



Opinion Argentina

Martín Guzmán: Argentina cannot afford to pay creditors more

Even before Covid-19 struck, the country's debt trajectory was out of control

Martín Guzmán

The writer is Argentina's Minister of Economy

Even before the pandemic, the people of Argentina were suffering in an economy marked by recession, high unemployment, rampant inflation and dramatic poverty. Now, Covid-19 has devastated exports and fiscal revenues too. As everywhere else, the disease has forced the adoption of emergency measures aimed at sustaining a minimum livelihood for the unemployed, and to avert a total economic collapse.

It is in these conditions that we are negotiating with international creditors over \$65bn of public debt. Solving the debt crisis in such circumstances requires common sense, collaboration and fresh ideas in the interest of both international creditors and Argentina.

Argentina has suffered a long history of booms, busts and failed economic reform. The nation has defaulted on its debt eight times, suffered hyperinflation twice, and gone through multiple balance of payments crises as well as 20 IMF-supported economic programmes in 60 years.

That history provides the guiding principle with which we have built the debt restructuring process: to propose, in good faith, a redrawing of our debt commitments to create long-term economic sustainability, so that Argentina can and will meet the promises made to its creditors.

It is in creditors' best interests to avoid the destructive patterns of the past of impossible promises and repeated crises. The time for illusions is over. In the new Covid-19 world, we cannot continue to spend 20 per cent of government revenues or more on debt payments — as some creditors have effectively asked. It is simply impossible.

These are enormously trying times for bondholders, and Argentina is a preview of what's to come for struggling debtor nations across the globe. But bondholders have a choice: recognise the historic challenges and seek new ways forward, or stubbornly insist on short-sighted repayment terms that appear to provide quick returns but only degrade debtor countries and undermine their ability to repay. Unsustainable demands can only breed unsustainable outcomes.

Let's be clear: this isn't a game of spreadsheets. At stake is the economic fate of 45m Argentine citizens. More than 35 per cent of our population and 52 per cent of children are already in poverty. No democratic government can impose still more hardship or be



asked to put bondholders ahead of economic policies designed to palliate the catastrophic effects of the pandemic.

We have made an unwavering commitment to working our way out of this crisis by being honest with both ourselves and our creditors. The repayment scenarios we have constructed call for a breathing space to allow for economic recovery and a rebuilding of our income-generation possibilities. It is unclear how the pandemic will impact medium to long-term economic projections. But we have assumed growth will be in line with the historical record and used realistic estimates of export growth.

Although seemingly modest figures, perhaps, they are ambitious in that they assume a trend of persistent economic improvement that allows the public sector to maintain primary surpluses and service our proposal's debt obligations.

Our offer includes a three-year grace period, a 5.5 per cent reduction on the bonds' principal, and a 62 per cent reduction of interest payments. It leaves creditors with an average bond coupon of 2.3 per cent, versus their current 7 per cent average, which is not low considering the current interest rate environment. We are, in short, not asking our creditors to lose — but to make less.

Forcing further austerity to pay more would not only be economically disastrous, but also politically and morally unacceptable — and ultimately unsustainable. Sustainability means having debt that can be serviced and that is under control: unaffordable debts cannot be paid in Argentina or anywhere else. Yet even before Covid-19, devaluation, high interest rates and low growth made our debt trajectory out of control.

Both sides need to make a good-faith effort. For our part, we will seek to drive economic growth and pledge to manage public finances to generate a primary balance. For their part, international investors will earn a higher interest rate than at home, and one that is also consistent with Argentine growth prospects.

Some creditors seek significantly more. But such demands are inconsistent with what even the IMF, which is also a major creditor, defines as sustainable. Furthermore, that analysis was based on economic estimates made before the pandemic. I must be explicit and clear: we cannot afford to pay more.

Some have suggested we pay less. But as a sign of our commitment to our deal, we stand by our proposal, even though it now requires a substantially stronger repayment-generating effort. Now is the time for an agreement.

This debt restructuring takes place in dramatic times. Social distancing has made the negotiations more complicated still. But the Latin origin of the word sustainable — *sustinere* — has many meanings, and they are what our government aspires to. To bear, to endure and yes, ultimately, to hold upright.