

Ecuador reaches agreement with ad hoc bondholder group to restructure debt

NEW YORK, NY, UNITED STATES, July 7, 2020 /EINPresswire.com/ -- In principle, Ecuador has reached an agreement with an ad hoc group of bondholders on the commercial terms to restructure around USD 17.4bn in the country's bonds.

The main plan of this debt deal is to exchange ten existing bonds maturing between 2022 and 2030 for three new bonds due in 2030, 2035, and 2040, reducing the average coupon rate to 5.3%, according to a statement by the Minister of Finance, Richard Martínez. The plan still needs to be approved by part of the remaining bondholders. The 2022, 2023, 2025, 2026, 2027, 2028, 2029, and 2030 bonds require 66% of creditors' approval, while the 2024 bond renegotiation process needs 75% of adherence.

The new bonds present a principal payment period of 5 years. The principal of Bond 1 would be paid between 2026 and 2030, Bond 2 between 2031 and 2036, and Bond 3 between 2036 and 2040. In other words, the Ecuadorian State does not have to wait until the last year to pay all of the new bonds.

In this regard, Ecuador's government was able to postpone the payment of 75% of the debt (USD 12,066 million) until after 2030. Regarding the payment of interest, these will be annually and at different rates every year. The interest rate associated with these payments would be between 5.2% and 5.5%.

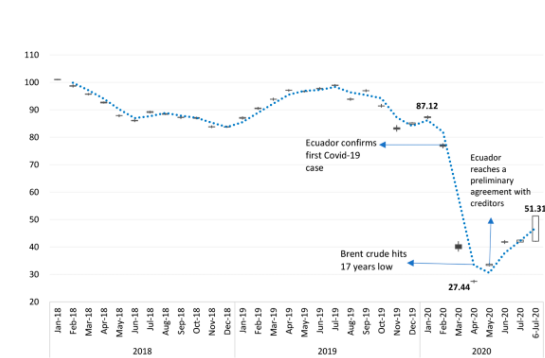
The first significant progress towards August 15th

Ecuador's debt restructuring plan presented to bondholders on July 6, 2020

	Characteristics of the bonds brought to renegotiation										Characteristics of the new bonds		
	Bond 1	Bond 2	Bond 3	Bond 4	Bond 5	Bond 6	Bond 7	Bond 8	Bond 9	Bond 10	New Bond 1	New Bond 2	New Bond 3
Issued	2016	2017	2014	2019	2016	2017	2018	2019	2019	2019	2020	2020	2020
Maturity	2022	2023	2024	2025	2026	2027	2027	2028	2029	2030	2030	2035	2040
Principal Payment Period	2022	2023	2024	2025	2026	2027	2027	2028	2029	2030	(2028-2030)	(2031-2035)	(2036-2040)
Nominal Amount (millions of USD)	2,000	1,000	2,000	600	1,750	1,000	2,500	3,000	2,125	1,400	3,768	8,606	3,460
Average interest rate	10.75%	8.75%	7.95%	7.875%	9.65%	9.625%	8.875%	7.775%	10.65%	9.5%	5.5%	5.2%	5.3%
Evolution of interest	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2020: 0% 2021: 0.5% 2022: 5% 2023: 2.5% 2024: 0% 2025-30: 6.9%	2020: 0% 2021: 0.5% 2022: 1% 2023: 2.5% 2024: 3.5% 2025: 6% 2026-35: 6.9%	2020: 0% 2021: 0.5% 2022: 1% 2023: 2.5% 2024: 3.5% 2025: 6% 2026-40: 6.9%

Source: Torino Economics, Ecuador's Ministry of Finance.

Ecuador bonds due Jan. 23, 2028



Sources: Torino Economics, Bloomberg.

This agreement is expected to be the final step in a process that began on March 24th, 2020, when Ecuador launched a consent solicitation to defer interest payments due between March 27th and July 15th, 2020, to August 15th, 2020.

The country needs the approval and support of a broader community of bondholders to consummate this final step successfully.

If this proposal is approved, Ecuador will get significant liquidity relief to face the current crisis, and the external debt will be sustainable in the medium term, which will pave the way for strong and long-lasting economic growth.

The government's expectations are: 1. obtain a substantial debt relief exceeding USD 10bn over the next four years, and USD 6bn more between 2025 and 2030; 2) a 42% reduction of Ecuador's average contractual coupon rate to 5.3%; 3) to double the length of the yield curve from 10 to 20 years, and 4) achieve a nominal haircut of 9%.

The magnitude of relief

Thanks to the renegotiation process, there will be a relief of the payment of external debt for USD 16,452 million over the next ten years, at least USD 11,000 million until 2025 and the rest until 2030. This year, nothing more will be paid than what has already been disbursed, thus saving USD 1,361 million. In 2021, USD 79 million will be disbursed for interest.

Regarding the term, the period for the existing debt will be doubled. In this sense, the maturity of the bonds will go from a weighted average of 6.1 years to 12.7 years.

Regarding the interest rate, the Minister indicated that it would decrease from 9.2% to 5.3% on average. The highest current interest rate is 10.75%, while with the restructuring process; the interest rates will go from 0% to a maximum of 6.9%. Finally, the grace period will be extended by five years for capital.

The International Monetary Fund's approval

Gerry Rice, a spokesperson for the International Monetary Fund (IMF), said that the restructuring process of Ecuador's global bonds "is progressing in a timely and constructive manner." This appreciation arises from the agreement in principle reached by the Ecuadorian authorities and a large group of creditors, Rice said.

The Minister of Finance, Richard Martinez, clarified that this bond renegotiation process does not cancel or replace the country's financial negotiations with China, with which the country would obtain USD 2.4 billion at 6% and a 9-month grace period, and would not substitute the IMF loans either. The bondholders involved in this negotiation is an ad hoc group representing almost 50%

of the total, which is positive, said the Minister during a press conference.

The guarantee that this payment plan can be fulfilled is fiscal responsibility if it maintains fiscal order and consolidation. Interest negotiated in 2020 totals USD 911 million, which will be paid in 2026 in five parts of USD 182 million each.

The Net Present Value of the debt at a discount rate of 12% is 47.6%, the discount obtained would be 52.4%. The Net Present Value, including unpaid interest, reaches 49.8%, with a 50.2% discount obtained, including interest. In nominal terms, from USD 17,375 million to USD 15,835 million, the country would have a 9.2% discount, almost USD 1.7 billion.

The country will continue working to cover financial needs (6% of the GDP), through multilateral agencies, such as governments (China) and other sources that may be obtained in the future. It will also continue to work on domestic debt.

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