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Argentina to offer debt swap for bond holdouts

By MICHAEL WARREN and ALMUDENA CALATRAVA

BUENOS AIRES, ARGENTINA

Argentina has secured U.S. regulatory approval for its offer to restructure billions of dollars in defaulted bonds, officials said Monday, a key step to resolving an epic legal standoff with American bondholders over debt remaining from its world-record $95 billion default in 2001.

The government also is proposing to raise $1 billion in new debt to help finance sharp increases in public spending this year in preparation for the 2011 election, when former President Nestor Kirchner hopes to succeed his wife, Cristina Fernandez.

Securities and Exchange Commission approval "was the last formal step," Economy Minister Amado Boudou told Argentina's Radio 10 from Mexico, where he met over the weekend with Citigroup Inc., Barclays PLC and Deutsche Bank to work out details of the proposed debt swap. "What remains is simply registering the offer with the bond markets of Italy, Luxembourg and Tokyo, which should take about 15 days."

About 24 percent of Argentina's bondholders rejected a 2005 swap and have insisted on getting a better deal for bonds, whose initial value has grown with interest to $29 billion. Their lawsuits have persuaded judges to seize any new money raised.

Boudou expressed optimism that the deal would provide for "a definitive solution" to Argentina's international financing problems.

If this latest offer is similar to or worse than the 2005 deal, that won't likely satisfy the holdouts, said Robert J. Shapiro, co-chairman of the Arlington, Virginia-based American Task Force Argentina, which represents 40 U.S. organizations involved in the lawsuits.

"The Kirchners have never shown in the past any inclination to resolve this," Shapiro said. "Now they've run out of money and they've run out of political support, so it's possible. I certainly hope so. It's in the interest not only of the American bondholders but so obviously in the Argentine interest."

Argentine companies that now struggle to compete internationally because they are forced to pay above-market interest rates could benefit from this deal, and the government could get fresh capital to keep up public spending even as Argentina pays out $20 billion in debt due this year, Fausto Spotorno of the Orlando Ferreres and Associates consultancy in Buenos Aires told The Associated Press.

Spotorno estimates Argentina's public spending will rise by more than 20 percent in 2010. Daniel Kerner, an analyst with Eurasia Group in New York, estimates a 30 percent increase.

In either case, Argentina will need money from abroad, and if it solves the holdout problem, it may be able to get it at rates of less than 10 percent -- much better than the 15 percent interest Argentina agreed to pay Venezuela for $7 billion in 2008 in a deal Fernandez reached with her ally President Hugo Chavez.

In order to obtain SEC approval, Argentina had to clear up some doubts about its much-criticized inflation numbers, which economists and opposition politicians accuse the government of manipulating in order to pay out lower amounts on inflation-indexed bonds. The government also had to postpone its bond offers because of a still-unresolved fight over control of the central bank and foreign reserves.

"We want to definitively come out of default," Fernandez said Saturday at a political rally. But she also told her opponents not to expect budget cuts: "With me there will be no belt-tightening, because I won't do that to Argentines. If they want austerity, let them come try it."