Argentina, Banks Reach Accord on Refinancing Debt, New Loans

LADB Staff
Argentina, Banks Reach Accord on Refinancing Debt, New Loans

by LADB Staff
Category/Department: Argentina
Published: 1987-04-16

Late on April 14, Argentine officials announced that creditor banks had agreed on a debt refinancing and new loan package worth about $32 billion on more favorable terms than in previous reschedulings. On the following day, elated economy ministry officials provided details for reporters on the return of Finance Minister Mario Brodershon to Buenos Aires. Banking sources said Argentina had obtained conditions similar to those secured by Mexico last year.

Foreign observers in Buenos Aires pointed out that at the time of the Mexican agreement, the banks warned other debtor nations that the accord was an exception and not a precedent. A total of $30 billion is to be rescheduled over 19 years, with a seven-year grace period on principal payments. Argentina is expected to pay an interest rate 0.8125 percentage point over the London interbank offered rate, the LIBOR. The interest rate on a new loan of about $1.9 billion was established at .0875 percentage above the LIBOR. In contrast, REUTERS reported that bankers said some key points were still being discussed with Brodershon, such as Argentina's original request for $2.15 billion in new loans to fill its 1987 financing gap, and later reduced to $1.85 billion.

The 11-member bank advisory committee is seeking to further reduce that amount. According to banking sources, the committee agreed to Argentina's demand that every dollar of foreign debt that is converted into local currency for equity investment within the country be accompanied by one dollar of fresh investment. The Argentine economic team argued that, without the fresh-dollar requirement, the debt converters would simply be receiving a central bank subsidy for investments that probably would have been made anyway. At a press conference on the evening of April 15 in Buenos Aires, Brodershon said that the difference between the $2.15 billion and the new loans received from the banks could be made up by loans from foreign governments and the savings incurred via lower interest rates.

Last week as negotiations appeared to have deadlocked between Argentina and the banks, Economy Minister Juan Sourrouille attacked the banks in a speech before the International Monetary Fund (IMF) in Washington. He charged, among other things, that they were creating obstacles on issues that had already been successfully dealt with before the IMF and the World Bank. Additional features of the financing package are described below: An "exit bond" scheme which allows smaller banks to detach themselves from further reschedulings. Argentine officials said the plan involved 25-year bonds with two-year grace periods at a fixed annual interest rate of 3%.

US banking sources indicated that details for the scheme have not yet been finalized. This agreement marks the first time exit bonds have been employed in a rescheduling package, although the idea has been around since the debt crisis first arose in 1982. The idea is to permit banks with small amounts in outstanding loans to bail out of the process rather than remaining in the syndicates that negotiate with debtor nations. But the bonds are also designed to involve some
reduction in the value of the original loan, and it is not clear at this time how many banks among Argentina's some 300 bank creditors would participate. A provision prohibiting on-lending in the fresh money package. The practice of on-lending, in which loans are initially deposited with the central bank, effectively gives creditor banks greater control over who receives the new money. The package also stipulates that outstanding on-lending agreements from earlier reschedulings, worth $600 million, will be subject to government regulated quotas to minimize their potentially inflationary impact. (Basic data from NOTICIAS ARGENTINAS, 04/14/87, 04/15/87; REUTERS, 04/14/87; WASHINGTON POST, 04/16/87; PRENSA LATINA, 04/14/87, 04/10/87)

-- End --