

Argentina's Stabilization Program: Progress and Prospects

Washington DC, April 2024

Vladimir Werning, Deputy Governor BCRA



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

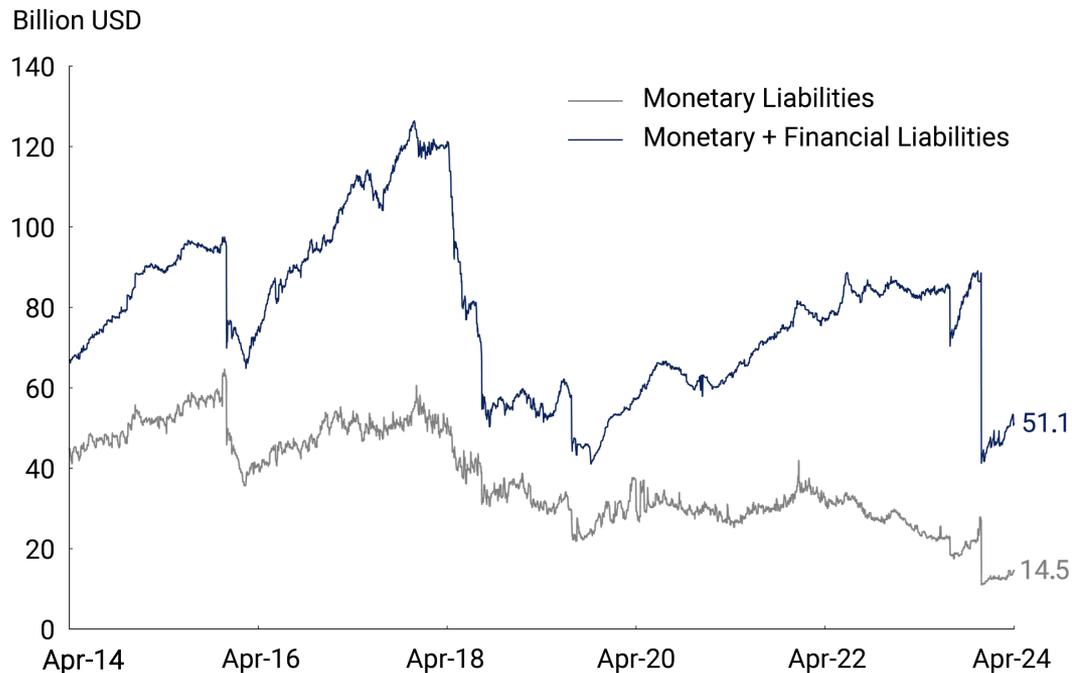
Agenda

- 1 | **Legacy Imbalances: Steering the Economy Away from Peso Hyperinflation & Dollar Default**
- 2 | **A Pragmatic Exit Strategy: From Design to Delivery**
- 3 | **Policy Progress: Resurrecting BCRA's Price Stability Mandate**
- 4 | **Prospects for a U-Turn: Monitoring Support from Society, Opposition Parties, the Economy and Financial Markets**

Legacy Imbalances: Steering the Economy Away from Peso Hyperinflation & Dollar Default

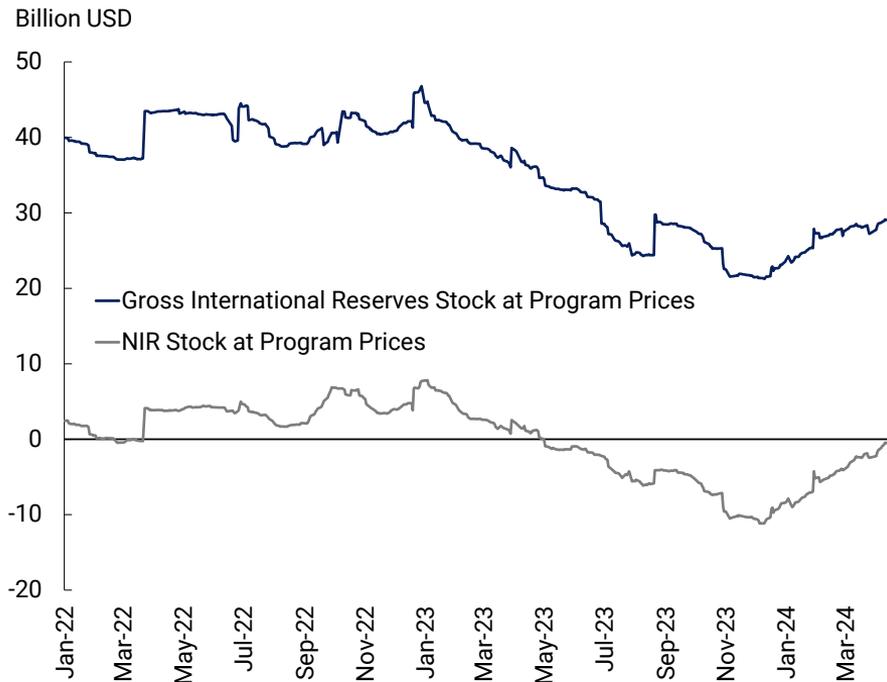
- 1 | BCRA Liabilities (M): Upward Spiraling Monetary + Financial Liabilities Fueling Peso Inflation
- 2 | BCRA Assets (R): Downward Diving BCRA Liquid Reserves Fueling Dollar Default Risk
- 3 | "Crisis Ratio" (M/R): Signaling Financial, Economic and Social Crisis in the Making
- 4 | "Last Resort" Option: Policy Shock to Avert Imminent Peso Hyperinflation & Dollar Default

Total Liabilities in ARS
At Official FX Rate



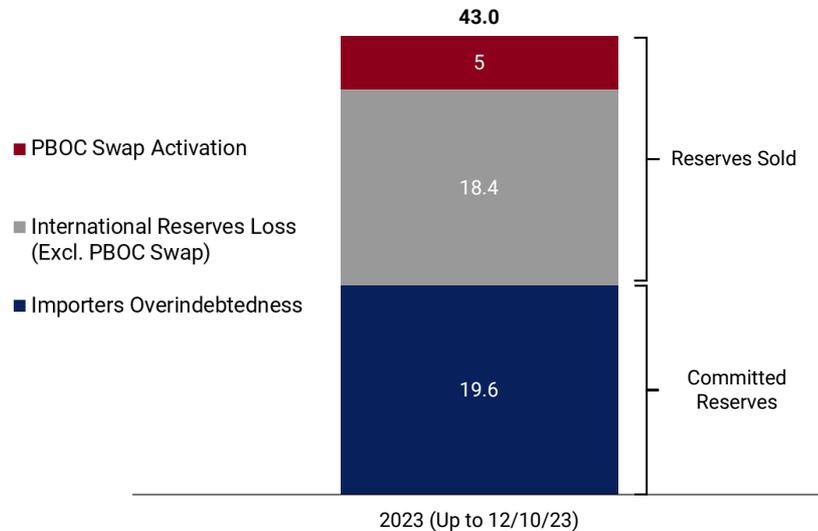
BCRA's Remunerated Liabilities in Foreign Currencies are Excluded. Last Data April 17th, 2024.
Source | BCRA.

BCRA Reserves Stocks



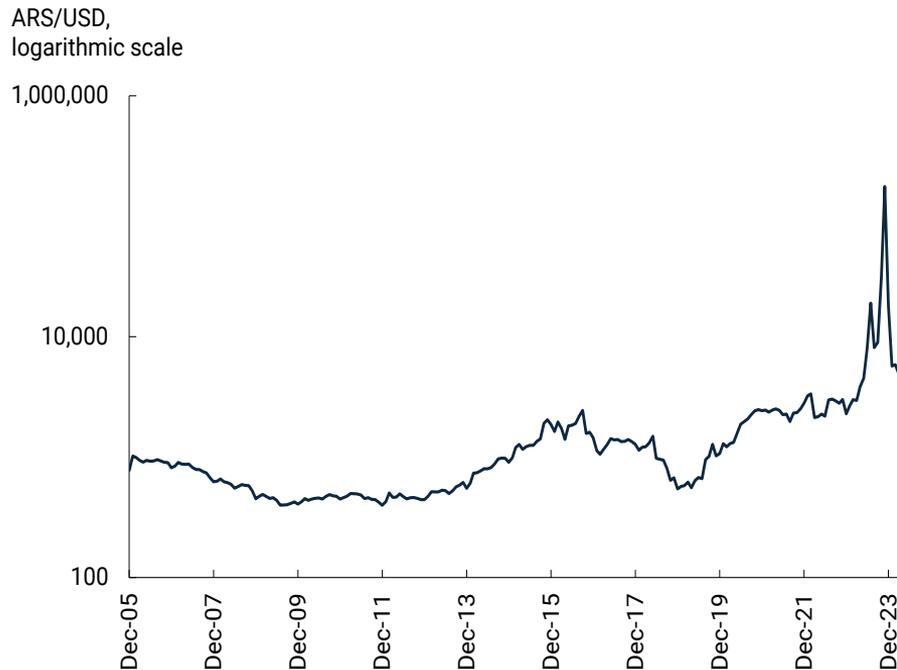
Source | BCRA.

Decline in BCRA Reserves + Increase in Unsatisfied Claims on BCRA Reserves* Billion USD



*Importers Overindebtedness is the Difference in Debt Relative to Historical Average Debt Stock.

**Ratio of BCRA Remunerated Liabilities to Net Reserves
(Excluding Liabilities with Foreign Residents)
At Constant Prices**

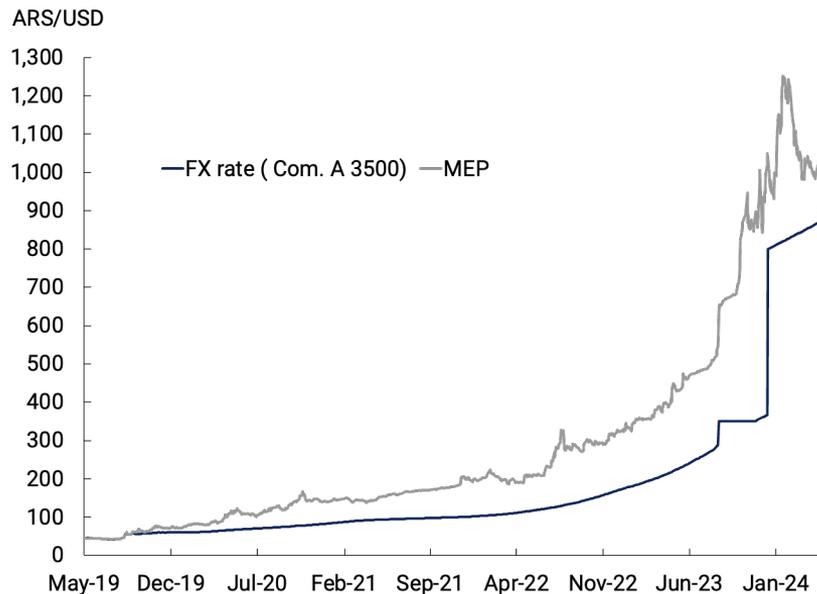


Note | NIR are Gross Reserves Excluding Swap with China and BIS.
*Last Data April 18th.
Source | BCRA.

A Pragmatic Exit Strategy: From Design to Delivery

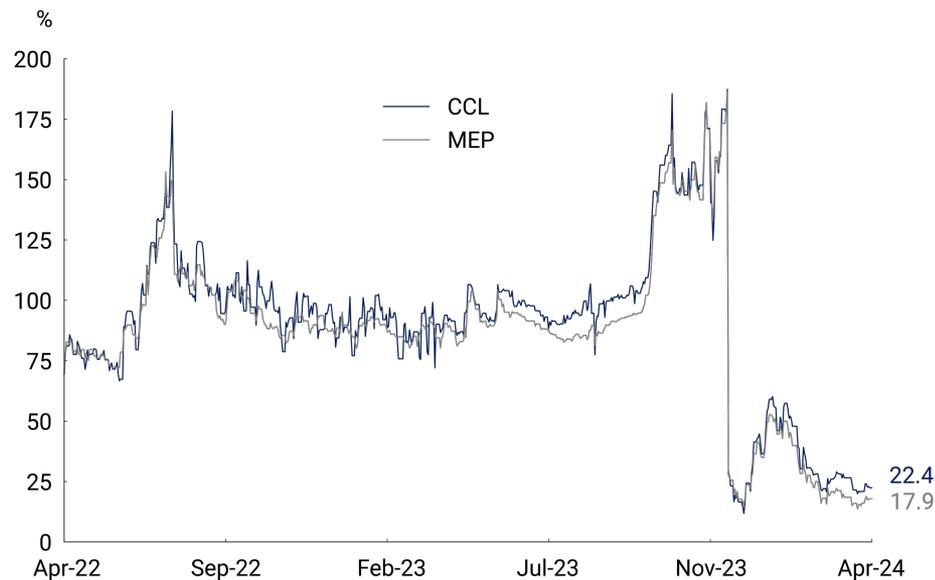
- 1 | "End of the Line" Constraints: 0 Liquid Reserves + 0 Access to Credit Market + 0 Policy Credibility
- 2 | "Last Resort" Option to Avert Crisis: Shock Therapy on all Fronts (Macro- & Micro- Economic Reform)
- 3 | Lessons Learned from 2015: Invert Sequence (1st Establish Fiscal Anchor, 2nd Lift FX Controls)
- 4 | Policy Consistency Requires Design While Recovering Policy Credibility Requires Delivery
- 5 | Design Challenges: Simultaneously Build 4-Pillars to Reestablish the Flow Equilibrium of the Economy
FX Realignment, Fiscal Consolidation, Monetary Restraint & Balance of Payments Reversal
- 6 | Delivery Challenges: Avoid Disruptions by Narrowing Stock Imbalances/Transforming them into Flows
Increase BCRA Reserves, Rein in BCRA Financial Liabilities & Defer Excess Import Claims on Reserves
- 7 | Ongoing Homework: Progressively Unravel Exchange Rate and Monetary Red-Tape/Distortions
- 8 | End-Goal: More Flexible FX Policy, No Exchange Controls and Operational On-Shore Currency Competition

Foreign Exchange Rates



Source | BCRA.

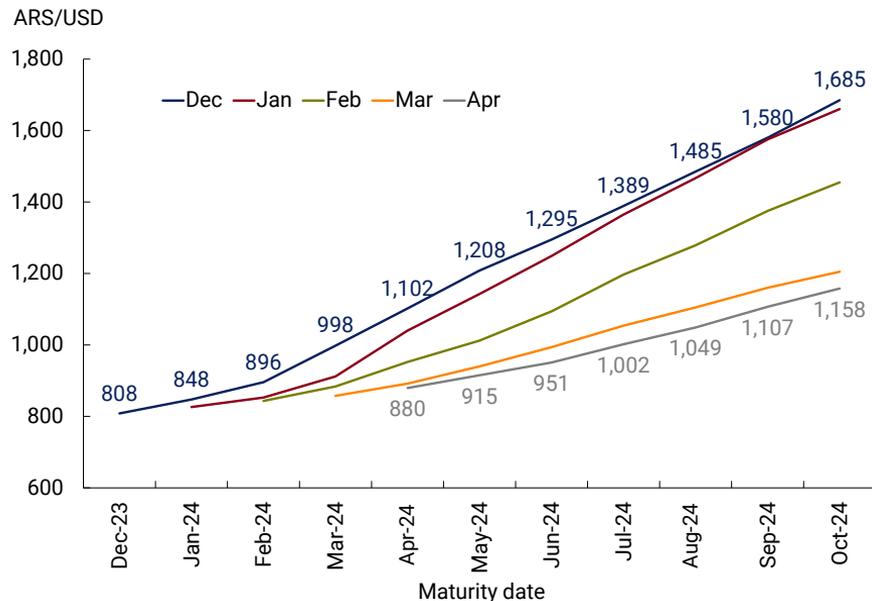
Exchange Rate Gaps



Large Relative Price Adjustment Addressed the Burden of a Massively Overvalued Peso and Eliminated a Wide FX Gap that Fueled the Persistent Depletion of BCRA's Reserves Throughout 2023.

Average Exchange Rate on Future Contracts Operated Each Month

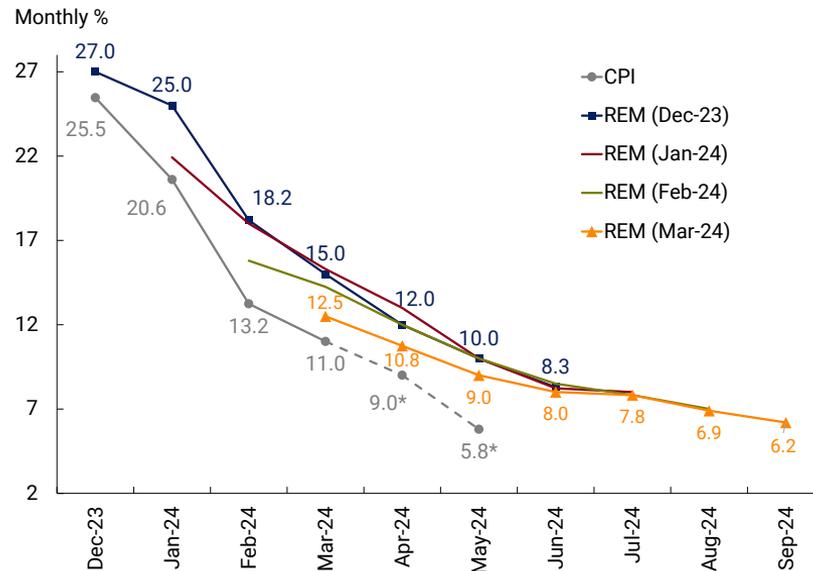
ROFEX



Source | BCRA from ROFEX Data.

The Market's Convergence toward the FX Crawl Rate has Reduced Uncertainty

Inflation Expectations Market Expectations Survey (REM)

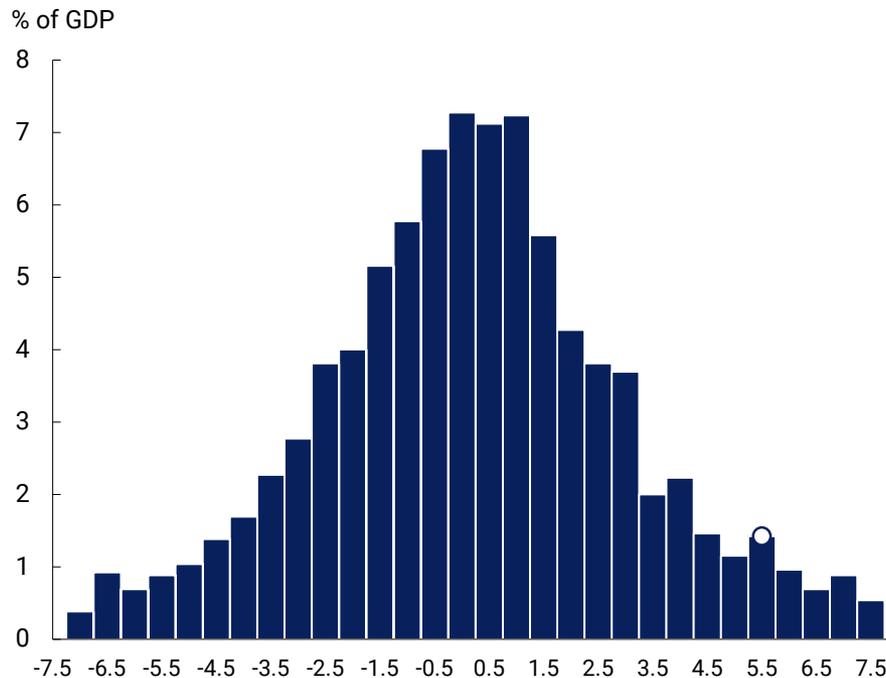


*BCRA Estimate.

Source | BCRA from INDEC and REM-BCRA Data.

FX Policy Contributes to Anchoring Actual Inflation Amid the Lag in Expectations following a Regime Shift

3-Year Adjustment in Cyclically-adjusted Primary Balance in Fiscal Adjustments Between 1990-2019



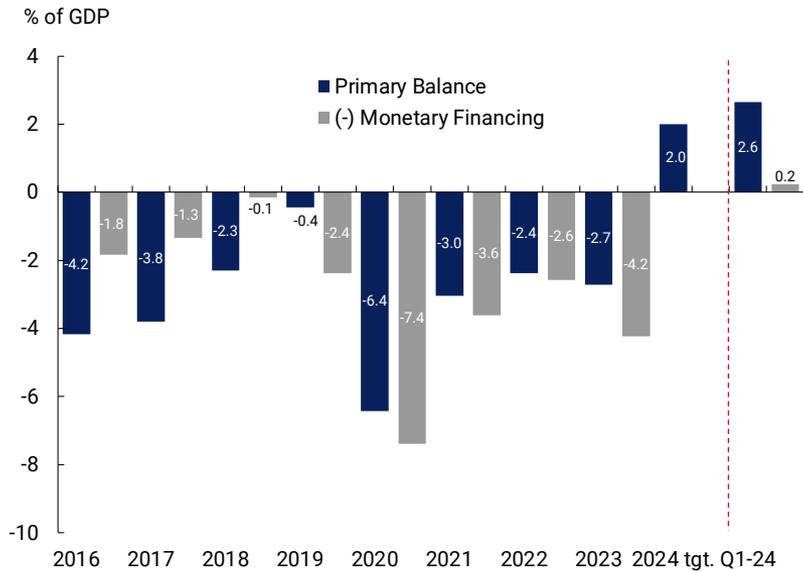
President Milei's "Whatever it Takes" Mandate on Fiscal Policy Represents an Unprecedented Political Commitment for Argentina

Minister Caputo's "Zero Fiscal Deficit" Goal for Argentina Stands in the 90% Percentile of the history of Fiscal Adjustments over 3 decades

○ 2024 Fiscal Adjustment Target

Source | IMF.

Primary Balance of NFPS and Deficit Monetization



Note | For 2021 SDR Allocation of \$427.4 Billion is not Considered. For 2022 Excess Primary Income from Primary Debt Placements is not Included. Q1-24: Seasonally Adjusted Annualized Fiscal Balance. Monetary Financing since 10th Dec-23 up to Apr-24.
Source | BCRA from Ministry of Economy and INDEC Data.

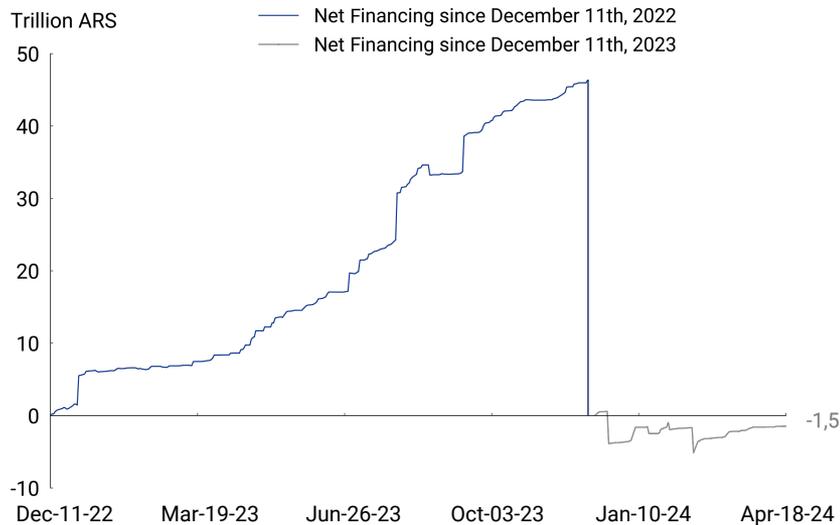
Due Debt of National Administration (Floating Debt)



Source | BCRA from National Treasury and INDEC Data.

Zero Deficit Target: The Treasury Delivers a Genuine "Fiscal Sudden Stop" in Q1-24.

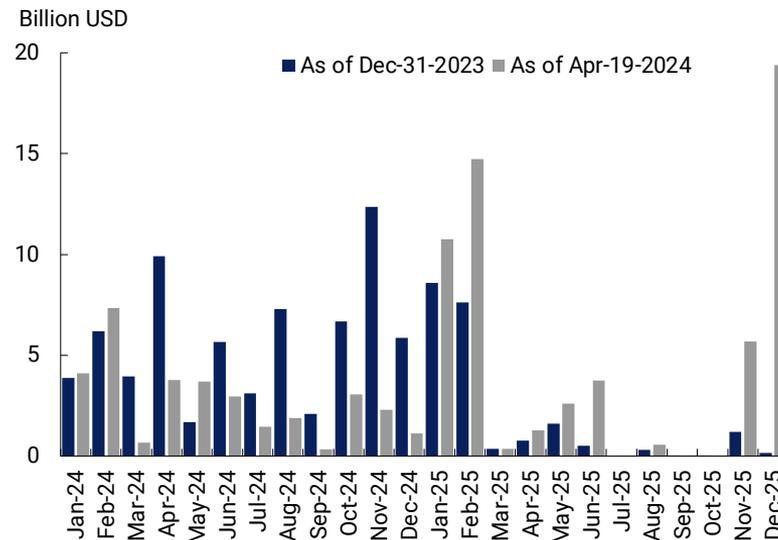
Cumulative BCRA Financing of Treasury (IMF definition)
At Constant prices of April 18th, 2024



Source | BCRA.

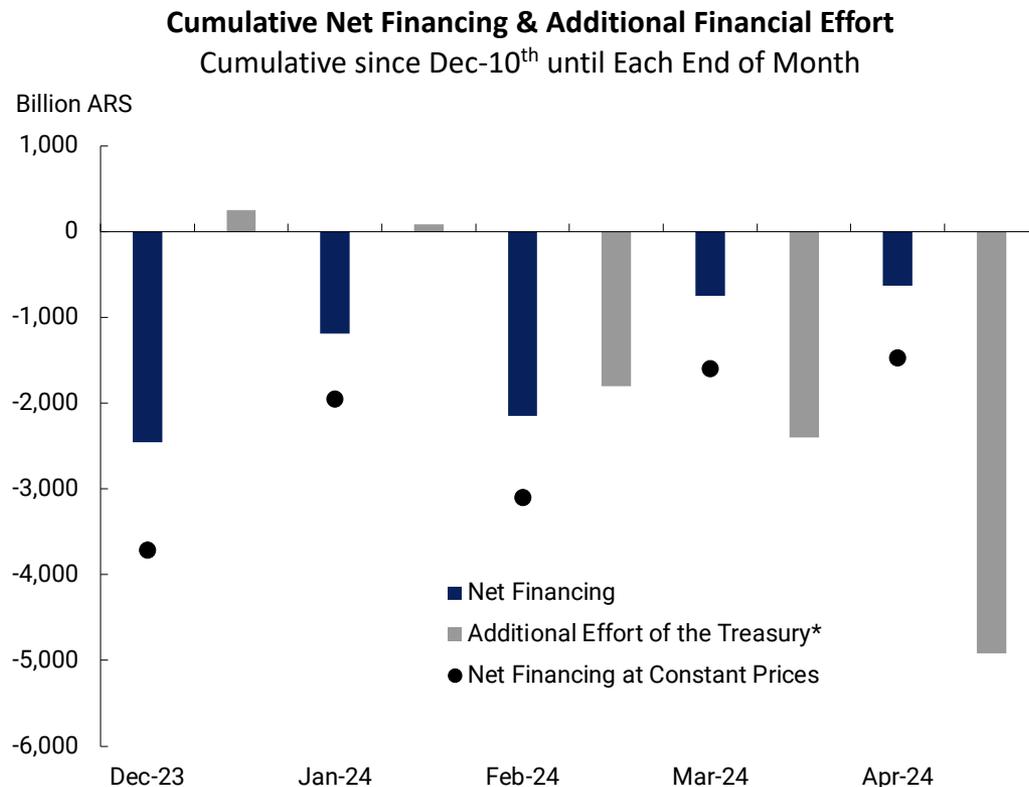
BCRA: Commitment to Zero Net Financing of the Treasury Aims to Reduce Excess Peso Liquidity Risk.

Principal and Interest Payment in Local Currency Schedule



Source | Ministry of Economy.

Treasury: Commitment to Extend Domestic Debt Maturities Aims to Reduce Excess Peso Credit Risk.



The Cumulative Zero Net Financing Target Provides a New High-Frequency Proxy of Fiscal Performance (Given Initial Conditions of Full Monetary Financing of the Fiscal Deficit)

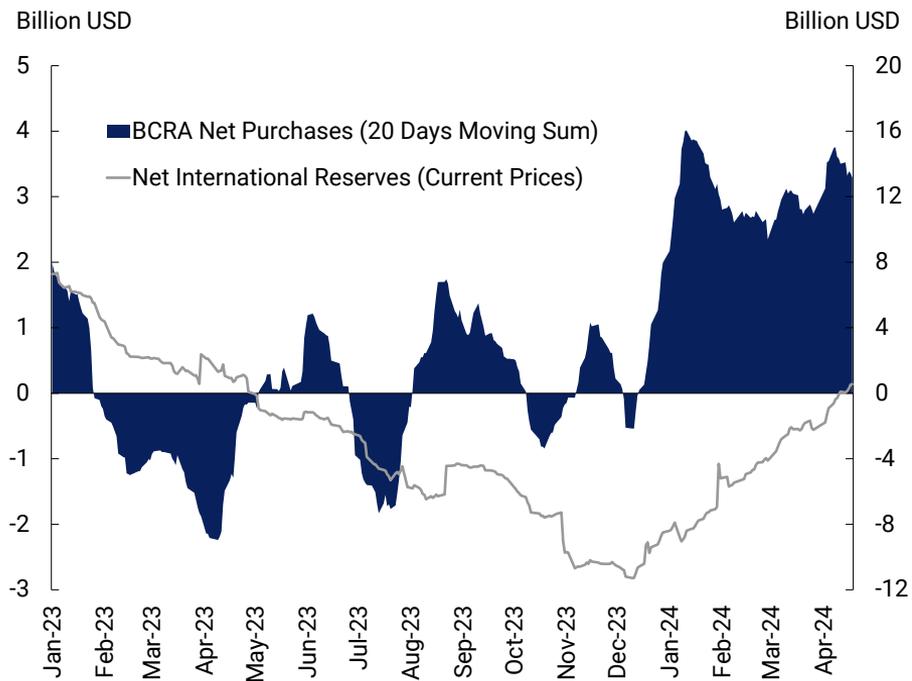
Treasury Facilitates BCRA's Peso Absorption of \$633 billion since Dec 10th, 2023 (or \$1,478 billion, measured at constant prices)

Treasury Delivers Additional Cumulative Financial Efforts: USD Purchases + ARS Cash Cushion

*National Treasury's Primary Deficit, Debt Services and Repurchases to BCRA minus National Treasury Debt Auctions Results. Primary Deficit Data since Jan-24 until Last Available Data (March 24).

Source | BCRA and Ministry of Economy.

BCRA USD Purchases and Net International Reserves



Source | BCRA.

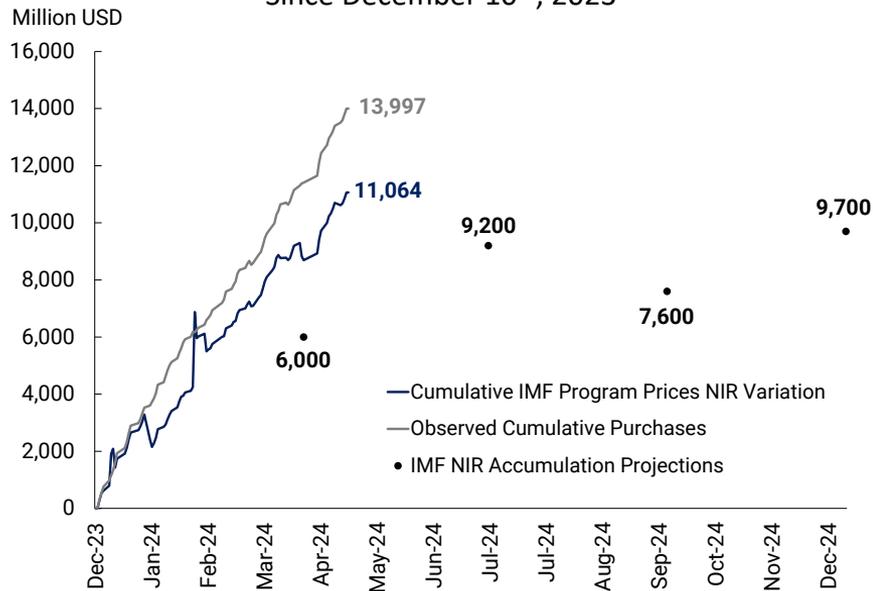
Net International Reserves Breakdown

(IMF Methodology) Million USD

	4/19/2024
Gross International Reserves (1)	29,850
PBOC Swap Line	18,155
RR FX Deposits	9,230
Sedesa and Other	1,914
BIS Swap Line	-
Subtotal liabilities (2)	29,298
Net International Reserves (IMF 7th Review Definitions) (1)-(2)	552
Treasury Deposits at BCRA (for Upcoming Debt Payments)	2,990
BOPREAL (maturities less than one year)	1,743
Subtotal Other Liabilities (3)	4,733
Net International Reserves (1)-(2)-(3)	-4,181

A "V-Shaped" Reversal from Last Year's Collapse in BCRA's Net Reserves.

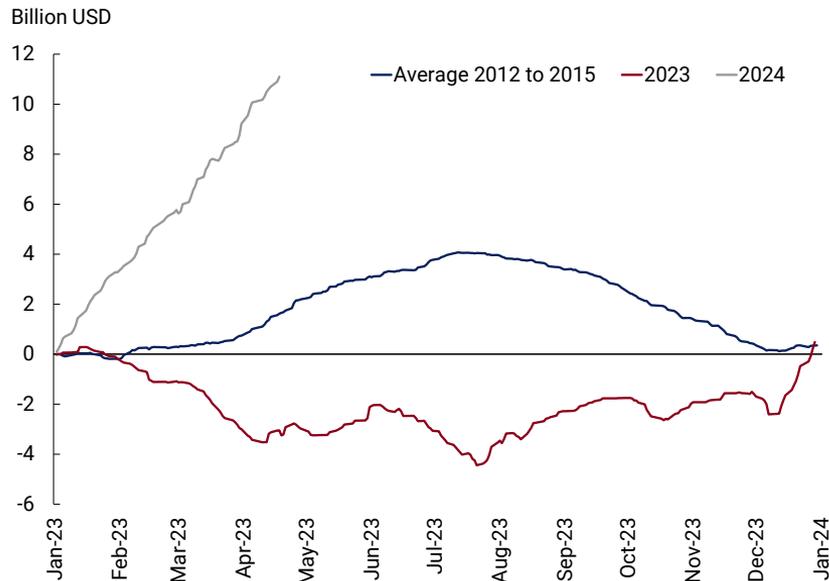
BCRA FX Purchases, Cumulative Change in NIR and IMF
Since December 10th, 2023



Source | BCRA and 7th IMF Review.

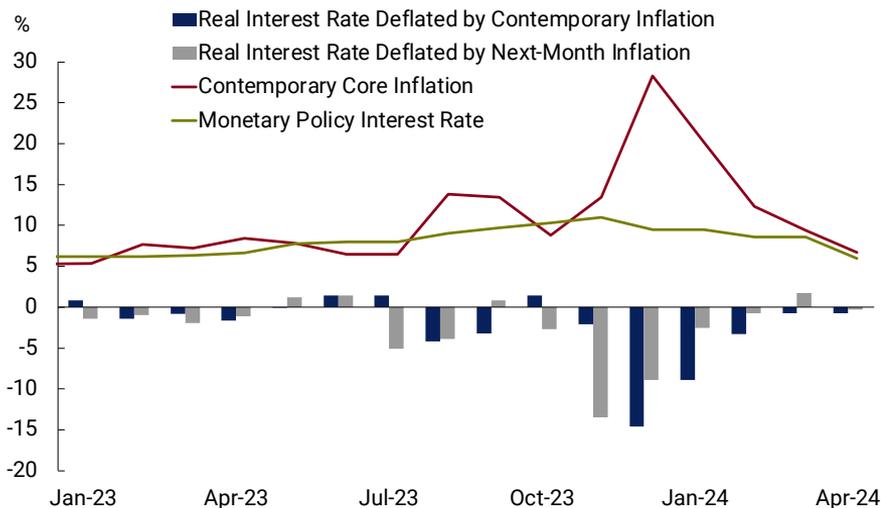
Reserve Accumulation: Q1 IMF Target Met by a Comfortable Margin.

BCRA Cumulative Purchases



FX Market: Adverse Seasonality (Lower ARS Demand & Lower USD Supply) Behind, Favorable Seasonality Ahead.

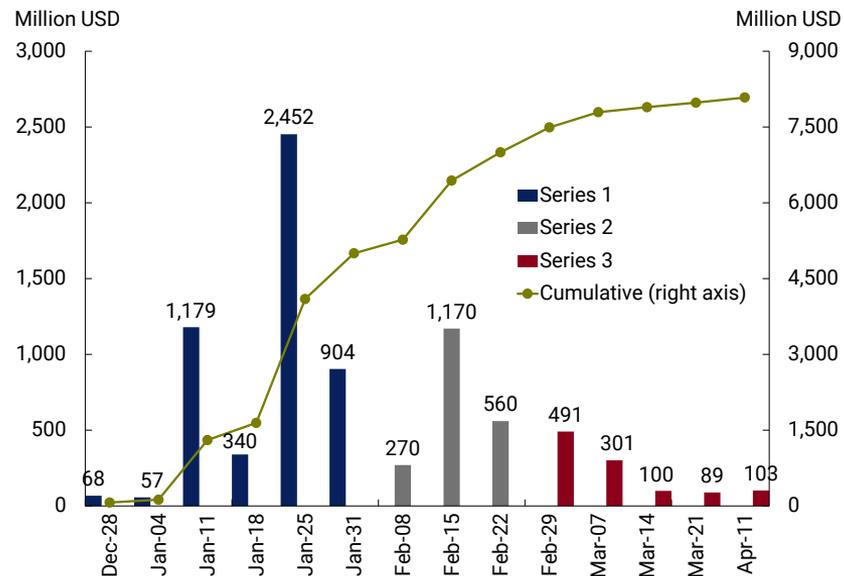
Monetary Policy Interest Rate and Core CPI inflation
Effective Monthly Rate



Note | Monthly Average Interest Rate until March 24, Current Interest Rate in April 24. BCRA's Estimate for April 24. Source | BCRA.

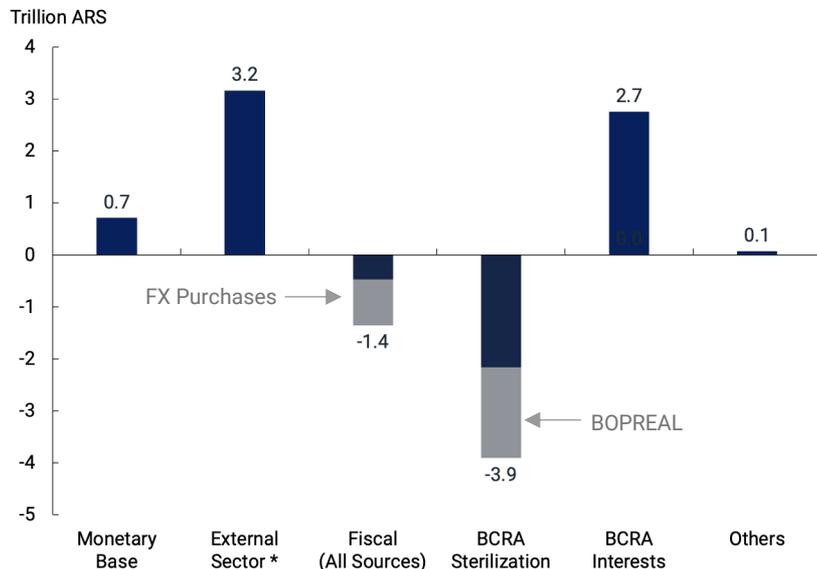
Policy Rate Cuts Have Reined in Endogenous Money Supply; Declining Inflation Is Driving Real Rate Dynamics.

FX Swap (BOPREAL)



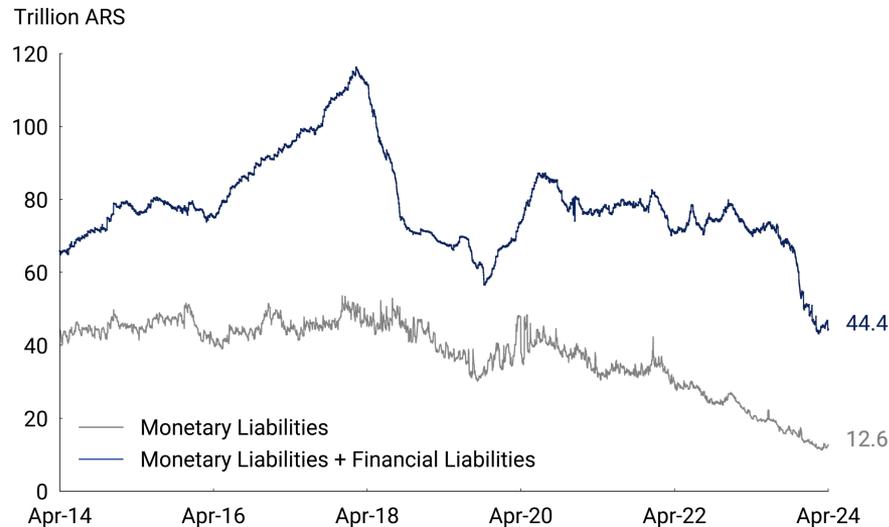
FX Swaps Issued to Limit Supply-Chain Disruptions from Loss of Trade Credit and to Defer Importer Claims on Scarce BCRA Liquidity.

Flows: Drivers of Monetary Base Change since December 10th
Average Monthly Change at Constant Prices of April 24



*Excluding net FX Purchases by the National Treasury.
Source | BCRA.

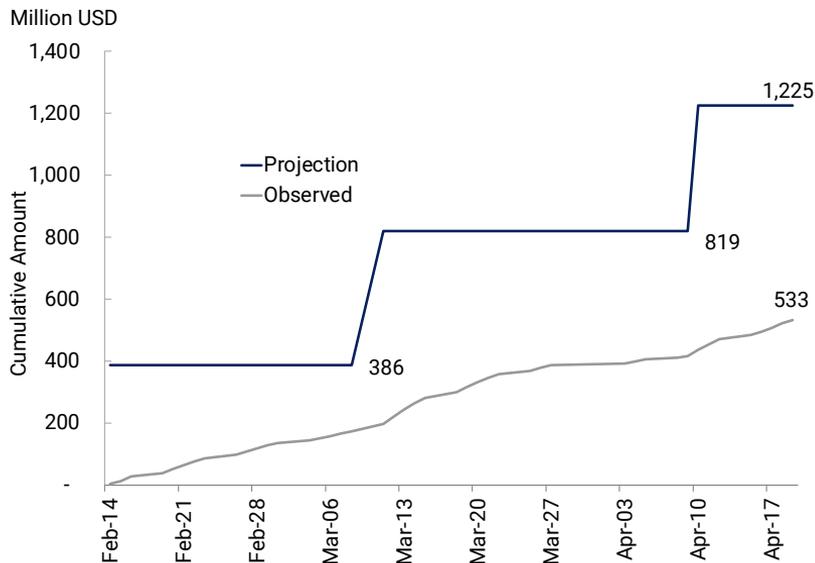
Stock: BCRA Liabilities in ARS
At Constant Prices of April 17th, 2024



BCRA's Remunerated Liabilities in Foreign Currencies are Excluded.
Source | BCRA.

Eliminating Undesired Sources of Money Supply and the Burden of Cumulative Monetization of Fiscal Deficits.

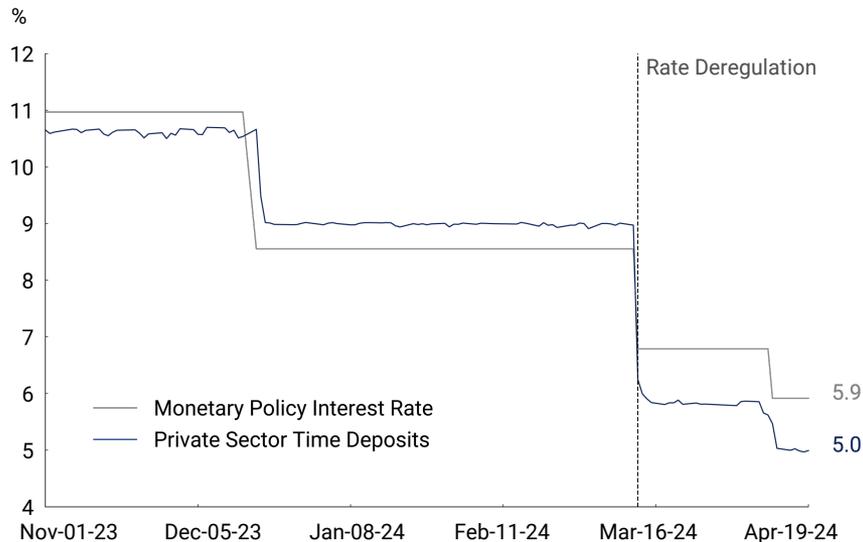
SME's Access to FX Market for Debt Payments and SME's USD Demand



Source | BCRA.

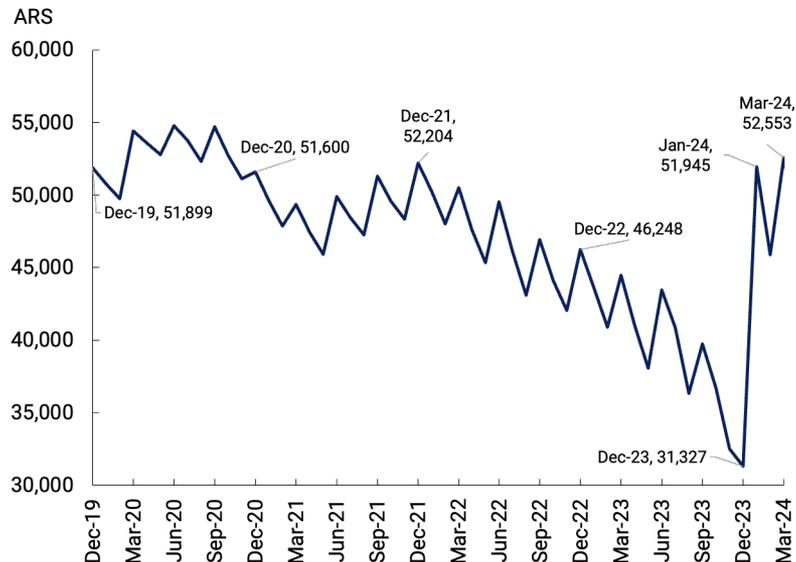
Steps Toward FX Normalization: Demand Falls Short of Full Access Granted to Exchange Rate Market for SMEs (Payment of Old and New Imports).

Monetary Policy and Deposit Interest Rates Effective Monthly Rate



Steps toward Monetary Normalization: Eliminating Rate Floors and Compulsory SME Lending, Reducing Rate Subsidies, Raising Liquidity Requirements. 18

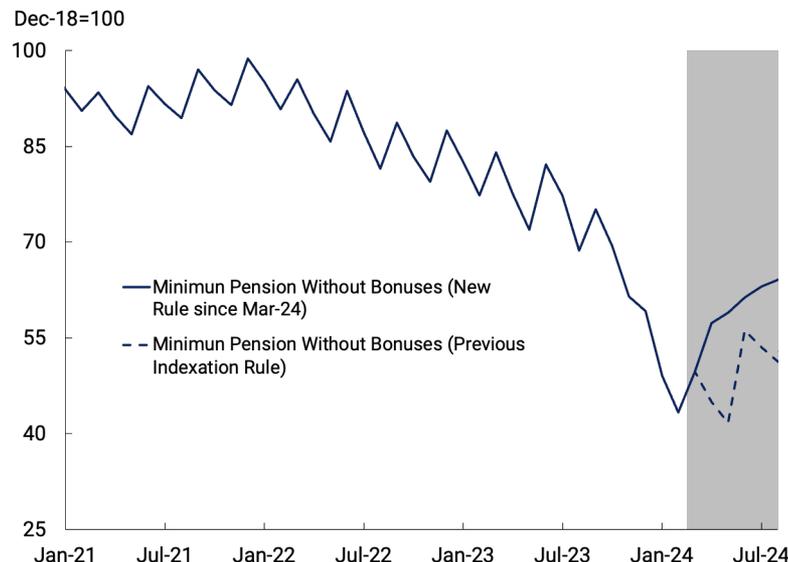
Universal Child Allowance
at Constant Prices of March 2024



Source | BCRA, Ministry of Economy and INDEC.

Executive Reverses More than 3 Years of Inflationary Erosion of Social Safety Net Income in Only 3 Months.

Minimum Pension
Index at Constant Prices of March 2024



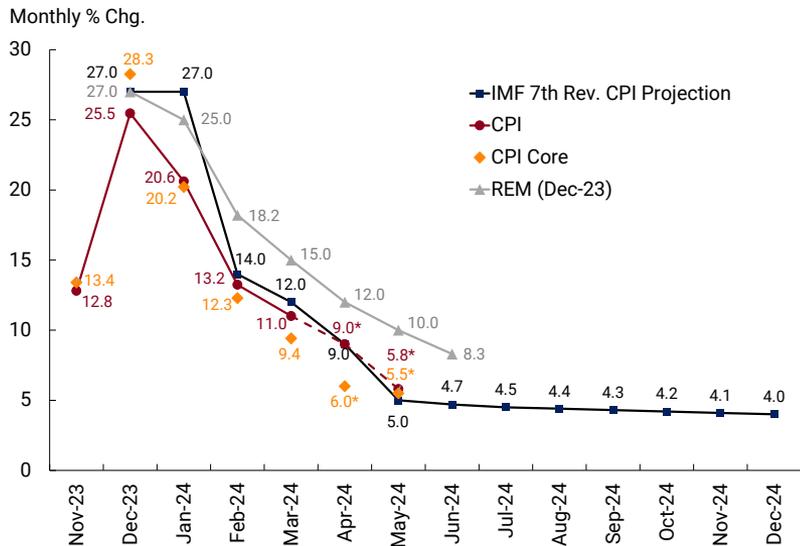
Source | BCRA, Ministry of Economy and INDEC.

Executive Changes Pension Formula that Over the Last 2 Years Dictated an Erosion of Pension Income.

Policy Progress: Resurrecting BCRA's Price Stability Mandate

- 1 | Currency Realignment: Spurs Long Overdue Relative Price Adjustment Across the Economy
- 2 | Inflation Trends: Decelerating Significantly Faster than Expected
- 3 | High Frequency Monitoring: April's CPI Falling to Single-Digits; Core CPI to mid-Single Digits
- 4 | Macro Drivers: Policy Restraint and Business Cycle have Resurrected Price Elasticity of Demand
- 5 | Regulation/De-Regulation: Both Affect Goods & Service Prices but in Opposite Directions
- 6 | Public Service Tariffs: Core CPI Inflation will Command Greater Focus Amid Tariff Hikes
- 7 | Inertia: 1st Round (FX Passthrough) & 2nd Round (Services) Inflation Undershot Initial Fears
- 8 | Real Exchange Rate: Sectorial RERs Reveal High (and Disperse) Corporate Margins (in USD) Contributing More than Wages (in USD) in Determining the Price Level
- 9 | Changes to Trade/Competition Barriers: Potential Drivers (alongside Taxes and Red-Tape)

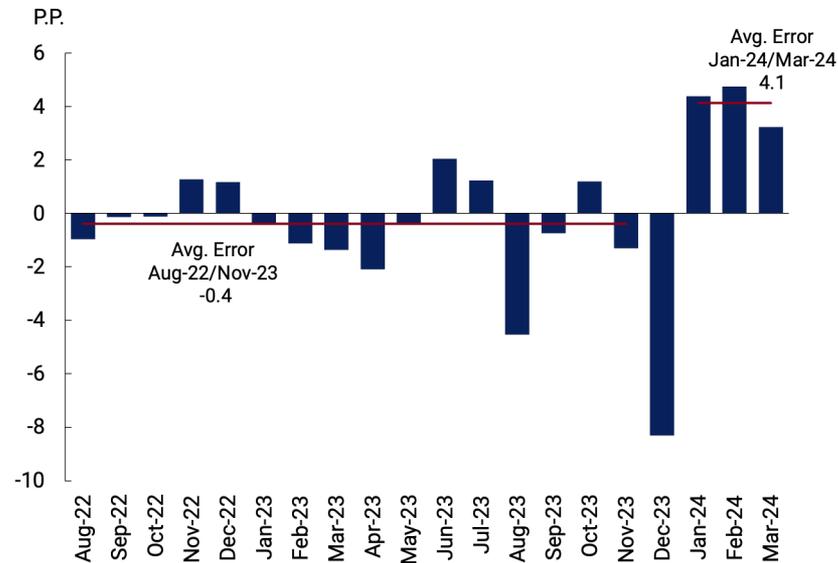
Inflation vs. 7th IMF Review and Market Expectations Survey (REM Dec-23)



*BCRA Estimate.
Source | BCRA from IMF, REM-BCRA and INDEC Data.

Inflation Undershoots Private Sector Expectations Prevailing when the Stabilization Program was Launched.

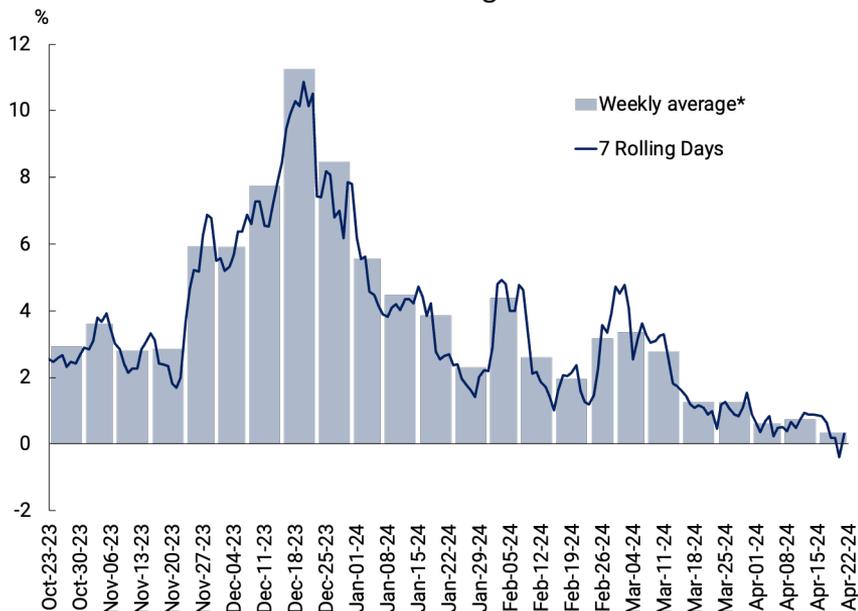
Forecast Error* of Monthly Inflation in Market Expectations Survey CPI Headline



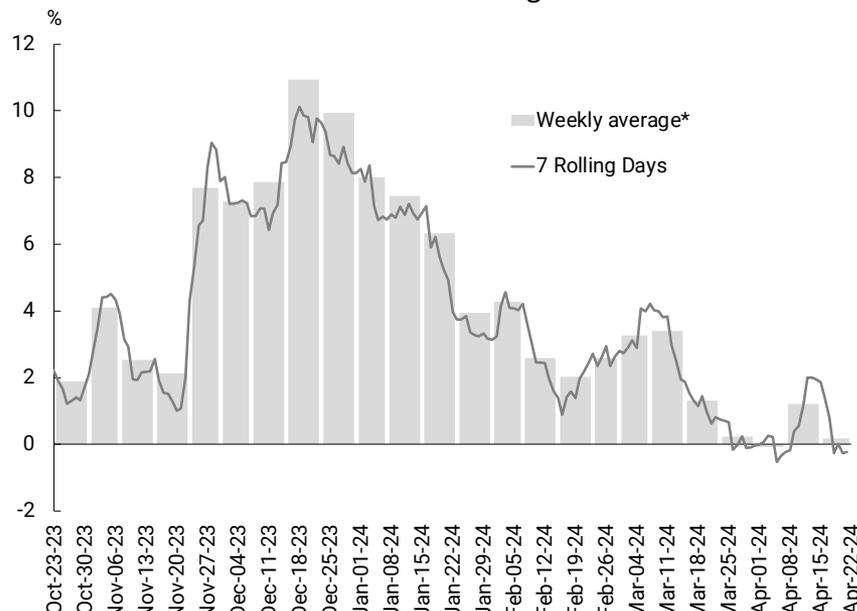
*Computed as the Difference between REM_{t-1} Headline Inflation Median Forecast and INDEC CPI_t Data.
Source | REM-BCRA and INDEC.

Downside-Risk Assessments Tend to Drive Forecasting in a Crisis, Leading to Overestimations of Inflation.

Packaged and Fresh Food and Non-alcoholic Beverages Items
Price Change



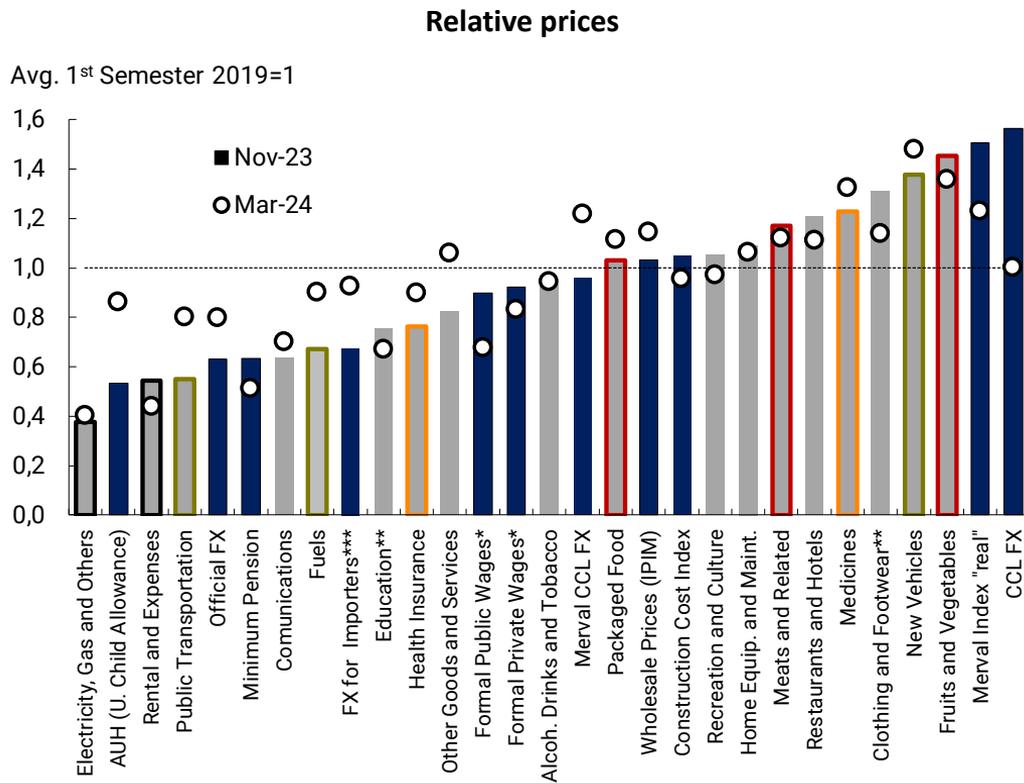
Packaged Food and Non-alcoholic Beverages Items
Price Change



*Week 1 Runs from the 1st to the 7th day of Each Month; Week 2, from the 8th to the 15th of Each Month; Week 3, from the 16th to the 23rd of Each Month; and the Fourth Week, from the 24th until the End of the Month. When the Available Data Does Not Fill the Entire Week (but at Least Covers Half of the Week), the Average Weekly Variation up to the Last Available Data is Used.

Note | Preliminary Data May Undergo Corrections, Especially Those of the Current Month.

Source | BCRA.



References

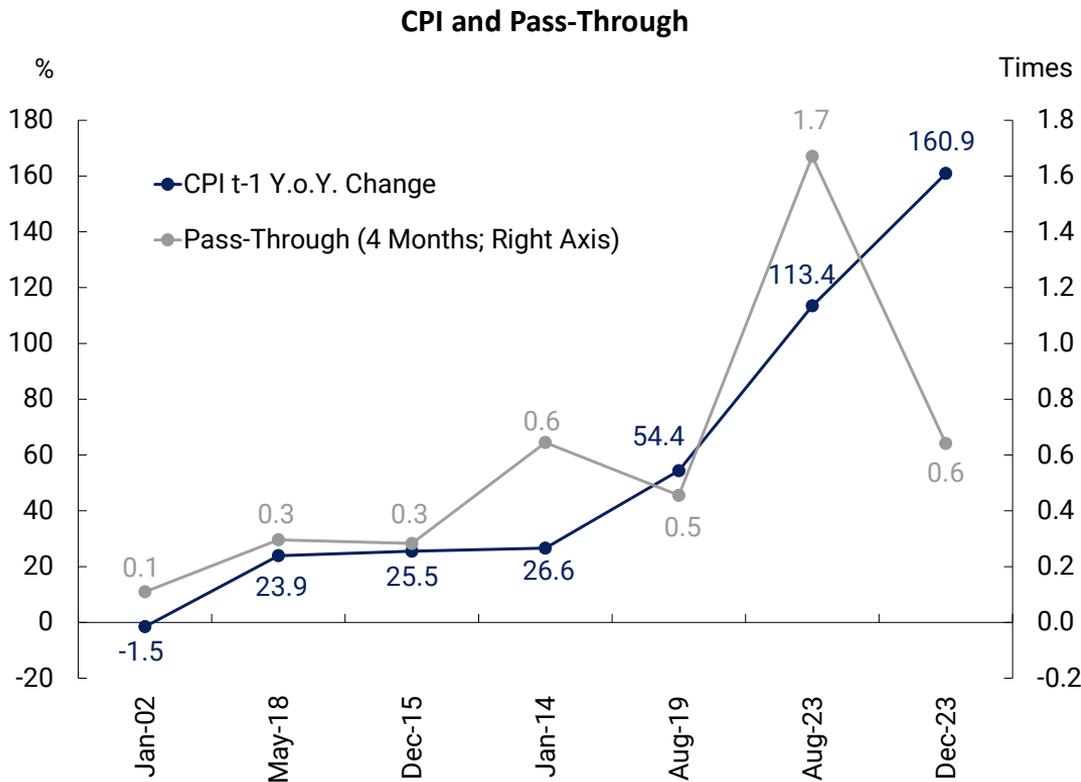
- CPI Divisions
- Group that Belongs to CPI Housing
- Group that Belongs to CPI Food and Beverages
- Group that Belongs to CPI Health
- Group that Belongs to CPI Transportation
- Other Significant Variables

*Data INDEC as of Jan-24 Linked between Feb-24 and Mar-24 with Own Estimations Based on Wage Agreements of the 25 Most Representative Labor Unions.

**Data as of Mar-24 in relation to Mar-19 compared to Data as of Nov-23 in relation to Nov-18, to address seasonal considerations.

***Considers the Official Exchange Rate Plus the PAIS Tax Applicable for Imports.

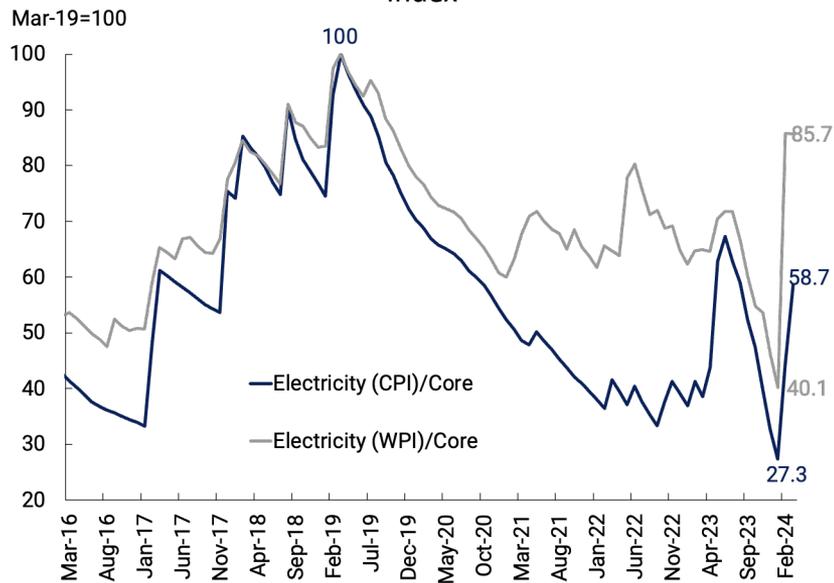
Source | BCRA from INDEC, Ministry of Economy, Rava and Labor Unions Data.



The FX Pass-through to CPI Inflation since December has Undershot the Pace that the High Level of Inflation Might Have Suggested.

Source | BCRA from and INDEC Data.

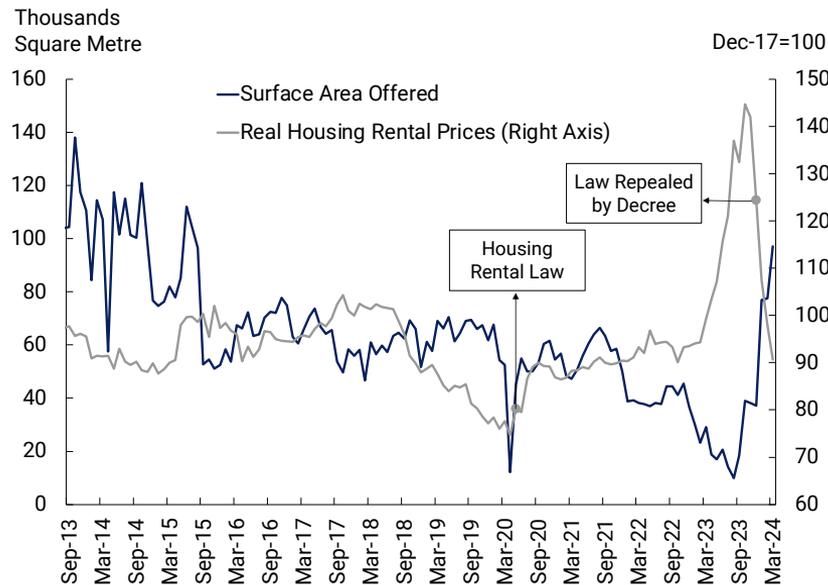
Relative Prices of Electricity Index



Source | BCRA from INDEC and Buenos Aires City Bureau of Statistics.

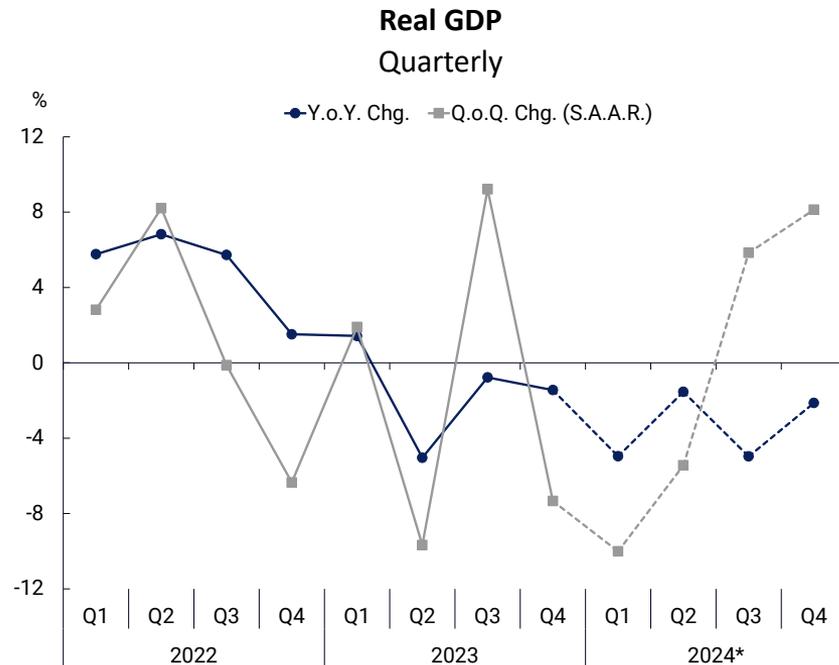
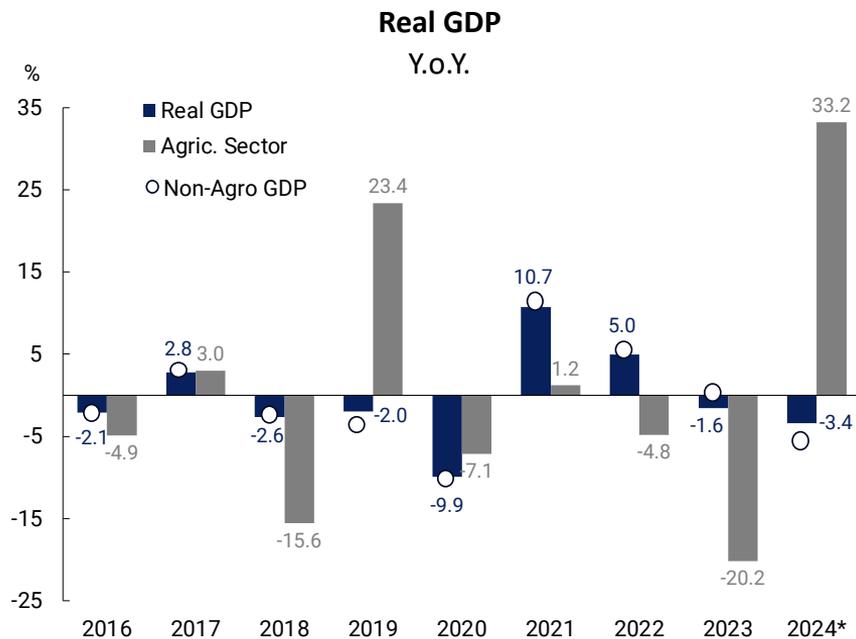
Increase in Regulated Prices: Headline Inflation is Being Impacted by Swift Normalization of Public Service Tariffs.

Real Housing Rental Prices Index and Surface Area Offered



*Deflated by CPI.
Source | Buenos Aires City Bureau of Statistics and INDEC.

Decline in Deregulated Prices: Rents are Falling after Executive Action Repeals Housing Rental Law. 25

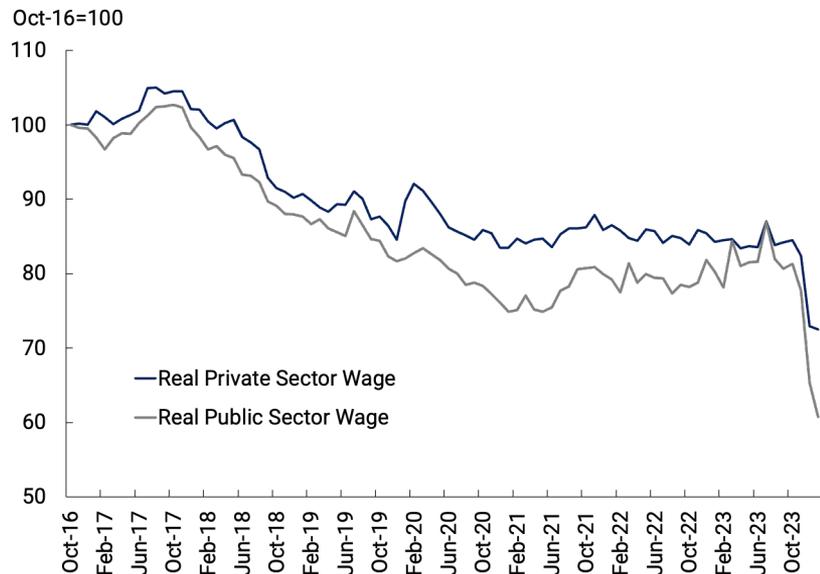


*MECON Forecasts.
Source | BCRA from INDEC data.

The Business Cycle Will Contribute to Disinflation as Price Elasticity Resurfaces amid Income Constraints.

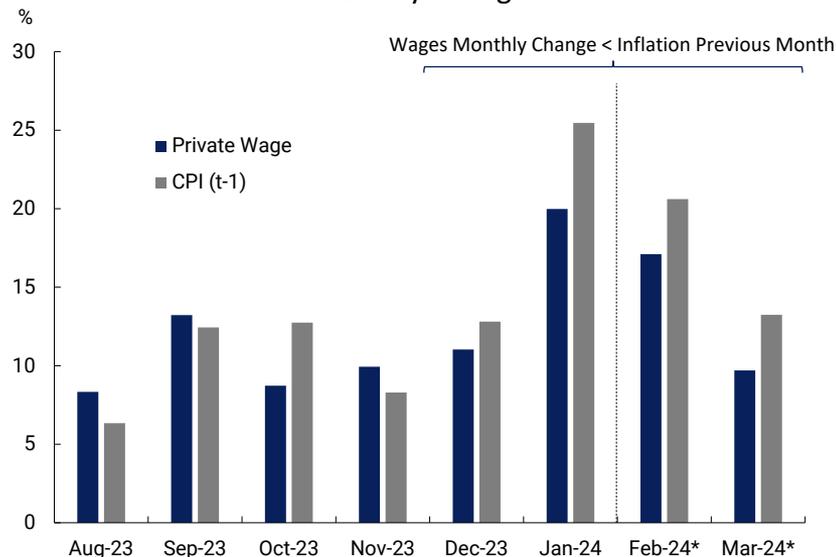
Amid Rising Inventories, the Pace at which Corporates Advance the Price Discovery Process will Influence the Timing of a Recovery.

Public and Private Sector Formal Real Wages Index



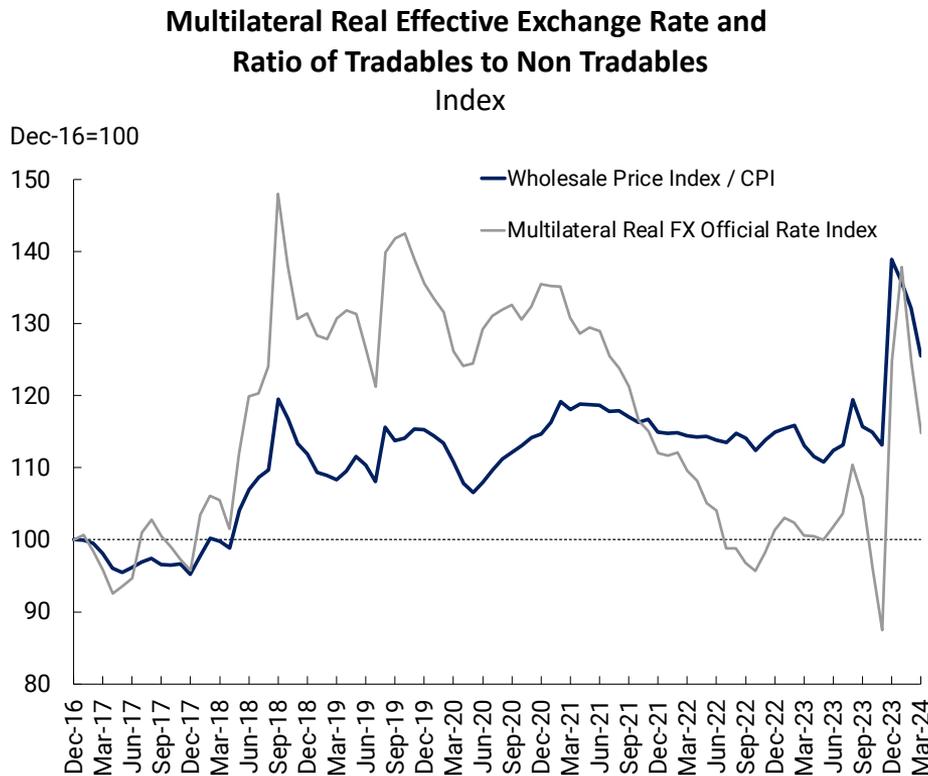
Source | BCRA from INDEC Data.

Formal Wages and Inflation Monthly Change



* Private wage estimates following BCRA's 25 Labor Union Index.
Source | BCRA from Labor Secretariat, BCRA's 25 Labor Union Index and INDEC Data.

Wage Dynamics Have Not Validated Private Sector Concerns of Unbound Inflation Inertia (or, at an extreme, the Often-Referenced Risk of a "Rodrigazo" Scenario).

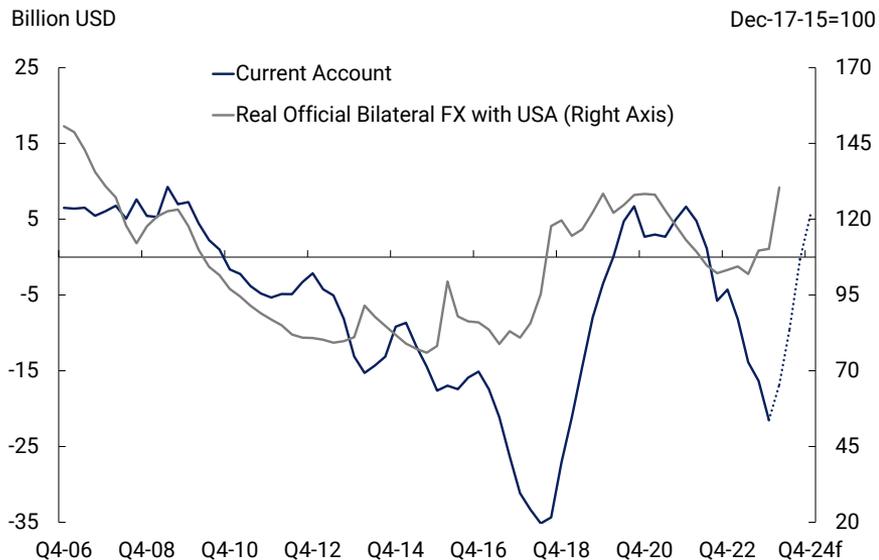


The Determinants of the Domestic Price Structure alongside the Administration's Strong Mandate for Reform Suggest Significant Room for Further Disinflation of the Price Level Over Time:

- **Corporate Margins**
- **Tax Burden**
- **Non-Wage Labor Costs**
- **Financing Costs**
- **Barriers to Competition**
- **Market Deregulation**
- **Investment/Productivity**

Source | BCRA from INDEC and Bloomberg Data.

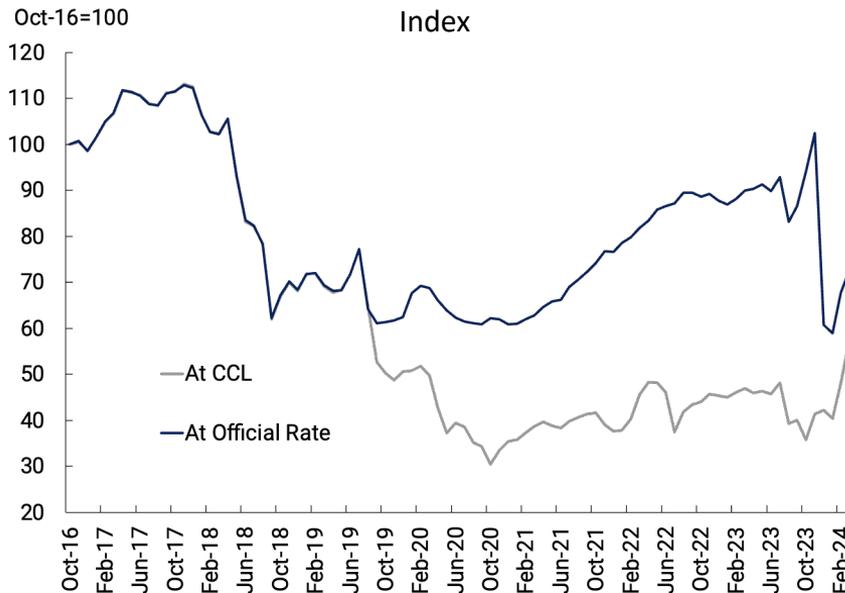
Current Account & REER



Source | BCRA from INDEC Data.

The Current Account is Expected to Deliver a Swing of Close to USD 25 billion this Year

Formal Private Sector Wages (USD)



Source | BCRA from INDEC Data.

Wages Are Normalizing In US Dollar Terms from Extremely Low Levels (Whether Measured at Official or CCL FX Rate)

Price to Salary Ratio: Electric Appliances



High Corporate Margins: Prior Economic Regime (Trade Barriers, Macro Instability) Induced an Increase in Corporate Margins as a Buffer to Escalating Regulatory and Exchange Rate Uncertainty

Disperse Corporate Margins: Thorough Analysis of Sectoral Real Exchange Rates Highlights that Relative Margins (and their Drivers) Vary Widely Across Sectors

Sectoral Price to Salary Ratios

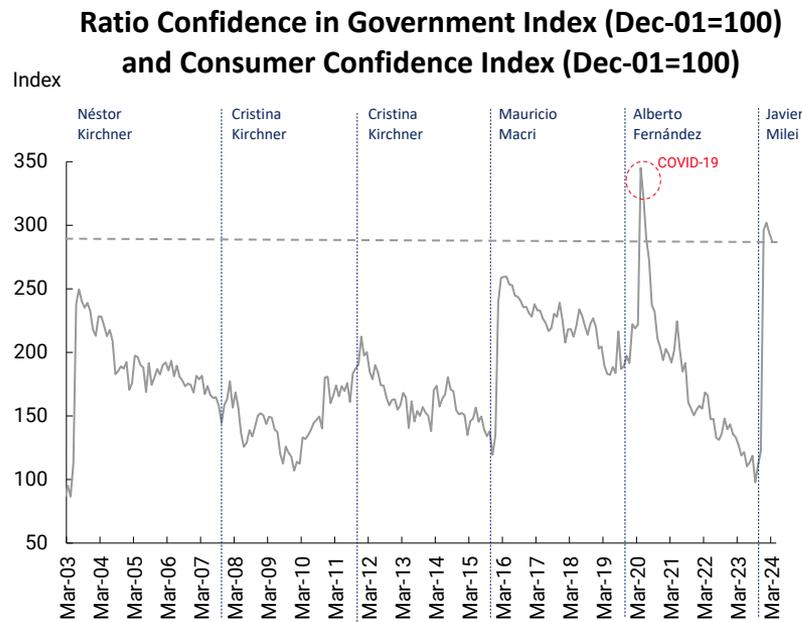
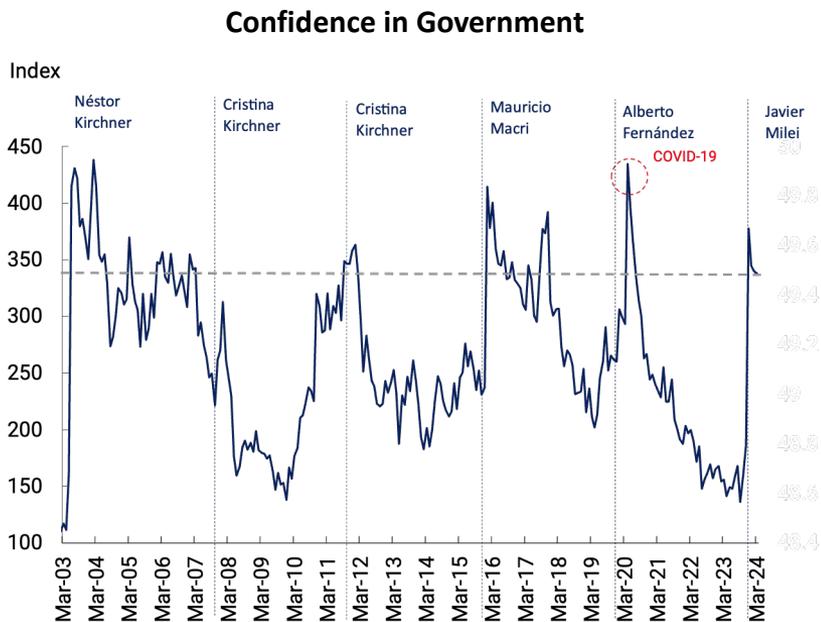
Period	Dec-15	Feb-18	Feb-19	Jul-23	Nov-23	Feb-24
Electric Appliances	100	104	132	167	196	265
Paper	100	95	111	138	155	233
Machinery and Equipment	100	99	126	152	176	216
Automobiles	100	92	127	139	156	213
Rubber and Plastic Products	100	97	127	152	168	213
Publishing	100	107	130	179	210	209
Chemical Products	100	108	136	146	162	203
Petroleum Products	100	73	142	109	113	201
Common Metals	100	103	126	138	142	196
Other Metal Products	100	93	117	140	156	189
Other Non-metallic Minerals	100	97	123	139	147	171
Furniture	100	81	100	128	148	164
Fishing and Related Activities	100	77	81	115	121	159
Food Manufacturing	100	91	98	117	129	143
Textile Products	100	100	127	138	128	142
Lumber and Wood products	100	86	99	120	135	142
Tobacco	100	124	130	129	125	140
Medical Instruments	100	83	98	98	120	136
Agriculture and Livestock	100	93	118	119	125	134
Other Transportation Equipment	100	80	93	127	126	134
Crude Oil and Natural Gas Extraction	100	124	122	86	80	133
Apparel	100	88	95	124	128	132
Leather	100	81	83	87	94	106
Mining and Quarryng	100	104	111	65	57	97
Radio and Television	100	60	89	38	34	56

Note | Prices are Producer Price Indexes and Salaries of Each Sector. Producer Price Data is Available till Feb-24 and Salaries Data is Available till Dec-23; Jan-24 and Feb-24 are Internal Estimates.

Source | BCRA from INDEC Data.

Prospects for a U-Turn: Monitoring Support from Society, Opposition Parties, the Economy and Financial Markets

- 1 | **Society: Confidence in Milei's Administration Displays Remarkable Resilience to Adjustment**
- 2 | **Opposition Parties: Economic Reform ("Ley de Bases") & Fiscal Package Goes back to Congress**
- 3 | **The Economy: Private Sector Poised to Contribute to V-Shaped Balance of Payments Recovery**
- 4 | **Financial Markets: Treasury Lacks External Access, Low-levered Corporate Sector has Access**

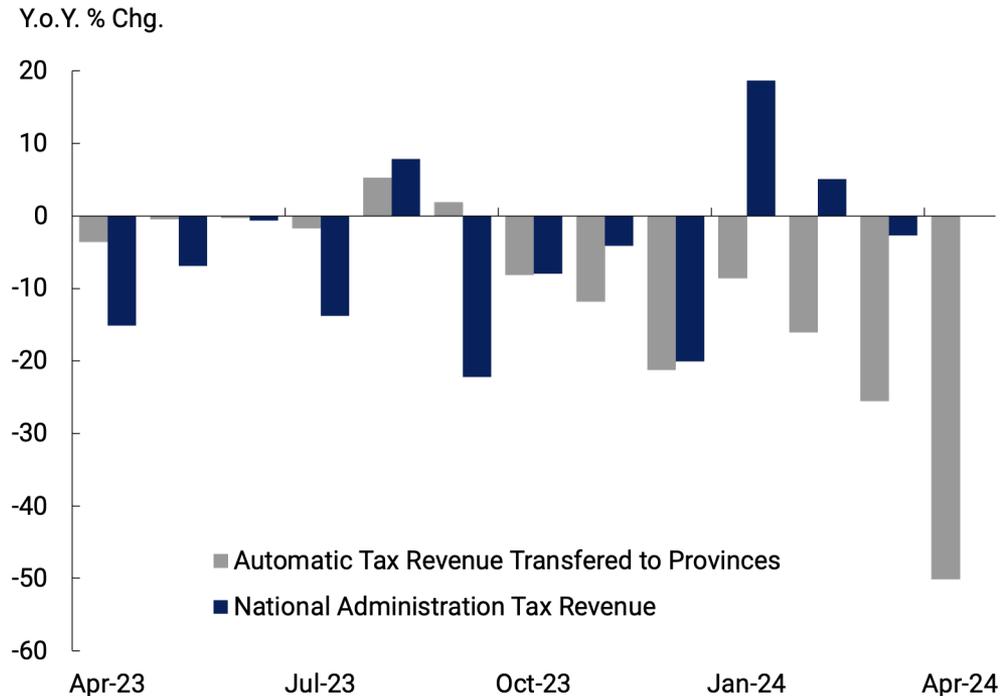


Source | BCRA from Universidad Torcuato Di Tella Data.

Electoral Enthusiasm: 4-Months into the Administration, Confidence in Milei's Administration Stands High as Usually (but not Always) Occurs Following an Election.

Political Leadership: Confidence in Milei's Administration (adjusted for Consumers' Perception of the Economy) is Extraordinary, Exceeding that of 5 Preceding Administrations.

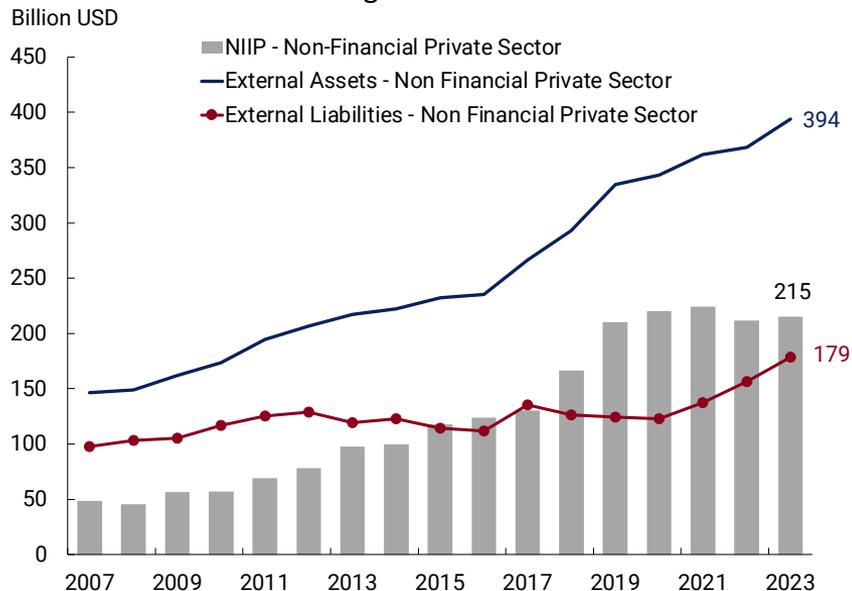
National vs. Subnational Tax Revenues
At Constant Prices of March 2024



The "Fiscal Package" Bill Contains Incentives for Provincial Leaders to Reconsider and Gather Support from Congressional Representatives to Advance the Proposed Reform Process.

Note | Apr-24 first 14 Working Days of the Month for Provinces and data non-available for National Administration.
Source | BCRA from Ministry of Economy and INDEC Data.

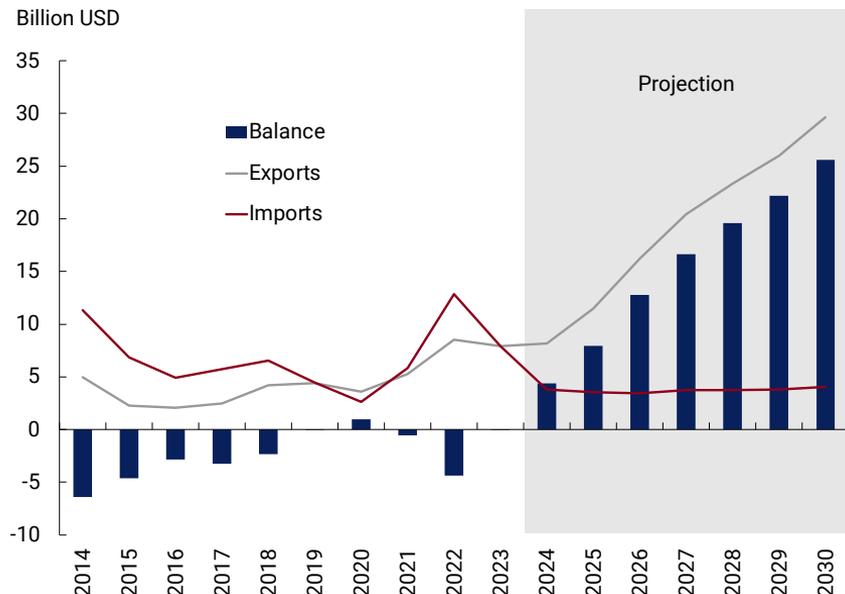
**Stock: Net International Investment Position
Non-financial Private Sector
Considering Market Valued Debt**



Source | BCRA from INDEC Data.

Argentina's Private Sector is a Net External Creditor.

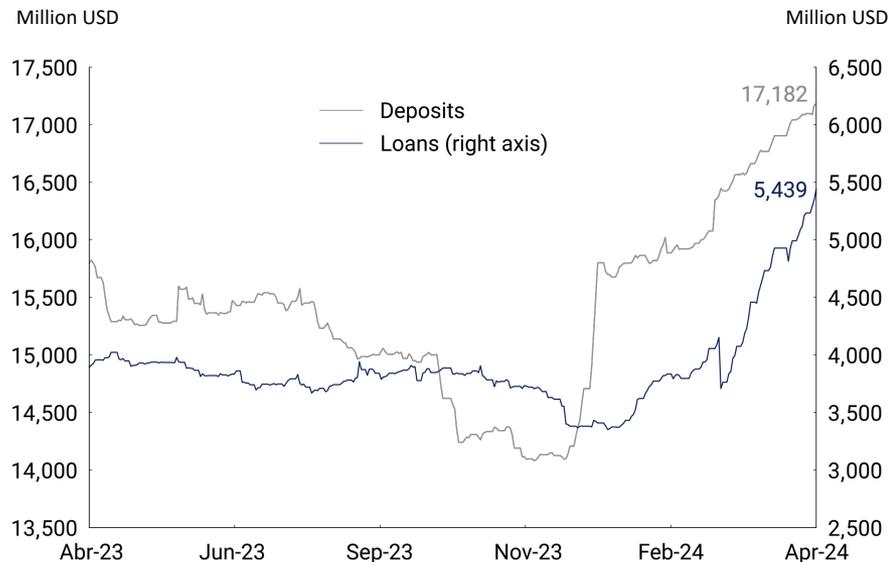
Flow: Projected Energy Trade Balance



Source | BCRA from INDEC and Secretary of Energy Data.

The Large Swing in the Energy Surplus is Structural. 34

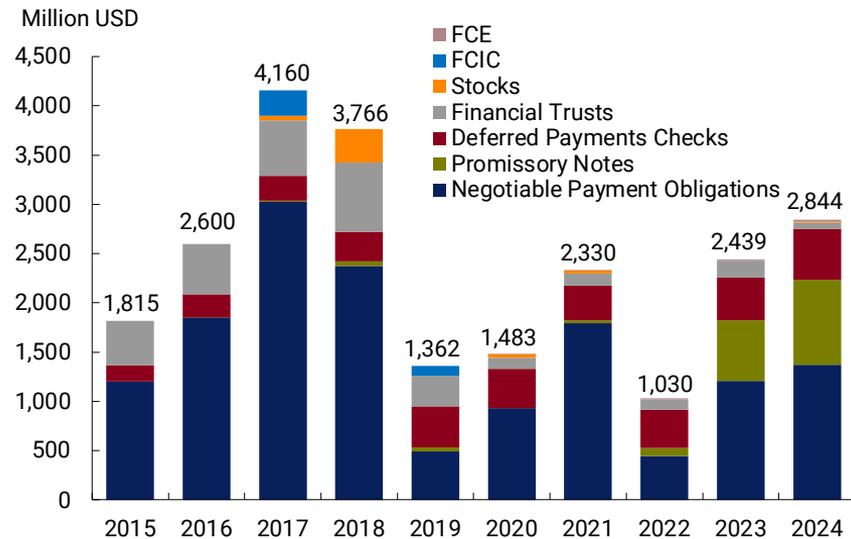
Private Deposits and Bank Loans in Foreign Currency



Source | BCRA.

Incipient Pick-up in Banks' USD-denominated Financial Intermediation.

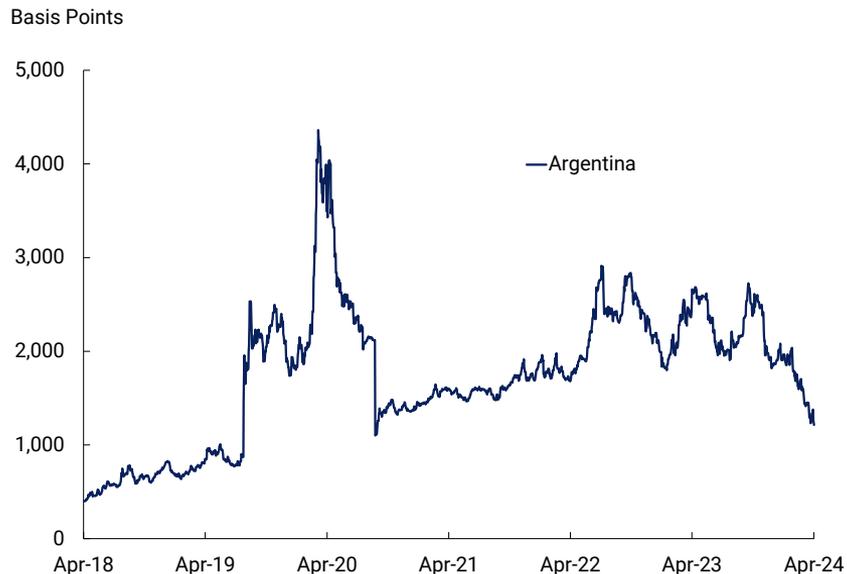
Local Capital Market Financing
First Quarter of Each Year (at MEP)



Source | CNV.

Incipient Pick-up of Primary Issuance in the Local Capital Market.

Argentine Government Debt Spreads



Source | Bloomberg.

**Sovereign Spreads Declining
from Non-Creditworthy Territory.**

Leverage Ratios of Publicly Traded Argentine Corporates

$$\text{Net Debt Ratio} = (\text{Gross Debt} - \text{Cash}) / \text{EBITDA}$$

Net Leverage	2Q19	4Q19	2Q20	4Q20	2Q21	4Q21	2Q22	4Q22	2Q23	4Q23
YPF	2.0x	2.2x	3.0x	5.0x	2.7x	1.6x	1.3x	1.2x	1.4x	1.7x
Vista	1.6x	1.1x	2.4x	3.5x	1.7x	0.8x	0.6x	0.4x	0.5x	0.5x
TGS	0.7x	0.8x	0.8x	0.9x	0.6x	0.3x	0.2x	0.2x	-0.1x	0.1x
TGN	0.4x	0.3x	0.1x	0.2x	0.5x	-0.9x	-1.1x	0.4x	-0.8x	-0.8x
Transener	0.2x	0.1x	0.1x	-0.1x	0.0x	-0.6x	-0.2x	-0.6x	-0.3x	-0.3x
Pampa Energía	1.8x	1.8x	2.2x	2.1x	1.6x	1.3x	1.3x	1.2x	1.1x	0.9x
Central Puerto	1.1x	1.5x	1.4x	2.4x	2.1x	1.5x	1.2x	0.8x	0.3x	0.8x
GEMSA	2.5x	3.3x	3.5x	3.8x	4.8x	5.1x	4.4x	4.9x	5.8x	6.3x
MSU Energy	8.3x	8.1x	7.9x	6.3x	5.0x	4.7x	4.8x	4.9x	4.9x	4.8x
Genneia		4.4x	3.5x	3.3x	3.4x	3.0x	2.8x	2.8x	2.8x	3.2x
YPF Luz		3.5x	3.9x	3.9x	3.1x	2.3x	2.1x	2.1x	2.0x	2.1x
Telecom Arg.	1.3x	1.6x	1.5x	1.8x	1.8x	2.0x	2.1x	2.2x	2.3x	3.2x
Loma Negra	0.8x	0.8x	1.2x	0.1x	0.1x	-0.1x	0.0x	0.4x	0.8x	0.9x
Ternium Arg.	0.8x	0.1x	-0.4x	-0.9x	-0.6x	-0.8x	-1.0x	-1.2x	-1.0x	-1.1x
IRSA	2.6x	3.6x	4.5x	2.6x	4.6x	5.6x	1.7x	1.4x	1.8x	1.3x

Notes | Leverage = Net Debt / EBITDA
 Net Debt = Gross Debt – Cash and Equivalents.
 Source | Latin Securities.

Corporates Already have Access to External Financing. 36

Thank You