cent annually; in the period 1913-29, it grew by only 2.2 per cent and the opportunities for creating economic growth dwindled correspondingly.

Towards the end of the 1920s, the two sensitive variables – terms of trade and foreign capital investments – both developed negatively, bringing Argentina on the verge of a recession already in 1928 (i.e. before the Wall Street crash in October 1929). The prices of Argentinian agricultural produce dropped owing to higher production and increasing protectionism in the West. Foreign capital tended to be more attracted to the then booming Wall Street, making it more and more difficult to service the foreign debt. In the following year the situation deteriorated as most of the world was plunged into a recession, and crops failed in Argentina. Even the upswing, when it finally came in 1933-34, was caused by external factors. Fiscal policy was procyclical in the worst years of the recession, and monetary policy was only moderately expansive (but still to some extent able to counteract the deflationary trends via devaluation (della Paolera et al. 1998)). Instead, it took droughts in the USA, Canada and Australia – raising prices for agricultural produce and improving terms of trade – to pull Argentina out of the recession.

CONSEQUENCES OF THE RECESSION, THE 1930S

A recession as deep as that seen in Argentina in the late 1920s and early 1930s had to have some long-term effects. The structure of the economy changed. Less international trade meant that agriculture and exports became less important. Exports as a percentage of GDP thus fell from 24 per cent in the years 1925-29 to 19 per cent in the years 1935-39. The importance of foreign capital investments declined further. Combined with lower growth and incomes, this led to a lower level of investment.

The recession also had political consequences. Government intervention replaced *laissez-faire* in the field of economic policy. Intervention was inevitable in a world that was increasingly abandoning free trade in favour of bilateral trade agreements. However, a higher degree of government intervention also created a basis for a subsequent protec-

¹ By the end of the war, Britain had lost its dominant position in the international financial markets, and the new financial power, the USA, was not inclined (or able) to act as lender to the rest of the world to the extent that Britain had done (Taylor 1992).

tionist economic policy (import substitution), which in time was to become too excessive.

Monetary policy also changed. Like many other countries at the time, Argentina used the gold standard, although the exchangeability of banknotes for gold was suspended for long periods (1914-1927 and again, finally, from 1929). In 1931 a decisive step away from the gold standard was taken, as the money supply was from then on increased independently of movements in the central bank's gold reserves. From a present-day point of view this was a sensible step, as the recession required an easing of monetary policy. The monetary-policy measures taken by the government and the central bank in 1935 were somewhat more doubtful, although presumably inevitable. At this point, the government took over all "bad debts" accumulated by the unregulated banking sector during the 1920s and 1930s. In reality, this step was financed via monetary financing and totalled approximately 4 per cent of GDP (della Paolera et al. 1999). This paved the way for the extreme, inflationary monetary policy seen in later periods.

The recession also brought political instability. In September 1930, the military assumed power for the first time in the 20th century, and subsequently Argentina was alternately ruled by military and civil governments (often elected on a doubtful basis). Not until 1989 did a civil government again replace another civil government.

THE OPEN ECONOMY CLOSES, 1933-76

The economic decline in Argentina and the rest of the world in the early 1930s triggered a process which was to convert Argentina from a very open to a very closed economy over a 20-year period. Exports as a percentage of GDP dropped from 24 per cent in 1925-29 to 7 per cent in 1950-54. Even today, exports still make up no more than approximately 11 per cent of GDP.

Initially, the development was related primarily to external circumstances. A sharp decline in terms of trade in the early 1930s resulted in a shortage of foreign currency in Argentina, a net debtor. As a result, a dual exchange-rate system was introduced in 1933 whereby the exchange rate for debt repayment and payments for selected imports was more favourable than for other payments. Customs tariffs were also raised during the 1930s in an attempt to protect the emerging domestic industrial sector.

The industrial sector did in fact grow at a good rate in the 1930s. From 1928 to 1939, industrial output increased by an annual 3.2 per cent (de Paiva Abreu 1982). The degree to which this was attributable to gov-

ernment intervention is difficult to say, however. In some respects, the dual exchange-rate system and customs tariffs backfired, as the system was eventually used to subsidise British imports rather than to promote the imports needed for industrialisation (O'Connell 1984).

Argentina's preferential treatment of Britain was a result of the Roca-Runciman Treaty signed by the two countries in 1933. With this treaty, Britain succeeded in gaining access to the Argentinian market on favourable terms, cf. the above, while Argentina had access to the British market on the same terms as previously (de Paiva Abreu 1982). The negotiating power of Britain was based mainly on its large trade deficit vis-à-vis Argentina, and the result of the negotiations triggered strong anti-British feeling in Argentina.

Within a few months of the outbreak of the Second World War the European export markets closed, with dire consequences for the Argentinian agricultural sector. The trade disputes with Britain in the 1930s, as well as the diplomatic disputes with the USA, resulted in a divided nation that sympathised with both the Allies and Germany.

The tension eventually brought General Juan Perón to power in 1943 in a military coup that finally sealed Argentina's import substitution strategy. Several circumstances influenced the choice of this introspective strategy. Perón was immensely popular among the urban working classes, who would benefit from industrial expansion, while the collective memory of the crisis in the 1930s that was driven by external developments, presumably also played a role. In addition, there was some suspicion between Argentina and the Allied victors after the Second World War (declaring war on Germany in March 1945 did not seem to help Argentina much). Nowadays this strategy may appear more ill-advised than it did then. At that time it was not obvious that in the post-war years world trade would experience a new boom in favour of more open economies.

The import substitution strategy meant that for the next decade every ounce of energy was put into building up domestic industry at the expense of exports. However, the plan was not all that well-conceived – existing industrial enterprises were protected via currency and import restrictions, regardless of their efficiency, and the export sector was more or less neglected. The agricultural sector faced huge difficulties in procuring imported factors of production (e.g. tractors and fertilisers) and the government neglected research into agricultural improvements. On the other hand, a large automobile industry was built up, despite a limited domestic market.

Not only was the strategy badly implemented, it was also founded on a questionable theoretical basis. Firstly, industrialisation requires regular

foreign-exchange revenues for the import of key goods (e.g. machinery). More export-friendly policies would have facilitated access to foreign exchange. Secondly, customs tariffs and currency restrictions distort relative prices and create a basis for misallocation of invested resources. Taking into account the external unrest in the 1930s, it cannot be excluded that such distortion – in a brief period of industrial establishment – had its advantages. However, maintaining, and even enhancing, such distortions after the initial industrial establishment phase was inexpedient. It led to continued misallocation and did not give the protected businesses any incentive to streamline production.

In the early 1950s it became clear, even to Perón, that the strategy had failed. Exports continued to decline, and in 1952 – a year of drought – the point was reached where Argentina had to import wheat. Once again, economic policy began to focus on agriculture and exports, but it was not easy to overcome the well-established distortions in relative prices. Industrial interests carried much weight (e.g. in the military and the Peronist party), whereas agriculture by then employed less than 20 per cent of the labour force. In spite of the difficult circumstances, Argentina did manage to achieve annual growth in GDP per capita of around 2.2 per cent up to the early 1970s, cf. Chart 1. However, compared to the rest of the world in the same period, this was a poor result.

DEBT CRISIS AND HYPERINFLATION, 1976-91

Finally abandoning the import substitution strategy in the mid-1970s did not bring renewed growth to Argentina. On the contrary, the situation became even more unstable – politically and economically. The political instability had violent consequences. In 1976 the military assumed power once again, and in the years that followed political dissidents were pursued mercilessly. In 1982, this development culminated in the Falklands War between Argentina and Britain.

Another consequence of the political instability was the absence of a stable economic policy. The various regimes, not to mention the various ministers of economic affairs, only had brief spells in office, and one crisis succeeded another (as did the stabilisation plans). Against this background it is hardly surprising that the growth in GDP per capita was negative between 1973 and 1989, as illustrated in Chart 1.

Although the economic development worsened in this period, the economy was still characterised by the "stop-go" cycles seen in Argentina since the late 1940s. An upswing would soon lead to larger deficits on the balances of trade and payments, which in turn would bring a

foreign-exchange crisis and a recession. To re-establish equilibrium, the announced fixed exchange rate would be devalued. The higher inflation resulting from devaluation would be pushed up further by strong trade unions negotiating compensation in the form of wage increases. In addition, during this period the government made widespread use of monetary financing of budget deficits, leading to further inflation (and thereby more compensatory wage increases).¹

After an extraordinarily strong cycle in the mid-1970s the military assumed power and launched an economic policy which can be seen as the final showdown with the import substitution strategy. Prices, foreign trade and capital movements were liberalised, and the banking sector was deregulated. The budget deficits were reduced, but not eliminated. While the deficits in 1975 and 1976 had been 15.6 and 10.6 per cent of GDP, respectively, the deficit was 5.0 per cent in 1977 – a level which was sustained for the next few years. The rate of inflation was relatively soon reduced from more than 300 to less than 200 per cent. To dampen inflation further, a crawling-peg arrangement was introduced in 1979 whereby the pre-announced devaluation rate was reduced over time. In time, the gradual reduction of the devaluation rate would dampen the direct inflationary effect of devaluation, and it was hoped that pre-announcement would enhance the credibility of the government's disinflationary policy.

With the introduction of the exchange-rate system, inflation fell to below 100 per cent, but was still higher than the ongoing depreciation of the currency. This meant that competitiveness declined steadily. In the early days of this regime – while people still had confidence in it – there was a large inflow of foreign exchange, as interest rates in Argentina were considerably higher than the world-market level.

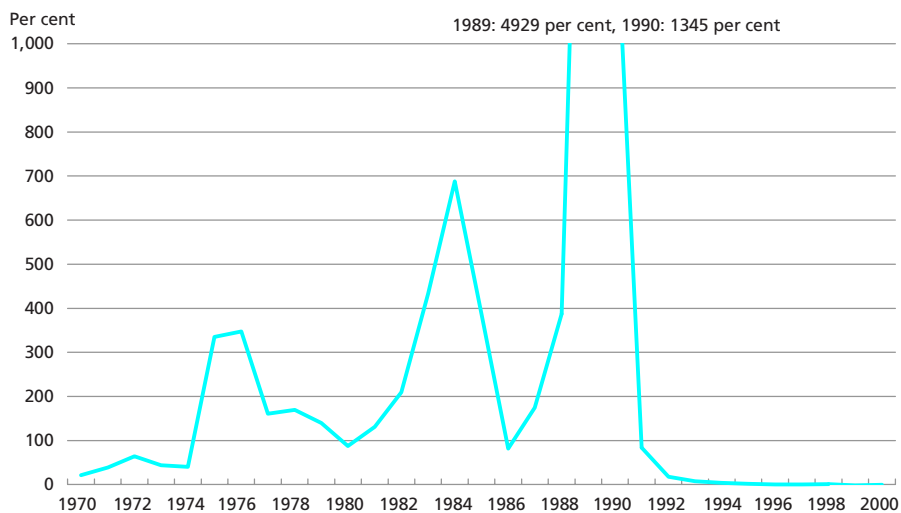
Competitiveness continued to diminish, however, and gradually faith in the exchange-rate system was lost. This led to a massive capital flight, which there was nothing to prevent, as capital flows had just been fully liberalised. The central bank and the government did not immediately abandon the exchange-rate regime. Instead, huge sums were borrowed abroad and sold to support the regime. This could, however, only postpone the inevitable collapse, and in 1981 the currency was devalued three times, by 10, 20 and 20 per cent, respectively.

The devaluations led to huge problems in the real economy. Businesses and banks, which were largely unregulated, as in the banking crisis during the 1930s, collapsed, and the government ended up taking over

¹ For instance, the budget deficit in 1975 was 16 per cent of GDP, which to a high degree was financed via monetary financing. Consequently, the rate of inflation was also high: 335 per cent.

INFLATION

Chart 2



Source: IMF.

large elements of the private sector's debt. In 1980, the public sector accounted for approximately half of the external debt. By 1985, this figure had risen to 82 per cent.

Another extreme economic cycle had hit Argentina; another stabilisation plan had failed. Once again, the rate of inflation soared to three-digit figures, the budget deficit as a percentage of GDP went into two-digit figures, and external debt rose from approximately 20 per cent of GDP in 1977 to 60 per cent in 1982.

The following years were to bring yet another couple of failed stabilisation plans based on using the exchange rate as a nominal anchor (the Austral plan and the Primavera plan in 1985 and 1988, respectively). Neither plan, both of which had been designed by democratically elected governments, brought public finances under control, and consequently they were followed by foreign-exchange crises and even higher inflation rates. The collapse of the Primavera plan even led to hyperinflation in 1989-90.

This hyperinflation was the culmination of the disastrous economic policy of the 1970s and 1980s, which led to increasingly volatile "stop-go" economic cycles. The increasing volatility was reflected in the inflation rates, which "peaked" at higher and higher levels during the period, cf. Chart 2. A consequence of the high inflation was frequent currency reforms, each one reducing the number of zeros on the banknotes in circulation, cf. Table 2. Since 1970, a total of 13 zeros have been eliminated in this way.

ARGENTINA'S CURRENCY REFORMS

Table 2

Currency	Year of introduction	Rate vis-à-vis former currency	
Peso Moneda Nacional	1881	-	
Peso Ley	1970	1 Ley	= 100 Moneda Nacionales
Peso Argentino	1983	1 Argentino	= 10,000 Leyes
Austral	1985	1 Austral	= 1,000 Argentinos
Peso	1992	1 Peso	= 10,000 Australes

Source: Central Bank of Argentina.

STABILISATION (WELL, ALMOST), 1991-2001

The hyperinflation meant that the new president elected in 1989, Carlos Menem of the Peronist party, took office earlier than planned. His first 18 months as president did not bring any decisive changes, however. Hyperinflation continued. Then, in 1991, a disinflationary programme was implemented which was finally to put an end to Argentina's perpetually high inflation and chronic "stop-go" economy.

The cornerstone of the disinflationary programme was the introduction in April 1991 of a currency board, which pegged the Argentinian peso to the dollar on a 1-to-1 basis.¹ Unlike previous stabilisation plans, this one was incorporated in an Act committing the central bank to exchange dollars for pesos at the fixed exchange rate. In addition, the Act required the central bank to hold liquid international reserves at its disposal that (almost) covered 100 per cent of base money.² This central element of the Act prevented monetary financing of the budget deficit, which had previously time and again led to persistent high inflation in Argentina.

In principle, the Act makes it virtually impossible to devalue, which increases the credibility of the regime. Devaluation would require a new Act to be passed by Argentina's Congress, but by the time the Bill had been debated, the reserves of the central bank would have evaporated because of capital flight. If the Bill were debated over a bank holiday instead, the government would be liable to private actions for damages.

The introduction of the Act should be seen in the light of the recent hyperinflation, which brought a strong demand for stability among the Argentinian population. Presumably the development in the early 1990s

¹ For a detailed description of currency boards, see Bie and Hahnemann (2000).

² However, the central bank still has a little room for manoeuvre. For instance, it may purchase Argentinian government bonds denominated in dollars, provided that the stock of international reserves (excluding government bonds) does not fall below 2/3 of the base money. In addition, the central bank may change the reserve requirements imposed on the banks.

MACROECONOMIC INDICATORS		Table 3		
Per cent	1989	1994	2000	
Real GDP growth	-6.2	5.8	-0.5	
Inflation	4,928.6	3.9	-0.7	
Current account of the balance of payments ¹	-1.8	-3.7	-3.2	
Government budget balance ¹	-21.8	-2.3	-3.6	
Unemployment ²	7.1	12.2	14.7	

Source: IMF.

¹ As a percentage of GDP.

² As a percentage of the labour force.

has boosted support for the currency board. Inflation was virtually eliminated, cf. Chart 2, and in the early 1990s more and more loans were denominated in dollars. Consequently, any devaluation will affect households, businesses and the public sector severely.

President Menem initiated other reforms at the start of the 1990s. Gradually, attempts were made to open up the economy, e.g. through participation in the MERCOSUR free-trade community with Brazil, Paraguay and Uruguay. However, the economy remained relatively closed. The banking sector was liberalised (once again), but unlike before effective banking supervision was also introduced.¹ Menem also succeeded in reducing the budget deficit drastically up to 1993, but without any actual reform of public finances. Instead, the budget improvements were achieved via e.g. privatisation gains and a falling level of international interest rates, which alleviated Argentina's debt burden.²

The reform measures in the early 1990s led to remarkable macroeconomic stability and a good rate of growth in the years 1991-94. This dramatic economic stabilisation is illustrated in Table 3. The most noteworthy result was the reduction of inflation and the lower budget deficit, whereas unemployment increased as a result of extensive structural reforms.

Stability also brought a return of foreign capital to Argentina, leading to strong credit expansion. However, setbacks in both 1995 and 1998 showed that the economy was still vulnerable. Both setbacks were brought on by sudden changes in international capital flows stemming from crises in other new growth economies. In 1995, the crisis arose in Mexico ("the Tequila crisis"); in 1998 in Russia ("the Russian crisis"). The crises resulted in a significantly higher level of interest rates, which dampened investments and led to negative growth.

¹ In the late 1990s, Argentina's banking supervisory authority was deemed to be among the best in the new growth economies (Calomiris et al. 2000).

² The debt burden was also alleviated via a debt scheme with Argentina's creditors, which was implemented in 1992 under the Brady plan.

The domestic financial sector was not sufficiently developed to be able to compensate for the decline in foreign capital investment, quite the contrary in fact. In connection with both crises, increasing uncertainty led to a fall in bank deposits, resulting in a lower rate of private domestic lending.¹

The adverse effects of the crises have been greater in Argentina than in most other new growth economies. Apart from Mexico, Argentina was one of the few countries to be affected by the Tequila crisis, and the Russian crisis brought on the present 3-year recession in Argentina. One reason for this enhanced vulnerability is that Argentina stood alone with its fixed-exchange-rate policy (currency board), whereas the floating currencies of its neighbours have depreciated significantly.² This has reduced Argentina's competitiveness considerably and impeded an up-swing.

The lengthy recession in the wake of the Russian crisis has strained public finances. Tax revenues have been declining due to the negative development in earnings, and it has proved difficult to reduce public expenditure (although public-sector salaries exceeding 500 pesos per month were reduced by 13 per cent in July 2001). This has resulted in an increasing budget deficit and government debt.

Towards the end of 2000, Argentina's ongoing economic problems led to increasing uncertainty as to the sustainability of Argentina's debt burden. Investors became more reluctant to invest in Argentinian government bonds, as they seemed to believe that the risk of Argentina suspending its payments had risen considerably. Argentina's problems resulted in a \$14 billion loan³ from the IMF in January 2001. This – briefly – calmed down the financial markets. However, sustained poor key economic indicators for the Argentinian economy and political instability led to a new crisis of confidence in July, and a further \$8 billion loan from the IMF in September.

The two IMF loans granted in 2001 cannot be said to have been exceptional. Historically, Argentina has made considerable use of the IMF's lending facilities, cf. Table 4 which sums up recent IMF loans to Argentina. The most recent loans to Argentina have been significant – both in relation to previous loans to Argentina and in relation to Argentina's capital contribution to the IMF.

¹ This could be uncertainty as to e.g. the survival of the currency board, but also fear that the government might impose a tax on bank deposits (a method of taxation previously used in Argentina). In addition, uncertainty as to the solvency of banks may play a role, although today the banking sector is generally well-founded. However, a few banks collapsed in connection with the Tequila crisis.

² This is particularly true of the Brazilian currency following the Russian crisis.

³ Including an IMF loan granted in 2000 which Argentina had not made use of at the time that the new loan was granted.

ARGENTINA'S RECENT IMF LOANS

Table 4

SDR ¹ million	Amount	Percentage of quota ²
1984	1,183	106
1987	948	85
1989	736	66
1991	780	70
1992	2,149	193
1993 ³	334	162
1995 ³	1,537	262
1996	720	47
1998	2,080	135
2000	5,399	255
2001, January ³	5,187	500
2001, September ³	6,351	800

Source: IMF.

¹ Special Drawing Rights (SDR) are an international reserve unit created by the IMF as a supplement to existing reserves. The value of an SDR is determined on the basis of a basket of main currencies. In 2000, the average value of an SDR was 1.32 dollars.

² Percentage of quota refers to the size of the loan in relation to Argentina's capital contribution to the IMF – i.e. Argentina's quota.

³ This was an increase of a former loan. The figure in the amounts column is the increase, whereas the figure in the last column is the size of the total loan relative to Argentina's IMF quota. In 1993 the size of the loan relative to the quota declined in spite of an increase in the loan. This is a result of a revision of quotas in 1992.

CONCLUSION

Argentina's crises in the 20th century have had different causes and origins. In the first third of the century, Argentina's openness backfired when world trade contracted. After the Second World War, Argentina was too closed in a world that was becoming increasingly open. Somehow Argentina has not got its timing right.

In the latter third of the century, instability – political as well as economic – has made things more than difficult for the severely tried country. Developments in the early 1990s gave grounds for optimism. Politically, democracy had finally prevailed, and economic reforms brought the necessary stability. However, setbacks later in the decade have shown that the country is still vulnerable.

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