

## **Background on the process (including creditor engagement) leading to RoA's**

### **Exchange Offer launched on 22 April 2020**

Argentina's macroeconomic situation has deteriorated significantly over the last two years. As a result, the first steps of President Alberto Fernandez' administration (the "Authorities") were aimed at addressing the macroeconomic imbalances. This required a special focus on the debt issue, which had reached unsustainable levels in the context of a shutdown of international credit markets for Argentina.

The Authorities have developed a comprehensive debt management strategy from their first weeks in office which included (i) maintaining a transparent, good faith and constructive dialogue with creditors through an orderly process and (ii) remaining current on interest payments, even using international reserves, for so long as the country could responsibly afford these payments.

The objective of the Authorities' debt management strategy, as presented to Congress by Minister Guzman on 21 January 2020, is to restore debt sustainability. This entails conforming Argentina's debt trajectory to the country's realistic medium and long-term growth expectations and path of primary fiscal and trade balances that are consistent with a trajectory of economic growth that is socially acceptable. The Covid-19 crisis has had an immediate substantial impact on this trajectory, and the authorities are currently assessing its effects in the months and years ahead.

Minister Guzman and his team held substantial and open discussions with the IMF on Argentina's debt situation ever since December 2019. As a result of these discussions, the IMF issued on 22 February a statement on Argentina's unsustainable debt trajectory and the IMF staff published on 20 March 2020 a technical note on debt sustainability.

Since December 2019, Minister Guzman and his team also interacted with a number of creditors of Argentina who enquired about the current situation. In order to promote a transparent and orderly process for a constructive dialogue with creditors, Minister Guzman initiated a formal restructuring process with a public presentation on Argentina's macroeconomic framework on 20 March 2020.

Formal discussions with creditors started with an open-ended engagement with creditors upon request on Minister Guzman's public presentation of Argentina's macroeconomic framework, which would serve as basis for the envisaged debt operation.

- These discussions started with a first round of video interactions on 24 March 2020 between senior officials of the Ministry of Economy and each of the three self-assembled creditor ad-hoc groups (the Bondholder Group, The Argentina Creditor Committee and the Exchange Bond Holder Group) as well as selected creditors, who requested to participate.
- A second round of video interactions led by Minister Guzman with the principals of each of the three creditor ad-hoc groups and representatives of the largest bondholder took place on 27 March 2020. These interactions allowed to (i) discuss the content of the public presentation on the macroeconomic

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framework, objectives and perimeter of the envisaged debt operation) and (ii) listen to the creditors' views on key expectations for the upcoming debt operation.

Following these formal discussions on the macroeconomic framework, the Ministry of Economy continued on its transparent engagement process with creditors and published debt sustainability principles for the upcoming debt operation on 31 March 2020.

Based on the feedback received through several rounds of informal discussions between creditors and the Authorities' advisors, the Ministry of Economy decided to engage in restricted discussions with the three ad-hoc creditor groups.

- After customary Non Disclosure Agreements were signed with the three groups (a step that was necessary to allow for a more candid exchange of views and information), a confidential document setting out Argentina's restructuring guidelines was shared with each of the groups starting 10 April 2020. These guidelines sought to provide an updated approach based on the feedback received in the first round of discussions. It also provided an illustrative restructuring scenario that could serve as a framework for negotiations.
- Restricted video conference discussions between Minister Guzman and his team, and the three groups were organized on Saturday 11 April 2020.
  - One of the investor groups shared their reactions to the restructuring guidelines by submitting a "counterproposal".
    - This counterproposal was based on the assumption that Argentina only faces short term liquidity constraints and proposed to resolve them through (i) a partial and decreasing cash coupon relief over the first four years before going back to contractual levels; (ii) a compensation of the coupon relief with payments in kind and (iii) a 4 year maturity extension for the bonds maturing before 2028.
    - This counterproposal was fundamentally incompatible with the Authorities' macroeconomic framework and did not acknowledge the necessity of long-term cash flow relief to ensure the sustainability of Argentina's public debt.

Taking into consideration the views expressed during the various discussions with creditors and their advisors, and bearing in mind the mandate given by Argentina's Congress with regard to the limited availability of reserves to continue servicing debt, the authorities announced the terms of Argentina's proposal on 17 April 2020. Creditors in the groups that were restricted per the NDAs were released of confidentiality and trading restrictions.

Argentina's invitation to exchange and the related consent solicitation was formally launched on 22 April 2020 and is set to expire on 8 May 2020.

- This proposal offer followed a structured process which included the publication at the end of March of the principles to be followed in designing the restructuring. The proposal reflects the diminished public debt repayment capacity in the wake of several years of fiscal adjustment and in the midst of a deep macroeconomic crisis as well as an unprecedented health crisis that severely deepened the contraction of the economy.

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- This proposal is the outcome of the government's engagement process within a framework designed to achieve sustainable debt payment capacity. It reflects the Republic's good faith efforts in the process and its candid determination to make sustainable commitments, as well as the intention to achieve an orderly resolution of the ongoing sovereign debt crisis. The Republic of Argentina remains open to a constructive dialogue with its creditors, reiterating that it can only pursue responsibly a debt operation that ensures the long-term sustainability of Argentina's public debt.

Argentina announced on 27 April its intention to hold meetings with investors to present and explain the terms of the debt operation launched on 22 April 2020 and collect feedback from investors. Starting from 28 April, Argentina held a series of bilateral virtual meetings with international and regional investors including real money investors and hedge funds, which included the participation of Minister Guzman and his senior team at the Ministry of Economy.