ARGENTINA’S DEBT SUSTAINABILITY FRAMEWORK

20 MARCH 2020
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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)

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

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
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
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
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 stabilizing primary balance (DSPB) = (r-g)*d

Where

- \( r \) (real effective interest rate on existing debt) = 5.5%
- \( g \) (real GDP medium term growth rate) = 2.0%
- \( d \) (stock of debt as a % of GDP) = 89.0%

Debt stabilizing primary balance given various values of \( g \)

<table>
<thead>
<tr>
<th>Growth</th>
<th>DSPB</th>
</tr>
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<tbody>
<tr>
<td>1.0%</td>
<td>4.0%</td>
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<tr>
<td>1.5%</td>
<td>3.6%</td>
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<tr>
<td>2.5%</td>
<td>2.7%</td>
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<tr>
<td>3.0%</td>
<td>2.2%</td>
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</table>

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
ANY PRIMARY BALANCE TARGET SHOULD BE REALISTIC

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

Since 1961, only 10 years with a primary surplus equal or above 1%

Source: Ministry of Economy
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 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
Publicly-held debt (foreign currency and peso) 40%
Privately-held foreign currency 'eligible' debt 26%
Privately-held foreign currency other debt 3%
Privately-held peso debt 8%
IFIs 23%
USD 83 bn

Total central government debt
USD 323bn

Total publicly-held central government debt
USD 130bn

BCRA peso non-market debt 11%
BCRA USD IOUs 38%
BCRA peso and foreign currency market debt 14%
ANSES peso and foreign currency market debt 27%
BNA and others debt 10%
USD 130bn

Source: Ministry of Economy
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
The eligible debt perimeter includes all privately held foreign currency denominated bonds under both local and foreign law.

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

Amount outstanding (in USDbn)

1. Foreign law exchange bonds (2005 indenture) - 24.3
2. Foreign law global bonds (2016 indenture) - 41.2
3. Local law USD Bonars - 10.2
4. USD Letes - 3.9
5. Local law exchange bonds (2005 indenture) - 3.5

These figures exclude the share of those instruments held by the public sector (BCRA, ANSES, BNA and others).

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)
### SUMMARY OF MACROECONOMIC ASSUMPTIONS IN 2020-2030

<table>
<thead>
<tr>
<th></th>
<th>2020 *</th>
<th>2021 *</th>
<th>2022</th>
<th>2023</th>
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<td><strong>Primary balance (%GDP)</strong></td>
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<tr>
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<td>0.5%</td>
<td>0.7%</td>
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<td><strong>Trade balance (% GDP)</strong></td>
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<tr>
<td>Upper bound</td>
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<td><strong>Gross Reserves (USDbn)</strong></td>
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<td>70</td>
<td>72</td>
<td>74</td>
<td>75</td>
<td>77</td>
</tr>
</tbody>
</table>

*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 copy to 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 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

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