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# The mixed fortunes of Argentina's 2005 and 2010 debt restructurings

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**In June 2018, [Argentina signed a loan agreement with the IMF](#).** We therefore republish a useful excerpt of an interview given by Eric Toussaint to Maud Bailly in 2014, which focuses on the process of the Argentine debt restructuring in the wake of the country's suspension of debt payments between the end of 2001 and 2005.

And Argentina? After the biggest suspension of payments in history, in 2001 the Argentine government renegotiated its sovereign debt. What were the conditions?

Yes! In 2005 and in 2010 Argentina's debt was restructured through an exchange of bonds: old bonds were exchanged against new ones. This was the situation: in December 2001, the Argentine authorities, under the interim President Adolfo Rodríguez Saá, unilaterally suspended debt repayments amounting to \$80 billion to private creditors and the Paris Club (\$6.5 billion). Notice that they did not suspend payments to multilateral organisms such as the World Bank, the IMF and others.

This action came about in a situation of economic crisis and popular revolt against the policies that had been followed for years by successive neoliberal governments, of which Fernando de la Rúa was the most recent. It was thus under pressure from the street at a time when the treasury was empty that the Argentine authorities suspended debt repayments.

Argentina's suspension of payments of sovereign debt bonds lasted from December 2001 to March 2005. This was beneficial for the Argentine economy and population. Between 2003 and 2009, Argentina's economic growth was between 7% and 9%. Some economists claim that this growth was due to the rise in the prices of Argentina's raw materials exports, but it is clear that if Argentina had continued paying off its debt, the increased exports income (in other words, the taxes levied on the exporting companies) would have been used for the debt repayments.

Between 2002 and 2005 the Argentine authorities negotiated with their creditors to convince a majority of them to agree to exchange the bonds they held for new ones, written down by 60%, but with a stronger guarantee and a favourable interest-rate indexed on Argentine GDP growth. This was debt restructuring by exchange of bonds: by March 2005, 76% of outstanding bonds had been exchanged, a majority that was considered sufficient protection against the 24% who refused the exchange. The authorities announced, at the time, that those who refused the exchange would have no further occasion to negotiate.

### **So why did Argentina restructure its debt again, in 2010?**

Indeed, in contradiction with previous declarations and despite the protests of Roberto Lavagna, the minister of economic affairs who had taken part in the 2005 negotiations, the government of Argentina did open a new round of negotiations with the remaining 24% of the creditors. A new agreement was reached with 67% of that 24% in 2010. In all, 8% of all the bonds whose payment had been suspended since 2001 "held out" against both agreements. Both agreements contained clauses stipulating that in case of litigation involving the new issues, US courts would be the competent jurisdiction.

**In the end, can this restructuring be considered a success? Can other governments follow the Argentine**

### strategy?

The Argentine authorities claim success because of the 50% to 60% reduction of debt stock. But, in return, big concessions were made: high interest rates; indexation to Argentina's GDP growth, which means that the country actually agreed to hand over a share of its growth profits to the creditors; renouncing sovereignty in case of litigation.

In fact, Argentina's example is not the one to follow, but it is a source of inspiration. It shows the interest of suspending payments and the limits of a negotiated deal that makes big concessions to the creditors. The current situation is evidence enough:

1. Firstly, the amounts in fact reimbursed to creditors are considerable; Argentina itself acknowledges that it has reimbursed \$190 billion since 2003.
2. Secondly, although Argentina's debt was certainly lower between 2005 and 2010, today the amount of Argentine debt is higher than it was in 2001.
3. Thirdly, Argentina is under heavy and unwarranted pressure to reimburse the Vulture funds that refused to accept the exchange offers, after not only a New York judge but the US Supreme Court ruled in favour of the Vulture funds.

Eventually, Mauricio Macri, who became president of the republic in December 2015, decided in 2016 to fully compensate the vulture funds, thus humiliating Argentina and provoking a strong increase in the country's public debt [1].

[2].

PS:

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[1] <http://www.cadtm.org/L-Argentine-Le-gros-lot-pour-les->15796>">See <http://www.cadtm.org/L-Argentine-Le-gros-lot-pour-les> and <http://www.cadtm.org/Reject-the-Imminent-Agreement-with->13119>"><http://www.cadtm.org/Reject-the-Imminent-Agreement-with>

[2] Full interview available

<http://www.cadtm.org/Restructuration-Audit-Suspension,11723->11723>"><http://www.cadtm.org/Restructuration-Audit-Suspension,11723>