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## Argentina Proposes Reduced Repayment Plans

by LADB Staff

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Argentina's government has taken a firm stance on the restructuring of its nearly US\$100 billion of debt, meeting with top International Monetary Fund (IMF) officials and announcing scaled-down payment plans to its creditors. President Nestor Kirchner and his Economics Minister Roberto Lavagna met with IMF managing director Horst Koehler and US President George W. Bush during the recently concluded Special Summit of the Americas in Monterrey, Mexico, to talk about Argentina's plans for its debts.

Kirchner's government has announced plans to repay only 25% of Argentina's privately held debt and stood hard by that number at the Summit of the Americas. This debt, totaling US\$88 billion, has remained unpaid since the government defaulted at the end of 2001 (see NotiSur, 2002-01-11).

"The creditors are going to have to accept some haircut," said Lavagna, using the market's term to describe debt discounting.

### *Creditors band together*

Kirchner's 75% discount has angered private debt holders, who rejected the plan almost immediately. They announced that they had joined together in a unified international committee in Rome on Jan. 12. The head of the committee, Nicola Stock, said the group rejected the plan. One constituent of the committee, the Argentina Bondholders Committee from the US, has demanded a "haircut" of only 35% of the nominal value of their bonds. Stock also said bondholders would refuse to submit data to a creditors' registry, a registry that the Argentine government set up as a "good faith" measure toward debt-restructuring talks. "We have already given all our information to their advisor [the Lazard Freres bank]," said Stock, whose group gathers together some 450,000 Italian investors.

Argentina opened its registry Jan. 12 to coincide with the Rome bondholders meeting, but some participants of that group said the registry was only a government attempt to prolong negotiations. Investors, who also include New York fund managers, German and Italian retirees, and Japanese dentists, have been left in suspense since the Argentine government began its historic US\$88 billion default.

Adding to creditor frustration was the announcement that Argentina would not be paying interest on its private debt. Creditors said this meant Argentina's total default would come out to something like 90%, not 75%, though Economics Minister Lavagna dismissed that calculation.

### *President Kirchner maintains defiant stance toward IMF*

Argentina and the IMF have been looking for ways to restructure the country's debt, but political volatility in that country has slowed the pace of negotiations. After Brazil and Turkey, Argentina is

the IMF's third-largest debtor. This leads several analysts to say Argentina enjoys an advantage in negotiations.

Kirchner has generally taken a defiant attitude toward the IMF since entering office in May 2003. He has said the nation would not spend its fiscal surplus paying off foreign debt, but instead the money would go to "the internal debt." The center-left president has said that Argentina will not pay its creditors at the expense of social spending for the poor.

Economics Minister Lavagna has also said that the creditors will "not be able to make demands on us like before," requiring payments as they did in the 1990s. In September, Kirchner scored a victory with the fund, coming to a new agreement with the IMF the day after a US\$2.9 billion payment came due (see NotiSur, 2003-09-19). Kirchner's successful defiance of the IMF may have had an encouraging effect on other nations trying to restructure their large debts to the fund.

Brazil's President Luiz Inacio Lula da Silva called Argentina's September agreement with the IMF "extraordinary," and said Brazil would "seek to negotiate under the same terms."

According to Reuters reports, the IMF is concerned that, unless Argentina successfully restructures its defaulted debt, the country will be unable to return to international debt markets. The fund also has worries about the slow pace of banking reforms and tariff negotiations with utility companies.

### *Continued economic growth projected, but hunger prevails*

The consulting group Ecolatina anticipates that investments in Argentina will grow 15% this year thanks to "conditions of demand, the drop in risk, and the better business climate." A report from the Secretariat of Industry projected that the industrial growth rate for 2003 would end up between 16% and 17% better than 2002, when the economy shrank more than 10%, and that the 2003 GDP would end with an increase of between 7% and 8%. That report also projected strong, sustainable industrial growth rates for 2004.

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Argentina, Latin America's third-largest economy, is trying to rebound from the economic crisis of 2001-2002, but the nation's condition is still bleak. Several hundred thousand Argentines cannot access frozen bank accounts, and government rules state the accounts should not be repaid in their original dollar amounts, but instead with massively devalued pesos.

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A Corte Suprema de Justicia (CSJ) decision had ordered that the frozen accounts be "redollarized," but the president of the court was unable to get the signatures he needed to enforce the order (see NotiSur, 2003-03-14, 2003-07-04). Malnutrition, one of the most visible indicators of poverty, also stalks the nation.

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Inter Press Service news agency reports that 12 million Argentines, or one-third of the population, suffer from malnutrition; half of them are children. When former President Eduardo Duhalde (2001-2003) allowed the peso to float freely against the dollar (see NotiSur, 2002-02-15), the resulting devaluation caused a steep rise in food prices.

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"The devaluation had a devastating effect on the diet of poor families," said Sergio Britos, a researcher for the Centro de Investigaciones de la Nutricion Infantil (CESNI). "It is very likely that poor children do not eat less because of the devaluation, but that their diets include many fewer essential nutrients, like iron, zinc, calcium, and vitamins."

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Argentine officials expressed immediate offense at the comments, and Kirchner said of his upcoming meeting with George Bush, "We will win by a knockout." Presidential spokespersons, however, later tried to downplay Kirchner's statement. In addition to disagreements regarding Argentina's economic policies, the Bush administration has taken a dim view of Kirchner's warm relations with the government of Cuba.

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Kirchner will be making an official visit to that country on a yet-unnamed date, most likely in February, and his foreign minister recently returned from a trip there where he did not meet with Cuban dissidents, something Noriega criticized. Kirchner met with Bush at the Americas Summit and his spokespersons said the meeting "cleared up" many issues. Bush congratulated Kirchner for "achieving a significant amount of economic growth and in doing a deal with the IMF with solid commitments," according to a senior Bush administration official.

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In Argentina's case, that would apply to the period from 1976-1983, when there was "the most accelerated and significant growth of our debt," said Kirchner. He asked the US to proceed with the spirit that inspired it to help Europe and called for the design of "a true Marshall Plan," which would help the entire American continent.

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