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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, SBA's 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 macro-economic 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-argentinass-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.*

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