Argentina at Crossroads: A Conflict of Interests

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Breaking away from a long tradition of acceding to the demands of its foreign creditors, Argentina once again challenged that article of faith in international finance of not defaulting on IMF loans, for the third time in seven months. But, in this latest standoff with the IMF in March, even as President Nestor Kirchner stood his ground on a debt restructuring offer to the private creditors of the country, the Fund disbursed the loans due under an ongoing programme, and avoided a last-minute default by the country. It seems that the Fund will increasingly be concerned solely about saving itself and whatever little credibility it continues to keep with international financial markets, while at the same time ensuring that private investors in sovereign bonds remain active as well. While Argentina tries to play one against the other, can the conflicts of interest between the multilateral institution and private creditors draw the Fund out of the sheath of the 'preferred creditor' status, to the reality of the current international financial system?

The Backdrop

Argentina has been recovering from a record sovereign debt default of $141bn in end-2001, paying for the cumulative transgressions of the irresponsible and misguided economic policies of its erstwhile military rulers, foreign creditors and the IMF.[1]

But, the present story goes back to when Argentina had emerged from the first showdown with the IMF, after temporarily defaulting on Fund loans in September 2003. The six-month transitional agreement approved by the Fund in January 2003, which had rolled over Argentina's debt service to the Fund on existing arrangements, had expired in that August. But a new agreement for initiating a three-year stand-by arrangement (SBA) was held up when the Argentine authorities refused to agree to three major IMF demands: (1) Generate a primary fiscal surplus of 4.5% of GDP in 2004 (from 2.5% of GDP in 2003); (2) Agree on a deadline for increases in the privatized utility rates; and (3) Hold meaningful negotiations with private creditors owed about $100 billion, whom it had not paid since defaulting on private sector debt in end-2001.

In a stark departure from his predecessors, President Kirchner had refused to accept these IMF demands. He argued that he could not comply with these as it would mean further contractionary measures and more suffering for a people who had already suffered immeasurably through a series of contractionary policy prescriptions under the IMF 'support' programmes since the 1998 depression. Thus, on September 9, 2003, Argentina temporarily defaulted on a $2.9 billion payment to the IMF. But, the IMF had finally made compromises on most demands and signed an arrangement that included a smaller primary fiscal surplus for 2004 (3% of GDP).

Apart from the standard package of 'structural' fiscal reforms, introduction of inflation targeting, banking sector reforms, a new regulatory framework for utility companies, a modified corporate bankruptcy law, etc., the new agreement included a commitment by the government to conclude negotiations with its private foreign creditors on debt restructuring by mid-2004.

The Stand-Off with the Fund

Soon after this agreement last year, the Kirchner government made an offer to foreign creditors to accept 25 cents-worth of fresh bonds for every dollar of Argentine debt they hold, on extended maturities and lower interest rates. Creditors have weighed the offer after pricing in unpaid interest and the riskiness of the new bonds, which means that they face a "haircut" of 90% off the full value of what they are owed. But, they want at least 65% repaid and have complained that Argentina has not been negotiating seriously. By February this year, advancing on private sector debt restructuring became the "most critical" issue confronting Argentina, as the country came up for the second review by the Fund before approving the next instalment of the SBA loan.

It must be noted that Argentina has met all end-December 2003 quantitative policy targets in their economic program with wide margins, and all continuous structural performance criteria were observed. Further, policies remain on track towards meeting the end-March 2004 targets. The economy is expanding at a faster pace than projected, with real GDP estimated to have increased by 8.4 percent in 2003. On the fiscal front, the consolidated public sector primary surplus for 2003 was about 3 percent of GDP, ½ percentage point above the target. In mid-February 2004, the government also announced a 10-35% increase in tariffs charged to industry-level users for electricity and natural gas, and for liquid gas used in passenger transport. But, even though Argentina has met most of the macroeconomic policy targets laid out in the September program, the lack of progress in restructuring the private sector debt became a bone of contention.

The Fund wanted Argentina to publish a decree authorising the appointment of several international investment banks to advise on and organise an eventual restructuring deal with creditors. The banks were announced in February, but President Kirchner was yet to sign the decree.[2] Secondly, the Fund wanted Argentina to formally recognise and negotiate - though not necessarily exclusively - with the Global Committee of Argentina Bondholders, a group claiming to represent retail and institutional investors holding about $37bn in defaulted Argentine bonds. Thirdly, it has been pushing the country to raise its expectations over investor participation rates in an eventual debt-restructuring from 50% to 80%.

There was as a stand-off at the end of long drawn negotiations, as President Kirchner refused to budge on his stand that the creditors agree to write off 75% of the defaulted debt. For the government, any repayment terms better than the offered one would mean that over and above the primary fiscal surplus of 3% of GDP targeted for 2004, it would need to squeeze its taxpayers and social welfare system even further to generate the required additional resources. Although growth forecast for 2004 is at 6.9%, 50% of people are still living below the poverty line and more than 15% are still unemployed. Thus,

paying creditors any more could risk plunging the economy back into recession and reigniting the political instability of 2000-02. For Kirchner, who had come to power in May 2003 on the pledge that he would not "return to paying debt at the cost of hunger and exclusion of Argentines, generating more poverty and increasing social conflict", the priority seemed clear- to reinforce the long-awaited post-crisis recovery.

Thus, Mr. Kirchner insisted that Argentina could not pay more than the 25% offered to the creditors. Further, the country would make the payment to the Fund coming due on March 10th only if it had assurances that the IMF would disburse the latest portion of the September 2003 loan package. However, the Fund insisted that it can lend to a country in default only if it negotiates in "good faith" with its creditors.

The Predicament of the Fund

Surely, Mr. Kirchner must have risked another stand-off with the Fund knowing that despite the hardened stand it was putting upfront, this time around too the US did not want to have another 'problem' in the region and hence would persuade the other G7 members on the Fund Board to release the funds (like in September 2003 and during the 2004 January review). On the other hand, more fundamentally, he must have clearly understood that the Fund would not be willing to risk another default on its loans and send the wrong message to sovereign debtors.

With Argentina's debt constituting 15% of Fund's loan portfolio, an Argentine default would have dire consequences for its financial position and its ability to continue financing other sovereign borrowers.[3] Further, if the Fund had stuck to an uncompromising stand, and if Argentina had managed to default on its debts to both the private sector and the Fund successfully without risking the predicted economic collapse, then that would be opening the floodgates (for more sovereign defaults). This is still not something the Fund wants to accept ideologically. Thus, a decision not to support Argentina would have undermined the Fund's position financially and institutionally.

Thus, while the Fund's official stance was that it had to hold off the next tranche of funds to Argentina in order to avoid the moral hazard problem (which is of sovereign debtors' according to official and private lenders), it was inevitable that it had to finally go against its 'lending-into-arrears rules' and agree to release the funds. However, the point seems to be that by building up the pressure before the second review, the idea was to finally make the debtor country come to the table and continue to get its agreement on a number of creditor demands.

In a last minute deal, Argentina signed a new agreement with the Fund on March 10th, conceding to several of its demands over the treatment of private creditors. Although the economy minister Roberto Lavagna has made it clear that Argentina's offer to repay private creditors 25 cents on the dollar still stands, as per the new agreement, they have now committed to formalise their offer to the creditors between coming June and August.

Ironically, while the US geo-political concerns and indeed its interests as the largest creditor to the IMF blend well, the latter may collide with the interests of US private creditors to Argentina. So, it seems the US is in a predicament over Argentina.

Reportedly, groups representing investors in Argentine debt were less impressed with the commitments the IMF has secured on their behalf, despite the fact that the IMF's sustained support, in effect, continues to be a bailout for them.

Private Sector Debt Restructuring

There are an estimated 700,000 retail (43.5%) and institutional holders (56.5%) of Argentine government bonds in default. The latter comprise 152 bonds issued in 7 currencies[4] under 8 jurisdictions.[5] Among the hundreds of thousands of private individuals involved, the largest numbers belong to Italy, Japan and Germany, apart from Argentine investors. The variety of instruments and the diversity of the investor base and governing laws of these bond contracts clearly reflect the complexity of getting any proposed debt restructuring scheme on track.

Complicating matters further is the fact that some of the institutional holders are investment funds (also called 'vulture investors'), who typically buy up the grossly undervalued debt of countries in financial distress with the expectation of demanding repayment on original terms and attaching debtor assets to gain that. Even though a sovereign country which finds its external debt unpayable cannot in principle be liquidated by its creditors to obtain payments like in corporate bankruptcy, an implicit guarantee of full repayment has been built into the international financial system by the multilateral lending bodies, through precisely the pattern of behaviour as that has unfolded in Argentina.

By financing large rescue packages, the IMF manages to prevent any major default by countries in payment problems, which, in effect, bails out creditors who did not exercise due diligence when lending to public and private agents in emerging markets. This automatic rescue gives an incentive to creditors to over lend in high risk loans, and often gives rise to significant "creditor moral hazard problem" in the sovereign debt market, which the Fund has helped perpetuate for decades.[6] Indeed, this contrasts with creditors' overemphasis on the moral hazard on debtors' side as the justification for refusing debt write-downs.

Driven by such implicit sovereign guarantee, vulture funds had purchased Argentina's heavily depreciated debt paper in late 2001, just before its default.[7] These investors bet on the very high interest rates that were offered on the Argentine bonds issued in the nineties, which was as high as 15.5% for some of them. [8] It is clear that vulture creditors are not the *bonafide* creditors or the original investors. But, while they make large gains from the "risk premium" associated with this secondary involvement in emerging markets' debt, they refuse to accept the credit risk associated with their decisions when it comes to a sovereign default and the need arises for working out a debt restructuring plan.

With creditors wanting more than the 25% offered by the Argentine government, hundreds of bondholders have initiated legal proceedings as a way to achieve a bigger settlement. This has been the typical experience of sovereigns faced with unpayable debts. Large lenders with heavy exposures who would like to protect their investment as far as possible will want to provide the country a chance to adjust and meet its commitments by deferring them, even if on harder terms. However, investors with smaller exposures will want to cut

their losses and leave, and therefore want immediate and not deferred settlement, on the best possible terms and go in for litigation. These conflicts of interests and the holding out by individual creditors/vulture funds often create hurdles in the path of a successful debt restructuring.

Indeed, since Argentina defaulted in late 2001, many investment funds have been insisting on payment on their 'investments" and attempting to seize the country's assets in order to get it. For example, on Feb. 9, the Cayman Islands-based NML Capital Ltd., a vulture fund that claims Argentina owes it $172 million, succeeded in getting courts in Maryland and Washington D.C. to place a lien on 15 properties belonging to the Argentine government. The properties included all diplomatic residences, the mission to the Organization of American States, and four storage depots containing Air Force and Navy military equipment. Only the Washington embassy itself has been spared. Even though the Foreign Sovereign Immunities Act provides immunity to diplomatic representations and the outrageous suit has since been declared illegal and a gross violation of international laws, the fact remains that these litigations are disruptive.

Some other creditors were trying to recoup their cash through the courts by attempting to seize other assets in the United States that they claim belong to the Argentine government. At the petition of a Uruguayan company holding $555,000 in Argentine bonds, a US federal court froze $11 million in New York bank accounts belonging to a bankrupt postal company, which the former claimed belongs to Argentina. Later on, the freeze was lifted as the plaintiff could not prove that the postal company belonged to Argentina.[9]

Such litigation attempts and the failure of collective action by a sovereign's diverse creditors complicate and delay the process of finalising a restructuring agreement. This is because a debt restructuring proposal cannot go through, as existing contracts contain unanimous action clauses (UACs). Thus, the present terms of the contract cannot be changed unless all creditors agree. In fact, the long-drawn process that follows means that principal and interest arrears keep accumulating. Eventually, indebted countries often end up repaying amounts several times the original credit taken by them, at severe costs to their developmental concerns. In fact, Argentina's total public debt, which stood at US$ 144.5 billion in December 2001 at the time of its default, had already increased to US$ 185.3 billion as of December 2003.

The default of 2001 itself had a lot to do with the fact that the international financial system does not have an orderly and predictable framework that allows a country in payments difficulties to promptly and 'legitimately' apply a temporary payment standstill and a stay on creditor enforcement (litigation), which will allow it to restructure its payment obligations without endangering a financial collapse. The only available mechanism has been for the IMF, as the lender of the last resort, to extend funds to the country to enable it to meet its external payment obligations. Thus, during the years of Argentina's deepening depression since 1998, the fund had gone on extending financing to Argentina even as it had become increasingly clear that the situation was deteriorating in several dimensions. In a clear vindication of the moral hazard problem discussed above, the private financial community too was willing to finance the growing borrowing requirement associated with this fiscal deterioration, until late 2000.

In the absence of a predictable mechanism for undertaking a pre-emptive debt restructuring, as the economy continued its rollercoaster ride during 2001, authorities made further unsuccessful attempts to stabilize the public debt dynamics. This included a voluntary, market-based debt exchange operation completed in June 2001, which the IMF backed. Although the swap reduced the immediate-term debt service obligations, the implicit interest rate on the operation was more than 17 percent per year.[10] The latter exceeded the expected growth rate of the economy by many times and contributed to further concerns about the solvency of the public sector.

As creditors refused to roll over maturing loans, the Fund finally stopped pouring money into the defence of Argentina's indefensible currency peg in the name of maintaining investor confidence in end-2001. By then, both the economy and the public finances were in deep crisis. In December in a series of events that has now been systematically documented, Argentina had to finally declare default on public debt and impose a debt moratorium (except on those that had been subject to Phase I restructuring), devalue the peso, and descended into economic and political turmoil.

An October 2003 IMF internal staff review on the Argentine crisis,[11] which has recently been released has acknowledged how the Fund miserably failed in preventing the country's slide into chaos. According to Fund staff, as the economy failed to recover from the recession, along with the abandoning the currency board, a pre-emptive ('involuntary') sovereign debt restructuring that would have provided both sufficient liquidity and net present value relief, combined with a strategy to limit the adverse consequences of such a step on the banking system was the possible alternative before the country, both in 2000 and also in 2001.

But, under the prevailing system, any attempt at pre-emptive debt restructuring would be interpreted by the financial markets as sovereign default, and would itself precipitate a financial crisis that it intends to hold off. The Argentine crisis illustrated the consequence of timely debt restructuring in cases in which the debt dynamics have become irreversible. Lending new money or capitalising interest arrears while refusing to acknowledge sovereign insolvency and granting adequate debt relief, only helps postpone the inevitable slide into an unsustainable payment situation at a yet higher level of debt.

The economic and political collapse in Argentina was unfolding following on a series of financial crises in Mexico and East Asia, and the Russian default in 1998. In all these countries, the Fund has had to coordinate and part-finance huge rescue packages and debt workouts. As the threat of repeated crises became all too real with widespread financial deregulation and liberalisation, the Fund seemed to realise that the situation was becoming infeasible. It was in this context that the then First Deputy Managing Director, Anne Krueger, took up a proposal for developing some form of an international sovereign insolvency framework.

But, discussions by the IMF on its proposed international insolvency framework - the Sovereign Debt Restructuring Mechanism (SDRM), degenerated into attempts by the Fund to consolidate its own role in the financial affairs of the debtor countries, and to tilt

the balance once again totally in the interests of creditors.[12] Thus, the SDRM in its current form was rejected in the 2003 IMF spring meeting.

There has been some progress with other approaches, including the promotion of 'collective action clauses' (CACs) in sovereign bonds and a Code of Good Conduct. The Code of Good Conduct does seek fair burden sharing, while preserving the debtor's financial status and reaching debt sustainability quickly through arbitration. However, it is proposed as a voluntary debt re-negotiation scheme. On the other hand, collective action clauses (CACs) are restructuring clauses that can be incorporated in individual sovereign bond contracts, to limit the ability of dissident creditors to block a widely supported debt restructuring. While CACs offer the market-friendly solution that creditors support, how countries having a diffuse and diverse creditor base with different creditors able to seek enforcement of their rights in different legal jurisdictions, will deal with the issue of coordination by relying entirely on collective action clauses, is not yet clear. Thus, the problem the SDRM was meant to address has not gone away.

Argentina's Current Offer

The Argentine government has based its restructuring proposals laid out last September on ensuring minimal debt overhang. Debt eligible for restructuring has been defined as all bonds issued prior to the cut-off date of 31 December, 2001. The government's offer is for simultaneous exchange offerings and bonds amendments, to reduce the number of currencies to only US dollar, euro, yen and Argentine dollar, with reduced number of governing laws (New York, London, Japanese and Argentine).

The proposal discusses a variety of types of new bonds that could be issued: "Discount" bonds with a possible 75% face value reduction at 1-5% interest rate; "Par" bonds with no reduction of face value, but at 0.5-1.5% interest rate; Quasi-Par Bonds with a small reduction (possibly 30%) at 1-2% interest rate, but comparatively lower coupons and longer maturities; or Capitalization Bonds (should be read as 'Equitisation'). Another proposal has been that variants of all bonds above with a lower base coupon and with a premium that depends on the GDP growth may also be offered.[13]

Table 1: Argentina's Debt Stock, Estimated as of December 31, 2003.

	December 2003 (Estimated)			**December 2001**		
	Outstanding Debt					
	Billion US$	% of Total			Billion US$	% of Total
DEBT TO BE RESTRUCTURED						
Eligible Debt (Bonds)	99.4	48.7		Bonds	61.8	42.8
Bilaterals	5.3	2.9		Bilaterals	4.5	3.1
Commercial Banks	1.8	1.0		Commercial Banks	2.0	1.4
Other Creditors	0.31	0.2		Other Creditors	1.5	1.1
Sub-Total	**106.8**	**52.7**				
EXCLUDED DEBT						
IFIs	30.8	17.2		IFIs	32.4	22.4
BODENs *	20.6	12.6				
Guaranteed Loans*	24.6	8.7				
Provincial Guaranteed Bonds*	10.2	5.7		Provincial Guaranteed Bond *	42.3	29.3

Others *	2.5	2.6				
Sub-Total	**78.5**	**47.3**				
Total	**185.3**	**100.0**		**Total**	**144.5**	**100.0**

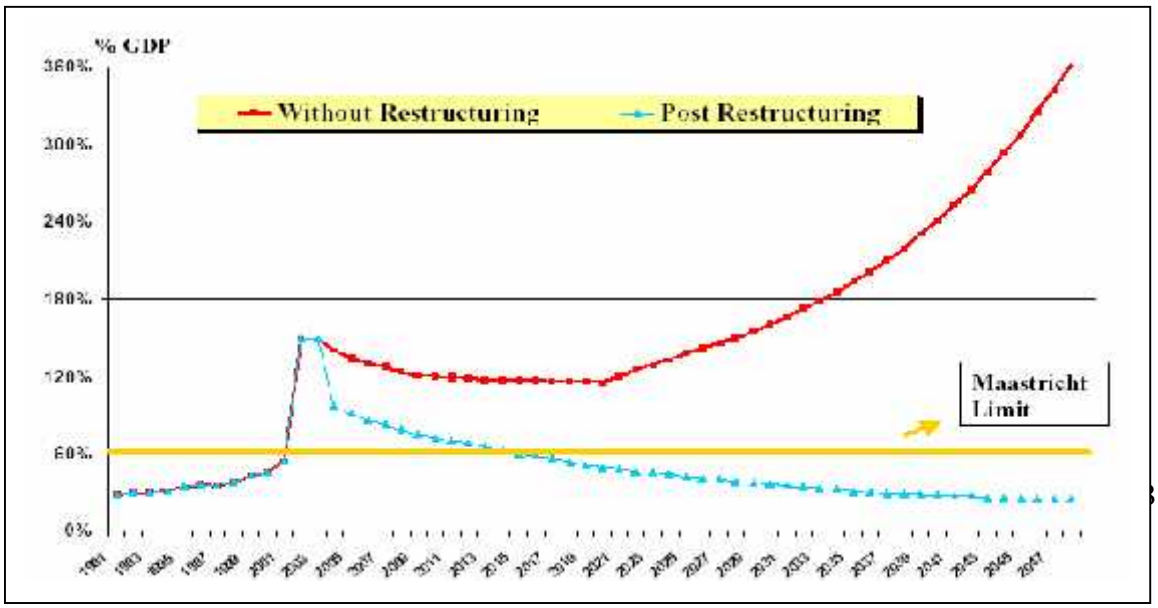
Note:* Issuances resulting from the collapse of convertibility (Dec.2001) and obligations prior to such date.
Source: Presentation by the Secretary of Finance to the Consultative Groups Meeting, October 2003.

The options have been formulated to achieve an overall reduction of 75% in the nominal value of the debt stock.[14] The government has to take into consideration the domestic financing demand that will arise on account of pensions (50%) and reinvestment of guaranteed loans and BODENs amortizations (75%). Meanwhile, the payment capacity underlying the proposed restructuring offer assumes an average real GDP growth of 3.8% for the next five years, exchange rate of 1.59%,[15] inflation at 7%, and a consolidated primary surplus at 3%. And importantly, the program is based on the World Bank and IDB maintaining their exposure to Argentina, which is key to protecting international reserves.[16]

With the government committed to reducing the export tax and financial transactions tax under the IMF conditions, the sources of government revenue are only the standard income tax, VAT and some non-tax revenues. The burden of any attempts to increase government revenue will directly fall on the common man. On the other hand, with 50% of the federal government expenditure distributed roughly equally between social security and transfers to provinces, any further expenditure reduction both by the federal and the provincial governments will mean a drastic reduction in pension, health, education and other components of the social welfare system.

The fact is that even with the proposed 75% reduction on face value, public debt to GDP ratio, which is currently close to 150%, will still be more than 90%, which is above the level considered sustainable (See Figure 1). Thus, it is clear that if the government has to ensure liquidity with a new debt profile matched to Argentina's payment capacity, the debt stock has to be reduced as per the offer. It has been adequately clear from earlier sovereign debt restructuring exercises that a debt restructuring which does not involve a significant reduction in the present value in addition to short-term liquidity relief, will not lead to a sustainable solution.

Figure 1: Argentina's Public Debt as Percentage of GDP (Projections)



Source: Same as above.

The government's approach aimed at reaching a collaborative agreement consists of the following elements: (i) to appoint banks to assist in preparations and help market the exchange offer; (ii) to hold additional meetings and engage in constructive negotiations with all representative creditor groups, including the Global Committee for Argentine Bondholders (GCAB), domestic institutional and retail holders, and European retail bondholder organizations; and (iii) to formulate the offer so that it will result in a sustainable debt for Argentina and would attain broad support from creditors.

Six banks have been selected to assist in the restructuring process and have been hired for nine months or until an exchange launch (whichever is the earlier). The government has also invited 22 creditor groups to meet in Buenos Aires to continue the dialogue. They have agreed to reach agreement on a follow-up process and timetable by mid-April 2004.

Issues in Debt Restructuring

The Fund claims that bringing Argentina and its creditors to the table to discuss a deal whose broad parameters the IMF has specified would address a type of collective action problem. However, persuading bondholders to accept its offer within the timeframe that has now been set could yet again lead to further standoffs. Failure to follow the principles of burden sharing under a debt write-down scheme can undermine any debt restructuring agreement.

Under the current proposal, the government's stand is that investors in BODENs and provincial guaranteed bonds have incurred substantial loss on their original assets from the first phase of the restructuring (involving banking sector restructuring and guaranteed loans). Therefore, restructuring them again would amount to further reduction and would risk a return to the unsustainable conditions in early 2002.

On the other hand, in the case of the IFIs it is acknowledged that the preferred creditor status they enjoy is rather more the result of the "consensus" in the international financial community.[17] The scope and type of treatment that the government would seek from the official bilateral creditors are also to be treated separately. This is the classic conflict that exists in sovereign debt restructuring between multilateral (and other official) creditors and the private creditor community. The 'preferred creditor' status of the former qualifies them for not taking their share in a debt relief offered to a country with unsustainable debts and also allows them to get priority/seniority over existing claims in a debt repayment schedule.

Clearly, if the country decided to continue reneging on its existing debt, private creditors would not receive anything at all. So, to price-in the interest arrears while working out a

negotiable debt write-down is unreasonable on the creditors' part. But, even when the problem of 'vulture funds' is considered, it is not justifiable that the private creditors are exclusively made to pay for the flaws in years of IFI decision-making and made to shoulder the additional burden of the "hair-cut" which the IFIs should be bearing. Argentina can offer more to its private creditors, only if the other creditors are also brought into the restructuring and made to share in the debt reduction plan.

The attempt to preclude the IFIs from the restructuring proposal will only serve to reinforce the fact they continue to remain exempt from accountability for their decisions in particular debtor countries. This is even more accurate for Argentina, a country which has borrowed from the institution in 34 of the last 45 years and has been an obedient disciple of Fund programs.[18]

Repaying old IMF loans with new IMF loans is generally justified on the basis that resources are not diverted from more pressing needs of the country towards meeting debt payments. But, this is untrue for a large number of countries, given that there have been IMF conditionalities related to fiscal constriction to meet debt repayments. Further, by adding to the government's gross financing needs in later years, rolling over of IFI loans also undermines medium-term debt sustainability. In fact, past debt management has adequately established that debt relief that does not include the claims of the IFIs would not lead to a sustainable debt situation for indebted countries.[19] To top it all, the country continues to remain enslaved to the deadlines and programmes of the Fund, with the international financial community building up a scenario of apocalypse as each deadline approaches. And despite the IMF hype about the lack of progress in debt negotiations hindering the return of Argentina to the capital markets for fresh funds, private creditors will be willing to invest in future viable projects if they are given a fair treatment for the existing claims.

Argentina's talks with its creditors can thus be expected to be long and tough as creditors fight to salvage as much of their investment as possible. In the long term, the only solution to avoid a lengthy and uncertain negotiation process involving the private sector alone which inevitably reduces their incentive for an early settlement is a proper mechanism for sharing the burden of dealing with sovereign bankruptcies more equally between all the stakeholders. Indeed, it should be the private creditor community which recognises this wisdom in burden sharing and demanding it from the Fund and other official creditors. The fact such a debt workout will lead to better repayment to them should be incentive enough. In fact, then, it might be in the interest of the private creditors to actually insist that the present debt restructuring proposal include burden-sharing by the IFIs and bilateral official creditors.

However, what is not clear is what Argentina had to lose from sticking by its tough stance and declaring default, as it had done last September. While the short-term impact would undoubtedly be painful, Mr. Kirchner could have gambled that his country was too important an emerging market for the capital markets to ignore. The lesson from the Russian debt default in September 1998 is in fact that the investors are bound to come back to a country that is large enough. While Kirchner seemed willing to take on the gamble, ostensibly after weighing up the risks of triggering the largest ever default, what

made him change his stance? Was he only trying to build up domestic political mileage out of the stand-off with the IMF, while all along he has been willing to play along? Will he now be able to balance the trade-offs to the lenders and his domestic constituencies? We will have to wait and watch…

Meanwhile, the solution will need to be two-fold. At the international level, it might be worthwhile for the Fund to break the gridlock in debt restructurings by taking a cut on its own loans to countries facing unsustainable debt. But, in the final analysis, reducing the possibilities for the emergence of unsustainable sovereign debt situations and financial crisis will require countries to reorient their policies and institutions domestically, and retain adequate regulations on the financial flows in and out of its borders.

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[1] See the background to Argentina's debt crisis in Ann Pettifor, Liana Cisneros and Alejandro Olmos Gaona, 2001, 'It Takes Two to Tango: Creditor Co-Responsibility for Argentina's Crisis', Jubilee Plus Report, and Dani Rodrik, 2002, 'Trade Rout', Jayati Ghosh, 2002, 'Argentina: A Cautionary Tale from South America', etc. at www.networkideas.org

[2] The chosen banks are Barclays Capital, Merrill Lynch and UBS Investment Bank.

[3] The fact that The Financial Times, while calling for the IMF to "stand up to the blackmailer" and cut Argentina off in January end and early February also suggested that the G-7 had better put together a credible financing plan so that the IMF itself wouldn't end up in bankruptcy after an Argentine default, spoke volumes about the Fund's predicament.

[4] Dominated by US dollar (53%), followed by Euro and Argentine peso.

[5] These are New York (51%), England (18%), Germany (17%), Argentina (11%), Japan (2%) and others (1%). Source: Argentina's Restructuring Guidelines, September 22, 2003, Ministry of Economy and Production.

[6] In fact, with the exception of Russia, where $16 billion of support proved inadequate, markets have not suffered a single dollar of loss on major emerging sovereign lending. See Ann Pettifor, et al., 2001.

[7] See 'Argentina plays 'chicken' with IMF', 8 March, 2004, at www.bbcnews.co.uk

[8] The weighted average interest rate on Argentine bonds issued in dollars is 8.79% and those issued in other currencies is 8.41%. This compares with the interest rates of 2.43% on bonds issued in domestic currency. Although the weighted average interest rate on loans from the multilateral institutions was 4.84%, interest rate on IMF loans was as high as 10.3%. Source: Data on Federal Public Debt as of 31 March 2003 provided by the Ministry of Economy and Production.

[9] See Reuters, March 12, 2004.

[10] In NPV terms, this meant that US$ 12.6 billion of debt service obligations were postponed at a cost of US$ 22.1 billion. See IMF, 2003, Lessons from the Crisis in Argentina, Staff Report prepared by the Policy Development and Review Department, October 8, 2003 and the Speech of Secretary of Finance at EMTA, December 4, 2003.

[11] See IMF, 2003, ibid.

[12] Among other flaws, the current SDRM proposal offers a rather limited protection for debtors, with private creditors having a key role in the decisions regarding payment stays, and has kept both multilateral and bilateral official creditors out of the process. For a detailed critique, see Smitha Francis, 'IMF's SDRM Proposals: An updated Critique of Conceptual Issues', May 2003, at www.networkideas.org

[13] The debt restructuring proposal is based on Consultative Working Groups Meeting October 2003.

[14] With Argentine investors holding 38% of the eligible debt within Argentina and part of the overseas holdings also, more than 50% of the eligible debt is held by Argentine investors. How this will influence the final decisions is however, not explicit.

[15] The exchange rate was 2.88 and average inflation rate was 14.4% in 2003.

[16] The exposure to the multilateral institutions is expected to be reduced only from 2014.

[17] See The Ministry of Economy and Production, Presentation by the Consultative Working Groups Meeting, October 2003.

[18] Between 1991 and 2002 alone, it sent around 50 missions to the country.

[19] See a detailed discussion in C. P. Chandrasekhar, Jayati Ghosh and Smitha Francis, 'SDRM: Insolvency or Liquidation?', March 31, 2003, available at www.networkideas.org