

# Working against the clock: Argentina's debt deadline approaches

Fredrik Karlsson 15 May 2020



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Argentina is facing a tight deadline to restructure its sovereign debt – if it fails, the country could enter its ninth debt default on 22 May. But although it only has a week left to pay certain debt obligations, lawyers believe there is still a chance Argentina and its creditors may reach an agreement, because neither party would benefit from a default.

At the end of last week Argentina extended its debt deadline until 22 May, after creditors widely rejected the government's exchange offer for US\$65 billion of foreign debt. If no agreement is reached by 22 May – when the grace period for a US\$503 million interest payment that the government skipped in April expires – it could mean Argentina will enter default, again.

While most large investors rejected Argentina's unilateral exchange offer – some local retail investors accepted – they remain open to continue negotiations. "Argentina should negotiate with large institutional investors to try to find common ground for a revised proposal," says [Pérez Alati, Grondona, Benites & Arntsen](#)

([PAGBAM](#)) partner Diego Serrano Redonnet. “These investors wanted to renegotiate some of the offer’s terms, since the initial offer was a unilateral proposal from the government.”

Argentina’s offer, made in April, asked creditors to accept a suspension of all debt payments for three years, along with a 62% haircut on interest payments, worth nearly US\$40 billion. The offer also suggested the government pay a 0.5% interest rate from 2023, which would gradually increase to 4.5%, as well as a 5.4% cut of the debt’s face value, worth some US\$3.6 billion.

Bondholders are allegedly preparing a counter-offer, which would target some aspects of Argentina’s initial offer and turn it into a better deal for investors. Javier Magnasco, partner at [Beccar Varela](#), says investors’ counter-offer would, among several things, probably include: a capitalisation of unpaid interest; some debt or interest payments during the first three years; and higher interest rates for new bonds to make them more acceptable for investors. “These are the key issues which are tearing both sides apart,” he says.

Serrano believes a counter-offer could also include a reduction of the initial 62% haircut of interest payments, and a mechanism that would allow for larger principal and interest payments once Argentina’s GDP growth improves.

“Clearly, both sides are looking for an agreement,” says [Beccar Varela](#)’s Magnasco, “the absence of which would benefit neither of them.” He does not think it is impossible for the parties to reach an agreement, but it would require fine-tuning the aspects where they currently disagree to get as close as possible to the 50-50 mark. “It is absolutely realistic to reach an agreement since both parties need and would profit,” Magnasco concludes.

However, some bondholders may hold firm. [Marval O'Farrell Mairal](#) partner Fernando Hernández says there are some creditors holding bonds that were restructured in 2005 and 2010 that are requesting different treatment on the grounds that they have already accepted a large discount once and would not accept further cuts. “This makes the improvements to the current offer more difficult, because in such event the offer should formulate different proposals for different bonds,” he says. Consequently, Hernández believes it will be more difficult to reach an agreement between all parties.

On the other hand, in a default scenario bondholders will not receive any payments at all until a future restructuring offer is settled. “As evidenced by Argentina’s recent experience, this could take a long time,” Hernández says.

The ideal situation for Argentina would be if it can convince a required majority of creditors to accept the offer, thus triggering a collective actions clause. If so, that would automatically pull all bondholders into the new agreement. Based on creditors' latest rejection, however, Argentina is still far from this. For the 2005 restructured bonds, Argentina needs 85% of all bondholders to accept the offer, while also obtaining at least 66.6% approval from holders within each bond series. For bonds issued after 2016 by the Mauricio Macri government, the threshold is lower. Argentina needs a 66.6% approval across all bonds, and at least a 50% approval within each bond series.

In its offer to creditors, Argentina included a novel "re-designation" mechanism. This allows Argentina to re-jig bond series and exclude an individual series from the aggregate amount for purposes of calculating the required majorities. On such excluded series, if at least 75% of the bondholders of that particular series accept the restructuring, the remaining bondholders of that series would be bound by the majority.

The re-designation mechanism can be exercised by Argentina in both the 2005 and 2016 bonds. "This re-designation feature is innovative, and it is yet to be seen if it could be potentially challenged in courts by investors forced into an exchange by the application of the re-designation option," says PAGBAM's Serrano.

Another way to avoid default, or at least to buy some time, is if Argentina can pay the delayed interest payment on 22 May and defer a possible default until the next due payment. "Argentina should make the approximately US\$500 million interest payment due under those bonds to avoid a formal default on 22 May and gain additional time to negotiate the terms of an acceptable offer," says Marval's Hernández.

If it does not pay the interest on 22 May, it could try to reach a standstill agreement with the investors. "Then Argentina would have some more time to negotiate and define the details of the restructuring until the next scheduled payment under the bonds," says PAGBAM's Serrano.

While the federal government is working towards its deadline, some Argentine provinces have already descended into default. The province of Buenos Aires, the most populated in the country, entered default yesterday when the grace period of a US\$110 million interest payment expired. The grace period was supposed to end on 11 May, but as the initial payment deadline (1 May) was an Argentine public holiday (Labour Day), the deadline of the grace period was extended until yesterday. The province is also negotiating an exchange offer for

some US\$7 billion worth of bonds with creditors, which has a deadline on 26 May. The local government, led by former Argentine finance minister Axel Kicillof, has offered a similar deal to investors as that of the federal government.

Several other provinces may likely go down the same road as Buenos Aires if Argentina does not solve its sovereign debt situation. "A default would have a devastating impact on sub-sovereign debt restructurings," says [Beccar Varela's](#) Magnasco, who also points out that companies will have a hard time getting financing and refinancing in the event of sovereign default. This will be especially problematic for companies in those sectors covid-19 has hit hard, like oil and gas. "Bear in mind that YPF, one of the main companies in Argentina, has to face significant debt maturities this year," he says.

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