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**An update on Argentina**

by

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Ladies and gentlemen,

Let me start by thanking the organizers for their kind invitation. I am really honored to be here and to share with you our view of the Argentinean situation, at a time in which the financial community is closely following what happens in Argentina.

The key issue that concerns all of you is the restructuring of the debt; so let me go straightforward to it.

As you know, after a lengthy negotiation with several banks, three international institutions were appointed: tonight's hosts, Merrill Lynch, Barclays and UBS. Another three institutions were appointed for the domestic market: Galicia, Francés and Nación.

With all of them we have already started working on the restructuring of Argentina's debt. It is also clear that the challenge that Argentina has is indeed a difficult one.

First and foremost, there is what Argentina can pay, thereby ensuring a sustainable debt restructuring. Our responsibility both with the Argentine people and with the international financial community is to offer a debt restructuring that is sustainable and therefore a final resolution to Argentina's debt crisis. Second, this restructuring is unique. There is no road

map for the kind of debt restructuring that we are about to undertake. There are, however, clear parameters as well as expectations from market participants. It will be done within a vast and diverse market and, as such, the market has its expectations of what the debt restructuring should be. Our job is to ensure that a market-based resolution of the crisis is sensible, as it brings a final realistic restructuring in line with Argentina's repayment capacity.

Today, our greatest challenge is to bring together the worlds of sustainability and acceptability of the Argentinean debt, ensuring that sustainability and acceptability of the offer coincide to a large extent.

The challenge is great because our departure point offers little leeway. As you know, we are dealing with more than 150 different bonds, issued in 8 different jurisdictions and in 7 different currencies.

Also, there is a rather skewed relationship between IFIs debt and defaulted debt, that leads to an unavoidable squeeze of the private debt subject to restructuring. At the end of 2000, the ratio of IFIs debt over total debt was about 17 %. Through 2001, the IMF increased effective disbursements in 9 billion dollars, and all IFIs debt moved up to over 22% of total debt. The impact of these increased IFIs exposure is very negative on the restructuring: we figured out that if the restructuring had taken place by the end of 2000, the discount bond Argentina could have offered would have had a discount of around 20 points less than the 75% included in the guidelines released in Dubai. That is why today a market solution for the debt restructuring, to which we are firmly committed, is very different than how a traditional market solution would've looked in 2001 or earlier. Indeed, the decision by multilateral institutions to sustain convertibility was a costly *political decision*, and not a

*market-based* decision. Today, that political decision together with intact, full repayment of all multilateral debt is increasing the magnitude of the debt write-off that by necessity has to be extracted from the defaulted debt. Even worse, we are left in a position of asking both the market, and among them thousands of senior citizens in Europe, Japan and in Argentina, as well as future generations of Argentines to bear the full cost of those mistaken political decisions. Such difficulties will take to shape a new market solution, beyond handbooks.

Another important element in this restructuring is the very relevant dimension of the retail market, estimated at around 40 % of the defaulted debt. There are no precedents of this level of retail on a debt restructuring either.

We can imagine a negotiation: on one side of the table you have a nation; its easily identifiable, its a clear-cut situation. On the other side of the table, the situation is probably the opposite, as there are thousands of individuals and firms, with widely divergent objectives and priorities. Some so-called creditors include institutions that placed the bonds among depositors, and that in many cases are being sued by those former customers, with clear conflict of interests. They also include representatives that are really concerned on making huge fees on the way, but have little knowledge of their clients' situation and goals. But let's not get the wrong picture. The problem is not only on the side of retail, distressed funds and other funds have now an important proportion of bonds, and at the time of closing a deal they may well be the most difficult ones to sway into a sensible debt resolution.

Let me be very clear about holdouts: we are not going to repeat past experiences. No matter what the size of the holdouts is, they will not receive a special treatment. Negotiations are

an effective instrument to solve conflicts. But with more than 400.000 bondholders in Italy, around 40.000 in Germany, about 30.000 in Japan and about 9 million indirectly throughout the Pension Funds in Argentina, it is incumbent upon the Republic of Argentina to find a market-based solution that addresses the genuine repayment interest of bondholders and that offers a long-lasting resolution.

The Argentine debt restructuring will have a crucial place in history because it represents the first real effort to shape a new financial architecture that ends the world of easy financing and “financial bubbles” for a world of fiscal soundness and responsible market access; the end of the world of the few for that of the many; the end of continued postponing for the beginning of facing and of rebuilding, the end of the short-term fixes for the long-lasting solutions. This restructuring will capture the interests and the dreams of the thousands and thousands of Argentines that now have a say and they didn’t before, and of the thousands retail investors that lost most of what they got to the hands of the few.

We are firmly committed to negotiate in good faith by defining variable payments and bond enhancements according to the actual improved performance of the Argentine economy..

Both Argentines and international investors will have the opportunity to share in the improved performance of the Argentine economy.

We are prepared to engage in constructive discussions that offer realistic and creative solutions to the debt restructuring. We caution, however, against those efforts that in an irresponsible way seek to portray the problem as a matter of “demanding more”, as if it was a matter of simply “cornering” the Argentine authorities to extract larger promises, rather than thriving for a serious and sensible debt restructuring.

We are now working on ways to solve this apparent conflict between sustainability and acceptability by offering debt enhancements, such as GDP indexed bonds, for example. An offer that includes GDP indexed bonds recognizes our responsibility to secure a sustainable debt restructuring with the potential upside benefits that a long-term recovery of the Argentine economy offers. They also evidence the good faith which we always pledged to follow.

GDP indexed bonds should result in a smaller ex-post write-off than the ex-ante write-off. Sustainability is based both in history and on how the Argentine economy will grow in the future. Unfortunately, the history of the Argentine economy does not help in building a rosy scenario. More importantly, for some years to come, Argentina will primarily grow on its own rather than through sharp capital inflows. As such, growth will come from the slowly building process of domestic savings and investment, rather than from the quick turn around of foreign capital inflows that take investment to a new level. Argentina will be on its own for a few years as we build a sound foundation for investment. To re-build is the laborious task we are engaged in, and thus will continue in the years to come.

I would also like to address some of the issues that have come up in the discussion of sustainability. On the one hand, there is the view that resources used for repayment of the debt could be put to better use if allocated into areas of more interest to the country, like social plans. This reasoning implies that overall resources would always be the same in a situation of a country that has solved the problem of default, as in a situation with the default problem unresolved. We have to be very clear, the situations are not alike. A country that has cleared its default is a country that has dissipated an important source of uncertainty and that is creating the conditions to foster investment and economic growth.

But clearly this does not mean that “*any* agreement is better than no agreement”. There is one kind of agreement that is going to be the worst and that we will thrive to avoid. And that is an agreement that will, in all likelihood, lead to a new default, because it is an agreement drafted under undue pressures that include dubious promises impossible to fulfill.

Argentina will reject this type of agreement by all means. If the country goes back to default some years down the road, the Argentine authorities are going to be blamed. Knowing the language, I can tell you what would be said by opinion cronies if this happens: “Argentina has not undertaken the needed structural reforms, that’s why it’s back in default”, or “There was a lack of political will to adjust”. No reference would be made to un-sustainability, or to an unfair negotiation process, or to the burden of the 2001 decisions.

We have to stress, and also the international financial community has to stress *and convey*, that the measure of the success of the restructuring is the regular servicing of the restructured debt. Good faith forces us to envision repayment of the restructured debt as the determinant factor of success; not just the closing, not *any* closing.

It is our responsibility today to ensure that default does not happen again in the future. This means that we have to carefully evaluate every option we offer and every commitment we make. For example, the marginal costs of increasing primary surplus, something that, if you allow me, is receiving a trivial, superficial treatment by many “opinators” that lightly claim that Argentina has to increase its primary surplus beyond the 3 % as other countries –very few- have. This claim is made disregarding relative size of the public sector in different countries, comparing countries that have not privatized their pension system, and thus have pension contributions and pension expenditures in their balances, unlike Argentina that by

moving forward with this structural reform was left only with the pension expenditures. Also, there are countries that have important income from the profits of their state companies (oil and other commodities), that again, were privatized in Argentina in a move that many considered a worldly example at the time. Last, but not least, on this issue, comparisons take in consideration a few years of fiscal effort, whereas to solve the Argentine restructuring several decades are going to be needed. And indeed, the commitment is for a primary surplus during the entire repayment of the new debt so as to ensure sustainability. I can not recall any precedent of any country in modern times that was able to sustain a solid and significant primary surplus for a 10, a 20, and much less for a 30 year period. Moreover, a continued high level of primary surplus would run counter to the theory of economic cycles.

Some claim that larger payments are key to ensure larger market access later. We couldn't disagree more. Market access is the consequence among other things, of debt sustainability and of an ability to finally deliver economic growth and stable financial conditions.

We are conscious that in order to successfully conclude this debt restructuring and therefore be able to respond to the hopes of the Argentine people, we need to break with our economic history, with the instability, the ups and downs of the economy, with the lack of clear rules, with fiscal profligacy. The international situation is helping this, and the prospects are extremely constructive provided that the WTO rules can be fully applied in this new wave of the Globalization centered this time in Asia.

In a way, Argentina is again faced with a situation similar to the one it went through by around 1880. At the time, there were few reasons to be hopeful as Argentina was just moving out from internal disarray, lack of institutions, political violence, wide economic

fluctuations and widespread poverty. But technological change and changes in international demand were in favor of products that could be produced competitively in Argentina, and this in turn led to structural changes that pushed Argentina fully into that wave of Globalization.

Today, we are committed in bringing Argentina's debt restructuring into a successful resolution by making every effort to ensure a sustainable debt repayment capacity based on a continued sound fiscal policy and reforms. We will make every effort to help push Argentina into this new wave of globalization that demands of a new, fairer financial architecture, strengthened to continue to grow.

We look forward to the creativity of the international financial community for doing their part of the job.

Thank you very much.