

# ARGENTINA'S DEBT SUSTAINABILITY FRAMEWORK

20 MARCH 2020



Ministerio de Economía  
**Argentina**

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- 1 The Argentine economy is in the midst of a major crisis**
- 2 Argentina's debt is not sustainable**
- 3 Sustainable debt principles**
- 4 Next steps and logistics**

THE ARGENTINE ECONOMY IS IN THE  
MIDST OF A MAJOR CRISIS



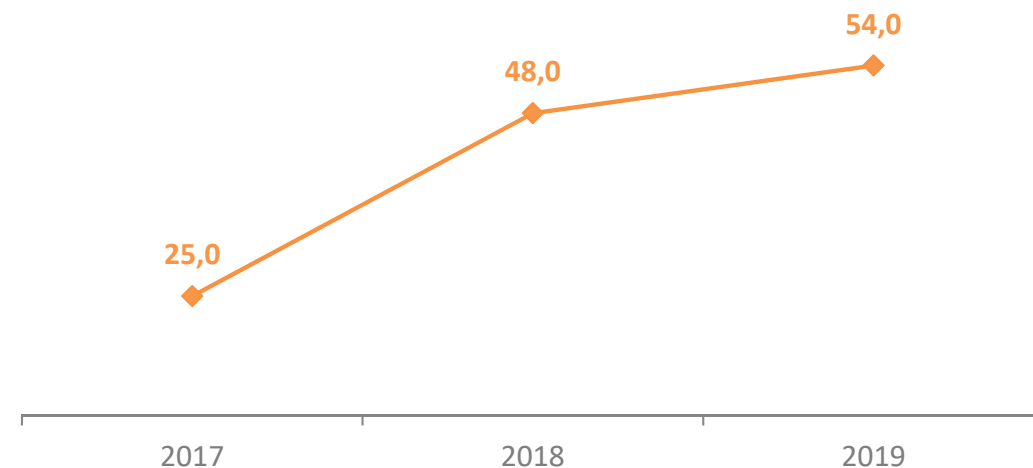
# ARGENTINA AFTER YEARS OF HARDSHIP

## GROWTH HAS DECLINED, INFLATION HAS SURGED AND SOCIAL HARDSHIP HAS INCREASED

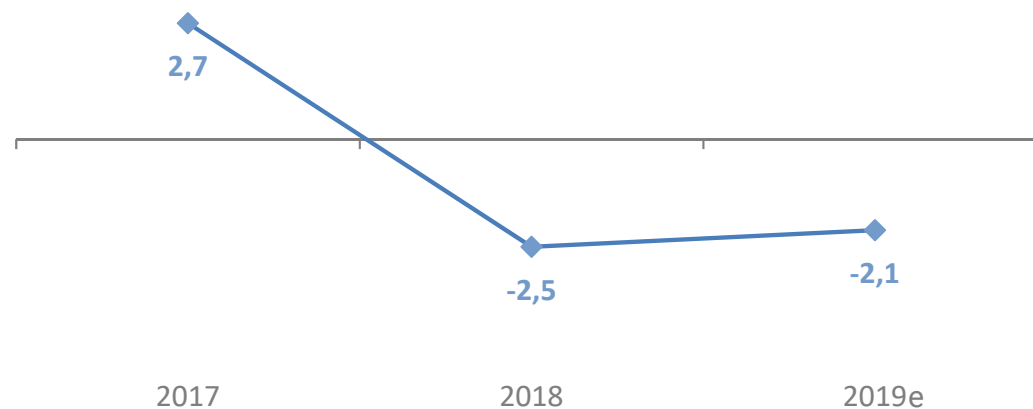
Social indicators (November 2019, except for (i) Unemployment rate, 2019Q3 and (ii) Poverty rate, 2019H1)

Key social indicators	2019	Change since 2017
ARS average real monthly salary	\$ 51,324	-13%
Minimum monthly retirement and pension benefits (ARS)	\$ 12,935	-21%
USD average monthly salary	USD 859	-42%
Unemployment rate	10.6%	+2.3p.p
Poverty rate	35.4%	+6.8p.p

Inflation end of period (in %)



Real GDP growth (in %)

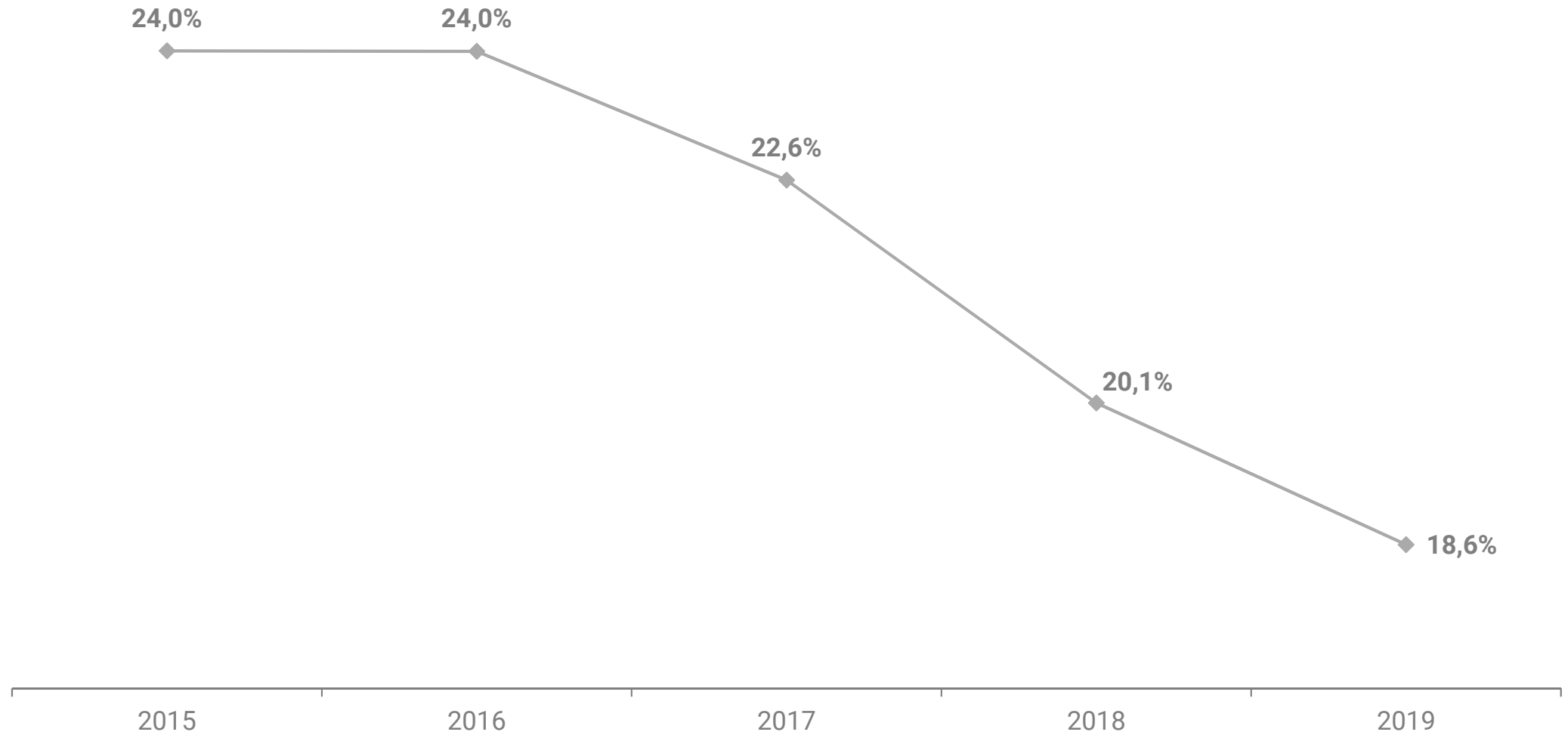


Source: Ministry of Economy based on INDEC, BCRA and Ministry of Labour, Employment and Social Security

# FISCAL ADJUSTMENT THROUGH SPENDING COMPRESSION

## EXPENDITURES HAVE SIGNIFICANTLY DECREASED

Federal government primary expenditures as % of GDP (excl. provinces and municipalities)

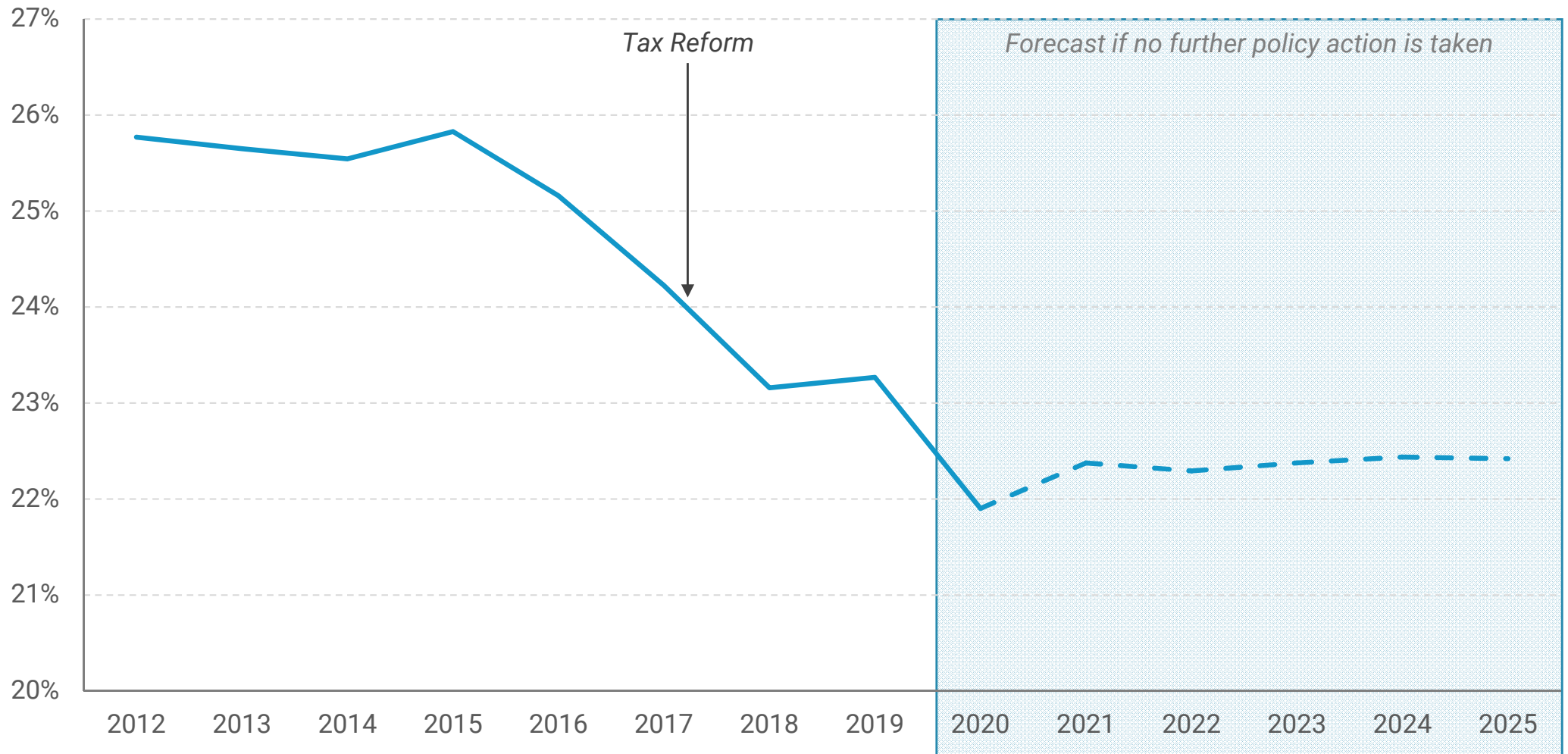


Source: Ministry of Economy

# WE ARE COMMITTED TO RESTORING A SUSTAINABLE REVENUE PATH

## THE GOVERNMENT AIMS TO REVERSE YEARS OF DECLINES IN GOVERNMENT REVENUE

Evolution of tax revenues at the national level (AFIP) as a % of GDP



Source: Ministry of Economy

ARGENTINA DEBT IS NOT  
SUSTAINABLE





# OUR APPROACH TO DEBT SUSTAINABILITY

OUR STRATEGY AIMS TO PUT ARGENTINA'S DEBT ON A SUSTAINABLE PATH, WHICH IN TURN REQUIRES:

- 1 Debt refinancing cost in line with:**
  - Our primary surplus targets in the medium-to-long term
  - Our medium-to-long term growth trajectory
- 2 Realistic trade balance projections and foreign exchange reserve accumulation compatible with an orderly easing of capital account regulation**
- 3 Debt service consistent with manageable peso and foreign currency debt rollovers over the medium-to-long term**
- 4 Sufficient buffers to protect against exogenous shocks**
  - Global trade shocks
  - Financial shocks
  - “Black swans” (e.g. Covid-19)

**Argentina's current public sector debt is:**

- 1 Un-financeable**
- 2 Unaffordable**
- 3 Unsustainable**

- 1 *The debt is un-financeable given elevated costs*

# ARGENTINA'S GOVERNMENT DEBT IS UN-FINANCEABLE

ARGENTINA'S SPREADS ARE AT VERY HIGH LEVELS, RULING OUT INTERNATIONAL MARKET ACCESS

Argentina's country risk over the last 5 years (bps)

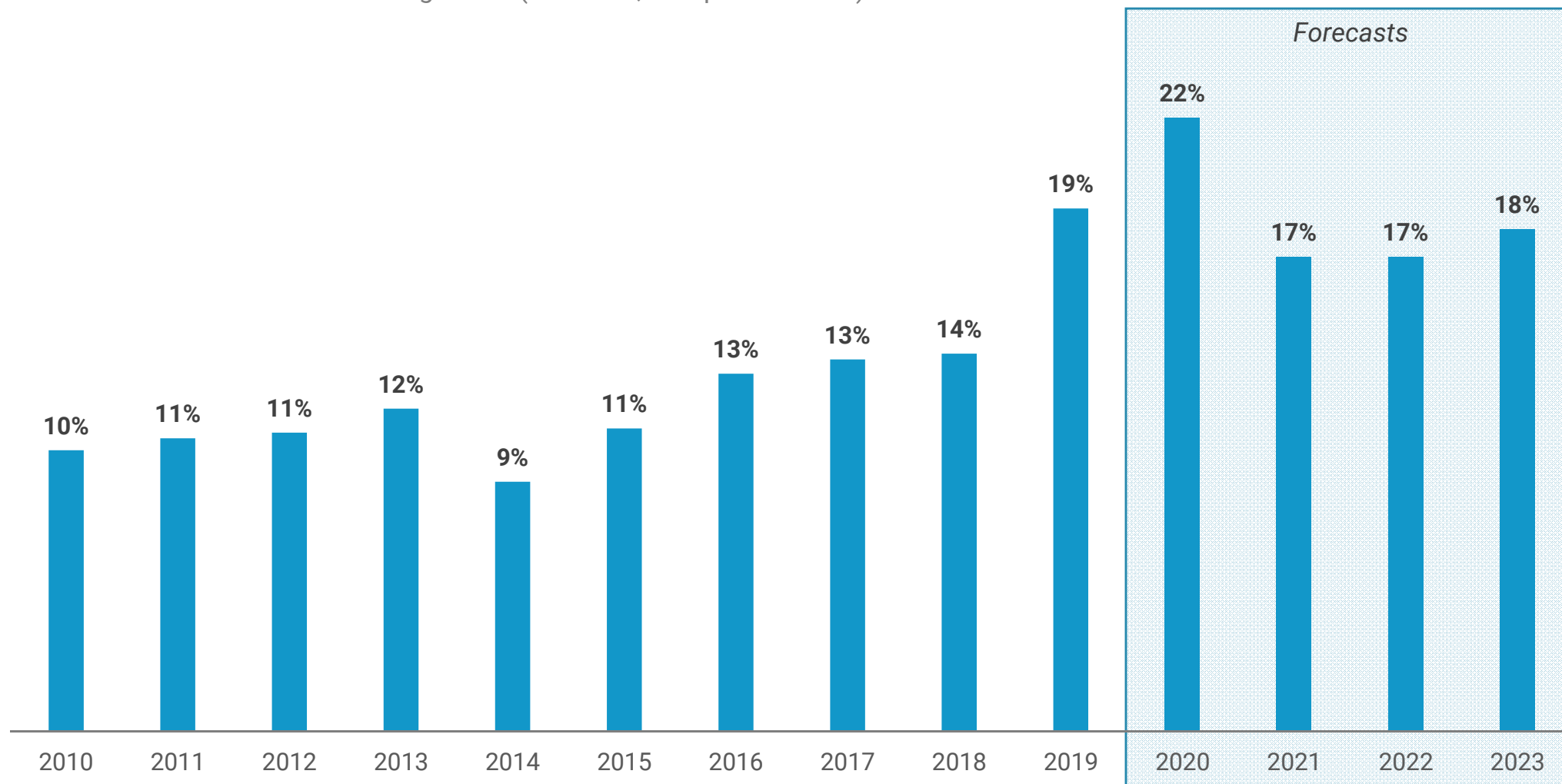


Source: EMBI J.P. Morgan

# ARGENTINA'S GOVERNMENT DEBT IS UN-FINANCEABLE (CONT'D)

GROSS FINANCING NEEDS OVER NEXT FOUR YEARS, WITH NO ADJUSTMENT, AMOUNT TO USD 300BN

Central Government Gross financing needs (% of GDP, incl. public sector)

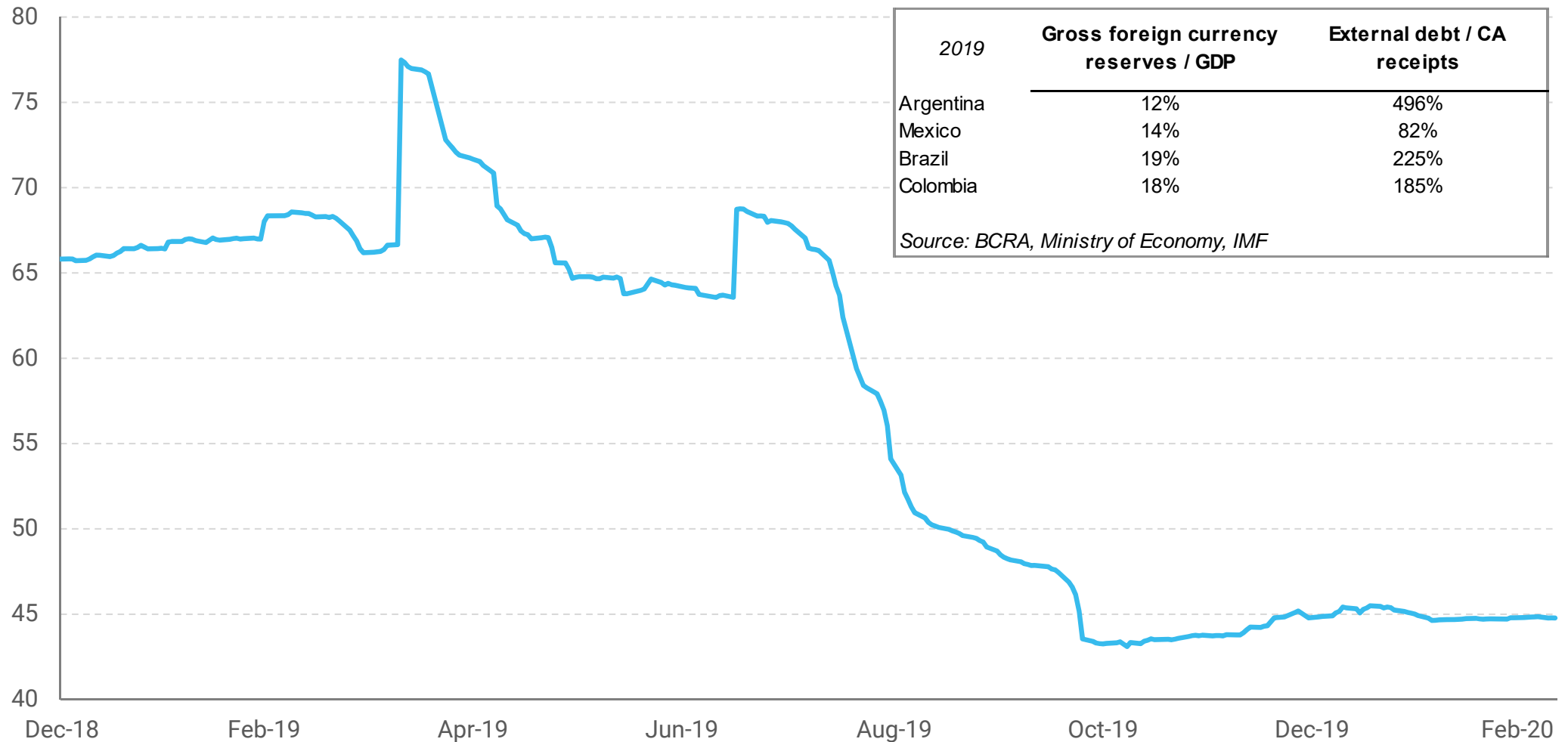


Source: Ministry of Economy

# ARGENTINA'S GOVERNMENT DEBT IS UN-FINANCEABLE (CONT'D)

## FOREIGN EXCHANGES RESERVES HAVE PLUMMETED DESPITE SIGNIFICANT IMF DISBURSEMENTS

Evolution of the BCRA's gross foreign currency reserves (USD bn)



*The accumulation of international reserves - alongside the restoration of macroeconomic stability - is a necessary condition for the orderly easing of capital account regulation*

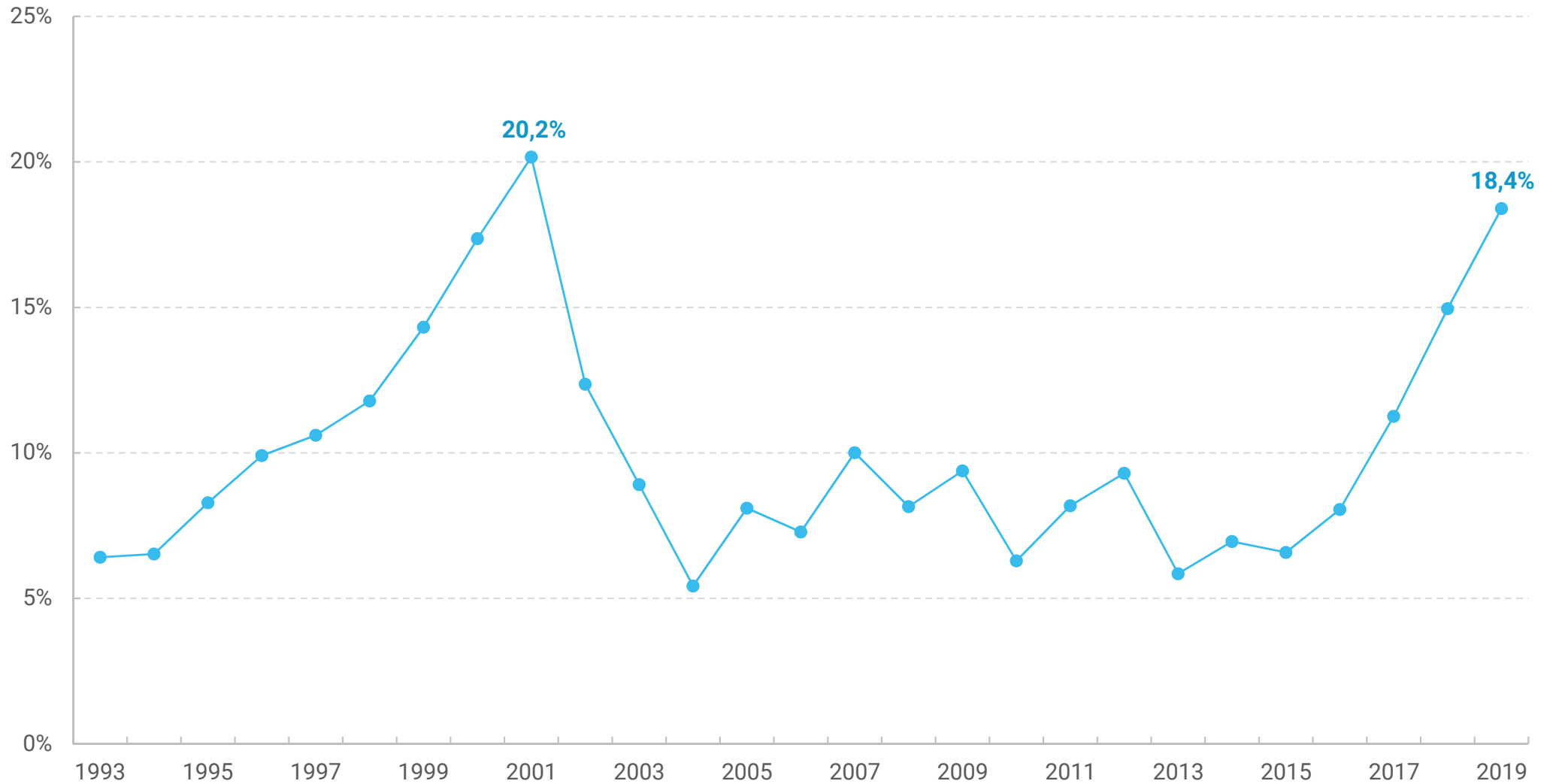
Source: BCRA

2 *The debt is unaffordable given critical social needs*

# ARGENTINA'S GOVERNMENT DEBT IS UNAFFORDABLE

## INTEREST PAID BY THE GOVERNMENT HAS REACHED PRE-2001 CRISIS LEVELS

Total interest payments (incl. intra-public sector) as a % of central government revenues



Source: Ministry of Economy

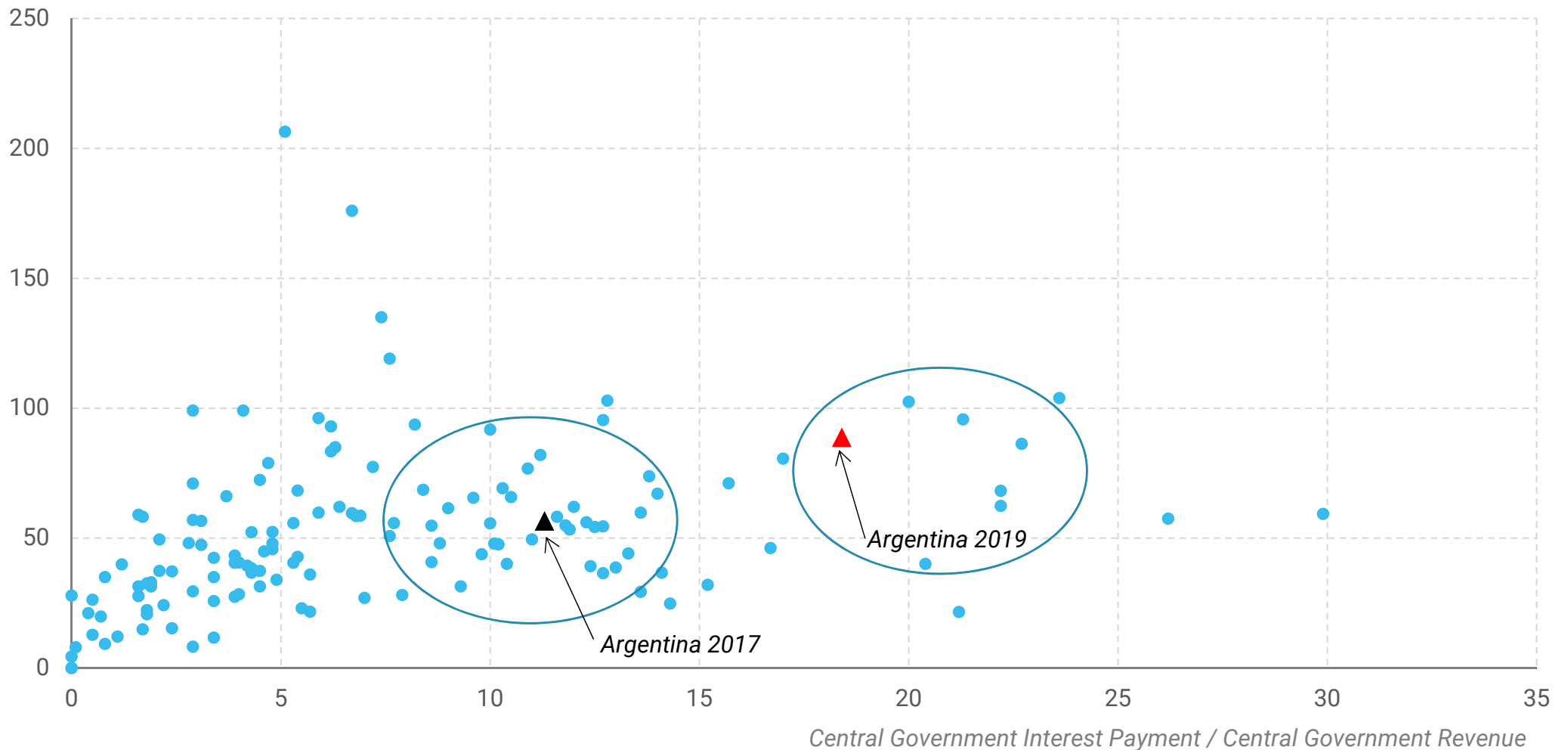


# ARGENTINA'S GOVERNMENT DEBT IS UNAFFORDABLE (CONT'D)

## ARGENTINA'S INTEREST PAYMENTS TO REVENUES RATIO HAS ALMOST DOUBLED IN JUST TWO YEARS

Debt / GDP and Interest / Revenues of all countries rated by Moody's\* and evolution for Argentina between 2017 and 2019

Central Government Debt/GDP



\*All countries rated by Moody's (excl. Lebanon, Pakistan, Egypt and Sri Lanka) / Argentina's figures based on total debt (incl. intra-public sector)

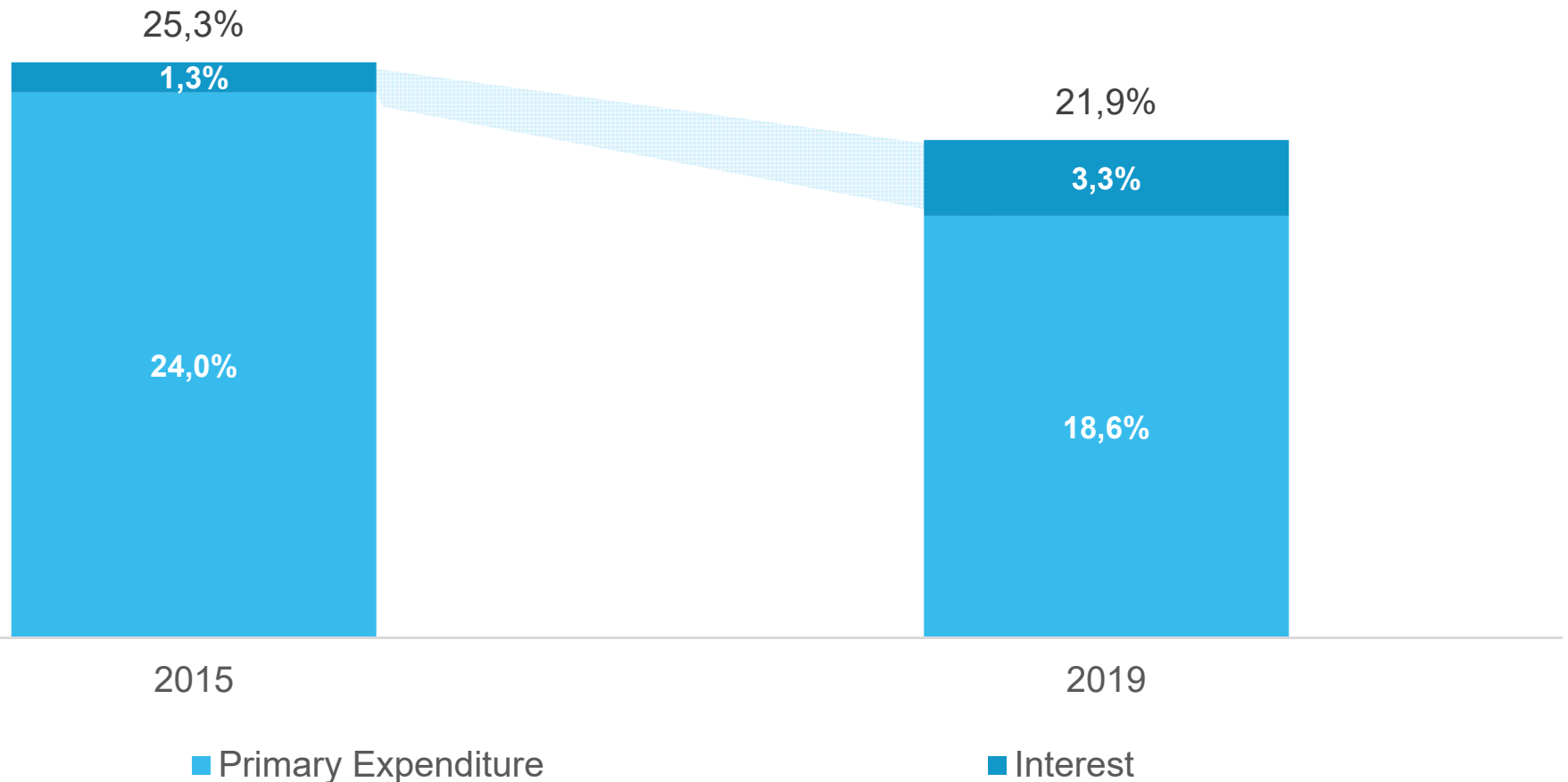
Source: Ministry of Economy, Moody's Nov. 2019 Country Credit Statistical Handbook

# ARGENTINA'S GOVERNMENT DEBT IS UNAFFORDABLE (CONT'D)

FISCAL ADJUSTMENT CAPACITY HAS BEEN ERODED

IN JUST 4 YEARS, THE INTEREST BILL GREW 2.5 TIMES HIGHER WHILE PRIMARY EXPENDITURES DECREASED BY 5.4PP OF GDP

Central government expenditures as a % of GDP



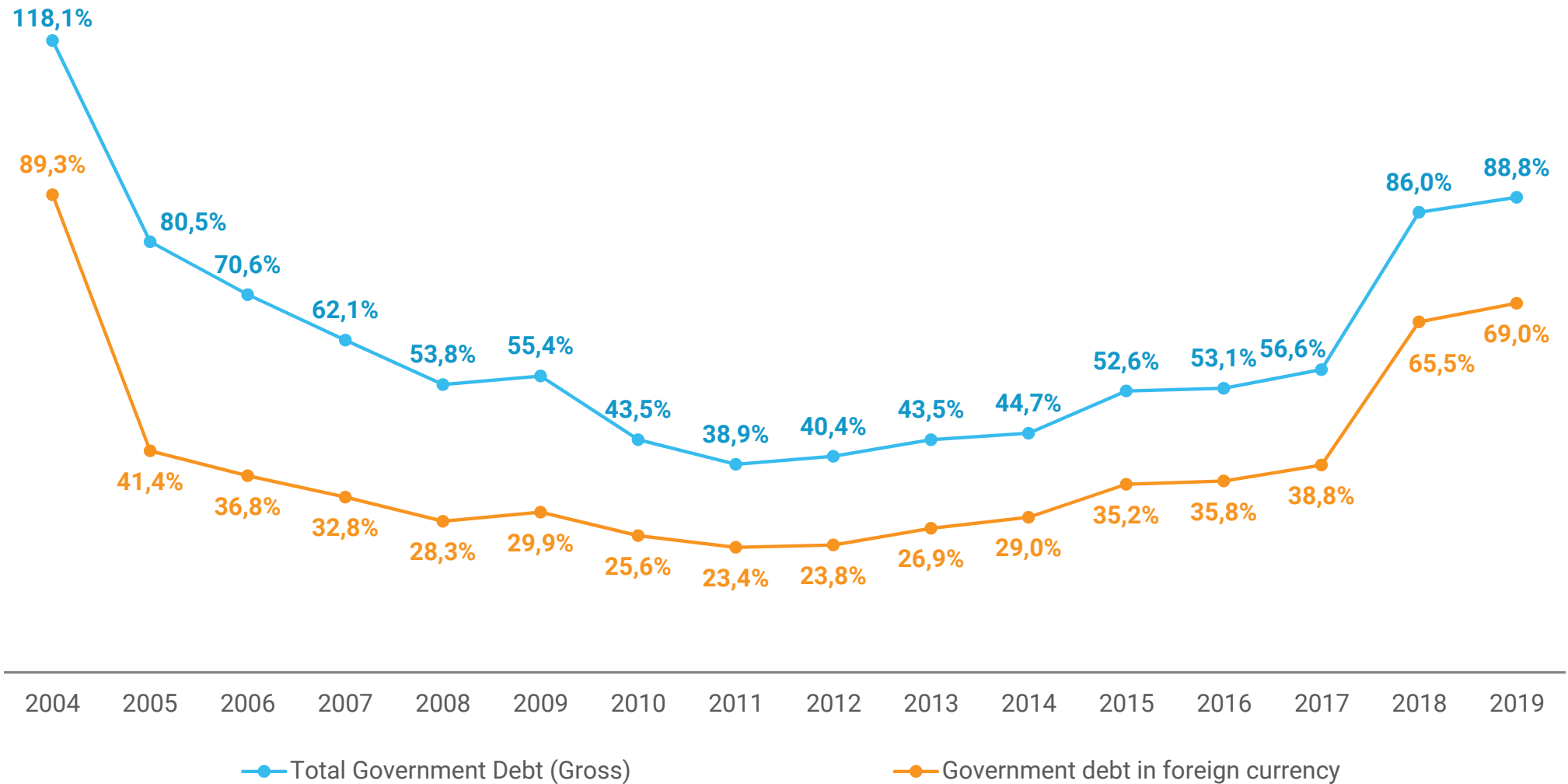
Source: Ministry of Economy

- 
- 
- 3 *The debt trajectory is unsustainable given realistic primary balance and growth assumptions*

# DEBT TRAJECTORY IS UNSUSTAINABLE GIVEN REALISTIC ASSUMPTIONS

## ARGENTINA'S DEBT TO GDP RATIO IS REACHING HISTORICALLY HIGH LEVELS

Gross debt of the Central Government (EoP, % of GDP)



Source: Finance Secretary, Ministry of Economy.

# DEBT TRAJECTORY IS UNSUSTAINABLE GIVEN REALISTIC ASSUMPTIONS (CONT'D)

NO PLAUSIBLE PRIMARY SURPLUS CAN STABILIZE THE DEBT TRAJECTORY UNDER CURRENT CONDITIONS

$$\text{Debt stabilizing primary balance (DSPB)} = (r-g)*d$$

Where


$$r \text{ (real effective interest rate on existing debt)} = 5.5\%$$

$$g \text{ (real GDP medium term growth rate)} = 2.0\%$$

$$d \text{ (stock of debt as a \% of GDP)} = 89.0\%$$

Debt stabilizing primary balance given various values of  $g$

Growth	DSPB
1.0%	4.0%
1.5%	3.6%
2.0%	3.1%
2.5%	2.7%
3.0%	2.2%



*None of these debt stabilizing primary balance targets are politically and socially achievable*

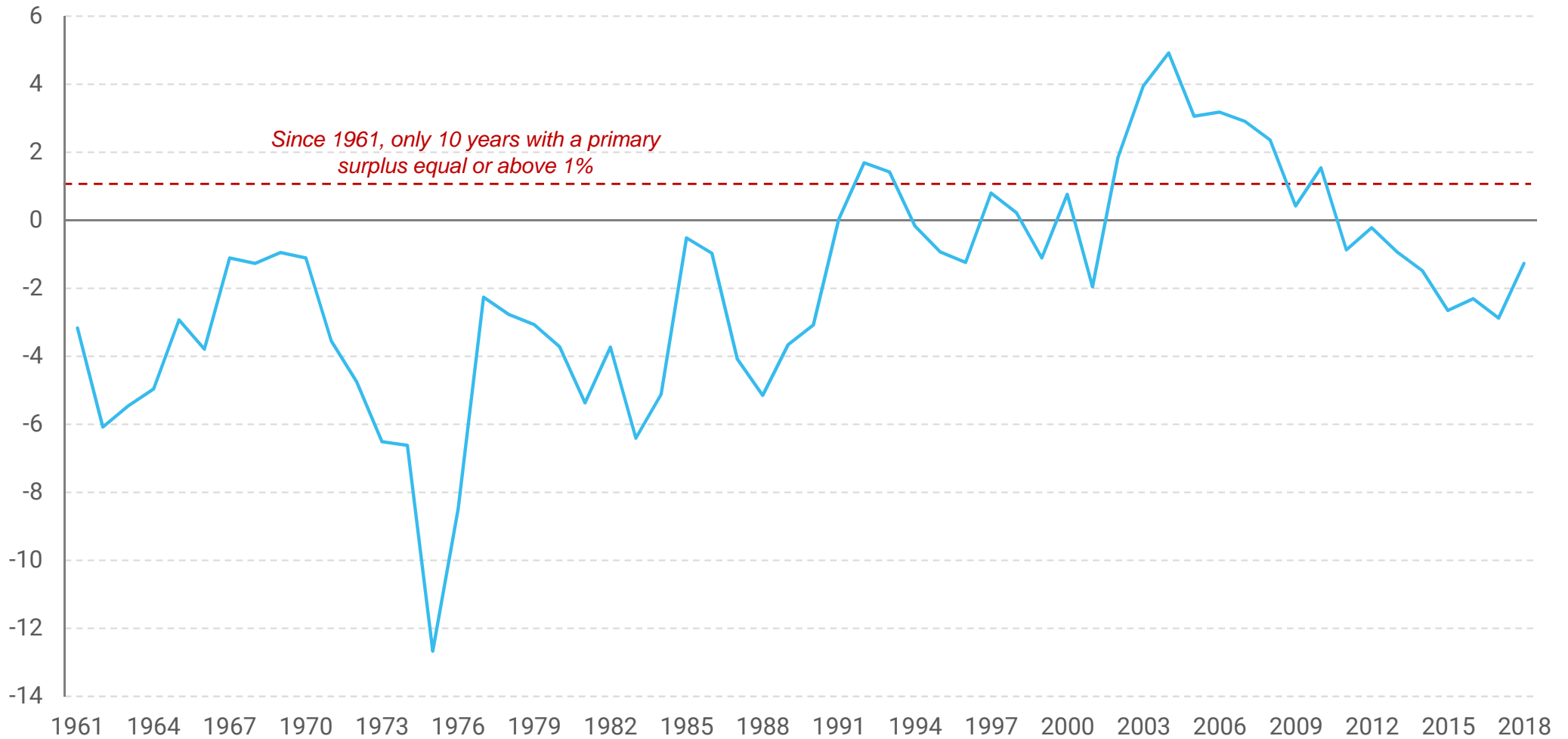
*\*Subject to 7% real refinancing rate on all foreign currency debt, 3.5% real refinancing rate on IFIs, 2% real refinancing rate on all other peso denominated debt*

Source: Ministry of Economy

# DEBT TRAJECTORY IS UNSUSTAINABLE GIVEN REALISTIC ASSUMPTIONS (CONT'D)

## ANY PRIMARY BALANCE TARGET SHOULD BE REALISTIC

Consolidated Primary balance (incl. provinces and municipalities), % of GDP, 1961-2018



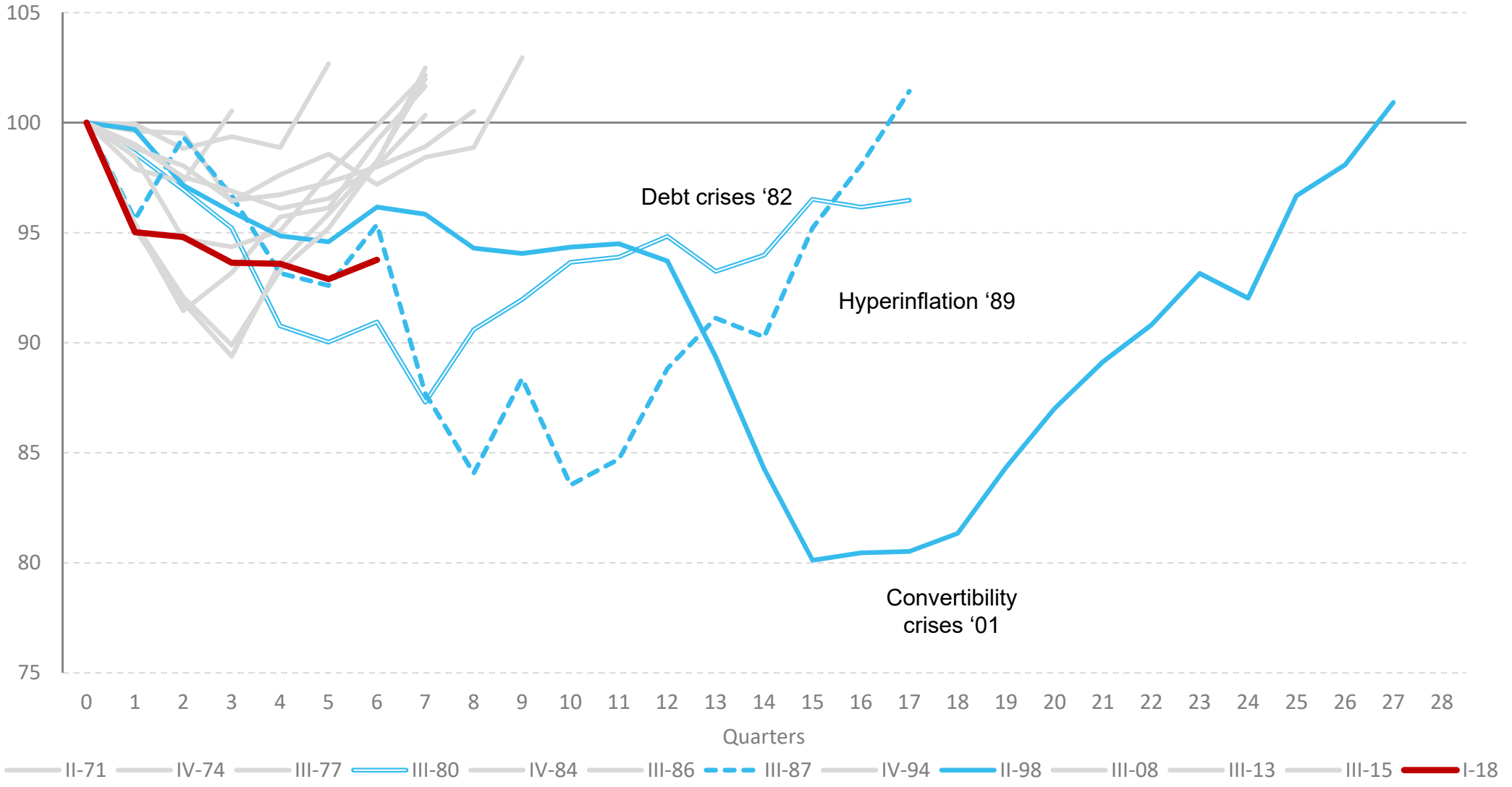
Source: Ministry of Economy

# DEBT TRAJECTORY IS UNSUSTAINABLE GIVEN REALISTIC ASSUMPTIONS (CONT'D)

THE TIMING AND STRENGTH OF THE RECOVERY ARE HIGHLY UNCERTAIN

GIVEN THE UNCERTAINTY ASSOCIATED WITH THE COVID-19, AND THE RECESSION MAY BE PROTRACTED

Real GDP. Start of recession = 100



Source: INDEC

# SUSTAINABLE DEBT PRINCIPLES





- 1 **Principles**
- 2 **Debt stock**
- 3 **Operational guidelines**
- 4 **Underlying macro-fiscal assumptions**
- 5 **Resulting debt trajectory under the baseline**

ARGENTINA IS COMMITTED TO A COLLABORATIVE PROCESS AIMED AT RESTORING DEBT SUSTAINABILITY

**Argentina will intensify engagement with its bondholders on the basis of:**

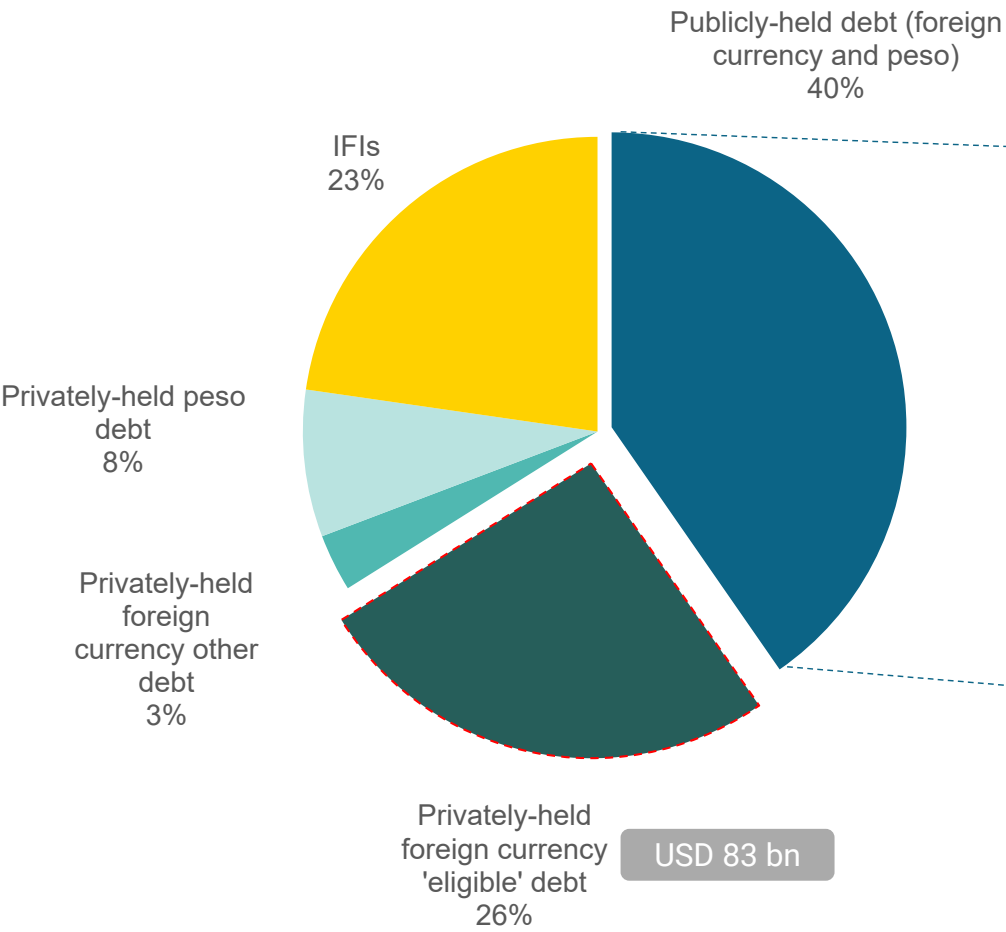
- Transparency
- Good-faith efforts for a collaborative process to restore debt sustainability
- Fair treatment across eligible creditors

# DEBT STOCK

## BREAKDOWN OF END-2019 STOCK OF CENTRAL GOVERNMENT DEBT

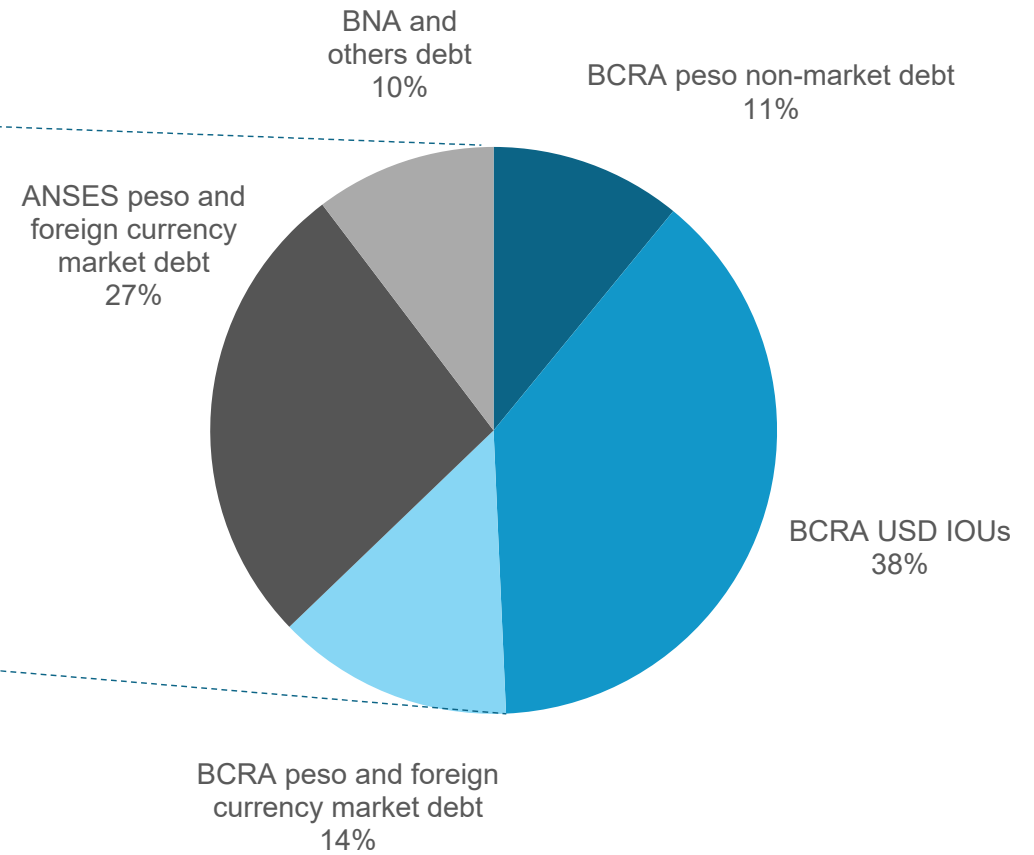
Total central government debt

USD 323bn



Total publicly-held central government debt

USD 130bn



## OUR DEBT STRATEGY IS COMPREHENSIVE

- **Debt owed to the Private Sector**

- In foreign currency – Eligible debt to be detailed hereafter
- In local currency – We seek constructive discussions with holders of peso debt to rollover debt service obligations while ensuring overall debt sustainability. This will ease the pressures on monetary financing to service peso denominated debt, and provide more room to accumulate foreign currency reserves

For instance, we successfully swapped on 19 March c. ARS 310bn of debt in a major auction, allowing to roll-over a significant portion of the peso denominated debt at a sustainable interest rate (average of 1.2% in real terms)

- **Debt owed to Official Creditors** – We are discussing with the IMF steps toward a Fund-supported program in the future, including program modalities. Discussions are ongoing with other IFIs and official bilateral creditors

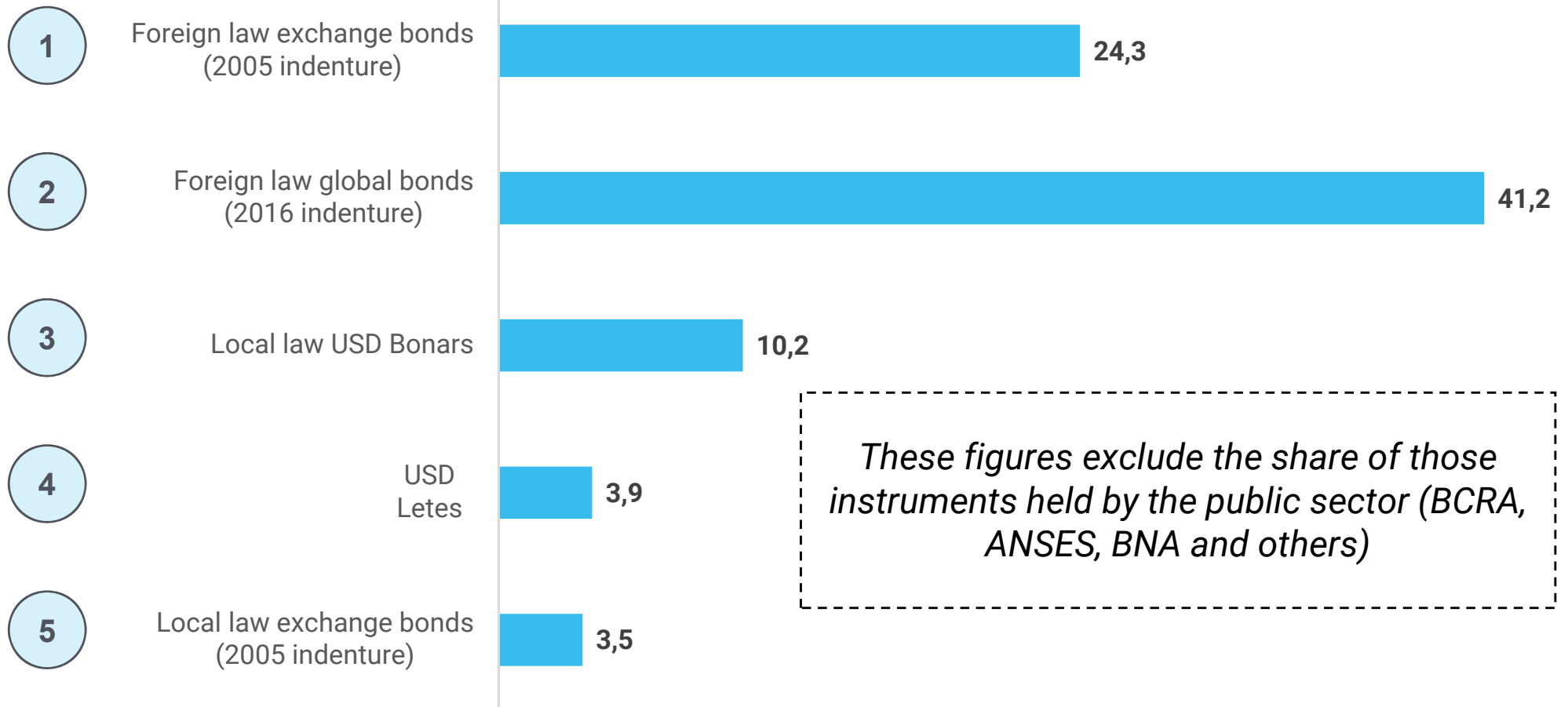
- **Debt owed to the Public Sector** (including BCRA/ANSES/BNA) – This debt will be refinanced with the aim of safeguarding monetary and financial stability

# DEBT STOCK (CONT'D)

**The eligible debt perimeter includes all privately held foreign currency denominated bonds under both local and foreign law**

Amount outstanding (in USDbn)

TOTAL ELIGIBLE DEBT PERIMETER: **USD 83bn**



Source: Ministry of Economy

# OPERATIONAL GUIDELINES

OUR STRATEGY AIMS AT PUTTING ARGENTINA'S DEBT ON A SUSTAINABLE PATH, WHICH IN TURN REQUIRES:

- 1 Debt refinancing cost in line with:**
  - Medium-to-long term primary surplus targets ranging between 0.8% and 1.2% of GDP
  - Medium-to-long term growth ranging between 1.5% and 2% per year in real terms
- 2 Realistic trade balance projections and foreign exchange reserve accumulation compatible with an orderly easing of capital account regulation**
  - Return to USD 65 billion of gross foreign reserves by 2024
- 3 Debt service consistent with manageable peso and foreign currency debt rollovers over the medium-to-long term**
- 4 Sufficient buffers to protect against exogenous shocks**
  - Global trade shocks
  - Financial shocks
  - “Black swans” (e.g. Covid-19)

# THE UNDERLYING MACROECONOMIC ASSUMPTIONS

## SUMMARY OF MACROECONOMIC ASSUMPTIONS IN 2020-2030

	2020 *	2021 *	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Real GDP (growth yoy)</b>											
<i>Upper bound</i>	-1.0%	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<i>Lower bound</i>	-1.5%	2.5%	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
<b>Primary balance (%GDP)</b>											
<i>Upper bound</i>	-1.1%	-0.5%	0.0%	0.5%	0.7%	0.9%	1.1%	1.2%	1.2%	1.2%	1.2%
<i>Lower bound</i>	-1.5%	-0.9%	-0.4%	0.1%	0.3%	0.5%	0.7%	0.8%	0.8%	0.8%	0.8%
<b>Trade balance (% GDP)</b>											
<i>Upper bound</i>	3.8%	2.8%	2.3%	2.1%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
<i>Lower bound</i>	3.4%	2.4%	1.9%	1.7%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
<b>Gross Reserves (USDbn)</b>											
<i>Target</i>	50	54	58	62	65	67	70	72	74	75	77

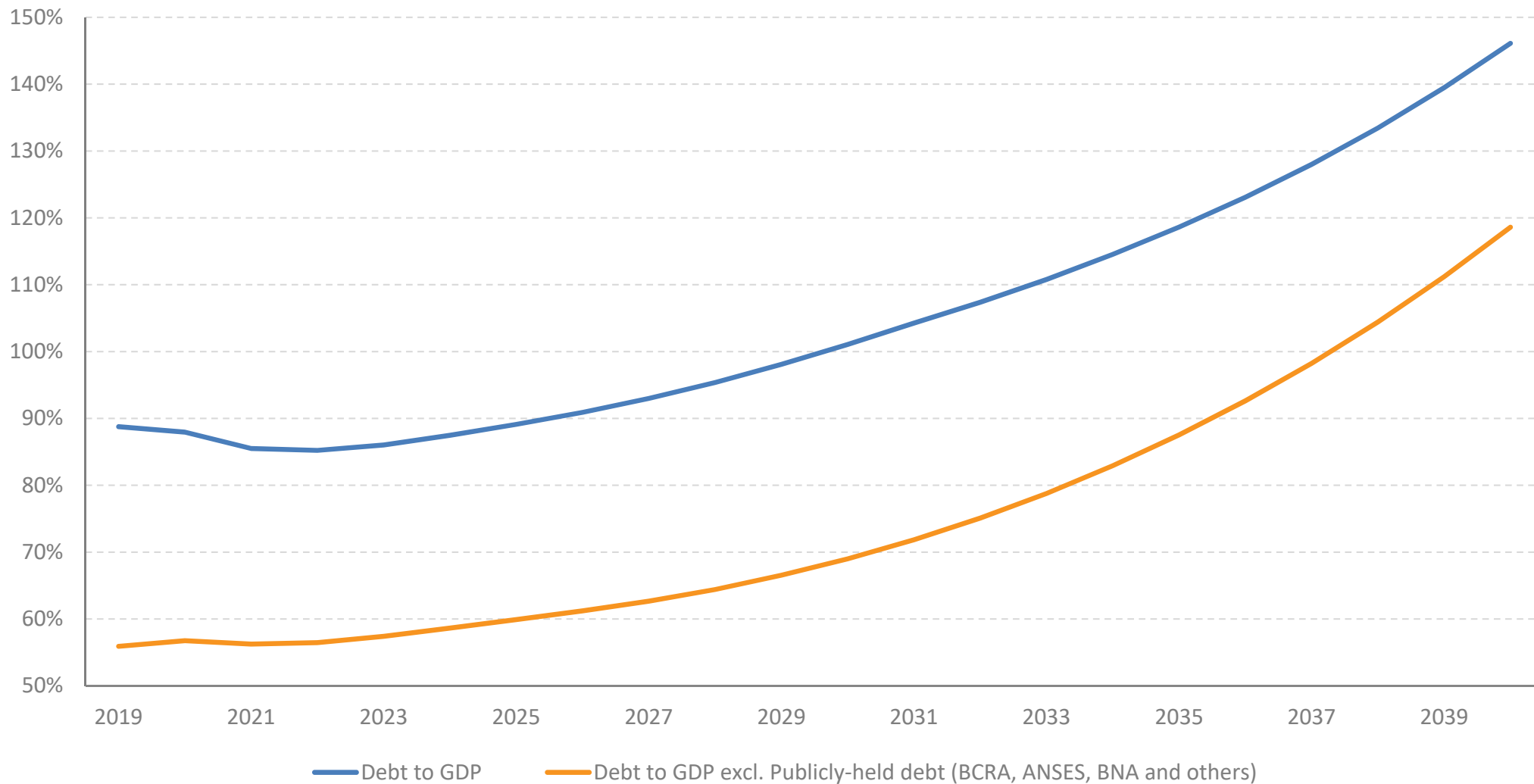
\*The scenarios have been carried out before the COVID-19 outbreak. At this point, we are assuming that uncertainty about economic activity and fiscal balance during the initial years will not affect medium-term scenarios for debt sustainability assessments.

Source: Ministry of Economy

# RESULTING BASELINE DEBT TRAJECTORY

ABSENT ANY RESTRUCTURING, ARGENTINA'S GOVERNMENT DEBT STOCK WILL BE ON AN EXPLOSIVE PATH

Gross debt of the Central Government – Baseline scenario (% of GDP)



Note: based on upper range macroeconomic assumptions; assuming IMF loan refinanced on the markets between 2021 and 2024; market financing rates of (i) 9% (increasing to 10% in 2025 and 11% in 2030) for 10Y USD debt, (ii) 7% (increasing to 8% in 2025 and 9% in 2030) for 5Y peso USD-linked instruments, (iii) 3% over inflation for peso long-term debt, (iv) 2% over inflation for peso short term debt, (v) 5% (decreasing to 3% by 2025) for USD short term debt

Source: Ministry of Economy



# NEXT STEPS AND LOGISTICS



- **The government invites bondholders / bondholders groups to engage over the course of next week in constructive discussions on the macroeconomic framework presented today**
  - Bondholders / bondholders groups are invited to use the following email addresses for any interaction request or any other inquiry they may have:  
  
[ugs-consultas@mecon.gov.ar](mailto:ugs-consultas@mecon.gov.ar) copy to [arg.debtholders@lazard.com](mailto:arg.debtholders@lazard.com)
- **The government is mindful of the exceptional circumstances surrounding this process. In this regard:**
  - Interactions will rely on video / conference call
  - We will prioritize interactions with bondholders / bondholders groups demonstrating significant holdings
- **We encourage all bondholders to continue contributing to the identification exercise conducted by Morrow Sodali**
  - Visit the following website <https://bonds.morrowsodali.com/argentina> or contact the following email [argentina@investor.morrowsodali.com](mailto:argentina@investor.morrowsodali.com) to participate in the identification exercise

- **This presentation is available in Spanish and English languages on the Ministry of Economia website at [www.argentina.gob.ar/economia](http://www.argentina.gob.ar/economia)**
- **A follow-up Q&A document, including answers to questions raised in writing during this webcast, will be posted on the Ministry of Economia website over the course of next week**

GRACIAS

