



Argentina - A narrow path to "sustainability"

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We revisit the debt situation in Argentina and update our assessment on debt sustainability by projecting both debt stocks and FX debt repayment capacity. Argentina's debt problem originates from fiscal dominance and lack of nominal anchor. The problem will likely persist in the future unless Argentina implements structural reforms. Current macroeconomic conditions are significantly more challenging than in the early 2000s in terms of potential growth, inflation, and external conditions.

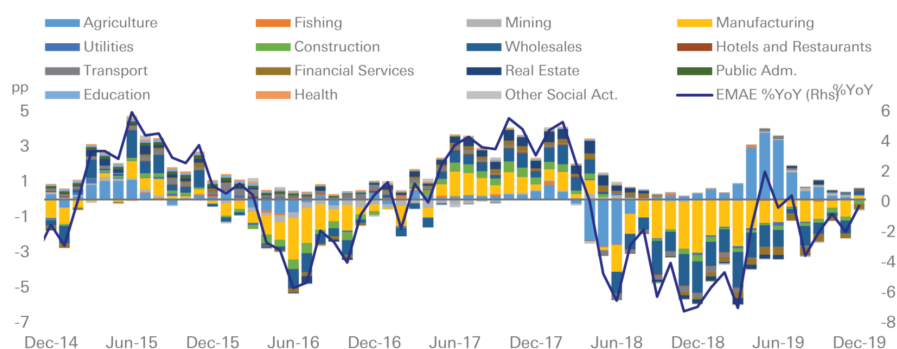
In the current policy mix, FX accumulation ability will play a central role in servicing its external debt. Policymakers will likely manage FX with a mix of more stringent controls and slight FX depreciations. One obvious concern is real appreciation, which inhibits FX accumulation and provides incentives to import more and to under-declare export receipts. We identify the following key drivers of Argentina's FX accumulation: dollarization (35.6%), trade balance of goods and services (27.2%), and net portfolio investment (9.5%). If capital controls are able to contain FX demand, the BCRA could hoard on average USD8-12bn in our base case scenario, USD12-15bn per year in a favorable scenario, and USD4-8bn in an unfavorable scenario – with risk skewed towards the downside.

We reiterate our view stated in our previous reports that, given adverse macroeconomic conditions and lack of fiscal effort, Argentina's debt is currently unsustainable – both in terms of the trajectory of its debt stock (despite a relatively low level of net debt) and in terms of its capacity to accumulate hard currencies over the medium term. What exchange parameters could lead to a sustainable path in terms of capacity to pay? Against our base case scenario of accumulating USD8-12bn per year and 50% bond rollover in 2024 and beyond, about a 40% nominal haircut - on top of 4Y maturity extension and 10Y stretch-out on IMF debt repayments – would be required for Argentina to be able to repay its debt in the next 10 years. The haircut would decline to ~30% if there is also a 25% coupon reduction or a 4Y coupon grace period.



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No signs of expansion yet...



Source: INDEC, Deutsche Bank

Current market pricing seems to have converged to these scenarios, but we see risk as skewed to the downside (and as such these required haircuts should be considered the minimum) because our (base case) assumptions on debt rollover and FX accumulation capacity are both on the optimistic side, and we have not incorporated provincial debt repayments (about USD2.5bn per year on average for the next 8 years) in this analysis.

This is an excerpt of our [Emerging Markets Special Publication on Argentina](#), published on February 27, 2020.

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