MONTHLY REPORT

ECONVIEWS
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THE MONTH AT A GLANCE

RECENT DEVELOPMENTS

- After 10 straight hikes, the Fed decided to take a pause in June and left its policy rate at 5.25%, saying it needed time to assess the economy. CPI fell to 4% year-on-year in May, but core inflation is still running at 0.4% monthly and the labor market remains hot, with unemployment at 3.7%.
- Argentina's monthly CPI read 7.8% in May, below both market forecasts and April's 8.4% print. Utilities soared 31% in Buenos Aires due to increases in gas and electricity bills, but seasonal items rose only 6%, partially countering this effect. Year-on-year inflation is running at 114%.
- The government racked up a 0.8% of GDP primary deficit between January and May. However, revenues from VAT (+18%), debit and credits (+15%) and social security contributions (+5%) grew year-on-year in real terms last month suggesting the economy is not doing so bad.
- The informal exchange rate has remained calm, below ARS 500 over the last two months. The BCS heated up to ARS 513 in late June. The BCRA took the official rate to ARS 256, a 6.3% monthly crawling peg. the FX spread remains around 100%, depending on which rate is used.
- Argentine stocks soared 26% on Wall Street in June. Sovereign dollar bonds recovered 24% but the benchmark GD30 is still trading at 35 cents.

FIGURE OF THE MONTH

Argentine stocks soared

26%

on Wall Street in June, as the "electoral trade" takes off.

TO BE ALERT

Argentina must pay a

1 bn

coupon on its sovereign debt on July 9th, not a huge figure, but tough with negative reserves.

WHAT'S COMING NEXT?

- After June's pause, the Fed is back on track to hike 25 bps to 5.50% on July 26th. Markets are pricing rates will stay at that level until January, with cuts to a 3.75% rate by late 2024. Fed staff see a much higher rate next year, above 4.50%. The Fed is no longer forecasting a recession, raising this year's GDP growth from 0.4 to 1%.
- Primary elections will take place on August 13th. The most relevant contest will pit Mayor of BA Rodriguez Larreta against former Minister Bullrich for the leadership of the opposition. In the October 22nd general elections, most polls point towards an opposition lead, but not enough to avoid a run-off in November.
- High-frequency measures point at June's inflation near 7-8%, possibly below May's print. In our base scenario, inflation will run at this pace until October, with numbers closer to 9% in Q4 as businesses and retailers seek to get ahead of an exchange rate devaluation.
- We believe the Central Bank will hike rates once more, from the current 97% to something closer to 100%, possibly after the August primary. Out 120% forecast for December reflects a transitory overshooting to stabilize the economy during the change of government.
- After missing Q2 targets and delaying a USD 2.7 billion maturity, the 2022 EFF is moot and a new program with the IMF should be announced in coming weeks.

SUMMARY OF MAIN INDICATORS

	Last	Previous		Last	Previous
Economic activity			**Financial data**		
Economic activity (MoM s.a.)	-1.9%	0.4%	Inflation (monthly)	7.8%	8.4%
Consumer confidence (MoM)	9.1%	3.3%	FX spread (21day avg.)	102.4%	103.0%
Industrial activity (MoM s.a.)	1.2%	3.2%	Country risk (bps 21day avg.)	2,326	2,576
International accounts			**External data**		
Current Account (USD BN)	-5.64	1.75	Soybean price (per ton, 21day avg.)	525.7	507.9
CB Reserves (USD BN 21day avg.)	32.43	34.45	Brazilian activity (MoM s.a.)	0.6%	-0.1%
Primary balance (ARS BN)	-247.65	-331.37	Financial Conditions Index	19.4	16.4

Source: Econviews based on multiple sources - working days only

GRAPH OF THE MONTH:

Argentine stocks (Merval/BCS) in election years
First day of the year = 100

Source: Econviews based on Refinitiv

RECENT ECONOMIC DEVELOPMENTS

MAY	JUN	JUN	JUN	JUN	JUN	JUN
29th	2nd	7th	14th	22nd	23rd	30th
Econviews Monthly #227: The critical lack of international reserves + special report on tourism's potential	**BCRA renews swap with China**, gaining access to an extra USD 5 billion, with net reserves below zero.	**Treasury debt swap postpones ARS 7.4 trillion maturities until 2024**, with high participation of BCRA and govt' agencies.	**May's inflation print comes in at 7.8%**, below market forecasts of 9%. Year-on-year CPI at 114%, a 30-year high.	**Argentina misses USD 2.7 bn payment with IMF**, in the middle of negotiations to redesign the failed 2022 EFF.	24 hours before the deadline, **Minister Massa announces he will run for president**, as Government shifts centre.	**Econviews Monthly #228**

POLITICS

In a last-minute surprise, the Government ditched Minister of Interior De Pedro's bid for the presidency, seen as a hardliner loyal to VP Cristina Kirchner, and decided to back Minister of Economy Massa in his place. Although Massa is closer to the establishment, the VP's faction is better represented in the lists of deputies and senators for Congress. The opposition's primaries will pit Mayor of BA Rodriguez Larreta, of center-right views, against hawkish former Security Minister Bullrich. Polls currently have them at either a tie or a slight Bullrich lead, with any of the two a clear favorite for the general election on October 22nd. Libertarian candidate Javier Milei has lost steam, but his votes could decide an eventual run-off.

IMF

After missing the reserve accumulation and fiscal targets, plus the BCRA's intervention in the BCS via the bond market, the 2022 EFF program is moot. Argentina must pay the IMF and bondholders USD 6.2 billion by the end of July (4 billion of which the Fund should disburse after approving the program goals with a pardon). With net reserves in negative territory, it desperately needs to agree on a new program, which should include advances on the Q3 and Q4 disbursements. With the uncertainty on the Government's candidates cleared, it is in Minister Massa's best interests to avoid a disorderly default with the Fund. We see little chance of the IMF letting Argentina fall, but it may try to extract some concessions.

ECONOMIC ACTIVITY

Activity slumped 1.9% between April and May, with a 4.2% year-on-year drop. However, this isn't such a bad number considering the worst of the drought will be seen in Q2. January's figure was revised 0.5 points downward, but other months were corrected upwards. Most sectors kept strong in April: both manufacturing (+1.2%) and construction (+3.4%) posted solid monthly variations. In year-on-year terms, supermarket (+3.4%) and shopping center sales (+15%) also did well. Preliminary data for May is mixed, with cement output up 3.9% against April, energy consumption up 0.6%, but imports down 1.2% and auto production falling 5.5% monthly. We still expect the economy to contract 3.8% in 2023.

INFLATION

Monthly inflation decreased slightly from 8.4% in April to 7.8% in May. Most forecasters expected a figure closer to 9% due to the leap in parallel exchange rates in late April. However, food prices rose only 5.8% after two months running close to 10%. Apparel (+7.6%) also slowed down. Seasonal items (+6%) helped counter the 31% increase in utility rates for gas and electricity in the Greater Buenos Aires. Restaurants and hotels (+9.3%) and healthcare (+9%) rose above headline CPI, showing inflation is very widespread. Year-on-year CPI hit 114%, a new record since the early 90's. For now, we are holding our 150% forecast for 2023, but have raised our forecast for 2024 from 105 to 140%.

MONETARY SECTOR

The Central Bank held its policy rate at 97% after learning of May's 7.8% CPI, and given inflation keeps in this range in June and July, we don't expect new hikes until at least after the August primaries. At an 8% effective monthly rate, this means the Leliq rate is slightly positive *ex ante*. The special exchange rate to incentivize exports failed to work as well as in last September or December: the BCRA will end Q2-2023 with FX purchases of only USD 538 million, as net reserves slip deeper into negative territory, -2.1 billion in our latest numbers. Despite this worrying trend, the official exchange rate's devaluation is still running at 6.3% monthly. This overvalued ARS 256 rate means a 100% spread against the market dollars.

FISCAL ACCOUNTS

May's primary deficit stood at ARS 248 billion, accumulating 0.8% of GDP in five months of 2023. A silver lining is that taxes linked to the level of activity are doing well: adjusted for inflation and year-on-year, VAT (+18%), debits and credits (+15%) and social security contributions (+5%) all grew in May. This helped overall tax revenues to grow 1.5% year-on-year, despite the harsh drop in export taxes (-44%) due to the drought. Primary expenditures fell by 5% against 2022, led by pensions and social spending (-17%) which are being swiftly eroded by inflation. Energy and transport subsidies (+17%) rose since the government settled debts with companies, but we believe their weight could fall from 2.6 to 2.1% of GDP this year.

I. What has changed with the announcement of the presidential candidates?

We now know the candidates that will compete in the primaries (the paso) in August, the first big step in the electoral race. The Peronists, after some internal discussions and an indication that the kirchnerist Wado de Pedro would lead the ticket, have changed their mind, and decided to go with Finance Minister Sergio Massa. That seems to be a blow to Cristina Kirchner who runs the risk of losing the leadership in the party. Massa is now the candidate of the Peronist coalition, renamed Unidos por la Patria, and appears to be competitive as he is seen as a centrist, though he will have to deal with a poor economic record of high inflation and poverty levels that exceed 40% of the population. His argument will of course be that he took a hot potato and, that without him, things would have been much worse, a story that will be difficult to sell to those suffering the hardship of the economic conditions.

In the main opposition coalition, Juntos por el Cambio, there are two candidates. The more moderate Rodriguez Larreta will have to show that he is in fact different from Massa. He wants to sell that through consensus he can implement the difficult economic policies to turnaround more than a decade of stagnation and the enormous challenges posed by high inflation, lack of international reserves and a grossly overvalued exchange rate. Patricia Bullrich is the more hawkish candidate, who has positioned herself as the one who will confront heads on in a decisive way the economic problems as well as other social aspects such as crime, drug trafficking and a bloated public sector.

The third candidate to consider is Javier Milei, the "rockstar" who is challenging the stablished political coalitions arguing that they benefit from the current system and have no incentive to change it. His narrative has gained support among the young who are fed up with traditional politicians, with regulations that prevent them to get jobs in the formal sector, with high levels of taxation and a panoply of privileges to businessmen, politicians, union leaders and people that know how to extract benefits from the public sectors. He always presents dollarization as the silver bullet that will end inflation, a proposal that seems attractive to many, even if it cannot be implemented due to the lack of international reserves.

It is too early to make a call on the results of the PASO as the campaign has not yet started and there are no reliable opinion polls. However, one could argue that there are good chances that with a unified Peronist coalition Massa could be the candidate that receives the largest amount of votes in the primaries, even more than Milei who now seems to be losing momentum. In the Juntos por el Cambio field it is difficult to make a call between Larreta and Bullrich though most of the polls give Bullrich the upper hand. Juntos por el Cambio is still the coalition that apparently has the largest popular support.

On the whole, the current scenario is much more market friendly than it looked just a few weeks ago. The first game changer is the rise of Massa, who is much more moderate than the Kirchnerists and more

Candidates enrolled in the primaries

Party	Candidates
Unión por la Patria	Sergio Massa - Agustín Rossi
	Juan Grabois - Paula Abal Medina
Juntos por el Cambio	Patricia Bullrich - Luis Petri
	Horacio Rodríguez Larreta - Gerardo Morales
La Libertad Avanza	Javier Milei - Victoria Villarruel
Hacemos por Nuestro País	Juan Schiaretti - Florencio Randazzo
Frente de Izquierda	Myriam Bregman - Nicolás Del Caño
	Gabriel Solano - Vilma Ripoll
Nuevo MAS	Manuela Castañeira - Lucas Ruiz
Política Obrera	Marcelo Ramal - Patricia Urones
Libres del Sur	Jesús Escobar - Marianella Lezama Hid
Movimiento de Izquierda	Raúl Castells - Adriana Reinoso
	Santiago Cúneo - Gustavo Barranco
Principios y Valores	Guillermo Moreno - Leonardo Fabre
DEMOS	Nazareno Etchepare - Fernando Lorenzo
	Julio Bárbaro – Ramona Pucheta
Frente Patriota Federal	César Biondini - María Eugenia Avendaño
Liber.Ar	Pablo Gobbi - Julio Archet
Paz, Democracia y Soberanía	Mempo Giardinelli - Bárbara Solemou

Main electoral dates

24-Jun-23	Start of primaries campaign
13-Aug-23	**Primaries elections**
2-Sep-23	Start of general elections campaign
1-Oct-23	First presidential debate
8-Oct-23	Second presidential debate
22-Oct-23	**General elections**
19-Nov-23	**Possible ballotage**

willing to implement the so called "orthodox" economic policies, even those recommended by the IMF. In addition, to the extent that he is now the candidate of the coalition he will have an incentive to do everything that he can to muddle through until the October elections, which means among other things maintaining the IMF program.

His main challenge continues to be how to avoid further loses in reserves and to do something on the exchange front, though as a candidate he is likely to have more freedom and less pressure from Cristina to reach an agreement on every policy decision. It also guarantees that he will have an incentive to avoid major economic disturbances in order to run the campaign and have a chance to win. This new situation removes one of our previous concerns which was the possibility of Massa's resignation and a vacuum of power similar to the one that happened when Minister Guzman resigned a year ago.

The second game changer is the weakening of the chances of Milei. He seems to be gradually losing center stage and has been having dismal performances in the provincial elections, where his candidates get less than five percent of the votes. True, he did not campaign for them, and his face was not in the ballots. However, it seems that his campaign is losing steam. This removes a second concern, which was Milei winning the ballotage in November and opening a Pandora box about could happen with an economy at the edge of a cliff governed by a leader with no experience in the public sector, no economic or political team, no political roots, with few congressmen and probably with no senators.

It still seems that the most likely outcome is that Juntos por el Cambio will win and that either Larreta or Bullrich will be the next president.

On the economic front the teams of both candidates do not look very different from each other. The impression is that after the primaries they will merge, as in practice there are not many differences on the overall approach to deal with the large imbalances that Argentina is facing.

__The difficult road till December__

The fact that inflation fell to 7,8% in May from 8,4% brought significant relief. There were clear concerns that inflation was spiralizing and that it could quickly reached two digits. Those fears appear, for the moment, to have been dissipated, as we could even see a new drop in June. However, the government still lacks a stabilization program and inflation could continue to oscillate between seven and nine percent driven by idiosyncratic factors such as further tightening of FX controls, seasonal factors, or movements in the official or the parallel exchange. In addition, we cannot rule out efforts by the administration to adopt expansionary policies on the way to the elections that can spur inflation one more time. Nevertheless, the dreaded scenarios of runaway inflation appear to be now out of the radar.

The concerns have shifted to the lack of reserves and the difficulties to sustain the current exchange rate system. The stock of net reserves is now well into negative territory reaching what were few months ago unthinkable levels. Our last estimate is that they have dropped to -2.4 billion dollars with a negative outlook, given that July and August are

Projected cash flow with the IMF

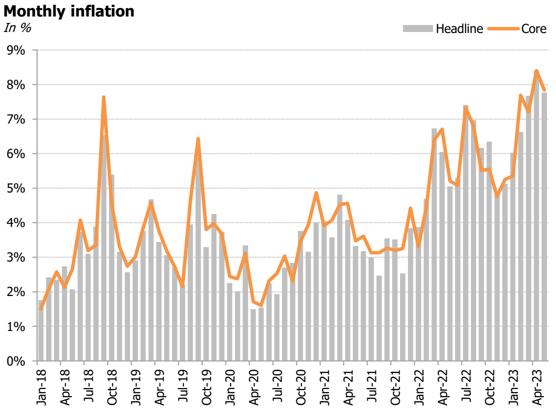
In million USD

	Disbursements	Repurchases	Charges
Jun-23		-2,689	
Jul-23	4,005	-2,637	
Aug-23			-803
Sep-23	3,338	-918	
Oct-23		-2,637	
Nov-23			-715
Dec-23	3,338	-918	
Jan-24		-1,953	
Feb-24			-646
Mar-24	1,068		
Apr-24		-1,953	
May-24			-584
Jun-24	1,068		
Jul-24		-651	
Aug-24			-565
Sep-24	1,087		
Oct-24			
Nov-24			-554
Dec-24			
Jun-Dec 2023	10,681	-9,798	-1,518
Total 2024	3,223	-4,556	-2,349

Source: Econviews based on IMF

Monthly inflation

In %



Source: Econviews based on INDEC

Net International Reserves

In billion USD

Gross reserves	**30.9**
Reserve requirements in USD	10.6
Swap (China)	17.9
SEDESA	1.8
BIS	3.0
Net reserves	**-2.5**

Source: Own estimates based on BCRA and IMF

Up to Jun-28

months in which the Central Bank typically sells dollars, while there is a one billion dollars payment coming due in early July to service the external debt.

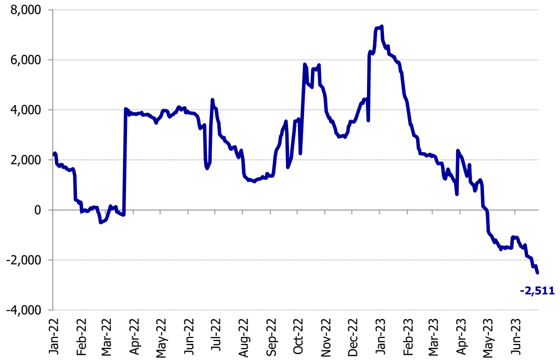
It remains a mystery how the government expects to turnaround the situation. It seems that the main bet is on a new IMF agreement that will come with new money, perhaps by advancing the total disbursements that are for this year. However, this option looks like wishful thinking, especially because Argentina has missed the first quarter targets on the fiscal and international reserves fronts. The government seems willing to take some remedial policy actions in the former front, but it appears to be fully opposed to make any changes in the exchange rate policy to deal with the latter, which the IMF is determined to see before it disburses any new money.

The exchange regime has and continues to be the thorny issue in the negotiations between Argentina and the IMF, and there is no easy way out. The IMF appears to be unwilling to disburse dollars if the Central Bank is simply going to through them down the drain at a subsidize exchange rate, which is an understandable objection. On the other hand, the Fund does not want to be blamed for a new macro crisis as it was in 2001 and again in 2019. Besides, many of the Board members are tired of the waivers that the Fund has been giving to Argentina over the years and with new requests for fresh funds, which this time would come with few changes in policies. They IMF is certainly facing a dilemma, and perhaps the answer is to only disburse the funds that Argentina needs to repay the Fund and avoid entering into arrears, which could be difficult to work out.

This might be a short term solution for the Fund, but it would not solve Argentina's main problem, which is the lack of reserves, especially now that they are getting more and more in negative territory. So far this year, the government has survived by continuing to sell dollars, though there is a limit regarding which is the floor below which reserves cannot fall, though nobody is sure which is the magical number that will trigger a foreign exchange crisis. The other policy measure was a tightening of the FX controls to levels never seen in recent history, but it is unclear how much more it could do in this front without risking affecting the normal supply of food, medicines, and essential intermediate goods.

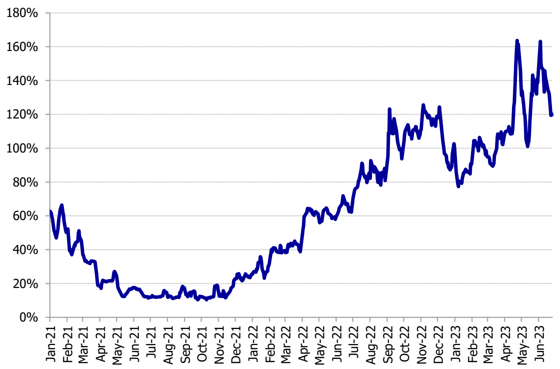
The solution, as we mentioned repeatedly in our reports, would be to split the FX market. Perhaps it is necessary to introduce a special FX system for Soybeans that would be extended to a larger number of exports and this time will include imports as well. It is clear that such policy will amount to a devaluation, which Argentina needs, and the split of the FX market along seems to be one of the few options available short of a full-blown devaluation.

Net International Reserves
In milllion USD - IMF methodology



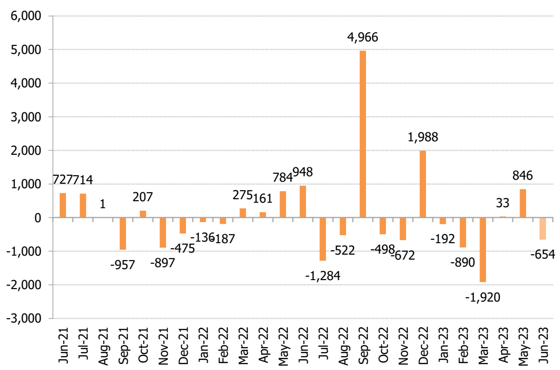
Source: Econviews based on BCRA, IMF & own estimates

Rate of depreciation
5 days annualized variation- Official exchange rate, Com. "A" 3500



Source: Econviews based on BCRA

Central Bank reserves purchases
In million USD - Up to Jun-28



Soure: Econviews based on BCRA

II. The economic legacy for the next government

The legacy for the next government has many similarities with the one that Macri received in 2015, though on the whole it certainly looks worse. The situation will probably look somewhat better on the fiscal side, where the deficit will be smaller, while the utility rates are also out of line as in 2015. On the **exchange rate front** the diagnosis is mixed, because while the currency is less overvalued than at that time, while the elimination of the foreign exchange controls appears to be more difficult, mainly because there is a larger stock of domestic debt.

On the other hand, now the debt stock is larger, while Argentina is unlikely to re-enter the international debt market in the short term. In the local debt market, it will be difficult to increase the stock of peso debt, especially if the FX controls are removed, while the new administration will have little space to receive new lending from the IMF, a big difference relative to the Macri administration. An additional challenge will be the stock of Central Bank debt, which is much larger than the one Macri received in 2015 and if it is not managed appropriately could become a source of vulnerability.

Inflation is now a much bigger problem, as the new administration will receive a rate that is almost five times larger than the one received by Macri. The risks on this front are large, especially because a maxi-devaluation can destabilize inflation.

Finally, all the new government will need to confront this challenge in an environment in which the level of poverty exceeds 40%, GDP per capita is stagnant and is similar to the one that Argentina had fifteen years ago while there is a clear risk of social unrest.

Whoever wins in the next presidential elections will have a tough time ahead, and perhaps one of the few advantages over 2015 is that a new government can benefit from the mistakes that were made in 2015. The lesson is that it needs to be bolder and faster when it comes to the fiscal adjustment and perhaps much more prudent in dealing with the unification of the foreign exchange market. This means that macro policies need to be the opposite then they were in 2015, namely now the option should be tight fiscal and loser money.

The other lesson is that reform and the tough actions should be taken upfront because the honeymoon period tends to be short-lived, and one needs to be bold during that time.

In what follows, in this and forthcoming issues we plan to address different issues of the challenges that the new government will face and discuss the policy options that could help to overcome the situation.

The fiscal legacy

Numbers will say that the primary deficit of 2015 was larger than the one we estimate for 2023. We are talking about 3.7% then compared to around 3% nowadays. Considering skeletons (unpaid claims, anticipated tax collection) the true figures are probably 1 percentage point higher in both periods or even higher in 2015. One easy example to think in terms of 2024 is that every Argentine that spends abroad pays a withholding tax today that will be deducted from next year's tax return, thus reducing 2024's tax take. Another example is that 50% of the wheat to be exported next season has already paid the export tax, as the government lured companies to advance the payment and firms found that paying at this exchange rate when they have a surplus of pesos was not such a bad idea.

Above and beyond these issues, the difference between 2015 and 2023 lies somewhere else. Argentina then enjoyed access to credit. Wall Street was eager to lend to Argentina.

The situation today is that Argentina has no access to credit and any reasonable assumption states that there will not be access to new funds in 2024, perhaps with the exception of a little something from the multilateral institutions. This means that the choice for the next government will be either a shock to cut the primary deficit to zero (by far the likeliest) or go gradual and print money to finance the deficit. The local credit market is fully used to the point that banks today have far more exposure to the public sector than to the private sector and therefore expanding the public share would mean more pain for the private sector. It is also important to bear in mind that part of the funding that the public sector receives would not happen had the FX restrictions not been in place. So, in practice, using the local market further has to assume the FX restrictions continue by and large, which is clearly not what Argentina need to normalize its economy.

This means that the next government will have to bear the political cost of cutting as much as 4 points of GDP in government spending. This is something that has never happened, perhaps with the exception of 2002, which came as a result of a huge devaluation in the midst of the worst crisis ever rather than taking the specific action of reducing outlays.

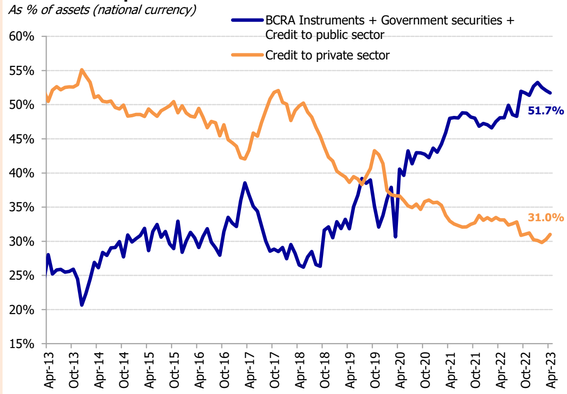
A new exchange rate will have positive impact in some revenues such as export taxes, but it is quite likely that the next government will eliminate or at least reduce the tax on foreign transactions, which collects around 0.4% of GDP**,** posing extra challenges.

There are many areas to cut, but the number one element is likely to be energy and transport subsidies in which the government can save over 1 point of GDP. The rest will have to come from savings in payroll, public enterprises, and the micromanagement of many subheads where there is fat to cut. This entails not just a political cost to pay with the society but also a cost with many powerful constituencies, which benefit from public spending. In this context of over 40% poverty rates, it will be very difficult to reduce social programs, and this means that the middle class is likely to be the target of most cuts. Reducing public works spending will be a shame, but probably necessary against this background. Not that the budget is huge, but this government will end up spending close to 1.5% of GDP there, so easily half a point of GDP will need to come from there in the first year if not more.

There are no guarantees. In practice, even not getting to zero primary deficit but close to it would be a good achievement. The problem is that

Banks became public-sector lenders

As % of assets (national currency)



Source: Econviews based on BCRA

Fiscal Balance

As % of GDP

	2022	2023	2024
Primary expenditures	**20.4%**	**19.5%**	**17.0%**
Subsidies	2.6%	2.1%	0.9%
Energy subsidies	2.0%	1.6%	0.6%
Transport subsidies	0.6%	0.5%	0.3%
Social expenditures	11.3%	11.1%	11.0%
Pensions	7.6%	7.5%	7.4%
Tranfers to provinces	0.7%	0.5%	0.4%
Opex	3.1%	3.3%	3.0%
Capex	1.6%	1.5%	1.0%
Other	1.0%	1.0%	0.7%
Total revenues	**17.7%**	**16.5%**	**17.0%**
Tax revenues	16.3%	14.9%	15.7%
Rents	0.6%	1.0%	0.8%
Non-tax revenues	0.8%	0.7%	0.6%
Primary Balance	**-2.7%**	**-2.9%**	**0.0%**
Interests	1.5%	2.0%	2.0%
Fiscal Balance	**-4.2%**	**-4.9%**	**-2.0%**

Source: Econviews based on Mecon & own estimates there is no secure source of finance for the unmet target. If such problem is worked out through money printing, it will be difficult to build credibility on the monetary front.

Still, Argentina will need to find money to pay for interest, which is close to 2 points of GDP. It is reasonable to think that the peso leg can be raised in the local market, but the dollars will have to come from somewhere else. International financial institutions are a primer. Considering the IMF, bonds, and Multilaterals, interests to be paid ads roughly 7 billion. But accumulating some reserves as an insurance policy then becomes a must. With lower interest rates in the US, it could not be unthinkable to raise a little something towards the end of 2024, but it is too risk to count on that.

<u>The debt legacy</u>

Public debt management is a second challenge. **The main challenge is to regain credibility in the government's willingness and ability to pay** the debt. This can be achieved through a large fiscal adjustment, similar to the one is suggested in the previous section, and by having a sound debt management strategy.

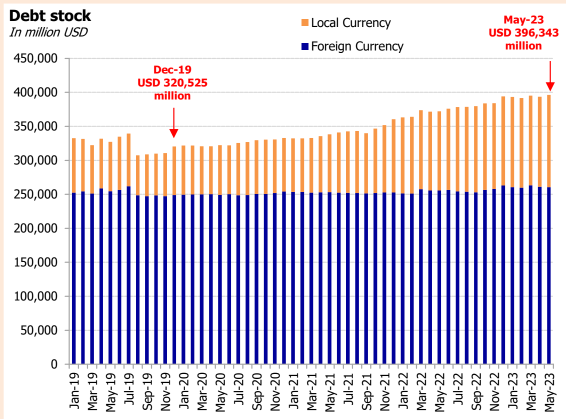
The debt has increased during Alberto Fernandez mandate by around **USD 75.8 billion** and reached 64.4% of GDP. Excluding intra-public sector debt, the figure is much lower, 240 billion or roughly 40% of GDP. The burden would not be an issue if Argentina were a normal country, but its history of defaults and restructurings plus many years of large fiscal deficits complicates the situation.

Argentina does not owe too much. Its problem is not the stock of debt, rather the lack of access to the markets to rollover.

In the external front in 2024 Argentina has to pay USD 4.5 billion in principal to the IMF that should be rolled over, but it also needs to pay USD 2.4 billion in interest. Other multilateral creditors will receive 1.75 billion in interest and 2.8B in principal, which we estimate that can be rolled over. Then private creditors need to be paid USD 1.25b in principal and 3.1 billion in interest, as bonds have step-up coupons. So, they remain low, but not so low. Clearly this is extremely challenging with the current level of reserves, though the situation will drastically improve if in fact Argentina improves the trade balance next year by around USD 25 billion as it recovers from the draught.

In addition the strategy should include a new sound IMF program that hopefully will provide extra funds from the IMF, which would secure private debt payments and therefore send the right signal to the markets. More so if funds are not used to finance the fiscal deficit. Then the government will probably want to do some voluntary exchanges to increase the attractiveness, perhaps offering higher coupons.

The peso debt market is another challenge. The positive element is that in the last few auctions the government has been lengthening maturities including selling some (indexed) paper due in 2025. However, there is a wall of maturities early on, probably ARS 10 trillion in February 2024, just 2 months in office with the stabilization plan not completed. Issuing money to pay for that could be a lethal shock to the plan. So, it will be



Source: Econviews based on MEcon

Debt Stock

In million USD

	2023 E
Total	**400,473**
Private	175,670
IMF	43,694
Multilaterals	37,379
Public sector	143,730

Source: Econviews based on MEcon

key to organize a savvy negotiation to secure a rollover in good terms. The government cannot look desperate, as the wrong signals could derail the confidence building. Some of the advocates of not lifting the FX restrictions immediately point out that if credibility is not perfect (almost market falling in love with the new authorities), this may become a difficult juncture.

In summary, the fiscal legacy is quite hard even when numbers are not worse than in 2015. The need for a shock and the lack of market access are the ones setting the tone. The next government will need a careful fine tuning to succeed in the shock without jeopardizing all the political capital. For reference, this is exactly what the government of De La Rua did in 1999: they wanted to improve the solvency, but killed animal spirits on the way.

Base Scenario

	2019	2020	2021	2022 E	2023 E	2024 E
Inflation (eop)	53.8%	36.1%	50.9%	94.8%	150.0%	140.0%
Exchange rate ARS/USD (eop)	59.9	84.1	102.8	177.1	504.8	1,186.3
Exchange rate ARS/USD (eop, YoY)	58.4%	40.5%	22.1%	72.4%	185.0%	135.0%
Real exchange rate ARS/USD (eop, Dec-01=100)	151.5	158.3	137.1	129.4	154.2	155.5
Paralell exchange rate ARS/USD (eop)	74.6	140.3	203.1	340.8	732.0	1,186.3
Spread with official exchange rate (eop)	24.6%	66.8%	97.7%	92.4%	45.0%	0.0%
Gross reserves (USD billion, eop)	44.8	39.4	39.7	44.9	34.8	42.3
Net international reserves (USD billion, eop)	12.6	3.8	2.3	7.7	0.0	5.0
Policy rate (eop)	55.0%	38.0%	38.0%	75.0%	120.0%	50.0%
GDP (YoY)	-2.0%	-9.9%	10.4%	5.2%	-3.8%	0.0%
Formal wages in real terms (aop, YoY)	-6.0%	-1.9%	0.4%	0.3%	-2.5%	-2.5%
Primary result (% GDP)*	-0.2%	-6.4%	-3.3%	-2.7%	-3.3%	0.0%
Fiscal result (% GDP)*	-3.6%	-8.4%	-4.8%	-4.1%	-5.3%	-2.0%
EMBI Argentina (spread in bps, eop)	1,744	1,350	1,703	2,196	1,500	750
Public net debt (% GDP)	43.6%	52.7%	42.1%	34.1%	35.1%	41.6%
Current account (% GDP)	-0.8%	0.8%	1.4%	-0.6%	-2.4%	2.7%

Source: EconViews

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

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