Buenos Aires Briefing

Laura Mojonnier and Dr. Kristin Wesemann, June 2014/2

Argentina in Technical Default on Bond Payments

On 30th June, Argentina went into technical default for failing to make an interest payment to its bondholders, entering a 30-day grace period before the country formally defaults for the second time in 13 years. This most recent debt crisis has emerged after New York Judge Thomas Griesa ruled that Argentina could not make payments to the almost 93% of bondholders who took haircuts during restructuring deals in 2005 and 2010 (known as exchange bondholders), without first paying $1.5bn to a group of hedge funds who refused to participate in the debt swaps. Argentine officials have referred to these holdout creditors as "fondos buitre", or "vulture funds", as they purchased heavily discounted bonds after the country's 2001 default and then sued to recoup their original nominal value. Argentina appealed Griesa's ruling, but the US Supreme Court rejected the effort on 16th June. Argentina then petitioned Griesa to stay his ruling while Argentina attempts to negotiate with the holdout creditors, but the judge denied the request. On 27th June, Argentina deposited $539 million into a New York bank to try to make an interest payment to the exchange bondholders, but Griesa ordered that the money be returned, and thus Argentina missed the 30th June payment.

This issue has become a political lightning rod in the country, with Argentine leaders expressing concern that this ruling will open up the country to being sued for the rest of the 15bn USD in debt owed to other "holdouts", potentially allowing these groups to seize Argentine assets. Cabinet Chief Jorge Capitanich said that there are "vested interests" that have their sights set on the country's plentiful natural resources, including its strategic petroleum reserves. Analysts are also debating whether these events will make future sovereign debt restructurings more difficult, and whether Griesa's ruling will make New York City lose its place as an international financial center.

Argentine Vice President Indicted for Corruption

Argentine Vice President Amado Boudou was indicted on 28th June 2014 for alleged "passive bribery" and "incompatible negotiations" in a corruption case involving a firm that he controlled. Along with five other people, Boudou was charged with using a shell company to buy a bankrupt printing business in 2010 with the goal of winning government contracts to print Argentine currency and financial documents. Boudou was Argentina's economy minister at the time, and was allegedly working in conjunction with José María Nuñez Carmona, a Buenos Aires businessman who has been a longtime friend. The Vice President's assets were seized, and he is expected to appear in court on 15th July. Boudou has maintained his innocence, and his lawyers said he will appeal the indictment on 4th July. Opposition leaders have called for an impeachment trial, as Boudou has refused to resign.

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Campagnoli Trial Suspended

The trial of Argentine prosecutor José María Campagnoli was suspended on 30th June, after one of the seven judges on the Impeachment Tribunal requested leave due to elevated stress during the jury's deliberations. This judge was considered the "swing vote", and she is unlikely to return. A decision on the case was expected this week, but now a new trial with a replacement judge may be necessary, leading Campagnoli's attorney to call this latest development a suspicious "embarrassment". In December 2013, Campagnoli was suspended from his position as head of a Buenos Aires Prosecutor's Office for alleged "abuse of authority" when he spearheaded a duplicate investigation into capital flight by a firm led by Lázaro Báez, a businessman with close ties to President Cristina Kirchner and her late husband, former president Néstor Kirchner.

MERCOSUR and the Pacific Alliance Make Plans to Integrate

In late July, the member countries of the Pacific Alliance and MERCOSUR will meet in Cartagena, Colombia to discuss opportunities for deeper integration of the two Latin American blocs. In recent years, analysts have noted that MERCOSUR – the customs union centered on South America's Atlantic coast – has reversed its original project of greater regional integration, and has instead become more of a protectionist-oriented political alliance. A trade deal with Pacific Alliance could shift the perception of MERCOSUR's irrelevance. But while Chilean President Michelle Bachelet championed this initiative after recently completing bilateral talks with Presidents Cristina Fernández de Kirchner and Dilma Rousseff over the future of Latin American trade relations, it is unclear how supportive the Argentines would be of a new deal. In 2013, Ambassador Oscar Laborde, called the Pacific Alliance "an instrument of the Right of the continent and the government of the United States". In any case, Bachelet has also proposed a seminar of academics, business leaders, and politicians to meet in September to further discuss regional integration.

Argentina Moves to the World Cup Quarter Finals

With Ángel Di Maria scoring an exciting goal in the last few minutes of overtime, Argentina beat Switzerland 1-0 in the "knockout round" of the World Cup on 1st July. In the quarter finals, Argentina will square off against the winner of the US-Belgium game. Argentina won against Bosnia (2-1), Iran (1-0), and Nigeria (3-2) in the group stage.

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