MONTHLY REPORT

ECONVIEWS

ECONOMÍA Y FINANZAS

April 2023

Issue #226

New Challenges on the **Exchange Rate** and **Inflation Fronts**

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The **Timebomb of Leliqs**: Myth or Reality?

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THE MONTH AT A GLANCE

RECENT DEVELOPMENTS

- US headline inflation decreased from 6 to 5% in March, but the monthly core print remained hot at 0.4%. The jobs report showed 236,000 new payrolls last month. Unemployment remains very low at 3.5%, but the labor market shows some signs of cooling. However, wage pressures are picking up again.
- Although the drought is officially over, the Rosario cereal board lowered its forecasts for the 2022/23 harvest to 23 million tons of soybean and 32 million of corn. Agricultural output will be 40% below last year's.
- Argentina's monthly inflation accelerated from 6.6 to 7.7% in March, beating even the more negative market forecasts. Food and beverage prices rose at 9.3% monthly again. Year-on-year inflation hit 104.3%. We raised our forecast for December 2023 from 115 to 130%.
- The parallel exchange rate flew 19% from ARS 398 to 474 in barely more than a week. The Central Bank raised its policy rate by 300 bps to 81% on April 20th and is expected to make a similar move in the next days, in order to counter pressure on the BCS, which is trading at ARS 470.
- On April 25th the Central Bank intervened in bond markets to control the BCS, against the IMF deal guidelines. So far, the Fund has not spoken on the issue.

FIGURE OF THE MONTH

The parallel exchange rate jumped 19% to

474

pesos per dollar in one week.

TO BE ALERT

Core monthly inflation remained high at

7.2%

in March and could accelerate in April.

WHAT'S COMING NEXT?

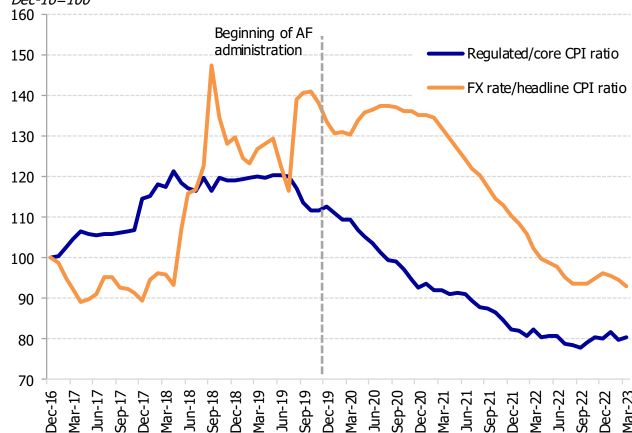
- Although US deposit outflows totaled a record USD 609 billion in Q1, the Fed considers the worst of the banking crisis has passed and is ready to hike another 25 bps to 5.25% in May. Is this the end of the cycle? Markets are betting on the Fed cutting rates to 4.50% by late 2023, although futures were pricing 4% in late March.
- The BCRA has accelerated the official FX rate's crawling peg from 6.2 to 8.1% monthly, or 158% annualizing the last week's average. However, at ARS 220 the spread with the parallel rates is back above 100% and net reserves are below USD 1 billion. It may be difficult to avoid a discrete jump, decoupling or some other measure in coming weeks. Dollar futures are pricing an ARS 510 official exchange rate by December, above our own forecast of ARS 480, and ARS 620 by March 2024.
- Minister Massa declared the Central Bank's intervention in bond markets was approved by the IMF. In light of the currency crisis, the Government is seeking to renegotiate the 2022 EFF, with rumors of a fresh loan to act as a "bridge" until the elections.
- The parallel exchange rate's devaluation in the last weeks of April will affect both this month and May's inflation. We have raised our monthly forecasts to 7.5% and 8.2% respectively, and the full year forecast from 130 to 130%, with upside risks.

SUMMARY OF MAIN INDICATORS

	Last	Previous		Last	Previous
Economic activity			**Financial data**		
Economic activity (MoM s.a.)	0.0%	0.5%	Inflation (monthly)	7.7%	6.6%
Consumer confidence (MoM)	5.6%	-6.1%	FX spread (21day avg.)	94.5%	91.9%
Industrial activity (MoM s.a.)	-1.3%	0.4%	Country risk (bps 21day avg.)	2,460	2,224
International accounts			**External data**		
Current Account (USD BN)	1.73	-3.17	Soybean price (per ton, 21day avg.)	548.6	547.4
CB Reserves (USD BN 21day avg.)	37.44	38.60	Brazilian activity (MoM s.a.)	0.0%	0.5%
Primary balance (ARS BN)	-257.86	-228.13	Financial Conditions Index	8.6	22.3

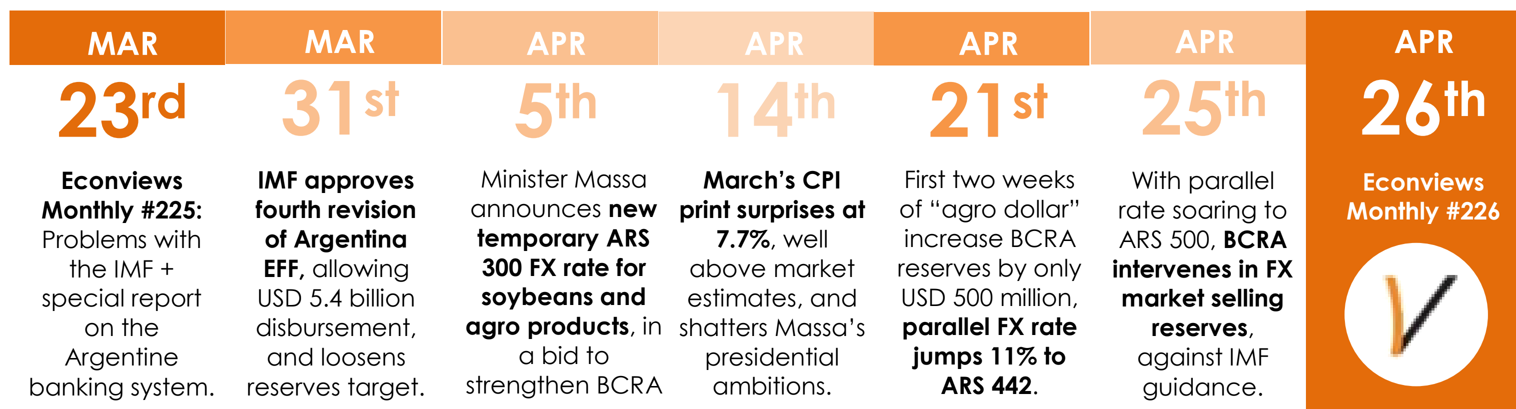
Source: Econviews base on multiple sources - Based on working days only

GRAPH OF THE MONTH:



Source: Econviews based on INDEC

RECENT ECONOMIC DEVELOPMENTS



POLITICS

March's CPI print and the runaway parallel FX rate cloud Minister Massa's hopes of running for President. Incumbent Fernández stepped down and VP Cristina Kirchner is unlikely to run for anything other than a seat for Senator in Buenos Aires province, so the government has no strong candidate. The opposition is favorite to take over in October. A fight over the succession in the City of BA exposed the split between Mayor Larreta, who leads the moderate wing of JxC, and ex-president Macri and Patricia Bullrich, who will run as a hawkish candidate. Outsider libertarian candidate Milei is benefitting from the government's plunge and some polls have him reaching the run-off election, in what could be a black swan event.

IMF

In late March the IMF approved the fourth revision of Argentina's EFF and disbursed USD 5.4 billion. It also loosened the target for international reserve accumulation for 2023 from USD 5.5 to 1.9 billion, in light of the drought's negative effects on the economy and external trade. The Fund asked the government to accelerate energy subsidy cuts for high-income households and control capital expenditures. Last week's currency crisis put a new wedge in the program, after Minister Massa directed the Central Bank to buy dollar bonds in order to lower the BCS, something the IMF explicitly forbid. There is talk of a new program and possibly a "bridge loan" until the elections.

ECONOMIC ACTIVITY

Monthly growth was flat (0%) in February, although January's figure was revised upwards from 0.3 to 0.5%. After growing 4.3% monthly in January, construction slumped 2.7% in February. Manufacturing contracted 1.3% that month and is below last year's levels. Accumulated GDP growth against 2022 is at 1.6% for the first two months of the year, as the statistical carryover from the pandemic fades away, and will turn negative in coming months due to the drought and currency crisis. We are forecasting a 4.5% recession this year, with a 4.8% quarter-on-quarter drop in Q2, which is the most reliant on agricultural production. The Rosario cereal board is expecting the sector's output to be 41% below last year's levels.

INFLATION

Another shocking CPI print, at 7.7% monthly and 104.3% year-on-year in March, raises worries that we are entering an out-of-control inflation dynamic. While education's 29% monthly increase was an outlier, food and apparel prices are running above 9% monthly and core inflation is above 7%. The recent decision to index Buenos Aires transport fares to past inflation, and unions negotiating six or even three-month wage deals are signs of contracts shortening, which further embeds inflationary inertia. Informal estimates have April's weekly inflation around 2%, meaning the monthly figure will remain above 7%. In light of this new dynamic, we have raised our full year forecast from 115 to 130%, with upside risks.

MONETARY SECTOR

The Central Bank reacted to March's CPI print by hiking the Leliq policy rate from 78 to 81%. This translates into a 6.5% effective monthly rate, still below current inflation, and we believe more hikes are on the table. The "agro dollar" program has had little success, with net purchases of USD 652 million since it came into effect in mid-April, forcing the BCRA to accelerate the official FX rate's devaluation from 6.2 to 8.1% per month, or 158% annualizing the last five days. Net reserves remain very low at USD 943 million. Intervention in the bond market managed to lower the BCS spread from 107 to 100% in the last days, but this comes at a high cost in reserves.

FISCAL ACCOUNTS

In March the primary deficit was ARS 258 billion, accumulating ARS 690 billion in Q1, 56% above the target in the IMF program. Tax revenues were down 21% year-on-year adjusted for inflation, with export duties collapsing 84% due to the drought and import duties down 58% amid heightened controls. VAT was up 6.8% year-on-year, partly due to consumers migrating from nearby stores to supermarkets, which offer some cover from inflation. Spending also contracted sharply, 17% year-on-year in real terms, with a 75% drop in energy subsidies. Social expenditures are also 3.7% down, though spending on salaries grew 13%. We expect a primary deficit around 3.3% of GDP this year, well above the Fund's 1.9% target.

I. New Challenges on the Exchange Rate and Inflation Fronts

The macroeconomic situation is deteriorating rapidly in Argentina. There is little chance to imagine that it can improve on the way to the elections. The pressing problem is the lack of reserves, which is a direct consequence of a grossly overvalued currency and the inability to control the spread between the official and the parallel exchange rates. The drought made things worse, although the Central Bank was already playing at the limit by sustaining a fragile situation mainly by imposing FX restrictions rather than depreciating the currency. Reserves are now so low that the Central Bank has no margin whatsoever to absorb any type of negative shock.

Reserves and exchange rate management have not been the only problems. Inflation has become a nightmare for an economic team that never tried to deal with it. The lack of access to credit markets domestically and abroad has been a large constraint to economic policies while the IMF program, which was designed to allow the government to finish its mandate without a major macro-shock, has been clearly insufficient given the government policies and the draught.

The big question is to determine which are the major risks at this stage, and what can be done, if anything, to diminish the prospects of a severe deterioration in the macroeconomic situation.

Politics is certainly playing a role and complicate some of the possible solutions. It seems impossible to take drastic policy decisions in a government whose leadership is fragmented and in which decisions are paralyzed by internal feuds and by the pressures related to the election process that has already started. In addition, and equally worrisome, the government does not seem to have a good diagnosis of the situation, and in most cases, it is approaching the problems with the wrong solutions. A case in point are its efforts to control the blue-chip swap (BCS) by simply selling bonds, which is technically incorrect as we discussed in our previous report, because it ends up lowering the price of bonds with no impact on the BCS.

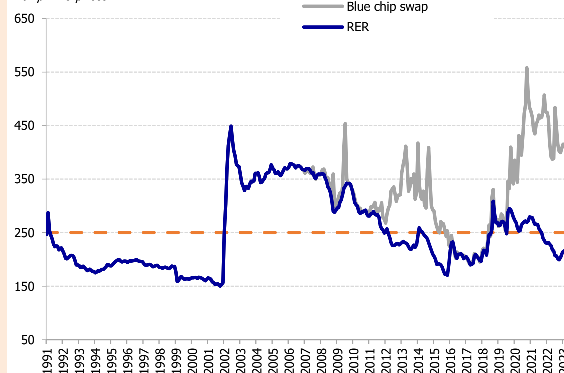
It seems clear that the economic team has two pressing problems: lack of international reserves and inflation. The obvious policy responses for these issues are devaluation on the one hand, and a tightening in monetary policy on the other, all supported of course, by a reduction in the fiscal deficit. To work effectively, all these measures need to be implemented within a modified IMF agreement that provides some credibility to the policy measures and supported by additional funds, which could be advances of future disbursements.

But the typical policy response does not appear in the government's menu. Authorities do not seem ready or able to implement such policy. First, a nominal devaluation seems to be out of limits for this government because of political restrictions. The word devaluation does not enter in its vocabulary. The choice would be to have an additional and more depreciated exchange rate (such as the soybean dollar) that would be extended to more exports and many imports. While it seems that this

Net and Liquid International Reserves
In billion USD

Gross reserves	**36.5**
Reserve requirements in USD	11.8
Swaps (incl. China)	20.7
SDRs	0.0
BIS	3.0
Net reserves	**0.9**
Gold	4.0
Liquid net reserves	**-3.0**

Source: Own estimates based on BCRA and IMF
Up to Apr-25



alternative or something similar will be unavoidable, there is still resistance among various sectors in the government to go that way.

The other concern is monetary policy. True, the monetary base is expanding at an annual rate of around 45%, which does not seem particularly high, but this is happening at a time when money demand is collapsing. This means that a better way to gauge monetary policy is by looking at interest rates, like most countries do. If we evaluate monetary policy in this way, the diagnosis is that the Central Bank is running behind the curve, with interest rates that continue to be negative in real terms and do not accommodate the recent increases in the rate of inflation.

These policies need to be accompanied by a reduction in the fiscal deficit because the government does not have access to credit and the Central Bank cannot finance a larger deficit without facing the risk of a further acceleration in inflation. **The government has been making efforts in this front, but the draught derailed them.**

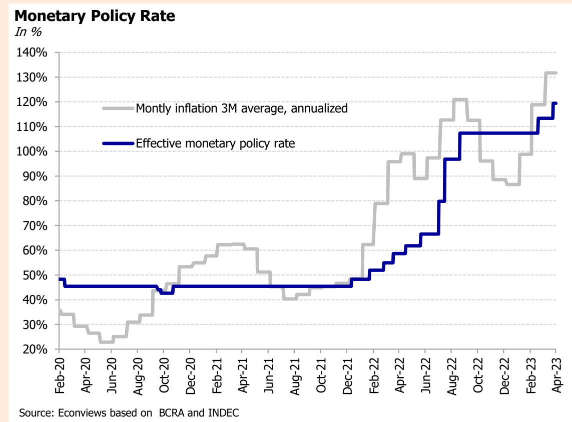
It seems that the policy options are clear, though there are questions regarding whether the government is willing and able to implement them. On the fiscal side the primary deficit is likely to reach 3.3% of GDP, which based on our calculations can be financed directly or indirectly (i.e. by buying bonds in the secondary market) by the Central Bank. The IMF program has a target of a deficit of 1.9% of GDP, which looked difficult to reach from the outset in an election year and is unreachable due to a loss of roughly 1% of GDP in revenues due to the draught. The most likely case is that there will be a new target in the program of 2.5% of GDP that in the end will not be met.

More difficult is to figure out what the government will do on the exchange rate front. The IMF has been arguing that in order to be more flexible on the financing side it will ask the government to redesign its exchange rate policy. The Fund has intentionally left open what the changes would be because it wants to leave enough degrees of freedom for the government to choose the new FX regime.

A possible alternative would be to finally split the market creating a second commercial exchange rate (whose value would be in the range of the current "soybean dollar"), that would be used for most exports and imports of goods and services. In this setup the current official exchange rate would be maintained for essential imports and some exports. Would this happen? We expected that something like this would have been implemented earlier, but it seems that the situation has become so critical that there are few alternatives to a split of the market.

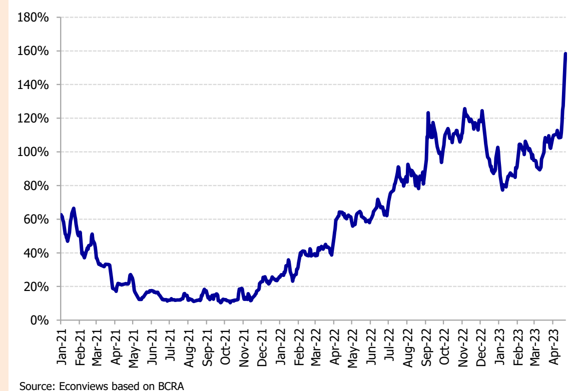
The final part involves monetary policy, where the Central Bank has reacted timidly to rise in inflation to 7.7% in March and hiked interest rates by only three percentage points to an effective 6.77% monthly rate, which keeps the rate well below actual and expected inflation and is clearly insufficient to control the increases in the parallel exchange rates.

Looking ahead, we are wary about the possible outcomes. There is now a run on the currency which has led to a rapid depreciation of the parallel rates, but the government has not found a way to deal with it. Most likely it requires a comprehensive approach that includes a step depreciation of the currency, perhaps in the form of a split of the FX market with two



Financial program 2023

	ARS billion	% of GDP
Primary deficit	5,489.8	3.3%
Interest	3,327.2	2.0%
A. Fiscal deficit	**8,817.0**	**5.3%**
Debt market (net)	2,010.4	1.2%
Multilaterals (net, including NET SDrs from Dec-22)	481.3	0.3%
Central Bank	6,325.3	3.8%
B. Total financing	**8,817.0**	**5.3%**
B. - A. = Total balance	**0.0**	**0.0%**



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commercial exchange rates while maintaining the BCS and the dollar MEP, a more decisive hike in interest rates, a further reduction of the fiscal deficit and an agreement with the IMF that includes some additional financing and probably an advance of future disbursements to provide some necessary liquidity.

How likely is the muddle through scenario now? It is still possible if the government quickly reaches an IMF agreement and starts to implement the policy measures that were outlined above. However, the outlook implies a higher rate of inflation than before (in the 7 to 8 percent range), increases in utility rates and a new exchange rate policy. In addition, on the political front, it seems that the continuity of Massa in the Ministry of Finance is critical, because if he resigns, we can get back to the scenario of June-July 2022, following the resignation of Martín Guzman. And this time it will be difficult to find someone that can maintain a minimum of macroeconomic stability with a government that is on the way out and large imbalances.

II. The Timebomb of Leliqs: Myth or Reality?

There is much discussion about the so called time bomb of Leliqs, as it appears as one of the main threats to macroeconomic management in the near future that could be difficult to neutralize. The numbers indicate that the stock of Leliqs and other interest-bearing liabilities of the Central Bank has been increasing, but their growth is far from explosive. The stock was around 8% of GDP in 2020 and is expected to rise to 10% of GDP by the end of the year, which does not sound particularly explosive. Especially, if as expected the government reduces the fiscal deficit and the Central Bank does not need to assist the treasury in rolling over its debt in 2024.

The myth arises because most analysts just look at the nominal figures, which with an inflation rate of over 100% per year, are growing at an astonishing rate. But one should not be blinded by the rate of nominal growth and adjust the figures for inflation. And the result is that much of the increase is simply due to the fact that Leliqs pay an interest rate similar to inflation, in fact, a little lower, and hence that they are not growing in real terms as much as the unaware analysts think.

By now the time bomb looks more like a myth rather than reality. However, it would be naive to argue that because so far this has not been a large problem, largely thanks to negative real interest rates, it does not represent a potential risk to macro-management. There is certainly a risk that real rates could turn significantly positive in the future and hence that life might not be easy for the Central Bank.

In this section, we analyze the possible evolution of the stock of Leliqs as a share of GDP in order to evaluate its sustainability under different scenarios. In our base case scenario, we find that the stock of Leliqs drops over time as a share of GDP and that by 2028 it falls to 5.8% of GDP, a manageable figure.

This outcome assumes that inflation is going to drop significantly to the 20% range and hence that there will be an increase in money demand, in deposits and in reserve requirements. We also assume that the economy will continue to grow, and that the Treasury will not resort to the Central Bank for any type of financing and that the Central Bank will unwind the bonds that it has been buying since the middle of last year to stabilize the Treasury bond market. We also assume that real interest rates are slightly positive and that the Central Bank will use its seigniorage (the revenues it gets from printing money), primarily to accumulate the much-needed international reserves.

Table 1. Central Bank Monetary Program - Base Scenario

	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F
Monetary base factors of variation								
In ARS billion								
Interest payments (interest bearing liabilities)	1,346	3,386	13,002	29,369	18,935	18,194	15,973	12,614
Assistance to the Treasury (BCRA)	1,700	620	6,625	1,049	0	0	0	0
Purchase of reserves	540	1,244	-988	6,750	8,951	10,950	9,663	11,059
Other factors	-514	1,274	1,688	-2,014	-9,043	0	0	0
Issuance needs	**3,072**	**6,525**	**20,326**	**35,154**	**18,843**	**29,143**	**25,636**	**23,673**
Interest-bearing liabilities	-1,888	-4,975	-15,123	-22,665	-13,690	-9,114	1,783	8,452
Monetary base (annual growth)	**1,184**	**1,550**	**5,204**	**12,489**	**14,196**	**20,030**	**27,419**	**32,126**
Monetary base components								
As percentage of deposits - IV quarter average								
Cash held by the public	28.5%	22.2%	16.5%	15.9%	19.5%	22.1%	26.1%	29.8%
Cash in banks	3.4%	2.5%	1.9%	1.1%	1.3%	1.5%	1.7%	2.0%
Legal reserve	11.6%	7.3%	5.2%	9.6%	11.7%	13.3%	15.6%	17.9%
Total	**43.5%**	**32.0%**	**23.6%**	**26.6%**	**32.5%**	**36.9%**	**43.4%**	**49.7%**
Memo items*								
Monetary base								
Monetary base (stock eop)	**3,654**	**5,204**	**10,408**	**22,897**	**37,092**	**57,122**	**84,541**	**116,666**
Annual growth (%, eop.)	*47.9%*	*42.4%*	*100.0%*	*120.0%*	*62.0%*	*54.0%*	*48.0%*	*38.0%*
Seigniorage (% of GDP)	*2.6%*	*1.9%*	*3.1%*	*3.0%*	*2.4%*	*2.6%*	*2.8%*	*2.8%*
Monetary base (Q4 avg.)	**3,191**	**4,487**	**8,206**	**19,954**	**33,520**	**49,745**	**74,442**	**104,834**
As % of GDP (Q4)	*5.9%*	*4.3%*	*3.4%*	*4.0%*	*5.0%*	*5.9%*	*7.2%*	*8.5%*
Interest bearing liabilities								
Interest-bearing liabilities (stock eop)	**4,752**	**10,089**	**27,203**	**52,100**	**65,673**	**74,787**	**73,004**	**64,552**
Annual growth (%, eop)	*67.1%*	*112.3%*	*169.6%*	*91.5%*	*26.1%*	*13.9%*	*-2.4%*	*-11.6%*
Interest-bearing liabilities (Q4 avg.)	**4,392**	**9,299**	**24,162**	**51,443**	**65,819**	**77,782**	**78,447**	**71,532**
As % of GDP (Q4)	*8.1%*	*9.0%*	*10.1%*	*10.3%*	*9.9%*	*9.2%*	*7.6%*	*5.8%*
Inflation								
Inflation (eop)	**51%**	**95%**	**130%**	**105%**	**30%**	**23%**	**20%**	**16%**
Inflation (average)	48%	72%	114%	146%	39%	26%	21%	18%
Interest rate								
Monetary policy interest rate (APR eop)	**38%**	**75%**	**110%**	**40%**	**30%**	**24%**	**20%**	**16%**
Monetary policy interest rate (APR avg.)	38%	57%	85%	74%	32%	25%	21%	17%
Monetary policy interest rate (accumulated in real terms)	-4%	-10%	-2%	-1%	5%	4%	2%	2%
Exchange rate								
Nominal exchange rate	**103**	**177**	**600**	**991**	**1,238**	**1,486**	**1,723**	**1,947**
Annual growth (%)	*22.1%*	*72.4%*	*238.8%*	*65.0%*	*25.0%*	*20.0%*	*16.0%*	*13.0%*
Real effective echange rate (17/12/2015 = 100 - eop)	**102**	**94**	**143**	**116**	**115**	**116**	**115**	**116**
Annual growth (%)	*-17.9%*	*-8.1%*	*52.4%*	*-18.7%*	*-1.0%*	*0.5%*	*-0.5%*	*0.4%*
GDP (annual growth)	**10.4%**	**5.2%**	**-4.5%**	**0.0%**	**4.5%**	**3.0%**	**3.0%**	**3.0%**
Deposits (IV quarter avg. as % of IV quarter GDP)	**13.5%**	**13.6%**	**14.6%**	**15.0%**	**15.5%**	**16.0%**	**16.5%**	**17.0%**
BCRA int. reserves purchases (in USD million)	**5,049**	**5,824**	**-3,000**	**8,000**	**8,000**	**8,000**	**6,000**	**6,000**

*Stocks in ARS billion

Source: Econviews based on BCRA, INDEC & own estimates

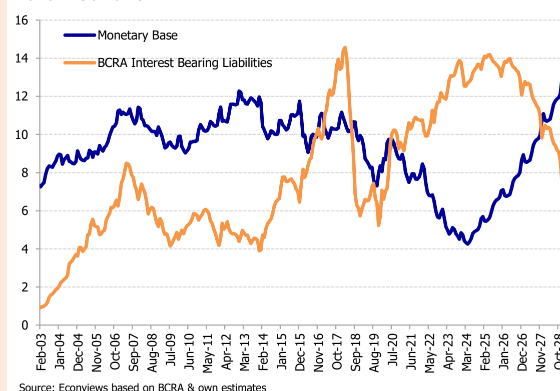
We also evaluate the robustness of our results by stressing the exercise with higher interest rates, more purchases of dollars to increase reserves, and less economic growth. In all these cases we still observe that the stock of leliqs does not blow up.

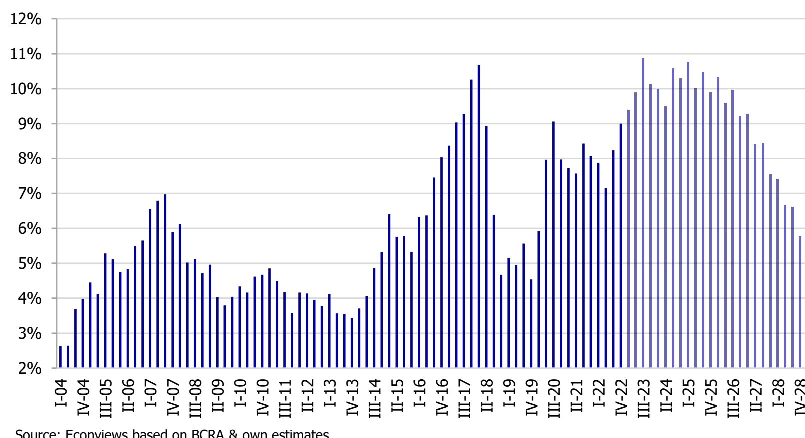
Does it mean that we shouldn't care about the Leliqs? The answer is no, because in a scenario where the macro-conditions deteriorate drastically and inflation continues, and the fiscal deficit is not reduced significantly, interest rates become the main tool to stabilize the exchange rate and it is set at very high levels, or the Treasury does not regain access to the domestic market to issue long term debt, the outcome could be quite worrisome.

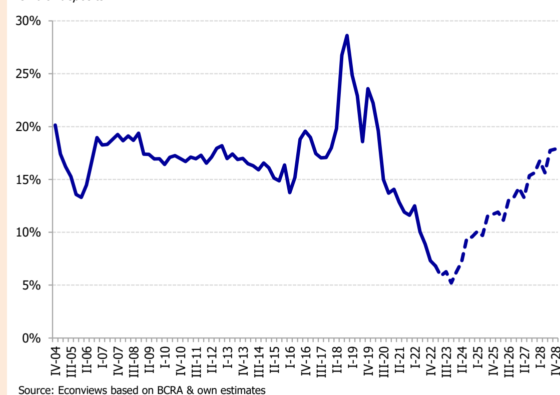
However, if the next administration manages to stabilize the macroeconomic situation, the Leliqs will not be the problem that many predict. In what follows we develop the assumptions and the scenarios in more detail and the exercise that will help to clarify the myths and realities of the Leliqs.

The "snowball" numbers in detail

Even though we are less worried than most about the stock of interest-bearing liabilities of the Central Bank, we do admit that in 2023 their growth will surpass inflation, reaching 170%, thus increasing in terms of GDP from 9 to 10%. In nominal terms they are expected to jump from 10.1 to 27.2 trillion pesos. The trick is that the real interest rate is slightly negative at -2.2%. This allows the monetary base to shrink in real terms, in line with the demand for money that has been falling steadily in the last few months.







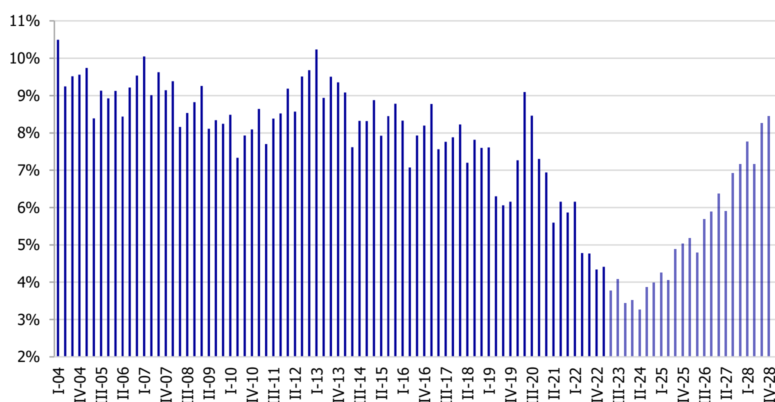
The Central Bank prints money to finance the deficit, buys sovereign bonds in the secondary market and pays for interest on Leliqs and reverse repos. And then sterilizes issuing leliqs and in this year selling reserves.

The analysis of the evolution of leliqs/repos is done based on a monetary program, where the leliqs/repos continue to be used to sterilize the increases in money supply in order to control the growth of money supply. The base case scenario has the assumptions regarding the evolution of key variables, which is detailed in table 1, such as GDP

growth, the rate of inflation, of interest rates, of international reserves and of the ratio of deposits to GDP.

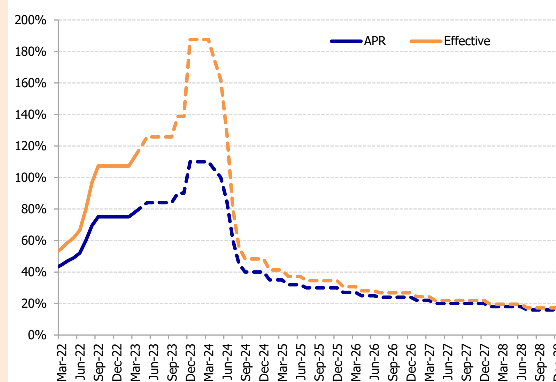
We use a simple monetary program, which shows the evolution of the key factors that underlie the expansion of the monetary base. We assume that by 2025 the Central Bank stops providing financing to the Treasury. However, the Central Bank still needs to print money in order to buy dollars and increase international reserves. The other factor, which are interest payments on the leliqs/repos, are automatically sterilized by new leliqs/ repos.

This exercise assumes that in 2024 the demand for money will rise again. As a result, the monetary base grows from 3.4% of GDP in the last quarter of 2023 to 4% in the last quarter of 2024 and then gradually increases to surpass 8% in 2028, in line with historical levels. One of the reasons explaining the growth of the monetary base is that reserve requirements grow. This is not due to a change in the ratio of reserves to deposits, but rather the fact that banks will no longer be allowed to compute bonds and loans as part of the reserve requirement as it happens today.

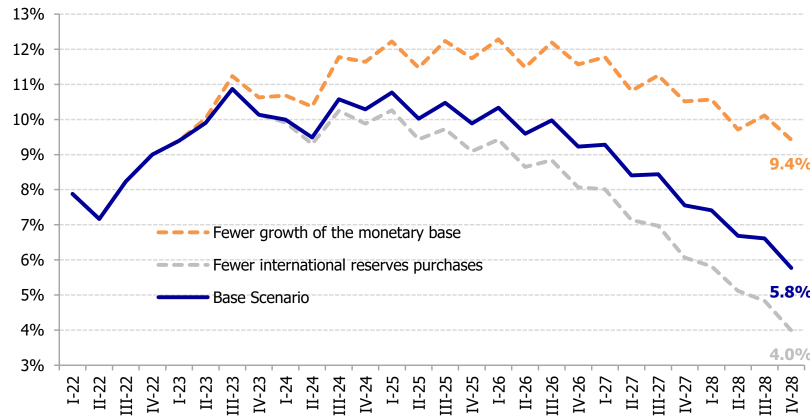


Still, in our numbers Leliqs do not decrease as a share of GDP in 2024. They fall in Q1 given that devaluation increases the nominal demand for money and the Central Bank can leave more money in the streets. But then it starts growing again given the fact that real interest rates remain positive and therefore the need to sterilize grow with it.

Another factor that requires sterilization is the fact that the Central Bank replenishes its reserves position requiring the printing of a lot of pesos. In our numbers the Central bank manages to buy USD 8 billion only in 2024. This is our base case scenario in which remunerated liabilities end at 10.3% of GDP in 2024. But we assembled another scenario where the Central Bank cannot buy that many dollars in the market and therefore there is a reduction in remunerated liabilities, which go to 9.9% of GDP.



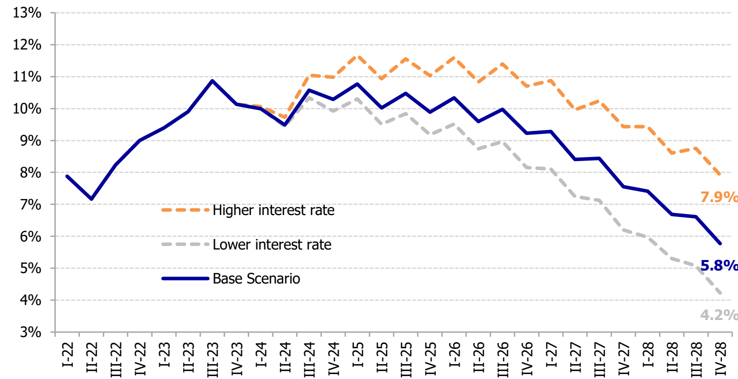
BCRA's interest bearing liabilities - Alternate scenarios
Quarterly average stock as % quarterly GDP



Source: Econviews based on BCRA & own estimates

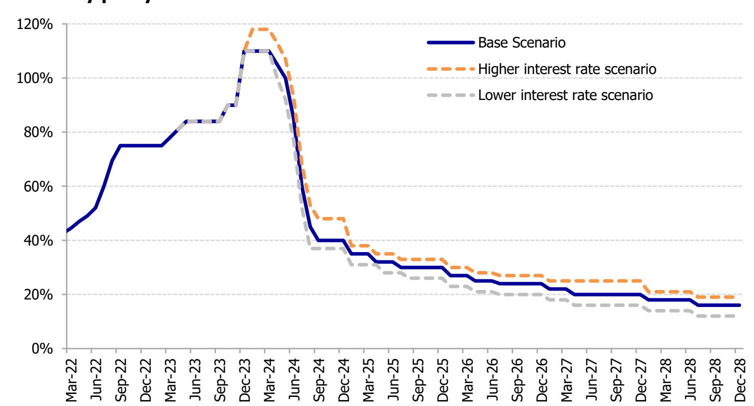
We have analyzed another scenario in which real interest rate is higher, as a substitute for confidence building. In this case the stock of remunerated liabilities rises to 11% of GDP in 2024 and in 2025 and they only go down in 2026. This is the most dangerous scenario in terms of stock to GDP. Clearly a higher rate is needed when the threat of dollarization of portfolios becomes more tangible. Another way of seeing this threat could be seen if the new government lifts FX restrictions too soon, before having scored a few goals in terms of their fiscal strategies. Or seen from a political angle, before showing political commitment to eliminating of drastically cutting the primary deficit.

BCRA's interest bearing liabilities - Interest rate scenarios
Quarterly average stock as % quarterly GDP



Source: Econviews based on BCRA & own estimates

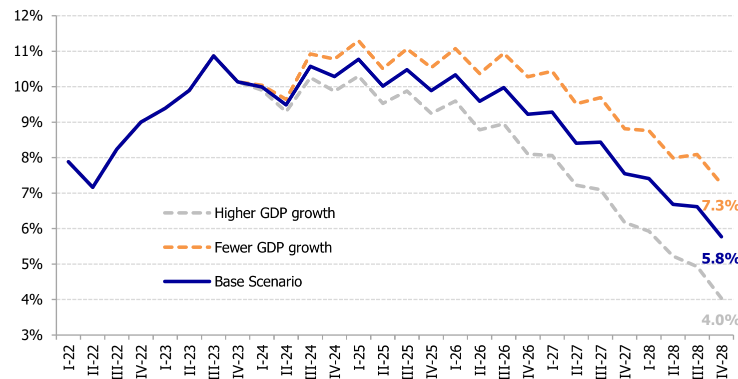
Monetary policy interest rate - APR



Source: Econviews based on BCRA & own estimates

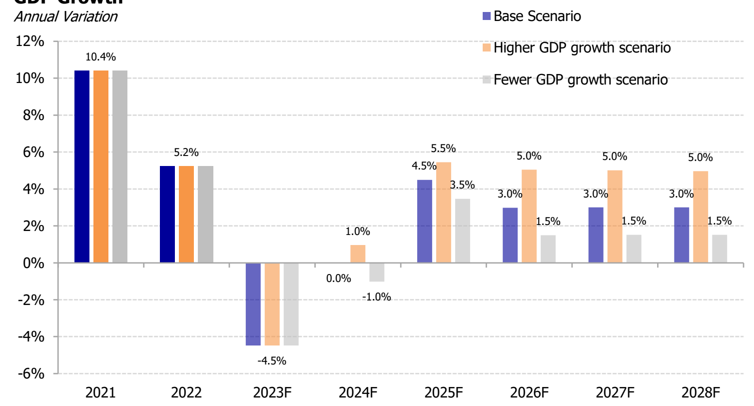
Another difficult scenario is one in which economic activity performs worse than in the base scenario. For instance, we crafted a model where GDP falls further in 2024 and rebounds less in 2025. In this case, the stock remains below 11% in these two years.

BCRA's interest bearing liabilities - GDP growth scenarios
Quarterly average stock as % quarterly GDP



Source: Econviews based on BCRA & own estimates

GDP Growth
Annual Variation



Source: Econviews based on INDEC & own estimates

All in, we think that dealing with this stock of Leliqs is not a piece of cake, but we don't think that they are an impossible snowball to deal with. Tackling this issue requires careful management, but we can point out three main conclusions:

a) There is not an obvious dilution effect. In all cases the stock remains high throughout 2024 and 2025.

b) The worst situation is with pretty high interest rates in real terms, reinforcing the notion that Argentina should take a mix that can be defined in terms of soft on the monetary and hard on the fiscal, precisely the opposite of the 2016-2017 macro model.

c) Economic activity matters. Argentina will need to adjust utility tariffs and other fiscal spending that could have recessionary effects on consumption. In theory it could compensate that with a low base effect of 2023, a good harvest, and a reversal of the energy deficit. But if the fiscal shock has a more lasting effect and GDP shrinks again in 2024, the stock of Leliqs will remain strong, generating some negative side effects for economic confidence.

Base Scenario

	2019	2020	2021	2022 E	2023 E
Inflation (eop)	53.8%	36.1%	50.9%	94.8%	130.0%
Exchange rate ARS/USD (eop)	59.9	84.1	102.8	177.1	480.0
Exchange rate ARS/USD (eop, YoY)	58.4%	40.5%	22.1%	72.4%	171.0%
Real exchange rate ARS/USD (eop, Dec-01=100)	151.5	158.3	137.1	129.4	165.0
Paralell exchange rate ARS/USD (eop)	74.6	140.3	203.1	340.8	696.0
Spread with official exchange rate (eop)	24.6%	66.8%	97.7%	92.4%	45.0%
Gross reserves (USD billion, eop)	44.8	39.4	39.7	44.9	36.4
Net international reserves (USD billion, eop)	12.6	3.8	2.3	7.7	0.4
Policy rate (eop)	55.0%	38.0%	38.0%	75.0%	110.0%
GDP (YoY)	-2.0%	-9.9%	10.4%	5.2%	-4.5%
Formal wages in real terms (aop, YoY)	-6.0%	-1.9%	0.4%	0.3%	-2.5%
Primary result (% GDP)*	-0.2%	-6.4%	-3.3%	-2.7%	-3.3%
Fiscal result (% GDP)*	-3.6%	-8.4%	-4.8%	-4.1%	-5.6%
EMBI Argentina (spread in bps, eop)	1,744	1,350	1,703	2,196	1,500
Public net debt (% GDP)	43.6%	52.7%	42.1%	35.2%	38.8%
Current account (% GDP)	-0.8%	0.8%	1.4%	-0.6%	-2.3%

Source: EconViews

*Excludes rents from primary debt issuance in 2022; PIPs below the line in 2019

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