

# Argentina's debt restructuring and economy ahead of the 2023 elections

## SUMMARY

Sovereign debt has been a longstanding challenge for Argentina's governments. As recently as 2022, Argentinian President Alberto Fernandez secured an outline deal with the IMF to restructure US\$44.5 billion of debt from a record 2018 bailout. In fact, since 2001, Argentina has defaulted on its international sovereign debt three times –the first time in December 2001 in the midst of a very serious financial crisis, in 2014, in the middle of a battle against holdout creditors and again in 2020, in the middle of the COVID-19 pandemic.

During the same period, Argentina has gone through two debt restructurings. One that lasted from 2005 to 2016, and one that started in 2020 and was agreed much faster. After the 2005-2016 restructuring experience, Argentina implemented two of the lessons learned: (i) the use of collective action clauses in the 2005 and 2016 indenture bonds, and (ii) taking a faster approach to the restructuring process, in both the opening of negotiations with creditors and the formulation of an acceptable proposal. In addition, during the 2020 restructuring, Argentina chose initially to adopt two controversial measures to circumvent collective action clauses, it changed course and managed to complete the restructuring of the desired amount. These actions, along with other economic policy decisions, allowed the country to avoid a crisis similar to that of 2001, despite the challenging global economic environment.

In 2022, the country's economy went through multiple shocks, i.e. the ramifications of the Russian invasion of Ukraine, as well as a persistent drought that damaged its crops and exports. The situation persisted in 2023, with an increase in inflation and a depletion of dollar reserves, which added to the government's woes. Even if a crisis is averted, economic considerations will play a critical role in the general elections due to take place in October 2023.

While it is too early to say that Argentina will not again find itself in need of restructuring in the near future, experts suggest that the country has learned some lessons from these processes, with regard both to negotiating with creditors and to managing its debt and the legal innovations that can protect it. This could help it manage such processes more efficiently and without the associated economic and social costs.



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## Introduction to the Argentine economy

With gross domestic product (GDP) of almost US\$490 billion in 2021, Argentina is one of the largest economies in Latin America and 27th in the world. Within its 2.8 million square kilometres, the country is [endowed with](#) very fertile land, [providing](#) among other things, for livestock farming, cereal cultivation (wheat, corn and soy), and grape production. However, the agricultural sector represents only 5.9% of the country's GDP and employs less than 0.1% of the population.

Argentina also has [lithium](#) reserves, oil and gas deposits (located mainly in the north-west and Patagonia) as well as great potential for renewable energy (hydroelectric generation). With several [nuclear plants](#), the country is one of Latin America's main producers of nuclear power. This abundance of energy resources serves the country's [industry](#).

The country's [main industries](#) are food processing and packaging, while Argentina also produces automobiles and auto parts, consumer durables, textiles, chemicals, industrial and farm machinery. Lastly, more than 60% of Argentine GDP is generated by (and a comparable portion of the labour force is employed in) services, including retail trade, hotels, restaurants, trucking and other transportation, government, education, health care, and various other business and social services.

Nevertheless, while the country is in a [better situation](#) than many Latin American peers on indicators such as life expectancy at birth, GDP per capita and the poverty ratio, it lags behind several other countries in others, such as public debt to GDP, unemployment and inflation. Moreover, despite the aforementioned positive elements, in the past 30 years, the country's economy has not been resilient to shocks from the global economy.

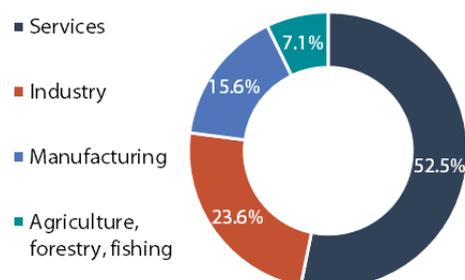
Argentina's current President, Alberto Fernandez (Frente de Todos), was elected in 2019. At the time he took office, year-on-year inflation was [running at around 50%](#), about [40% of Argentines could not afford](#) a monthly basket of staple goods, and the country's debt was hovering at about 90% of GDP. To tackle those challenges, Fernandez pursued a number of measures designed to revive the economy and help the vulnerable. At the same time, the government enacted a number of tax increases, so as to offset the fiscal cost of these reforms and started negotiating a new restructuring of its debt. Following a successful debt restructuring and an extended fund facility (EFF) from the IMF, the country finished 2021 with its economic indicators exceeding all expectations.<sup>1</sup> However, the situation in 2022 was less positive, as the high debt, high inflation, persistent droughts, the conflict in Ukraine, and tightening financing conditions all constituted challenges for growth.

## A quick walk through the past 20 years

Already in the [decade](#) before its return to democracy (1973-1983) Argentina experienced high inflation (over 100% per year), fluctuating economic growth, and significant decreases in industrial output, industrial employment and short-term foreign credit.<sup>2</sup> These trends led to reduced investment and increased vulnerability to exchange rate fluctuations. The successive governments of [Raúl Alfonsín](#) (1983-1989) and [Carlos Menem](#) (1989-1999) attempted to deal with chronic inflation, but at the expense of the country's competitiveness and export capacity. The problem was compounded by the fact that global credit markets lent generously, chasing high yield even after risk factors began to rise to worrisome levels.

During the 1990s the country's [economic situation](#) worsened through the combined effect of three independent factors: international crises (East Asia 1997-1998, Russia 1998), [Brazil's](#) currency crisis

Figure 1 – Added value in Argentina's GDP



Data source: [World Bank](#).

and the [appreciation](#) of the US dollar – to which the peso was linked at a 1:1 ratio). The above trends, coupled with the economic policies of President [Fernando de la Rúa](#) led to a recession which, along with political developments, contributed to a run on the banks. This in turn led to the finance minister decreeing a freeze of deposits (the [corralito](#)), which halted activity in the private sector and plunged the country's economy into a depression, as well as a default on the country's international obligations. On 20 December 2001, President de la Rúa resigned, and 6 days later, an interim government defaulted on Argentina's sovereign debt. Soon afterwards the government abandoned the convertibility plan and devalued the peso. Total public debt increased from 45.7 % of GDP in 2000 to 166.3 % in 2002, and the default left the Argentine government owing private investors US\$81.8 billion, the [Paris Club countries](#) (mainly Germany and Japan) US\$6.3 billion, and the IMF US\$9.5 billion, among other domestic and multilateral obligations. The country reached the bottom of the recession in the first quarter of 2002, after a drop of almost 18 % in GDP compared with 1998. [Unemployment](#) increased from 12.6 % in 1998 to 19.6 % in 2002 and the [poverty headcount](#) ratio at US\$2.15 increased from 4 % to 12.4 % in the same period.

In the May 2003 elections, [Néstor Kirchner](#) (2003-2007) with the Peronist Frente para la Victoria won the presidency.<sup>3</sup> The [recovery](#) from the Great Recession of 1998 to 2002 was very fast and was accompanied by 6 consecutive years of fiscal surpluses. As a result, inflation remained mostly at single-digit level from 2003 to 2007, and the dollar value of the debt in 2010 was very similar to what it had been in 2006. During this period, the government [adopted](#) public expenditure plans focused on reducing poverty and social deprivation (e.g. Plan Jefes y Jefas de Hogar, Plan Familias, Asignación Universal por Hijo), as well as labour market reforms. The policies facilitated a reduction in the [poverty rate](#) from 12.4 % in 2002 to 0.7 % by 2011. Labour market reforms contributed to a decline in the unemployment rate from 16.1 % in 2003 to 7.5 % a decade later, rising real wages and a reduction in the informal labour sector. In addition, in the period 2003 to 2008, the administration adopted an exchange rate policy that helped increase exports, which coupled with the global increase in commodity prices helped to reduce the national debt.

Kirchner did not run for a second term in 2007 and instead supported the candidacy of his wife, [Cristina Fernández de Kirchner](#) (2007-2015), who became Argentina's first elected female president. Under Fernández de Kirchner, the trends of the previous years [changed](#). The surpluses started to disappear and became a 2 % fiscal deficit by 2013. The deficit then continued to increase, reaching a worrying value of close to 6 % by 2017. Given the lack of access to foreign borrowing that lasted until 2016, the mounting deficits were financed (i) by [seigniorage](#), which led to higher inflation (almost 25 % a year), and (ii) domestic debt instruments. During this period, the government faced significant challenges. One came from the agricultural sector, which protested against the increased export taxes on agricultural products (mainly soybean products).<sup>4</sup> Others arose from foreign exchange restrictions, curbs on imported goods, and high inflation, which led to riots in 2012. Yet another challenge came from 'holdout creditors' (see below), which led to a default in August 2014 and the protracted exclusion of Argentina from international capital markets.

When [Mauricio Macri](#) (Juntos por el Cambio [2015-2019](#)) was elected President in 2015, inflation exceeded 25 % and a number of ill-devised subsidies had pushed the fiscal deficit to about 6 % of GDP. The new President [gradually](#) ushered in a series of economic reforms, which included cutting export taxes, lifting currency controls and resolving the issue with the holdouts, to allow Argentina to resume access to international capital markets.<sup>5</sup> At the same time, he channelled significant amounts of [funds](#) for social assistance and public investments. Taking advantage of the positive global conjuncture and the resolution of the holdout problem, the Macri government issued US\$56 billion in external debt between January 2016 and June 2018. This increased significantly the proportion of foreign debt to GDP on one hand, but on the other allowed the Central Bank to return to inflation targeting through interest rates as its only remit.<sup>6</sup> In this context, the Central Bank raised interest rates to 25 % to curb inflation. Nevertheless, the country's increasing reliance on external financing to fund its budget and current account deficits left it vulnerable to changes in the cost and availability of financing. The timing was far from optimal: already in late 2017, the US Federal Reserve

[began raising](#) interest rates, reducing investor interest in Argentine bonds; and the worst [drought](#) in Argentina in 50 years hurt commodity yields, significantly eroding agricultural export revenue. Investors began selling Argentine assets, leading the peso to [depreciate](#). With most of its debt denominated in dollars, a depreciated peso increased the value of the debt in terms of pesos. To improve investor confidence, the Central Bank increased [interest rates](#) even further in April and May 2018 (to 40%) and the government announced fiscal reforms to cut the budget deficit. Market volatility continued, however, and in June 2018, the Macri government reached an agreement with the IMF for a three-year, [US\\$50 billion programme](#).

Despite this IMF programme and the fiscal reforms, the country's large debt and deficit, plus high inflation combined with the negative the effects of monetary policies pursued by the US and the euro-area, contributed to the significant and sustained depreciation of the peso. To stabilise the currency, the Central Bank raised [interest rates](#) to 60% in late August 2018, and the government committed to hastening the pace of fiscal reforms. However, this sustained fiscal tightening was met with stiff [social resistance](#). The economic woes continued into 2019. While fiscal reforms halved the deficit to 2.5 % in 2019, the economy contracted by 2.2 % that year. In addition, the peso's devaluation made it hard to tame inflation (with consumer prices growing by 54 % by the end of the year). It also increased the real value of Argentina's debt (mostly denominated in US dollars), accounting for about 76 % of GDP in 2019. A new run on the peso forced the Central Bank to raise interest rates to 70 %, but this harmed businesses and hampered job creation. Poverty increased significantly: data from the Social Debt Observatory of the Catholic University of Argentina suggested that [urban poverty](#) increased to 31.3 % in 2018 (around 12.7 million people). In Greater [Buenos Aires](#), where the majority of Argentines live, the poverty rate reached 41.1 %, with an extra 750 000 individuals falling into poverty in 2018 alone. The austerity measures and lingering recession in Argentina eroded President Macri's political [popularity](#). In the August 2019 primary election (which combined candidates from all parties), Macri lost to Alberto Fernández, who had pledged to 'rework' the IMF programme if elected. [Following](#) the primaries, capital flight from Argentina accelerated, the peso reached a record low, and Argentina's stock markets dropped. In December 2019, [Alberto Fernández](#) (2019-2023) was elected President.

## The debt restructurings

Over the course of those 20 years, Argentina underwent two major restructuring processes. An introduction to debt and restructuring is provided in the Annex to this briefing.

### 2005-2016 restructuring

#### First and second offers

Argentina made its first restructuring offer on 14 January 2005, 3 years after the default. It offered to voluntarily restructure more than US\$81.8 billion of sovereign foreign debt. In its **first offer**, the government offered some incentives. First, the new securities included a 'right upon future offers' ('RUFO') clause.<sup>7</sup> Also, the new securities included for the first time a collective action clause (CAC).<sup>8</sup> Lastly, to pressure the holders of the defaulted securities to participate in the offer, on 9 February 2005, Congress passed the [Lock Law](#).<sup>9</sup> On expiry of the first offer, holders of a total of approximately US\$62.3 billion, representing 76.15 % of the total amount of the defaulted securities, tendered their defaulted securities in exchange for the new securities. On 26 April 2010, the government launched the **second offer**, which included securities with longer maturities and lower interest rates. On expiry of the second offer, holders in total of about 92.4 % of the total amount of the defaulted securities had restructured their defaulted securities.

#### Holdout litigation

However, a number of holders of defaulted securities issued by Argentina (worth US\$1.33 billion), did not accept the exchange offers, despite the measures mentioned above. In 2011, they filed a

motion before the US [District Court](#) for the Southern District of New York, arguing that a [clause](#) contained in their bonds<sup>10</sup> provided that whenever Argentina made payments to the holders of the exchanged bonds, it had to pay them too. The District Court Judge agreed with their claim and issued an [injunction](#) providing that whenever Argentina pays any amount due under the exchange bonds, it must [concurrently make](#) a full payment to the plaintiffs.<sup>11</sup> The injunction was costly for Argentina, as it [impeded](#) the country from borrowing under any of the major financial jurisdictions.<sup>12</sup> Litigation continued until 2016,<sup>13</sup> when the Macri government struck a deal with the holdouts.<sup>14</sup> Following the deal, as well as repealing the Lock Law and the Sovereign Payment Law, the District Court Judge lifted the injunction, and the government paid the [vulture funds](#) and other holdout bondholders.<sup>15</sup>

## 2020 restructuring

In February 2020, a few weeks before COVID-19 was declared a pandemic, IMF staff [noted](#) that Argentina's US\$323 billion sovereign debt (88 % of GDP) was [unsustainable](#).<sup>16</sup> Of this total amount, US\$52 billion was due in 2020 and about US\$37 billion was due in 2021. The IMF moreover noted that since July 2019, the Argentinian peso had depreciated by over 40 %, sovereign spreads had increased by 1 100 basis points, international reserves had declined by US\$20 billion, and real GDP had contracted more than anticipated.

### 2020 restructuring offer

Following Law [No 27544](#), enacted by Congress in February 2020 and government [Decree No 250/2020](#), which authorised negotiations for the restructuring, the Argentine government launched an exchange offer on 21 April 2020, for a total principal amount of approximately US\$68.8 billion. A key difference between the 2005–2016 restructuring and the 2020 restructuring was that the eligible bonds in the latter contained [collective action clauses](#) (CACs).<sup>17</sup> However, in its initial offer, Argentina used two new strategies<sup>18</sup> that did not please investors. As a result, when the initial offer expired on 8 May 2020, it received a very low level of acceptance (less than 20 %).

After negotiations with a group of eligible bondholders, Argentina and those holders reached a consensus that resulted in an agreement to address and regulate the re-designation mechanism, as well as the 'pac-man' strategy.<sup>19</sup> After these amendments at the end of August 2020, the Argentine government obtained the consent required under the CACs (93.5 % of the bondholders) to exchange or restructure 99 % of the eligible bonds (approximately US\$64.8 billion). Despite these developments, the prices of the new bonds fell, possibly reflecting the fact that investors thought the country would need a new restructuring in the near future (when significant amounts would be coming due). As a result, Argentina is currently effectively unable to access international debt markets. The fact that it only has access to domestic markets has resulted in the growth of this market.

### Developments after the 2020 restructuring

With the closure of the 2020 restructuring, which comprised holders of bonds in foreign currency and those governed by foreign law, the government had to face the debt incurred with the IMF and the Paris Club.

On 3 March 2022, the government announced that Argentina had reached an agreement with the IMF to refinance the stand-by arrangement executed in 2018, by means of a new 30-month [extended fund facility](#) (EFF) equivalent to US\$44 billion. This was approved first by the [Argentine Congress](#) and then by the IMF Executive Board. This new facility includes longer payment terms, as well as a host of measures to eliminate monetary financing of the fiscal deficit and to develop and strengthen the peso local debt market. The EFF also provided guidelines regarding the management of the foreign exchange rate to ensure competitiveness and to encourage the accumulation of reserves. Lastly, it tackles aspects of the debt issued in foreign currency and under foreign law.

The remaining major sovereign debt to be restructured is held by members of the Paris Club, which the government is currently handling. The payments under this debt were initially deferred in mid-2021, when the Ministry of Economy announced a 'time bridge' with the Paris Club until March 2022. At that time, Argentina also ordered the fulfilment of partial payments for July 2021 and February 2022 and it was announced that the understanding then reached prevented a default in 2021 and implied US\$2 billion in financial relief for Argentina. At the time of writing, it remains to be seen how this debt tranche will be restructured in the coming months, prior to the September 2024 deadline. At the end of May 2022, the Ministry of Economy announced that an extension of the existing understanding until 30 September 2024 had been agreed with the participating countries of this group of creditors and that the parties had committed to close the process of final amendment of the agreement, so as to provide for a new mechanism for repayment of the debt.

## EU relations with Argentina

Argentina and the European Union (EU) manage their [bilateral relations](#) within the bounds of the 1990 Framework Agreement for Economic and Trade Cooperation. Under the agreement, specific cooperation agreements have been reached on fisheries, peaceful uses of nuclear energy and scientific and technological cooperation. The [Joint Commission](#) charged with overseeing the agreement has also fostered sectoral policy dialogue in areas such as energy, digitalisation, and human rights. As a member country of the Mercosur trading bloc (Argentina, Brazil, Paraguay and Uruguay), bilateral relations between Argentina and the EU are also subject to the 1995 [EU-Mercosur Interregional Framework Cooperation Agreement](#).

In 2019, the EU concluded negotiations for a trade agreement with the four founding members of Mercosur as part of a bi-regional Association Agreement.<sup>20</sup> The agreement still requires ratification by both parties before entering into force. Ratification has been delayed on both sides: [Ireland](#), [France](#), and [Austria](#) were among the first countries to announce their opposition to the FTA, and about half a dozen other EU capitals followed suit in promising not to ratify the 2019 version of the agreement. European farmers, especially in France, staunchly [opposed](#) the agreement, citing environmental considerations (e.g. deforestation in the Amazon), as well as their inability to compete with South American agribusiness, especially in the areas of meat, sugar, and ethanol production.

On the other hand, Brazil and Argentina have been [calling](#) for amendments to the agreement to favour their domestic industry. To assuage EU concerns regarding Amazon deforestation, EU trade negotiators presented an [additional instrument](#) to the Mercosur countries in 2023. Recently, Commission President Ursula von der Leyen [pledged](#) that the EU and Mercosur would conclude their long-delayed trade agreement by the end of the year. For Argentina specifically, the Fernandez government is showing [willingness](#) to finalise the [ratification](#) in 2023. At the same time, it places the [blame](#) on the delay on EU 'protectionism' in some sectors. As far as the additional protocol is concerned, Santiago Cafiero, the Argentinian Minister of Foreign Relations [said](#) in a recent speech that the protocol imposes new obligations that 'go beyond what was agreed upon in international forums, and leaves out references to the methods of implementation'. Moreover, he said that Mercosur had presented a counter-proposal in March to the EU's environmental protocol, 'that contained two additional texts: one on technical cooperation and another on financing so as to "contribute to the development of sectors that will be affected".'

The EU has a thriving [trade relationship](#) with Argentina, with trade in goods totalling €16.6 billion in 2021. The EU is Argentina's third largest trading partner (after Brazil and China) and accounted for 13.6 % of total Argentine trade in 2021. When it comes to [trade in goods](#), trade between the EU and Argentina is more or less balanced. The EU exports to Argentina mainly manufactured products, such as machinery and appliances (28 %) and chemical products, including pharmaceutical products (29 %) for a total value of €8 billion in 2021. It imports mainly processed agricultural products (38 %), chemical products (21 %) and fish and seafood (8 %) for a total value of €8.6 billion.

As far as trade in services is concerned, the picture is a bit more uneven, with the EU importing in 2020 services worth €1.6 billion and exporting services worth €3.5 billion.

Argentina is also an important investment destination for European companies. The stock of investments from the EU was €35.8 billion in 2020, making the EU the country's first foreign investor. In addition, at the end of 2022, the [European Investment Bank](#) had a portfolio of loans totalling €655 million in Argentina (including loans under preparation).

When it comes to broader cooperation, the EU and Argentina focus their cooperation on the EU's priorities, i.e. scientific cooperation, gender equality, social cohesion but also the digital and green agendas. On digital, cooperation focuses on artificial intelligence and data protection. Regarding the green transition, the focus is on the promotion of sustainable development in areas such as the Gran Chaco. In this context, Team Europe has gathered around €30 million with contributions from the EU, the European Investment Bank (EIB) and seven EU Member States, as well as private sector companies.

The European Investment Bank ([EIB](#)) has been working with Argentina since 1994. The country is the second largest recipient of EIB financing in the Americas after Brazil. Recently, the EIB signed three [contracts](#): a US\$91.3 million [loan](#) to modernise the Buenos Aires subway; a US\$70.2 million [loan](#) for a water and sanitation project in the metropolitan area of Buenos Aires; and a [guarantee](#) for an integrated waste management project in Jujuy (US\$44.8 million).

On 13 June 2023, Commission President Ursula von der Leyen and the President of Argentina, Alberto Fernández, signed a [memorandum of understanding](#) establishing a partnership between the EU and Argentina on sustainable raw materials value chains.

## The European Parliament and Argentina

In its current term, the European Parliament has adopted eight resolutions objecting to draft Commission implementing decisions authorising the placing on the EU market of products containing, consisting of, or produced from GMOs (soybean). It has also adopted a [resolution](#) on the draft Council decision on the conclusion of the agreement between the EU and Argentina relating to the modification of concessions on tariff rate quotas following the UK's withdrawal from the EU.

In its previous term, Parliament adopted a [resolution](#) on enhancing developing countries' debt sustainability. In that context, among other things, it expressed its concerns at the substantial increase in both private and public debt in many developing countries and its harmful effect on their ability to finance investment expenditure for health, education, the economy, infrastructure and combating climate change. It also stressed that debt relief measures must not be allowed to impede the provision of economic, social and cultural rights in the recipient State. Lastly, it called on the Member States to adopt, on the Commission's initiative, a regulation based on the Belgian law on combating vulture fund debt speculation.

## Latest developments

Since 2020, Argentina, like many other countries around the world, has been battling the consecutive impacts of the [COVID-19](#) pandemic, [persistent droughts](#) caused by climate change,<sup>21</sup> and the international ramifications of the Russian invasion of Ukraine.<sup>22</sup> Contrary to other Latin American countries, however, Argentina's inflation has increased significantly, exceeding 100 % in 2023, leading the Central Bank to raise interest rates to 97 %. In addition, the severe droughts brought by an extended La Niña phenomenon damaged Argentina's crops and affected agricultural exports. The drop in exports, in turn, led the Central Bank to use a large portion of its US dollar reserves. To maintain its international trade without adequate reserves, the country is currently exploring other ways and mechanisms, for example settling in Chinese Yuan, or through a financing mechanism with Brazil.<sup>23</sup>

[Recent figures](#) published by Argentina's National Institute for Statistics and Census (INDEC) show that, during the second half of 2022, 39.2 % of Argentines were below the poverty line and 8.1 %

were below the destitution threshold. The report also found that 54.2 % of children aged 0 to 14 were poor and 12 % were destitute.

Given that the economic situation could spiral into a wider crisis, the various actions of the finance ministry seem to be aimed at avoiding a major crisis before the October general elections. One example is the [agreement](#) reached by the finance ministry to roll over around US\$49.5 billion in short-term peso-denominated domestic debt. While this removes significant pressure from the economy until October, the measure has been [criticised](#) because it creates further challenges for the next government.<sup>24</sup>

This situation has led the various credit rating agencies to approach the case of Argentina with concern. Since last year, Fitch Ratings [has modified](#) its rating of Argentina's foreign currency [several times](#). Moody's meanwhile considered a move by the Central Bank to [buy back](#) US\$1 billion of foreign debt on behalf of the Treasury to constitute a default. At the same time, it must be noted that the three credit rating agencies have not reacted in the same way or at the same time. As for the [IMF](#), while it has also expressed concerns, it has continued its disbursements following the completion of programme milestones.<sup>25</sup>

During the same period, Argentina has engaged in a flurry of diplomatic relations. The election of [President Lula](#) allowed normalisation of relations with neighbouring [Brazil](#), as well as several discussions on closer cooperation between the two countries. Moreover, on 24 August 2023 Argentina's request to join the [BRICS](#) (and therefore the group's bank, the [New Development Bank \(NDB\)](#)), was [accepted](#). In that context, the country is expected to receive financing through a capital expansion supplied by Brazil. In addition, President [Fernandez met](#) US President Joe Biden, although the [meeting](#) clarified neither the position of Argentina with regard to China, nor the exploration of cooperation options for Argentine minerals.

Lastly, Argentina has increased its contacts with the EU, both with individual Member States (such as [Germany](#)) and with the EU institutions (for example, High Representative Josep Borrell and Commission President Ursula Von der Leyen). The increase in activity is set in the context of the [reengagement](#) of the EU with Latin America. There are several reasons for this reengagement, including the common history, language and values of the two continents, close cooperation in various programmes, and also the [recent initiatives](#) of the EU to secure access to [critical raw materials](#) to reduce its dependency on [China](#) in the context of the energy transition.<sup>26</sup>

## On the road to the elections

Major political developments in April and May 2023 were the announcements from [Alberto Fernandez](#), [Cristina Fernández de Kirchner](#) and [Mauricio Macri](#) that they would not stand in the 2023 elections.

By 26 June, several parties had [proposed](#) candidates for the October elections.<sup>27</sup> The parties leading the polls (in terms of [voting intentions](#)) in mid-June were Juntos por el cambio (30 %), Union por la Patria (formerly Frente de Todos, 25 %) and La Libertad Avanza (18 %). The candidates of the three parties are: Sergio Massa and Juan Grabois for Unión por la Patria, Horacio Rodríguez Larreta (the Mayor of Buenos Aires) and Patricia Bullrich (a former security minister) for Juntos por el Cambio, and Javier Milei for La Libertad Avanza. In an unexpected development, Milei won more than 30 % of the vote, while Juntos por el Cambio won about 28 % and Union por la Patria 27 %. This could mean that a clear result may not come in the 22 October elections, and that a runoff may be needed in November.

Since 2009, Argentina's electoral system has included primaries: *primarias abiertas, simultáneas y obligatorias* – PASOs. The [stated aim](#) of the primaries is to minimise the fragmentation of the political landscape before the general elections: parties winning less than 1.5 % of the vote in the primaries are excluded from competing in the elections. In 2023, the PASOs took place on 13 August. The next president will be elected on 22 October.

The Union por la Patria [programme](#) criticises the Macri US\$44 billion agreement with the IMF and calls for a discussion on the future of the country. It focuses on strengthening labour rights,

stabilising prices without affecting employment levels, de-monopolising and stimulating competition.

In Juntos por el Cambio, [both](#) candidates want to secure Central Bank independence, reduce the total fiscal deficit, eliminate currency controls and unify the multiple [parallel exchange rates](#). However, Larreta is seen as a partisan of a more gradual change in economic policy and as being open to [integrating](#) moderate members of FdT, while Bullrich is open to more radical measures<sup>28</sup> and potential cooperation with Milei.

As for Milei's [programme](#), it includes a sharp cut in state public spending, tax reforms that lower taxes, a labour reform that eliminates compensation for dismissals without cause, a pension reform that aims to encourage a system of private capitalisation, the reduction of ministries to eight portfolios, the elimination of the Central Bank of Argentina, and the elimination of export withholdings and import duties. A principal element of his plan that attracted a lot of attention, however, is his intention to dollarise the economy. The idea is that, as the current inflation crisis is the result of the Central Bank [financing](#) the country's deficit, replacing the currency with the dollar would stop this practice and contribute to disinflation. Some, however, question the feasibility of the plan. Indeed, [foreign currency](#) reserves are [very low](#) (and some researchers even estimate them as [negative](#)), [trade](#) represents only a third of Argentina's economy – [much less](#) than in Ecuador (59 %) or El Salvador (66 %) when they dollarised in 2000 and 2001 respectively – and, following last years' droughts, the country's agricultural exports are volatile. Lastly, and perhaps most importantly, recent history has shown the potential perils of such a plan: while the government tackled hyperinflation through the peg to the dollar in the 1990s, it did not abide by the strict rules necessary to maintain it and the result was the 2001 crisis.

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## ENDNOTES

- <sup>1</sup> According to the IMF, following a GDP contraction of 9.9 % in 2020, GDP grew by 10.3 %, in 2021.
- <sup>2</sup> The former two indicators fell by 25 % and 45 % respectively between 1975 and 1990, with industry's contribution to GDP declining from 28.3 % to 20.7 %.
- <sup>3</sup> For more information about the Peronist movement and parties, see E. Gómez Ramírez, [Argentina's Parliament and other political institutions](#), EPRS, European Parliament, 2021, and V. Herrera, [The Persistence of Peronism](#), Center for Latin American Studies, UC Berkeley, 2007.
- <sup>4</sup> Since export taxes were reintroduced in 2002, they had become an important source of state income, representing an average of 12 % of budget revenues by 2010. President Fernandez de Kirchner attempted to increase them to maintain surpluses in the face of decreasing commodity demand (and thus prices).
- <sup>5</sup> Macri [increased](#) utility prices, re-calculated pension benefits and resolved a dispute over transfers to the provinces.
- <sup>6</sup> Rather than the multifaceted mandate (including ameliorating poverty and boosting well-being) that it had been tasked with under the Kirchners.
- <sup>7</sup> According to this clause, if on or before 31 December 2014 Argentina made an offer to the outstanding defaulted securities not tendered in the first offer, then the holders of the new securities would have the right to exchange them for the consideration offered by Argentina in the new offer.
- <sup>8</sup> Under the CAC, any amendment or waiver to the new securities of a single series, or to the indenture insofar as it affected all new securities, could be made or waived with the consent of holders representing no less than two thirds of the aggregate principal amount outstanding on the applicable new securities.
- <sup>9</sup> According to the Lock Law, for all defaulted securities not tendered in the offer, the government was prohibited from (1) reopening any additional exchanges after the offer expired, (2) conducting any type of settlement.
- <sup>10</sup> According to the 'pari passu' clause contained in the FAA, '[1] The Securities will constitute (...) direct, unconditional, unsecured and unsubordinated obligations of the Republic and shall at all times rank pari passu and without any preference among themselves. [2] The payment obligation of the Republic under the Securities shall at all times rank at least equally with all its other present and future unsecured and unsubordinated External Indebtedness'.
- <sup>11</sup> In response, Argentina enacted the [Ley de Pago Soberano](#) (sovereign payment law) to allow restructured bondholders to exchange their bonds for other bonds with equivalent terms but issued under Argentine law.
- <sup>12</sup> From the time it came into effect until it was lifted, the country borrowed relatively minor amounts from China at a high annual interest rate of 8.75 %.
- <sup>13</sup> The main impediment for repaying holdout bondholders according to Judge Griesa's terms was the RUFO clause. The rationale from the Argentinean side was that, if Argentina had paid, the 93 % of bondholders who had accepted the restructuring could have asked for a similar treatment. Negotiations resumed after the law's expiry.
- <sup>14</sup> The agreement contained (i) a base offer to all holders of defaulted securities who had not obtained a grant of the injunction for a payment in cash equal to 100 % of the original principal amount under their defaulted securities plus an amount equivalent to 50 % of the outstanding principal amount and (ii) a pari passu offer to holders benefiting from the Griesa injunction for a payment in cash equal to 100 % of the amount of the money judgment with a deduction of 30 %.
- <sup>15</sup> Lee Buchheit et al note that *NML Capital v Republic of Argentina* changed the relationship between the holdouts and the rest of the creditors. While before the judgment, the financial community welcomed (or at least tolerated) the threat of holdouts, because they thought it would induce the debtor to offer more generous financial terms to all, the Griesa injunction in effect saw the holdouts turning against the other creditors: not only did they demand a preferential recovery partially funded by the generosity of the rest of the creditors, they also forced the debtor to default on those creditors, unless the holdouts were paid in full.
- <sup>16</sup> This debt was held by private creditors (US\$ 133 billion, 41 %), public sector bodies (such as the Central Bank and the Social Security Trust Fund, US\$ 117 billion, or 36 %), by the IMF (US\$ 44 billion, 14 %) and other official creditors (US\$ 29 billion, 9 %).
- <sup>17</sup> [More specifically](#), Argentina had two kinds of bonds: those issued in its 2005 and 2010 restructurings under the Kirchners and those issued in (and since) the 2016 settlement under Macri. The former bonds have 'two-limb' aggregated CACs. This means that any single bond series can be restructured with the consent of 75 % of the bondholders, and that any two or more series can be restructured with the consent of 85 % of the aggregated pool plus 66.67 % of each series. The latter bonds have a version of 'single-limb' aggregated CACs, also known as ICMA CACs because the International Capital Market Association played a vital role in designing and diffusing them. Under this new procedure, Argentina can restructure two or more bonds with a single vote of 75 % of all polled series. If that vote falls short of 75 %, there is no restructuring; if it clears 75 %, there are no holdouts.
- <sup>18</sup> The two new strategies were the 're-designation' and the 'pac-man' strategies. The re-designation strategy provided the possibility for the issuer (Argentina) to re-define the pool of bond series to be considered for aggregation purposes, with the consent of the bondholders. The pac-man strategy would happen in several rounds of restructuring, in case of dissenting bondholders. To oversimplify, it would [aggregate](#) the bonds of the various rounds, offering slightly improved terms in each round, so as to reach a majority of over 75 %, allowing Argentina to use a

- modification method under the CACs to bind dissenting bondholders. There were fears that the combination of these two features in a sovereign debt workout could [result](#) in Argentina relying on a minority of its creditors to ultimately bind and restructure a majority.
- <sup>19</sup> Following the agreement, the modification provisions of the new bonds were amended to expand the list of reserved matter modifications and to specify the future circumstances under which Argentina could 're-designate' the series of debt securities affected by a reserved matter modification.
- <sup>20</sup> According to the [Commission](#), the EU is Mercosur's second biggest trade in goods partner after China, accounting for 16.2 % of the bloc's total trade in 2021. Mercosur is the EU's 11th biggest partner for trade in goods.
- <sup>21</sup> Despite the numerous measures taken to shore up Argentina's economy, many expect GDP to be [lower than expected](#), due to the [worst drought](#) in over 60 years leading to [diminished](#) soybean and corn harvests. The drought is due to [La Nina](#), a phenomenon that occurred for the third time in as many years in 2022.
- <sup>22</sup> In February 2023, Argentina's Ministry of the Economy released a [report](#) showing that the Russian invasion of Ukraine had generated a negative effect of US\$4.94 billion in the country's trade balance, owing to a US\$3.8 billion loss in the energy sector and US\$1.8 billion in higher trade freight charges, despite a positive result of US\$ 617 million from the export of agro-industrial products.
- <sup>23</sup> Argentine President Alberto Fernández and his Brazilian counterpart, Luiz Inácio Lula da Silva, [announced](#) that they were working on a mechanism to avoid using US dollars in their trading relationship (thus allowing Argentina to keep its remaining US dollar reserves without sacrificing trade).
- <sup>24</sup> The move has also been criticised because, as the name implies, the debt has been rolled over and not repaid, meaning that Argentina has still US\$174 billion in local debt to manage, an amount that is [growing fast](#), given that many of those obligations are [linked to \(current very high\) inflation](#).
- <sup>25</sup> At the end of December, the Executive Board of the IMF [completed](#) its third review of the EFF arrangement, allowing for immediate disbursement of about US\$6 billion. One of the targets of the IMF programme for 2023 is 60 % inflation. At the same time, in its [world economic outlook](#), the Fund noted that it expects GDP growth to slow down to around 2 % in 2023, as a result of the global slowdown, as well as fiscal and monetary tightening policies.
- <sup>26</sup> Argentina, Chile and Bolivia, known as the 'Lithium Triangle', hold two thirds of the world's lithium reserves.
- <sup>27</sup> Unión por la Patria, Juntos por el Cambio, La Libertad Avanza, Hacemos por Nuestro País, Frente de Izquierda, Nuevo Más, Política Obrera, Libres del Sur, Frente Patriota Federal, Principios y Valores, Demos, Frente Liber. Ar, Paz Democracia y Soberanía and Movimiento Izquierda Juventud Dignidad.
- <sup>28</sup> According to *The Economist*, she favours sharp devaluation and a rapid reduction in public spending.

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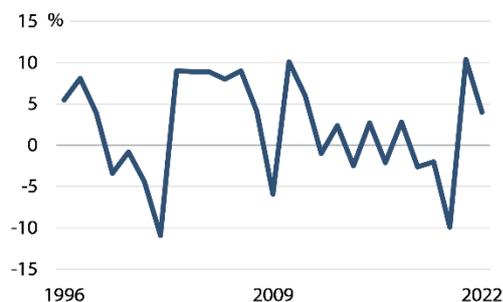
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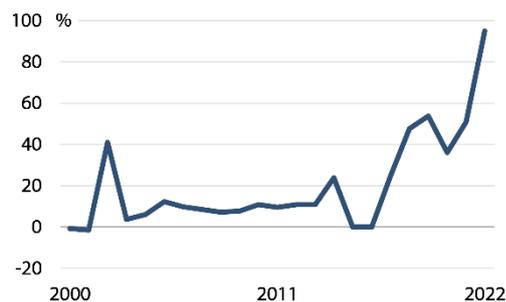
## Annex 1: Key economic indicators for Argentina

Figure 2 – GDP growth



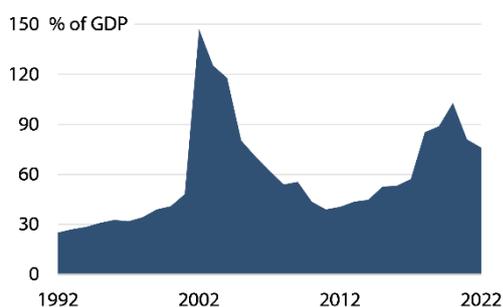
Data source: [International Monetary Fund](#).

Figure 3 – Inflation



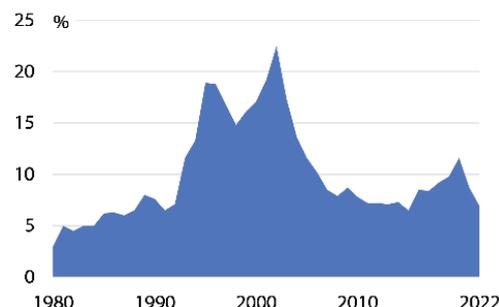
Data source: [International Monetary Fund](#).

Figure 4 – Government debt



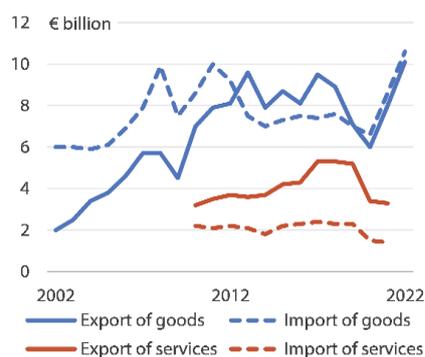
Data source: [International Monetary Fund](#).

Figure 5 – Unemployment



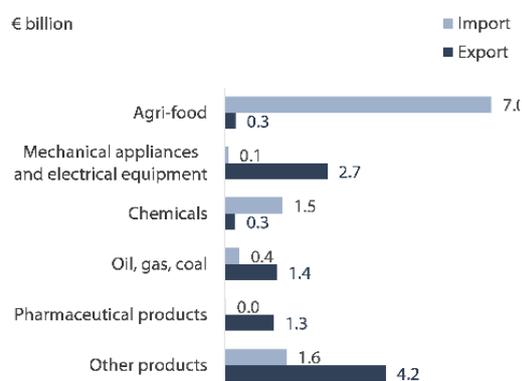
Data source: [International Monetary Fund](#).

Figure 6 – Trade relations with the EU



Data source: Eurostat, [International trade in services \(since 2010\) \(BPM6\)](#) and [Easy Comext](#).

Figure 7 – Main trade products



Data source: Eurostat, [Easy Comext](#).

## Annex 2: Sovereign debt, default and restructuring

[Sovereign debt](#) is an option available to a national government wishing to [spend](#) beyond what it [receives](#) or not wanting to increase taxes. Sovereign debt consists of [loans](#) and/or debt securities (government bonds). While, a country's government should be able to effectively [manage](#) its sovereign debt and repay its creditors, there are circumstances in which it may find it difficult to do so. [Reasons why](#) political leaders are generally reluctant in such cases to reduce interest payments, slow the rate of amortisation or even [repudiate](#) their debts [include](#) reduced (or loss of) access to international capital markets, higher borrowing costs, damage to international trade and the domestic economy,<sup>1</sup> and domestic political costs. Despite the above, **sovereign default**<sup>1</sup> can [sometimes](#) be one of only few viable ways or the only viable way for a country to achieve debt relief and return to sustainability. One of the actions encompassed by sovereign default is **debt restructuring**, a negotiated agreement between a debtor and its creditors to cancel part of the outstanding debt obligations, with a view to securing full repayment on the remaining debt at a later date. Restructurings [typically](#) lead to new payment promises involving a combination of a lower principal (in the jargon, a principal 'haircut'), lower interest payments ('coupon adjustment'), and longer maturities and/or [grace periods](#).

If they succeed, debt restructurings can help a country return to normal economic activity and avoid prolonged banking, social or political crises. However, in contrast to corporations or individuals, there is no special bankruptcy code or court for sovereign countries. Sovereigns can be sued in national courts in respect of their commercial activities under the [restrictive doctrine](#) of sovereign immunity.<sup>1</sup> On top of that, restructurings are complicated because they can be influenced by political motivations of the debtor government, because they are characterised by [asymmetric information](#) between the country and its creditors, and because the structure of debt may be complex, involving various creditors, (e.g. banks, funds, suppliers, etc.) some of which may decide to 'hold out'.<sup>1</sup> Those factors can cause restructurings to [fail](#) in many ways: for example, it can take too long to execute, or not provide enough debt relief.

On the other hand, there are practices designed to encourage the participation of the creditors and help the restructuring. These include [positive incentives](#), such as cash, [value recovery instruments](#) linked to the country's commodity or future GDP growth, credit enhancement (which insures a third party to issue a partial guarantee of amounts due under the new bonds), principal reinstatement features (which provide that if a debtor country seeks to restructure the same debts in the future, the lenders would maintain their original claims unimpaired), or parity of treatment undertakings (a covenant promising that other lenders will not be given preferential treatment. They can also include negative incentives, such as threats of non-payment for holdouts, [collective action clauses](#) (CACs) which enable a (super)majority of bondholders to bind the minority, exit consents, or – when the debt is issued in national law – the threat of amending national law (as in the case of Greece in 2012).