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More Investors Ready for Argentina Debt Deal

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BUENOS AIRES -- After seven years of often bitter wrangling, many investors are ready to accept the Argentine government's plans to reopen its 2005 debt restructuring on similar terms.

Investors representing about half of the \$20 billion of defaulted bonds still in circulation have backed a proposal which the government is using as the foundation for its new offer, and more could join. The government wants to secure as much support as possible to bolster its chances of borrowing once again from international capital markets.

Some investors have been worn down by the government's intransigence over the years, and its willingness to battle relentlessly in court. But there is also the benefit of hindsight, and the ability to analyze Argentina's strong economic growth of recent years.

"Back in 2005, there were certain risks associated with that transaction that prevented some investors from participating," Robert Koenigsberger, managing partner at Gramercy Partners, told Dow Jones Newswires Friday.

Gramercy is a major holder of Argentina's defaulted bonds. Mr. Koenigsberger has played an anchor role in bringing the two sides together over the last three years.

Since 2002, Argentina's economic growth has continued to astound most observers, with gross domestic product expanding at more than 8% per year through 2007. Because of the way the deal is likely to be structured, investors will likely receive payments they had few guarantees they would be getting the first time round.

"Now potential participants have the ability to look at past performance and not only project into the future," said Mr. Koenigsberger.

In particular, so-called GDP-Linked Securities, or warrants as they are also known, were largely overlooked at the time, but have since become a crucial component of the debt restructuring.

"GDP warrants were a misunderstood and undervalued instrument back in 2005," said Koenigsberger.

After asking for an eye-watering 66.7% discount on its defaulted debt, the Argentine government included the warrants as a sweetener, offering to make a payment to investors when growth is strong.

As the economy has confounded, the warrants have dulled some of the pain from the original losses. By the end of this year, investors which did exchange \$100 dollars of defaulted debt will have received \$7.40, and stand to receive up to a total of \$48 through 2035, depending on economic growth.

George Estes, emerging-market credit analyst at Grantham, Mayo, Van Otterloo Co. in Boston, said the 2005 deal was "worth a lot more than it seemed at the time."

"It's turned out that the payments that were made under the warrants were substantial," said Mr. Estes. GMO also holds Argentine defaulted debt, and the firm hasn't yet decided whether it will participate in the transaction.

"Going forward is another question; obviously they're not going to owe any payments for this year's GDP and next year who knows," Mr. Estes said.

Argentina's economy ground to a halt in 2009 due to a combination of domestic slowdown and the international financial crisis. Officially, the economy is expected to grow 0.5% this year, although many private-sector economists believe the country is in a deep recession.

The Argentine government's willingness to fight running battles with investors through U.S courts has also hindered investors' legal attempts at recovering their money, despite rulings in their favor allowing them to seize Argentine property overseas.

"It hasn't been easy to find assets to attach," said Mr. Estes. "Argentina has been very good at hiding their assets. They've spent a lot of money on legal counsel and that's been effective."

There are investors that have already said they won't participate in this transaction, and that they will keep pursuing their claims through the courts.

"Many will not accept now what they weren't willing to take in 2005," said Robert Shapiro, co-chair of the American Task Force Argentina, a lobby group which represents a number of investors in Argentina's defaulted debt.

The legal challenges will continue, preventing Argentina from returning to international lending markets, Mr. Shapiro said.

Gramercy's Mr. Koenigsberger said he believes the government's goal of mopping up at least 60% of the outstanding debt is "absolutely achievable." The size of the litigious bloc "will shrink to a small minority," he said.

"The transaction will be successful and I think litigious investors contemplating alternative strategies will conclude that participating offers the best upside," he said.

—Shane Romig contributed to this article.

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