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FEATURED Q&A

How Important for Argentina Are the Paris Club Debt Talks?

Q The Paris Club said last month that it is open to a discussion about Argentina's debt after the South American country outlined conditions for repaying the roughly $9.5 billion that it owes to the group of creditor nations. What would the advancement of talks between Argentina and the Paris Club mean for the country? What stands in the way of a breakthrough? How urgent is it for Argentina to strike a deal with the club on its debt?

A Cecilia Nahón, Argentina's ambassador to the United States: "Following the default in 2001, and under a new government, Argentina underwent a successful debt restructuring process accepted by almost 93 percent of the country's creditors. A sustainable debt management strategy favored economic growth and debt servicing, including early cancellation of all IMF obligations in 2006. As a result, debt as a percentage of GDP declined from 166 percent in 2002 to 44 percent in 2013—with public external debt being only 13 percent of GDP—providing Argentina with strong foundations for sustained economic growth. In recent months, Argentina has also settled its outstanding investment-related awards at ICSID. On January 21 in Paris, Argentina's Minister of Economy, Mr. Kicillof, met with high officials of the Paris Club, taking a relevant step towards the normalization of Argentina's debts with member countries. To this end, Argentina has initiated an open dialogue with Paris Club authorities. The country's proposal for the main guidelines of an agreement met with a positive reception among Paris Club members, confirming ongoing discussions are on the right track. As stated by the Minister of Economy, Argentina will abide by its commitments to the Paris Club and is determined to find a definitive solution. It should be noted that the debt with the Paris Club inherited by the current government dates back many decades, including to the military regimes. The

Continued on page 3

Venezuela's Maduro Invites U.S. Involvement in Unasur Talks

In the face of continued street protests and violent clashes with police, Venezuelan President Maduro urged the United States to discuss "peace and sovereignty" in a high level commission mediated by the Union of South American Nations. See story on page 2.

Photo: Government of Venezuela.

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NEWS BRIEFS

Consortium, Panama Canal Authority Formalize End to Dispute

Grupo Unidos por el Canal, the consortium of firms that has been locked in a high-profile dispute with the Panama Canal Authority over cost overruns, said Friday it had signed an agreement to continue work to expand the canal. The parties agreed to contribute $100 million each to continue operations, while GUPC is arranging $400 million in financing that involves lenders and insurer **Zurich**. The agreement provides for a completion at the end of 2015, while the claims for cost overruns will continue through arbitration agencies.

Five State Attorneys General to Meet With Mexican Counterparts

The attorneys general of five U.S. states plan to visit Mexico for three days starting March 24 to discuss cross-border crimes and money laundering with their counterparts at the federal and state level, the Associated Press reported Sunday. The officials from California, Colorado, Florida, Nevada and New Mexico will also discuss transnational gangs, intellectual property, counterfeiting, human trafficking, cybercrime and child pornography.

Peru: Five New Copper Mines Slated to Begin Producing by 2016

Five major copper mines are expected to begin production in Peru before 2016, state news agency Andina reported Sunday, citing data from the country's Ministry of Energy and Mines. The mines should double copper output from 1.3 million tonnes last year to 2.8 million tonnes and attract $13 billion in investment. The first new facility slated to begin mining is **Hudbay Minerals**' $1.55 billion Constancia project in August.

Political News

Venezuela's Maduro Invites U.S. Involvement in Unasur Talks

Anti-government demonstrators again clashed with Venezuelan police over the weekend in Caracas, Agence France-Presse reported. On Saturday, university students, some of them wearing hoods to mask their identities, for two hours threw rocks and Molotov cocktails and piled up trash as barricades before police dispersed them with tear gas and riot vehicles, according to the report. On Sunday, more than a dozen were arrested after clashing with police in the Chacao neighborhood, *El Universal* reported. A separate protest targeting "Cuban interference" in the nation's military drew thousands of marchers to the streets Sunday without violence breaking out. At least 28 people have been killed nationwide in protests that began in February against Venezuelan President Nicolás Maduro's government over shortages of staple goods and high inflation. On Saturday, President Maduro urged the United States to discuss "peace and sovereignty" in a high level commission mediated by the Union of South American Nations, EFE reported. In a speech broadcast on local television and radio, Maduro said he wanted the head of the National Assembly, Diosdado Cabello, to negotiate with a "high-level officer" of the U.S. administration under the auspices of Unasur, a group conceived in 2008 as an alternative to the Washington-based Organization of American States. Some officials in the United States have taken an increasingly strong tone against Maduro's government in recent days. Last Thursday, Senators Robert Menendez (D-NJ), Marco Rubio (R-FL) and Bill Nelson (D-FL) introduced the Venezuela Defense of Human Rights and Civil Society Act, legislation that authorizes $15 million in new funding "to defend human rights...in the face of the massive violence and repression being carried out by President Maduro against peaceful protesters." The law would require President Barack Obama to impose sanctions on persons that have been involved "in serious human rights violations against peaceful demonstrators and others in Venezuela." On Sunday, Sen. Rubio asked Treasury Secretary Jacob Lew to meet with the sizable Venezuelan community in South Florida on his scheduled trip there this week, the Associated Press reported. Lew's Treasury Department would oversee enforcement of economic sanctions on Venezuela if the legislation passes.

Green Party Candidate Surges in Colombian Presidential Race: Poll

A new poll suggests Green Alliance candidate Enrique Peñalosa could defeat Colombian President Juan Manuel Santos if the race comes to a second-round runoff in June, *Semana* reported Sunday. The **Detexco** poll found that President Santos would win 25.5 percent in the first round scheduled for May 25, up 1.3 points from last month, but well below the 50 percent required to avoid a runoff. Peñalosa, a former mayor of Bogotá, gained more than 10 percentage points since last month's poll and would garner 17.1 percent in the first round. Óscar Iván Zuluaga, the right-of-center candidate of the Centro Democrático Party, also improved his standing and would come in third with 14.6 percent in the first round, up 8.3 points from a month ago. If the race went to a second round on June 15 between just Santos and Peñalosa, 40.4 percent of respondents would choose Peñalosa, while 37.1 percent would vote for Santos. It is the first time a poll has shown the possibility of Santos being defeated in the race, although the difference is within the poll's 3.1 percent margin of error, Agence France-Presse reported. Moreover, a high percentage of voters, 58.4 percent, said they would vote blank and could change their minds. Commissioned by *El Tiempo* and *La W*, the poll of 1,000 people was conducted over telephone March 13 and 14. [Editor's note: See Q&A on the race in the Feb. 13 issue of the *Advisor*.]

Peñalosa

File Photo: Green Alliance Party.

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Economic News

Brazil Economic Activity Posts Stronger-Than-Expected Gain

Brazil's central bank said Friday that economic activity in January rose a stronger-than-expected 1.26 percent, month over month, partially offsetting a 1.40 percent decline in December, Reuters reported. The measure, a proxy for gross domestic product, was supported by higher industrial production and retail sales. In a research note circulated via email Friday, **Goldman Sachs** analyst Alberto Ramos said he expects real GDP to expand again in February "but at a more moderate pace." While the central bank has been trying to spur more economic growth, annual inflation in February rose to 5.68 percent from 5.59 percent the month prior, the national statistics agency said last week, Bloomberg News reported. Inflation has remained above the 4.5 percent midpoint of the central bank's target range for more than three years.

Company News

Liberty Global Spends $422 Million for Control of Chile Cable Company

Denver-based cable and telecommunications service provider **Liberty Global** said Friday it had acquired the remaining shares in Chile's largest cable operator for about $422 million worth of its stock. The 20 percent stake of the outstanding shares in both **VTR GlobalCom** and **VTR Wireless** were held by the wealthy Saieh family's **Corp Group Holding Inversiones**. "We would like to thank Álvaro Saieh Bendeck, his son Jorge Andres Saieh and the Saieh family for their ongoing support and the strong relationship and success we have built together," Liberty Global chief executive Mike Fries said in the press release. Liberty Global describes itself as "the largest international cable company," with operations in 14 countries. VTR says it employs 4,000 people and can reach 2.5 million homes with digital television and broadband service.

Featured Q&A

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guiding principle of Argentina's proposal is based on the concepts of debt sustainability and repayment capacity. The paramount importance of debt sustainability, first discussed by former President Néstor Kirchner, ensures that debt payments will never jeopardize Argentina's model of growth with social inclusion."

A Miguel Kiguel, executive director of Econviews in Buenos Aires: "Argentina seems to be serious this time about reaching an agreement with the Paris Club to restructure roughly $9.5 billion in debt that is currently in default. This is not the first time that

> "The big news is that Argentina appears to be more transparent again with inflation numbers."
>
> *— Miguel Kiguel*

Argentina has tried to settle the issue. Back in 2008, President Cristina Fernández de Kirchner announced that Argentina was going to pay in full the debt in cash, but this initiative was frustrated by the Lehman financial crisis and the outflow of international reserves. One of the main obstacles in the negotiations in the past was Argentina's reluctance regarding the involvement of the International Monetary Fund. Typically, in Paris Club agreements there is also an IMF program. In this case, Argentina did not want any type of IMF involvement because it was concerned about criticisms over the consumer price index and growth statistics, which have been manipulated by the government since 2007. The big news is that Argentina appears to be more transparent again with its inflation numbers, as it published 3.7 percent inflation in February, a figure that was much higher than the market was expecting and closer to reality. This new attitude has opened the possibility for the IMF to undertake the annual review of the Argentine economy and to reach an agreement with the Paris Club. This initiative is in line with the recent agreement to pay Repsol $5 billion for the expropriation of YPF and to settle the cases at the International Centre for the Settlement of Investment Disputes. It is very likely that Argentina will finally reach an agreement with the Paris Club, though we should expect a complex negotiation that will take time and will require willingness to compromise on both sides."

A Fausto Spotorno, director of research at Orlando J. Ferreres & Asociados in Buenos Aires: "Argentina needs hard currency. The central bank's foreign currency reserves were dropping very fast at the beginning of this year, which led to a devaluation of 25 percent and an increase of interest rates by 1,200 basis points in just a few weeks. This way, the central bank has created a 'bridge' to the second quarter when the dollars will flow in after a very good soybean harvest. After that, the second half of the year will be difficult, and foreign currency reserves will probably resume

> "The second half of the year will be difficult, and foreign currency reserves will probably resume the downward trend."
>
> *— Fausto Spotorno*

the downward trend because the trade balance surplus will be lower and debt payments will be higher. Therefore, the government needs international financing to rebuild international reserves and avoid an exchange rate crisis by 2015, which is the last year of the current administration. This requires an improvement with the Paris Club,

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Featured Q&A

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ICSID, World Bank and other international organizations. However, that may be difficult if there is no agreement with the IMF, something the government does not want, because it could have a high political cost. However, to evaluate the urgency of this agreement, it's important to understand that the real priority for the government, right now, is not an agreement with Paris Club but to obtain a hard currency loan."

Claudio Loser, senior fellow at the Inter-American Dialogue and former head of the Western Hemisphere Department at the IMF: "Three blocks of obligations have burdened Argentina, even as it concluded the unilateral solution to its external debt to the private sector in 2005: the obligations arising from the World Bank-housed arbitration tribunal, or ICSID, the outstanding debt to holdouts to the 2005 restructuring, and the Paris Club debt that is owed to foreign governments. Some progress has been observed regarding the first block, and Argentina is likely to lose its appeal in the U.S. courts on the second. The Paris Club is important well beyond the outstanding debt. If there is no settlement, advanced countries will not guarantee loans for the purchase of imports that Argentina so desperately needs, and there will be little sympathy for Argentina in foreign courts and at the IMF and World Bank, at a political level. This closes one of the main financing avenues for fund-strapped Argentina, at a time when the country faces its most serious economic crisis since 2001-02. Until two years ago, Argentina could count on strong and growing commodity prices. Now this is gone, and domestic policies are at best very weak. Argentina thought it could have a solution based on the soft terms it presented, claiming sovereign rights, without considering that, on the other side, there are other sovereign bodies, albeit very pragmatic ones in their approach. Under these conditions, any solution will take considerable time to materialize, to the detriment of Argentina."

Editor's note: On Friday, the Paris Club invited Argentina to negotiate paying off its overdue debt, with talks scheduled to start during the week of May 26.

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