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Argentina Swaps $14.9 Billion in Local Bonds, Easing Debt Burden

- **Treasury offered investors note swap for new 'dual' bond**
- **Swap first major test of market confidence under new minister**

By Scott Squires and Patrick Gillespie

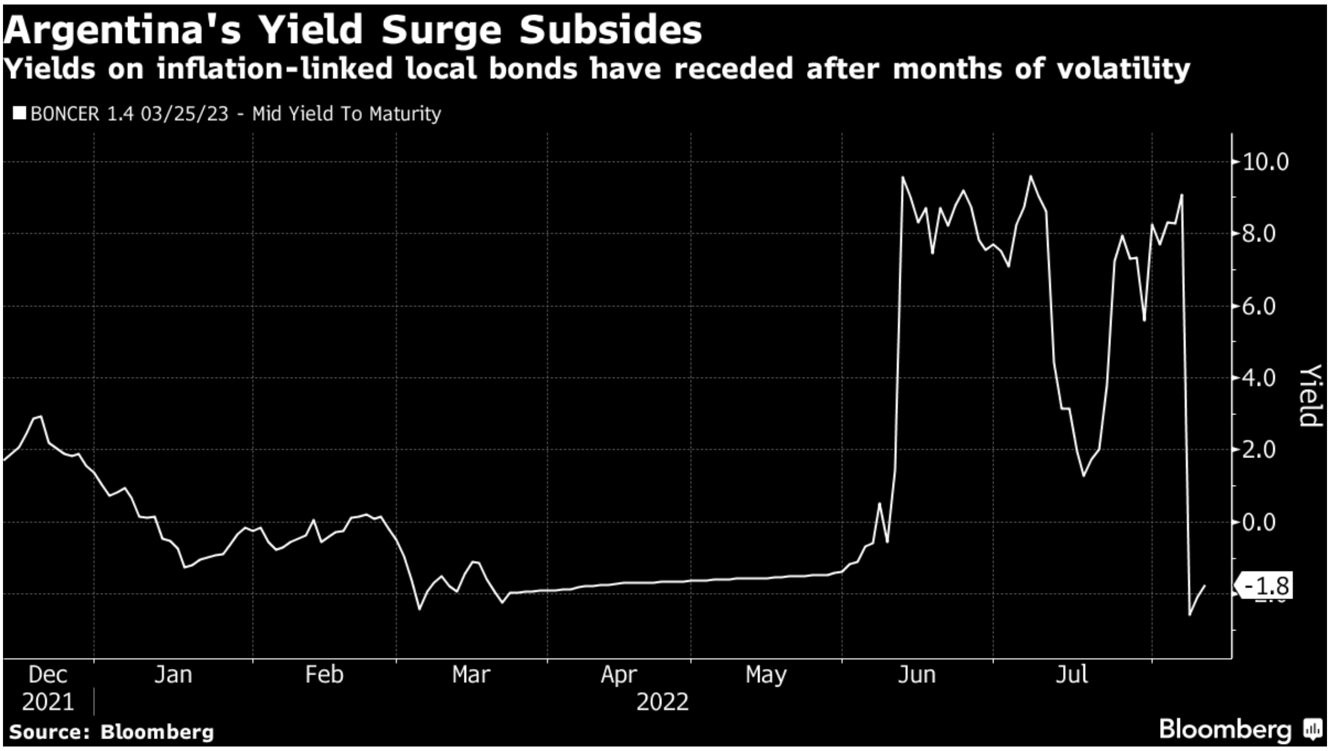
(Bloomberg) -- Argentina's economy ministry exchanged 85% of its local debt coming due through October for new securities, clearing its short-term peso debt burden, a week into the tenure of new Economy Minister Sergio Massa.

The country swapped around 2 trillion pesos ($14.9 billion) in inflation-linked Treasury notes and other securities for a new "dual" bond maturing in June, July and Sept. 2023, according to an economy ministry statement. The new notes pay investors the higher of two rates at the time of maturity: either an inflation-linked rate or a dollar-linked rate. The latter pays out in case of a devaluation of the official peso.

The exchange eases pressure as inflation expectations worsen to an estimated 90% for the end of the year and international reserves dipping to critically low levels. He unveiled a slew of measures Aug. 3, including a pledge to stop printing money that had fueled consumer prices, that helped the prices of local debt recover after a sharp sell-off in June on fears that high inflation would make the government's peso debt burden unsustainable.

While the swap doesn't change the total amount of inflation-linked debt in Argentina's portfolio, it does start to clear doubts about the government's ability to refinance its large maturities in September, according to economy ministry officials who asked not to be named discussing private information.

Around 80% of Argentina's local debt is indexed to inflation, according to Portfolio Personal Inversiones, a local brokerage.



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Cut off from international capital markets, President Alberto Fernandez's government has relied on money printing to cover its chronic fiscal deficit. The central bank also boosted its benchmark rate 800 basis points to 60% two weeks ago, and is expected to hike rates again on Aug. 11 to reduce excess money in the economy.

About 60% of the total amount of 2.4 trillion pesos in notes eligible for the swap were held by public entities, such as the pension system, according to Juan Manuel Pazos, chief economist at TPCG Valores in Buenos Aires. Banks and mutual funds hold about as much as 25%, he said.

"It's difficult to consider this outcome as a success, given that most of these private creditors are banks and mutual funds that are not allowed to invest in dollarized securities," said Ramiro Blazquez, head of strategy at BancTrust in Buenos Aires. "We're not overly concerned regarding peso debt financing in the short term since the government could find a combination of maturities and interest rates that can allow it to bridge the financing gap."

Before the swap, the government had around 615.8 billion pesos in local debt due in August, and more than 1 trillion pesos maturing in September, according to the government statement. After the swap, Argentina will face maturities of around 115 billion pesos in August, 209 billion pesos in September and 155 billion pesos October, it added.

(Updates head, lede with results of debt swap)

To contact the reporters on this story:
Scott Squires in Buenos Aires at ssquires4@bloomberg.net;
Patrick Gillespie in Buenos Aires at pgillespie29@bloomberg.net

To contact the editors responsible for this story:
Carolina Millan at cmillanronch@bloomberg.net;
Daniel Cancel at dcancel@bloomberg.net
Juan Pablo Spinetto