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FEATURED Q&A

Can Argentina Make a Deal With Int'l Bondholders?

Argentine Economy Minister Martín Guzmán said Tuesday that the country will proceed with talks on restructuring its foreign debt despite missing a self-imposed March 31 deadline for a deal with creditors. // File Photo: Argentine Government.

Q Argentina's government reached a deal last month with domestic bondholders to swap nearly 200 billion pesos ($3.2 billion) in local currency debt in a major auction, offering new instruments that expire between 2021 and 2024 for others maturing this year. The swap is part of the Alberto Fernández administration's strategy to gain more time to make payments amid a severe debt crisis. What did the agreement with domestic creditors consist of, and how significant is it? Is the deal a good signal for international bondholders, and where do the government's talks with them stand? How and to what extent are the impending global recession and the Covid-19 pandemic having an impact on Argentina's debt negotiations?

A Lisa M. Schineller, managing director and lead analyst of sovereign and international public finance ratings at S&P Global Ratings: "The Fernández administration's overriding principle for debt management has been a comprehensive restructuring that pushes out Argentina's debt servicing path and renders debt 'sustainable.' Its strategy is to remain current on local currency and foreign currency debt service to the extent possible—considering pressures on the foreign exchange market and its available resources. It has remained current on foreign-currency, foreign-law debt to date, which is important to facilitate the ongoing dialogue with nonresident bondholders. However, in December, it unilaterally extended the maturity of short-term locally issued U.S.-dollar-denominated debt through August. This constituted a default for S&P on Argentina's foreign currency debt. In terms of the locally issued peso debt, the strategy is to build a peso-de-

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U.S. President Donald Trump announced that he is moving Navy ships toward Venezuela in order to strengthen anti-drug operations.

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Mexico's finance ministry said the coronavirus pandemic will cause a "drastic" impact on the country's economy this year. It expects a rebound next year.

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Vizcarra Calls Up Army Reservists to Enforce Peru's Quarantine

Peruvian President Martín Vizcarra called up nearly 10,000 army reservists to help enforce the government's mandatory quarantine aimed at containing the spread of Covid-19.

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Vizcarra // File Photo: TV Perú.

POLITICAL NEWS

U.S. Moves Ships Toward Venezuela in Anti-Drug Operation

U.S. President Donald Trump announced Wednesday that he was moving Navy ships toward Venezuela in an effort to strengthen anti-drug operations in the Caribbean, the Associated Press reported. The move follows U.S. federal prosecutors' indictment last week of Venezuelan President Nicolás Maduro and several other top Venezuelan officials on

Esper // File Photo: U.S. Department of Defense.

charges of drug trafficking and conspiring with the Revolutionary Armed Forces of Colombia, or FARC, rebel group. "As governments and nations focus on the coronavirus there is a growing threat that cartels, criminals, terrorists and other malign actors will try to exploit the situation for their own gain," Trump said at the daily White House press briefing on the coronavirus pandemic. "We must not let that happen." The deployment of ships is one of the largest military operations in the region since the 1989 when the United States invaded Panama and removed Gen. Manuel Noriega from power. "The Venezuelan people continue to suffer tremendously due to Maduro and his criminal control over the country, and drug traffickers are seizing on this lawlessness," U.S. Defense Secretary Mark Esper said after Trump's announcement, the AP reported. The goal of the deployment is to nearly double the U.S. counternarcotics capacity in the hemisphere, said Esper, adding that 22 partner nations would support the effort. The operation has been planned for months, but it has become more urgent following last week's U.S. indictments of Maduro and other top government and military officials. The United States is offering a reward of as much as $15 million for information leading to Maduro's arrest and/or conviction and rewards of $10 million and $5 million for the others named in the indictment. Venezuelan Communications Minister Jorge Rodríguez called the deployment a "desperate attempt to distract attention from the tragic humanitarian crisis" in the United States caused by Covid-19. Maduro last week called the U.S. charges against him "a collection of dirty, false accusations."

Peru's Vizcarra Calls Up Reservists to Enforce Quarantine

Peruvian President Martín Vizcarra has called up nearly 10,000 army reservists to return to barracks as part of the government's efforts to enforce a mandated quarantine aimed at containing the spread of coronavirus, the military said on Wednesday, Reuters reported. "They are graduates who served the Army, and we hope that some 10,000 will return," Colonel Martín Tisoc, the army's head of human resources, told the América Televisión channel, Reuters reported. At the Chorillos military headquarters in Lima, hundreds of reservists lined up to register and undergo a medical examination. If they pass, they will begin a "retraining" period before going on patrol, Tisoc said. As of Wednesday, reserve soldiers will be deployed gradually, La República reported. The government's call comes due to the high number of people who are failing to comply with social distancing measures and imposed curfews. As of Tuesday, Peru's police and military had detained some 36,000 people, Vizcarra said. The president recently extended the state of national emergency and nighttime curfew for an additional two weeks, until April 12. Despite the strict measures, the country's confirmed cases of coronavirus have continued to increase, reaching 1,323 with 47 confirmed deaths from the virus. [Editor's note: See the

NEWS BRIEFS

Chilean Consul to Rosario in Argentina Dies After Contracting Covid-19

Chile's consul in the Argentine grains hub city of Rosario, Fernando Labra, has died after contracting Covid-19, Chile's foreign ministry said on Wednesday, Reuters reported. Labra, who was in his 60s and had nearly four decades of experience as a diplomat, developed symptoms after returning from a trip to Chile. Argentine Foreign Minister Felipe Solá expressed his "heartfelt condolences" to his Chilean counterpart over Labra's death, according to the statement. Argentina has reached 1,133 confirmed cases of coronavirus and 33 confirmed fatalities.

Brazilian States Defy Bolsonaro's Call to Relax Quarantine Measures

All but three of Brazil's 27 states have refused to follow President Jair Bolsonaro's direction to end quarantines and relax social distancing measures amid the Covid-19 pandemic, The Guardian reported. Bolsonaro has downplayed the threat of the virus in Brazil, which has 6,931 confirmed cases of it and 244 reported deaths.

Omega Geração Suspends Talks on Deals Due to Coronavirus Pandemic

Brazilian renewable energy company Omega Geração has suspended all deal talks in which it was involved due to the fallout from the Covid-19 pandemic, the company said in a securities filing, Reuters reported Wednesday. The decision will allow the firm to direct its efforts to "more critical activity at the moment," the company added. Omega also announced the closing of its 20-million-reais ($3.8 million) purchase of wind farm company Assurua, which controls two wind farms in Brazil's northeastern state of Bahia with a generation capacity of 50 megawatts.

Advisor's **interview** with Dr. Jarbas Barbosa, assistant director of the Pan American Health Organization.]

ECONOMIC NEWS

Mexican Economy Expected to Shrink 3.9% This Year

The Mexican economy is expected to shrink by as much as 3.9 percent this year, the finance ministry announced Wednesday in an annual economic report that is used to guide the budget, El Economista reported. The estimate, which has an upper limit of 0.1 percent growth, includes a "drastic" impact from coronavirus, the ministry said. A rebound next year could bring between 1.5 percent and 3.5 percent growth, it added. The announcement came with a promise of more measures to

López Obrador // File Photo: Mexican Government.

address the economic consequences of the fast-spreading coronavirus, with President Andrés Manuel López Obrador vowing to help small businesses and workers, Reuters reported. He also urged companies to continue paying employees, telling them to act with their "consciences." He said some major firms had already pledged to protect their work forces in the crisis, without providing further details. In a public health emergency, Mexican labor law allows companies to put staff on the minimum wage for a month. Many have criticized what they see as a weak and delayed governmental response to the Covid-19 pandemic as well as López Obrador's economic management over the past year, Reuters reported.

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nominated yield curve, roll over debt when possible and engineer exchanges around large maturities so as not to create dislocations in local asset markets. The March exchange followed the contour set out in the first peso-denominated exchange in late January. The terms and conditions of that January exchange implied losses for investors and constituted a default for S&P under our distressed exchange criteria. We lowered our local currency ratings to default at the time, where they have remained given expectation of future similar exchanges around large maturities. The March swap was noteworthy in size—taking 13 locally issued peso securities, a mix of short-term instruments due this year (including debt already rescheduled last year) and a bond due in June and exchanging them for a mix of inflation-indexed bonds with maturities beginning only in 2021 and through 2024, with losses for bondholders. This principal of clearing out near-term debt repayment needs without full compensation for bondholders is what we have been expecting in the forthcoming restructuring of long-term foreign-currency, foreign-law and local-law debt. We have signaled just that with our CCC- rating and negative outlook on this debt. S&P always considered Argentina's timeframe as ambitious. Notwithstanding some recent important advances, the hit to global and local economic and financial conditions could generate further delays in formulating and negotiating the agreement. It will inform both the government's near-term fiscal needs and creditors' risk appetite."

A **Miguel Braun, independent consultant and former secretary of economic policy at Argentina's finance ministry:** "The agreement is a positive step in the direction of reaching an agreement with international bondholders and avoiding a costly and painful default, which would leave Argentina out of the markets for many years to come. However, the main part of the debt is still outstanding, and it is still not clear whether an agreement will be reached. The pandemic is reducing the value of all emerging-market debt, so the valuations of creditors' holdings should be lower. This is consistent with the fact that expected growth for Argentina will be lower due to the impact of the crisis, reducing the government's ability to make a generous offer and increasing the likelihood of an agreement. The IMF appears to be supporting the government's position regarding the need for a renegotiation that delays and reduces payments. However, the key question for Argentina is how to grow again. GDP has basically been flat since 2011. The country needs to show in no uncertain terms that investing in Argentina makes sense. Public spending and taxes must be cut significantly; bureaucracy and red tape need slashing; especially in international trade and logistics, tariffs must be reduced through more free trade agreements; and the financial system needs rebuilding, starting with a reduction in inflation. These reforms require urgent action, political consensus and international support. Otherwise, Argentina will not grow, making its population, investors and creditors worse off."

A **Christian F. Schoepp, international consultant at Diaz, Reus & Targ:** "The agreement offered current domestic bondholders of the so-called 'trigger bonds,' or the A2M2, the opportunity to swap those debts for new bonds maturing later. It has been estimated that, under the new agreement, investors who swapped accepted a cut on returns of 16.5 percent on average. The March swap was achieved by relying on the investors' belief that the threat of not being paid was so high that the only option was to swap for debt to be repaid further down the road. The agreement is a decisive moment in Alberto Fernández's administration. It is the largest monetary operation focused on domestic debt under the current administration, and it gives the government breathing room to continue negotiating with international

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bondholders to restructure its $70 billion in foreign debt. This agreement is significant because it avoids protracted litigation by bondholders against Argentina for defaulting on millions of dollars in bonds, as it happened in 2001. The restructuring bought not only time, but may also have, initially, purchased goodwill with international bondholders, giving them hope that the government will negotiate in good faith. This is a much better option than litigating for years. Like their domestic counterparts, international bondholders are likely to face a cut on returns. Exactly how deep this cut will be is still the topic of negotiations, and the government remains in talks with them, working to reach a deal both sides can live with. If the Covid-19 crisis drags on, the debt negotiations with Argentina may be significantly affected. While Argentina's goal was to finalize an agreement with international bondholders by March 31, the global pandemic has already led the government to delay this schedule. With the Fernández administration implementing new measures to contain the spread of the virus, including shutting its borders, international bondholders may be left with an even more depleted bottom line."

A **Bruno Binetti, nonresident research fellow at the Inter-American Dialogue:** "The voluntary swap of bonds in pesos was relatively successful, with 60 percent of debtholders agreeing to Argentina's terms. However, the real challenge is the renegotiation of more than $68 billion in dollar-denominated debt held by private creditors, which is about to begin. The Argentine government will likely demand a significant haircut and hopes that the global crisis will encourage bondholders to accept the proposal in exchange for attractive interest rates in the future. With international interest rates approaching zero and Argentina's bonds trading in default territory, the reasoning goes, the government's offer is much more appealing than only weeks ago. There are two problems with this optimistic take. First, the collapse of Argentine bonds presents a golden opportunity for hedge funds (or vulture funds) to buy as much debt as they can and demand full payment, dragging Argentina into long litigation in foreign courts. Second, the Covid-19 crisis has turned Argentina's economic situation from serious to catastrophic. The extent of the crisis is impossible to predict, but GDP will collapse, the fiscal deficit will widen, and plummeting commodity prices will hit exports hard. Amid this disaster, the IMF might grant Argentina more time to repay its $44-billion loan, but private bondholders might not be that lenient. They will demand proof that Argentina can repay even if given a few years' grace. Facing a crisis of yet unknown proportions, the government might not be able to reassure is creditors and avoid default."

> **"Amid this disaster, the IMF might grant Argentina more time to repay its $44-billion loan, but private bondholders might not be that lenient."**
> **— Bruno Binetti**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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