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Report – Public Talk

Debt Restructuring in Developing Countries: The Case of Argentina 2001-2016

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Pictures of the Event



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The Institute of Strategic Islamabad (ISSI) organised a Public Talk on “*Debt Restructuring in Developing Countries: The Case of Argentina 2001-2016*” under its Ambassadors Platform series on March 7, 2016. The distinguished speaker on the occasion was, H.E. Mr. Ivan Ivanissovich, Ambassador of Argentine Republic to Pakistan.

In his welcoming remarks, the Chairman BoG, ISSI, Ambassador Khalid Mahmood said that it was his distinct pleasure to welcome H.E. Mr. Ivan Ivanissovich to the Ambassadors Platform. The Chairman said that Ambassador Ivanissovich is not new in Pakistan and has held various positions in the Argentine Embassy in Pakistan before becoming Ambassador. He also added that the bilateral relations between the two countries are hindered by the long distance between them. But Argentina has always supported Pakistan at the international forum, especially during the 1971 crisis. Pakistan and Argentina have also been exchanging young diplomats for training in each other’s country. Talking on the subject at hand, the Chairman said that it is different from other subjects discussed at the Ambassador Platform as it is focussed on economic issues. All countries accrue debt and some countries accumulate unmanageable debts with compound interests and sometimes the poor countries find it hard to pay it back. From 1973-83, developing countries debt increased at a rate of 30 per cent. The Sustainable Development Goals (SDGs), adopted recently by the UN also deal with this subject. There is a joint IMF and World Bank forum to deal with poor countries debt. He said that the Pakistani government is confident of dealing with its debt that the country has accrued over the years. He further added that it took 15 years for Argentina to negotiate with the lenders since 2001, which was a very painful experience for them.

Ambassador Ivanissovich said he choose this topic because for the last 5 years he was working on the Argentine sovereign debt issue, and how it affected Argentina. Other countries are also going through the same problem as well. The debt crisis impacts the development of that country as it is proceeded by capital flight, drop in investment and increase in poverty, leading to job losses. From 1974 to the present, during various debt crisis the poverty rates remained between 40-50 percent. Small enterprises despair and large companies are bought off at cheap prices by outside companies. One of the most notable debt crisis was in the 1980s, and the last one happened in 2001 and lasted for 15 years. Lot of negotiations took place in New York and a lot of money was lost. Argentina, in 2003, started negotiations with the creditors of Argentine Bank which had defaulted, and Argentine economy survived due to increase in world food prices. The IMF asked the government to put all the money in paying the debt off. The government prioritised social policies and reactivation of economy to overcome the increasing poverty rates. In 2005, the government made an offer to creditors either to deal with them or they will get nothing through the Lock Law Agreement, which meant they could agree with the government or go away empty handed. It was a success as it eased of the creditors and in view of this, Argentine bonds were bought at manageable prices at 20 per cent of their value in 2008. The people who bought these bonds in the private sector were getting a yield of up to 200 per cent.

Argentina was not the first country to default and dealt with in such a manner by private creditors. The Ambassador said that according to an African Development Bank Report, preceding the Argentine crisis of 2001, the Zambian debt was bought at \$3 billion and sold off at \$55 billion. This kind of operation was instigated against various countries of Africa. The main creditor that was suing the Argentine government was also suing an American automobile company which paid the amount it owed to the creditors. They did this to save jobs. By 2010, the Argentine government offered bonds at higher yields which bought off about 94% of the creditors. The team that negotiated with the first creditors had to give \$80 billion. The team, in 2010, decided to give all of the debt back to the IMF which was a terrible mistake due to high interest rates. This effected the Argentine economy badly and especially its trade. The new government, in 2016, realised that it could not sustain making payments by making payments from the Central Bank as it would lead to another debt crisis.

New negotiations were carried out with the remaining creditors. The debt was almost \$19 billion. Most of the creditors benefited from the court rulings, and Argentina was facing difficulty against different countries. In 2013, the Government of Argentina lost a US Appeals Court case and was told it had to repay the full face value amount to these holdouts. However, courts in Europe have backed Argentina on the basis of the equal terms clause. A third debt restructuring offer to remaining holdouts on similar terms to the 2010 swap was announced on August 27, 2013. This was made in good faith by the government as it needed to reach an agreement between the mediators and the government. For this, the government managed to get backing from some countries to support it against the holdouts. The Argentine government in the negotiations decided to pay in cash and not in bonds anymore and there would be no more vulture bonds or favourable treasury bonds. He added that the government was very transparent throughout the negotiations.

The original Pari Passu Agreement involved paying the original amount plus 50 per cent interest to the creditors. But the new agreement meant that bondholders who participated in the restructuring settled for repayments of around 30 per cent of face value and deferred payment terms, and began to be paid punctually, which gave the Argentine government a discount of 56 per cent on the interest. Overall Argentina reached a better agreement with the holdouts which was more favourable for it, than reached by other Latin American countries like Brazil, which were in the same predicament as Argentina. The amount of money lost by Argentina through these negotiations far exceeded the cost of any agreement the world over. For many years, Argentina remained outside the financial world and lost lots of foreign investment.

Ambassador Ivanissvich then added that the lessons to learn from this is not to default on your debt and Pakistan has been able to avoid such a situation so far. Secondly, if you default negotiate from a position of strength and come to an agreement with the creditors. Thirdly, these crises have an impact on the levels of poverty in the country which increases, meaning less jobs and development and rise in inequality. The IMF in the past has not been particularly kind to the predicament of defaulting countries, and this eventually impacts the global economy which the IMF is realising now. In the end the ambassador said that as more

developing economies want to become emerging economies and then developed economies they have to be aware of policies which do not hamper them in the future and lead to financial crisis.

Question and Answer Session

Many questions were raised regarding why Argentina defaulted in the first place and what it could have done to avoid this kind of a situation as it had already gone through various debt crises before 2001. The ambassador answered very candidly and said that Argentina defaulted on a total of US\$93 billion of its external debt as its economy went into severe recession from 1998 onwards. Foreign investment fled the country, and capital flow to Argentina ceased almost completely from 2001 to 2003, and upon default, Argentina's bondholders sued to be repaid 100 per cent of their bonds' face value. Large-scale debt restructuring was needed urgently, since the high-interest bonds had become unpayable. The Argentine government met severe challenges trying to refinance its debt. Economic recovery eventually allowed Argentina to offer large-scale debt swaps in 2005 and 2010. The terms of the debt exchanges were not accepted by all private bondholders; the holders of around 7 per cent of the default continued to seek full repayment. The IMF initially lobbied for the holdouts until Argentina's lump-sum repayment to the IMF in January 2006.

Concluding Remarks

Ambassador Mahmood, in his concluding remarks commended Ambassador Ivanissvich for explaining a complex situation in simple words. He restated that high and rising debt causes serious threat to an economy's development by creating uncertainty both within the country and abroad. It is a major threat to foreign investment and puts pressure on the exchange rate and puts doubt in the mind of the investors regarding the policies of the government. Every effort should be made to avoid default which makes the country vulnerable, and if for some reason Pakistan defaults, its nuclear arsenal would become an easy target. He reiterated that defaulting on a debt should be avoided because it puts a country's security at risk and pointed out that the Argentinean experience is a superb case study, and that the international community should use it to set up proper guidelines for coping with the debt process. To avoid such a situation, borrowed money should be used for projects that give good returns instead of wasting money, and to build up the foreign reserves and not waste the borrowed amount. This problem is not peculiar to one country alone, and its one of the main impediments for many developing countries. The IMF and World Bank have recently decided to develop a programme for repayment of sovereign debt by the poor and developing countries to avoid default. Pakistan has all the necessary capabilities to repay back its debt and will avoid the debt defaulting situation. He thanked the Ambassador and all the guests for their participation in the event.