PUBLIC DEBT MANAGEMENT IN ARGENTINA

INTERACTION BETWEEN THE NATION AND THE PROVINCES

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Why is coordination necessary?

- 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”.

Recent history of Argentine public debt

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.

Recent history of Argentine public debt

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.

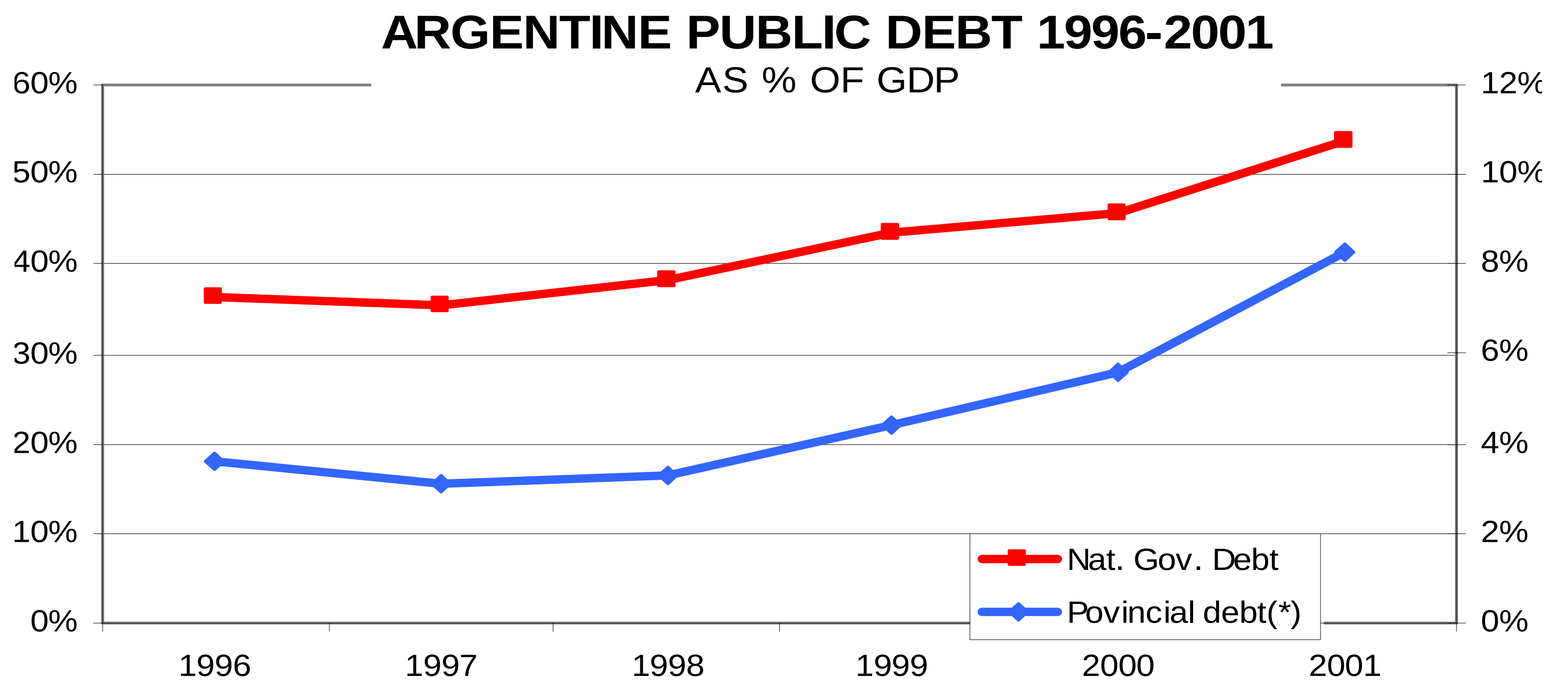
Recent history of Argentine public debt

<u>The post-default years (2002-2011): the “deleveraging” process</u>

- 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.

Recent history of Argentine public debt

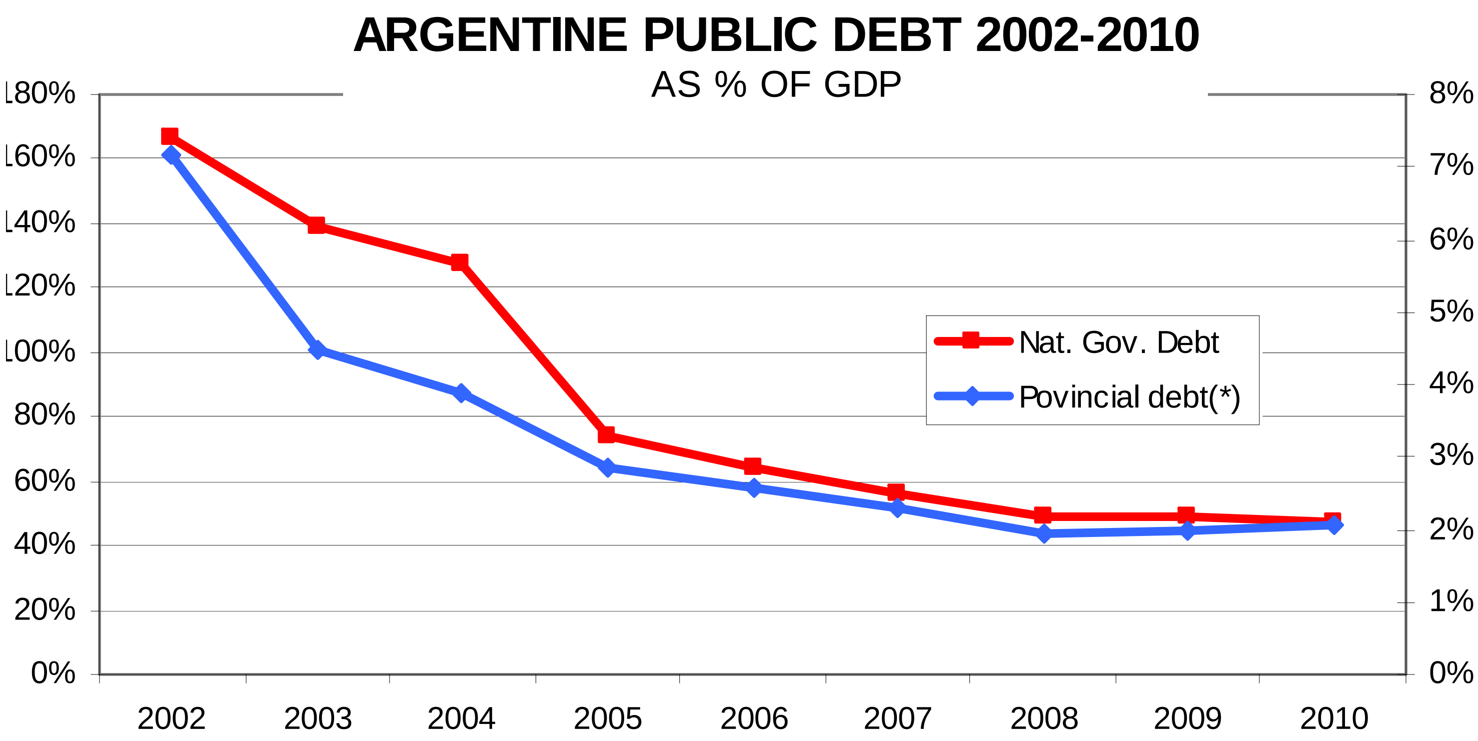
AT THE END OF THE CURRENCY BOARD PERIOD (1991-2001), PROVINCIAL DEBT GREW TO WORRISOME LEVELS; BUT AT THAT TIME, IT WAS NOT "THE" PROBLEM



(*) Provincial debt (right axis) excludes indebtedness with the National Government or guaranteed by the National Government

Recent history of Argentine public debt

AND, WHEN NATIONAL DEBT RATIOS IMPROVED, SO DID PROVINCIAL DEBT RATIOS



(*) 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.

The “deleveraging process”

ARGENTINA: NATIONAL AND PROVINCIAL PUBLIC DEBT

As % of GDP

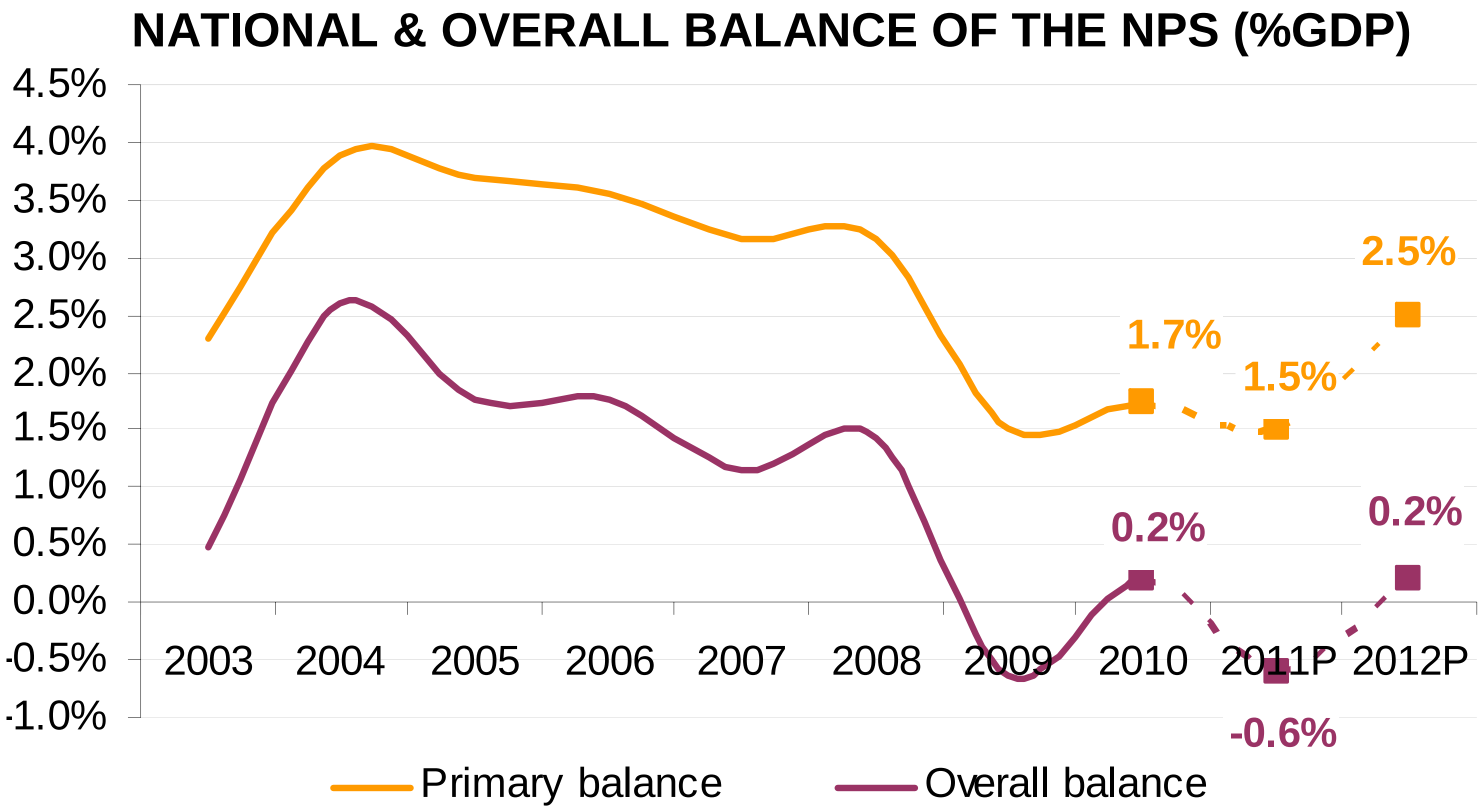
	DECEMBER 2001	SEPTEMBER 2010
PROVINCIAL SECTOR DEBT		
WITH NATIONAL GOVERNMENT	1.7%	4.5%
WITH MULTILATERAL ORGANIZATIONS (GUARANTEED BY NATIONAL GOV.)	1.2%	0.9%
PRIVATE CREDITORS	8.3%	2.0%
TOTAL PROVINCIAL PUBLIC DEBT	11.2%	7.4%
NATIONAL PUBLIC DEBT		
WITH NATIONAL PUBLIC AGENCIES (*)	2.7%	22.4%
WITH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

(*) 2001: Estimation based in Banco de la Nación Argentina and Central Bank of the Republic of Argentina's figures.

Source: Ministry of Economy and Public Finance, Argentina

The “deleveraging process”

HEALTHY PRIMARY & OVERALL BALANCE OF THE NATIONAL PUBLIC SECTOR



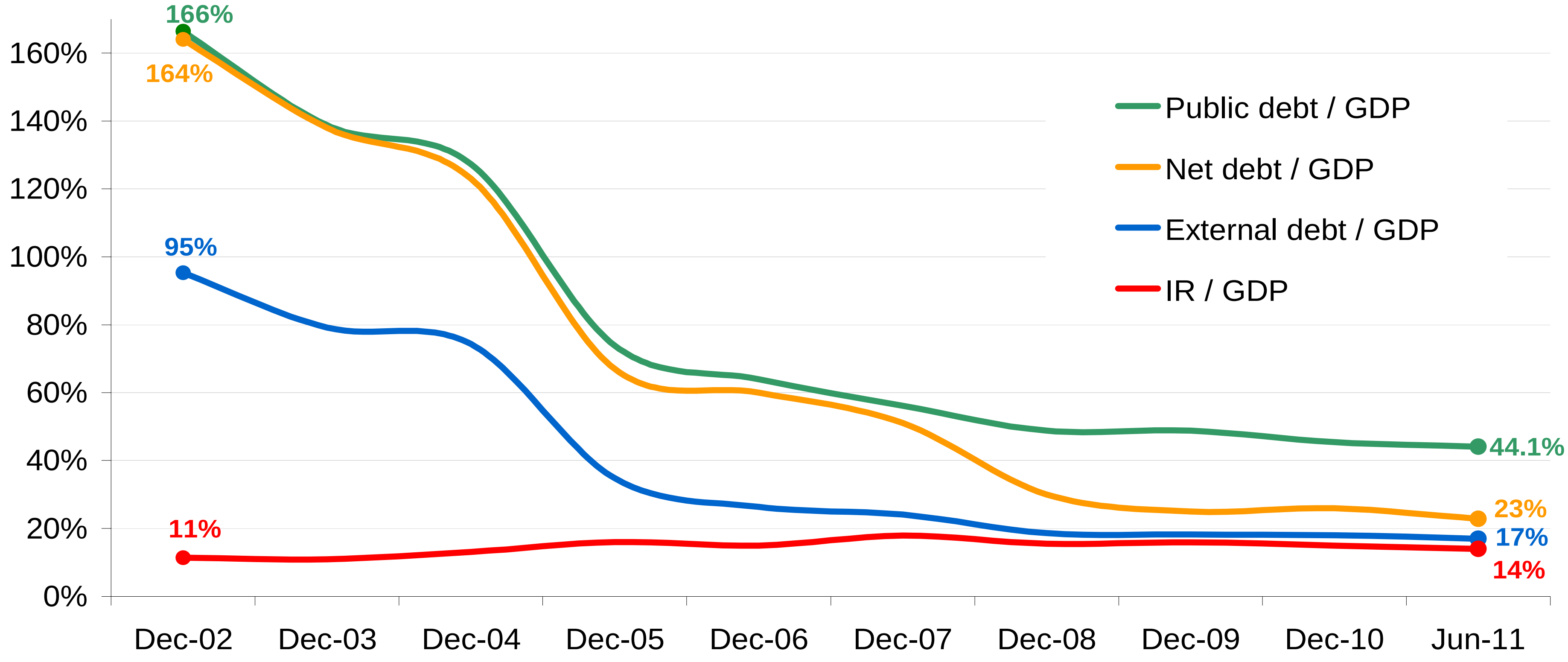
The “deleveraging process”

ANNUAL REAL GROWTH HAS AVERAGED MORE THAN 7% FROM 2003 TO NOW

The "deleveraging process"

EVOLUTION OF SOVEREIGN DEBT INDICATORS

Gross Debt, Net Debt, External Debt & International Reserves (all as % of GDP)



- **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.

Tools for Federal Coordination

FISCAL RESPONSIBILITY LAW + BILATERAL AGREEMENTS

- 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.

Tools for Federal Coordination

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.

Tools for Federal Coordination

NATIONAL SUPPORT TO PROVINCIAL DEBT MANAGEMENT OFFICES

- 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.

Argentine debt: current stance

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.

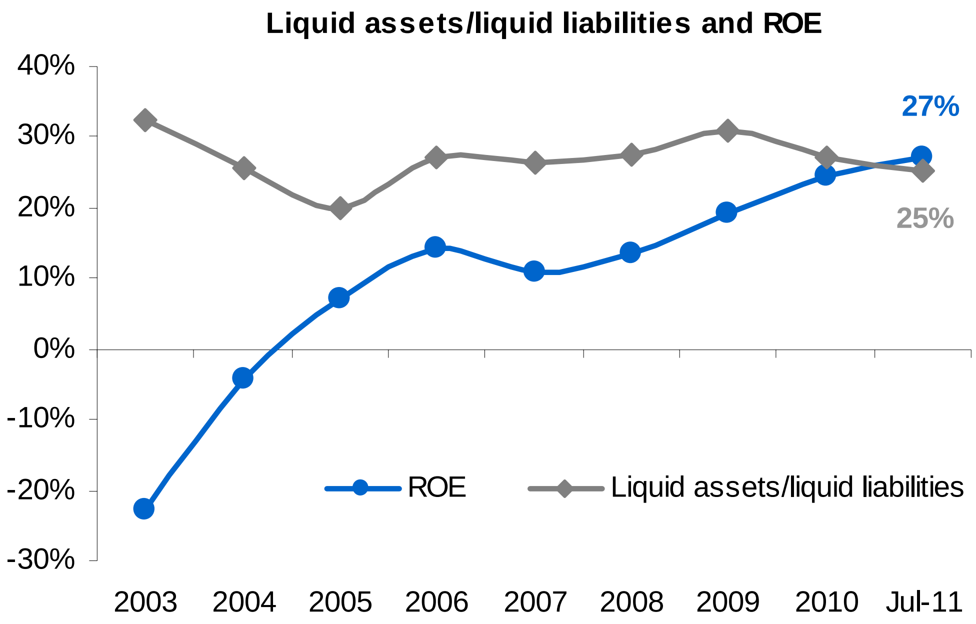
Argentine debt: current stance

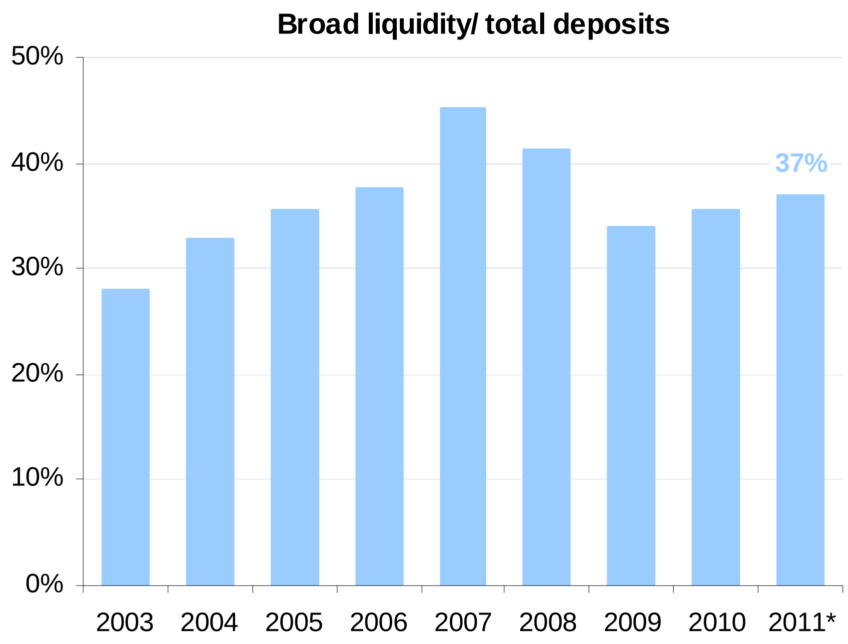
THE MAIN MENACES TO NATIONAL DEBT SUSTAINABILITY ARE UNDER CONTROL NOW IN ARGENTINA

- “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.

Argentine debt: current stance

THE FINANCIAL SYSTEM HAS SHOWN CONSIDERABLE ROBUSTNESS DURING THE LAST YEARS

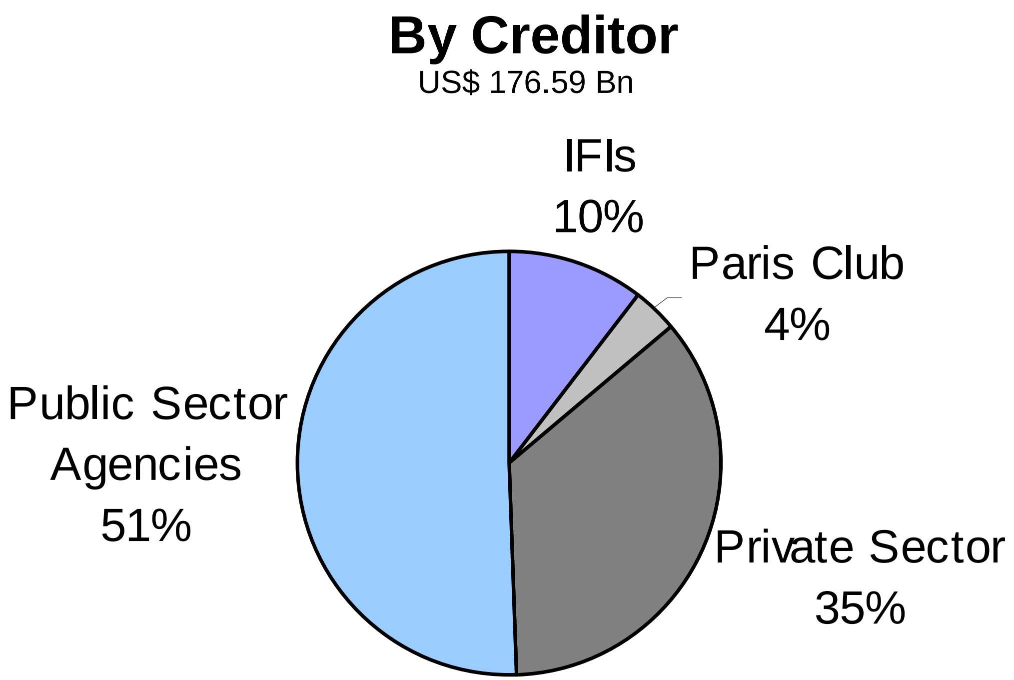




*Includes first seven months of the year.

Argentine debt: current stance

MANAGEABLE REFINANCING RISK



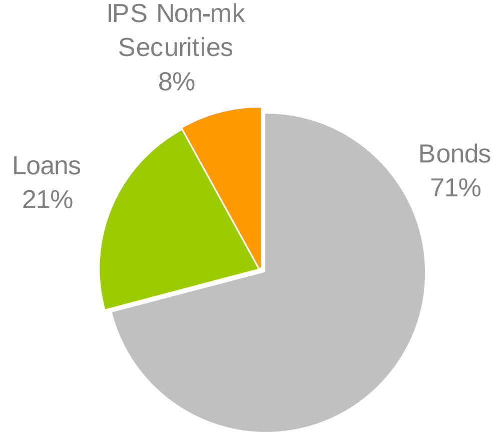
- As of June 2011, while outstanding debt settled at **US$ 176 billion**, debt to **private investors** represented **35.4% of total debt** and 15.6% of GDP.
- Half of the debt is held by Public Sector Agencies. Out of that amount, 50% is debt to the Central Bank.

Argentine debt: current stance

HEALTHY COMPOSITION OF THE PUBLIC DEBT

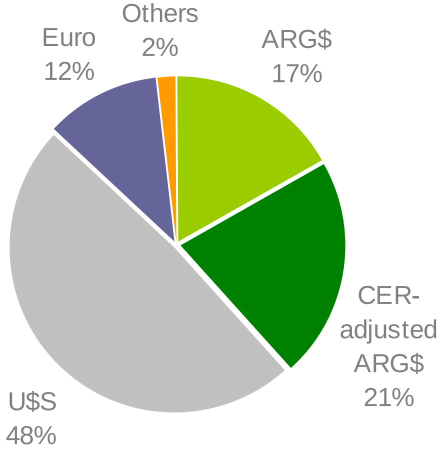
By Type of Instrument

US$ 176.59 Bn



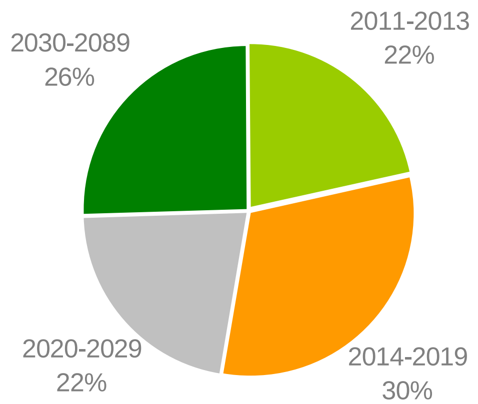
By Currency

US$ 176.59 Bn



By Maturity

US$ 169.56 Bn



- **38% of total debt is denominated in pesos**, 21% adjusts by inflation as measured by CER index and the rest accrues 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).

Summarizing

- 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.