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The Interactive Forum for the Region's Leaders

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Advisor ANALYSIS

Q

The Argentine Bondholders Committee (ABC), a U.S.-based umbrella group of foreign creditors, sent a letter to Argentine Economy Minister Jorge Remes Lenicov demanding that foreigners receive comparable restructuring terms to that given domestic creditors. What kind of deal will foreign debtholders get? Will we see a slew of lawsuits against the Argentine government by foreign creditors?

A

Guest Commentary: Marco Santamaria: "Certainly foreign bondholders would like to obtain comparable treatment to that obtained by domestic bondholders. If this were to take place, the total interest bill for all of Argentina's bonded debt would amount to a comparatively affordable \$2.8 billion per annum. Therefore, from a fiscal perspective, comparability of treatment could certainly be achieved. But aside from the question of capacity, there is the question of willingness to treat all creditors equally, and here the evidence to date is mixed at best. After all, the Argentine authorities successfully isolated foreign bondholders and defaulted solely on the debt they hold. Regardless of whether or not all bondholders are treated equally, I would expect lawsuits to be filed. And as the relatively recent case of Peru suggests, such lawsuits do have a chance of succeeding."

Guest Commentary: Gustavo Casir: "Predictability is a major asset in any country's economy. Argentina's economy is now everything but predictable. Currently, the status of the sovereign debt restructuring is: 1) the program offered to domestic lenders is still technically in place, and 2) the foreign lenders' program, the terms of which are indeed different to those offered domestic lenders, was never implemented. But, following

"The Argentine Peso devaluation is ... the greatest bank robbery in history."

-- Steve Hanke

Argentina's default, the current Administration should be expected to develop, after assembling a sustainable economic plan, a new program to deal with the sovereign debt as a whole. Considering the usual behavior of sophisticated investors regarding sovereign debt restructuring, an avalanche of lawsuits against Argentina is unlikely for now. It should be noted, however, that sophisticated investors might be in a better

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position to take their 'share of the pain' than private (usually smaller) investors. In this regard, while in the early 1980s Argentine sovereign debt was primarily held by banks, now a large part is held by private investors. These investors do not necessarily have the same patience as banks, and are oftentimes anonymous and difficult to organize. In this context of unpredictability, the best approach for foreign investors is a wait and see one, but not for long."

Board Commentary: Beatrice Rangel: "Yes, an avalanche of lawsuits against the Argentine government seems to be building on the horizon, lest foreign investors are granted the same treatment as national investors. As to the deal that debtholders will get, it will depend upon whether or not the Duhalde Administration takes hold and manages to win back the trust of the citizens of Argentina to be able to implement yet another reform program. Popular support for the government will, in turn, depend on whether or not bank accounts are liberated and on the inflationary impact of the devaluation. It is too early to make any forecast on the future of the Duhalde Administration."

Guest Commentary: Steve Hanke: "Foreign debtholders can expect, at best, nothing but scraps from the Duhalde government. Consequently, the creditors will be forced to hit back, and hit back hard, with lawsuits. This dismal prognosis is based on the following diagnosis. Frederic Bastiat (1801-50) defined legal plunder as the passage of a law that takes from some persons what belongs to them and gives it to others to whom it does not belong. The Duhalde government has repeatedly engaged in legal plunder, starting with the repeal of the Convertibility Law of 1991. The Convertibility Law gave a Peso holder the right to convert a Peso into a U.S. Dollar. That redemption pledge was made credible because the Central Bank was required to hold foreign reserves to fully cover its Peso liabilities. The repeal of the Convertibility Law eliminated the Peso holders' claims on those foreign reserves. Consequently, the Argentine Peso devaluation is like no other. Indeed, it is the greatest bank robbery in history. With the repeal of the Convertibility Law, foreign reserves equal to \$US 17.8 billion that were the property of Peso holders were confiscated by the government. For the Duhalde government, that was just the beginning."

Marco Santamaria is Senior Vice President of Sovereign Strategies at Lehman Brothers.

Gustavo Casir is a Partner at Muñoz de Toro & Muñoz de Toro in Argentina.

Beatrice Rangel is a member of the *Advisor* board and Senior Advisor to the Chairman at the Cisneros Group of Companies.

Steve Hanke is a Professor of Applied Economics at The Johns Hopkins University.

Political News

Colombia's Pastrana Extends Guerrilla DMZ to April 10; Cease-Fire Talks Begin

Colombian President Andrés Pastrana on Sunday extended the life of a guerrilla-held demilitarized zone until April 10 after the guerrillas agreed to a timetable for implementing a cease-fire, Reuters reports. The

Revolutionary Armed Forces of Colombia (FARC) rebel group agreed to the timetable, which sets April 7 as the date for implementation, just hours before a Sunday night deadline. The latest twist in Colombia's fledgling peace talks is seen as a victory for Pastrana, who has made ending the country's 38 year-old civil war a central goal of his Administration. Pastrana is in the last year of a four-year term. Early last

week, talks were on the verge of collapsing, but were saved at the last minute when foreign intermediaries persuaded the FARC to drop their conditions for peace talks to continue. The guerrillas had insisted the government relax controls on the Switzerland-sized demilitarized zone Pastrana ceded to them in 1998, but withdrew the demand after Pastrana positioned thousands of troops outside the zone and threatened to invade. The agreement to implement a cease-fire was welcomed by observers as a significant step toward ending the conflict, which has claimed 40,000 lives, mostly civilian, in the past 10 years. "Peace will not be achieved tomorrow, but for the first time Colombia has a real opportunity to achieve it," said James LeMoyne, the United Nations' special envoy to Colombia. The framework for the cease-fire includes a commitment by the FARC to discuss ending the practice of kidnapping, a major source of income for the rebel group, while the government has agreed to negotiate reforms to provide more benefits to the country's unemployed.

Mexican Government Investigates Pemex, PRI for Corruption

The Mexican government is investigating allegations that officials at state-owned oil company Petróleos Mexicanos (Pemex) illegally siphoned \$120 million to a fund for the Institutional Revolutionary Party's (PRI) 2000 presidential candidate. Comptroller General Francisco Barrio said Saturday that investigators have discovered evidence the money was transferred to Pemex's powerful union, and then to the campaign coffers of PRI candidate Francisco Labastida, according to Mexican daily *Reforma*. Labastida lost the election to current President Vicente Fox. The investigation could implicate former PRI politician and head of Pemex at the time, Rogelio Montemayor, Pemex union leader Carlos Romero Deschamps, and some Pemex

finance officials. The probe is seen in Mexico as a signal that Fox is taking a more aggressive stand against corruption, after doing relatively little to fight graft during his first year in office.

Economic News

Duhalde Says Dollar Deposits Will be Converted to Pesos

Argentine President Eduardo Duhalde said Sunday that \$44.8 billion in Dollar-denominated bank deposits will be converted into Pesos, breaking an earlier promise to return people's savings in the currency in which they were originally deposited. The move is expected to relieve pressure on the banking sector's squeezed assets, but may also provoke a new round of violent street demonstrations that have already toppled two presidents in the past month. Government officials say the "Pesification" of Dollar deposits will be as close to parity as possible. Duhalde took office earlier this month vowing to protect deposits. He ended Argentina's decade-old one-to-one currency peg to the Dollar and created a dual exchange rate regime, establishing an 1.40 Pesos to the Dollar exchange rate for foreign trade and some official transactions, while floating the Peso for all other transactions. The Peso closed Friday at 1.90/1.95 to the Dollar. The president converted Dollar-denominated bank loans up to \$100,000 to Pesos, costing banks billions of Dollars, while maintaining banks' liabilities to depositors in Dollars. The toll on banks led ratings agency Moody's Investor Service to declare last week that Argentine banks were insolvent.

Venezuela Lost \$800 Million to Tax Evasion in 2001, Official Says

The Venezuelan government lost almost \$800 million in revenue to tax evasion by businesses last year, the chief of the government tax authority said Sunday, according to wire reports. Trino Alcides, the head of the Seniat tax agency, said about 1,000

businesses owe the government nearly \$660 million in income tax from 2001. The businesses avoided paying the taxes by understating their profits and recording losses worth \$5 billion, Alcides stated. Fifty banks owe about another \$130 million, he added. Over 40 percent of assets held by Venezuelan banks are tax-deductible government bonds.

Colombia's Central Banks Cuts Overnight Lending Rate 0.5 Percent

Colombia's Central Bank lowered its benchmark overnight lending rate 0.5 percent to 8 percent on Friday, as cooling inflation gives the Bank more room to stimulate the economy. Inflation last year came in at 7.6 percent, under the bank's 8 percent target and 1.1 percent lower than in 2000. The Bank projects inflation of 6 percent for this year and 4-6 percent in 2003. Analysis of real economic activity shows "a recent improvement in certain indicators of internal demand" the Bank said in a statement.

Company News

Chip-Maker Intel Plans to Double Latin America Investments in 2002

Computer chip manufacturing giant **Intel Corp.** said Friday that despite plans to cut capital spending globally it seeks to double its investment in Latin America this year, Reuters reports. "We doubled our investment in general in Latin America from 2000 to 2001 and we expect to do the same in 2002," Bart Hiesey, Intel's Latin America territory manager told a news conference. Last week, Intel said it would cut capital expenditures by 25 percent after profits and revenues fell sharply due to the global economic slowdown, posting an 88 percent drop in annual profit to \$1.3 billion. Although 2001 was the worst year in terms of growth for Intel, they at least posted profit while many other companies incurred losses, the executive said.

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