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Trade

# DEFAULT AND ADJUSTMENT OF ARGENTINE FOREIGN DEBTS, 1890-1906

BY

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## FOREWORD

Investigation of the Argentine debt problem of more than a generation ago was undertaken with the idea that there are various aspects of the negotiations in the nineties for the adjustment of Argentina's foreign debt which might well be borne in mind in connection with the action which may be taken toward clearing up the defaults on dollar loans. It is only fair to point out that Argentina to-day stands as a brilliant example of a country which suffered financial collapse and then worked its way through many vicissitudes to a position strong enough to resist thus far the inroads of the current depression. The Argentine National Government and the Provinces of Cordoba and Mendoza, as well as the cities of Buenos Aires and Tucuman, were meeting (as of February 1, 1933) full service on their dollar loans.

Eight Latin American national governments are currently in default of interest and sinking-fund payments on dollar bonds, and four more, although meeting interest service, are in default of sinking-fund payments. Nineteen provincial and twelve municipal governments in the same area have suspended both interest and amortization service. American investors who hold bonds issued by these governments are apt to think that there never has been another time when the volume of bonds publicly floated was, even relatively, so great, or when the conditions leading to default were similar to those existing in the period from 1927 to 1932. Yet we have only to go back to the so-called Baring Crisis of 1890, precipitated by the wholesale default of Argentine bonds, to find a parallel case, striking in its similarities.

During the decade 1881 to 1890, Argentine national, provincial, and municipal governments and the governmentally guaranteed mortgage banks borrowed approximately \$500,000,000 in Europe, chiefly in England. In 1890 and 1891 Argentina went into complete default on almost all this huge volume of debt.

Interest on the national debt was met from 1891 to 1893, inclusive, by the issuance of funding bonds, pursuant to a plan devised by the guarantors of the firm of Baring Bros., which failed in November, 1890. The funding plan was unsatisfactory and a new agreement, postponing amortization service until 1901 and providing for reduced interest service until July, 1898, was put into effect in January, 1894. The latter plan, known as the "Arreglo Romero," proved successful, and Argentina resumed full interest payments on the national debt one year in advance of the date set by the agreement. Adjustments of the defaulted provincial and municipal loans and of the mortgage bank bonds, or cedulas, were arranged during the 10 years from 1897 to 1906.

This study was prepared in the Finance and Investment Division by Dr. Henry L. Shepherd, jr., under the direction of Grosvenor M. Jones, chief of the division.

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*Bureau of Foreign and Domestic Commerce.*

MARCH, 1933.

## APPENDIX

### TEXT OF ARREGLO ROMERO

[Arrangement for resumption of debt service on Argentine national external debt]

This agreement ad referendum made on the third day of July, 1893, between Don Luis Lopez Dominguez, Envoy Extraordinary and Minister Plenipotentiary of the Argentine Republic in London, acting on behalf of the Government of the said Republic of the first part; and the Right Hon. Nathaniel Mayer, Lord Rothschild (hereinafter called Lord Rothschild), of the second part.

WHEREAS Lord Rothschild is the chairman of the committee known as the Rothschild committee some time since formed for the purpose of entering into negotiations with the Argentine Government in regard to the interest on the bonds of the National Government external debt;

AND WHEREAS Lord Rothschild was authorized by a meeting of bondholders of the said external debt convened by the Rothschild committee, in conjunction with the several houses charged with the service of the Argentine external loans held in London, on the 19th day of June, 1893, to enter into an agreement ad referendum as to the manner in which the Argentine Government shall hereafter pay the interest in cash on the fourteen loans specified in the first part of the schedule hereto, the particulars contained in which have been supplied by His Excellency the Finance Minister of the said Government;

AND WHEREAS the negotiations between the said Government and the said committee involved the formulation of a scheme for the release by the Government of the Buenos Aires Water Supply and Drainage Co. (Ltd.) from all claims on the part of the Government on certain conditions which are embodied in an agreement bearing even date herewith;

AND WHEREAS the present agreement is conditional on the same being ratified by the Argentine Congress;

*Now it is hereby agreed as follows:*

1. In order to meet and discharge the coupons for interest on the several loans specified in the first part of the schedule, hereto as and when they respectively mature, the Argentine Government will punctually and in due time remit in cash through the Argentine Legation in Great Britain to the Bank of England in London (which bank has been appointed the agent of the Rothschild committee to receive the same) to be placed to the credit of the several persons forming the Rothschild committee, viz, Lord Rothschild, Walter Hayes Burns, Esq., George Wilkinson Drabble, Esq., Herbert Cokayne Gibbs, Esq., Charles Herman Goschen, Esq., and Evard Alexander Hambro, Esq., the sum of £1,565,000 annually from July 12, 1893, to July 12, 1898, inclusive, which sum shall be distributed and apportioned by the Rothschild committee or through the medium of some other person or persons to be nominated by them in the proportions and manner which was arranged between the Rothschild committee and the bondholders present at the said meeting. The said sum of £1,565,000 shall include the commissions which the various houses charged with the service of the loans are entitled to under their respective contracts, but the said commissions shall be paid only in respect of the sums actually paid to the bondholders under this agreement.

2. From July 12, 1898, to July 12, 1899, inclusive, the Argentine Government will remit to the Bank of England as the agent appointed by the Rothschild committee to be distributed and apportioned as they have arranged with the said bondholders (which arrangement is set forth in the second part of the said schedule) the full amount of the interest for the said 12 months on the 14 loans specified in the first part of the said schedule.

3. From July 12, 1899, to January 12, 1901, inclusive, the Government will remit the full amount of the interest payable on the said 14 loans, but the remittances shall not be made to the Bank of England as such agent as aforesaid but shall be remitted as heretofore directly to the various financial houses in Europe charged with the service of the loans.

4. From and after January 12, 1901, the sinking funds on the said 14 loans shall be resumed and the sums required for the entire service of the said loans, including both interest and sinking fund, shall be remitted directly by the Government in cash to the several houses charged with the service of the loans, respectively, according to the tenor of the several bonds.

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5. In case the loan in the first part of the said schedule known as the 6 per cent funding loan of 1891 shall be increased beyond the amount stated by the said Finance Minister, viz, £6,583,000, then the excess required for the service of the increase shall be remitted separately over and above the said £1,565,000 per annum.

6. This agreement is subject to confirmation by the Argentine Congress and is not to be binding on either party until it has been so confirmed.

L. L. DOMINGUEZ.  
ROTHSCHILD.

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<sup>1</sup> Only material used in the preparation of this bulletin, and available in Washington, is included here.

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