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Peru's Congress OKs Swapping Ag Reform Bonds For New Debt

LIMA (Dow Jones)--Peru's Congress late Monday approved a deal to issue sovereign bonds to swap for outstanding agriculture reform bonds, paper that was issued about 40 years ago by a military dictatorship as compensation for land expropriated during an agricultural-overhaul program.

The bill, if approved as expected by President Alan Garcia, will help end a long-running dispute between the bondholders and the government, which has delayed honoring the debt.

Congress said the bondholders will have until Dec. 31, 2015 to cancel their reform bonds, many of which are held by domestic and foreign banks and investment funds. Resolving the long-standing issue should help Peru protect its investment-grade rating.

Various bondholders and some banks, including Peru's Banco de Credito, started legal actions against the government in order to force it to honor the bonds.

Thousands of Peruvians were issued the paper with 20, 25 and 30-year maturities, denominated in the now-defunct currency, soles de oro.

Some of the bonds were redeemed, while the state's Banco de la Nacion holds others. In 1984 the state-owned Agricultural Bank that serviced the debt closed.

There is no central registry of who the bondholders are, and estimates of the outstanding value of the bonds vary sharply, from some \$1.5 billion to \$4.6 billion, if accumulated interest is taken into account.

"This law is going to be carried out during the administration of President Ollanta Humala and will send a shock of confidence that the consolidation of the rule of law and the protection of individual rights and private property will continue to be the foundations of a modern and prosperous Peru," said Jose Cerritelli, a strategist with Greenwich, Conn.-based emerging market investment fund Gramercy, which owns some of the bonds.

President-elect Ollanta Humala will take over from President Alan Garcia on July 28.

19 July 2011
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