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Argentina's Latest Tango (or Tangle) with the IMF: The Deal That Almost Wasn't – Part One

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Synopsis

Argentina and the IMF recently reached final agreement on a new arrangement for Argentina that would enable Argentina to avoid falling into arrears on the IMF's 2018 loan to Argentina. However, this outcome was reached only after Argentina and the IMF engaged in a protracted and tortuous negotiation process that went on for eighteen months or longer and concluded only at the last minute before a late March 2022 deadline. This article discusses some of the twists and turns in that process and identifies various substantive policy differences between Argentina and the IMF as well as political considerations that contributed to the challenges encountered in the negotiation process. The article concludes with some general observations as to the broader significance of the new IMF program and, in particular, whether it signifies a new direction for future IMF programs for indebted sovereigns or whether it represents only a superficial attempt to address the deep-seated economic problems that have faced Argentina for many years.

The article is presented in two Parts: Part One provides an overview of how and why Argentina and the IMF found themselves locked in a negotiation to refinance the IMF's 2018 loan with a new IMF facility, and Part Two (to be published in the following issue of ICR) will cover how, despite a presumed shared interest between Argentina and the IMF in reaching a new deal, it was so difficult for the parties to successfully conclude their negotiations on a new IMF loan and program.

IMF's 2018 loan and Argentina's effort to refinance it with a new IMF facility

For over a year and a half, Argentina and the International Monetary Fund had been engaged in negotiations to refinance a loan that the IMF had made to Argentina in 2018,² and they needed to come to an agreement by late March 2022. Otherwise, Argentina, having virtually depleted its foreign exchange reserves, would have been unable to make debt service payments of nearly \$3 billion that were then due to the IMF, and Argentina would thus have fallen into arrears on the IMF's 2018 loan.

Yet, despite all of the lead time that the two parties had in which to reach an agreement on the terms of a new loan and a related IMF program for Argentina, the IMF and Argentina just barely made it across the finish line in time for Argentina to avoid a non-payment on the 2018 loan. It was only on March 25 that the final step in the process was taken when IMF Executive Board gave its all-important approval to the new arrangement with Argentina.

Background of the IMF's 2018 loan

The 2018 loan was not just any ordinary loan from the IMF. Rather, with a final IMF authorisation for the loan in the amount of \$57 billion, it was the largest loan authorisation in IMF history. Ultimately, the IMF ended up disbursing \$45 billion of funds under the 2018 loan facility before the new administration of President Albert Fernández effectively cancelled the facility in July 2020. (The Fernández administration was very critical of the prior government of President Mauricio Macri for entering into the IMF loan in the first place and believed that the loan was used largely to finance capital flight from Argentina and to repay foreign bondholders).

Notes

- 1 Steven T. Kargman served previously as the General Counsel of the New York State Financial Control Board and as Lead Attorney of the Export-Import Bank of the United States.
- 2 In fact, Argentina initiated its request for a new IMF program in an August 26, 2020 letter to the IMF from its Minister of Economy and Central Bank president following Argentina's agreement with its foreign bondholders on the restructuring of \$65 billion of foreign bondholder debt. Actually, though, the IMF and Argentina had even been engaged in general informal consultations for months before August 2020.

In 2018 when the IMF originally authorised the loan, the loan authorisation was subject to some criticism and opposed in certain quarters due to concerns over the sheer size of the loan, especially in view of the size of the loan relative to Argentina's country quota³ at the IMF. The ratio of the size of the loan to Argentina's country quota was extremely high even by the standards of the IMF's so-called 'exceptional access policy' which is the only way that Argentina would have had access to such a large IMF facility.

The IMF's exceptional access policy provides a sovereign with access to IMF financing if the ratio of the size of the proposed loan relative to the sovereign's so-called country quota exceeds certain normal lending limits established by the IMF, subject to the satisfaction of certain specific criteria.⁴ (It should be noted that some observers have questioned whether the 2018 loan authorisation even satisfied all of the exceptional access criteria that the loan authorisation would have been required to satisfy.⁵)

In actual fact, the 2018 IMF loan authorisation for Argentina was 1,227 percent of Argentina's country quota,⁶ whereas IMF normal lending limits would have been 145 percent of country quota for any twelve-month period and cumulatively 435 percent of country quota (net of repayments) over the length of the program. In other words, the 2018 IMF loan authorisation for Argentina was almost three times greater than the normal cumulative limit of 435 percent of country quota.

The IMF made the 2018 loan to Argentina under the government led by then-President Mauricio Macri at a time when Argentina was facing serious economic difficulties, including in particular a major run on its national currency, the Argentine peso. The loan, in the

form of a three-year IMF Standby Arrangement (SBA), was intended to help the Argentine economy stabilise in the face of the currency-related and other economic pressures it was facing. The loan came with some limited IMF conditionality, such as among things that the Argentine government should ensure that it preserved the operational and institutional independence of the Argentine central bank

The IMF's 2018 loan was reportedly strongly backed by the Trump administration, and given the US government's outsized voting power at the IMF, support from the US government was considered crucial to the IMF's eventual approval of the 2018 loan. Some observers have even suggested that the Trump administration's support for the loan stemmed from a personal and/or business relationship that the former US president had with Mauricio Macri when they were both in the business world prior to their entering politics.

Alas, the IMF's 2018 loan and program quickly went off track, and the economy of Argentina continued to deteriorate significantly in the first year of the IMF program. As will be discussed further in Part Two of the article, the IMF's 2018 loan and program with Argentina eventually came in for very harsh criticism from both outside observers as well as the IMF itself in a so-called 'ex post evaluation' report released in December 2021.

Arranging a new IMF facility to refinance the 2018 loan

Basically, in the recent negotiations with the IMF, Argentina was seeking to refinance its outstanding debt under the IMF's 2018 loan, and in refinancing the

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- 3 The IMF explains the concept of 'country quota' as follows: 'An individual member country's quota broadly reflects its relative position in the world economy. Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account.' Available at <https://www.imf.org/en/About/Factsheets/Sheets/2016/07/14/12/21/IMF-Quotas> (last visited on May 12, 2022).
- 4 The four specific 'exceptional access criteria', as updated by the IMF Executive Board in 2016, are as follows: 1) 'The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account resulting in a need for Fund financing that cannot be met within the normal limits'; 2) [various specific scenarios related to debt sustainability (or lack thereof) and high probability or not of such debt sustainability] 3) 'The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund'; and 4) 'The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.' IMF, *Ex-Post Evaluation of Exceptional Access Under the 2018 Stand-By Arrangement*, p. 47 (December 2021), available at <https://www.imf.org/en/Publications/CR/Issues/2021/12/22/Argentina-Ex-Post-Evaluation-of-Exceptional-Access-Under-the-2018-Stand-By-Arrangement-511289> (last visited on May 12, 2022).
- 5 See, e.g., Willem H. Buiter, 'An Argentinean Haircut for the IMF', *Project Syndicate*, February 16, 2022. Buiter argues that the 2018 loan authorisation did not satisfy the second and third criteria of the IMF's four exceptional access criteria. Specifically, he has stated (commenting on the second and third of the four exceptional access criteria), 'In mid-2018, the IMF characterized Argentina's public debt as sustainable but not with high probability, even though the debt was clearly unsustainable and ought to have been restructured as a precondition for IMF funding. Nor had Argentina satisfied [the third exceptional access criteria]. It had no prospect of gaining or regaining sufficient access to private capital markets in 2018, and it still doesn't today.'
- 6 During the eurozone crisis, the IMF provided financing support for Greece, among other eurozone sovereigns, and in its 2010 Standby Arrangement (SBA) and 2012 Extended Fund Facility (EFF) for Greece (both authorised under the IMF's exceptional access policy), the relevant ratios of such facilities relative to Greece's country quota at the time were 1,592 percent and 2,159 percent, respectively. IMF, 'Ex Post Evaluation of Exceptional Access Under the 2012 Arrangement' (February 2017), available at <https://www.imf.org/en/Publications/CR/Issues/2017/02/07/Greece-Ex-Post-Evaluation-of-Exceptional-Access-Under-the-2012-Extended-Arrangement-Press-44636> (last visited on May 12, 2022).

debt, it would also be in effect rescheduling the loan as the maturity dates on the new loan would have pushed out the maturity dates on the old loan. The 2018 loan was made under a so-called IMF Standby Arrangement (SBA) between Argentina and the IMF; an SBA, which is considered 'the [IMF's] workhorse lending instrument for emerging and advanced market economies',⁷ is an arrangement that is designed to help a sovereign address actual or potential external financing needs. The duration of the IMF program under an SBA 'is flexible, and typically covers a period of 12–24 months, but no more than 36 months', and the repayment period on the loan is within 3½ to 5 years of initial disbursement.⁸ In principle, SBAs are not supposed to be heavy on conditionality, i.e., the conditions involving required changes in policy in order for the country to achieve the desired 'adjustment.'

It quickly became evident to the new administration of President Alberto Fernandez, which came into office in December 2019, that Argentina would not be able to repay the remaining balances on the IMF's 2018 loan. Argentina was due to pay the IMF approximately \$38 billion in 2022 and 2023, but it was clear that would not be possible in view of Argentina's meagre and dwindling net foreign exchange reserves as well as the other serious economic woes that Argentina was then experiencing, including among things very high inflation and a long-running recession (in existence even before the onset of the COVID-19 pandemic).

Argentina was therefore seeking to substitute a longer-term IMF loan facility, a so-called IMF Extended Fund Facility (EFF), for the existing Standby Arrangement. An EFF provides for a longer repayment period than an SBA of the type Argentina had with the IMF in connection with the 2018 loan. On the other hand, an EFF requires greater conditionality (involving macroeconomic and structural policy modifications or 'adjustments') than an SBA. An EFF is designed to assist countries that face 'serious medium-term balance of payments problems because of structural weaknesses that require time to address', as per the words of the IMF describing the program.⁹

For Argentina, an EFF would be an attractive option for replacing the SBA since an EFF provided for a

much longer repayment period (up to ten years) than an SBA.¹⁰ With its longer repayment period, a new loan under an EFF would provide Argentina with much-needed breathing space so that it would not face the type of near-term payment pressures it was facing under the 2018 IMF loan, especially in light of the large debt service payments scheduled for both 2022 and 2023. An EFF would also provide Argentina with ample time to get its house in order from a macroeconomic and structural standpoint.

As will be explained in greater detail below, Argentina and the IMF engaged in a very long and drawn-out negotiation process to agree upon the terms of a new EFF for Argentina. Yet, notwithstanding all of the suspense and uncertainty surrounding the negotiations, Argentina and the IMF ultimately came to an agreement on the terms of the EFF. The broad outline of the terms of the EFF was first set forth in a preliminary agreement announced on January 28, 2022 and then later spelled out in with much greater specificity in a so-called staff-level agreement on March 3, 2022. Ultimately, these agreements between Argentina and the IMF culminated in the new IMF program and loan being approved by both houses of the Argentina Congress in mid-March (as required by Argentine law) and finally, as the last step in the process, by the IMF's Executive Board on March 25, 2022.

The Extended Fund Facility approved by the IMF Executive Board provided for a loan facility of \$44 billion (representing approximately 1000 percent of Argentina's country quota). The facility matures in ten years and provides for a four-year grace period¹¹ on principal payments, according to a statement from Argentina's Ministry of the Economy in early March 2022, and the facility authorises an immediate disbursement to Argentina of \$9.6 billion. This early disbursement of IMF funding – 'frontloading', in IMF parlance – was considered critical so that Argentina would be able to make the debt service payments under the IMF's 2018 loan that were falling due in late March 2022 as well as in the subsequent months given the heavy debt service payments that would fall due in the remainder of 2022. (An IMF staff report explained that this 'frontloading'

Notes

- 7 IMF, 'IMF Stand-By Arrangement (SBA)', October 7, 2021, available at <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/33/Stand-By-Arrangement> (last visited on May 12, 2022).
- 8 *Id.*
- 9 IMF, 'IMF Extended Fund Facility (EFF)', May 19, 2021, available at <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility> (last visited on May 11, 2022).
- 10 Repayment on funds disbursed under an SBA is due within 3½–5 years after disbursement. IMF, 'Stand-By Arrangement (SBA)', October 7, 2021, available at <https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/33/Stand-By-Arrangement> (last visited on May 16, 2022).
- 11 See statement from Ministry of Finance, Government of Argentina, March 4, 2022, available at <https://www.economia.gob.ar/en/the-argentine-government-reached-a-staff-level-agreement-with-the-international-monetary-fund-and-the-bill-will-be-sent-to-the-national-congress/> (last visited on May 16, 2022) (indicating that '[t]he repayment period of each disbursement is 10 years, with a grace period of 4 and a half years, which implies paying the debt from 2026 to 2034').

of disbursements was also designed to help build up Argentina's foreign exchange reserves.¹²⁾

On the non-financing side, the Extended Fund Facility provides for a thirty-month program between Argentina and the IMF. The program focuses on reducing Argentina's very high inflation, strengthening the country's balance of payments, and 'improv[ing] Argentina's public finances to strengthen debt sustainability by reducing primary fiscal deficits, while improving the targeting of spending and addressing deep infrastructure gaps.'¹³

The IMF has underlined the point that the program is based on a 'multi-pronged strategy' to reduce inflation, and key element of that strategy involves a gradual reduction in the level of central bank financing (or 'monetising') Argentina's fiscal deficit (i.e., a situation where the central bank prints money to make up for the country's fiscal deficits) and the execution of a monetary policy that will bring about positive real interest rates in Argentina. The IMF has also emphasised that the program is intended to allow Argentina to make important infrastructure investments as well as address spending on pressing social issues, such as the very high level of poverty that exists in Argentina.

A central part of the new IMF program relates to so-called 'fiscal consolidation' matters, and the program envisages Argentina gradually eliminating its primary fiscal deficit over a period of four years. Specifically, the targets for the primary fiscal deficit (expressed as a percentage of GDP) are as follows: 2.5 percent of GDP in 2022, 1.9 percent of GDP in 2023, 0.9 percent of GDP in 2024, and 0 percent in 2025;¹⁴ in 2021, it is estimated the primary fiscal deficit was 3.0 percent of GDP. Thus, the speed and degree of fiscal consolidation under the new IMF program might be considered fairly gradual, more in line with what Argentina was willing to live with than with what it was thought that the IMF would like to have seen early on in the negotiations. (Argentina originally did not want to reach the 0 percent level until 2027, instead of 2025 as in the final agreement.)

On the highly delicate and politically sensitive matter of proposed reductions in fuel subsidies – an issue that is considered a critical pocketbook issue for so many Argentineans, especially poorer Argentineans – the program calls for a reduction of such subsidies by 0.6

percent of GDP. That would represent a fairly significant reduction in fuel subsidies, but the IMF has argued that the reduction in fuel subsidies will be handled in a 'progressive' manner so as not to hurt lower-income Argentineans. As explained by Julie Kozack, the deputy director of the IMF's Western Hemisphere Division, energy price increases resulting from subsidy reductions 'will be done in a progressive manner so that the lower income segments of the population would be more protected, and those with a higher payment capacity would have their subsidies eliminated.'¹⁵ It remains, of course, to be seen whether and how this notion of progressivity will work out in practice.

(Observers have commented that with skyrocketing global energy prices in the wake of the war in Ukraine, it may be difficult for the new IMF program to remain on track with respect to the level of planned reductions in fuel subsidies since the Argentinean population may require continued subsidy protection against the newly elevated global energy prices.)

Another hot-button issue in the negotiations between Argentina and the IMF concerned pensions. The IMF has been critical of Argentina's pension system as covering too many retirees, being too generous and too costly, whereas the Fernández administration vowed to leave pensions untouched by any new IMF program. This was considered to be a crucially important political issue for the Peronist base supporting the Fernández administration.

In the final analysis when the details of the staff-level agreement between Argentina and the IMF were released, it seemed that Argentina had largely succeeded in forestalling any major substantive changes in its pension system. In the Memorandum of Economic and Financial Policies that Argentina submitted to the IMF (accompanying its Letter of Intent to the IMF dated March 3, 2022), Argentina simply committed to undertake a study (to be completed by December 2022) 'outlining options and recommendations to strengthen the equity and sustainability of our long-term pension system ...'¹⁶ Separately, Argentina said that it would seek to 'protect the real income of pensioners and public sector workers' by seeking to 'rationalise' certain other public spending.¹⁷

As will be discussed in the article's conclusion in Part Two, when the new Extended Fund Facility was

Notes

12 IMF, 'Staff Report for 2022 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility', March 10, 2022, available at <https://www.imf.org/en/Publications/CR/Issues/2022/03/25/Argentina-Staff-Report-for-2022-Article-IV-Consultation-and-request-for-an-Extended-515742> (last visited on May 12, 2022).

13 *Id.*

14 IMF, 'Transcript of the IMF Virtual Press Briefing on the IMF and Argentine Authorities Staff-Level Agreement on an Extended Fund Facility (EFF)', March 3, 2022, available at <https://www.imf.org/en/News/Articles/2022/03/04/tr03032022-argentina-transcript-press-briefing-staff-level-agreement-on-eff> (last visited on May 12, 2022).

15 Reuters, 'Argentina Agrees \$45 Bln IMF Debt Deal That Targets Energy Subsidies', March 3, 2022.

16 Argentina, Memorandum of Economic and Financial Policies (accompanying Argentina's Letter of Intent addressed to the IMF), March 3, 2022, pp. 9-10.

17 *Id.*

finally approved in late March 2022, the IMF – from its Executive Board to its Managing Director to its staff – all flagged the high-risk nature of the new EFF, particularly in view of the economic fallout from the then recently initiated war in Ukraine. But the risk also flowed from the general social and political dynamics in Argentina relative to IMF programs, or what a recent IMF staff report referred to, in very straightforward terms, as ‘*open hostility* from some quarters [in Argentina] towards the Fund from its long engagement in Argentina.’¹⁸ (emphasis added.)

Mountain of legacy debt and economic woes facing new Fernández government

When the new government of President Alberto Fernández came into power in Argentina in December 2019 (with Fernández having defeated Macri in the October 2019 presidential election), it was clear that Argentina would not be able to repay the IMF's 2018 loan on its original terms (nor would it be able to repay its sizeable foreign bond debt on its original terms). The Argentine economy was in a fairly dismal state with inflation soaring above fifty percent and a poverty rate of approximately forty percent and with Argentina possessing dwindling foreign exchange reserves.

Thus, faced with approximately \$65 billion in debt owed to foreign bondholders and approximately \$45 billion in debt owed to the IMF, an immediate priority of the new Fernández administration was to renegotiate all of its outstanding foreign debt since the debt was widely considered to be unsustainable. A significant portion of the debt – approximately \$40 billion or so of the approximately \$65 billion of total outstanding foreign bond debt (plus the \$45 in outstanding IMF debt) – had been incurred during the time that the Macri administration was in office from 2015-2019.¹⁹

In fact, Argentina's debt-to-GDP ratio, often looked to as a shorthand way of gauging a country's debt sustainability, had increased substantially over the length of the Macri administration. Argentina's debt-to-GDP ratio in 2015 was approximately 52.56 percent, while in 2019 the ratio was approximately 88.84 percent.²⁰

Under the Macri government, Argentina had ready access to the capital markets, particularly in view of the

fact that investors at the time were searching for yield on their investments in the-then prevailing low interest rate environment globally. Indeed, Argentina was even able to sell so-called century bonds – i.e., bonds with a maturity of one hundred years – and, indeed, the issuance of such century bonds was even oversubscribed by investors. The Macri government was able to issue so much debt because Macri was essentially considered a ‘darling’ of the international financial markets given his putatively ‘market-friendly’ or ‘market-oriented’ economic policies.

The financial markets appeared to prefer those policies compared to the more populist economic policies that had been pursued by the prior Argentine government under President Cristina Fernández de Kirchner who served as president from 2007-2015. Fernández de Kirchner, of course, had (in)famously clashed in a long and bitter struggle with holdouts from Argentina's sovereign debt restructurings that followed Argentina's 2001 default, and for many investors Fernández de Kirchner was considered a pariah in the international financial markets. (Her husband, Néstor Kirchner, had served as Argentina's president from 2003-2007.)

Nonetheless, when it was time to pay the piper on the huge mountain of debt that had largely been incurred during the Macri administration, it fell to the new Argentine government of President Alberto Fernández to address that challenge. The first step in this process was for the new Argentine government to renegotiate its foreign bondholder debt. There were six months or more of tortuous and fairly contentious negotiations between Argentina and its foreign bondholders, and at least at a few points the negotiations threatened to go off the rails. Yet, Argentina was finally able to reach a deal with its foreign bondholders in August 2019 to restructure its outstanding foreign bond debt.²¹

While Argentina certainly did not achieve all of its objectives in the restructuring of its foreign bondholder debt, it was able to obtain a substantial principal reduction (or haircut) on the outstanding debt, amounting to a face value reduction of approximately 45 cents on the dollar. Importantly, Argentina also achieved considerable cash flow relief on its bond debt over a ten-year period, and this was attributable, among other things, to a grace period of a few years on then-upcoming principal

Notes

18 See footnote 12 *supra*.

19 See Brad Setser, ‘The State of Argentina's Debt Restructuring ...’, Council on Foreign Relations (‘Follow the Money’ blog), June 24, 2020, available at <https://www.cfr.org/blog/state-argentinas-debt-restructuring> (last visited on May 17, 2022).

20 Federal Reserve Bank of St. Louis (Federal Reserve Economic Data), ‘General Gross Government Debt for Argentina’, available at <https://fred.stlouisfed.org/series/GGDTAARA188N> (last visited on May 17, 2022). Note that the dates for the debt-to-GDP ratios cited in the text above do not correspond to the precise dates that the Macri administration was in office but rather are figures for 2015 as a whole and 2019 as a whole.

21 For a discussion of Argentina's negotiations to restructure its foreign bond debt, see, e.g., Steven T. Kargman, ‘Argentina's Quest for the Moral High Ground in Its Recent Restructuring’, *Global Restructuring Review*, September 14-17, 2020. The four-part series of articles was featured in the *Harvard Law School Bankruptcy Roundtable* (November 10, 2020) and the *Oxford Business Law Blog* (January 22, 2021).

payments post-restructuring²² as well as a reduction of average interest rates on the restructured debt.

Coming off its successful restructuring with its foreign bondholders in August 2019, Argentina seemed to have certainly more than enough time to be able to renegotiate or refinance its 2018 loan from the IMF. Argentina had debt service payments of approximately \$19 billion due in both 2022 and 2023, with very limited debt service payments due in 2021. In 2022, Argentina would not have any relatively major debt service payments on the IMF loan until late March 2022 when it would need to repay the IMF approximately \$3 billion.

Thus, late March 2022 became the de facto deadline for Argentina and the IMF to reach a deal on a new ‘arrangement’ in IMF parlance since Argentina would use a new loan from the IMF to refinance its existing IMF loan. (It should be noted that in the course of its relations with the IMF, Argentina has, remarkably, entered into twenty-one arrangements with the IMF beginning in 1958, and thus any such new arrangement would have become Argentina’s 22nd arrangement with the IMF.)

Argentina’s situation vis-à-vis the IMF was also intertwined with Argentina’s situation vis-à-vis the Paris Club of bilateral creditors. In May 2021, Argentina owed the Paris Club creditors debt service payments in the amount of approximately \$2.4 billion, but Argentina could not make those payments by the scheduled payment date. That failure to pay, if it had not been cured during a two-month grace period (i.e., by July 2021), would have matured into a payment default to the Paris Club creditors.

However, In June 2021, the Paris Club effectively granted Argentina a roughly one-year reprieve on the bulk of the missed \$2.4 billion in debt service payments. The Paris Club gave Argentina until March 2022 to make the missed debt service payments, and the Paris Club also targeted March 2022 as a date by which Argentina should come to a new agreement with the IMF.

Thus, particularly in light of the debt service payments due to the IMF at that time, late March 2022 was seen as the outside deadline for Argentina and the IMF to reach a deal which would refinance or re-schedule the IMF’s 2018 loan to Argentina. But at the time the deal with foreign bondholders was reached in August 2020, few observers might have expected that the negotiations between Argentina and the IMF would spill over into 2022, much less drag on until a de facto deadline of late March 2022. Instead, the general expectation might have been that Argentina and the IMF would most likely be able to reach some type of a deal by sometime in 2021 at the latest.

Limited progress in protracted negotiations

Yet, as 2021 turned into 2022, it was far from certain that Argentina and the IMF would make it across the finish line with a new deal by late March 2022. Specifically, by the beginning of 2022, Argentina and the IMF had not even achieved a basic agreement on the outlines of a deal. It was only in late January 2021 (January 28, 2022, to be precise) that Argentina and the IMF issued separate statements announcing the bare-bones details of a potential deal, or what might be considered a preliminary agreement or preliminary understanding, between the two parties. (It should be noted that in January 2022, Argentina began to see a major surge in COVID-19 cases related to the omicron variant, introducing another element of uncertainty to Argentina’s outlook.)

The preliminary agreement of January 28, though, was just that – i.e., preliminary – and there remained a number of important procedural steps that still needed to be taken by late March by both Argentina and the IMF in order for a definitive, approved deal to be in place by that time. In the IMF loan authorisation process, a so-called staff-level agreement between the sovereign and the IMF is considered a crucial milestone in that process, as the staff-level agreement provides a detailed roadmap of the key features of the prospective deal between the parties and serves as a basis for developing the definitive documentation of a new IMF arrangement.

Yet, it was not until March 3, 2022 that the IMF and Argentina announced that they had reached a staff-level agreement. With that announcement, Argentina submitted a Letter of Intent (which constitutes the sovereign’s formal request for IMF support), and that was accompanied by a Memorandum of Economic and Financial Policies as well as a Technical Memorandum of Understanding. Those latter two documents set forth in detail the policy initiatives that the Argentine government commits to undertake as part of the IMF program and also spell out, among things, the financial and economic assumptions underpinning the program.

Even at this stage, there were several major hoops for the parties to jump through by late March 2022. On the IMF side, the proposed new arrangement would need to be reviewed by the IMF staff (including, in particular, by the Fund’s Western Hemisphere Department), and then it would ultimately require the approval of the IMF Executive Board. Generally speaking, that type of IMF review and approval process does not happen overnight, but in this case, it would need to be undertaken on an expedited timetable in view of the late March deadline for reaching a new deal.

Notes

22 See, e.g., Steven T. Kargman, ‘Argentina’s Quest for the Moral High Ground in Its Recent Restructuring’, *Global Restructuring Review*, September 14, 2020.

On the Argentine side, a new law in Argentina required that any new deal with the IMF would need to be approved by both houses of the Argentine Congress, namely its Senate and Chamber of Deputies. Crucially, though, the approvals by the Argentine Congress and the IMF Executive Board were far from a foregone conclusion, particularly in light of the short period of time that remained before the late March deadline for reaching a new deal as well as the political/policy sensitivities related to the approvals in Argentina and at the IMF.

Perhaps not surprisingly given the twists and turns that the process had already taken, some last-minute complications arose that clouded the prospects for a quick or easy approval of the proposed new arrangement. For the IMF, the proposed new arrangement would have to be considered against the backdrop of the state of the global economy since global economic developments might well affect the outlook for the Argentine economy and thus the prospects for the viability and/or success of any new IMF program with Argentina. And as the whole world is now keenly aware, on February 24, 2022, just days before the staff-level agreement between Argentina and the IMF was announced, Russia invaded Ukraine. Within a matter of days, Russia's invasion of Ukraine sent shock waves through the global economy and introduced all kinds of uncertainty, unpredictability, and risk (mostly on the downside) into the outlook for the global economy.

Inevitably, before it could move to a final approval of the proposed new arrangement, the IMF would have to step back and assess the likely impact of the war in Ukraine on the global economy given the likely spillover effects on economies around the globe, including for the Argentine economy. Indeed, the IMF seemed to temporarily slow down its final decision-making process. As the IMF spokesman explained in a statement

on March 19, 2022, '*To allow time to take account of the fast-changing global environment – including the war in Ukraine – the IMF Executive Board will meet to discuss Argentina's request for an IMF-supported program on Friday, March 25.*'²³ (emphasis added.)

It was only at virtually the last minute, on March 25, that the last step in the process, namely approval of the deal by the IMF Executive Board, was announced. But this slippage in the date of IMF approval until March 25 meant that Argentina would not have had the funds to make its debt service payments due on March 21 and March 22 since Argentina, in view of its depleted foreign exchange reserves, was presumably counting on the proceeds of the new IMF loan to be able to make the two debt service payments that fell due in late March.

Argentina basically had to finesse this problem by in effect combining the payments due on March 21 and March 22 into one payment that would be due by March 31, and IMF rules apparently permitted this manoeuvre.²⁴ By the new payment date of March 31, Argentina would then have at its disposal part of the proceeds of the new IMF loan approved on March 25, and such loan proceeds could then be applied to make those two payments that originally fell on March 21 and March 22.

As a practical matter, this was made possible because the \$44 billion Extended Fund Facility (EFF) approved by the IMF Executive Board on May 25 was front-loaded to provide for the immediate disbursement of approximately \$9.6 billion in funds. In other words, the amount of immediately disbursed funds would be more than enough to allow Argentina to pay off the approximately \$3 billion that Argentina owed the IMF in late March while also providing a cushion for some other debt service payments that would be forthcoming in the remainder of 2022.

Notes

23 Statement by the IMF Spokesperson on Argentina, March 19, 2022, available at <https://www.imf.org/en/News/Articles/2022/03/19/pr2281-statement-by-the-imf-spokesperson-on-argentina> (last visited on May 6, 2022).

24 As explained by the IMF spokesman on March 19, 2022, 'I can also confirm that the authorities have informed the IMF that they will combine Argentina's March repayment obligations due on March 21 and March 22 into a single repurchase before March 31, 2022...Under [an IMF] Board Decision adopted in the late 1970s, *members have the right to bundle together multiple repurchases (principal payments) falling due in a calendar month.*' (emphasis added.) *Id.*

Argentina's Latest Tango (or Tangle) with the IMF: The Deal That Almost Wasn't – Part Two

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Synopsis

Part One of this article provided an overview of the process of negotiations between Argentina and the IMF and why it was considered critical that Argentina reach a deal with the IMF by late March 2022 to refinance the IMF's outstanding 2018 loan to Argentina. In Part Two, we explore why in principle Argentina and the IMF might have had a shared interest in reaching a deal on a new IMF program and loan (especially in doing so in a relatively timely manner), and we then review the major substantive policy differences that divided Argentina and the IMF as well as the not insignificant political considerations that affected both sides as the negotiations progressed. We conclude by considering, among matters, the competing perspectives on whether the new Extended Fund Facility (EFF) agreed to by Argentina and the IMF represents a positive step forward in how the IMF addresses the sovereign debt challenges of emerging economies or whether, instead, it reflects a failed attempt to address Argentina's long-standing, underlying structural economic problems.

(Note: The writing of Part Two was completed as of mid-May 2022 (at the same time the writing of Part One was completed) and therefore it speaks of developments only as of that date, not as of the date of publication of Part Two.)

Earlier shared interest of Argentina and the IMF in reaching a new deal?

The question therefore arises: How and why did the process of renegotiation of the IMF's 2018 loan to Argentina become such a protracted and problematic process? After all, as will be explained more fully below, *ex ante* one might have thought that Argentina and the IMF would presumably have had a shared interest in reaching a deal on a new arrangement in a relatively timely manner and thereby avoiding a non-payment by Argentina on the IMF's 2018 loan. Yet, as will be

discussed later in the next section of the article, *ex post* one can see that there were myriad reasons that the process of renegotiating the 2018 loan dragged on over such an extended period of time without the parties being able to reach any final, definitive resolution. Thus, with the benefit of hindsight, one might say that this result was an overdetermined outcome, as social scientists would put it.

The presumed mutuality of interest between Argentina and the IMF in reaching a deal stemmed from the fact that fundamentally neither the interests of Argentina nor the interests of the IMF would have been served by Argentina's non-payment on the IMF's 2018 loan which would have been the result of a failure by the parties to reach such a deal by late March 2022 that refinanced or rescheduled the IMF's then-outstanding loan to Argentina.

During the period that the Fernández administration was negotiating with the IMF, the Argentine economy was in fairly dire straits. Although Argentina had finally emerged from a recession that lasted roughly three years, inflation was still running in the range of 40-50 percent, its foreign exchange reserves had dwindled to a mere few billion dollars if not less, the poverty rate among the Argentine population was roughly 40 percent, and the value of the Argentine peso had continued to depreciate considerably.

Under such circumstances, Argentina would need fresh capital, most likely from foreign sources, to dig itself out of its deep economic hole, and a non-payment on the 2018 loan would have been a huge setback for Argentina on that front. For some period of time, Argentina had found itself effectively locked out of the private capital markets as a result of Argentina's default on its foreign bond debt in May 2020, a record ninth sovereign debt default for Argentina since the time it became an independent state in 1816. Further, as a practical matter, in the last couple of years the average yields on its outstanding debt spiked to very elevated levels, and at such levels it would not be affordable or sustainable for Argentina to issue new debt.

Notes

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A non-payment by Argentina on the IMF's 2018 loan would have had broader consequences for Argentina: it would have meant that Argentina would find itself prevented from tapping into financing from the other major multilateral institutions such as, among others, the World Bank and the Inter-American Development Bank. That would have been a serious blow to Argentina since multilateral institutions such as those are seen as being important and reliable long-term sources of financing for emerging (and developing) economies such as Argentina.

Thus, having already lost access to the private capital markets and with access likely to be cut off from the multilateral institutions upon the non-payment of the IMF loan, Argentina would essentially have found itself in an economic straitjacket (unless it was able to arrange financing from some other, as-yet-untapped deep pocket, whether that might be China or some other funding source). Again, the prospect of lack of financing options should have provided Argentina with a strong incentive to reach a timely agreement with the IMF on the terms of a refinancing or rescheduling of the IMF's 2018 loan.

From the IMF's standpoint, it, too, would probably have preferred to avoid a non-payment on the 2018 loan to Argentina because a non-payment on its largest-ever loan would have been a major embarrassment for the institution. Such a non-payment might also have invited heightened scrutiny of whether the IMF loan to Argentina was imprudent in the first place. Indeed, in late December 2021, the IMF itself released a report that was sharply critical of the IMF's 2018 loan.²

In that IMF report known as an 'ex post evaluation' (EPE) which is required by the IMF in the case of IMF lending above normal limits, the 2018 IMF arrangement with Argentina was essentially declared a program failure. As the report stated, '*the program did not deliver on its objectives, despite significant modification of economic policies.*' (emphasis added.) Specifically, the report noted that the program 'did not fulfil the objectives of restoring confidence in fiscal and external viability while fostering economic growth.'

Or as the Executive Directors of the IMF put it, the 2018 program 'did not deliver on its objectives of restoring market confidence, bringing down external and

fiscal imbalances, reducing inflation, and protecting the most vulnerable segments of the population.' However, the EPE report itself, as well as an assessment of the report by the IMF's Executive Board, appeared to assign a fair amount of the blame for the program's failure to the Argentine government (then under the leadership of President Mauricio Macri) for, among things, its unwillingness to undertake a debt restructuring with its private creditors or to impose capital controls.

Separately, given the attention that has been focused on the fate of the IMF's 2018 loan to Argentina, it would not be surprising if at some point the IMF's own internal review organ, the Independent Evaluation Office (IEO), would be prompted to conduct a searching post-mortem of the 2018 loan to Argentina. The IEO has conducted such reviews in other high-profile, problematic IMF lending programs from the past, including for example the IMF's involvement in Argentina from 1990-2001 (which was the subject of a 2004 IEO report).³

Delay and discord in reaching a new deal: policy and political factors

Nonetheless, even though Argentina and the IMF may have had a shared interest in reaching a new deal in a timely fashion (or at least without cutting it too close to the late March 2022 deadline), there were both substantive policy reasons, as well as political reasons, which contributed to the situation in which they were unable to do so.

Major policy differences between Argentina and the IMF

With respect to substantive policy matters, at least until January 28, 2022, when Argentina and the IMF made their separate announcements indicating some preliminary understandings in their ongoing discussions, it appeared that Argentina and the IMF remained sharply divided on some very fundamental issues. Most prominently, the parties had profound differences on the so-called 'fiscal path' (i.e., the degree and speed of

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- Earlier, in September 2021, the European Central Bank (ECB) issued a report on sovereign debt restructuring, and in an annex to that report, the ECB raised pointed (and even troubling) questions about the IMF's 2018 loan to Argentina. See European Central Bank, 'The IMF's Role in Sovereign Debt Restructurings', September 2021, Annex A. 2 ('Argentina 2018-19. Exceptional Access Criteria and Financing Assurances'), pp. 51-52.
- The IMF's Independent Evaluation Office also produced a report in 2003 concerning the IMF's involvement in Indonesia, Korea, and Brazil in connection with the financial crises in those countries in the late 1990s. Separately, it should be noted that, in the IMF's Executive Board comments on the December 2021 ex post evaluation concerning the IMF's 2018 loan, the Directors adverted to the possibility of a future report to be undertaken by the Independent Evaluation Office. Upon the release of the ex post evaluation (EPE) in December 2021, it was noted that many executive directors of the IMF '*considered that an evaluation of the 2018 [standby agreement with Argentina] by the Independent Evaluation Office could complement the EPE findings.*' (emphasis added.) IMF Press Release, 'IMF Executive Board Discusses the Ex-Post Evaluation of Argentina's Exceptional Access Under the 2018 Stand-By Arrangement', available at <https://www.imf.org/en/News/Articles/2021/12/22/pr21401-argentina> (last visited on May 10, 2022).

any ‘fiscal consolidation’,⁴ or, particularly, the shrinking of Argentina’s primary fiscal deficit) that the IMF would want to see anchor any new IMF program with Argentina and that Argentina would be willing to live with.

Basically, in its pre-January 28 statements, the government of Argentine president Alberto Fernández expressed the belief that it could achieve the necessary fiscal consolidation by improving the collection of revenues such as taxes and by borrowing from multilateral institutions such as the World Bank. However, at least pre-January 28, the IMF was reportedly skeptical about whether Argentina was likely to be able to achieve the desired level of fiscal consolidation by those means alone.

The two sides also had significant differences over economic and budgetary projections. The IMF had argued that Argentina’s projections had been overly optimistic or were otherwise not credible, including with respect to reducing the budget deficit and bringing down inflation.⁵

In effect, prior to January 28, the Argentine government appeared to want to limit to the greatest extent possible the degree of fiscal consolidation achieved by spending cuts (such as cuts in pensions) and subsidy reductions (particularly fuel subsidies). The Fernández administration believed that fiscal consolidation achieved by those means, and especially pursuing fiscal consolidation on a relatively compressed timetable as the IMF appeared to advocate, would lead to greater austerity and pain for the Argentine people, and the Fernández administration appeared firmly determined to avoid such an outcome.

The Argentine government also believed that such an approach would have adverse effects for the Argentine economy since, in the view of the government, it might choke off what it viewed as a nascent economic recovery that had been underway in Argentina following a lengthy recession, a point that was underscored in commentary from the Nobel laureate in economics, Professor Joseph Stiglitz.⁶ (Stiglitz had been a very strong advocate for Argentina’s positions in its negotiations in 2020 with its foreign bondholders and, in

fact, had organised two open letters signed by scores of economists and other prominent academics in support of Argentina’s positions (and critical of the bondholders’ positions) in those negotiations.⁷)

Ultimately, as noted in Part One, the degree and speed of fiscal consolidation reflected in the final form of the Extended Fund Facility approved by the IMF’s Executive Board in late March 2022, while not completely in line with what the Argentine government had been seeking, appears to be more in line with Argentina’s position in the negotiations than with the IMF’s position in the negotiations. Simply stated, the program seems to call for a somewhat gradual fiscal consolidation to be achieved over a period of a few years.

Furthermore, on a completely separate matter, Argentine government had sought to have the IMF eliminate its usual surcharge (ranging from two to three percentage points of the amount of the outstanding loan) on certain IMF loans that have been outstanding for a few years and which are disproportionately large to the country’s IMF quota.⁸ These surcharges are amounts due to the IMF above and beyond the normal interest charges due to the IMF. It was suggested if such surcharges were eliminated, that would have resulted in considerable savings for Argentina – perhaps amounting to a few billion dollars – given the huge balance that was then outstanding on the IMF’s 2018 loan.

But in considering Argentina’s request and similar requests from other emerging economies and developing countries (whose sovereign balance sheets came under considerable stress from expenditures they were forced to make to address the health and economic fallout from the COVID-19 pandemic), the IMF Executive considered the matter last December and did not agree to end the surcharges. The IMF Board, though, seemed to leave the door open to a further review of this matter at some point in the future when it could conduct ‘a comprehensive review ... in the context of the [IMF’s] overall financial outlook’, as per a report in the *New York Times*.⁹

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- 4 Fiscal consolidation is generally understood to mean something along the lines of ‘government policy intended to reduce deficits and the accumulation of debt.’ *Glossary-Statistics Explained*, Eurostat, available at https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Fiscal_consolidation (last visited on May 8, 2022).
- 5 See, e.g., ‘Argentina Hardens Stance Against IMF as Debt Renegotiations Bog Down’, *Financial Times*, October 31, 2021.
- 6 Joseph E. Stiglitz, ‘Argentina’s COVID Miracle’, *Project Syndicate*, January 10, 2022. Certain other economists disputed the view expressed by Stiglitz that the Argentina was experiencing a relatively economic recovery. See, e.g., Andres Velasco and Eduardo Levy Yeyati, ‘Argentina’s Imaginary Miracle’, *Project Syndicate*, January 21, 2022.
- 7 For further discussion of Professor Stiglitz’s singular role in Argentina’s negotiations with its foreign bondholders in 2020, see Steven T. Kargman, ‘Argentina Quest for the Moral High Ground: The Professoriate Weighs In’, *Global Restructuring Review*, September 16, 2020. In that four-part series in *Global Restructuring Review*, I discussed the role of the ‘three P’s’ – namely, the pandemic, the professoriate, and the Pope – in affecting the course of the negotiations with the foreign bondholders.
- 8 For further discussion of the IMF surcharges and an interesting proposal for allowing sovereign borrowers to apply funds that would have been paid as surcharges to the IMF instead for the development of approved environmental projects, see, e.g., L. Buchheit, M. Gulati, U. Panizza, B. Weder di Mauro, and P. Bolton, Letter to the Editor: ‘A Novel for Argentina & the IMF’, *Americas Quarterly*, February 23, 2022.
- 9 ‘Critics Say Surcharges Hurting Nations in Desperate Need’, *New York Times*, January 14, 2022.

Political considerations affecting the parties

Furthermore, there were serious political constraints facing both Argentina and the IMF. The Fernández government in particular was walking a political tightrope in negotiating a new deal with the IMF. For one thing, the IMF has long been the *bête noire* of Argentine politics, with many Argentines blaming the IMF for many of the economic and financial woes it has experienced over the years, including especially Argentina's 2001 sovereign debt default and the ensuing economic crisis. As a result, Argentina has often had a very acrimonious and antagonistic relationship with the IMF over many years.

Ironically or counterintuitively, when the left-of-centre Fernández government came into office in late 2019, President Fernández seemed intent on forging a more constructive relationship with the IMF, and he and his team, including especially his Minister of Economy Martín Guzmán, appeared to work fairly cooperatively with the IMF in the next number of months. In fact, during Argentina's negotiations with its foreign bondholders in the first half of 2020, IMF staff produced some debt sustainability analyses that seemed to bolster arguments that Argentina was making vis-à-vis its foreign bondholders, and this followed months of informal consultations between the Argentine government and the IMF.

One constant political constraint that Fernández faced from the outset was that his Peronist-based political coalition depended on the support of his vice president, Cristina Fernández de Kirchner, a leading figure in Peronist politics in Argentina and someone who arguably held more leftist views than Fernández. Fernández de Kirchner had long been an outspoken critic of the IMF's role in Argentina, and, in the context of Argentina's renegotiation of the IMF's 2018 loan, she had taken the position at various points that the loan was illegitimate or illegal and should not be repaid.

This was based largely on her view that the loan was used to finance capital flight from Argentina and therefore did not benefit Argentina or its people. In fact, there is not much disagreement among a broad range of parties that the proceeds of the IMF's 2018 loan were used to finance capital flight as well as to pay down outstanding foreign debt obligations. However, there might well be some (and even sharp) disagreement in various quarters with Ms. Fernández de Kirchner's conclusion that the loan was illegal and did not need to be repaid.

Despite an earlier willingness to engage with the IMF and move the discussions forward, at a certain point as Argentina's discussions with the IMF progressed

deeper into 2021, Fernández and his team appeared to want to slow down the process. They were apparently deeply concerned that any deal reached with the IMF might involve a fair amount of austerity being imposed on the Argentine people which would be politically unpopular with the Argentine body politic. The Fernández-led coalition seemed to be very sensitive to this political concern because Argentina would be holding important mid-term legislative elections in the latter part of 2021. Moreover, the political standing of the Fernández government was already somewhat precarious as there appeared to be widespread popular discontent with, among things, the continuing high rate of inflation as well as elevated and troubling levels of poverty in Argentina.

Fernández was undoubtedly very mindful of the street protests that took place in opposition to a deal with the IMF in the period, for example, following the announcement of the January 28 preliminary agreement, where the protesters seemed to be particularly concerned with respect to any austerity that a deal with the IMF might entail. According to news reports in Reuters and elsewhere, the protesters carried signs with statements such as 'No to Paying the IMF' and 'No to an IMF Deal.'¹⁰ (Later, as the legislation proposing the IMF deal was being debated in the Argentine Congress, some of the protesters resorted to violence and, among other things, set fires and hurled various objects at the building housing the Argentine Congress,¹¹ and even Vice President Cristina Fernández de Kirchner's office in the Senate was damaged by protesters.¹²)

As it turned out, the political coalition led by Fernández suffered a huge setback in the elections held in November 2021, and in fact the Peronists lost control of the Senate for the first time in decades. This weakened position of the Fernández-led coalition in the Congress gave rise to a concern that it was likely to be even more challenging for the Fernández administration to get an IMF program approved by the Congress given the emboldened position of the centre-right political opposition in the wake of the election results from November 2021. (In December 2021, the opposition forces had led to the defeat of the Fernández administration's budget bill in the lower house of the Argentine Congress.¹³)

To make matters even more challenging, Fernández has been presiding over a very fragile political coalition, and in moving too far in one direction or another in the negotiations with the IMF, he might have risked losing the support of partners in his coalition. This came into very sharp focus in the days immediately following the announcement on January 28, 2022 of a preliminary agreement between Argentina and the IMF when the

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10 'No to an IMF Deal': Thousands Protest in Argentina Against Debt Deal', *Reuters*, February 8, 2022.

11 'Argentina Anti-IMF Protesters Burn Tires, Hurl Rocks as Congress Debates Deal', *Reuters*, March 10, 2022.

12 'Cristina Fernández de Kirchner Hits Out at 'Paradoxical' Attack on Her Senate Office', *Buenos Aires Times*, March 11, 2022.

13 *See, e.g.*, 'Argentina Lower House Unexpectedly Rejects 2022 Budget Bill', *Bloomberg*, December 17, 2021.

leader of the most left-wing (or, as some would say, radical) faction of the Peronist coalition in the Chamber of Deputies, Maximo Kirchner, resigned his leadership position and announced his strong opposition to the preliminary agreement between Argentina and the IMF.¹⁴

Notwithstanding Maximo Kirchner's opposition to the deal, his mother, Vice President Cristina Fernández de Kirchner, remained somewhat tight-lipped about whether or not she approved of the deal, but she was not so guarded in voicing her long-standing animus towards the IMF. She cited with approval the sentiments expressed by her late husband, former President Néstor Kirchner, regarding the IMF when he said that the IMF 'always acted as a promotor and vehicle of policies which provoked poverty and pain for the Argentine people ...'¹⁵

Further, particularly as he and his team were in the latter stages of negotiations with the IMF (including in the period following the mid-term losses that his coalition suffered in November 2021), Fernández appeared to have at least one eye firmly fixed on the upcoming presidential election that is currently scheduled to be held in October 2023 since he is expected to be a candidate for re-election. Again, he presumably did not want to agree to elements of any IMF program that would be politically unpopular in Argentina, and that is perhaps one reason why, for example, the Fernández administration in its negotiations with the IMF dealt so gingerly with the issue of fuel subsidies given the potential political explosiveness of that issue. Some observers have also expressed the view that, with the 2023 presidential election in mind, Fernández and his team may be less than firmly committed in the coming year to implementing any parts of the new IMF program that would cause pain to the Argentine people and their pocketbooks.

Notwithstanding all of the daunting political challenges which it faced, the Fernández administration was finally able to get the deal with the IMF approved by both chambers of the Argentine Congress, and actually the votes in both chambers of the Argentine Congress were fairly overwhelming. On March 11, the lower house, the Chamber of Deputies, approved the deal on by a vote of 202-37 (with thirteen abstentions), and on March 17, the Senate approved the deal by a vote of 56-13 (with three abstentions). In each case, much of the opposition in Congress to the deal apparently came from disaffected members of Fernández's own political coalition.

Apparently, one way that the deal won such widespread support in the Argentine Congress was that the Fernández administration agreed to narrow the scope

of the bill being voted upon in the Congress. Specifically, the legislators were asked to vote upon approving the new IMF loan, but in effect they did not have to vote on endorsing the economic policies put forward by the Fernández administration that underlay the new IMF program with Argentina.¹⁶ It seemed that a vote to endorse the underlying economic policies put forward by the Fernández administration would have been a bridge too far for many opposition legislators. It should be noted as well that many legislators were concerned that, if they did not vote in favour of the new loan from the IMF and as a result Argentina fell into arrears on the IMF's 2018 loan, that could result in serious adverse consequences for Argentina and its economy.

Needless to say, in considering the parameters of any new program with Argentina, the IMF had its own political challenges to deal with. On the one hand, the IMF could not afford to have another program with Argentina that ended in failure such as happened with the 2018 loan, and that might possibly argue for the IMF pursuing a more lenient (i.e., less austerity-focused) deal with Argentina so that the deal would face less resistance in Argentina. On the other hand, if the IMF went too 'soft' on Argentina, it would open itself to criticism that it was dodging its responsibilities to help Argentina face up to the deep-seated structural problems facing the Argentine economy.

Indeed, when the preliminary agreement was first announced in late January, the IMF came in for some fairly strong criticism that it had essentially agreed to a toothless deal with Argentina, and this was sentiment was captured in an editorial in the *Financial Times* entitled 'IMF's Argentina Deal Needs Tougher Conditions.'¹⁷ In response to such criticism, only days after the preliminary agreement of January 28 was announced, IMF Managing Director Kristina Georgieva felt compelled in a news conference to defend the merits of the deal outlined in the preliminary agreement, and she was insistent in pointing out that what was needed was a deal with Argentina that would enjoy broad political and social support (or so-called 'buy-in') within Argentina, a lesson she said that the IMF had learned from its 2018 loan to Argentina and the related program.

Finally, as noted above, the war in Ukraine became a last-minute wild card in the IMF's consideration of the new arrangement with Argentina. In the wake of the Ukraine invasion, one might imagine that the IMF did not want to further unsettle the financial markets, particularly the emerging economies, by failing to reach an agreement with Argentina. The IMF may have been concerned that if an important emerging economy

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14 See, e.g., 'Resignation of Peronist Leader Triggers Crisis Over Argentina's \$44.5bn. IMF Deal', *Financial Times*, January 31, 2022.

15 'Cristina Fernandez de Kirchner Hits Out at 'Paradoxical' Attack on Her Senate Office', *Buenos Aires Times*, March 11, 2022.

16 See, e.g., 'Argentina's Congress Approves \$45bn Debt Deal with IMF', *Financial Times*, March 11, 2022.

17 Editorial, 'IMF's Argentina Deal Needs Tougher Conditions', *Financial Times*, February 2, 2022.

such as Argentina fell into arrears on such a large IMF loan, foreign investors might want to re-examine their exposures to other emerging market economies and, as a result, might consider heading for the exits in those markets (whether as a result of contagion or otherwise.)

Conclusion

Even with the new IMF arrangement approved and in place after such a long and tortuous process of negotiations, neither Argentina nor the IMF can sit back and expect the new IMF program to be an automatic success. As the IMF explicitly recognised in its statements accompanying the March 25, 2022 announcement of the Executive Board's approval of the program, the new program carries significant implementation risks as well as risks from external factors such as the economic repercussions of the war in Ukraine.

As a statement from the IMF's Executive Board put it, 'The Directors agreed that the program is *subject to exceptionally high risks*. They recognised Argentina's vulnerability of external shocks and implementation difficulties given the complex social and political situation [in Argentina].' (emphasis added.) In addition, the IMF Executive Board members also pointed out that 'the *spillovers from the war in Ukraine are materializing ...* Directors welcomed the [Argentine] authorities' agreement to bring forward the first review of the program¹⁸ and urged them to *recalibrate policies ...*' (emphasis added.)

Apart from the issue of whether or not the new IMF program will succeed, there is a sharp split of opinion among commentators as to whether the IMF, in approving a plan that was lighter on austerity and fiscal consolidation than typical IMF programs, had moved in the right direction or was setting a bad precedent. Professor Joseph Stiglitz, for one, hailed the new IMF program as potentially establishing a new paradigm for IMF programs going forward. In an article entitled 'The IMF's Agreement with Argentina Could Be a Game Changer', Stiglitz and his co-author, economist Mark Weisbrodt, argued that the new program '*eschewed austerity*' and '*will allow the Argentine economy to grow while the government continues its efforts to*

reduce poverty and gradually bring down inflation.'¹⁹ (emphasis added.) The authors added that '[w]ith so many countries facing debt distress from the pandemic, the IMF will need to adopt similar changes to its policies elsewhere.'²⁰

A very different perspective critical of the new IMF program has been articulated by Alejandro Werner, who served as director of the IMF's Western Hemisphere Department from 2013 until he retired in August 2021. In essence, Werner has argued that the new IMF program does not demand enough from the Argentine government in terms of addressing many of the fundamental weaknesses of the Argentine economy; Werner, though, acknowledged the importance of avoiding a non-payment by Argentina on the IMF's 2018 loan. For example, Werner stated the following in the wake of the announcement on January 28 of the preliminary agreement between Argentina and the IMF: 'The *macroeconomic policy targets of the program are very weak*, there is negligible strengthening of macroeconomic institutions, and a *structural reform agenda is completely absent*. In short, the current program implicitly accepts that solving Argentina's socioeconomic puzzle is impossible [*and settles*] for the *minimum conditions to avoid descending into the abyss*.'²¹ (emphasis added.)

These competing perspectives on the new IMF program mirror a more basic split in views on what fundamentally ails the Argentine economy. As a general matter, Stiglitz and his colleagues believe that the basic problem with past Argentine economic policy has been that it is too focused on belt-tightening (or 'austerity') and not focused enough on promoting pro-growth, pro-investment policies. By contrast, those who look at these issues as Werner does believe that the basic problem of the Argentine economy is that Argentina has too expansive a welfare state and that Argentine government's spending on social welfare program represents too large a percentage of overall government spending.²² As Werner has stated, 'Central to explaining Argentina's equilibrium of low growth and financial instability is the size of the state.'²³ On this view, a major objective of economic policy should be to shrink the size of Argentina's welfare state.

Nonetheless, in my view, there is one important area of economic policy (beyond the basic split in views

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18 The IMF's new program with Argentina was to be subject to quarterly reviews by the IMF, but it was agreed that, in light of the fragility of the global economic environment given the economic fallout from the then new war in Ukraine, the first review under the program would take place two months after the start of the program rather than in the customary three months.

19 Joseph E. Stiglitz and Mark Weisbrodt, 'The IMF's Agreement with Argentina Could Be a Game Changer', *Project Syndicate*, March 10, 2022.

20 *Id.* See also Joseph E. Stiglitz, 'Argentina and the IMF Turn Away from Austerity', *Foreign Policy*, February 1, 2022 ('The Argentine agreement [with the IMF] gives [developing countries and emerging markets stressed by high debt levels] hope that they can turn to the IMF without the Fund imposing detrimental austerity and other counterproductive conditionalities. Let's hope so.')

21 Alejandro Werner, 'Argentina and the IMF: A Never Ending Story', *Americas Quarterly*, February 14, 2022.

22 *Id.* ('Public expenditure is above 40% of GDP, one of the highest levels in the Americas, with a negligible investment component and there is no social agreement on how to fund it.')

23 *Id.*

discussed above) that seems to get short shrift in much of the policy debates about Argentina's economy: namely, the fundamental issue of the Argentine economy's ability to generate foreign exchange on a steady and reliable basis over time. In this regard, in formulating economic policy in the future, Argentine policymakers may well wish to consider which of Argentina's industries and sectors going forward could enjoy a comparative advantage in international markets and how the Argentine government could promote the growth of such industries and sectors, with a particular focus on those industries and sectors which have the potential to produce high value-added goods and services that will be in demand in international markets.

Argentina needs to consider developing an export strategy based on comparative advantage that can generate the quantum of foreign exchange that, for example, will be adequate to help finance debt service for any of Argentina's outstanding foreign debt (as well as help finance any shortfalls in government budgets). Otherwise, lacking such a reliable stream of foreign exchange earnings, Argentina may continue to face recurring debt crises with respect to its foreign debt in particular, as it has so often in recent decades (and, indeed, over its entire history as an independent nation). In addition, such an export strategy based on comparative advantage, if successful, might also generate good-paying jobs in the private sector, not a trivial matter in an economy where issues of unemployment are often a serious concern.

Argentine policymakers will have to give serious thought as to what high value-added Argentine-produced goods and services could enjoy a comparative advantage in international markets – i.e., exports that go beyond Argentina's traditional leading exports of agricultural commodities such as wheat and soybeans. For example, Argentine policymakers might consider the experience of their neighbouring country, Brazil, and specifically how several decades ago Brazil developed an aircraft industry virtually from scratch centred

on the Brazilian company Embraer. Over time, Embraer has grown into one of the major manufacturers of aircraft in the world,²⁴ and it has become the source of thousands of good-paying jobs for Brazilians and is a major positive contributor to Brazil's balance-of-payments position.

To be sure, no two countries (or their respective cultures, histories and/or demographics) are exactly alike, and that certainly holds true for Argentina and Brazil; economic initiatives or policies that have worked effectively in one country are not necessarily easily replicable in another country; and a highly successful, internationally competitive company like Embraer cannot simply be conjured up out of thin air.²⁵ Nonetheless, Argentine policymakers could do worse than to consider whether there are any intrinsic strengths and resources present in Argentina today that Argentina could leverage into developing new industries of the future, much as Brazil did with Embraer many years ago.

Apparently, at least judging by the emergence in Argentina in recent years of several 'unicorns', some strong high-tech talent already exists in Argentina. The question, though, is whether Argentina can develop major, large-scale companies of the type that can help drive the international competitiveness of the Argentine economy as a whole by producing high value-added exports (while crucially also providing valuable employment opportunities to large numbers of Argentineans).

In short, in the coming years, Argentina's debt problems will not simply disappear, regardless of whether the new IMF program for Argentina is successful or not. Rather, in the coming years, Argentina will need to develop a comprehensive, forward-looking economic strategy if it is ever to have a chance of having a sustainable debt burden over time. Otherwise, Argentina may continue to face the unwelcome prospect of recurring debt crises – something that Argentina has endured for far too long over its history as an independent nation.

Notes

- 24 Of course, Airbus and Boeing dominate the aircraft manufacturing market, but Embraer has carved out a solid niche for itself in producing executive jets as well as civilian (especially regional jets) and defence aircraft.
- 25 Among other things, the development of Embraer benefited from a number of key factors, among them the deep pool of engineering and particularly aeronautical engineering talent in Brazil (growing out of the well-respected engineering (including aeronautical engineering) programs in its universities) as well as the dedicated and strong financial support that Embraer received from Brazil's critically important national development bank, BNDES.

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