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The Macri Administration: *First 100 Days*

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1. Executive summary

President Mauricio Macri took office last December with stated plans to normalize economic imbalances, strengthen domestic institutions and tackle poverty, corruption and drug trafficking. He offered a pragmatic and market-oriented vision that stressed the need for collective action to ensure the long-term success of the country. One hundred days later, his administration has taken significant steps towards advancing this agenda and addressing the country's most urgent challenges through a series of major economic, political and regulatory policy measures.

President Macri heads to the Presidential Palace after being sworn into office | December 10th, 2015

Key measures of the Macri administration's first 100 days

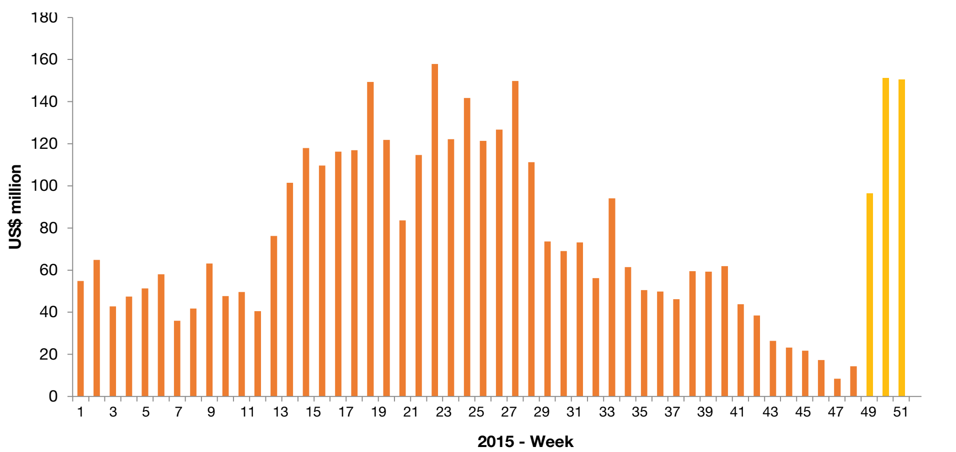
- A historic USD 4.65 billion agreement to settle claims from a group of holdout investors that will allow Argentina **to re-enter international capital markets after 15 years of being locked out.**
- The **liberation of foreign exchange controls**, placing the Argentine peso (ARS) under a managed-float regime.
- The agreement of the Central Bank of Argentina to borrow **USD 5 billion** from international banks to bolster foreign reserves.
- The **elimination of export tariffs on agriculture products** (wheat, corn, sunflower, meat and fish), **minerals** (metallic and non-metallic) and certain industrial goods; as well as the **reduction of export tariffs on soy and its derivatives** from 35% to 30%, with a plan to gradually phase out tariffs by the year 2022.
- The **elimination of income taxes** on all workers' income below ARS 30k (c. USD 2k) per month.
- The **reduction of subsidies** on electricity, with the exception of those that impact low-income families.
- The **normalization of public statistics** through an overhaul of the National Institute of Statistics and Census.
- A **major shift in international relations,** with an emphasis on strengthening ties to the U.S., U.K. and E.U.

2. Sector-specific actions and perspectives

2.1 Agriculture

Over the past 100 days, a top priority for the new administration has been improving the profitability profile and investment incentives in the domestic agriculture sector. Within the first week of the President's term, the administration **eliminated export tariffs** on wheat, corn, sunflower, meat and fish and **reduced export tariffs on soy and its derivatives from 35 to 30%**, with a plan to gradually phase out tariffs by 2022. According to sector experts, these measures are expected to **boost annual production from the current 100 million tons of grain and soybeans to 180 million tons by 2025**. Agricultural product exporters, whose dollar-denominated earnings increased in value after the government's December decision to lift foreign-exchange controls and allow the Argentine peso to float freely, have already proven more willing to liquidate existing stocks and increase crop production; during the last three weeks of 2015, farmers sold USD 2 billion of grains and oilseeds, over 4.5 times the amount sold in November.

Foreign sales of oilseeds and grains in USD, daily averages per week in 2015



Center of cereal exporters (C.E.C.) Chamber of the Oil Industry of the Argentinian Republic (C.I.A.R.A.)

2.2 Infrastructure

The cornerstone of the President's infrastructure agenda is the **"Plan Belgrano", a social, manufacturing and infrastructure development program** with the goal of improving productivity and raising living standards in 10 historically lagging Northern provinces. The plan consists of two main pillars: **1) Connectivity:** a USD 16 billion infrastructure investment in **roads, railways and aero-commercial networks** that aims to improve transportation to main urban centers, promote tourism, and increase the productivity of the industrial and agriculture sectors, and **2) Housing:** the construction of **250 thousand houses** as well as sewage networks to provide waste management services to over 2 million households. The plan is expected to take 10 years and create tens of thousands of jobs.

2.3 Energy

The Macri administration has already begun fostering investments and implementing measures aimed at utilizing the substantial potential of Argentina's energy industry. In mid-December, Argentina's national oil company, YPF SA, along with Dow Argentina, the local unit of Dow Chemical Co., agreed to a joint investment of **USD 500 million to explore for shale gas**. The two companies, which have already invested $350 million in a shale gas joint venture, said that the total investment could reach $2.5 billion in coming years. The administration has also begun to expand the country's renewable energy operations. Through the recently passed **Renewable Energy Law**, the government committed to having **8% of the country's energy generated from renewable sources by 2017 and 20% by 2025**. The government is also implementing a new regulatory framework to improve incentives for renewable energy investments, including **tax breaks, availability of financing at preferential rates and a requirement for large industrial consumers to purchase a share of their energy from renewable sources**. In February, the Argentine energy firm Genneia announced it will invest USD 500 million in wind farms in the Province of Chubut over the next five years.

Juan José Aranguren | Energy and Mining Minister

Nevertheless, the country faces significant challenges in the energy sector. In 2015, energy spending and electricity subsidies represented 3% of the country's GDP and 12% of total federal spending, making it the largest single contributor to the budget deficit. As a result of this situation, the government declared an **electricity emergency** through December 31st, 2017. Energy and Mining Minister Juan José Aranguren (former CEO of Shell Argentina) has already **reduced certain subsidies and is moving fast towards defining a new regulatory framework that will encourage private companies to make the necessary investments in energy infrastructure.**

2.4 Mining

In February the new administration announced the **elimination of all export duties** for metallic and non-metallic minerals. Insiders estimate that these measures will raise sales and reduce costs by 5% and 8% respectively. This is expected to enhance the sector's competitiveness and result in increased foreign direct investment in the country's mining projects, worth over USD 14.5 billion in aggregate.

Oscar Aguad | Minister of Communications

2.5 Telecommunications

Over the past 100 days, the Macri administration has worked to deregulate the telecommunication industry in order to increase competition, foster higher-quality services and encourage private investment in relevant infrastructure. The administration repealed the Broadcast Media Law, began to ease excessive anti-trust restrictions in the sector and created a new autonomous and decentralized communications regulator, ENACOM.

In March, ENACOM gave the greenlight to two major acquisitions in the sector, authorizing the sale of Telecom Argentina to U.S.-based investment fund Fintech, as well as approving Argentina media group Clarin's acquisition of 100% of the shares of Nextel Argentina.

3. Foreign policy

International relations

President Macri has taken significant steps towards reinserting Argentina in the global agenda, both regionally and internationally, by strengthening ties with the United States and the European Union. At his international debut during the **Mercosur Summit in Paraguay** last December, he became one of the most outspoken leaders in Latin America against human rights abuses in Venezuela, calling for a release of political prisoners. In January, at the **World Economic Forum in Davos,** Macri met with political and business leaders from around the world to discuss cooperation on cross-border investment and trade. This marked the first appearance by an Argentine president at the forum in over a decade.

The administration has also hosted a number of key foreign leaders, including **Italian Prime Minister Matteo Renzi, French President François Hollande and United States President Barack Obama.** Argentina and France signed more than **22 bilateral agreements** during Hollande's visit, with the clear objective of fostering ties between the two countries as well as between Argentina and the European Union. President Obama's March 23rd trip marked the first time since 2005 that a U.S. president has been to Argentina; Obama's visit, just three months into Macri's presidency, represents a **clear and immediate shift in the normalization of relations with the U.S.**

International commerce

Susana Malcorra
Minister of Foreign Affairs

The administration is making strides towards a less restrictive export and import regulatory framework. To facilitate the process of importing in the country, the administration **eliminated the DJAIs**, a bureaucratic requisite implemented by Cristina Kirchner's administration (2007-2015) that complicated the ability to import goods into Argentina. The new administration has also issued **USD 5 billion in dollar-denominated bonds** with an annual coupon rate of 6%. These bonds will allow importers to settle payments for goods they brought into the country.

The President's administration has also worked to bolster foreign direct investment (FDI). Despite the country's vast natural and human resources, it receives only 4% of FDI devoted to Latin America, behind: Brazil, Mexico, Colombia, Chile and Peru. To reverse this trend, the Production and Foreign ministries jointly created the **National Agency for the Promotion of Investment and International Commerce**. The Agency is responsible for facilitating the foreign investment process and focuses on promoting key sectors, such as renewable energy, mining, infrastructure, and utilities.

4. Domestic policy

Domestic policy

Over the past 100 days, the administration has worked to strengthen domestic institutions and tackle social issues, such as **poverty, corruption and drug trafficking.**

The President has proposed two new judges to the Supreme Court. The justices are now waiting to be officially appointed by Congress in accordance with the local constitution. To reduce corruption in the country, the administration passed a measure that mandates the evaluation of over 24,000 government employee contracts. The government has also declared a domestic security emergency and has begun to take actions to combat drug-trafficking, such as improving the training and increasing the size of the federal police force. In addition, the administration has increased the reach of the universal child-allowance program, retirement funds and pensions and pledged to build 1,400 nurseries and pre-schools that will reach an estimated 150 thousand children.

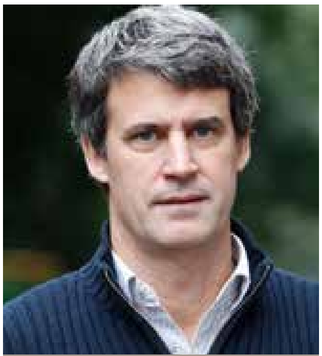
Through increased transparency and the normalization of government statistics, the Macri administration has begun strengthening its credibility in the global financial community. During the Kirchner administration the government faced international scrutiny for allegedly manipulating government-data, specifically inflation and growth figures. Consequently, the President has **re-staffed the National Institute of Statistics and Census, INDEC, and given the International Monetary Fund (IMF) complete access to audit its books.** The IMF has praised these policies, and has suggested it will lift its motion of censure against Argentina that was applied in 2013.

President Macri met with U.K. Prime Minister David Cameron, U.S. Vice President Joe Biden, Mexican President Enrique Peña Nieto, and Israeli Prime Minister Benjamin Netanyahu, among other world leaders, at the World Economic Forum in Davos – January 21st, 2016.

5. Normalizing economic imbalances

Introduction

The Macri administration has acted decisively to implement an array of policies with the intent of normalizing significant economic imbalances inherited from prior administrations. The President's economic team, led by Finance Minister Alfonso Prat-Gay, Central Bank President Federico Sturzenegger and Finance Secretary Luis Caputo, has spent the past three months leveraging the monetary and fiscal tools at its disposal to jumpstart the economy and attract private investments. While sizeable challenges remain ahead, the administration has set the course to correct economic distortions.



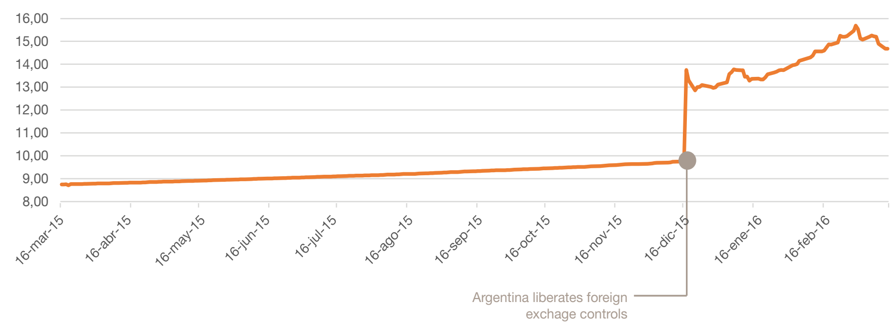
Alfonso Prat-Gay
Finance Minister

5.1 Exchange rate

One of the most pressing obstacles facing the country at the start of the new administration was an artificially overvalued currency. Due to this over-valuation, the country's exporters across a range of sectors remained uncompetitive, leading to decreased exports and weakened current account balances, among other effects. Just six days after his inauguration, **the President and his team lifted foreign exchange controls and placed the Argentine peso under a managed-float**. The peso devalued 30% on the first day of unrestricted trading, from 9.84 to 13.94 ARS per USD, and proceeded to further decline in the subsequent months, trading in the 14.50 to 16.00 range during March. Economists and investors have hailed the move as one that will ultimately stabilize the peso at levels set by the market and boost investor confidence.

Federico Sturzenegger
President of the Central Bank

USD/ARS exchange rate



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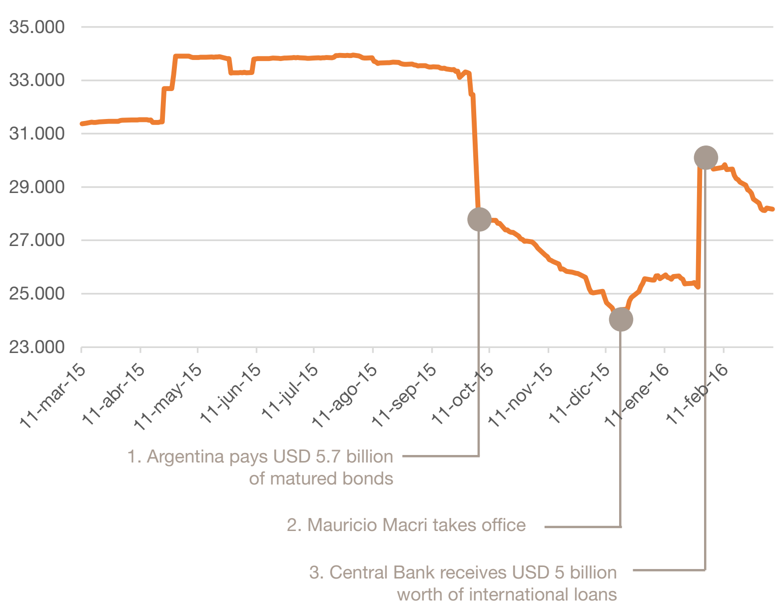
Luis Caputo
Finance Secretary

5.2 Foreign currency reserves and inflation

Another pressing challenge encountered by the new administration was the accelerated depletion of foreign currency reserves held by the country's Central Bank. When the Macri administration took office, foreign currency reserves had tumbled to just over USD 24 billion, a far-cry from their four-year high of USD 52 billion. This fall was due to mainly to existing restrictions on foreign currency acquisitions and dividend payments abroad, successive bond payments (including a 5.7 billion dollar payment completed at the end of September) and the inability to access international capital markets due to the country's default status. Hoping to bolster reserves ahead of talks with the holdout creditors, the Central Bank, led by newly appointed president Federico Sturzenegger, reached agreements with **seven international banks for loans worth USD 5 billion, raising Central Bank reserves to USD 29.7 billion**, the highest level since October 2nd. The bank also **swapped USD 3 billion worth of yuan into dollars in order to boost liquidity in reserves**. In addition, the Central Bank elevated interest rates in ARS from 28% to 38% to bolster savings in pesos, curb further depreciation of the domestic currency and curtail potential rises in inflation rates.

BCRA foreign reserves



Central Bank of Argentina (B.C.R.A)

President Macri addresses the Legislative Assembly for the first time – March 1st, 2016

5.3 Return to capital markets

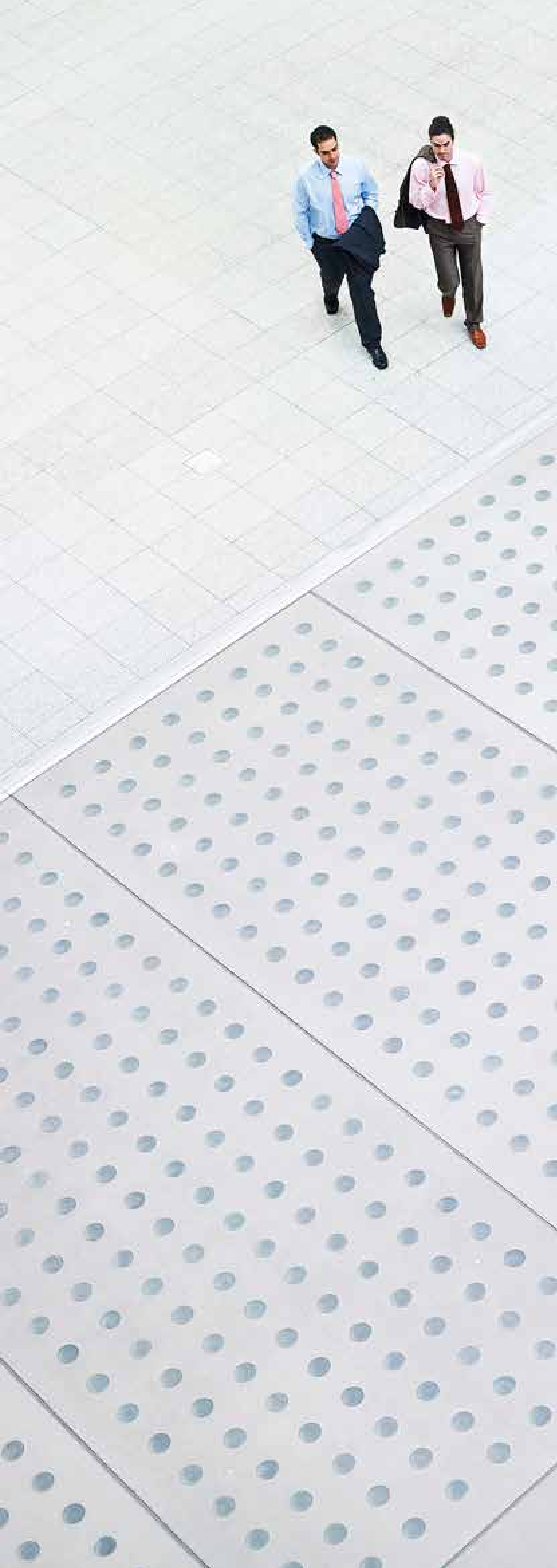
The dispute with the debt default holdouts had its origins in Argentina's 2001 recession, when the country, embroiled in one of the worst economic crises in its history, reneged on over USD 80 billion it owed in external debt. In 2005, former-president Nestor Kirchner restructured the majority of the country's debt by offering to pay 25 cents on the dollar to holders of the defaulted bonds. While 93% of bond holders accepted deals, 7% of them, led by Paul Singer's Elliott Management Corp. and Aurelius Capital Management, refused to settle and instead litigated. The original bonds, proffered under U.S. law, followed an equal treatment provision known as "pari passu". The plaintiffs argued that, as a consequence of this provision, Argentina was required to make payments to the holdouts in the event a payment was made under the exchanged bonds. In 2012, the holdouts won an injunction in the United States' district courts with this argument. After negotiations broke down between the holdouts and Cristina Kirchner's administration in mid-2014 and the U.S. courts denied Argentina's appeal to the 2012 injunction, Argentina plunged into its second default in less than 13 years.

The long-running dispute between Argentina and the debt default holdouts, a conflict which has prevented Argentina from accessing global capital market for the past 15 years, has been a key challenge for the Macri administration since it took office. **President Macri made settling holdout debts and re-entering capital markets a top priority of his administration,** which first sat down to negotiate with creditors in early February. The negotiations that followed led to a successful deal to pay USD 1.35 billion in cash to a group of Italian investors, as well as a **historic USD 4.65 billion agreement** with a group of hedge funds, in which Argentina has agreed to pay roughly 75 cents on the dollar.

Nevertheless, the saga with the holdouts has still not ended. First, the administration will have to issue USD 11.7 billion worth of new bonds to pay the amount agreed to settle with the holdouts, including accrued interest, fines and legal expenses claimed by the creditors. Second, the administration must persuade Argentine legislatures to approve the deal, which expires on April 14th. This entails Congress nullifying the Padlock and Sovereign Payment Laws, which forbid the country from offering holdouts better terms than those offered in the 2005 and 2010 debt restructurings. On March 16th, Argentina's lower house of Congress voted 165-86 to approve the deal. The plan now moves to Argentina's Senate, which is expected to vote on it towards the end of March.

5.4 Fiscal policy

By the time Macri finishes his term in 2019, Argentina aims to reduce its fiscal **deficit to 1 percent of GDP** and bring down annual inflation to 5 percent. Over the past 100 days, the Macri administration has begun to gradually tackle the budget shortfall, with goals to **reduce the deficit 1 percent this year from 5.8 percent of GDP in 2015**. The government is acting to reduce the deficit by **cutting energy subsidies and reducing spending**. The administration will also have to work to cover additional lost revenue related to a number of measures it has either implemented, or plans to implement, that benefit workers and low-income families. These include the **elimination of income taxes on all workers' income below ARS 30k (c. USD 2k) per month** and a reduction in the sales tax rate on a basket of basic goods. The administration has also sought to stimulate domestic growth through the elimination and reduction of export taxes on key manufactured and agricultural goods.



6. What we expect at PwC

The first 100 days of a presidency provide a useful yardstick for assessing the overall direction of a new administration. By the time March is ending, a president has fully transitioned from candidate to head of government, appointees to key ministries are in place and priorities have been demonstrated by concrete actions. As we discussed in our previous report, *Argentina: Brief investment outlook following the inauguration of President Mauricio Macri,* the President has used his first 100 days to pave the way towards a more market-oriented economy, mobilize economic development, begin to take steps to improve Argentine citizens' quality of life and create opportunities for local and foreign investors through developing comparative advantages in the country's key sectors. Multiple challenges remain ahead to achieve enhanced productivity and competitiveness and correct imbalances in the Argentine economy. We understand that the administration will continue working towards these goals.

In summary, a number of major decisions made since the President took office in December have resulted in tangible and impactful regulations, resolutions and legislative initiatives. These measures have provided Argentina with an economic outlook that has been generally appreciated by the business and international communities, and have positioned the country for economic growth and development.

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