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FEATURED Q&A

Is Argentina Now on a Sustainable Path With its Debt?

Argentine President Alberto Fernández on Aug. 31 announced that private creditors had accepted the government's debt restructuring offer. // Photo: Argentine Government.

Q Argentina's government announced Aug. 31 that private creditors agreed to its offer to restructure $65 billion in the country's foreign bonds. The "massive acceptance" of the deal will save the government more than $37 billion over the next decade, said Economy Minister Martín Guzmán. What next steps must Argentina take in order to make the remainder of its debt sustainable? To what extent will the latest agreement help Argentina's government strike deals with the International Monetary Fund and other creditors? Is Argentina currently on a path that will help it avoid future defaults and the need for more debt restructuring in the years ahead?

A Cecilia Nahón, former Argentine ambassador to the United States and alternate executive director for Argentina and the Southern Cone at the World Bank Group: "When Alberto Fernández's administration took office last December, Argentina began an orderly process aimed at putting its public debt back onto a sustainable path. This became a government priority with a process fully backed by Congress and the provinces in a spirit of national unity behind the goal of restoring debt sustainability. As the World Bank argues, debt financing is critical for development, but unsustainable debt levels harm growth and hit the most vulnerable. Last week, the debt restructuring process reached success with 99 percent of private creditors under both foreign and local jurisdiction having accepted the invitation to exchange foreign-currency denominated securities. As a result, Argentina will get debt relief in the amount of $37.7 billion for the next decade, mostly achieved through the reduction of average interest rates from around 7

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TODAY'S NEWS

POLITICAL

At Least 11 Killed in Colombia Protests Against Police Brutality

At least 11 people have been killed and more than 400 others have been injured in Colombia during protests after police officers repeatedly used a stun gun to shock a 46-year-old lawyer, who later died at a hospital.

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ECONOMIC

Cuba Reportedly Planning to Devalue Peso

The Communist nation's government is planning to devalue the peso's official one-to-one exchange rate with the U.S. dollar and also unify the country's two domestic currencies.

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POLITICAL

Peru Lawmakers Eye Impeachment Against Vizcarra

Peru's Congress today plans to debate opening an impeachment proceeding against President Martín Vizcarra.

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Vizcarra // File Photo: Peruvian Government.

POLITICAL NEWS

At Least 11 Dead in Colombia Anti-Police Brutality Protests

At least 11 people died and another 403 were injured as demonstrators took to the streets of Colombia for a second night on Thursday in protest of an incident earlier this week in which a civilian, Javier Ordóñez, died after an interaction with police, El Tiempo reported. There were reports of protests across Bogotá well past midnight in the second day of demonstrations after a video surfaced of police using a stun gun to repeatedly shock Ordóñez, a 46-year-old lawyer and father of two, Reuters reported. The video shows police officers pinning Ordóñez down while he pleads, "Please, no more." He died later in a hospital. Officials allege the lawyer was drinking alcohol with his friends in violation of coronavirus-related distancing rules. Some 300 protesters gathered on Thursday afternoon outside the police station in Villa Luz, where Ordóñez was taken before his death. Among the wounded on Thursday night were 194 police officers, according to Defense Minister Carlos Holmes Trujillo, El Tiempo reported. This includes officers injured during protests in Bogotá, Cundinamarca, Cali and Medellín. Earlier in the day, Bogotá Mayor Claudia López cautioned people to return to their homes by evening. "Although there is no curfew in Bogotá, we ask that by no later than 7 o'clock, all those who can, please stay home," she said in a Facebook Live broadcast. However, as evening fell, demonstrators stayed on the streets, with some throwing rocks and bottles at police, who were in riot gear, as well as targeting the windows of the police station and setting a small fire in front of it for a brief time. Police responded with tear gas and flash-bang grenades, Reuters reported.

Officials allege Ordóñez was violating coronavirus-related distancing rules.

ECONOMIC NEWS

Cuban Government Reportedly Planning to Devalue Peso

Cuba's Communist government is planning to devalue the peso's one-to-one exchange rate with the U.S. dollar for the first time since the 1959 revolution, Reuters reported Thursday, citing three sources who requested anonymity due to the sensitivity of the subject. As part of the changes, which will reportedly happen before the end of the year, the government will also unify Cuba's two domestic currencies, said two Cuban sources and a foreign businessman, all with knowledge of the plan. Authorities will keep the peso, while the convertible peso, which is fixed to the dollar for state business but exchanged with the public at 24 pesos to buy and 25 pesos to sell, will be eliminated, the sources said. "The most important measure is going to be changing the official exchange rate used by the state companies," Omar Everleny, a Cuban economist, told the wire service, adding that there were "several proposals" for the rate. "It will never be one on one … It is between 10 and up," he said. Authorities brought the dollar back to Cuba earlier this year for the first time since the fall of the Soviet Union, as the cash-strapped Caribbean nation grapples with the economic fallout of the coronavirus pandemic coupled with toughened U.S. sanctions, The Guardian reported. The Cuban peso's value against the euro, the Canadian dollar and other convertible currencies will also likely be adjusted based on rates on the international markets, Reuters reported. Economy and Planning Minister Alejandro Gil said in July that because the local currency cannot be exchanged on the international market to buy goods and pay debts, the government needs to take on reforms in order to increase exports and lower imports. Economists are expecting a 10 percent decline in Cuba's economic activity this year.

NEWS BRIEFS

Mexican National Guard Officers Investigated Over Fatal Clash During Protest

Prosecutors in Mexico are investigating 17 police officers of the militarized National Guard in a case linked to a gunfight that left one woman dead and her husband injured, officials said Thursday, as tensions rose during a protest against a dam diverting water to the United States, Reuters reported. Police on Wednesday said two people were killed after its officers "repelled aggression" from armed civilians during the protest in northern Chihuahua state, saying later that the husband survived and was hospitalized with serious injuries.

Peru's Congress to Debate Impeachment Proceeding Against President Vizcarra

Peru's Congress today plans to debate opening an impeachment proceeding against President Martín Vizcarra, Bloomberg News reported. Vizcarra is accused of lying and obstructing a corruption investigation involving government officials. In a televised address Thursday, Vizcarra denied wrongdoing and said the allegations were politically motivated.

Panama Announces Rules for October Renewable Energy Auction

Panama's government has announced the rules for a renewable energy auction that is scheduled for October, PV Magazine reported Thursday. Under the terms of the auction round, selected projects will be awarded five-year power purchase agreements by state-owned utility Empresa de Transmisión Eléctrica, and they must begin commercial operations on Jan. 1. The country's energy secretariat said the auction was necessary, as Covid-19 has hit the development of generation projects and the national electricity market to the extent that it could compromise short-term supply.

BUSINESS NEWS

Evertec Proceeding With Plans for Sale, Hires Goldman Sachs

Puerto Rico-based payments company Evertec is reportedly moving ahead with plans for a sale and has hired Goldman Sachs to advise it, Barron's reported Thursday, citing four unnamed people familiar with the matter. Evertec, which is headquartered in San Juan, has reached out to prospective buyers, but it is unclear when bids will be due, the magazine reported. Evertec offers payment services in 26 countries in Latin America and the Caribbean and processes some two billion transactions annually, according to its website. The company also has more than 2,300 employees. Last month, Bloomberg News reported that Evertec was considering options including a sale. It may have appeal to larger payments providers such as Global Payments or Fiserv, according to the news service. Evertec's president and chief executive officer, Morgan "Mac" Schuessler, formerly headed the international division at Global Payments. Evertec's consideration of a sale is occurring amid a series of consolidations by payments companies. Last year, there were several mergers in the industry. Among them, Fidelity National Information Services bought WorldPay for $34 billion, Fiserv bought First Data for $22 billion and Global Payments bought TSYS for $21.5 billion, Barron's reported. Business solutions, including core bank processing and network management services, make up 43 percent of Evertec's business, with payment services making up 38 percent and merchant acquiring comprising 19 percent, Evertec said last month in a presentation to investors. The company did not respond to a request for comment by Barron's on the potential sale. The company was formerly part of Banco Popular, which sold a 51 percent stake in it to Apollo Global Management in 2010. Evertec later raised $506 million when it went public in 2013. The company currently has a market capitalization of $2.45 billion.

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percent to 3 percent. This milestone clears the path toward the resumption of sustainable growth in Argentina. However, while this is a fundamental step, additional policies are also being implemented to face the effects of Covid-19, recover inclusive growth and break the dynamic of recurring balance of payments crises. Argentina is advancing on various integrated fronts, including: 1.) deepening the capital market in local currency, with savings and financing instruments in pesos; 2.) initiating consultations with the IMF to agree on a new Fund-supported program, based on consistent macroeconomic policies and avoiding the flawed assumptions of the 2018 standby arrangement; and 3.) implementing active growth policies focused on promoting jobs, domestic production and exports while taking care of the most vulnerable."

A **Claudio M. Loser, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund:** "Argentina's situation remains complicated, even after the recent agreement with creditors under foreign jurisdiction. However, this agreement is a central piece in helping Argentina come out of virtual default, although the road ahead is tough. The other pieces are the debt and program with the IMF, the debt issued under domestic legislation and the debt to multilateral development banks, as well as bilateral lenders (mainly the Paris Club and China). The domestic debt will follow the principles of the agreement under foreign legislation and should not be difficult. The Paris Club, and most likely China, will enter into discussions with Argentina in the context of the IMF negotiation and agreement. The development banks will be the most important source of new money. The IMF has strongly supported Argentina in the debt negotiation. This suggests a strong will to help Argentina. The IMF does not restructure its lending directly, but in practice extends maturities, in the context of a program—probably an extended arrangement for three years and extending maturities by 10 years. This will clear the debt horizon for about a decade. However, this requires a sustainable plan with politically difficult structural reforms. The IMF will take into consideration the pandemic, and it will allow for initial limited adjustment, but with a plan to reduce inflation and the fiscal gap starting in mid-2021. Only with such a plan can Argentina break its poor debt record. The domestic policy path is difficult, but unavoidable. Otherwise, the country may not escape its well-founded 'bad debtor' reputation."

"Argentina's situation remains complicated, even after the recent agreement with creditors under foreign jurisdiction."

— Claudio M. Loser

A **Miguel Kiguel, executive director of EconViews in Buenos Aires:** "While the agreement brought some relief to the markets, it did not generate euphoria, as the stock market dropped, credit spreads remained at the high end of the spectrum and the spread between the official and the parallel exchange rates did not recede. It did not represent the turning point that the government was expecting. There are several reasons why markets remain wary of Argentina. First, there are large macroeconomic imbalances, and there is not a program to address them in a credible way. The fiscal deficit is large, and the treasury relies on the central bank to finance it. Inflation is high, and some members of the economic team argue that the increase in money supply will not affect it. International reserves are extremely low, and they keep falling in spite

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of very tight foreign exchange controls as the spread between the official and the parallel exchange rates exceeds 70 percent. In addition, there is an unfriendly business climate that threatens private investment, as many prices and utility rates remain frozen. Furthermore, the government issued a decree to have new powers to intervene in telecommunications companies and Internet service providers, and there are threats of new taxes and regulations that discourage private investment. To the extent that the government continues to send mixed signals about macroeconomic policies and the extent of government intervention, it will be difficult to change the mood. The government is now negotiating a new program with the IMF, which can be used to establish a consistent macro-program and serve as a turning point for investment. We expect a long and difficult negotiation, but at the end it might bring a positive change."

A **Andrés Asiain, director of the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires:** "After reaching an agreement with a significant group of creditors holding foreign bonds and moving forward with a proposal for bonds that are governed by local legislation, doubt regarding private debt flows for the next few years was cleared. When observing the flow of maturities, it is evident that their fulfillment depends largely on Argentina being able to access the debt markets again to at least refinance maturities from the year 2025. Therefore, the main result of the negotiation is the time window of the next four years, with bonds that have very low maturities, and it is a great opportunity to take pressure off the public and external accounts. The second part of the task is to make those resources available for the reactivation and social demands of the Argentine population. Post-pandemic recovery will crucially

> **"Post-pandemic recovery will crucially depend on the government's economic recovery program."**
> **— Andrés Asiain**

depend on the government's economic recovery program. Its '60 measures to get out of the crisis' should balance sectoral pressures, changes that the new normal implies and structural restrictions that historically condition our economy (which are condensed in an exchange market under permanent pressure). However, the main obstacle to reactivation are the restrictions on economic policy that may arise from the renegotiation of the debt with the IMF, after having managed to close an agreement with private creditors. The implicit fiscal austerity pact can paralyze the main engines of demand (public and private consumption), keeping the economy in the lethargy of the recession."

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

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