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# ARGENTINA



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## *Infolatam*

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### [What does Argentina gain and what does it lose by not negotiating with the holdouts?](#)

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That most venerable of Panamerican institutions, the Organization of American States met today in Washington to discuss the issue of the conflict between Argentina and the holdouts concerning the restructuring of Argentine external debt. The result was predictable, beyond the fact that there is a court order upheld by the US Supreme Court requiring Argentina to pay the holdouts and the exchange bondholders. There was a unanimous decision from Iberoamerican and Caribbean states to support Argentina, while the US abstained.

Beyond the legal aspect, what does Argentina stand to gain from these actions? Argentina has won support at no cost to any other countries in the region, added to the statements made by the G-77 and other forums. However, if the government were to look at the facts rather than empty words, it would notice that no other country (or at least, no other country in conflict or in a post-conflict situation) is in a situation comparable to that of Argentina. They are all complying with their obligations within the legal framework accepted for their debts, whether internally or internationally. Furthermore, they recognize the rules which apply and the authorities charged with handling any disputes. And what is more, the valuations of debt of other country have not shown themselves to be contagious, and no other major debtor nation would wish to follow in Argentina's footsteps. There are, it is true, new and well-crafted proposals to reform or resolve situations of cessation of payments or details, but this only applies to the future.

What does Argentina stand to lose if it does not negotiate within the framework of the legal sentence ruled against it? Although the government talks of external actions against it, the defense of its sovereign rights, what it has placed at stake is the economic future of the Argentines. This shows a major lack of judgment, beyond keeping government supporters happy.

Specifically, if Argentina does not reach a satisfactory judgment for both sides, it will come up against the following economic problems:

1. The Argentina Government will continue to get little financing and at high interest rates. It could even enter into cessation of payments. With an external

debt of some 110 billion dollars (excluding linked companies and including non-restructured debt), Argentina could easily end up paying out 4 to 6 billion dollars a year more than if it restructured its debt, because of the high risk premiums its debt bears.

2. Although Argentina continues to be an attractive investment destination, in many areas such as oil and gas, legal insecurity means that foreign investors are unwilling to place their money here, and so investments will continue to be low.
3. Also, Argentines will continue to try to protect their savings and keep these abroad, where it is estimated that there are approximately 220 billion dollars in assets. If these were to be repatriated, the impact on the country's prosperity would be tremendous.
4. With a drop in investment and prices of raw materials stuck, the growth potential will remain very low, some 2-3% per year.
5. The degree of uncertainty will continue to exert downwards pressure on prices, even with a firm monetary policy, and major volatility in the exchange market, more so if restrictions to foreign currency markets remain in force.
6. Fiscal accounts will continue to remain weak, particularly given the drop in revenue from exports.
7. Given the distortions and lack of resources, the impact will be felt particularly hard in low-income sectors, who are already feeling the pressure of a high inflation rate which is not recognized officially, even after the review of the price indices.

Some people may believe that this is too pessimistic an Outlook. However, looking at the current situation, these phenomena are already visible, with GDP falling, low investment, high inflation, significant differences in the exchange market and greater poverty. This is why it is critical for the Argentine authorities to understand the error of their ways, which can only hurt those who are already hurting – the long-suffering Argentines.

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