

Argentina's Path to Debt Relief from Private Creditors

By Manuel Leon Hoyos

Original post [here](#).

On August 4, after a default, months of tense negotiations, and multiple deadline extensions, offers and counteroffers, Argentina and its private creditors reached an agreement to restructure \$65 billion of dollar-denominated sovereign debt. The agreement will give the country \$37.7 billion in debt relief over the next 10 years.

Upon entering office in December 2019, President Alberto Fernández, who campaigned on the promise to restructure Argentina's debt, focused on initiating debt-restructuring negotiations with private creditors with the aim to preserve debt sustainability for Argentina. President Fernández appointed as Minister of Economy Martín Guzmán, a 37-year-old economist who specializes in sovereign debt. Over the following months, President Fernández garnered support for debt restructuring from the international community and the International Monetary Fund (IMF).

Argentina, Latin America's third largest economy, has been in recession since 2018. In February 2020, prior to the start of the COVID-19 crisis, IMF staff concluded that Argentina's sovereign debt was [unsustainable](#). It noted that since July 2019, the Argentinian peso depreciated by over 40%, sovereign spreads increased by 1 100 basis points, international reserves declined by \$20 billion, and real GDP contracted more than anticipated. As a result, gross public debt rose to nearly 90% of GDP at the end of 2019 ([Feb 19](#)).

The IMF later [estimated](#) Argentina's total sovereign debt at \$323 billion at the end of 2019, of which it owed \$207 billion to official and private-sector creditors. The country entered default on \$65 billion of loans on May 22 after a 30-day grace period expired on \$503 million in interest payments.

Looking to garner support from the international community, in January Pope Francis promised President Fernández to help Argentina in its debt crisis ([Jan 31](#)). The Vatican held a [conference](#) with the participation of the IMF's Managing Director Kristalina Georgieva, multiple finance ministers, and Nobel Laureates in economics.

On March 20, IMF staff released a technical note on a feasible macroeconomic framework and on the country's debt-carrying capacity over the medium-to-long run. It provided a view of debt restructuring that it argued would likely be sustainable (March 20 [Note](#), [Summary](#)).

Argentina and its private creditors spent months in negotiations that included multiple deadline extensions, offers, and counteroffers. Throughout the negotiations, IMF staff provided the country with technical assistance and recommendations on the sustainability of various offers ([Argentina](#)).

On April 7, Argentina formally requested the rescheduling of its debt with the Paris Club ([Argentina](#)). Between April 9 and 21, Argentina entered a first round of confidential negotiations with creditors and developed restructuring guidelines ([Apr 9](#)). Argentina made a [debt-restructuring offer](#), establishing a dialogue with creditors to ensure Argentina’s long-term sustainability. The offer included a 3-year grace period, a 5.5% reduction on the bonds’ principal, and a 62% reduction of interest payments. It left creditors with an average bond coupon of 2.3%, instead of 7% ([Guzmán](#)).

On May 3, Minister Guzmán published a piece in the Financial Times titled “Argentina cannot afford to pay creditors more” ([FT](#)). On May 4, three groups of creditors [rejected](#) the government’s proposal to restructure the debt. Argentina garnered support from economists such as World Bank chief economist Carmen Reinhart, and Nobel Laureates Joseph Stiglitz and Edmund Phelps, who on May 6 published a [letter](#) co-signed by over 100 economists in support of Argentina’s debt restructuring proposal. More than 150 [Argentine economists](#) also supported the proposal. However, on May 15, creditors filed [three counter offers](#), which did not take into account the IMF analysis of Argentina’s debt sustainability ([Argentina](#)).

On May 22, as negotiations did not reach an agreement, Argentina entered into default after the 30-day grace period expired for interest payments on \$65 billion in dollar-denominated bonds with maturities of 2021, 2026, and 2046 ([Bloomberg](#)).

Argentina submitted a revised debt-restructuring proposal on May 28, after a second round of negotiations ([May 28](#), [Argentina](#)). The offer contained a two-year moratorium, instead of three. Bonds rallied after the announcement ([Bloomberg](#)). Minister Guzmán said that regardless of the outcome of the negotiations with private creditors, Argentina expected to sign a new IMF program in 2020 ([BA](#)). Days later, the IMF staff released a technical statement concluding that Argentina’s revised proposal was consistent with long-term debt sustainability. It said there was “limited scope” for improvements ([Jun 1](#)).

Private creditors rejected the offer, however, leading to a third round of negotiations. Argentina submitted a third offer on June 17, seeking to meet investors’ requests. Argentina also proposed a Value Recovery Instrument (IRV) based on exports ([Argentina](#)). Argentina’s revised fourth and “final” offer on July 6 included an average recovery of 53 cents on the dollar and interest payments starting in 2021, a year earlier than the last offer ([July 5](#), [Fernández](#), [Bloomberg](#), [FT](#)).

Finally, after months of tense negotiations, on August 4 Argentina and private creditors announced they had reached an agreement ([Aug 4](#)). The debt-restructuring agreement lowered interest payments from 7% to 3% and gave investors about 55 cents on the dollar. It will give the country \$37.7 billion in debt relief over the next 10 years ([Argentina](#), [BA](#), [Hitos](#)).

Argentina has pursued other creditors separately. The country’s public debt includes a \$44 billion loan from the IMF. In 2018, the IMF had granted Argentina, under former President Mauricio Macri, a record \$57.1 billion loan over three years – the largest IMF loan to a single country ([IMF](#), [CRS](#)). By the end of Macri’s term in late 2019, the IMF had disbursed \$44

billion. President Fernández, who defeated Macri in the 2019 elections, declined the remaining tranche of the IMF loan.

On August 27, Argentina notified the IMF of a request for a new IMF-supported program ([Argentina](#), [IMF](#)). President Fernández expects a debt-restructuring agreement on the \$44 billion debt “as soon as possible” in order to “clear up any doubts” ([Oct 5](#)). IMF Managing Director Kristalina Georgieva said the IMF had “no intention of putting pressure on Argentina” as the IMF team arrived in the country to start negotiations ([Oct 7](#)).

Currently, the IMF forecasts an [11.8%](#) economic contraction for Argentina in 2020 and 4.9% growth in 2021. In response to COVID-19, the country has received over \$6 billion in financing through multilateral development banks including the [World Bank](#), [IDB](#), [CAF](#) and [FONPLATA](#) (see YPFS blog posts on overall efforts by [multinational organizations](#) and also on [multilateral development banks](#) in Latin America and the Caribbean).

Argentina’s debt-restructuring experience might serve as an example for other countries that due to the current COVID-19 crisis might need to restructure debt owed to private creditors.

Table 1: Timeline of Argentina’s Sovereign Debt Crisis

Date	Event
2018	The IMF approved a record \$57.1 billion loan over three years to Argentina – the largest IMF loan to a single country (IMF , CRS). The IMF disbursed a total of \$44 billion under that commitment.
2019 Dec. 10	President Alberto Fernández came into office after defeating President Mauricio Macri in the elections. Fernández refused to take the remaining tranche of the IMF loan and promised to restructure Argentina’s debt. Fernández appointed Martín Guzmán as Minister of the Economy.
2020 Jan. 31	Pope Francis promised President Fernández to help Argentina in its debt crisis (Jan. 31). A week later, the Vatican held the conference “ New Forms of Solidarity: Towards Fraternal Inclusion, Integration and Innovation ,” with the participation of the IMF’s Managing Director, Finance Ministers, and leading economists.
Feb. 19	IMF staff assessed Argentina’s debt to be unsustainable. It noted that since July 2019, the Argentinian peso depreciated by over 40%, sovereign spreads increased by 1100 basis points, international reserves declined by \$20 billion, and real GDP contracted more than expected. As a result, gross public debt rose to nearly 90% of GDP at end-2019 (Feb. 19).

- Mar. 20 At the request of Argentina, IMF staff prepared a technical note on debt relief that could underpin a debt restructuring consistent with restoring debt sustainability with high probability ([Technical Note](#), [Summary](#)).
- Apr. 7 Argentina formally requested the rescheduling of its debt with the Paris Club ([Argentina](#)).
- Apr. 9-21 A first round of private negotiations occurred between Argentina and private creditors. Argentina developed its [restructuring guidelines](#).
- Apr. 21 Argentina made a [debt offer](#), establishing a dialogue with creditors to ensure that Argentina’s long-term sustainability path. It included a 3-year grace period, a 5.5% reduction on the bonds’ principal, and a 62% reduction of interest payments. It left creditors with an average bond coupon of 2.3%, instead of 7% ([Guzmán](#)).
- May 3 Minister Guzmán published a piece in the Financial Times titled “Argentina cannot afford to pay creditors more” ([FT](#))
- May 4 Three groups of creditors [rejected](#) the government's proposal to restructure the debt.
- May 6 Economists Carmen Reinhart, Joseph Stiglitz, and Edmund Phelps publish a [letter co-signed by over 100 economists](#) in support of Argentina's debt restructuring proposal. In addition, [more than 150 Argentine economists](#) signed a letter supporting the debt restructuring proposal.
- May 10 Argentina pushed back its deadline to accept the offer to May 22 ([Bloomberg](#)).
- May 15 Creditors filed [three counter offers](#).
- May 22 Argentina entered in default after a 30-day grace period expired for interest payments on \$65 billion in dollar-denominated bonds with maturities of 2021, 2026 and 2046 ([Bloomberg](#)).
- May 22-28 A second round of negotiations occurred. Argentina submitted a revised debt restructuring proposal while ensuring the debt remained sustainable with an economy aimed at long-term growth ([May 28, Argentina](#)). The offer contained a two-year moratorium, instead of three. Bonds rallied ([Bloomberg](#)). Minister Guzman said Argentina expected to sign a new IMF program in 2020 ([BA](#)).

IMF's staff technical statement on Argentina's revised proposal stated the offer to be
June 1 consistent with restoring debt sustainability with high probability. It further suggested
that there was "limited scope" for improvements ([Jun 1](#)).

A third round of negotiations occurred. Argentina improved its offer to meet investors'
June request for a return value at identifier 50 with a 10% discount factor, a measure often
6-17 invoked by creditors. Argentina also proposed a Value Recovery Instrument (IRV)
based on exports ([Argentina](#)).

June Two bondholder groups submitted an offer accepting losses on a net-present value basis
16 around 44%-46%. Argentina rejected the offer ([Bloomberg](#)).

Argentina submitted a revised fourth and "final" offer. The terms included an average
July 6 recovery of 53 cents on the dollar and interest payments starting in 2021, a year earlier
than the last offer.

Two bondholder groups rejected the offer. Argentina extended the deadline for talks
until August 4 ([July 5](#), [Fernández](#), [Bloomberg](#), [FT](#)).

The three largest creditor groups jointly submit a new offer. Argentina said bondholders
July "misunderstand" the country's restructuring. Greylock Capital Management supported
20 the government's offer ([Bloomberg](#)).

Argentina and private creditors announced they reached an agreement ([Aug 4](#)). The
Aug. 4 debt restructuring agreement decreased the interest payments from 7% to 3% and gave
investors about 55 cents on the dollar. It will give the country \$37.7 billion in debt
relief over the next 10 years ([Argentina](#), [BA](#), [Hitos](#)).

Aug. Argentina notified the IMF of a request for a new IMF-supported program ([Argentina](#),
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Oct. 5 President Fernández expects an agreement with the IMF "as soon as possible" in order
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Source: [Argentina's Timeline](#) and [Bloomberg](#).