Opportunities Await as Europe Faces Restructuring of Sovereign Debt | Alchemy Magazine

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EXCLUSIVE ONLINE CONTENT

Robert Koenigsberger, who led the restructuring of Argentina's debt in 2007, discusses the potential investments following Greece's restructuring with Alchemy contributing writer, Elise Coroneos.

As Greece moves through the available options for solving its financial crisis, many analysts believe that the country cannot avoid further restructuring. Robert Koenigsberger, head of Gramercy, an emerging markets investment management firm, believes alternative investors should prepare for the potential opportunities.

Based on his intimate knowledge of the different stages of a sovereign debt crisis, having been involved in nearly every sovereign debt restructuring since 1988, Koenigsberger thinks it will be difficult for Greece to avoid a complete default before the end of 2011.

"Some people will say Europe is different from Argentina because it is not an emerging market," he asserts. "But a country like Greece that has 160 percent debt to GDP is definitely an emerging market."

To bring its debt-to-GDP ratio below the 60 percent criterion required for European Union membership, Koenigsberger believes investors will likely have to take a bondholder haircut close to 80 percent. He also warns that it may be only a matter of time before Portugal and Ireland, having received bailout relief, will be back at the table.

The Argentina model

The intricacies of the sovereign debt market are Koenigsberger's specialty. In 2007, he and his Connecticut-based firm, Gramercy, conceived, anchored and led the plan that would come to pave a way out of Argentina's sovereign debt crisis after it defaulted in 2001.

Having run through the list of options that typically emerge on the way to and through default, Gramercy single-handedly presented a prepackaged sovereign restructuring solution to the Argentinean government — the first that matched its list of prerequisites while also satisfying the demands of the markets.

"We took an overwhelming problem and found a solution in a prepackaged restructuring delivered via a reverse-inquiry mechanism. All they had to do was push the button and put it in the implementation stages. That is a precedent that was set in Argentina that we may very well see in Europe as we go forward," says Koenigsberger.

In the case of another Argentinean restructuring in 2009, Gramercy, which at the time was the country's largest single creditor — accounting for about 15 percent of Argentina's outstanding credit — exchanged its defaulted debt for performing debt. Despite taking a 66-2/3 percent haircut, the firm made money because the exit yield on its bonds had increased so significantly and its entry price had been low.

For Argentina itself, its corporate borrowers and provinces have since tapped the capital markets for more than $7 billion at significantly lower interest rates than prior to the restructuring spearheaded by Gramercy. Argentina now has a sustainable debt stock, sustainable interest rates and access to the capital markets at sustainable interest rates. "That is how you solve a debt crisis," says Koenigsberger.

The Greek forecast

What’s in store for Greece? Koenigsberger estimates recoveries on post-default Greek debt will be around 24 cents. This figure is based on precedent transactions and the debt relief required. He believes Greek debt forgiveness will be 70 percent, while the residual 30 percent, exchanged into a discount bond, would trade at 80 cents. This equation — 0.30 (residual claim) x 0.80 (price of residual bond) — results in an estimated recovery value of 24 cents.

Regardless of any European Union restructuring plan, Koenigsberger expects his long-term view to hold. He believes a 50 percent haircut on private claims does not bring the debt stock down enough to be sustainable. Furthermore, it would not be effective across the board, since the European Central Bank, the EU and the International Monetary Fund will not take haircuts, he says.

When is Gramercy likely to come out from the wings to invest? That will depend on the markets. Post-default, Koenigsberger believes most Greek debt will be conservatively worth between 30 and 35 cents on the dollar. However, there is still a way to go before it becomes a good opportunity for seasoned investors such as Gramercy.

“We will wait until the price of Greek debt falls to around 25 cents. At that time, I suspect we will be deeply involved acquiring positions and putting together what will be a win-win solution that meets the prerequisites of the government while serving the demands of the marketplace,” says Koenigsberger.