



## Argentina's Debt Imbrolio – Without Tears, Part II

*Anna Gelpern discusses why Argentina's two classes of aggrieved creditors are at each other's throats and why the United States and the International Monetary Fund are concerned about the outcome.*

*Transcript of interview recorded July 31, 2013. © Peterson Institute for International Economics*

Steve Weisman: Anna Gelpern, a nonresident senior fellow at the Peterson Institute and law professor Georgetown is here with me, Steve Weisman, explaining the intricacies and implications of the Argentine debt crisis dispute that is unfolding in the courts of New York a dozen years after Argentina defaulted in the first place.

Anna, you've just explained some of the equity issues about holdouts vs. people who agreed to get less than top dollar on their debts. The U.S. is worried about future debt restructurings if the holdouts get rewarded. But in the legal case, there's a countervailing pressure on the administration from creditors who are arguing on behalf of the holdouts. This has implications for future debt restrictions and the role of IMF. Explain some of the politics regarding the IMF.

Anna Gelpern: This is indeed a pretty tricky question. First, I don't think that anybody in the official sector would ever say, "Look, you have a contract that says you're owed a hundred cents on the dollar and we just don't want you to get paid in full." I think that the position of the official sector is: debt should be paid. In fact, the U.S. has expressed this position in the courts in the past.

The concern here rather is with the way in which the group owed a hundred cents is trying to collect that hundred cents, which is by blocking payments to other people by intercepting payments in clearing systems, in payment systems, with injunctions against trustees, which creates an enormous amount of collateral damage, which is a problem for the broader financial system.

From the IMF's perspective as we discussed in Part I, the concern is that other countries that are not as determined as Argentina might in fact, not be able to get the debt restructuring they need because they will not be able to convince their creditors to participate. They'll be worried that their creditors will be worried about these lawsuits.

The IMF is concerned about this because, after all, it is in charge of designing an economic program for the next couple of years for a distressed country. The IMF itself is concerned about being repaid. That's the premise for the IMF's intervention and to some extent also France, which shares the Paris Club as well as the United States. That's a big part of it, adjust its debt levels, the economic program with the IMF is at risk.

Now on the other hand, there are folks who believe quite reasonably that debts are debts, contracts are contracts and debts should be paid and the United States should not be intervening in what they see as on behalf of a debtor that behaved badly by not paying its debts. And in particular, an international organization like the International Monetary Fund shouldn't be intervening in disputes between a country and its creditors.

Steve Weisman: The IMF is not a beloved organization in the U.S. Congress, which is being asked to renew funding or reauthorize and change some very important rules on membership. Isn't the U.S. worried that stepping in in what appears to be an action against the holdout creditors will annoy people in Congress who don't love the IMF to begin with?

Ann Gelpern: Here's the interesting thing. The politics of this really puzzles me because there are U.S. creditors on both sides. There are U.S. creditors who want their hundred cents and are willing to intercept other people's \$0.33 and then there are U.S. creditors who's \$0.33 are on the line and who don't understand why their performing debt should suddenly go into default for the sake of somebody else.

On the other hand, there were some hearings in Congress about a year ago where amazingly this Argentina case was showcased on par with the mortgage settlement and the car bail out, as somehow evidence that creditor rights are in danger. I mean again, there are creditors on both sides. I'm not clear why this should be that way, but for one reason or another, supporting Argentina's position is seen as anti-creditor in this case. In which case, those folks in Congress who might be worried about creditors might get very mad at the IMF.

The interesting question here is, first, should this really be a political tradeoff? When there are equities on both sides and where there really isn't a process for an orderly restructuring of these debts. You may not be wild about the way Argentina handled its debt crisis. Certainly, the U.S. government, the IMF and France are all very mad at Argentina and their respective ways.

However, you may still be worried about the consequences for other countries. Ironically, less than six months after the ruling against Argentina, Taiwan sued Granada on an identical theory. You can call it a copy-cat lawsuit.

Right now, the same folks who are very upset about Argentina are saying, "Well gosh, Granada is a deserving debtor and has acted reasonably well, it really needs debt relief. It really shouldn't be on the receiving end of this." But the law is in flux. There's no way of saying, "Argentina deserves it and therefore will be penalized, and good countries like Granada will not be." At the moment, we have a tremendous amount of potential for a lot more litigation and therefore policy concern.

Steve Weisman: Everybody is worried about the moral hazard issues for debtors. If they are bailed out and allowed to pay their creditors \$0.33 on the dollar, then they'll just encourage bad behavior. But what about on the creditor side? Shouldn't they be punished for making bad loans in a reckless way?

Anna Gelpern: This is an interesting argument which is getting replayed simultaneously in the sovereign space and in Detroit.

Steve Weisman: In Europe, the Germans are saying that people who lent money to Greece or Cyprus should be hit with some cost.

Anna Gelpern: The answer to that is: of course, right? There's a reason why this debt bears a high interest rate. On the other hand, the investors in this debt tend to be very sophisticated folks. And whoever they are, they should really be very well-informed about the challenges of investing in the debt of a country that effectively cannot be enforced. So you cannot blame them for pulling out all stops and going to the ends of the earth to pursue unorthodox strategies. That's par for the course. It's part of the package. You get a high interest rate, you invest a lot in recovery, you may succeed, you may fail. It's a lot less of a morality play, I guess, than a cold financial proposition.

Steve Weisman: They're not innocent. They knew what they were doing, right?

Anna Gelpern: They're doing exactly what they're supposed to be [doing]. They're pursuing expensive unorthodox, risky, high-profile strategies. They have a press strategy. They have a political strategy, as well it should be. But fundamentally, the underlying debt has a serious enforcement challenge. It's the only way in which you can collect and sometimes you won't, and that's why countries pay high interest rates.

Steve Weisman: OK. Well, Anna, my strategy was to get through this entire conversation without using the words *pari passu*, which we managed to do. So congratulations to both of us.

Anna Gelpern: Wow, that's the first. Thank you. It's a pleasure.

