



## Argentina: Yet Another Generalized Default?

By Arturo C. Porzecanski\*



Argentine Vice President Cristina Fernández de Kirchner and Argentine President Alberto Fernández during a working meeting with governors last week/ Casa Rosada/ Creative Commons

The Argentine government's current attempt to force investors to accept a punishing debt-restructuring plan puts the country at risk of yet another sovereign default on foreign-law, foreign-currency debt. The attempt validates the massive loss of confidence that took place last August, when local and foreign investors ran for the exits in the wake of the unexpectedly strong performance of the Alberto Fernández-Cristina Fernández de Kirchner ticket in the country's presidential primaries.

- Confidence had already been set back in early 2018, after a series of disappointments with how then-President Mauricio Macri was running overly loose fiscal and monetary policies that encouraged excess government borrowing and facilitated capital flight. Macri's decision to turn to the IMF for a [huge bail-out loan](#) in exchange for a modest fiscal and monetary belt-tightening shored up confidence, but the prospect of Peronism's return to high office undermined investor confidence anew, causing a steep plunge in Argentina's stocks, bonds, and the currency from which it has not recovered.

Fernández had a window of opportunity to provide confidence to local and foreign investors – following [the example set by Brazil's Lula](#) da Silva back in mid-2002, when his pulling ahead in presidential polls sparked the beginning of a market rout in that country. However, all that Fernández has done is blame Macri for all that was going wrong, denying that mistrust of Peronism was also a factor in deepening the financial and economic crisis.

- Absent any reassurance, investors have been reluctant to show up at auctions of new peso- and dollar-denominated treasury bills, preferring to cash out of positions whenever those obligations matured. Therefore, even before Fernández took charge in December, Macri was forced on one occasion to unilaterally [postpone repayments](#) of treasury bills falling due.

- Fernández has institutionalized the practice of deferring by decree the majority of payments coming due each month, thus defaulting time and again on most peso and dollar obligations subject to Argentine law and jurisdiction. Until very recently, however, he and the Governor of the Province of Buenos Aires, Axel Kicillof, were honoring their obligations contracted under New York law and jurisdiction.

The coronavirus disrupted a less investor-unfriendly alternative devised by Fernández to avoid a repeat of the massive default, financial isolation, and bruising legal defeats (in New York courts) that his predecessors had suffered during 2002-2015. The idea was for federal and provincial governments to develop debt-restructuring proposals and present them to bondholders by mid-March, in order to obtain by mid-April creditor approval of a deferral of payments coming due during 2020-23.

- To cushion the blow of the pandemic, the debt-restructuring plan, delayed to mid-April, included terms and conditions that were substantially worse for bondholders. Investors holding \$66 billion of bonds are being asked to write off some principal and most interest payments throughout the decades-long life of new bonds to be issued in exchange for existing ones, in a proposal that would impose (net present-value) losses on bondholders averaging at least 60 percent. The Province of Buenos Aires has presented a similarly aggressive debt-restructuring plan.

*A critical mass of investors has spoken out against the government's proposal, including outright rejections by three groups of bondholders who could block any deals. To ratchet up the pressure, the federal government skipped a \$503 million payment due on April 22, setting the clock running on what could easily turn into Argentina's ninth sovereign default on foreign-law, foreign-currency debt.*

- *One constructive way for Argentina to break the impasse with its private creditors would be to ask fewer concessions from them by deciding to seek new financing from, or else a rescheduling of debt service due to, the IMF. This would be achieved by requesting support under a longer-term Extended Fund Facility. Because Argentina's program with the Fund was a short-term standby facility, under which \$44 billion were disbursed, the whole amount plus interest is to be paid back in full between now and 2024. These scheduled payments to the IMF amount to more than 40 percent of total foreign-currency payments the government of Argentina is supposed to make during 2020-24.*
- *If the Fernández administration were willing to work with the IMF on an economic program that would impose fiscal and monetary discipline to kick in once the coronavirus pandemic is over, the government would not need such large concessions from its private investors. In fact, such a partnership with the Fund would pave the way for a gradual return of investor confidence and the reopening of its domestic bond market for renewed financing on a voluntary basis.*

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