MAY 6, 2020

ARGENTINA
Between Covid-19 and a sovereign debt crisis

Ministerio de Economía
Argentina

Outline

1

ARGENTINA´S
response to Covid-19
in a highly fragile
economy

2

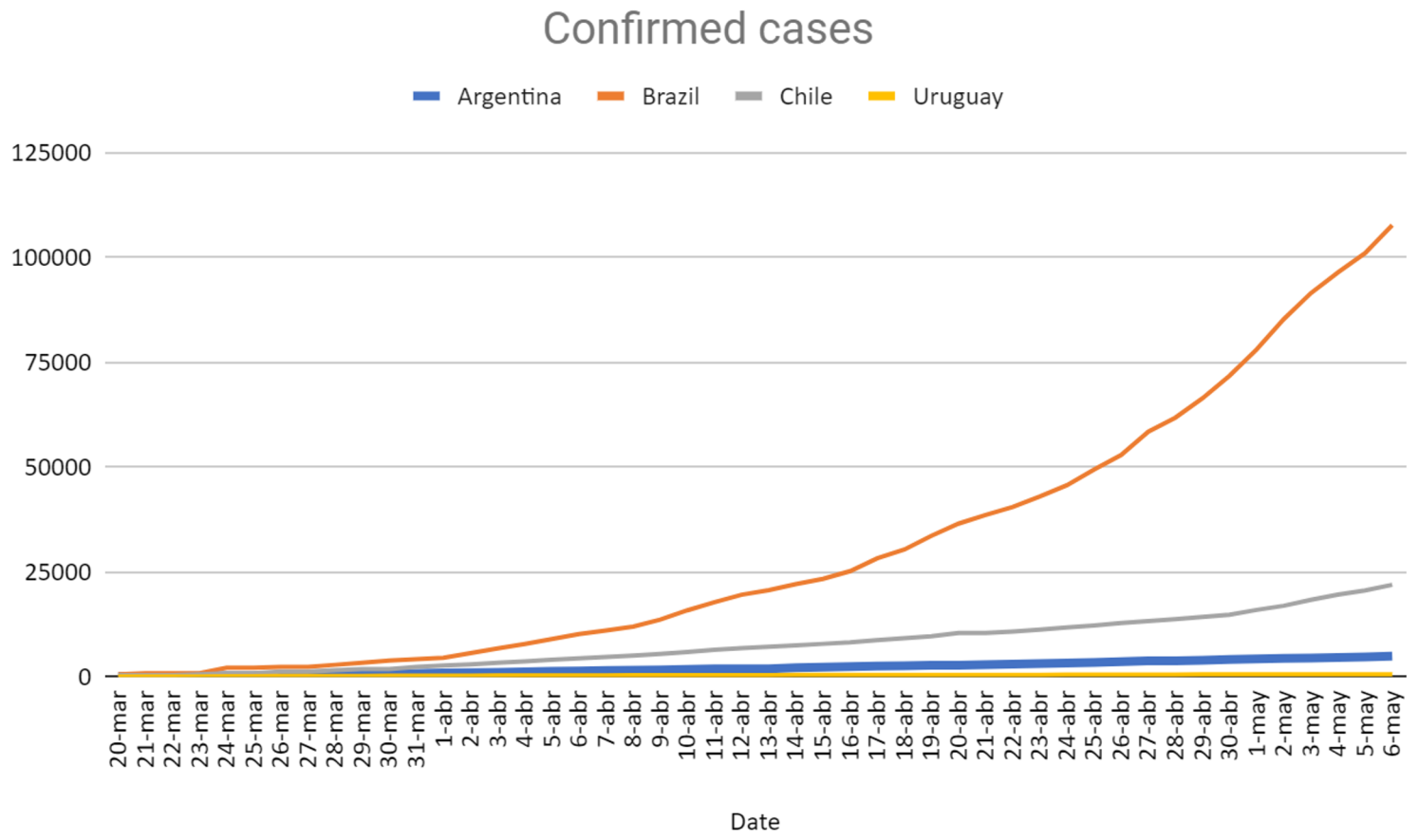
ARGENTINA´S
debt crisis
resolution process

1

ARGENTINA´S response to Covid-19 in a highly fragile economy

Total lockdown has been effective to contain the virus

Country	Cumulative cases	Cumulative deaths	Deaths per million	Cumulative cases per million
Argentina	**5.020**	**264**	**6**	**113**
Brazil	107.780	7.321	35	515
Chile	22.016	275	15	1.175
Uruguay	657	17	5	190



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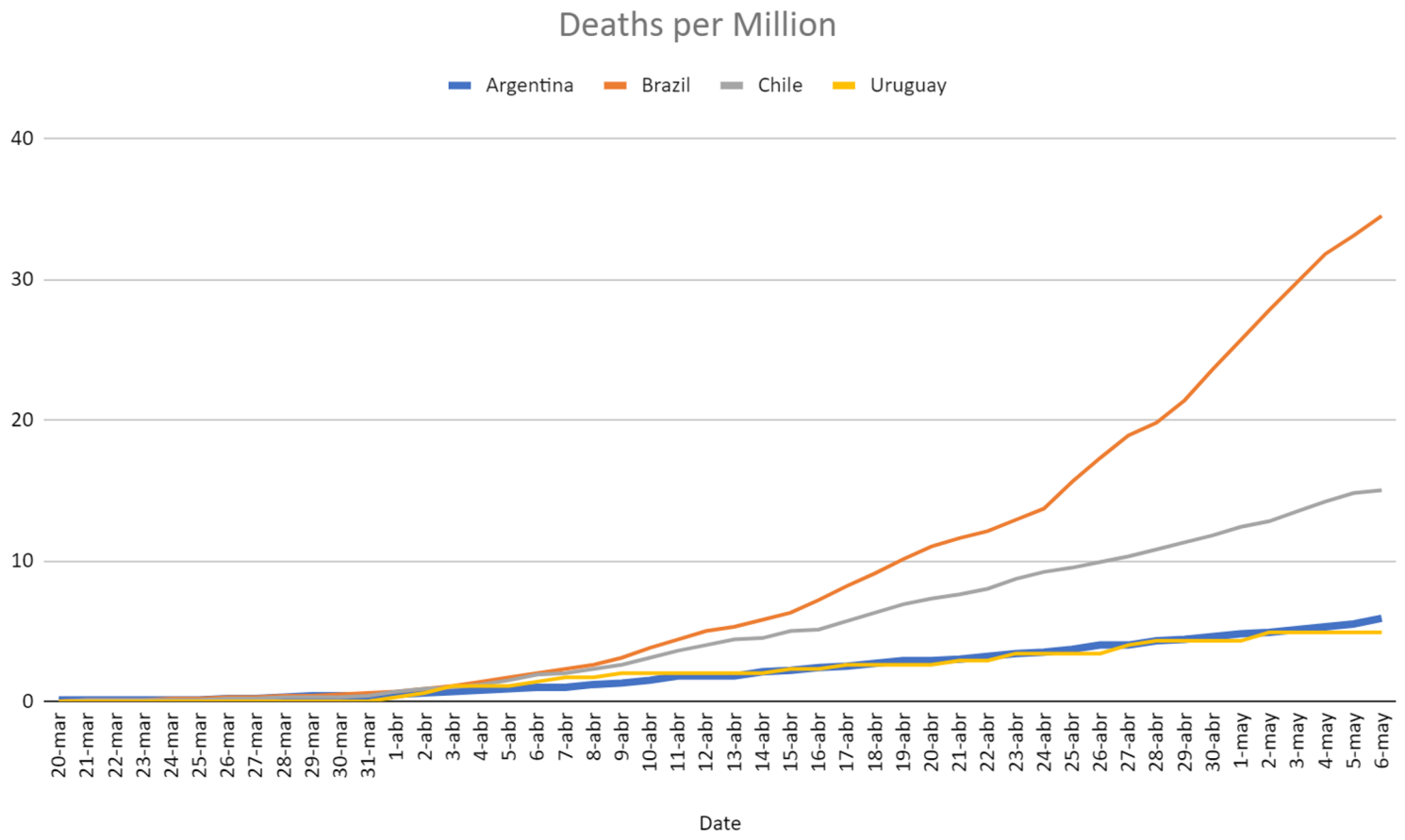


Principles for responding to COVID-19

1. Protecting health and human life is and must remain the number-one priority

2. Protect those who are, or who might become, vulnerable to the disease, the economic freeze, or both

3. Preserve the organizational capital (knowledge) embedded in ongoing enterprises

Economic measures for responding to COVID-19

1. Cash transfers to preserve a living income for struggling households

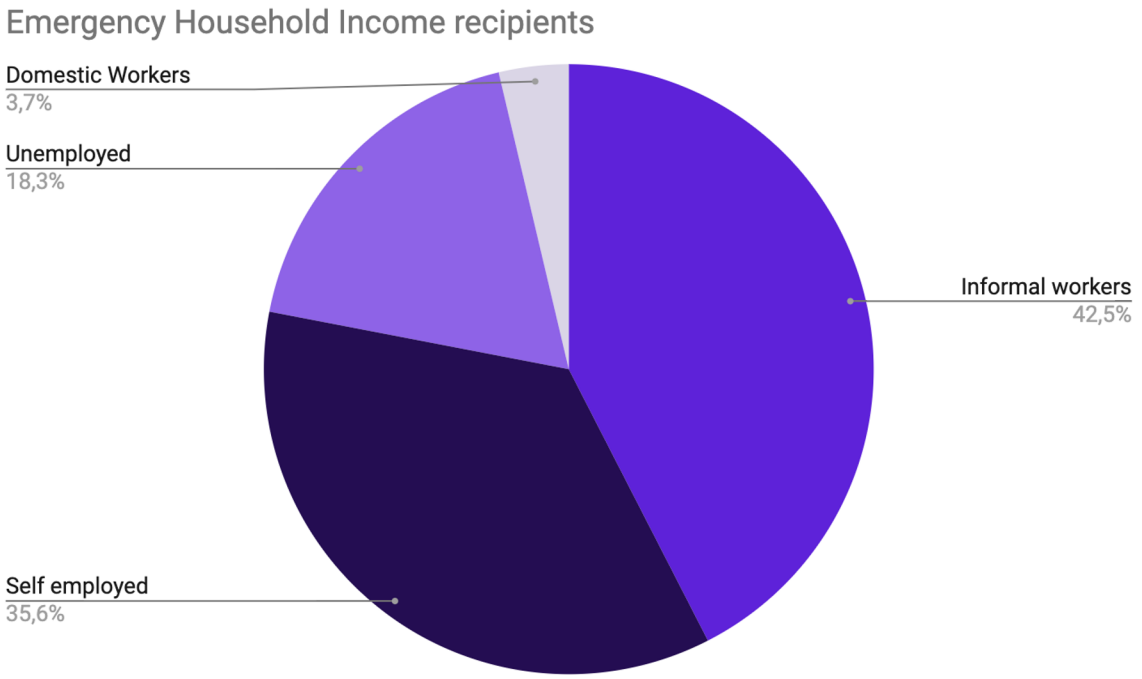
2. Extension of unemployment insurance

3. Protection of existing jobs by subsidizing jobs in sectors that are critically affected by the crisis but that will remain valuable for the economy when the crisis is over

Emergency Household Income

In Argentina the informal sector comprises almost 40% of workers in Argentina (no working benefits, no contracts). Most lose their income due to quarantine measures.

The **Emergency Household Income is a direct money** transfer ($10.000 or US$145) to precarious workers, loosely defined: domestic workers, home repair workers, unemployed, street vendors, free lancers, etc.



Source: Ministry of Economy

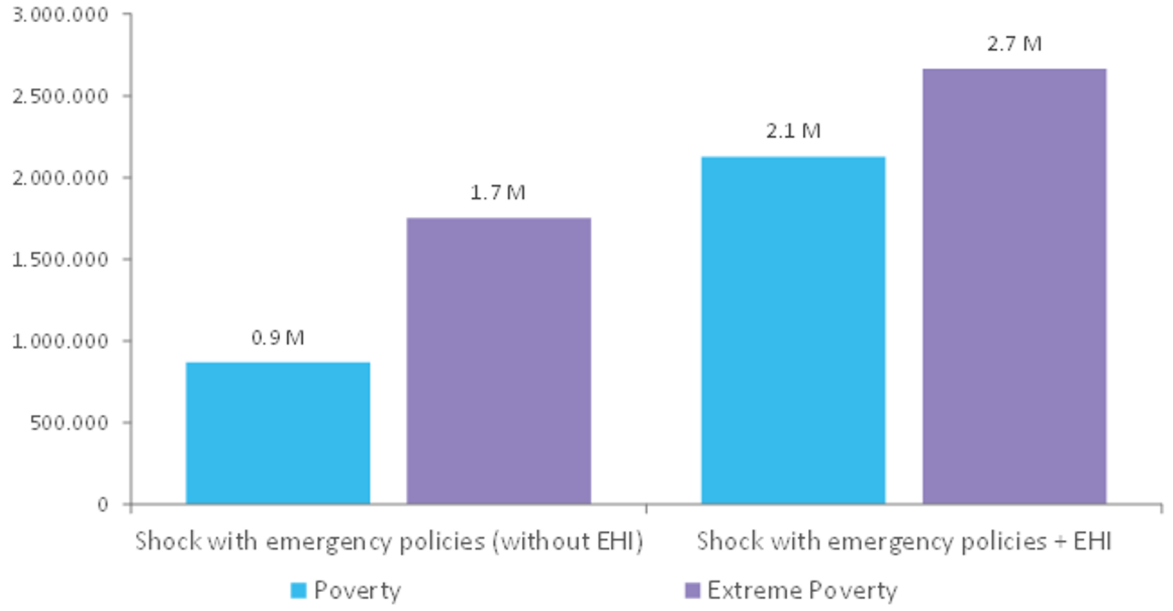
People prevented from falling below poverty line after COVID with and without EHI

The EHI will be paid in April and May. This measure will prevent a transitory fall of:

2.1 MILLION INTO POVERTY

2.7 MILLION INTO EXTREME POVERTY.

PEOPLE PREVENTED FROM FALLING BELOW POVERTY LINE AFTER COVID WITH AND WITHOUT EHI



Source: Ministry of Economy

Emergency policies: bonus in pensions and other social benefits

BASELINE POVERTY: 35,5% LAST YEAR. MORE THAN 52% OF CHILDREN AND YOUTH UNDER 14 LIVE IN A POOR HOUSEHOLD.

2

ARGENTINA´S debt crisis resolution process

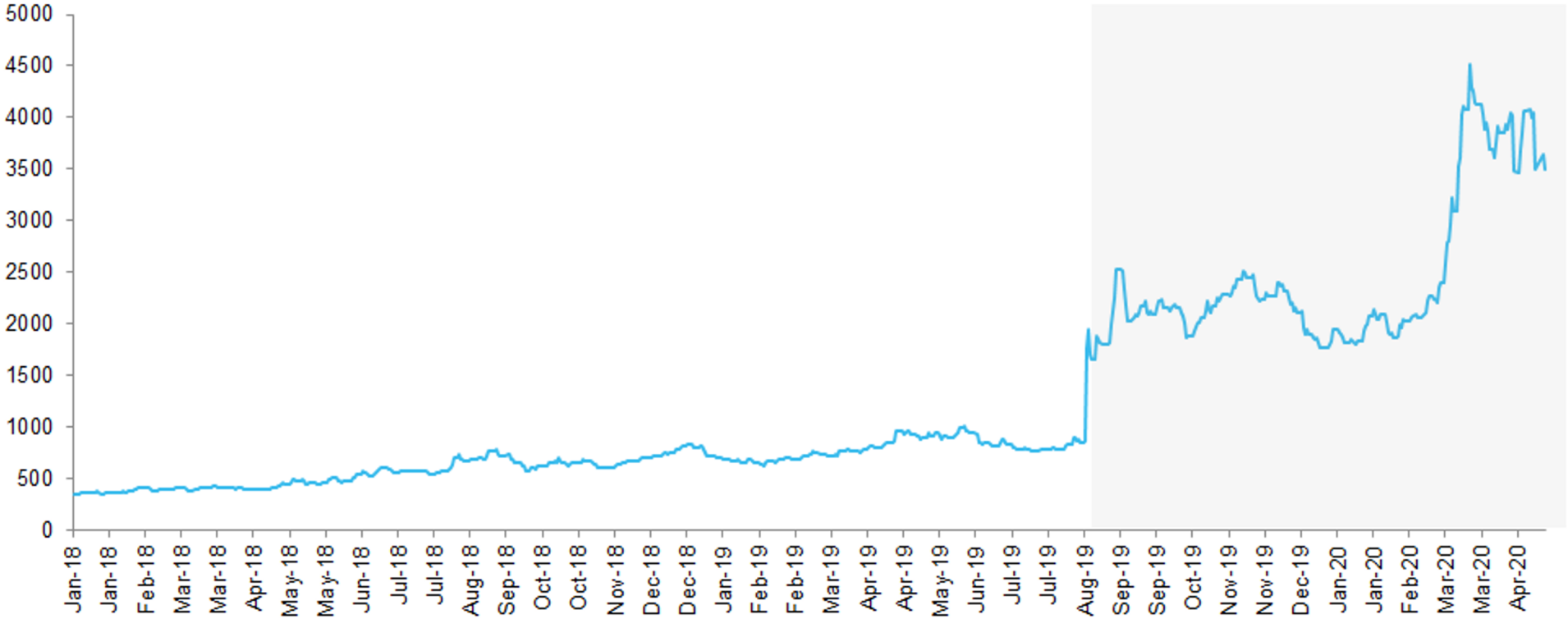
Characterizing the debt situation

Argentina's current public sector debt is:

1. Un-financeable
2. Unaffordable
3. Unsustainable

EMBI+ Argentina

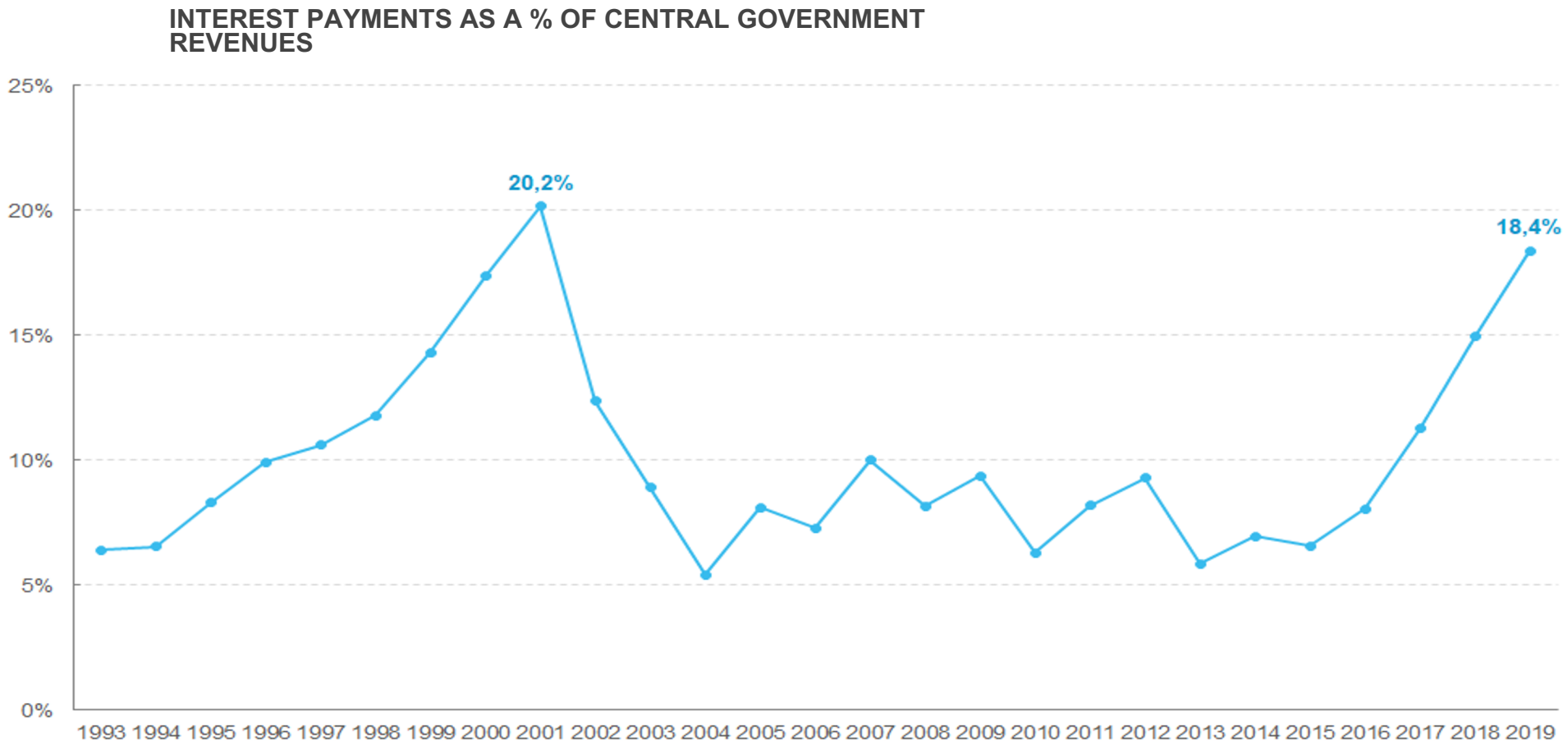
EMBI+ ARGENTINA



Source: Ministry of Economy based on Bloomberg

Argentina’s government debt is unaffordable

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



Source: Ministry of Economy

Principles for the debt crisis resolution

1. Sustainability
2. Engagement in good faith, based on realism, common sense, and mutual collaboration to redefine commitments in a sustainable way
3. Comprehensive approach (private creditors, IMF, Paris Club)

The underlying macroeconomic assumptions

SUMMARY OF MACROECONOMIC ASSUMPTIONS IN 2020-2030

	Unit	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real Economy													
Nominal GDP	ARSbn	21.650	30.145	43.314	58.826	76.278	95.029	114.524	134.524	153.912	171.399	185.643	196.351
Real GDP Growth[1]	%		(6,5%)	3,0%	2,5%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%	1,7%
Fiscal sector													
Primary Balance	% of GDP		(3,1%)	(1,0%)	(0,5%)	(0,0%)	0,3%	0,5%	0,8%	1,0%	1,0%	1,0%	1,0%
BCRA Transfers[2]	% of GDP		3,1%	1,0%	0,5%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
External Sector													
FX rate[3] (EoP)	ARS/USD	60	85	114	147	182	216	250	282	310	332	345	352
US Inflation	%		1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
Gross Foreign Reserves	USDbn	45	50	54	58	62	65	67	70	72	74	75	77
Memo - Nominal GDP Figrues in USD (Argentina vs IMF)													
Argentina assumptions	USDbn	449	418	435	450	463	475	488	501	515	529	543	558
IMF assumptions	USDbn	450	450	482	504	526	548	570	591	611	633	655	678

1) Real GDP growth converges to a steady state growth of 2% starting 2033, with an annual increase of 0.1% of GDP between 2031 and 2033; 2) Assuming that BCRA transfers cover the primary deficit; 3) FX rate assuming no real appreciation, 100% inflation differential pass-through

Source: Ministry of Economy

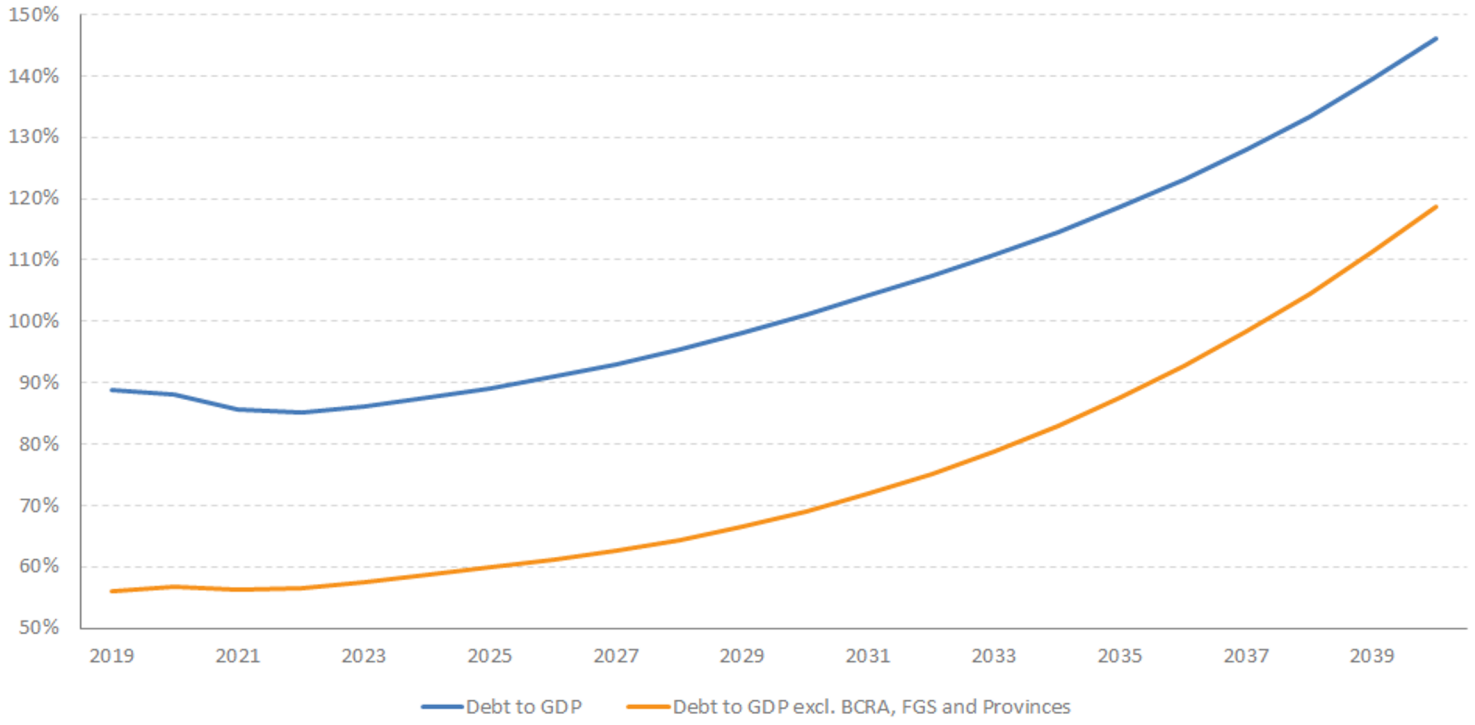
Elements of the debt offer

1. Three-year grace period
2. Reduction of principal of 5.4%
3. Reduction of average coupon from 7% to 2.3%

Resulting baseline debt trajectory

With no debt operation, argentina's government debt stock will be on an explosive path

GROSS DEBT OF THE CENTRAL ADMINISTRATION – 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 instrument debt, (iv) 2% over inflation for peso short term debt, (v) 5% (decreasing to 3% by 2025) for USD short term debt

Source: Authorities calculations

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