PUBLIC DEBT MANAGEMENT IN ARGENTINA

INTERACTION BETWEEN THE NATION AND THE PROVINCES

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The need for federal coordination
Recent history of Argentine public debt
The “deleveraging” process
Tools of federal coordination
Argentine debt: current stance
Summarizing
A federal country has national and sub-national governments, all of them with some degree of autonomy, but with an explicit or implicit coordination at a central level.

For many people, “the government” is like a sort of unity, covering the national and sub-national governments.

This way of thinking can be synthesized by quoting Nicolás Avellaneda, President of the Republic in the XIX century: “The Republic can be divided deeply… but it has only one honor and one credit, as it only has one name and one flag to foreign peoples”.

Why is coordination necessary?
The ’80s (1983-1991):

- No voluntary private financing available
  - Sources of provincial voluntary financing were limited to the National Government, multilateral organizations –with national guarantee-, and provincial and national banks.
  - This financing structure determined that provincial financing, except for what came from their own banks –regulated by the Central Bank- had to have national authorization.
  - There was, besides that, informal financing through delays in payments to suppliers.
  - Overall, we can estimate –even when there are not reliable debt statistics available for this period– that total provincial debt, except debt with the corresponding provincial banks, was relatively low.

- No major need for explicit coordination
Recent history of Argentine public debt

The ’90s (1991-2001):

- “Explosion” of privately-funded public debt
  - After the “Brady Plan” (1992-93) the Republic accessed international and local capital markets frequently.
  - Most Argentine provinces took debt with local banks using their national tax co-participation receipts as collateral.
  - Though less frequently than the National Government, some sub-national governments (Province of Buenos Aires, City of Buenos Aires, Mendoza, etc.) also accessed capital markets.

- The National Ministry of Economy imposed to the provinces they had to ask for authorization before each indebtedness operation.

- Besides, informal consultations were made to the National Government before provincial issuances, in order to avoid overlapping.
Between stages: the 2001-2002 crisis

- In 2001-2002 Argentina faced one of the worst fiscal, economic and financial crises in its history.

- As a result of economic recession, fiscal deficit and currency devaluation, public (and most private) debt services became unaffordable. Default was inevitable.

- There have been restructuring offers for defaulted public securities, but there are still hold-outs who refused to enter the exchanges and filed lawsuits against the Republic.
The post-default years (2002-2011): the “deleveraging” process

– With the purpose of breaking the strong dependence on external debt, the National Government has established a fiscal policy aimed at reducing debt exposure to the private sector and to the International Monetary Fund.

– Refinancing risk has been reduced and the Republic regained freedom of action at economic policymaking.

– In this context, the National Government has consistently assisted the provinces, helping them to reduce their debt with the private sector.
AT THE END OF THE CURRENCY BOARD PERIOD (1991-2001), PROVINCIAL DEBT GREW TO WORRISOME LEVELS; BUT AT THAT TIME, IT WAS NOT “THE” PROBLEM

ARGENTINE PUBLIC DEBT 1996-2001

AS % OF GDP

(*) Provincial debt (right axis) excludes indebtedness with the National Government or guaranteed by the National Government
AND, WHEN NATIONAL DEBT RATIOS IMPROVED, SO DID PROVINCIAL DEBT RATIOS

ARGENTINE PUBLIC DEBT 2002-2010

AS % OF GDP

(*) Provincial debt (right axis) excludes indebtedness with the National Government or guaranteed by the National Government
The “deleveraging process”

• From 2003 to 2011, the National Public Sector has achieved a sustained primary surplus.

• The end of the currency board regimen and the end of the private administration of pension funds have allowed the Government to regain control over international reserves and pension funds.

• The Debt Exchanges 2005 and 2010 established a reduction in capital and/or in interest rates of the restructured debt.

• From 2003 the country has been experiencing one of the most impressive growth process in its history, thus reducing the weight of the country’s debt in relative terms.
### ARGENTINA: NATIONAL AND PROVINCIAL PUBLIC DEBT

As % of GDP

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<thead>
<tr>
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<th>DECEMBER 2001</th>
<th>SEPTEMBER 2010</th>
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<tbody>
<tr>
<td><strong>PROVINCIAL SECTOR DEBT</strong></td>
<td></td>
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<tr>
<td>WITH NATIONAL GOVERNMENT</td>
<td>1.7%</td>
<td>4.5%</td>
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<tr>
<td>WITH MULTILATERAL ORGANIZATIONS (GUARANTEED BY NATIONAL GOV.)</td>
<td>1.2%</td>
<td>0.9%</td>
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<tr>
<td>PRIVATE CREDITORS</td>
<td>8.3%</td>
<td>2.0%</td>
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<tr>
<td><strong>TOTAL PROVINCIAL PUBLIC DEBT</strong></td>
<td>11.2%</td>
<td>7.4%</td>
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<tr>
<td><strong>NATIONAL PUBLIC DEBT</strong></td>
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<tr>
<td>WITH NATIONAL PUBLIC AGENCIES (*)</td>
<td>2.7%</td>
<td>22.4%</td>
</tr>
<tr>
<td>WITH MULTILATERAL ORGANIZATIONS</td>
<td>12.0%</td>
<td>4.8%</td>
</tr>
<tr>
<td>PRIVATE AND BILATERAL CREDITORS</td>
<td>39.0%</td>
<td>19.8%</td>
</tr>
<tr>
<td><strong>TOTAL NATIONAL PUBLIC DEBT</strong></td>
<td>53.8%</td>
<td>47.1%</td>
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<tr>
<td><strong>TOTAL DEBT OWED TO PRIVATE &amp; MULTILATERALS</strong></td>
<td>59.3%</td>
<td>26.7%</td>
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</table>


Source: Ministry of Economy and Public Finance, Argentina
The “deleveraging process”

HEALTHY PRIMARY & OVERALL BALANCE OF THE NATIONAL PUBLIC SECTOR

NATIONAL & OVERALL BALANCE OF THE NPS (%GDP)
ANNUAL REAL GROWTH HAS AVERAGED MORE THAN 7% FROM 2003 TO NOW

The “deleveraging process”
We accomplished a sustained downward trend in external debt as a consequence of GDP growth and a significant improvement in the debt composition.

The unprecedented accumulation of International Reserves led to an almost full coverage of external debt.
The Ministry of Economy and Public Finance is continuously analyzing the provinces’ fiscal stance. It has to approve all indebtedness to be taken by the provinces. The Ministry also provides financial and technical assistance to the provinces.
FISCAL RESPONSIBILITY LAW

The “Fiscal Responsibility Law” (2004) established:

– Rules of fiscal transparency

– Limits to public expenditure’s growth.

– Provinces should not incurred in new debt if their debt services exceed 15% of their revenues.

– National Government has to maintain a downward trend in debt, measured in terms of GDP.

– Provinces has to ask for national previous authorization for debt operations.
The Public Credit National Office offers to the provincial debt management offices its know-how in its specialty.

In that sense, it has recently supported the implementation of SIGADE in the province of La Rioja.

At the end of November, there will be a meeting of provincial and national representatives, aiming at discussing several ways of collaboration between the Nation and the provinces, and among provinces themselves.
THE MAIN MENACES TO NATIONAL DEBT SUSTAINABILITY ARE UNDER CONTROL NOW IN ARGENTINA

- Potential “Internal” menaces:
  - Too much debt denominated in foreign currency, when faced to a sudden and sharp devaluation.
  - Too much short term debt with the market, when faced to refinancing problems (e.g., caused by market turbulences).
  - Too much floating rate debt, when faced to a significant increase of reference interest rates.
THE MAIN MENACES TO NATIONAL DEBT SUSTAINABILITY ARE UNDER CONTROL NOW IN ARGENTINA

• “External” menaces:
  – Structural fiscal deficit aggravated by an economic crisis, triggering a shortfall in fiscal revenues and putting pressure on fiscal expenditures.
  – Financial institutions fragility, when exposed to a banking crisis.
  – Provincial debt crisis, fed by excessive provincial deficit.
THE FINANCIAL SYSTEM HAS SHOWN CONSIDERABLE ROBUSTNESS DURING THE LAST YEARS

Liquid assets/liquid liabilities and ROE

Broad liquidity/total deposits

*Includes first seven months of the year.
As of June 2011, while outstanding debt settled at **US$ 176 billion**, debt to **private investors** represented **35.4% of total debt** and 15.6% of GDP.

Half of the debt is held by Public Sector Agencies. Out of that amount, 50% is debt to the Central Bank.
38% of total debt is denominated in pesos, 21% adjusts by inflation as measured by CER index and the rest accuress fixed or Badlar rates with no CER adjustment.

60% of the debt that adjusts by CER is held by Public Sector agencies.

Total average maturity of debt is 11.2 years (or 12 excluding short-term Intra Public debt).

22% of total debt matures in the next three years, or 14% if we exclude debt held by the public sector (23% of 2011-2013 maturities consist of Intra Public Sector non-marketable securities).
Provincial debt has basically mirrored the National Government’s behavior. It grew when National debt grew, and it decreased when National debt decreased.

Now, provincial indebtedness with third parties is relatively low, and it is not a significant risk to national debt sustainability. The Ministry of Economy and Public Finance exerts a continuous monitoring over the provinces’ fiscal stance and assists provinces on a regular basis, providing them with financial and technical assistance.

This happens in a context of a downward trend of the national public debt – as measured in terms of GDP or public revenues-, an external debt that currently represents less than 20% of GDP, sustained primary surplus of the National Government since 2003, and a sound financial system.