Why Argentina may rebound

Debts and the New York judge: the case for change

by David Smith in Buenos Aires

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The latest twists in the legal saga over Argentina's debt repayments show that, far from heading towards a solution, this issue has become a political football in a decisive election year in Buenos Aires – and a catalyst for change among emerging market economies issuing bonds.

Over the past month the New York judge handling the claims of the so-called hold-outs, funds which bought Argentine debt for a few cents on the dollar and now demand full payment, instructed Citibank to make interest payments to those who accepted debt restructuring under Argentine law.

The next week the same judge, Thomas Griesa, prohibited Euroclear, a large Belgium-based clearing house, from doing the same for euro bondholders. This was despite a ruling in London in February which affirmed that the matter fell under English law, 'with no nexus to the US,' and that euro bondholders were due payment.

The result is that, at the end of this month, Citibank will make interest payments on $2.3bn worth of Argentine bonds, and again at the end of June. In Europe, especially London, by contrast, some major funds receive no interest whatsoever while Griesa seeks to make the Argentine government and the hold-outs negotiate a settlement.

In the meantime, emerging market economies – for example, Mexico, Ecuador and Kazakhstan – are increasingly heeding the lessons of the Argentina experience. They are inserting language in bond prospectuses that makes it prohibitively expensive for a single bondholder to hold out for full payment when the majority accepts a settlement.

In Buenos Aires the government, despite its regular tirades against the judge, the hold-outs and various banks, is breathing a palpable sigh of relief. The government is seen to be ready to pay its debts, as it has always insisted. The timing keeps everyone's options open. 'The can has been kicked down the road till the end of September, when the next interest payments come due,' according to one member of the central bank hierarchy.

That means the next critical moment comes just three weeks before presidential elections in October, with President Cristina Fernández de Kirchner unable to seek another mandate, and a new government inevitable.

'Clearly, she's going to hand the debt mess, along with so many other economic issues, to her successor,' says an aide to Mauricio Macri, the Buenos Aires mayor and leading opposition candidate. 'Whoever wins inherits an economy staring at ruins.'

The government, with a penchant for producing figures that independent economists (let alone the IMF and the World Bank) find too rosy, says Argentina grew slightly last year, by 0.5%. The general consensus, by contrast, is that the economy contracted by 2%. Inflation, despite the government's creative counting, is running at 25%, unemployment is rising, foreign investment has dried up, and foreign trade plunged 25% in February compared with the 2014 figure. The economic crisis in Brazil, the region's leading economy, is badly hurting neighbouring Argentina and other Latin American countries.

Reflecting Argentina's proven ability to bounce back from disaster, there are still some optimists around. The last collapse, in 2001, was followed by several years of high-speed growth, a case study of bust and boom. 'I'm positive, whoever comes to power in October,' says one of the country's leading construction magnates. 'All we need is competent management to turn this around.'

Maybe. And, for sure, just as some other emerging markets see lessons in the Argentina debt saga, and have started rewiring their bond offerings accordingly, so many will be watching to see if Argentina can rebound once more. As always, the country's attractiveness is based on vast natural resources and a wealth of human capital – an enticing yet frequently infuriating combination.

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