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IMF in warning over Argentina ruling at US Supreme Court

Cristina Fernandez de Kirchner went on national television to say her country could not comply with the ruling

The International Monetary Fund (IMF) has warned that Argentina's legal defeat in its fight against hedge fund investors may have wider implications.

On Monday, a US Supreme Court ruling sided with bondholders demanding Argentina pay them \$1.3bn (£766m).

The IMF said it was concerned about "broader systemic implications".

Meanwhile the ratings agency S&P cut Argentina's credit rating, warning the ruling made it more likely that the country would default.

"The Argentine government has limited capacity to pay the plaintiff creditors while servicing its current debt", S&P said.

S&P reduced the credit rating by two notches from "CCC+" to "CCC-".

The move makes it more expensive for Argentina to borrow money.

Argentina's Economy Minister, Axel Kicillof, said the government was "starting to take steps" to restructure the debt under Argentine law - as a way of avoiding complying with the US order.

In a press conference Mr Kicillof said this would allow the country to honour its commitments with those creditors who had accepted the initial agreement.

Argentina has agreed a restructuring with the bulk of investors holding its defaulted debt, but the so-called "hold-outs" have been fighting for 100% of the value.

Mr Kicillof added that he would be sending lawyers to speak to the US judge behind the ruling, Thomas Griesa.

On Monday President Cristina Fernandez de Kirchner said her country would not bow to "extortion", in a reference to the court's ruling. She urged people to "remain tranquil" in the days ahead.

'Hold-outs'

The Supreme Court rejected Argentina's appeal against an order to pay the full value of bonds that some hedge funds bought after the country defaulted more than a decade ago.

Also, the bondholders won the right to use the US courts to force Argentina to reveal where it owns assets around the world. The court's decision means that bondholders should find it easier to collect their debts.

Some analysts believe it is possible that the Supreme Court's ruling could encourage investors to hold out in other restructurings of sovereign debt.

"The Fund is considering very carefully this decision and, as we have said before, we are concerned about possible broader systemic implications," the IMF said. The Fund is usually closely involved in the financial restructuring of countries in trouble.

'End of the road'

Mrs de Kirchner went on national television to say her country could not afford to honour the ruling.

She said her government was willing to discuss the issue further, but added: "What I cannot do as president is submit the country to such extortion."

However, Anna Gelpern, an expert in sovereign finance at the US-based Georgetown Law School said: "This realistically is the end of the road for Argentina's decade-long fight."

The South American country defaulted in 2001 following its economic crisis, and has been in a legal battle with bondholders led by hedge funds NML and Aurelius Capital Management.

Argentina argues that the funds bought most of the debt at a deep discount after the default, and has since tried to impede the country's efforts to restructure.

Investors holding more than 92% of the defaulted debt agreed in 2005 and 2010 to write off two-thirds of their pre-crisis value, providing Argentina with time to re-build its economy.

But the hedge funds owning the remaining 8% held out against the restructuring.