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Argentina dealt double blow by justices over debt

By Mark Sherman

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WASHINGTON (AP) -- The Supreme Court on Monday handed Argentina a double defeat in its long-running fight with holders of its defaulted bonds, despite the South American country's pleas that its economy could be threatened if it has to pay off the old debt.

The justices rejected without comment Argentina's appeal of judgments ordering it to pay more than \$1.3 billion to hedge funds that hold some of the country's bonds.

Then, in a 7-1 ruling, the high court said the bond holders could use American courts to force Argentina to reveal where it owns property around the world. The decision should make it easier for them to collect on court judgments.

The legal fight stems from debt that has been unpaid since the country's 2001 economic crisis. Investors holding more than 92 percent of Argentina's defaulted debt agreed in 2005 and 2010 to write off two-thirds of their pre-crisis value, providing debt relief that enabled the economy to rebound.

But some of the holdouts sued, including hedge funds led by billionaire Paul Singer's NML Capital Ltd.

The investors won an unprecedented judgment that would block Argentina's payments to many other bondholders unless it pays cash first to the plaintiffs.

Argentina asked the Supreme Court to intervene because it said that making the country pay cash in full to investors who didn't accept bond swaps in exchange for defaulted debt could destabilize the global economy by making other voluntary debt restructurings much harder.

Lawyers for Argentina said that full payment would cut the country's reserves roughly in half. They also said that lower courts which ruled against Argentina were ignoring federal law that generally protects other nations in American courts and could make U.S. assets more vulnerable to lawsuits filed abroad.

But the court declined to get involved in the case Monday.

The government of President Cristina Fernandez did not immediately comment on the ruling. Argentina's main stock market index was down more than 5 percent in morning trading.

Ramiro Castineira, an economist with the Econometrica consulting firm, told The Associated Press in Buenos Aires that the ruling doesn't necessarily mean an automatic default.

Castineira said, "what remains to be negotiated is the form of payment. The country has sufficient reserves and if it shows a willingness to pay it will get financing, I have no doubts. "

The next payment of \$907 million to holders of the restructured debt is scheduled for June 30, said Daniel Kerner, a Latin America expert at the Eurasia Group consulting firm.

Fernandez "is focused on reaching the end of her mandate without an economic crisis, and she has good political reason to avoid default. Moreover, a prolonged default would put the strategy of improving ties with foreign investors...at risk. As a result, we expect the government to seek a negotiated solution with holdouts, though it will explore options that allow it to create the appearance that it is not conceding," Kerner said.

The leader of an anti-poverty group criticized the court's action.

"I am blown away by the decision. For heavily indebted countries trying to support extremely poor people, this is a devastating blow. These hedge funds are equipped with an instrument that forces struggling economies into submission," said Eric LeCompte, executive director of Jubilee USA Network.

In the separate ruling, the justices rejected the country's efforts to try to prevent NML and the other investors from learning about Argentina's property around the world.

The question was a relatively narrow aspect of the debt issue, whether a sovereign nation can be forced to reveal assets around the world so plaintiffs can collect on U.S. court judgments.

Justice Antonin Scalia wrote the majority opinion, in which he said federal law offers no shield to Argentina.

In dissent, Justice Ruth Bader Ginsburg said the ruling would lead to a "sweeping examination of Argentina's worldwide assets." Ginsburg said she would have narrowed lower court orders in favor of the bondholders to exclude diplomatic, military and national security property owned by Argentina.

Justice Sonia Sotomayor took no part in either case.

Associated Press writer Almudena Calatrava contributed to this report from Buenos Aires.