Sovereign Debt Restructuring: The Argentina Case

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Escuela de Verano 2013 - CADTM

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I. Macroeconomic Context

- High inflation rate in the late 1980's led to the use of exchange rate as price anchor.
- Convertibility Law (1991) led to a continuos appreciation of the exchange rate throughout the decade (1 ARS = 1 USD)
- Deterioration of the current account position was financed trough a major increase in FDI inflows (privatizations) and portfolio inflows.
- Sudden stop of flows in 1997 induced a credit crunch and sent the economy into a recession that lasted until 2001.
- Given weak fundamentals, Argentina gradually lost its access to financial markets.

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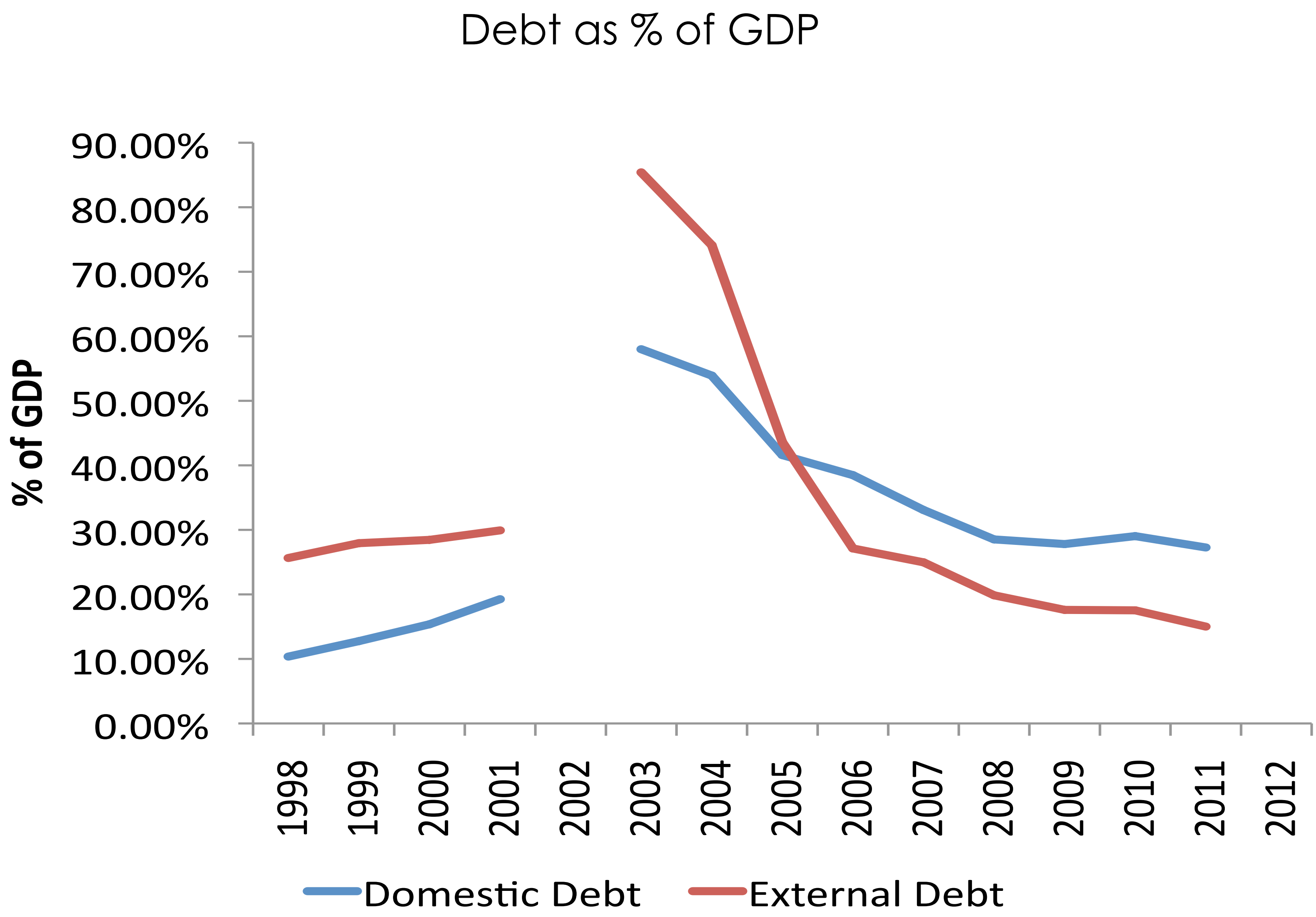
1. The 2001 Default

- An attempt of restructuring debt (October 2001)
  - IFI (30% of public debt), Foreign Residents (30%), and Local Residents (40%).
  - Lower coupons and longer maturity for local residents bond holders.
  - Interest savings for the Government but weaker banks.
- Severe fiscal condition and public protests led to the declaration of default in December on USD 132 billions of debt.
- Only local residents that participated in the October operation continued receiving interest payments (USD 3,5 billion).
- Local law bonds were adjusted to a new exchange rate of 1,40 ARS per USD.

2. Debt Restructuring in 2005

- Debt exchange with three different types of bonds:
  - Par Bond: Retained principal value, with longer maturity (33 yrs) and lower interest rates (starting in 1,25% and increasing to 5,25%)
  - Cuasi Par Bond: 30% reduction in principal, low interest rates (3,3%), and inflation indexed
  - Discount Bond: 67% reduction in principal, 8,28% interest rate.
  - Secured a participation of 76% of bondholders (USD 62,3 billion)
- Other characteristics:
  - Introduction of CAC in new bond issues
  - New York law bonds
  - GDP growth indexation
  - Increase in ARS Bonds in total debt
  - Lock Law (2005), closed the possibility for the Government to offer better conditions to holdout creditors which didnt participated in the process.

2. Debt Restructuring in 2005



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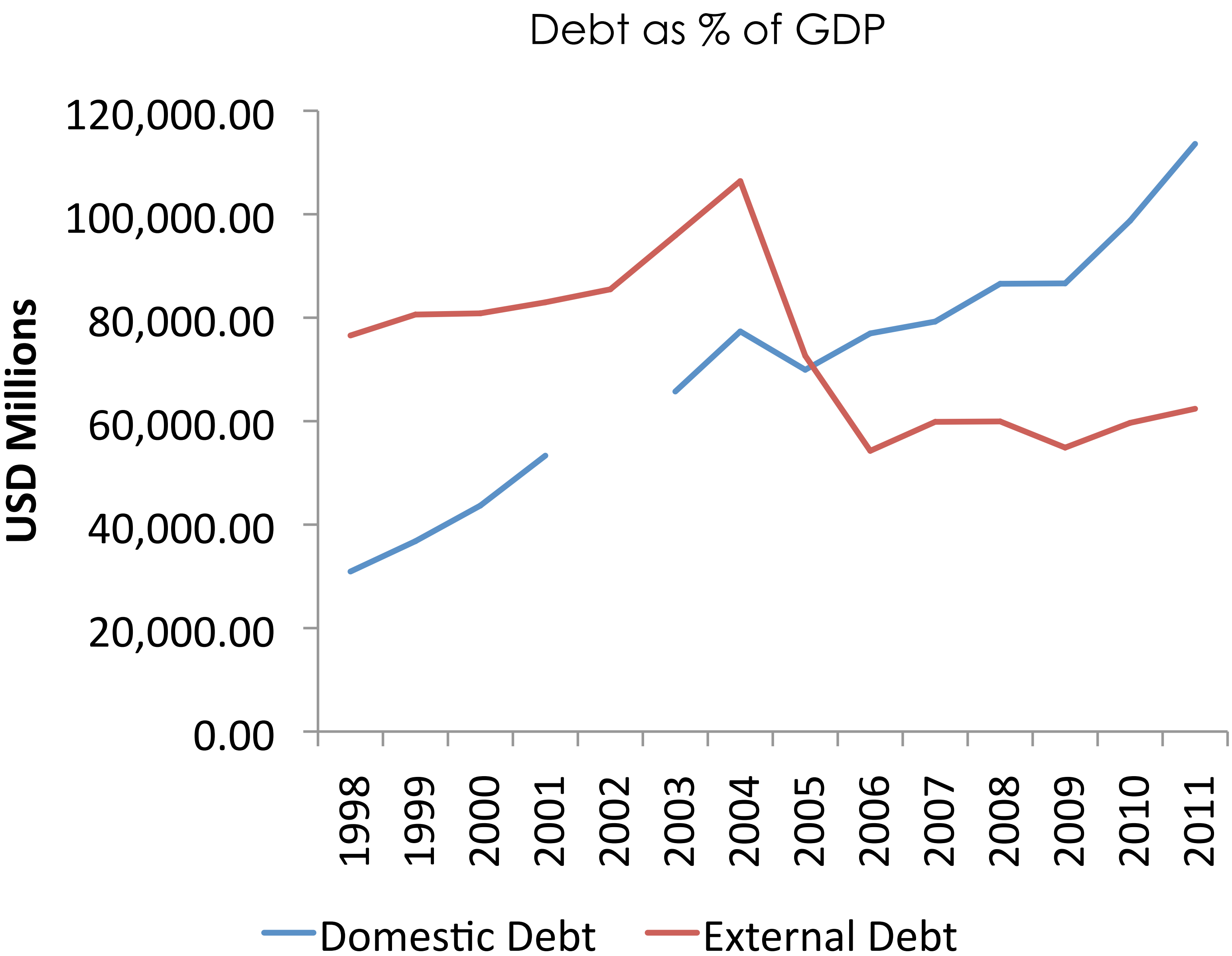

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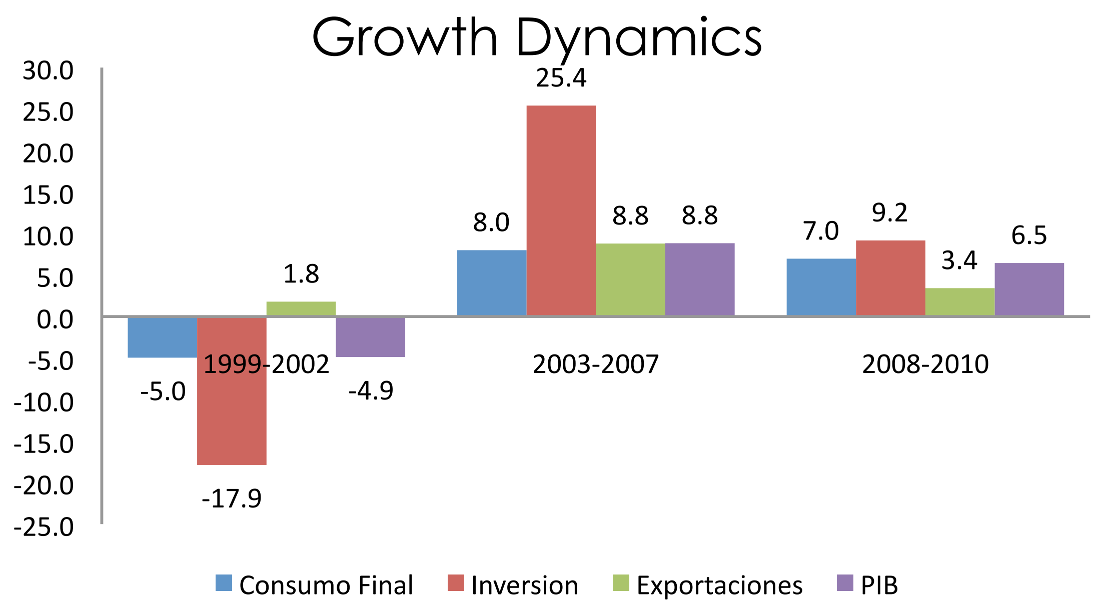

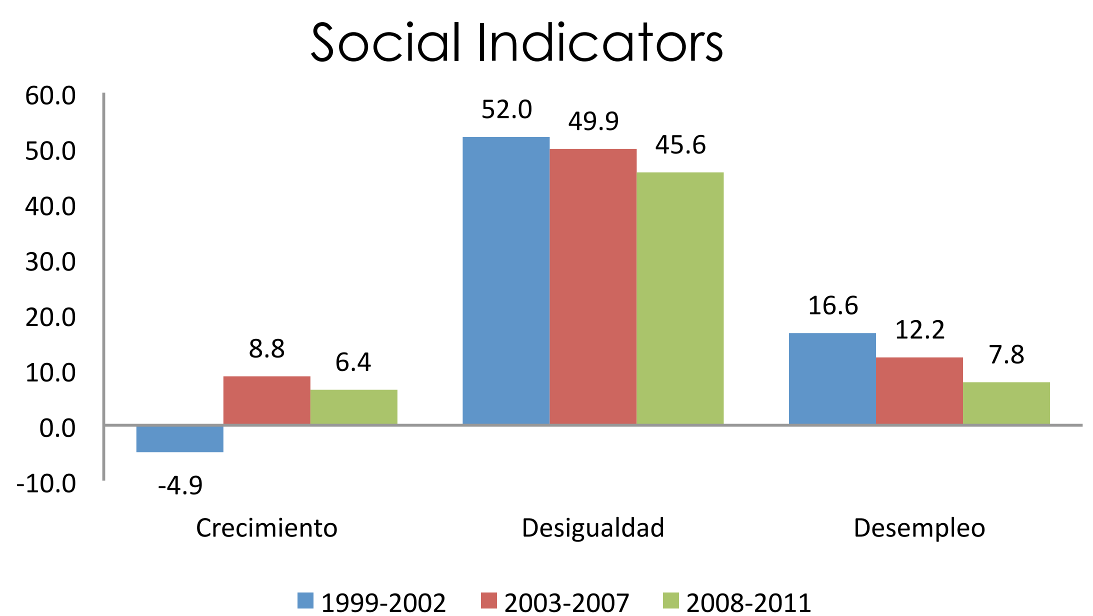

3. The Aftermath

- Financing from Venezuela and the Bond of the South (2006)
- Payment of the IMF debt ahead of schedule for USD 9,5 billion (2006)
- Issues with local funding. Change in regulations to secure enough demand for Government Securities
- Several attempts to regain access to international financial markets:
  - Use of USD 5 billion of foreign reserves to pay down government debt denominated in foreign currency
  - Reopening of the 2005 debt restructuring for holdouts in 2010. Secured a participation of 91% of bondholders affected by default.
  - The Pari Passu saga (NML trial)

Muchas Gracias!

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