



Will Argentina's debt deal fly?

by Andrew Thompson

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What happened?

Argentina's President Alberto Fernández and economy minister Martín Guzmán were reported on 19 June to have extended the deadline for rescheduling US\$65bn worth of bonds by almost a month to 24 July.

The details

Argentina has been in default – its ninth – since 22 May, when it missed key interest payments. Talks with bondholders have been on and off since then, and various deadlines have been set and then extended. The President and his economy minister must tread a careful path. They need the best deal possible, but with the country in recession and in the grips of the COVID-19 pandemic, they need a deal fast. It is not clear at this stage whether they have got their timing right.

There are various ways of measuring what's on the table. The government initially wanted a 3-year payments holiday – which would give it a chance to boost the domestic economy during much of Fernández's 4-year presidential term. The latest versions of the deal suggest that the holiday is now down to only one or two years. The Buenos Aires government wanted the creditors to take a big "haircut" or debt write-down. The haircut will be implemented through an old-for-new bond swap. The latest government offer would give creditors 49.7 cents for every dollar of face value of their bonds; the creditors on the other hand, are holding out for around 57 cents on the dollar. There is also a dispute over the coupon or interest rate that the new bonds will offer: the creditors say their latest proposal should be attractive because they are cutting it from 4.3% to 3.6%.



Timing is critical in all negotiations. With signs of impatience beginning to grow among the creditors, and some worries over government policy (an attempt to expropriate grains exporter Vicentins has spooked investors) there is a risk that positions will get entrenched.

What does it mean?

Both Fernández and Guzmán have a reputation as pragmatists. The risk is that they may overplay their hand. A breakdown in negotiations could lead to legal action and a prolonged default similar to the one that shut Argentina out of capital markets for the five years before 2015.

About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC's Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.

