
The Macri Administration: Into the Second Semester



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1. Executive summary

In its first semester, President Mauricio Macri's administration implemented tangible and impactful regulations, resolutions and legislative initiatives. Into the second semester, multiple challenges remain to reduce inflation, enhance productivity and competitiveness and correct economic imbalances. Domestically, President Macri is being recognized for his ability to accomplish objectives in Congress, despite the minority position of his party. Internationally, the country is being recognized for the reliability of the decision makers in managing the complex situation and providing a vision of how a democracy can lead economic development. The Argentine Republic, which celebrated its 200th year of independence in July, is returning to the global stage and once more becoming a citizen of the world. As the reasonable political culture demonstrated by today's Congress continues to develop, it becomes more likely that this reintegration will extend beyond Macri's presidency.



President Macri participates in Argentina's Bicentennial independence celebrations in the Corrientes Province | July 9, 2016

Key Highlights: Into the Second Semester

Sector-specific

- **Renewable Energy** – The Ministry of Energy has launched a decade-long Renewable Energy Plan expected to attract USD 15 billion in investment and increase renewable energy production throughout the country.
- **Infrastructure** – The administration has implemented the largest infrastructure investment plan in the country's history. It has also submitted a Public-Private Partnership (PPP) bill to Congress, with the goal of attracting long-term investments from the private sector.

International and domestic affairs

- **International relations** – President Macri has launched major regional and international initiatives into the second semester; the country attained observer status in the Pacific Alliance, began the fast-track process to join Organization for Economic Co-operation and Development and had its bid to host the 2018 G20 summit ratified. President Macri has also met with numerous international government and business leaders both in Argentina and abroad.
- **Tax amnesty and pension bill** – The legislative branch implemented a tax amnesty bill that gives amnesty to an estimated USD 500 billion of unreported or offshore funds, and uses the proceeds to settle ongoing debts with pensioners.
- **Strengthened institutions** – The administration has made strengthening public trust in institutions a priority. In June, the National Institute of Statistics and Census, INDEC, released inflation figures for the first time since Macri took office. Additionally, Justice 2020, a plan to improve criminal justice and reduce drug trafficking, was initiated.
- **Gas and electricity tariffs** – While studies are currently being made for tariff revision, increases to gas and electricity tariffs have been made. Application is under discussion due to impact on household expenses.
- **Employment** – Unemployment has increased resulting from lower activities in certain sectors and the dismissal of government employees without specific positions.
- **Anti-corruption** – A number of high-level corruption cases have been identified and are currently being dealt with in the courts.

Normalizing economic imbalances

- **Inflation** – Since taking office, the Macri administration has battled high inflation: 4.2% in and 3.1% in May and June respectively. To tame price increases resulting from inflation, the Central Bank has raised interest rates.
- **Return to capital markets** – Argentina roared back to capital markets in April, selling an emerging market record USD 16.5 billion of debt.

2. Sector-specific actions and perspectives

The following sector-specific actions and perspectives were highlighted by PwC Argentina's sector leaders.

2.1 Agriculture

Into the second semester, the Macri administration has once again made providing investment incentives in the agriculture sector a priority. In the last week of June, the administration **eased restrictions of the 2011 Land Law**, which had limited the amount of rural land in Argentina that could be owned by a foreigner, to facilitate the entry of direct foreign investment in the sector. Also in June, the **government and Monsanto reached an agreement** in which Monsanto gets the right to collect royalties for its patented soybean seed technology (Intacta), while the administration gets the exclusive right to audit illegally grown crops. The government has also **increased subsidies, compensations and credits to dairy farmers**, who are in a critical situation due to falling international milk prices and increasing domestic production costs.

The domestic agriculture industry continues to benefit from the December measures to eliminate export tariffs on wheat, corn, sunflower, meat and fish, reduce export tariffs on soy and its derivatives from 35% to 30% and eliminate authorizations needed to export grains and meat. In the first quarter of 2016, **exports of cereals, oilseeds and by-products grew by 68%** compared to the same period of 2015, (from 12 to 20 million tons). According to the Ministry of Agriculture, Argentina also **exported 117% more wheat** through the first six months in 2016 than in the entire year of 2015 (from 3 to 6.5 million tons).

2.2 Infrastructure

The Macri administration is carrying out the most significant infrastructure investment plan in Argentina's history, with the long-term goals to boost employment, increase sustainable economic development and revitalize regional economies in need. The government has launched several new projects including: the **USD 14 billion Regional Express Network** to improve rail transportation in the metropolitan area of Buenos Aires as well as the **USD 7 billion National Housing Plan** to construct 120 thousand new houses, urbanize 505 vulnerable locations and provide 475 thousand credits for Argentines to buy their first homes. In addition, the **Inter-American Development Bank (IDB) granted USD 1.5 billion** to Argentina and Chile for the construction of a **binational tunnel** that connects the two regions.

The Macri administration has also submitted a **Public-Private Partnership (PPP) bill** to Congress. The bill, which is likely to be approved, will attract long term investments in infrastructure from the private sector by providing guarantees to hedge the risks associated with the public sector. Two other macro-economic factors likely to accelerate investments in the sector include the April return to capital markets and the tax amnesty bill.

2.3 Telecommunications

The Macri administration has made strides on improving the quality of mobile communications and internet access in the country. In July, the administration launched the **Plan of Mobile Internet Access (PAIM) with the objective of replacing 8 million disposable cellphones** – over 60,000 smartphones with 4G were sold in the first 10 days of the plan. It is also probable that the Draft **Convergent Communications law**, which aims to extend the right to communication and quality for all Argentines, will be discussed in the next months. The administration has also begun implementing communication tools that better productivity in the sector, such as renovating cell towers and deploying more antennas and optic fibers, and reordering some of the radio-electric spectrum bands. In addition, ENACOM, the newly created telecommunications regulatory body, has **awarded its first Mobile Virtual Network Operator (MVNO) licenses**. Future needs of the sector include investments and revisiting the regulation framework.

PwC Agriculture Partner – Mariano Tomatis



PwC Infrastructure Partner - Norberto Montero



PwC Telecommunications Partner – Ariel Vidan



2.4 Energy

This May, Macri formally launched **Plan RenovAr, a decade-long plan to attract USD 15 billion in renewable energy investments**. The first phase of the program is an auction that calls for companies to bid on contracts to produce 1000 megawatts of power a year from renewable sources, including wind and solar energy, and 1000 MW of power a year from thermal energy (since the interest for the 1000 MW thermal tender was five times the amount offered, the Energy Ministry created a second 1000 MW tender). Officials expect companies to invest USD 2.1 billion and to be generating power from investments by October 2018. The plan's long-term objective is to increase renewable energy output to 8% of total power generation by the end of next year and to 20% by the end of 2025, a rate that over ten times higher than today (Argentina currently gets less than 2% of its power from renewable energy).

After years of heavily subsidized utility tariffs, the Energy Ministry has also begun its RTI (integral tariff revision) plan on gas and electricity to establish adequate levels to cover costs. In the meantime, rates have been increased significantly, though the rates cover only a portion of the distortions that resulted from 15 years' worth of subsidization. Application is under discussion due to its impact on household expenses.

Non-conventional hydrocarbons continue to represent a big potential in the country. On July 14th, **Pan American Energy (PAE)**, one of Argentina's leading oil and gas companies, announced its plan to **invest USD 1.4 billion in the country** to explore and produce oils throughout the country. Additional substantiated efforts to improve energy efficiency are underway, led by Andrea Heins, Sub-secretary of Savings and Energy Efficiency.

PwC Energy Partner – Jorge Bacher



2.5 Mining

The Macri administration is in process of opening 40 projects that were affected by restrictions implemented by the prior administration. This has the potential to release investments of up to **USD 20 billion to produce gold, silver, copper, potassium and lithium**. It is also well-timed, the prices of some minerals (mainly gold and silver) have greatly improved international prices. Actions such as the February **elimination of all export duties** on metallic and non-metallic minerals have sent a signal of support to the industry. However, while the administration has improved the economic situation of projects, the rise in local costs due to inflation has mitigated the major competitive advantages achieved. In addition, many of the country's largest mines (Minera Alumbrera, Minar Pirquitas) are reaching the end of their lives and there are no new planned developments of them in the near future.

In May, leading Chilean mining company **SQM purchased USD 500 million of lithium projects** in the Argentine Puna grassland that it plans to develop in partnership with local companies.

PwC Mining Partner – Leonardo Viglione



2.6 Financial services

The Macri administration is in the process of **deregulating commissions for financial institutions**. This is necessary to create sustainable business in a context of decreasing rates and spreads and inelastic costs. There is great opportunity for the industry through regulatory changes that will allow the country to **deepen processes of digitalization, improve application of new technologies** conducive to better operational efficiency, increase banking levels and facilitate financial inclusion. The industry will also be advanced through the tax amnesty law that will reactivate financial flows and investments and allow for an active role of the banking system.

As part of the National Housing Plan, the administration has launched a **new scheme of mortgage loans** with rates that will be based on **the UVI (Housing Unit)**, which is adjusted by inflation in correspondence to CER (Stabilization Reference Coefficient).

PwC Financial services Partner – Javier Casas Ruia



3. International affairs

President Macri has launched major regional and international initiatives into his second semester. Regionally, one of the country's biggest initiatives was its June 10th acceptance as an observer country in the Pacific Alliance, composed of Chile, Peru, Colombia and Mexico. In June, Macri attended the Pacific Alliance summit in Chile, where he worked to promote ties with the Mercosur bloc and revitalize Argentina exports to the region. In the last week of July, Macri and his delegation traveled to both Mexico and Peru. **In Mexico, Macri worked on reaching an agreement of absolute integration and free trade between the two countries;** the Argentine President, along with Mexican President Enrique Peña Nieto, signed **17 bilateral agreements. In Peru, Macri met with President-elect Pedro Pablo Kuczynski,** who was sworn in the day after their meeting, **to discuss relaunching trade between the two countries.**

Internationally, in the first week of July, **Macri embarked on an official European tour, with the principal objectives to relaunch Mercosur-EU negotiations and ensure Argentina is once more considered in the international economy.** Over the course of the trip, Macri met with French President François Hollande, European Council President Donald Tusk, German Chancellor Angela Merkel and President Joachim Gauck, as well as CEO's and executives from Siemens, Mercedes-Benz and Volkswagen, among others. Various declarations promoting technological, economic, trade and investment cooperation were signed in each country. In the second semester, the administration also **initiated the process of becoming a member in the Organization for Economic Co-operation and Development (OECD).** While the process to become a member typically takes three-years, Argentina is



Foreign Affairs Minister Susana Malcorra alongside United States Secretary of State John Kerry | August 4, 2016

looking to fast track the application – a high-ranking delegation from the OECD visited the country towards the end of June.

President Macri has also hosted high-ranking international figures in Argentina, including United States Secretary of State John Kerry and United Nations Secretary-General Ban Ki Moon. After speaking to Argentine members of the **American Chamber of Commerce (AmCham),** Secretary Kerry met with Foreign Affairs Minister Susana Malcorra and President Macri to **reinforce diplomatic ties between the two countries, further develop the bilateral agenda that was started during President Obama's visit in March and finalize previous agreements on fighting drug trafficking.** Three days after Kerry's visit, Ban Ki Moon travelled to Argentina, where he praised both Macri's leadership and the country's revitalized alignment to the core values of the United Nations. Ban Ki Moon also highlighted the work of Malcorra, who is currently in the running to replace him when he steps down as UN Secretary-General this December.

Argentina is also gaining respect and influence on international forums in which it is a member. At the end of July, **Finance Minister Alfonso de Prat-Gay, along with President of Central Bank Federico Sturzenegger, participated at the G20 Summit in China.** At the summit, **the Argentine delegation met with Central Bank of China president to explore new lines of financing.** In addition, **Argentina was formally selected to preside over the summit in 2018.**

In addition, the Macri administration has been active in strengthening international commerce. In June, President Macri met with global business and government leaders as a participant in the **Allen and Company Sun Valley Conference,** an annual technology summit in the U.S. led by Bill Gates.

From September 12th to the 15th, the Argentina Investment and Trade Promotion Agency plans to host the **Argentina Business and Investment Forum** with business leaders, investors, and political figures from Argentina and around the world.

4. Domestic affairs



Into the second semester, President Macri aims to restore confidence in the statistic agency's handling of inflation data.

Mauricio Macri is the first president in Argentina's history to begin a term of office without control of the National Congress. Although the opposition Peronist party controls 42 of the senate's 72 seats, **Macri has successfully maneuvered his party's minority position in Congress, managing substantial accomplishments and reforms into the second semester.**

On June 29th, the Senate passed the government-sponsored **tax amnesty/pension bill** that will give tax amnesty to an estimated **USD 500 billion** of unreported or offshore funds, in addition to settling ongoing debts with pensioners and helping fund an increase in pension benefits. The government hopes to attract about **USD 20 billion from the amnesty bill**, which will make citizens or companies pay a tax of zero to 15 percent depending on the amount and time funds are brought into the formal economy.

Argentina's Senate also passed a social-action **VAT return bill** to partially refund value added taxes (VAT) to pensioners and citizens receiving public assistance payments. One objective of the bill is to incorporate more Argentine citizens into the banking system – the only way to access returns is through credit and debit cards.

President Macri has also been focused on job creation – in May his administration sent a **Youth Job Creation bill that extends tax benefits** to companies employing young people in the formal market. In July, the Argentine house and senate also passed a **Small-Medium Business (SMB) Law, which provides credits, among other benefits, to boost employment in SMB's.**

The administration has also worked to restore confidence in institutions and address longstanding anti-corruption shortfalls. The **two Supreme Court justices** appointed by Macri in December

were approved in June, adding diversity and depth to the bench. Through increased transparency and the normalization of government statistics, the Macri administration has strengthened its credibility in the global financial community – after overhauling the National Institute of Statistics and Census, INDEC, upon taking office, the country finally has credible statistics; **in June INDEC released inflation figures for the first time** since Macri suspended the publication of economic data in December. In May, President Macri, along with Minister of Justice Germán Garavano, also proposed the multi-layered **Justice 2020 plan**, a judicial reform initiative focused on: improving institutional independence and access to justice, investigating narco-trafficking and organized crime, implementing a new civil procedure and agile judiciary process, guaranteeing the protection of human rights and strengthening the relationships between the state and academic communities.

5. Normalizing economic imbalances

The fiscal and monetary policy management displayed in Macri's administration seems likely to continue into the second semester, as Finance Minister Prat-Gay and Central Bank President Sturzenegger continue restoring the separation between monetary and fiscal policy.

5.1 Inflation

A current priority for the Macri administration is the reduction of inflation, which was 4.2% and 3.1% in May and June, respectively. According to Sturzenegger, the uptick in inflation reflects the delayed effects of increases in utility fees. To tame price increases resulting from inflation, the **Central Bank raised interest rates to an April-high of 38%**. Since then, however, the bank has been lowering interest rates amid concerns that the high rates were attracting flows of “hot money” and harming the competitiveness of Argentina's exporters. It is expected that inflation will fall next year as primary variables normalize and productive investments in the country increase.



Argentine senators debate the approval of a settlement with creditors over the country's defaulted debt at the Senate in Buenos Aires | March 30, 2016

5.2 Return to capital markets

Though controlled by the opposition party, the Senate voted overwhelmingly in April to repeal laws that prevented Argentina from paying holdouts. This was interpreted by many as a sign of political strength by Macri's administration, which received support from provincial governors who needed to access credit to implement infrastructure projects and reactivate their regional economies.

After the Senate's resolution and months of negotiations, the New York judge presiding over the case lifted injunctions in April, allowing Argentina to return to capital markets for the first time in 15 years. The next day, the country **barreled back into the bond market with the largest emerging-market debt sale on record**, more than double the previous highs from governments in developing countries. In the sale, the country offered **USD 16.5 billion in global debt** across bonds with maturities ranging from 3 to 30 years, with yields up to 8% for the longest maturity, and 7.5% for its 10-year bonds (a yield significantly higher than the average of 6% in the JP Morgan emerging markets bond global diversified index). The

demand for debt was so strong, in fact, that the Finance Ministry was able to increase the initial size of the deal and lower the yields it offered to investors. The day following the sale, the country **paid USD 9.4 billion from the proceeds of Argentina's record breaking debt issuance to 220 holdout and exchange bondholders** – a milestone in Macri's efforts to normalize Argentina's relations with international market. USD 4 billion of leftover money collected from the debt issuances was used to boost central bank reserves.

Surprising many, on June 30th the Finance Ministry made a return to international debt markets with a **two-part US dollar bond sale to finance the re-purchase of GDP adjusted warrants issued by the country in 2005 and 2010**. More than USD 2.7 billion was raised by the Treasury, with a USD 1 billion tranche maturing in 2028, and another USD 1.75 billion tranche due in 2036, with yearly interest rates of 6.625 and 7.125 percent respectively.



A high-angle photograph of a paved plaza. In the lower-left, a young pine tree is planted in a square wooden frame. A person with a backpack is walking away from the camera towards the top-left. Another person is walking towards the right in the middle ground. The scene is brightly lit, casting shadows.

6. What we expect at PwC

As we discussed in our previous report, *The Macri Administration: First 100 Days*, the President has used his first semester to take steps towards a more market-oriented economy, mobilize economic development and create opportunities for local and foreign investors through developing comparative advantages in the country's key sectors. Multiple challenges remain ahead to reduce inflation, achieve enhanced productivity and competitiveness and correct imbalances in the Argentine economy. We understand that the administration will continue working towards these goals.

In Argentina, President Macri is being recognized for his ability to implement impactful regulations, resolutions and legislative initiatives in Congress, despite his party's minority position. Internationally, the country is being recognized for the reliability of the decision makers in managing the complex situation and providing a vision of how a Latin American democracy can lead economic development. As the reasonable political culture demonstrated by today's Congress further develops, it becomes more likely that this reintegration will extend beyond Macri's presidency.

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