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# Argentina Watch

# IMF agreement: “An Ambitious Plan”

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## IMF staff level agreement: $4.7bn disbursement

Argentina and the IMF staff reached a Staff-Level Agreement (SLA) on the seventh review of the Extended Fund Facility Arrangement. Argentina will have access to $4.7bn disbursement if IMF Board approves it (the agreement would be sent to the IMF Board by the end of January). The $4.7bn exceeds the $3.3bn pending disbursement from November and corresponds to IMF principal scheduled for December ($0.9bn paid with CAF bridge loan), January ($1.9bn) and April ($1.9bn).

## Strong IMF Verbal Support: “An Ambitious Plan”

IMF stressed that the new government moved “quickly and decisively” to implement an ambitious stabilization program to restore stability and that is “fully determined to bring the current program back on track”. The strong policy package is anchored on a “large and credible” upfront fiscal adjustment, actions to rebuild reserves, correct relative price misalignments, and create a simpler market-oriented economy.

## Fiscal and Reserves Targets.

The government said it intends to achieve a 2% of GDP primary fiscal surplus in 2024, consistent with overall balanced budget (details inside). FX reserves accumulation target is $10bn by end 2024, including the $2.7bn accumulated in December (so +$7.3bn in 2024). The government is committed to eliminate the multiple FX regime. The government also seeks to end central bank credit to the government and to reduce the peso overhang. FX policy will aim at accumulating reserves (not many details here).

## It may get worse before it gets better. Results already.

IMF argued that the elimination of price controls and FX correction will have an inflationary impact and deepen the contraction in activity. But that actions were successful already to limit the crisis, with $3.6bn central bank FX purchases so far, and some corporates tapping international markets. Disinflation will come gradually.

## Caputo comment on the IMF deal

Minister of Economy, Luis Caputo reiterated that this is not a new program (just reviving the current one). He said that if the Omnibus bill does not pass congress, they will still seek the fiscal balance, but with tougher measures. Caputo added that the IMF is open to explore a new IMF program in the future (including the possibility of fresh money). But that the government was in an emergency (immediate debt payments) and that Argentina needs to solve the structural problems first by itself (starting with the fiscal deficit addiction). BCRA governor said that there are not monetary, and inflation targets in the program, just the FX reserves target (and fiscal anchor), and that IMF was comfortable with current FX and monetary policy.

**Our View: strong verbal support. Details pending**

IMF came out with strong verbal support praising the new government initial actions results, structural reforms, and simplification of imports/FX.

Financially, the agreement brings forward scheduled disbursements for March and part of June's (on top of the expected $3.3bn pending disbursement) to prefinance April's IMF payment, a positive credibility signal. This provides more financial certainty until the harvest starting in April (USD supply should ramp up). We think this agreement should unleash other International Financial Institutions (IFI's) financing. The government will not seek net market financing.

Now, we estimate the scheduled disbursements from IMF this year (about $6.5bn) are $2bn short of total payments to IMF for about $8.5bn ($4.5bn principal payments, $0.9bn CAF bridge loan and $3bn IMF interest payments). In this light, we think it would make sense for the government to negotiate a new EFF program later this year (we think the depth of structural reforms proposed is enough for it) to either obtain fresh financing or to build a plan to pre-finance some of the large IMF maturities that start in 2026, This would increase the probability of regaining market access by 2025. Note only $1.8bn IMF disbursements would be pending after the $4.7bn arrives.

**Lack of FX/monetary details. ARS depreciation should pick up soon**

There is a lack of details on the monetary and FX policies looking forward on IMF statement beyond the reserves accumulation target.

We think BCRA will step up the 2% depreciation of the currency no later than in early February (likely above 10% mom) as in running well below inflation (around 25% monthly) and given mounting pressures on the parallel FX (trading at 1,200 or 45% gap vs official at 816). We think this should be accompanied by an increase in short interest rates (currently below 9%, well below inflation) to stabilize the demand for pesos (and inflation). We think both a faster exchange rate depreciation and tighter monetary policy will be part of the agreement (though this is not in the IMF or government statements).

We think the government can move forward with at least 70% of the fiscal adjustment proposed without congress support Emergency package stronger than expected. Remain OW EXD bonds.. This together with revenue measures announced (import tax increase already implemented) give more credibility to the fiscal adjustment (IMF recognizes the credibility). An important risk is the steep recession and consumption collapse ongoing affecting government revenue, complicating the fiscal adjustment, especially in 1Q.

Also, we think it make sense to reduce the pace of BCRA's USD purchases (about $4bn last 30 days) now that the financial emergency eased, as these are being bought mostly with peso debt from the central bank (or the government indirectly), putting too much pressure on the parallel FX.

IMF mentioned authorities will gradually strengthen the balance sheet of the central bank (we note this contrasts with the message from the government of a faster solution).

**Fiscal policy details**

The IMF said that the government intends to achieve a primary surplus of 2% in 2024, through revenue and expenditure measures. Revenues are supported temporarily by higher trade-related taxes and (normalization) of agricultural exports. Spending is backed by cuts in energy and transport subsidies, administrative costs, transfers to provinces and state-owned enterprises and infrastructure. Quality improvements in the efficiency of the tax and expenditure systems will support these initial measures.

From the wording of the statement for us is not clear whether the demanding 2% of GDP primary surplus intended by the government is a performing quantitative target of the program. IMF says the government updated program targets consistent with a more ambitious fiscal and external consolidation.

### Other FX comments

IMF praised that the government abandoned the opaque system (SIRA) of imports allocation and that are in the process of solving importers debt issues, in part by offering FX instruments to importers and registering import debts (note so far only $21 of importers debts have been registered, the government extended the deadline to January 24). IMF also mentioned the authorities moved to a more market driven exchange rate approach, not intervening on the parallel FX or in the FX futures market and removing trading restrictions.

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