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Argentina's Central Bank Clash May Weaken Currency, Ramos Says
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By Bill Faries and Drew Benson

Jan. 13 (Bloomberg) -- A conflict over Argentine President Cristina Fernandez de Kirchner's plan to use \$6.6 billion of central bank reserves to pay debt this year may weaken the peso and cause investors to pull out of the country, Goldman Sachs Group Inc. economist Alberto Ramos said.

Fernandez said yesterday that her plan to use the reserves, which was blocked by a federal judge Jan. 8, would help the country's efforts to restructure \$20 billion in defaulted debt and return to international credit markets for the first time since 2001. The judge also blocked another decree firing central bank President Martin Redrado for not backing the plan.

"This has been handled very poorly and there is a risk that it could cause a renewal of capital flight and pressure on the currency," Ramos said in interview from New York yesterday.

Economy Minister Amado Boudou told reporters yesterday that the dispute is harming the country's planned exchange of defaulted bonds. Boudou spoke after U.S. District Judge Thomas Griesa froze \$1.7 million in central bank funds held at a U.S. Federal Reserve bank and said the embargo, sought by holders of defaulted debt, could reach \$15 million.

"What is happening damages the debt swap," Boudou said. "It seems to be a conspiracy so that Argentina pays the highest possible interest rates."

The Merval stock index fell 2 percent, the most since Nov. 26, to 2,270.49. The peso was little changed at 3.792 per dollar. The currency has weakened 9.1 percent against the dollar over the past 12 months, the worst performance among 26 emerging market currencies tracked by Bloomberg.

Bonds Decline

Argentina's benchmark dollar bonds due in 2033 fell the most yesterday since June, with the yield climbing 53 basis points to 12.26 percent. A basis point equals 0.01 percentage point. The price fell 3.26 cents on the dollar to 68.8 cents, according to data compiled by Bloomberg.

A Dec. 14 presidential decree setting aside the reserves led to a confrontation with Congress after Redrado failed to make the funds available, saying he wanted to review the legality of the executive order. Fernandez and her Cabinet signed another decree Jan. 7 firing Redrado. Both decrees were blocked by a judge and Redrado remains in his post.

Vice President Julio Cobos and opposition Senate leaders agreed Jan. 11 to try to call Congress back from its summer recess to resolve the conflict. The ruling party's leader in the Senate, Miguel Pichetto, refused to attend the meeting, saying it was a "photo opportunity."

'Institutional Conflict'

The result of the dispute is a "full blown institutional conflict involving all three branches of government," Ramos wrote in a report yesterday.

Fernandez said yesterday that Cobos, who she picked from the opposition Radical Civic Union party to be her running mate in 2007, does "everything except support" her government.

Cobos, who has said he would like to face Fernandez's husband and predecessor, Nestor Kirchner, in the 2011 presidential election, cast a decisive vote against Fernandez's plan to raise export taxes on farm goods in 2008.

Argentina's economy grew 2.2 percent in November from the same month a year earlier, up from annual growth of 0.6 percent in October, Fernandez said yesterday. The economy shrank in May, June and July for first time since 2002, the national statistics institute reported.

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