

Argentina Makes U-Turn on Defaulted Bonds

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Cristina Fernández, Argentina's president, on Monday made her second surprise U-turn in less than a month by announcing a willingness to make a fresh offer to holders of bonds on which the country defaulted in 2001 – a move she had previously refused to countenance.

In a speech to the Council on Foreign Relations in New York, Ms Fernández said three international investment banks had presented a proposal for the “holdouts”, who rejected a debt swap offer in 2005 and claim \$29bn (€19.6bn, £15.6bn), including interest.

The timing, with financial markets hit by the international credit crisis and US bank rescues, appeared designed to calm fears about Argentina's ability to meet its 2009 debt servicing obligations of about \$9bn.

Settling with bondholders would enable Argentina to return to international capital markets, instead of having to rely on its ally Hugo Chávez, the Venezuelan president, for financing. Venezuela charged a 15 per cent interest rate on a seven-year bond last month then swiftly sold it, sending Argentine markets crashing and raising fears that a new default was brewing.

“It seems hard to believe that Argentina wants to jump back on the emerging markets bus at this moment,” said Fernando Navajas at Fiel, the Argentine think-tank. That suggested Argentina was concerned about legal action and its ability to meet its financing obligations, he said.

Ms Fernández said the offer was “highly interesting” and would be studied and sent to Congress.

She gave no specifics but Robert Shapiro, who co-chairs the American Task Force Argentina, which lobbies on behalf of holdouts, said it was an “enormous step given the intransigence of her husband (Néstor Kirchner, the former president) and her previous intransigence”. Argentine stocks and bonds rallied.

Bond holdouts were asked to accept a brutal “haircut” in the 2005 swap, when Argentina paid 25 cents for every dollar of defaulted debt.

If the new offer is lower “no one would take it and I don't think anyone will take an offer that is equal to 2005 either”, Mr Shapiro said.

The announcement came three weeks after Ms Fernández unveiled an equally surprising plan to use central bank reserves to pay off some \$6.7bn in defaulted debt to Western Paris Club Creditors.

Source: Bloomberg