May 2016 Briefing

#ChauDefault: Argentina issues largest ever emerging-market bond after a 15-year isolation, pays its creditors and exits default

Argentina’s long-awaited exit from default and return to international markets was sealed with a record-breaking US$16.5 billion bond issue on Apr. 18, and payment of its main holdout creditors on Apr. 22.

US Treasury Secretary Jack Lew issued a statement on Apr. 22, admiring “the speed at which Argentina is moving to create more sustainable and inclusive economic growth, and to reconnect with the global economy and the world community”.

Besides paying its creditors, the bulk of the funds raised will be invested in transportation and energy infrastructure.

Context & details of the bond sale

On Feb. 19, New York District Judge Thomas Griesa lifted a 2014 injunction that had prevented Argentina from raising new money in bond markets and paying its holdout creditors, on the proviso that it repealed two national debt laws that barred it from paying the holdouts. “The injunction, once appropriate to address the Republic’s recalcitrance, can no longer be justified,” Judge Griesa wrote in his order.

On Feb. 29, Daniel A. Pollack, the court-appointed mediator on the 15-year debt litigation case, announced that Argentina had reached an Agreement in Principle with four of the largest creditors. The agreement of US$4.65 billion was 25% less than the holdouts were demanding.

Over the course of March, the House (by 165-86) and the Senate (by 54-16) voted in favor of a package of measures that duly called for the repealing of the two national debt laws.

On Apr. 13, while the Finance Ministry was embarking on an international roadshow in the US and Europe to attract investors, the US District Court of Appeals in Manhattan affirmed Judge Griesa’s ruling to lift the 2014 injunction.
On Apr. 19, Argentina issued its first international bond since 2001 - the largest ever bond issue to date by an emerging market - and sold $16.5 billion of sovereign debt through four bon tranches, around two-thirds to US investors, a quarter to investors in Europe and 5 percent to investors in Asia.

“We had a mandate from the people of Argentina, which told us, we no longer want to be part of the previous framework, we want to be part of the world,” said Finance Minister Alfonso Prat-Gay at a news conference on Apr. 19.

Watch news conference Apr. 19

Due to massive interest, Argentina sold the bonds at yields at the lower end of its price guidance. It sold $2.75 billion worth of 3-year notes at 6.25 percent, $4.5 billion of 5-year bills at 6.875 percent, $6.5 billion of 10-year bonds at 7.5 percent and $2.75 billion of 30-year bonds at 7.625 percent.

President Mauricio Macri has earmarked $9.3 billion of the proceeds to pay off the holdout bondholders, which will rise to around $10.5 billion after all payments are made (representing a 44% reduction in the amount legally claimed), and the remaining $7.1 billion for construction of roads, ports and other public infrastructure.

On Apr. 22, Argentina started paying its creditors in cash, rather than through bonds. At a press conference, Minister Prat-Gay stated that this effectively generated additional savings of $3 billion for the government, since investors were willing to pay higher prices for the bonds than the holdouts.

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More information

- Read the Finance Ministry press release, Apr. 22
- Watch Finance Minister Alfonso Prat-Gay address the Atlantic Council in Washington DC, Apr. 14
- For all Press Releases from the Finance Ministry, go to [www.economia.gob.ar/prensa/](http://www.economia.gob.ar/prensa/)