

Think Tank Blasts US Role In Argentina Debt Restructuring

BUENOS AIRES -(Dow Jones)- Don't cry for Argentina; it's the U.S. government's role in helping this South American nation restructure its defaulted debt last year that should bring tears to your eyes, according to the **Washington Legal Foundation**, a U.S.-based think tank.

In a report by the foundation released last week, Harvard Law School professor Hal S. Scott said that the U.S. administration helped Argentina deliver the world's worst-ever debt swap in terms of bondholder acceptance rates.

Argentina defaulted on more than \$100 billion in sovereign debt in December 2001. Last year's restructuring repaid a scant 25% to 30% of the nominal debt, hitting creditors with a so-called haircut of 70% to 75% and gaining the participation of only 76% of all bondholders.

As a result of U.S. policy, Argentina was able to ignore \$30 billion worth of defaulted bonds held by holdouts, Scott said.

Prior to the Argentine debt swap, the average haircut on defaulted sovereign debt averaged just 36% in twenty cases dating back to 1990, he said. What's more, Scott said, the International Monetary Fund previously had required a 90% acceptance rate to consider a restructuring successful.

In Argentina's case, he said, the U.S. sided with the Argentine government against the interests of creditors for U.S. foreign policy reasons. U.S. foreign policy planners aimed to promote democracy and strong economic recovery in Argentina, while seeking to bolster its relations with the U.S. and avoid a leftward drift toward Venezuelan President Hugo Chavez and his aging Cuban idol, Fidel Castro, Scott said.

"This (policy) has obviously not worked," he said. "Indeed, it has backfired."

Contrary to U.S. intentions, said Scott, Argentine President Nestor Kirchner has grown increasingly close to Chavez, whose government has bought nearly \$3 billion in Argentine debt during the past year and a half.

Moreover, according to Scott, Kirchner's bashing of the U.S. and the IMF has boosted his popularity at home as he snubs his nose at the West without cost.

"He (Kirchner) is probably laughing at us all the way to the bank," Scott said.

He said that the U.S. has weakened market discipline by placing ineffective constraints on IMF lending, intervening in court cases on the side of defaulting sovereigns and promoting weak collective-action clauses.

Such policies could lead to serial defaults, with Argentina, which has defaulted five times since gaining independence from Spain in the 1820s, providing the model.

The Washington Legal Foundation suggested that the U.S. government should intervene in court cases on the side of U.S. creditors instead of defaulting sovereigns, put more teeth into anti-bailout policies by creating more political barriers to sizable IMF bailouts and remove safe heavens for sovereign assets in cases of debt defaults.

-By Serena Saitto, Dow Jones Newswires; 54-11-4311-3125; serena.saitto@ dowjones.com

