



Argentinean Delegation Returns to New York, Default Only Hours Away

Government Pleads for Last-Minute Stay on "Vulture Fund" Debt

By: Belén Marty
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EspañolAn official Argentinean delegation is set to travel to New York City to continue negotiations with a mediator chosen by US District Judge Thomas Griesa. The goal is to reach an agreement that will enable the Argentinean government to pay its debt to the holdout “vulture funds.” If they do not reach an agreement by Wednesday, July 30, Argentina will enter into a default for the second time in 12 years.

After an unsuccessful meeting last Friday between mediator Daniel Pollack and the holdouts’ representatives, Argentina’s Chief of the Cabinet of Ministers Jorge Capitanich announced on Monday morning that a new delegation will travel to the United States. It will be formed by Finance Secretary Pablo López, Legal and Administrative Secretary Federico Thea, and Treasury Attorney General Angelina Abbona.

Pollack said on Monday that he was unaware of the newly scheduled meeting. However, he affirmed negotiations are still open, and he remains available for any “face-to-face or over the phone conversation.”

As it stands, Judge Griesa’s ruling prevents Argentina from servicing its restructured debt until it settles with the holdouts. The New York judge ordered Argentina’s funds to be held at the Bank of New York Mellon until the South American country accepts the terms of the ruling and pays the “vulture funds” US\$1.3 billion plus interest. Unless an agreement can be reached, Argentina will be prevented from meeting the July 30 deadline on its payment for the exchanged bonds and enter into a technical default.

The Argentinean government hopes that, as a last minute measure to avoid default, the judge will consider a stay and allow payment to be made to the exchange bondholders.

“The negotiations are extremely complicated and need time. For this reason, Argentina wants a stay, and we are willing and eager to participate in a dialogue that will allow these negotiation conditions,” Capitanich told reporters.

“Argentineans need to remain calm,” he added. “Life goes on.”

If Argentina manages to negotiate a stay, the country will avoid default and have two more months to negotiate payments for their bondholders.

“A default would be the worst scenario, people will be affected and I don’t want that to happen,” said Judge Griesa during a hearing.

President Cristina Kirchner of Argentina is currently attending the Mercosur summit in Venezuela and will seek support in her fight against the US judicial system. In the event that Argentina does enter default, Kirchner is expected to disregard the situation and continue depositing payments for the exchange bondholders despite the judge’s ruling.

Default Consequences

Robert Cachanosky, an Argentinean economist and journalist, has warned that as a consequence of Kirchner’s misguided nationalism and path toward imminent default, Argentinean bonds will fall drastically.

“If those bonds do fall, including active assets in the banks, the financial system will see significant and long-lasting effects. This can lead to credit cuts, overdrafts that have occurred in the past for example, which will then lead to payment cuts and worsen the recessive process. I do not discount the idea of a bank run ensuing from the panic a default will cause,” said Cachanosky.

The economist also warns that as economic activity drops, reserves will be affected. Cachanosky says deficits will likely increase, causing the Central Bank to increase the supply of pesos to finance the treasury. He says this will then lead to higher inflation rates and a drop in the exchange rate.

“If the drop in exchange rate becomes worse, the impact on exports is inevitable. Imported goods are paid for with dollars gained from exports. So, as exports decrease, the less we can import. The recession will worsen along with unemployment,” he added.

Cachanosky also considers the possibility of Argentina declaring a “final default.” “The government could go into a final default and use its dollars to import goods, leaving a few dollars for the next administration in the reserves at the Central Bank, creating an even greater debt problem,” he concludes.

Steve Hanke, the Cato Institute's Troubled Currencies Project director, framed the situation by saying: "Argentina suffered a chaotic default in 2001, and that default led eventually to this agreement in 2005 for the debt swap. The Argentineans were ill-advised, and in the policy sphere, they were quite irrational too."

Economist Aldo Ferrer, on the other hand, argues that Argentina should not give in to the judicial demands of the holdouts. If it does, he claims the country will fall into a more chaotic situation.

"We must abandon this idea that if there is no immediate action, the world will collapse. And also [abandon] the fantasy that if Argentina gives in, we will be overwhelmed with dollars and investments," he said.

He went on to say that "the funds have been deposited, but they did not reach bondholders because of a third party: Judge Thomas Griesa." Given this scenario, Ferrer does not consider what may happen to Argentina to be a "default" in the technical sense, but rather a "financial problem."

On July 23, Kirchner similarly declared her disagreement with the use of the word "default." She said a new term needs to be invented to accurately describe Argentina's situation if negotiations with the bondholders are not successful by Wednesday.

"They will have to come up with a new word, I don't know what it'll be. Investment banks always find new language to disguise what is really happening: a debtor paid, someone blocked it, and they will not allow the money to reach third parties," she concluded.