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## Public external debt bargaining

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## Presentation

This short policy brief results from a detailed analysis of the Argentinean case on external public debt during the last decade, with special attention on the huge 2005 swap.

It is quite known for the Latin American experience that external debt has been a subordination mechanism, especially since the rise of the neoliberal stage. The systematic increase in debt services can make countries to become illiquid from time to time, forcing to go into default and renegotiate. This cycle of debt can boost economic activity when funds are coming, but produces severe crisis when they are no longer available. For Argentina, the economy opening process got its apotheosis during the Convertibilidad regime (1991-2001), which stated external debt payments as the main aim of public finance. This ended badly, with a default declaration on the hot December 2001. At that time, social movements denounced the situation for its perverse effects, facing the passivity of administrations openly bowed to the interests of capital.

The Kirchner administration (2003-2007) –followed till nowadays by Fernández, his wife- had presumably changed the public external debt policy. It was posed as “de-leveraging” policy, in order to win some liberty degrees from financial capital. These administrations were able to complete a debt swap in 2005. Even though this swap had to be reopened in 2010 and 2013, it was presented as a huge success, as it supposedly achieved a reduction of around 75% of the debt, changing its currency nomination to a higher proportion of Argentinean pesos and making creditors to be partners of Argentina growth. They also paid off their entire debt to the IMF in 2006. According to some studies, Argentina in fact did win some autonomy in its decisions, as it accomplished to change the debt burden.

## Political analysis

Our analysis of this process does not achieve the same conclusions.

In respect to 2005 swap, we find that the total reduction only reached 35% of total debt. Other estimations, however, consider the burden of the GDP growth bonus offered in the swap and find no reduction at all. In fact, the very growth of the country’s economy as well as the acknowledgement of the defaulted debt has made the interests weight to increase since the swap was completed.

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Interests' payments have augmented their pressure on public finance as well as in the balance of payments.

The international context seems to a) have favored the country with better external trade conditions; b) which improved its external trade balance; and c) led to an economic expansion; all of which allowed d) an improvement in some external indebtedness indicators.

However, a careful analysis would challenge that corollary, since: e) favorable external trade conditions don't appear to be stable; f) nor have they oriented a process of structural change in the external linkages, but rather have reinforced them; g) these resources haven't generated a *systematic* deleveraging process; h) but rather its use has privileged reserve accumulation while possible (the situation changed around 2012, when reserves started falling), a precautionary application defined by the peripheral exposure to capital movements. The apparent improvement of the external situation results from: i) debt reduction indicators commonly used have low explanatory and predictive quality; and j) some non-systematic, but specific debt reductions.

In fact, according to the official statistics, as reported by the government, the *debt has grown*. The stock of public debt in 2001 was U.S. \$145 billion, which grew to U.S. \$176 billion in 2005. That year swap, according to official figures, reduced debt to U.S. \$126 billion, but this estimation does not include U.S. \$19.5 billion bonds that didn't enter the swap, known as holdouts. So, total debt yielded U.S. \$145.5 billion, slightly more than in 2001. By December 2012, total debt - considering holdouts- reached U.S. \$209 billion: i.e. no debt reduction at all. Meanwhile, the President announced that U.S. \$173 billion were paid in that period, what she called being a "serial payer". While doing this, the country didn't receive anything in return, which is an absurd position.

Moreover, Argentine government has created a new way of presenting the data, referring it as "net debt". This is an accounting trick that discounts the values that the State owes to state agencies, where it has systematically allocated debt. In addition, public debt registers do not account for provinces or municipalities debts, or the updated payable interests, or payment estimations of GDP bonus, all of which creates a severe underestimation of debt. So, no debt reduction has been achieved. The potential changes in debt policy are the increase in national currency-nominated debt and its lower weight on the GDP.

As well, the big creditors (banks and funds, even the "vulture" ones) had all received payments for bonds that they didn't even own at the time of the default. International financial capital has won a lot of money with the "de-leveraging" policy. At the same time, no attention was paid to the national social organizations claims about no paying at all or to investigate all debt before paying. Every time public funds have to be used to paying debt, other social priorities are left aside.

But other considerations have to be made. In the way through "de-leveraging", Argentina has accepted to continue under foreign legislation and jurisdiction, therefore loosing sovereignty. The New York courts decisions continue to threat Argentina's policy on debt, every time judges give their favor to "vulture" funds that are speculating with defaulted bonds. Fernández administration has endorsed this by accepting the World Bank's International Centre for Settlement of Investment Disputes decisions. All of these have lead to recognizing foreign or external jurisdiction on its conflicts with foreign capital, which is clearly the opposite to the discourse of national autonomy.

In this sense, leaving aside the public discourse of Kirchner and Fernández administrations, the "de-leveraging" policy has not changed the fundamentals of the external public indebtedness.

## Suggestions on policy matters

In order to change the fundamentals of public indebtedness, some new policies can be addressed. A dramatical shift would be to neglect all debt, once for all cutting off that dependence linkage. But that decision could come with a lot of penalizations in the international order.

An alternative would be to investigate all of the total debt and repudiate every non legal or legitimate part. To accomplish these, the first step should be the complete suspension of all payments until it can be revised. Since Argentina is not receiving funds whatever effort it has done to fulfill creditors' expectations, the low entrance of capitals is not a high price to pay.

The second step would be to recognize as valid law and jurisdiction the national one. Not only as a matter of sovereignty, but as a way for all the investigation to have valid effects.

It is crucial that an independent commission should participate in the investigation of debt. Many politicians responsible of previous indebtedness process are still part of the Congress or lead their parties, so a commission entirely formed by congressmen is not trustable at all.

There are many legal doctrines and jurisprudence in the international law that can stand for this. In the case of Argentina, a federal judge has already done most of the job about investigating the origins of the debt. So there are legal fundamentals to go forward with this proposal.

No debt has to be paid without legal and legitimate foundations.

Non less, it would be a way to attend to social claims about non paying illegal and illegitimate debt (as it was posed in a popular referendum in 2003), as well as wining real freedom degrees on public decisions.

