Latam Economic Update

- **Argentina: Stop-start developments on debt restructurings**

ARGENTINA: STOP-START DEVELOPMENTS ON DEBT RESTRUCTURINGS

On Monday, July 20, three of the largest and most prominent groups of Argentina's creditors united to announce their opposition to the authorities' fourth, most recent, and so-called "final" set of proposed terms announced on July 5 to resolve the default on the country's USD 65 bn in external-law bonds. On one hand, this represented a major setback as Economy Minister Guzman had previously indicated that at least one of the bondholder groups had signalled preliminary support for the proposal. But on a more hopeful note, the creditors also indicated their belief that we are close to a "constructive" agreement on terms for a successful exchange and that they were submitting a further counterproposal to the authorities. We still expect an exchange to go ahead on terms broadly similar to the existing proposal.

The long interregnum between the current offer period's close on August 4 and the planned execution of the debt exchange on September 3 always implied that the authorities anticipated the possibility of a low initial participation rate that they would attempt to raise through additional sweeteners. Most notably, the authorities' most recent proposal did not include a state-contingent element similar to the GDP-linked detachable warrants that featured in Argentina's 2005 debt treatment—nor the agricultural exports based "value-recovery mechanism" that was mooted by the authorities in earlier rounds of talks. We are likely to see a revival of these possibilities in order to secure creditor participation in the proposed swap.

The developments on the international front followed the Friday, July 17 publication and submission to Congress of the authorities' efforts to restructure domestic-law USD-denominated bonds and bills worth about USD 48 bn. The proposed swap is structured on terms designed to reduce upfront cash-flow needs, like those offered to holders of the country's external-law bonds in default, though the domestic debt swap would go ahead without any minimum participation requirement. Participation would be encouraged through payment deferrals of at least one year on unswapped securities. Participants in the exchange would receive either longer-term USD-denominated paper with maturities of at least 10 years, or shorter-dated ARS-denominated inflation-linked paper with five- and seven-year maturities. Bondholders who elect to swap for USD-denominated bonds with longer 18- or 21-year maturities would avoid the imposition of haircuts, while those who swap into 10- and 15-year USD-denominated bonds would face a 3% haircut. Accrued interest would be paid through a 10-year bullet with a small incentive for bondholders to be early adopters of the exchange.

—Brett House

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@co.scotiabank.com

Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl