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Argentina Offers Debt-swap

by LADB Staff
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Argentina's offer to exchange tens of billions of dollars worth of bonds for a fraction of their nominal value is getting takers, though not yet as many as would be necessary for the government to consider the debt-swap offer a success. The exchange would radically reduce the US$100 billion in private debt that the Argentine government owes to bondholders and is supposed to end the country's years-old international default standoff.

The government of President Nestor Kirchner has said this will be the final offer on private debt, which has been in default for three years, cutting Argentina out of international credit markets and reducing the Foreign Direct Investment (FDI) it receives. The Kirchner government would consider 50% acceptance of the offer a success, though officials at the International Monetary Fund (IMF) say a 75% acceptance would be necessary to consider the swap a success.

Offer expires in February

After the 2002 economic crisis, Argentina suspended payments on private debt, the largest default on sovereign debt in history (see NotiSur, 2002-09-27, 2002-11-22). Since then, there have been negotiations among the IMF, Argentina, and investors, but none of the latter has seen repayment during the course of those three years. The government has made offers to exchange bonds for a fraction of their original value, known colloquially as a haircut, with strong rejections from certain bondholder organizations (see NotiSur, 2004-01-16). The strongest opposition to the haircut is concentrated in Rome, Italy, where a large group of bondholders who say they are unwilling to accept the swap have made the loudest rejections of the Kirchner government's offers.

The Argentine ambassador to Italy characterized Italian-Argentine relations as being in crisis over the debt-swap standoff. Italian Economy Minister Domenico Siniscalco called Argentina's offer "very miserly and very poor." Argentine Economy Minister Roberto Lavagna has been promoting the exchange in New York, Rome, and at home. The government insists that this will be its final offer and that those who do not accept it will be left with worthless bonds. Investors have until Feb. 25 to reject the deal. Argentina would issue US$41.8 billion in new bonds in exchange for the US $100 billion in bonds in default since early 2002. It would be the largest sovereign debt write-off in history.

The three new bonds offered by the government par, quasi-par, and discount would have a nominal issue date of Dec. 31, 2003, meaning US$1 billion in interest payments would be immediately owed to bondholders on completion of the exchange. One incentive to get creditors to accept the swap would be the cash payment on April 1, corresponding to the interest accumulated since Dec. 31, 2003, for those who opt for par and discount bonds. There will also be extra coupons for those who accept all three of the new securities, linked to the growth of the Argentine economy. The coupon will be paid as of 2006, as long as GDP has grown at least 3% a year.
In addition, the government said it would tie payments to economic growth. If Argentina's GDP growth exceeds 3%, a number it has far surpassed in the years since the crisis, the government would pay an amount equal to 5% of the additional growth in interest bonuses to bondholders and another 5% to buy back debt. If up to 70% of bondholders accept the offer, Argentina will issue US $38.5 billion in new bonds. If more than 70% of bondholders accept it, Argentina will issue US$41.8 billion in new bonds.

The Economy Ministry is offering the three different kinds of securities to the holders of a wide range of defaulted bonds issued in the 1990s, which are denominated in 14 different currencies. The new bonds will be denominated in four currencies: U.S. dollars, euros, yen, and Argentine pesos. The quasi-par bond was designed with the private pension fund administrators known as Administradoras de Fondos de Jubilaciones y Pensiones (AFJP) in mind. The AFJPs, combined with local private creditors, hold 38% of the defaulted debt. The rest is in the hands of bondholders in Italy, Germany, Japan, Switzerland, the US, and a few other countries.

The Global Committee of Argentine Bondholders (GCAB) says it represents more than US$39 billion of Argentina's debtholders' debt and says the acceptance to the haircut offer will be much less than 50%. "Those who subscribe to the offer will regret it," said Hans Humes, one of GCAB's co-presidents. The Buenos Aires government, he said, "will see itself obligated to make a new, better proposal, but whoever signs (the first) will not be able to join it."

Many analysts are not as doubtful as Humes, however. Suhas Ketkar, senior economist at the Royal Bank of Scotland, says, "I suspect that the actual participation rate will be much larger. First and foremost, retail creditors are tired of waiting. As a result, they are likely to snap at the offer on the table rather than hold out for a new and improved one on the premise that one in the hand is better than two in the bush."

**Acceptance of offer at 26.6%**

The offer has reached a level of 26.6% acceptance in the three weeks since its launch, a figure far from the 50% that government hopes to achieve. Analysts say, however, that it is too early to tell whether that 26% represents the swap's success or failure and the market is waiting to see what the coming weeks bring.

The Economy Ministry said that the acceptance level had already reached US$21 billion of the US $81.8 billion in default that the government seeks to restructure. Of the acceptance, 4.2% came from abroad and the rest was local, representing well over a majority of Argentine nationals with bonds. Of local debtholders, 68.5% accepted the offer in the three weeks after its launch. A large number of the private bondholders are actually Argentine citizens, leading government officials to call the phrase "foreign debt" a misnomer.

**Law seeks to make exchange final**

Argentine legislators have introduced a law that would prohibit the president from reopening the debt-exchange negotiations. If that legislation moves forward, it might spur more bondholders to
accept the current offer. If Buenos Aires gets the acceptance it is seeking, holdout debtholders could be left with international lawsuits as their only recourse for collecting their money. Suhas Ketkar says that, if the offer succeeds in attracting sufficient support, "there is little doubt that speculative money will return to Argentina in short order. FDI is another issue because Argentina's default has involved abrogation of not only financial contracts but also of agreements with foreign direct investors such as those in utilities."

President Kirchner is currently waging struggles with privatized utility corporations that he says have failed to deliver agreed-upon services and has rejected those companies' requests to increase the rates they charge consumers.

Economic growth continues through 2004

**Economic growth continues through 2004**

Even without speculative money and strong FDI, the Argentine economy has continued growing at a steady rate. In November 2004, economic growth nearly hit the 10% mark, reaching 9.7% growth compared with the same month in 2003, according to the Instituto Nacional de Estad

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