Argentina tries for comeback
Jude Webber

The government is putting together a deal for holdouts from the country's debt crisis, writes Jude Webber

Is Argentina about to regain access to the international capital markets after a seven-year absence?

That is certainly the hope of the country's finance secretary Hernán Lorenzino, who was in New York yesterday seeking to finalise details of an offer to be put to a group of investors who rejected a restructuring of the country's debt in 2005.

Argentina, mired in deep recession, crashed to the world's biggest sovereign default seven years ago in a debt and devaluation crisis that ended the country's decade-long currency peg to the dollar.

In 2005 the country restructured three-quarters of the $95bn defaulted debt in a swap that saw those who accepted the deal suffer big losses.

But a number of investors rejected the terms, holding out for full repayment and they claim they are now owed $29bn after including interest.

Their moves, and subsequent legal action, have prevented Argentina from issuing new debt on international capital markets for fear it could be embargoed.

The attempt to break the impasse, with proposals drawn up by Barclays, Citibank and Deutsche Bank, is a surprise since the 2005 restructuring was supposed to be a "take it or leave it" affair.

Under the plan, holdouts would swap defaulted debt for the same discount bonds, due in 2033, that were offered in 2005. They would suffer a 66 per cent write-off.

It also foresees a cash infusion - holdouts would pay $25 for every $100 in defaulted debt they tender in exchange for a new bond. That would provide a muchneeded easing of the burden of Argentina's 2009 debt-servicing obligations - some $21bn next year.

Finally, the plan foresees a swap of so-called guaranteed loans, which were issued in 2001, which make up 40 per cent of its 2009 debt repayments, for dollar and peso debt.

Mr Lorenzino was in New York for talks with lawyers because the offer has to be presented to the US Securities and Exchange Commission before it is pitched to the US holdouts.

His hope is that investors exhausted by years of acrimony will not only plump for a deal that may be the best they will get at a time of global financial crisis, but also put up fresh cash to help Argentina service its debts next year.

The holdouts - many of them US, Italian, German and Japanese investors, ranging from big funds to pensioners and teachers -lost $20bn when the default took place.

They rejected the 2005 restructuring, when investors were paid 25 cents for every dollar of defaulted debt, as too cheap.

And many of them plan to reject the latest offer, too, and pursue the $29bn they claim they are owed.

"[The government] is attempting ... to bully creditors into accepting terms considerably worse than it offered three years ago," says Jay Newman, senior portfolio manager at Cayman

Islands-registered hedge fund Elliott Associates. Elliott, which is Argentina's single largest creditor, claims it is owed $1bn.

Lawsuits by Elliott and others have succeeded in freezing Argentine assets in the US - most recently $70m of the state-owned Banco de la Nation.

Any take-up of the new swap that was only partial would mean "there's still a major danger of embargoes", says Claudio Loser at the Inter-American Dialogue think-tank, and formerly the International Monetary Fund's top official for Latin America.

Nevertheless, one emerging markets investor who declined to be named says: "My sense is that there are people who are exhausted enough to tender, and the cost of financing these unperforming assets will also weigh in Argentina's favour."

Some holdouts may be reluctant to sign up without a sweetener since "interest rates are going up worldwide because of the liquidity squeeze, so the value of Argentine bonds is coming down," Mr Loser notes.

Other investors - among them large creditor Greylock Capital - say they are willing to tender to put an end to the holdout saga.

Fonte: Financial Times, London, October 3 2008, Companies & Markets, p. 26.