Perspectives on Argentina’s debt sustainability

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Perspectives on Argentina’s debt sustainability

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5-7 Dec Geneva, Switzerland
Argentina’s macroeconomic trajectory

The external debt restructuring process

Recent developments

A new role for IFIs
Argentina's macroeconomic trajectory
Economic activity

Argentina’s macroeconomic trajectory

GDP
In millions of year 2004 pesos and interannual growth rate

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (constant prices of year 2004)</th>
<th>GDP growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-2,5%</td>
<td>-2,5%</td>
</tr>
<tr>
<td>2015</td>
<td>2,7%</td>
<td>2,7%</td>
</tr>
<tr>
<td>2016</td>
<td>2,8%</td>
<td>2,8%</td>
</tr>
<tr>
<td>2017</td>
<td>-2,6%</td>
<td>-2,6%</td>
</tr>
<tr>
<td>2018</td>
<td>-2,0%</td>
<td>-2,0%</td>
</tr>
<tr>
<td>2019</td>
<td>-9,9%</td>
<td>-9,9%</td>
</tr>
<tr>
<td>2020</td>
<td>10,3%</td>
<td>10,3%</td>
</tr>
<tr>
<td>2021</td>
<td>4,5%</td>
<td>4,5%</td>
</tr>
<tr>
<td>2022*</td>
<td>0,0%</td>
<td>0,0%</td>
</tr>
</tbody>
</table>

*Estimado según Presupuesto 2023

Beginning of the debt crisis

GDP growth
GDP (constant prices of year 2004)
* projected
Argentina’s macroeconomic trajectory

External sector vulnerability

FISCAL BALANCE CURRENT ACCOUNT BALANCES
As % of GDP

INTERNATIONAL RESERVES POSITION AND REER
In USD millions; REER Index 2012=100
A public debt overhang

GROSS DEBT AND EXTERNAL DEBT (TREASURY)
In % of GDP

Argentina’s macroeconomic trajectory
The road to an unsustainable debt profile

- 2016 capital account liberalization.
- Widening of fiscal and current account deficits.
- Large sovereign bond issuance + Local bond issuance in FX.
- Inflation targeting as an stabilization policy → Large portfolio inflows

As a result, high external sector vulnerability
Argentina’s macroeconomic trajectory

The road to an unsustainable debt profile

DECOMPOSITION OF DEBT TO GDP CHANGES
In % of Public Sector Debt / GDP*

* This figures take into account all National Public Sector, not only Treasury debt as in previous figures
External private debt restructuring
The debt restructuring process

- Lack of an institutional framework for debt resolution.
- Relatively quick process (<1 year).
- Three bond-holders committees. Vs. 2005 restructuring, there was a bigger weight from investment funds.
- Usage of CAC’s → 99% acceptance.
- CAC’s included in new bonds, but with different indentures (‘05 vs. ‘16).
- Unfeasability of new state-contingent debt (GDP warrants currently under litigation).
Changes in the debt service profile

- Local and foreign law

Financial relief 2020-2028: USD 35.6 bn (VPN at 10%)
A relief on the burden of interests

INTEREST PAYMENTS / TOTAL PUBLIC SPENDING
In %

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Payments</th>
<th>Total Public Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.3%</td>
<td>2015</td>
</tr>
<tr>
<td>2015</td>
<td>5.3%</td>
<td>2016</td>
</tr>
<tr>
<td>2016</td>
<td>6.2%</td>
<td>2017</td>
</tr>
<tr>
<td>2017</td>
<td>8.6%</td>
<td>2018</td>
</tr>
<tr>
<td>2018</td>
<td>11.7%</td>
<td>2019</td>
</tr>
<tr>
<td>2019</td>
<td>15.2%</td>
<td>2020</td>
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<tr>
<td>2020</td>
<td>7.6%</td>
<td>2021</td>
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<tr>
<td>2021</td>
<td>6.5%</td>
<td>2022</td>
</tr>
<tr>
<td>2022</td>
<td>6.8%</td>
<td></td>
</tr>
</tbody>
</table>
Yet a failure to regain market access

EMBI+ ARGENTINA
In basis points
Return on new bonds

COMPARISON OF RETURNS ON GD35 (ARG) VS HIGH-YIELD EM AND LATAM INDEXES
USD 100 investment since the date of restructuring.

ARG GD35
High Yield EM
Latam
Recent developments
Ongoing FX pressures

FX DEPRECIATION AND INFLATION RATES
3 months moving average (annual rates %)

FX RATE, BLUE CHIP FX RATE AND ITS GAP
In USD / ARS and %

Recent developments
Spillovers into domestic markets

INFLATION INDEXED BONDS. TX23 (MATURES MAR-23) AND TX24 (MAR-24)

In YTM %

Recent developments


TX23
TX24
Changes in the economic administration

In August 2022, Sergio Massa took office as Economy Ministry, basing his management on four principles:

1. Fiscal order
2. Commercial Surplus
3. International Reserve Strengthening
4. Development with Social Inclusion


Greater macroeconomic coordination and political support allowed to accomplish the following results:
- Approval of the Second and Third Revision under EFF-IMF.
- Approval of the 2023 Budget Law.
- Agreement with Paris Club creditors.

Positive outlook for exports in the medium-term (Vaca Muerta, mining, proteins, knowledge based services), but increased external pressure in the short-run (war in Ukraine, AE monetary tightening) with still no market access.
A new role for IFIs
A higher share of IFIs in the external debt stock

EXTERNAL DEBT COMPOSITION
As % of outstanding external debt

<table>
<thead>
<tr>
<th>Year</th>
<th>IMF, Other IFIs and Bilateral</th>
<th>Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>31.7%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>32.0%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>20.7%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>20.7%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>45.6%</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>54.0%</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>52.1%</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>52.1%</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>47.3%</td>
<td></td>
</tr>
</tbody>
</table>
Into monetary tightening

IMF RATE, LIBOR AND SOFR
In Nominal Annual Rate

4

A new role for IFIs
## Spillovers from monetary tightening and a possible relief: the reduction of IMF surcharges

### INCREASED COSTS OF TIGHTENING AND IMF SURCHARGES

In USD millions

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Concept</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFIs (Excl. IMF)</td>
<td>Interest</td>
<td>726</td>
<td>1323</td>
</tr>
<tr>
<td></td>
<td>Interest with Dec-21 rates</td>
<td>311</td>
<td>505</td>
</tr>
<tr>
<td></td>
<td><strong>Increase in interest due to tightening</strong></td>
<td><strong>415</strong></td>
<td><strong>818</strong></td>
</tr>
<tr>
<td>IMF</td>
<td>Basic interest</td>
<td>750</td>
<td>1.133</td>
</tr>
<tr>
<td></td>
<td>Basic interest (with Dec-21 rates)</td>
<td>440</td>
<td>341</td>
</tr>
<tr>
<td></td>
<td><strong>Increase in interest due to tightening</strong></td>
<td><strong>310</strong></td>
<td><strong>792</strong></td>
</tr>
<tr>
<td></td>
<td>Surcharges</td>
<td>987</td>
<td>821</td>
</tr>
</tbody>
</table>

In 2023, the sum of surcharges and the incremental cost in IFIs interest is projected to be 57% of the increase in Net International Reserves as of Sep-22.
Thank you