THE WEEK AT A GLANCE

ECONVIEWS

ECONOMÍA Y FINANZAS

February 26th 2024

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Editorial: Asssessment of the Program: So Far So Good

This week Gita Gopinath, number 2 at the IMF, visited Buenos Aires. She came with part of her team and met with President Milei and several figures from the private sector. She was complimentary of the program and outlined some challenges the economic team will face in the coming weeks or months. We took advantage of her visit and we also reviewed these 78 days of management.

In general terms, there is little doubt that the IMF program is approved, which does not mean that the problems are resolved. But if we surf through the most urgent indicators, it should be noted that just over 8 billion dollars were purchased in the market with an increase in reserves of 6 billion dollars. The monetary base remained stable in nominal terms, which represents a reduction of more than 30% in real terms. Import debts are being normalized, although there is a lot of ground to cover.

Perhaps what was most striking was January's financial surplus, the first in almost 12 years. This is Milei's trademark as his conviction to eliminate the deficit was never in doubt. February's numbers also seem to be good. Our view is that the January numbers are undoubtedly positive but must be taken with a pinch of salt. We do not believe that the figures can be extrapolated because there is a lot of spending that was not paid and because inflation did most of the job and the government will need to compensate for the deterioration of real income, in the form of recent 16% increases for public sector workers or bonuses for retirees. Not all that glitters is gold.

Inflation began to decline after December's 25.5% print. The diagnosis of hyperinflation was always exaggerated in our view. We are optimistic about the numbers for the coming months. However, there is a floor (perhaps 7 or 8%) from which will not be easy to break without doing if something more than correcting fiscal accounts and aligning relative prices. We will see what the government has to offer in a few months in this matter.

The exchange rate issue is the most challenging. Partly because the exchange rate appreciation that we are seeing has fiscal complications. In January export duties and PAIS tax on dollar purchases boosted revenues, but with an appreciated Peso these sources of income lose weight. Our concern is that Argentina needs a weaker Peso. You can argue how weak and when to correct. We are not concerned about the real exchange rate in February. We think April might be a tipping point if policy remains unchanged. Understandably, the government thinks that nothing needs to be changed as it is a net purchaser of dollars. Our concern is the medium term, and above all considering that the demand for dollars is still repressed. Let us remember that exchange rate unification is not only something that the Fund requested, but it is part of the normalization strategy.

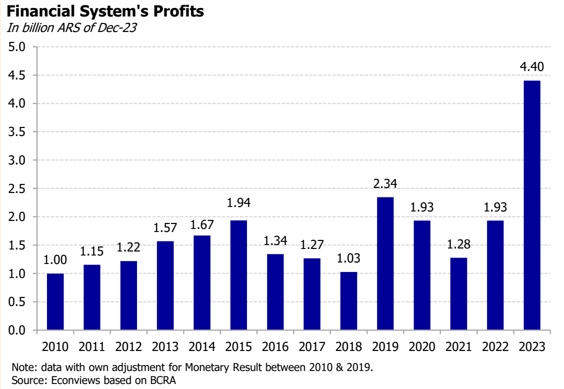
Perhaps the biggest challenge is in the social and political part. We have already seen the difficulties of a politically weak government with little management experience in passing the omnibus bill. The new strategy is splitting it into more digestible, smaller bills. Public opinion is another relevant obstacle. Argentina is going through the worst of the recession. February confidence polls were not bad for the government, but there is no guarantee that this will continue over the next months. It is still early to see an improvement in employment or activity indicators. This brings us to the social issue. This government inherited more than 40% poverty. Although it is not their fault, the development of the social situation is a key input for the political and economic stability of the ruling party. Therefore, maintaining a balance between the need to order fiscal accounts and social policy becomes one of the key variables where there does not seem to be much margin for error.

In short, the macro and financial aspects have a good grade so far, although the problems need more time to be resolved. The political and social "approach" surely needs a twist. Milei is a good communicator. He needs temperance and a strategic outlook to carefully choose his battles.

LAST WEEK IN REVIEW

In 2023, the total number of financial entities accumulated profits of AR$ 4.40 billion (in December 23 pesos). Compared to the AR$ 1.93 billion in 2022, this gives an improvement of 127.8% in real terms. **For banks, last year was the best in terms of results at least since 2010.**

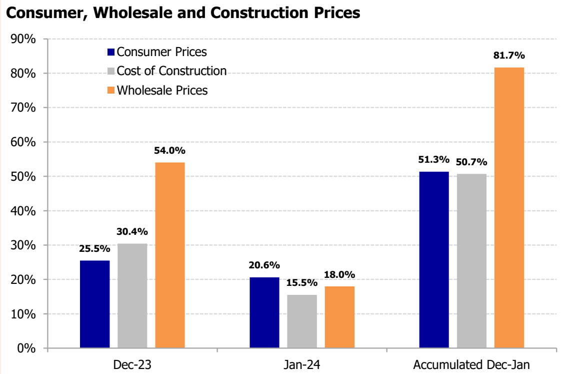
Total non performing loans in December were 3.55%, almost one point more than in November. According to the BCRA, this increase was due to the revaluation of debt of companies in an irregular situation.



Note: data with own adjustment for Monetary Result between 2010 & 2019.
Source: Econviews based on BCRA

In January, **the wholesale price index rose 18% compared to December and 316.9% year-on-year**. For domestic products the increase was 19.6%, while imported products rose 5.1% helped by the low rate of devaluation and the stability of parallels.

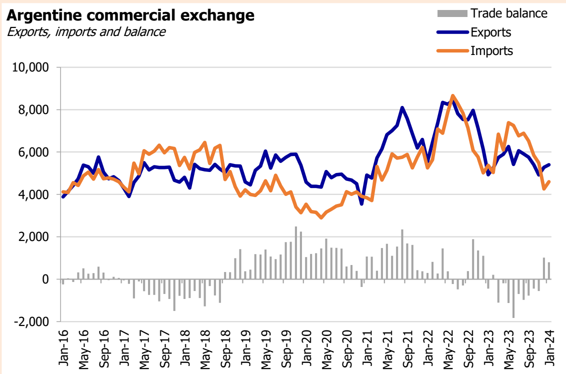
The cost of construction increased by 15.5% in January, which represents an increase of 251.5% compared to a year ago. Materials rose 13.2%, labor 19.3% and general expenses 15.2%.



Source: Econviews based on INDEC

In January, **exports increased 9.6%** compared to the same month in 2023. The monthly variation was 3.9%. **The increase is mainly explained by the increase in exports of primary products** (+55.4% y/y).

Imports decreased 14.3% y/y. In monthly terms, they recorded a drop of 8.8%. **Fuels and lubricants (-58.8% y/y) and accessories for capital goods (-13.2% y/y)** were the main affected in the month.



Source: Econviews based on INDEC

In December, **3.9 million overnight stays were estimated in hotel and parahotel establishments.** This implied an **increase of 6.9%** compared to the same month of the previous year.

The **total number of hosted** travelers was 1.6 million and had a **positive variation of 6.7%** compared to the same month of the previous year.

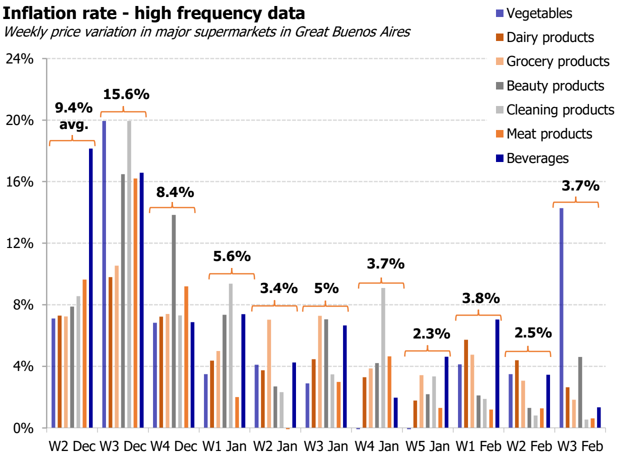
The **Patagonia region concentrated the highest percentage of overnight stays** in the month (25%), followed by CABA (22.2%).

Source: Econviews based on EOH-INDEC

WEEKLY INFLATION

Inflation rate - high frequency data

Weekly price variation in major supermarkets in Great Buenos Aires



Note: The variations are based on the average price per week, from Friday to Thursday.
Source: Econviews based on own estimates

NEXT WEEK'S HIGHLIGHTS

√ On **Tuesday 27**, INDEC will publish **sales in supermarkets, wholesale supermarkets and shopping centers** for December 2023.

√ On **Tuesday 27**, the survey of **household appliance and household goods businesses** for the fourth quarter of 2023 will also be released.

√ On **Tuesday 27**, the BCRA will release its **retail payments report** for January 2024.

√ On **Thursday 29**, INDEC will publish a report on the **staffing of the national public administration, companies, and societies of the state** for January 2024.

√ On **Thursday 29**, the BCRA will publish the **report on foreign direct investment** for the third quarter of 2023.

√ On **Friday 1**, the **National Congress opens its ordinary sessions** and President Milei will speak

√ On **Friday 1**, the Ministry of Economy will announce the **tax collection** for February 2024.

Market dashboard

Weekly, monthly and yearly variations

	Last data	w/w	m/m	y/y	
Official exchange rate ARS/USD	839.0	0.5%	2.1%	329.5%	↑
MEP	1069.8	0.6%	-12.8%	199.6%	↑
Blue Chip Swap	1122.1	0.3%	-12.8%	207.3%	↑
Parallel	1065.0	-0.9%	-13.8%	184.0%	↓
Official exchange rate BRL/USD	5.0	0.6%	0.8%	-2.8%	↑
CB reserves (USD million)	27,477	+617	+2,802	-11,706	↑
Policy rate (Leliq)	100.0%	0 p.p.	0 p.p.	+25.00 p.p	=
Badlar rate (private banks)	109.6%	+0.44 p.p	-0.13 p.p.	+40.19 p.p	↑
Private Deposits (trillion ARS)	38.5	-2.2%	3.0%	128.5%	↓
Private Loans (trillion ARS)	17.3	1.9%	11.5%	141.4%	↑
Merval (in ARS)	1,106	3.8%	-8.4%	345.8%	↑
Merval (in USD)	985	3.5%	5.1%	45.1%	↑
Country Risk (spread in %)	1,686	-5.7%	-10.9%	-14.8%	↓
Soybean (USD/tn)	416.3	-3.3%	-8.6%	-26.2%	↓
Corn (USD/tn)	157.4	-4.0%	-10.5%	-39.5%	↓
Wheat (USD/tn)	210.7	2.3%	-3.9%	-22.3%	↑
Oil - Brent (USD/barrel)	86.4	-1.2%	2.1%	5.6%	↓
Oil - WTI (USD/barrel)	77.6	-2.6%	3.9%	3.1%	↓
LNG (USD/MMBTU)	8.3	-5.7%	-12.6%	-48.1%	↓
Gold (USD/oz.)	2,036.0	1.1%	0.4%	11.7%	↑

Note: arrow depends on weekly variation

Stoplight for Economic Activity

Seasonally adjusted variations

		m/m	q/q	LD vs previous Q
Industrial production	*Dec-23*	-5.5%	-3.5%	-6.5%
Automobile production	*Jan-24*	3.0%	-12.6%	-6.2%
Steel production	*Jan-24*	31.2%	-7.7%	14.0%
Poultry production	*Dec-23*	-3.9%	-0.3%	-3.7%
Dairy production	*Jan-24*	-4.3%	-5.9%	-6.4%
Beef production	*Jan-24*	12.7%	-2.6%	2.8%
Real Estate transactions (CABA)	*Dec-23*	-5.2%	-0.2%	-9.6%
Flour Production	*Dec-23*	-10.9%	-0.4%	-6.8%
Oil production	*Dec-23*	2.3%	4.9%	4.0%
Gas production	*Dec-23*	-9.8%	-8.6%	-10.6%
Cement production	*Jan-24*	0.6%	-13.1%	-6.1%
Construction activity	*Dec-23*	-8.8%	-4.9%	-10.1%
Gas sales	*Dec-23*	-6.8%	-2.8%	-6.5%
Motorcycle licenses	*Jan-24*	-11.9%	-4.3%	-15.0%
Use of electricity	*Dec-23*	0.6%	-3.3%	-1.4%
Subway rides (CABA)	*Dec-23*	-8.0%	-17.5%	-12.2%
Imports CIF	*Jan-24*	-1.7%	-10.9%	-7.2%
Exports FOB	*Jan-24*	9.4%	2.8%	12.5%
Loans in ARS to private sector	*Jan-24*	-11.5%	-19.7%	-24.9%
VAT-DGI Revenues	*Jan-24*	-5.9%	-10.1%	-10.1%
Formal private jobs (SIPA)	*Oct-23*	0.1%	0.7%	0.3%
Formal private jobs (EIL)	*Nov-23*	0.0%	0.2%	0.0%
Consumer confidence	*Jan-24*	-10.6%	-7.3%	-19.4%
Government confidence	*Jan-24*	-8.7%	95.5%	42.6%

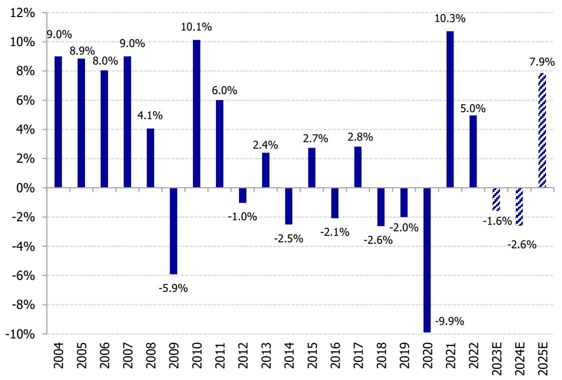
Note: stoplight color depends on last month vs previous quarter variation

From Resilince to Hard Core Recession

- *Activity in 2023 closed with a drop of 1.56%. The drought and uncertainty were partly offset by the resilience of consumption.*
- *It is not all bad news in January: Steel production jumped 31.2% m/m and cattle slaughter 12.7% compared to December.*
- *We expect a rebound in 2024, but it depends on the exchange rate, fiscal policy and the regime chosen to stabilize.*

The level of activity registered a drop of 3.1% in December compared to the previous month and 4.5% compared to the same month last year. These latest data sealed the year with an estimated decrease of 1.56% in GDP, a situation largely influenced by the drought and the climate of political uncertainty that dominated the final months of the period. Looking forward, **the negative drag of 3.5% with which we began 2024 forces us to review our economic projections for next year**, adjusting the expectation of product growth towards a more pronounced contraction than we previously thought. We do not rule out that it exceeds 3%, even with a good rebound in the coming months.

Graph 1. Real GDP
YoY variation



Source: Econviews based on INDEC

Some sectors are doing better than others. The breakdown of the December data (see Dec-23 in table 1) reveals a weak scenario for most sectors, with the notable exception of the fishing industry, which experienced an extraordinary monthly growth of 49%. There are slight recoveries in the agricultural sector, with an increase of 0.9%, and in the health sector, which registered a growth of 0.4%. Other areas such as hotels and restaurants, construction, commerce, banking entities and industry reflect the returns of a recession context.

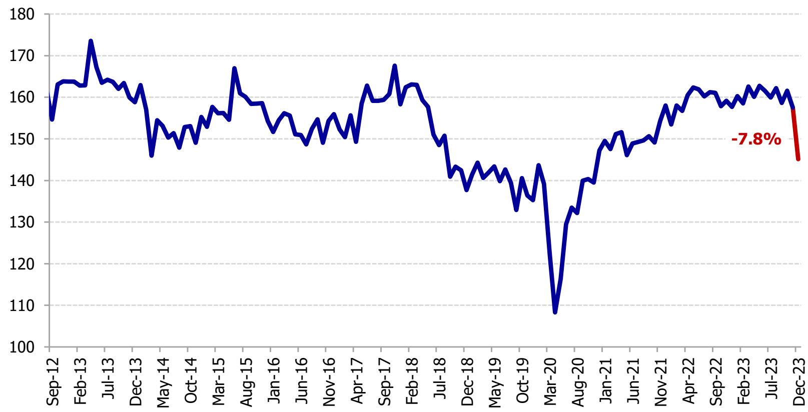
Table 1. Economic activity by sector
Monthly variations by sector as of December 2023

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	2023
EMAE	1.1%	-0.1%	-0.2%	-1.9%	-1.2%	0.1%	2.1%	0.9%	0.1%	-0.1%	-1.6%	-3.1%	**-1.6%**
Agriculture and livestock	-2.0%	11.1%	-11.6%	-26.7%	-16.6%	12.4%	39.2%	16.7%	-1.9%	2.6%	-1.6%	0.9%	**-20.4%**
Fishing	55.7%	-46.2%	10.2%	-50.2%	93.9%	21.7%	4.3%	-23.8%	15.8%	-18.6%	-12.0%	49.1%	**-5.8%**
Hydrocarbons and mining	2.4%	-1.3%	-0.6%	1.2%	-0.1%	2.5%	-0.1%	0.0%	1.4%	-0.3%	1.0%	0.1%	**7.2%**
Industry	-0.3%	2.3%	3.0%	-1.3%	0.5%	-3.7%	-1.2%	1.1%	-1.9%	1.0%	-2.6%	-8.8%	**-2.0%**
Energy	-0.5%	-0.4%	8.3%	-12.0%	-0.1%	0.5%	0.8%	0.5%	4.4%	-3.4%	-0.5%	-8.8%	**-0.6%**
Construction	2.9%	-0.3%	2.9%	1.0%	1.6%	-1.2%	-2.2%	1.1%	-2.1%	0.2%	-2.9%	-5.1%	**0.9%**
Retail	1.6%	-1.1%	2.6%	-1.5%	1.7%	-0.7%	-1.0%	1.4%	-2.2%	1.8%	-2.5%	-7.8%	**0.0%**
Hotels and restaurants	-3.5%	0.9%	3.3%	1.9%	6.6%	3.8%	3.0%	-0.2%	-0.3%	-4.9%	-2.2%	-3.3%	**5.6%**
Transport and comunication	-1.9%	1.5%	-0.6%	0.0%	0.6%	0.1%	2.2%	0.2%	-0.7%	-0.7%	0.6%	-0.8%	**-0.8%**
Banking sector	0.8%	-1.3%	2.4%	-3.7%	0.3%	-1.2%	3.3%	-1.0%	-0.8%	2.5%	-5.7%	-7.9%	**-3.1%**
Real estate	0.4%	0.1%	1.0%	0.2%	0.8%	-0.2%	-1.0%	1.0%	-0.8%	1.0%	-1.1%	-0.9%	**1.7%**
Public administration	0.5%	0.6%	0.2%	1.1%	0.6%	0.8%	-0.2%	0.1%	0.0%	-0.9%	-0.3%	0.3%	**2.3%**
Education	0.1%	0.5%	0.8%	0.5%	0.5%	0.5%	-0.4%	0.1%	-0.2%	-0.1%	0.1%	0.1%	**2.6%**
Health	0.4%	0.7%	0.6%	0.6%	0.2%	0.1%	-0.1%	-0.3%	-0.4%	0.0%	0.0%	0.4%	**1.6%**
Other social services	2.8%	1.2%	0.2%	1.5%	3.4%	0.8%	0.9%	-1.6%	-1.9%	-3.2%	-1.8%	-0.9%	**1.7%**

Source: Econviews based on INDEC

In December, the commerce sector experienced its largest monthly decline since April 2020, evidencing the severe impact that inflation has on consumption. Other indicators had already anticipated it: retail sales, according to the Argentine Chamber of Medium Enterprises (CAME), plummeted 13.7% in year-on-year terms during December, and the outlook for January is more gloomy, anticipating a drop of 28.5%. Consumer confidence registered significant decreases of 16.2% and 10.6% in the last two months of the year.

Graph 2. Commercial activity
Seasonally adjusted EMAE - Wholesale, retail and repairs sector



Source: Econviews based on INDEC

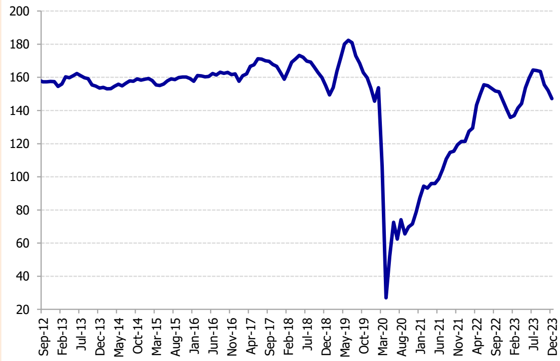
Consumption throughout much of 2023 demonstrated notable resilience. Defying uncertainty, it managed to sustain general economic activity at stable levels. When it began to show signs of decline, the stimulus package came to the rescue. **December marked a turning point**, in which the blow to the pocket was imposed, **closing the year without achieving real growth in the commercial sector compared to 2022**. The hotels and restaurants sector seems to have had a better performance, with a growth of 5.6% in 2023, but it is because it is still recovering from the pandemic. It closed the year with a monthly variation of -3.3%.

In 2023, the mining and hydrocarbon sector stood out among all with a growth of 7.2%, driven by the oil and gas industry. It is one of the few industries in which there was truly investment and increase in economic activity. Crude oil presents a significant opportunity, and if the sector continues to receive a favorable signal on the political front, it could become one of the main sources of dollars for the economy.

The drought was the protagonist of 2023. After sharp production drops in March, April and May, agriculture returned to normal activity levels and closed the year with a variation of -20.4%. Given the weight of agriculture, it can be deduced that the GDP without agriculture in Argentina was practically neutral in 2023. That, in any case, is a tricky calculation because there are many sectors from transportation to milling and many more whose performance was seen affected by drought.

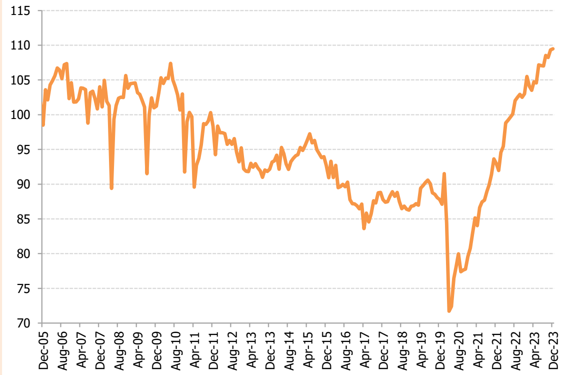
Is the comeback of agriculture approaching in 2024? A month ago, the Rosario Stock Exchange (BCR) projected a harvest of 20.2 Mt of soybeans in the core zone. But the last heat wave led to cutting that estimate to 17.4 Mt, which continues to deflate the illusion of an extraordinary year.

Graph 3. Activity in hotels and restaurants
Seasonally adjusted EMAE - Hotels and restaurants sector



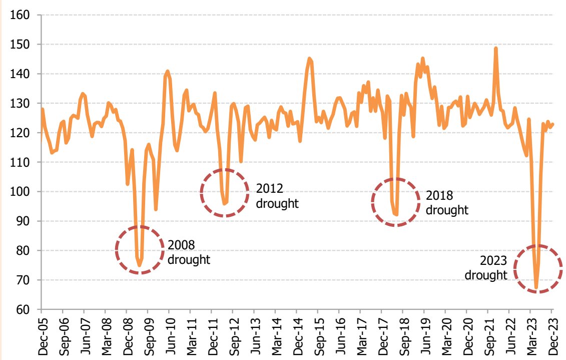
Source: Econviews based on INDEC

Graph 4. Extractive activity
Seasonally adjusted EMAE - Mines and quarries sector



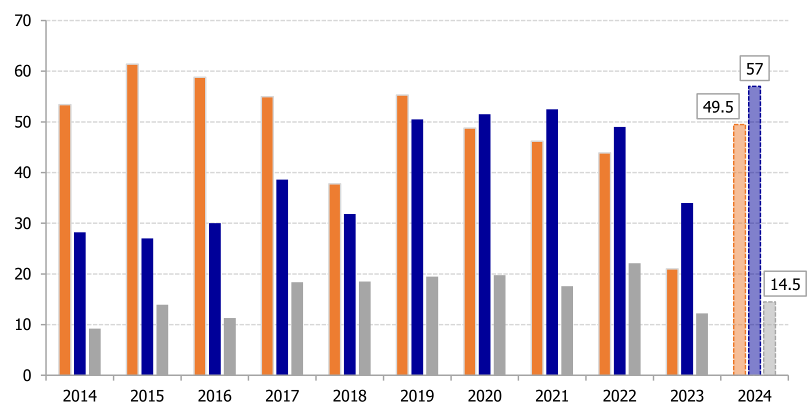
Source: Econviews based on INDEC

Graph 5. Agriculture activity
Seasonally adjusted EMAE - Agriculture, livestock, hunting and forestry sector



Source: Econviews based on INDEC

Graph 6. Main crop harvests
Soybeans, corn, wheat



Source: Econviews based on BCR

Some sectors raise their heads in January. At the Stoplight for Economic Activity (page 2) a couple of green lights came on. Steel production jumped 31.2% monthly. Cattle slaughter was not far behind, registering an increase of 12.7%. Car production achieved an increase of 3%. Exports rose 9.4%. Cement production, an indicator of construction activity, showed a modest but positive 0.6%.

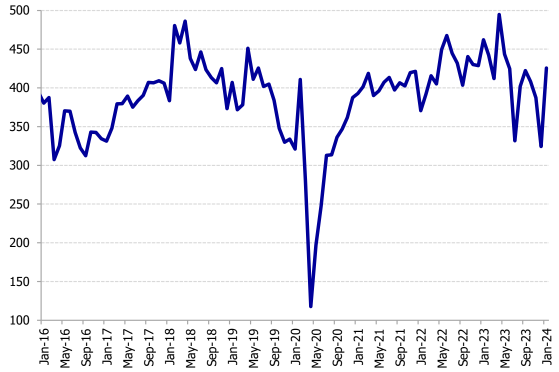
Even so, **the red numbers predominate**: Dairy production had a monthly decline of 4.3%. The motorcycle sector showed a notable drop in patenting, of 11.9%. Imports contracted 1.7%, showing caution regarding the solution presented by the government to normalize payments abroad. In the financial sphere, loans to the private sector decreased by 11.5%. VAT-DGI collection was reduced by 5.9%, a clear sign of the contraction in consumption and business activity. Confidence, both among consumers and in the government, also suffered significant declines, of 10.6% and 8.7% respectively.

January was, then, another month of almost frozen activity, although not exempt from certain green lights.

What do we expect 2024 to be like? In the absence of very adverse political or climatic scenarios, we should be hitting the bottom of activity during the second quarter. Hardly before April, but it shouldn't arrive later than June. This is because if inflation continues to fall, and given the salary guidelines that are beginning to be discussed, it is possible that a part of the workers will begin to recover at least part of what they lost in December and January. At the same time, the decline in inflation implies that disposable income would no longer be reduced by the inflation tax.

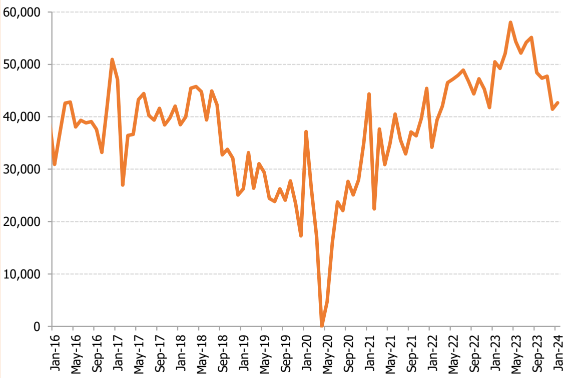
The discussion then is what form the reactivation will take when it occurs. Will it be in a “V” format or will it be more intricate? The question is what it depends on.

Graph 7. Steel production
Seasonally adjusted series



Source: Econviews based on the Argentine Chamber of Steel

Graph 8. Car production
Seasonally adjusted series



Source: Econviews based on ADEFA

There are three key variables in the strictly economic sphere (there are others that have more to do with politics and that we do not address here):

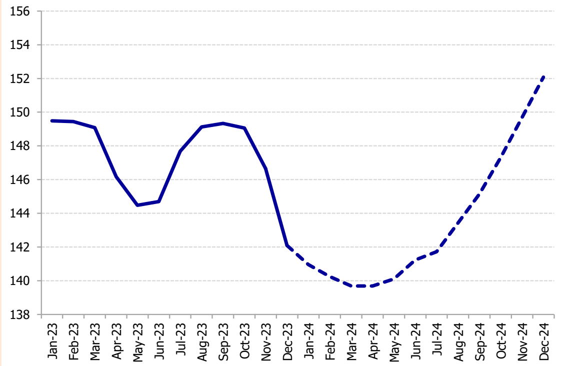
- **Exchange rate unification:** Eliminates a great distortion and resolves one of the conditions that investors need to bring money to Argentina. But if it is not accompanied by other measures, it could trigger inflation and therefore cause a second abrupt drop in activity (see negative scenario).

- **The regime chosen to lower inflation:** Will it be with dollarization, with currency exchange, with a price agreement? Is the government seeking to save the Argentine peso? There are many possible combinations and they all have weaknesses and strengths.

- **Fiscal accounts:** The ordering of accounts is a necessary condition for a positive scenario. The government has been vehement in this regard, but the risk of execution is always a variable to take into account. Even more so when the fiscal adjustment affects pro-Milei political sectors.

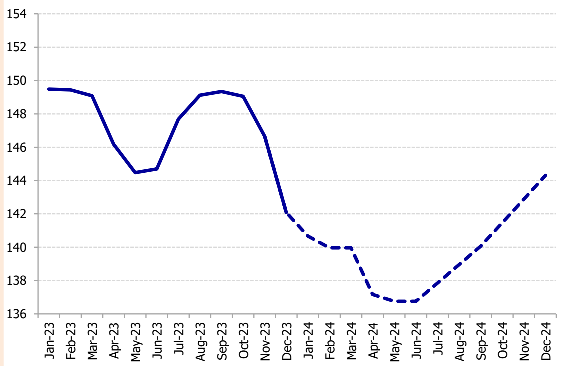
If these three things go well, the confidence of investors and consumers will play a big role, the country risk will decrease and everything will flow better. Since this was not a credit crisis, the exit may be faster. Furthermore, if the downward slope is abrupt in these months, possibly the recovery slope will also be abrupt.

Graph 9. Economic Activity - Base scenario
Base 2004 = 100



Source: Econviews based on INDEC & own estimates

Graph 10. Economic Activity - Negative scenario
Base 2004 = 100



Source: Econviews based on INDEC and own estimates

How Long Will Last the Current FX Strategy?

- *The real exchange rate has already appreciated 31% since the day of the devaluation and will continue to fall.*
- *The 80/20 scheme for exporters and the PAIS tax for importers help sustain the effective exchange rate higher, although they cannot last much longer.*
- *We think the unification of the exchange market can occur towards the middle of the year, but it must be at a high real exchange rate.*

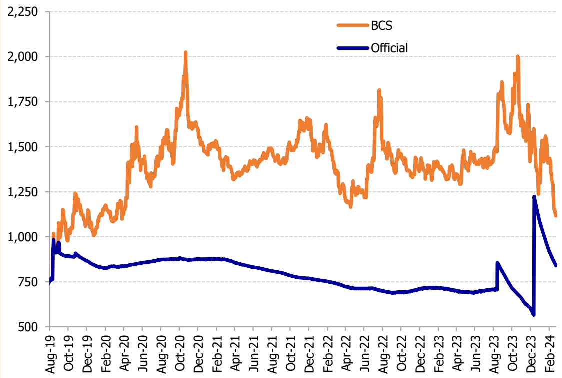
After the December devaluation, it did not take us long to point out that the crawling peg at 2% seemed (and still seems to us) too low. **From the day of the exchange rate correction (mid-December) until today, the real exchange rate has already appreciated by 31%.** Measured in constant values, the 800 pesos of that day are equivalent to 1,223 pesos today. Comparing this value with the current official exchange rate (ARS 839) we can deduce that it has already become cheaper by about 384 pesos in the last two months (see graph 1).

It is true that this strategy helped keep inflation from getting out of control. After being 25.5% in December, it was 20.6% in January, and we expect 15% in February. In addition, the wholesale price index for January rose 18% (in December it had been 54%) and import goods "only" increased 5.1%. However, they are very high levels if we compare them with the 2% at which the exchange rate rises. Furthermore, the deceleration of inflation may reach some number between 8 to 10% in the coming months, but not much more (see graph 2). **This means that, if the Central Bank continues along this path, the real exchange rate will continue to appreciate.**

There are two points on which the government supports to think that this rate of depreciation can continue. The first one is the 80/20 scheme for exporters and the other one is the PAIS tax on imports. In both cases, the objective is to take the effective exchange rate to a higher level. The IMF also took this argument and in its latest review maintains that the effective devaluation was even greater than 118% precisely because of these two issues.

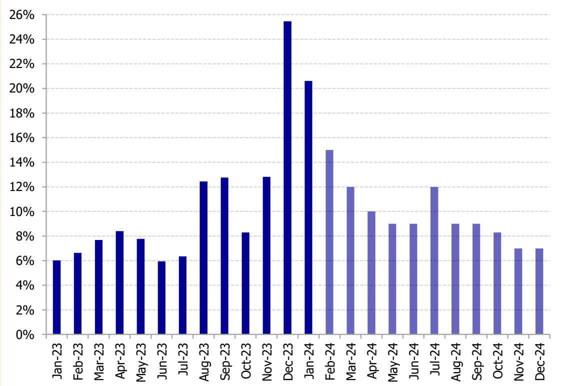
This argument is correct, although it has its negative side. Today the exchange rate for exporters, which arises from taking 80% of the official dollar plus 20% of the BCS, is at ARS 891. Comparing this value with the long-term average RER, we find that it has a premium of 18.9%, which seems reasonable to us to accumulate reserves (see graph 3). The problem is that with the FX spread on a downward or stable path, this exchange rate is also appreciating. **Another drawback that arises is that exports should be all settled in the MULC so that the Central Bank can continue purchasing reserves.** If the official exchange rate appreciates much more and the government increases

Graph 1. Exchange rate at constant prices
At Feb-23 prices - Adjusted by ITCRB



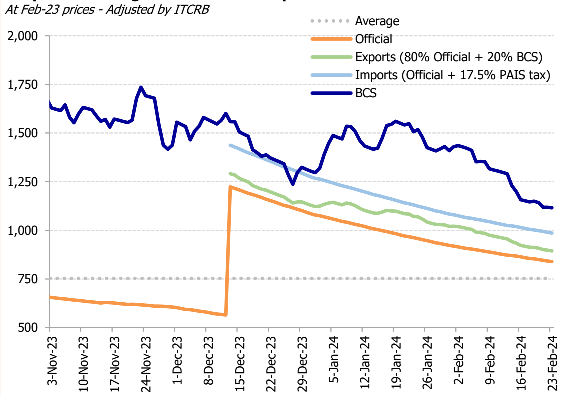
Source: Econviews based on BCRA

Graph 2. Monthly Inflation



Source: Econviews based on INDEC & own estimates

Graph 3. Exchange rate at constant prices
At Feb-23 prices - Adjusted by ITCRB



Source: Econviews based on BCRA

the share of the BCS in this mix, the supply of foreign currency in the market will be lower. Finally, according to the seventh review of the IMF, among the structural objectives to which the government committed is the elimination of this scheme, which would imply that the official exchange rate will be again the reference for exporters.

The exchange rate for importers, which comes from adding 17.5% of the PAIS tax to the official FX, is ARS 985. This is 31.4% above average. In addition to the appreciation, which is the same problem as in the case of exports, here the problem comes from the tax side. **As a temporary solution, it may be valid, but it can't be permanent. Unification cannot be done with such a high tax rate, but lowering it is not free of cost.**

Therefore, unifying the exchange market can be costly in fiscal terms since revenues from this tax would be lost. At this point, there is also a commitment with the IMF to eliminate it. It is also true that unification at a higher exchange rate would bring more revenues from export taxes, so this effect would be somewhat cushioned. In addition, it must be said that the appreciation of the exchange rate is also costly for the Treasury because both export taxes and the PAIS tax are charged on an increasingly cheaper dollar.

From all this, we can deduce two things. The first is that these measures help in the short term, but it is difficult to maintain them. The second is that, if these anabolics are lost, the exchange rate at which it can be unified necessarily has to be higher than the current one.

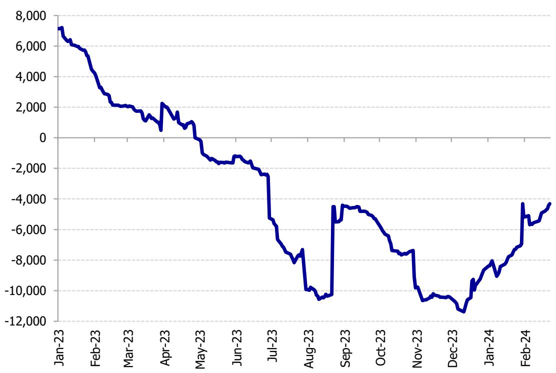
Following these assumptions, we thought of our base scenario where we foresee an acceleration of the crawling peg in the coming months and then a small discrete jump that will allow to close the FX spread.

Is it possible to lift the market restrictions in the coming months? Under the assumption that it is not made at an appreciated exchange rate, we believe it is. The Central Bank has purchased USD 8,348 million. This allowed net reserves to go from USD -11,206 million when Milei took office to USD -4,316 million now (see graph 4). Another important issue to lift restrictions is the commercial debt and there was also progress there. The issuance of the first two series of Bopreal has already been completed for USD 7 billion in total. In addition, it is estimated that MSMEs will cancel debt through the market for USD 1.2 billion. All this leaves an excess debt of about USD 5.4 billion (see chart 1). Assuming that the auction for the last series of Bopreal is successful, this figure would be reduced by USD 2.4 billion.

This stock of debt is manageable if we think that during the harvest the Central Bank is going to continue accumulating reserves. To do so exporters must have incentives to settle the exports.

As we said previously, the government hides behind the fact that the real effective exchange rate is still high. They also maintain that they are buying reserves continuously, which would be an indication that there is no FX appreciation. They are right about that, and we agree. **We see the problem in the coming months. In other words, this dynamic can take us to a worse place.** It must be considered that it is true that the Central Bank buys reserves,

Graph 4. Net International Reserves
In milllion USD - IMF methodology



Source: Econviews based on BCRA, IMF & own estimates

Chart 1. Importers Debt
In million USD

Total Stock*	42,600
Average 2017/21	29,000
Debt Overhang	13,600
Bopreal	7,000
Purchases of MSMEs	1,200
Rest	5,400

*Result of Commercial Debt Survey

Source: Econviews based on BCRA

but it is thanks to the fact that import payments are not yet normalized, and the recession slows down demand. Additionally, there may be exports that are being brought forward to take advantage of a higher exchange rate. That means less supply in the coming months.

Another argument in favor of not modifying the exchange rate policy is that with productivity improvements the economy can support a lower real exchange rate. Here we also agree, but our vision is that this is valid for the long term. **In the immediate future we see no alternative but to maintain competitiveness with a depreciated real exchange rate.**