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FEATURED Q&A

Has Argentina Struck a Good Deal With its Creditors?



The government of Argentine President Alberto Fernández reached a major debt renegotiation deal with bondholders earlier this month. // File Photo: Argentine Government.

Q Argentina's government announced Aug. 4 that it had reached a deal with three main groups of bondholders in its planned restructuring of \$65 billion in foreign bonds. The deal, which suggests a recovery rate of about 55 cents on the U.S. dollar, would "grant Argentina significant debt relief," the Economy Ministry said. How good is this deal for Argentina's government and for creditors? What will the deal mean in the long-term for Argentina's economy and its ability to borrow money in capital markets in the future? What does Argentina's government need to do in order to avoid accumulating more unsustainable levels of debt?

A Lisa M. Schineller, managing director and lead analyst for sovereign and international public finance ratings at S&P Global Ratings: "Argentina's restructuring deal reached in principle on Aug. 4 is a key step forward for both the government and investors. It enables the government to pivot its focus fully on bolstering Argentina's low-growth trajectory and tackling high levels of inflation. It allows creditors to hold bonds that will be current on paying debt service. Both sides made important concessions, recognizing that a deal was important for all. There was not a significant haircut on the face value of debt, but the government enjoys important cash-flow relief on debt service over the coming years. For bondholders, compromise by the government on some legal aspects and advanced timing of some debt service payments was key for their metrics. Next up are negotiations with the IMF to reconfigure its repayment schedule, and as part of

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TODAY'S NEWS

POLITICAL

Trinidad Officials Say Ruling Party Won Election

The result had been in question, as the opposition disputed several contests and claimed fraud. According to election officials, the ruling People's National Movement received just over 13,000 more votes than the United National Congress, its top rival.

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POLITICAL

Bolivian Senate Drafts Bill for Oct. 18 Election

Lawmakers have been trying to appease protests organized by supporters of ousted former President Evo Morales, who have blocked highways and paralyzed the Andean nation's economy.

Page 2

ECONOMIC

Departures Rattle Brazil's Economy Ministry: Report

Salim Mattar, a businessman charged with privatizing state assets, quit his post in Brazil's economy ministry in frustration over a lack of progress.

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Mattar // File Photo: Jeso Carneiro via CC license.

POLITICAL NEWS

Trinidad Election Officials Say Ruling Party Won Vote

The ruling People's National Movement won the popular vote in Trinidad & Tobago's 2020 general election held Monday, according to the preliminary results released by the Elections and Boundaries Commission (EBC) Wednesday, the Trinidad Express reported. The result had been in question over the past several days as the opposition disputed numerous contests and claimed the voting process had been flawed. According to election officials, the PNM received just over 13,000 more votes than the United National Congress, its top rival led by former Prime Minister Kamla Persad Bissessar, who had demanded a recount Tuesday in three key constituencies despite Prime Minister Keith Rowley's declaration of victory. Voter turnout was lower than recent elections, at 58 percent, with 658,297 electors casting their votes. Rowley said that the delays were intended to undermine his mandate and that not being able to swear in a new cabinet was hurting the campaign promises his party had made. "What the UNC is doing is to disrupt the process. These

are not accidental things. This is a deliberate strategy ... so as to prevent a smooth flow of the country's governance," Rowley said, Loop News reported Wednesday.

Bolivia Senate Drafts Measure to Ensure Oct. 18 Election Date

Bolivia's Senate on Wednesday approved a measure that would make it a crime to change the date of national elections beyond Oct. 18, La Razón reported. Lawmakers have been trying to end protests organized by labor unions alongside rural and indigenous groups, many allied to the socialist party of ousted former President Evo Morales, who have blocked highways and paralyzed the Andean nation's economy for more than a week. The measure also calls on the executive branch to guarantee that financial resources for holding elections are allocated so as to prevent the spread of the novel coronavirus. Diplomats from the European Union have been involved in talks with protesters and government officials over the election dispute. The bill now passes to the Chamber of Deputies, which has scheduled it for discussion today, after which it will be sent to the interim president, Jeanine Áñez,

NEWS BRIEFS

Federal Agents Arrest Prominent Puerto Rican CPA in Bribery Case

Federal U.S. agents on Wednesday arrested a prominent Puerto Rican businessman in a corruption investigation, the Associated Press reported. Aníbal Jover Pagés, who once was president of Puerto Rico's Association of Certified Public Accountants, is the seventh person arrested in a case naming numerous prominent figures, including former Education Secretary Julia Keleher, who faces criminal allegations in another federal case as well. Her attorneys have said she is innocent.

Arcos Dorados Posts \$89.5 Million Q2 Loss

Montevideo-based Arcos Dorados Holdings, Latin America's largest restaurant chain and the world's biggest independent McDonald's franchisee, on Wednesday reported a second-quarter loss of \$89.5 million. Consolidated revenues were 59.5 percent lower in U.S. dollars versus the second quarter of 2019, but losses were mitigated by strong gains in drive-through and delivery service during the pandemic. "The resilience of the Arcos Dorados System was on full display during the second quarter of 2020," CEO Marcelo Rabach said in an earnings statement.

Ecuador's Bucaram Arrested in Organized Crime Probe, Killing

Law enforcement authorities on Wednesday arrested former Ecuadorean President Abdalá Bucaram in an organized crime probe into the murder of an Israeli man jailed in a possible Covid-19 medical supplies scandal, the Associated Press reported. Bucaram, 68, has not been charged, and an attorney says he is innocent. "The Bucaram family hasn't been responsible for a single death in this country," Héctor Gabriel Vanegas said.

FEATURED Q&A / Continued from page 1

that conversation the opportunity for the government to consolidate and articulate more fully its macroeconomic and microeconomic strategy. To capitalize on fiscal space provided by debt relief, ensure longer-term sustainability of Argentina's debt and regain access to market financing, bolstering trend growth after a technical rebound post-Covid, is crucial. This is beyond any plans for a measured reduction in fiscal imbalances. Investors—both real and portfolio—will be looking for clarity and consistency in the government's policy efforts to enhance productivity and attract private investment. What will happen to the complex and high tax burden, the array of foreign exchange restrictions and pending trade agreements?

And what will happen to the system of negotiated prices for consumer goods, gas and utilities? Higher growth and low inflation are good for investors and, importantly, Argentine living standards—as well as sovereign creditworthiness."

A **Kezia McKeague, director at McLarty Associates:** "The agreement will benefit both sides, while setting a positive precedent for the international financial system writ large. It is particularly good news for the Argentine government, which has claimed a major victory by bringing the country out of its ninth sovereign default. Resolution of Argentina's debt problem

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for enactment. On Wednesday, Moraes asked supporters to accept Oct. 18 as the date for general elections, Télam reported.

ECONOMIC NEWS

Departures Rattle Brazil's Pro-Market Economic Team

Two high-profile members of Brazilian Economy Minister Paulo Guedes' team resigned their posts this week, leading some analysts to ask if the pro-market agenda of far-right President Jair Bolsonaro was in jeopardy, Folha de S.Paulo reported Wednesday. Salim Mattar, a businessman charged with privatizing state assets, quit on Tuesday, Bloomberg News reported. At the same time, Paulo Uebel, the government's lead to "de-bureaucratize" the country's massive public sector, also stepped down, citing a lack of progress. Guedes acknowledged the importance of their departures. "It was a stampe," Guedes told reporters. Since Bolsonaro took office in January last year, nearly half of Guedes' economic team has departed. Guedes said he plans to stay in the job.

Mexico Launches Bid to Attract More Foreign Investment

The Mexican government has launched a new initiative to convince foreign firms to bring production to the Latin American country with a "relocation strategy" campaign, The Washington Post reported Wednesday. As U.S.-China tensions continue to rise and the pandemic forces some companies to re-think their global supply chains, Mexican officials hope to offer an alternative to Asian production. "As a result of Covid, many global value chains are going to form regional chains for reasons of efficiency, profitability and also for safety," said Ernesto Acevedo, Mexico's deputy economy minister. [Editor's note: See also the Dialogue's July 30 [event](#) with Amb. Martha Bárcena on this topic.]

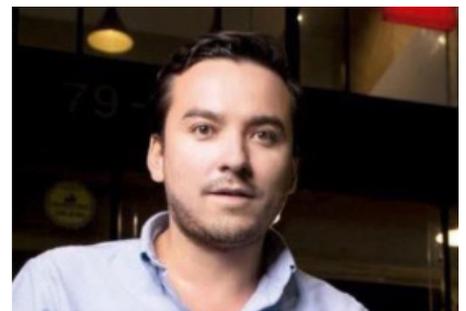
TECH BRIEFS

Brazilian App Launches Notification Alerts of Possible Exposure to Novel Coronavirus

Brazil's government-backed Covid-19 smartphone application has launched a notification available on Apple and Android devices that alerts users to possible exposure to the novel coronavirus, ZDNet reported last week. The function is now available to approximately 10 million users of the app, which the Ministry of Health launched as a source of information about the pandemic. According to the ministry, only Brazil's federal government will be licensed to use the exposure notification technology in the South American nation. The tool, which Google and Apple began jointly working on in May, has also been adopted in countries including Italy and Uruguay. The application compiles and encrypts anonymized data and reports from positive cases of Covid-19 to notify app users when they have been at a distance of as little as two meters from people who have the virus for longer than five minutes, information that is registered through Bluetooth, according to the report.

Colombia's MUY Launches Contactless Restaurant

Colombian food technology company MUY has announced the launch of its first contactless restaurant in the capital city of Bogotá, Contxto reported Aug. 3. Users' responses of the store, which is currently undergoing pilot tests, have exceeded expectations, the firm said, adding that if results continue to be as positive, more of its locations would be refitted under this model. MUY Chief Executive Officer and Co-founder José Calderón said it is the first store with zero human interaction in Latin America. At the shop, customers place their order and pay via a kiosk in either cash or credit and debit cards, and then pick up the meal from a designated locker within the establishment. Eventually, MUY is aiming to implement transactions via QR code, Contxto reported. The food company currently operates in Mexico and Colombia, and it is looking to run pilot tests in Brazil, according to the report.



Calderón // File Photo: LinkedIn.

Mexico's Creze Closes on \$12 Million From Investors

Mexican financial technology firm Creze has announced it recently closed a deal for 265 million Mexican pesos (around \$12 million) with unnamed Mexican investors, Contxto reported Monday. The funds will go toward updating the fintech's lending platform as well as any potential consequences that might come out of the current situation. "We're proud to announce this investment, which will allow us to better face any eventuality that's derived from the current crisis as well as push for the continual innovation of our platform and the acquisition of customers to meet our objective of modernizing SME banking in Mexico," Creze's co-founder, Diego Creel, said in a statement. Creze, which was founded in 2015, offers loans online to small and mid-size businesses in Mexico.

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was one of the primary *raison d'être* of the Fernández administration and the almost exclusive focus of Minister of Economy Martín Guzmán since taking office in December 2019. Nevertheless, as many observers have noted, the deal with bondholders is merely a point of departure—a necessary but insufficient step for regaining access to credit markets and ensuring the sustainable economic growth that, in the long term, is the only way for any economy to meet its

“The agreement will benefit both sides, while setting a positive precedent for the international financial system writ large.”

— Kezia McKeague

financial commitments. Rating agencies have indicated that the formalization of the restructuring with private creditors will likely lead to modest credit upgrades, but Argentina's rating will remain low due to continued high inflation, a growing fiscal deficit and the severe recession exacerbated by the Covid-19 pandemic. The next step for the Ministry of Economy will be negotiation of a new program with the International Monetary Fund. While the government has achieved a positive relationship with Managing Director Kristalina Georgieva, the IMF talks will require greater definition of an economic strategy than we have seen to date from the Fernández administration. Moreover, there is significant pent-up demand from companies in the real economy to address other urgent challenges. The hope is that with this new breathing space, the administration will seek to restore investor confidence by gradually unwinding unsustainable price controls and import and foreign-exchange restrictions. At least in the short term, however, the government will likely continue to actively manage

trade and financial flows. In the absence of consensus on macroeconomic management, much uncertainty remains.”

A Bruno Binetti, nonresident fellow at the Inter-American Dialogue: “The deal is good news for everyone: Argentina gets a more sustainable debt profile, the government gets a significant political win and low debt payments in the next few years, and creditors avoid a prolonged judicial fight in New York. That said, the restructuring was a necessary but by no means sufficient condition to envision a way out of Argentina's catastrophic economic situation. Private analysts expect a collapse of GDP of between 10 percent and 15 percent this year, inflation is high and expected to rise due to massive monetary emission, and poverty will probably reach 50 percent of the population. Further, the fiscal deficit is approaching 10 percent of GDP, which is unsustainable even if the country returns to capital markets. The next step is renegotiating Argentina's \$50 billion debt with the International Monetary Fund. Economy Minister Martín Guzmán said a deal with the IMF won't be ready until early 2021. Unlike private creditors, the IMF will demand significant macroeconomic reforms in exchange for spreading out payments (the IMF can't write off debt). Spending cuts are unavoidable, but will be painful, especially given the impact of the pandemic. Ultimately, restructuring the debt with private creditors and the IMF will provide only temporary relief if Argentina doesn't tackle its decades-long structural problems. These include low productivity, chronic shortage of hard currency, unsustainable fiscal deficits and lack of trust in the peso, among many others.”

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

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