

Why Argentina says it's ready for talks with creditors

This time Buenos Aires is ready to listen, not shout

by David Smith

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With a government as contrary as that of Argentina, it is sometimes foolhardy to read too much into any one decision taken by President Cristina Fernández de Kirchner. Yet her decision to hold negotiations this week in New York with the 'hold-outs' from Argentina's debt restructuring after the 2001 default indicates a fundamental policy shift.

'The lady's not for turning' was the conventional wisdom in Buenos Aires and New York. Well, now evidently the lady is turning. This could signal a welcome tilt towards realism.

'Are we between a rock and a hard place? – Yes,' confided a senior government source as the president herself used Día de la Bandera (National Flag Day) on 20 June to declare willingness to talk. 'The fact is: there are no good options here.'

Only the day before, Jorge Capitanich, the president's chief of staff, had insisted publicly that there was no intention to send negotiators to meet the so-called 'vulture' funds that bought up distressed bonds from Argentina's 2001 default, and now claim full payment plus interest. The president herself had denounced the action as 'extortion.'

But the 16 June ruling from the US Supreme Court refusing to hear Argentina's case and referring it back to a lower court that had already found in the creditor's favour triggered frantic manoeuvring – not least because the court ruled that diversely-located government assets could be used to redeem the debts. Axel Kicillof, the influential economics minister, floated the idea of Argentina paying its exchange bondholders from the debt restructuring of 2005 and 2010, without paying the hold-outs, by somehow transferring the restructured bonds out of US jurisdiction and placing them under Argentine law. But the judge in New York proclaimed a resounding No to Argentina's lawyers, killing that notion instantly.

Then a sharp drop in the Buenos Aires stock exchange, almost 5% in one day last week, coupled with a spike in the value of the 'parallel' unofficial dollar, hastened reappraisal. The president's staff at the Casa Rosada, staring at foreign reserves of less than \$29bn, realised they might be facing another default. Quickly, the country's legal team in New York leaked a memo which, for once, was conciliatory: 'Argentina wants to continue to pay its restructured debt. The court, however, has put it in a terrible position.' That was a message reinforced last weekend with space taken in the Wall Street Journal, although this time there was a threat attached: 'To pay the vulture funds is the path to default and if we don't pay, the judge's ruling puts in danger the rights of our bondholders.'

In other words, Argentina is ready to talk – but not from a position of total weakness. The key to any resolution lies in how Argentina can pay off its most vocal creditors, without other bondholders demanding parity and a hike on the roughly 35 cents on the dollar which they accepted in 2005.

Insiders in Buenos Aires expect Argentina to start by replaying its recent successful negotiations with the Club of Paris, when negotiators reached a deal with creditors on repaying overdue debts by putting \$1.15bn up front, to be paid by May 2015, as part of a five year agreement totalling \$9.7bn. The suggestion in Buenos Aires is that the government will frame an opening offer to pay \$300 to \$400m, as a means of persuading the judge to give the negotiators more time. That number would leave 65% of the debt on the table, the same as in the 2005 restructuring.

For once, Argentina is not without support. Buenos Aires has frequently lambasted the International Monetary Fund (IMF) and fought to keep the Fund out of the Club of Paris talks. Yet the IMF has shown some sympathy, warning of 'broader systemic implications' of the Argentine case for other countries seeking to restructure debt. An IMF statement issued after the US Supreme Court ruling concluded: 'Argentina has limited capacity to pay the plaintiff creditors while servicing its current debt.'

The muted IMF reaction has reinforced the belief inside the government that, even in this very tight corner, Argentina can re-establish credit lines and rebuild its foreign credibility. The key aim is to avoid another default and the permanent stigma this would bring.

Once again, the talk is of starting anew the sale of the country's perennial salvation, its vast natural resources, this time beginning with Vaca Muerta (in Spanish: Dead Cow) in the Neuquén Basin, deemed the world's second-largest deposits of shale oil and gas. Such assertions may be dismissed as another delusional sign of people in power believing their own propaganda. But at least this time the Buenos Aires government seems ready to talk, even to listen, rather than shout. This could be a sign that the country is at last turning a corner.