

Argentina

Stage II: Establishing an Orthodox Monetary Framework

New York, July 2024

Vladimir Werning, Deputy Governor BCRA



BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

OVERVIEW

MACROECONOMIC STABILIZATION AGENDA

- 1 | Stage I: Delivering an Orthodox Fiscal "Exit Strategy"
- 2 | Stage II: Establishing an Orthodox Monetary Framework (Overview and the Nuts & Bolts)
- 3 | Stage III: Transiting to a Currency Competition & Prudent Lifting FX Controls

MICROECONOMIC GROWTH AGENDA

- 4 | Stage I, II, & III: Promoting Private-Sector Led Growth: Market-Driven Incentives
- 5 | Stage I, II & III: Tapping into Private-Sector Potential and Political/Popular Support

Macro Rebalancing (Realigning and Stabilizing Prices)

STAGE 1 → Eliminate Flow & Manage Stock Imbalances (Domestic and External)

STAGE 2 → Regain Policy Tools and Lay Foundations for Currency Competition

Micro Reform (Recovering Growth & Competitiveness)

STAGE 1 → Foundational Law (Law 27,742) / Presidential Emergency Decree 70/2023

STAGE 2 → Ongoing Reform / Creation of Ministry of Deregulation & Transformation

Political (Sustainability)

STAGE 1 → Foundational Law (Law 27,742) / Fiscal Package (Law 27,743)

STAGE 2 → “Pacto de Mayo” (10 Commitments Signed by 18 Governors)

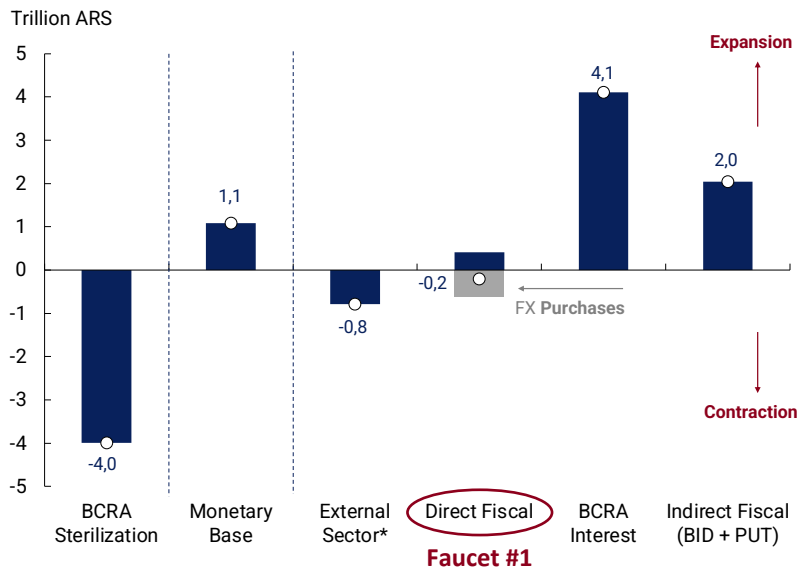
Stage I: Delivering an Orthodox Fiscal "Exit Strategy"

- 1 | A Strategy to Eliminate Sources of Excess Monetization
- 2 | Fiscal Adjustment Shuts Off "Faucet #1" of Excess Money Supply
- 3 | Policy Rate Cuts Tighten "Faucet #2" of Excess Money Supply
- 4 | FX Swaps Absorb Importer Claims on Reserves
- 5 | Narrowly Avoiding a Crisis: Less Pesos Relative to BCRA Reserves
- 6 | Fiscal Anchor + FX & Tariff Adjustment = Upfront Relative Price Correction
- 7 | Fiscal & FX Anchor + Policy Rate Cuts = Results in Rapid Disinflation
- 8 | Lower CPI + Income Hikes by Decree = Improving Social Programs & Pensions

Drivers of Monetary Base

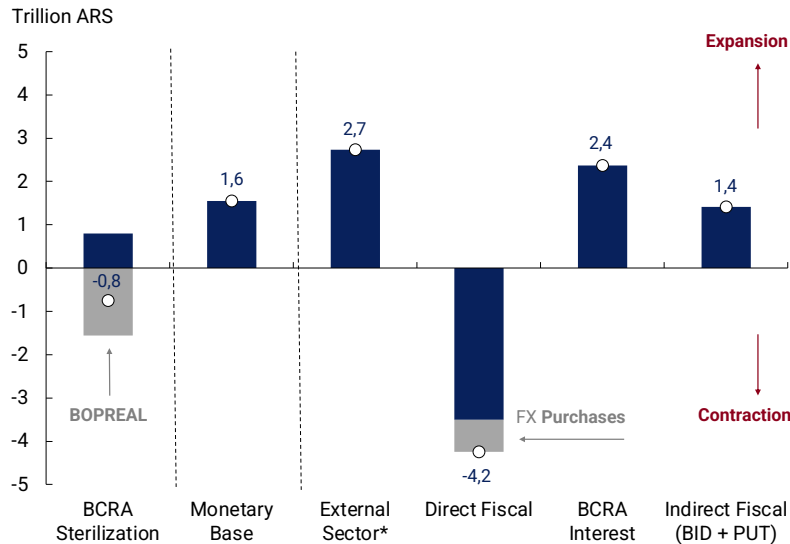
Average Monthly Change at Constant Prices of June 30, 2024

2023 (Through December 10th)



*Excludes Foreign Exchange Purchases.
Source | BCRA.

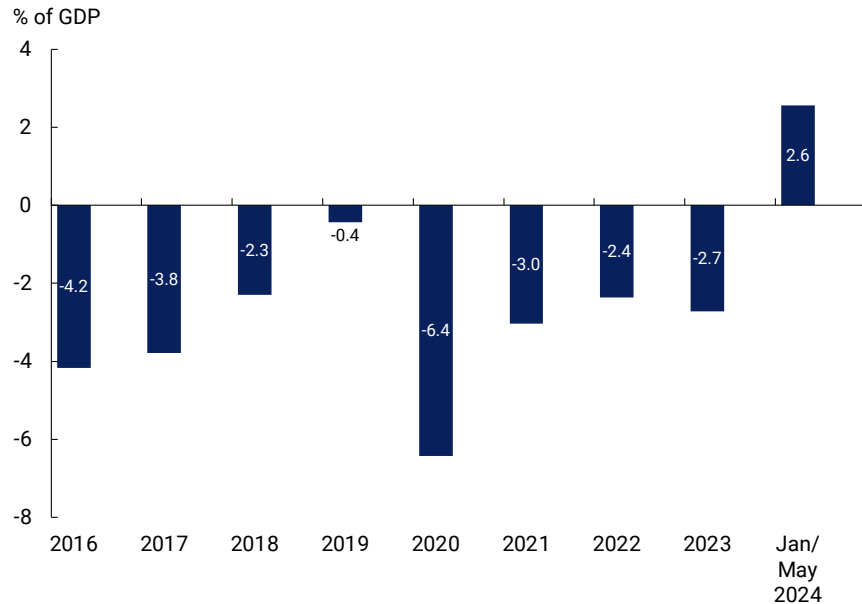
1 Semester 2024 (Since December 10th)



*Excludes FX Purchases from Treasury.
Source | BCRA.

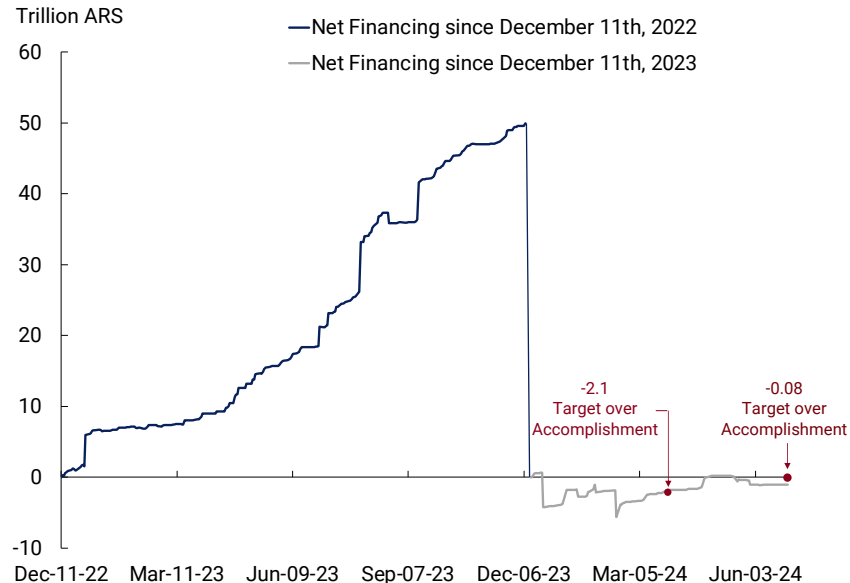
Fiscal adjustment initiates process of Shutting off the Faucets of Supply-Driven Monetary Base Growth

Primary Balance of the Non-Financial Public Sector



Note | Jan/May 2024: Seasonally Adjusted Annualized Primary Balance
 Source | BCRA and Ministry of Economy.

Cumulative Net Financing At Constant Prices of June 30, 2024



Source | BCRA.

The Zero Fiscal Deficit Implies No Net Treasury Debt Issuance and No Net Monetary Financing

Notes on Central Bank Interest Payments and its Effect on Inflation

Iván Werning, MIT

November 2023

Summary: If countries find themselves sufficiently constrained to have to resort to the inflation tax, then efforts should be made to widen its tax base to lower the inflation tax. Going further, other assets should be taxed and or financially repressed. Inflation should go hand in hand with financial repression.

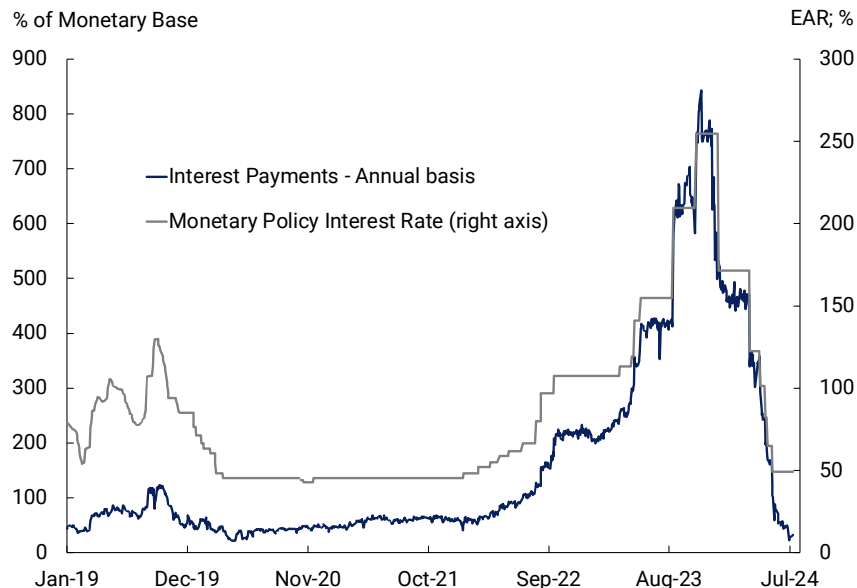
In this note, I study interest payments on central bank liabilities and their effect on inflation. When inflation is very high, such as in Argentina today (about 140% annual), interest rates tend to be comparably high. Moreover, the Central Bank may be paying interest on reserves or other forms of debt in a situation of fiscal dominance. Can these high interest rates paid by the Central Bank contribute towards high inflation? Should interest rates be lowered? Are there wider policy implications? How far should liquidation of debts, financial repression and wealth taxation go?

The note was initially motivated by reading a classic Argentine paper by Rodríguez (1986), which I will use as a launching pad for a wider discussion.¹ That paper considered the payment of interest on a single form of money and its effect on inflation. It employed a Cagan-like model of seignorage, where money demand and expectations adapt slowly to new policy. Rodríguez found that interest payments increase inflation in the long run, but decrease it in the short run. Intuitively, higher interest paid by a fiscally dominated central bank leads to a greater quasi-deficit, with greater monetization and inflation.

After reviewing the argument, I consider a few alternatives to the specification of expectations and money demand. I find that the long-run result is robust to these extensions, but the short-run prediction is not. Indeed, under rational expectations, inflation moves one-for-one with the current interest rate, at any point in time. Furthermore, the path for real money balances is unaffected by the nominal interest path, because the path for inflation net of interest is unaffected.

Rodríguez's model included only one form of money, which earned interest. In reality, currency never pays interest, while bank deposits and Central Bank reserves or debts do

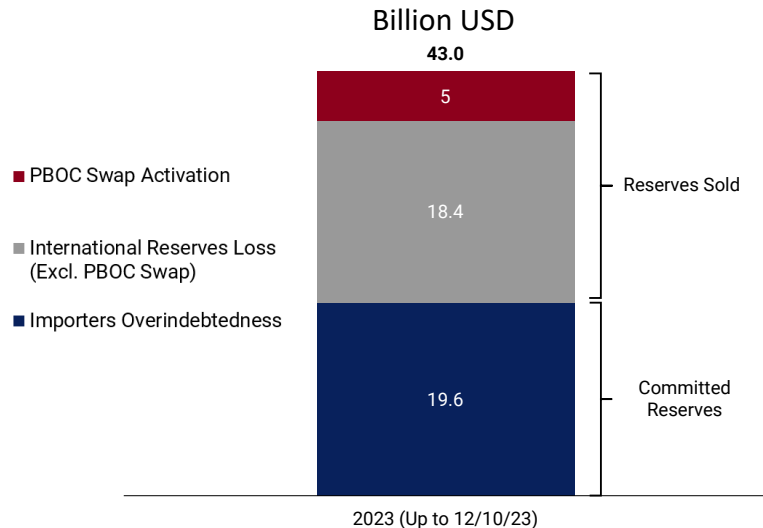
Interest Payments on BCRA's Remunerated Liabilities and Policy Rate



Note | Data as of July 10th, 2024.

Source | BCRA.

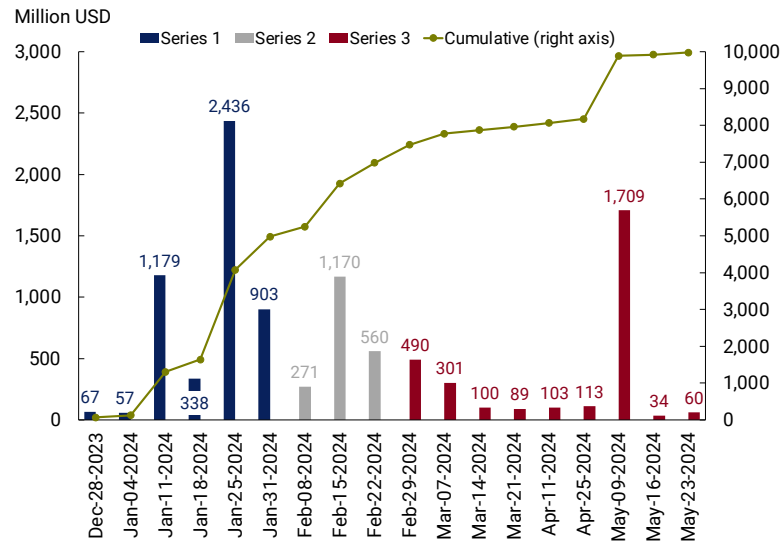
Decline in BCRA Reserves + Increase in Unsatisfied Claims on BCRA Reserves*



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

BCRA Needed to Address Importers (Forced) Increase in Debt and China Swap Roll-over (June)

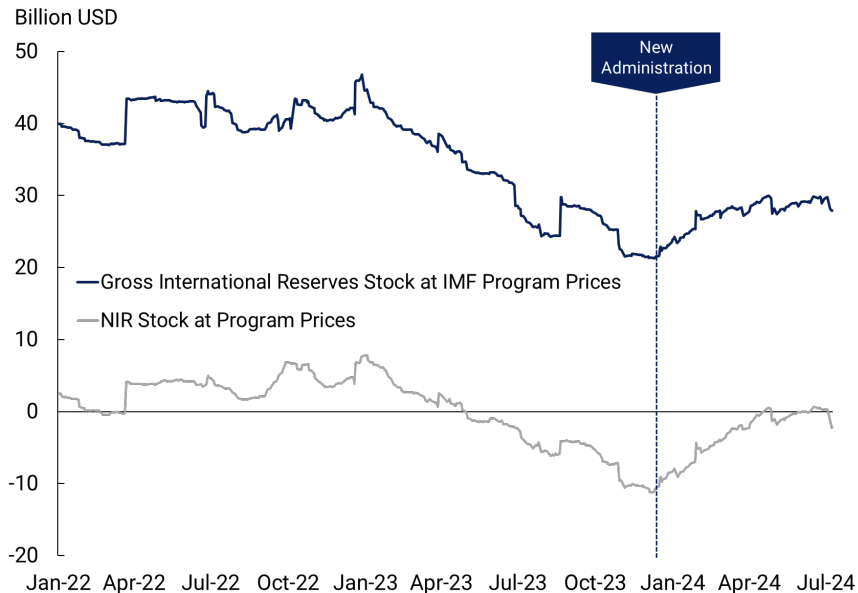
FX Swap (BOPREAL)



Source | BCRA.

FX Swap (BOPREAL) Transformed USD Demand Stock into USD Demand Flow Over 3yr; Reactivating Supply Chains

BCRA Reserves Stocks

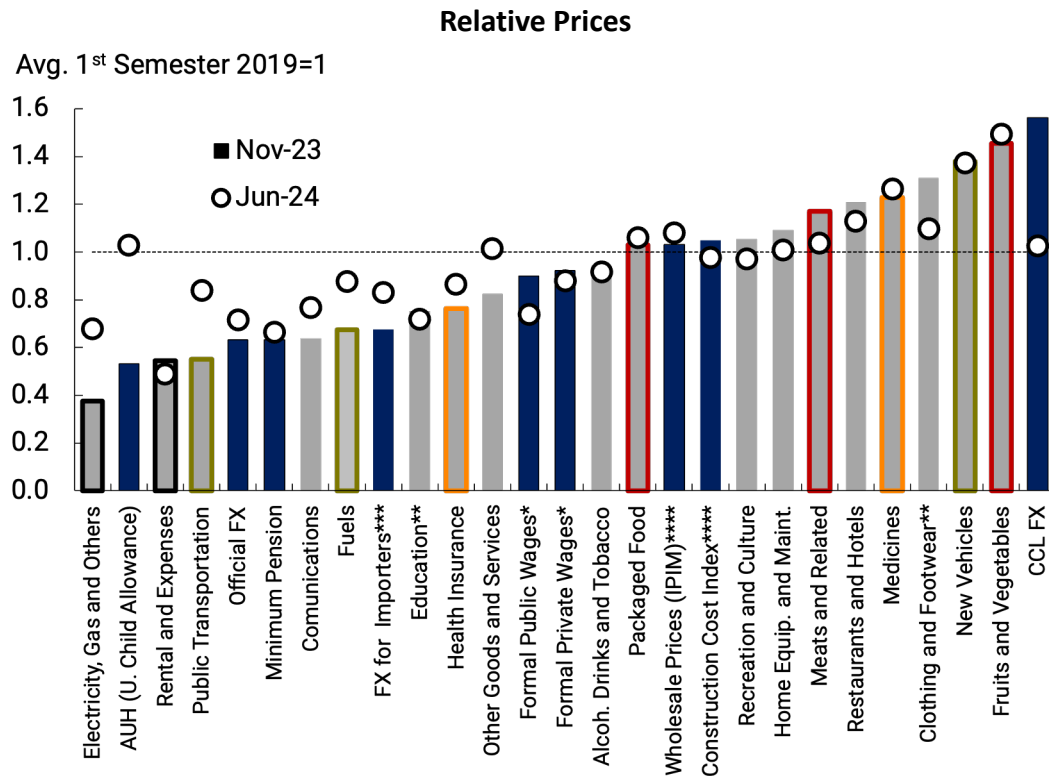


Note | Data as of July 11th, 2024.
Source | BCRA.

Ratio of BCRA Remunerated Liabilities to Net Reserves Excluding Liabilities with Foreign Residents



Note | Data as of July 8th, 2024.
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 Apr-24 Linked between Apr-24 and Jun-24 with Own Estimations Based on Wage Agreements of the 25 Most Representative Labor Unions.

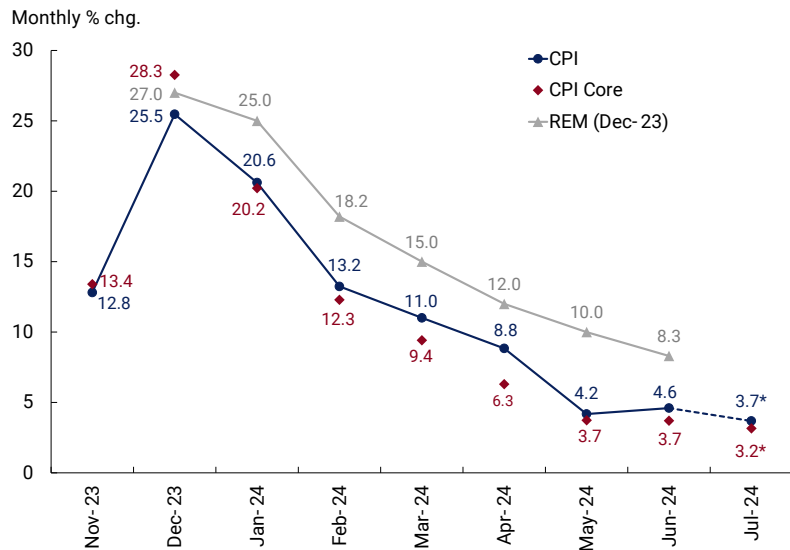
**Data as of Jun-24 in relation to Jun-19 compared to Data as of Nov-23 in relation to Nov-18, to address seasonal considerations.

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

****Data as of May-24.

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

Headline CPI: Consensus Forecasts (REM) vs. Actual Data

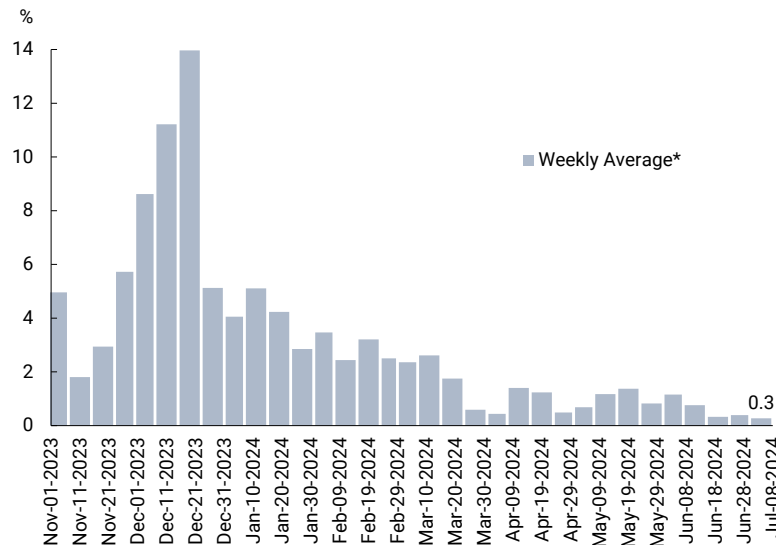


*BCRA Projections.

Source | BCRA from REM-BCRA and INDEC Data.

- **CPI Undershot Consensus by nearly 50 pp. in 1H2024**
- **Estimate for July core CPI appears to be nearing 3%, following a 3,7% reading in June**

BCRA Proxy Measure for Core CPI

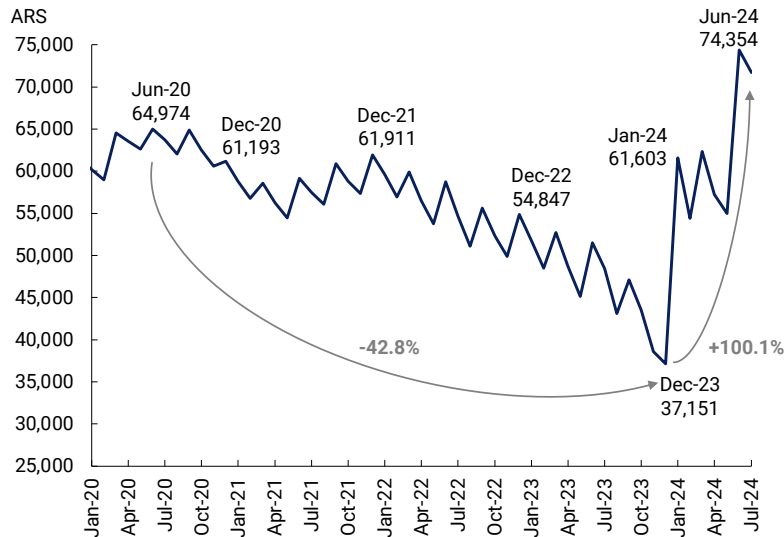


*Week 1 Runs from the 1st to the 7th day of Each Month; Week 2, from the 8th to the 15th of Each Month; Week 3, from the 16th to the 23rd of Each Month; and the Fourth Week, from the 24th until the End of the Month. When the Available Data Does Not Fill the Entire Week (but at Least Covers Half of the 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 from Online Supermarket and Butcher Shop Websites and Kairos data.

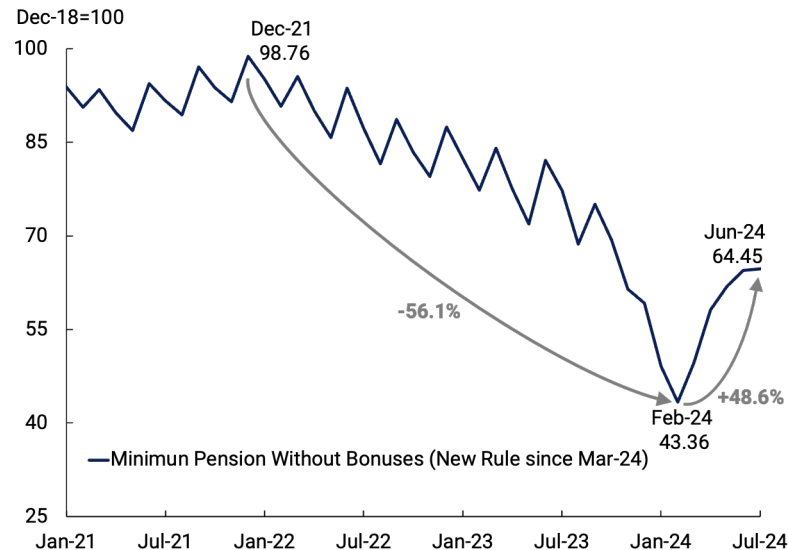
Universal Child Allowance
at Constant Prices of June 2024



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



Source | BCRA, Ministry of Economy and INDEC.

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

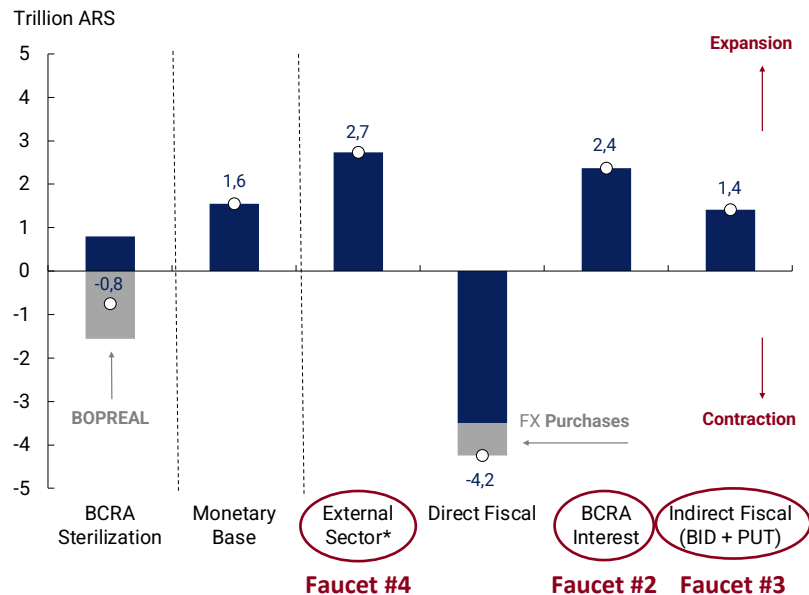
Stage II: Establishing an Orthodox Monetary Framework (Overview)

- 1 | Policy Rate Cuts Tightens "Faucet #2" of Excess Money Supply
- 2 | Transferring BCRA Sterilization Shuts Off "Faucet #2" of Excess Money Supply
- 3 | Transferring Sterilization to Treasury: LECAPS + LEFI Do Not Imply an Increase in Debt
- 4 | Transferring Sterilization: Warehousing Liquidity, Not Funding for Treasury
- 5 | Eliminating Puts/Bids & Sterilizing External Flows Shuts Off "Faucet #3 & #4" of Money Supply
- 6 | New Monetary Framework Allows BCRA to Better Manage Liquidity, Limit RER Strengthening
- 7 | BCRA Money Demand Models Anticipate Real MB Growth in 2H24
- 8 | Demand-Driven Economic Re-Monetization is a Welcomed Development

Drivers of Monetary Base

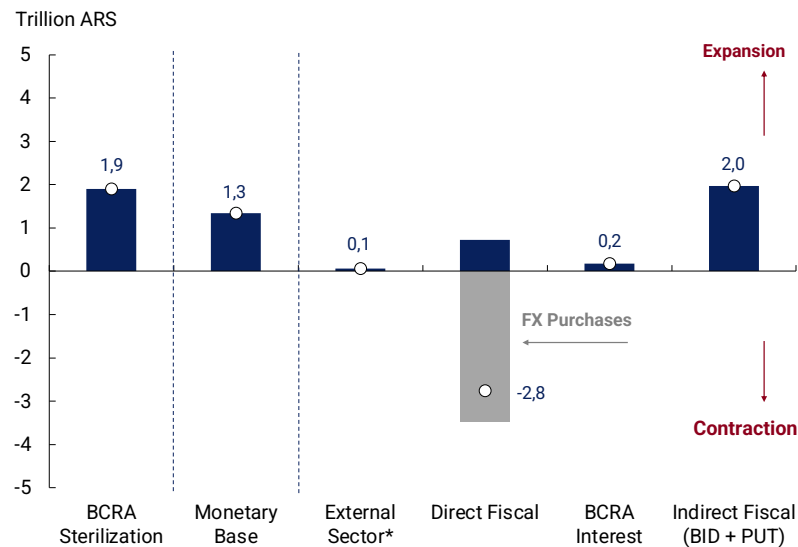
Average Monthly Change at Constant Prices of June 30, 2024

1 Semester 2024 (Since December 10th)



*Excludes Foreign Exchange Purchases.
Source | BCRA.

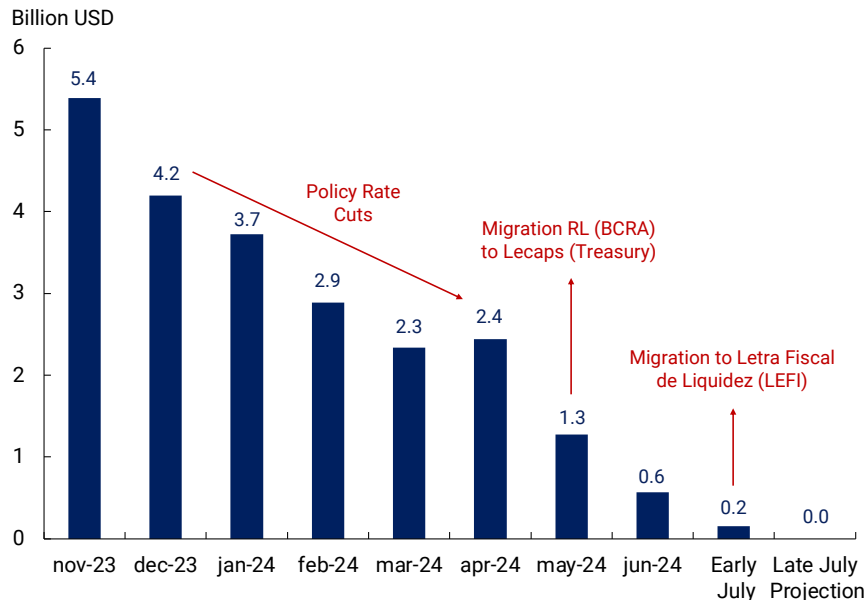
July (up to 10th) 2024



*Excludes Foreign Exchange Purchases.
Source | BCRA.

BCRA Interest Payments on Remunerated Liabilities

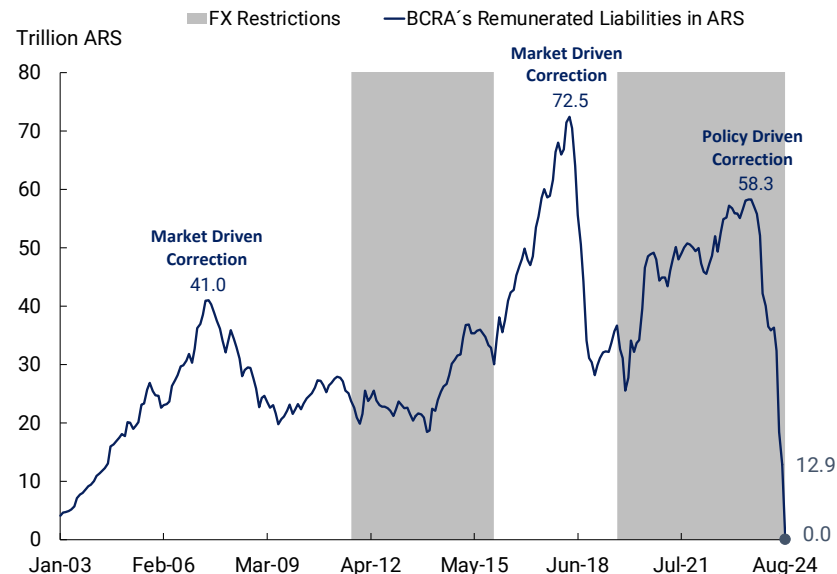
At Constant Prices of July 8th



Source | BCRA.

BCRA's Remunerated Liabilities in ARS

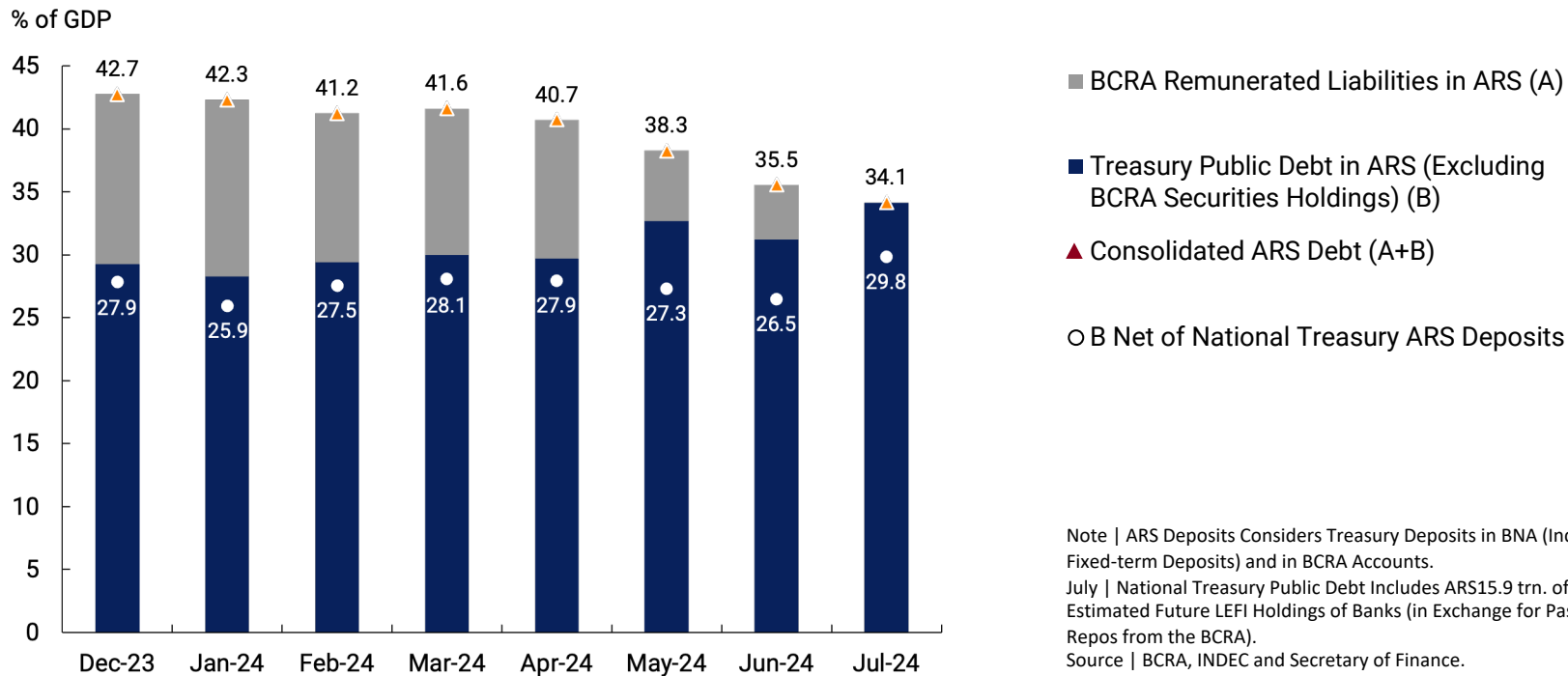
Monthly Average, at Constant Prices of July 2024



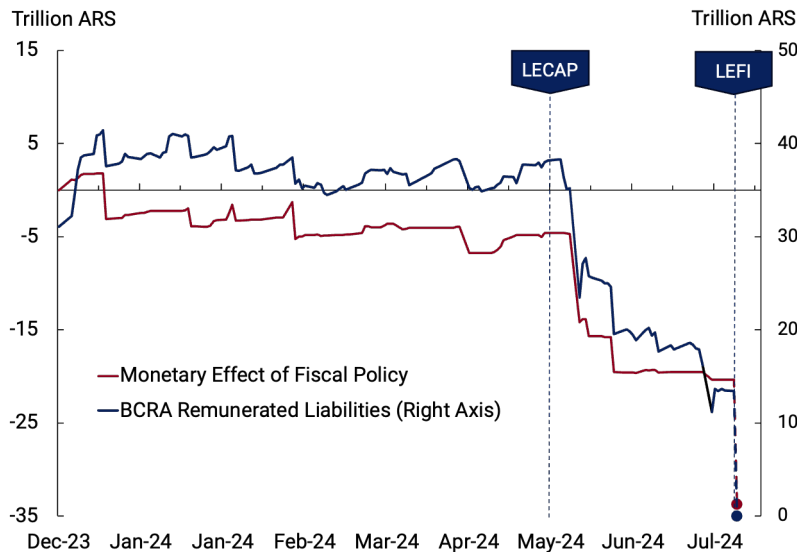
Source | BCRA.

By First Reducing the Quasi-fiscal Cost BCRA Rate Cuts facilitated the Transfer of Liabilities to the Treasury

Treasury and BCRA. Net Consolidated ARS Debt

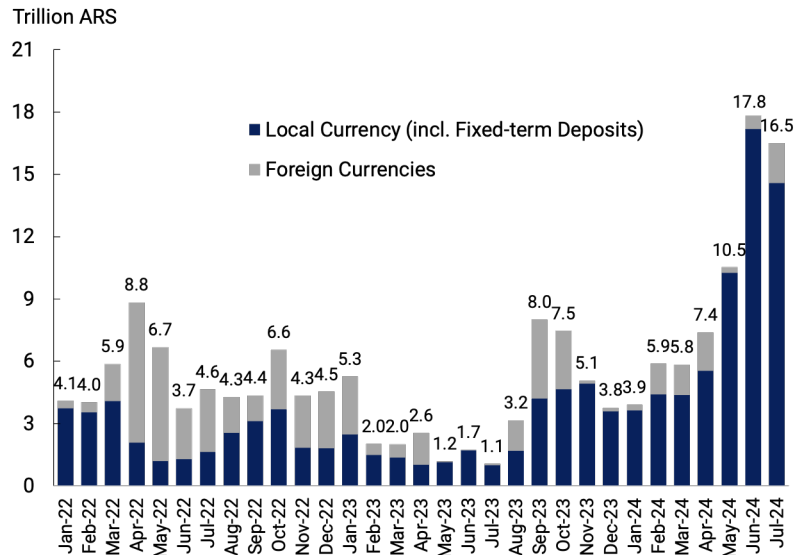


Cumulative BCRA Financing of Treasury and BCRA Remunerated Liabilities
At Constant Prices of July 8th, 2024



Source | BCRA.

Treasury's Liquid Peso Deposits
At Constant Prices of June 2024

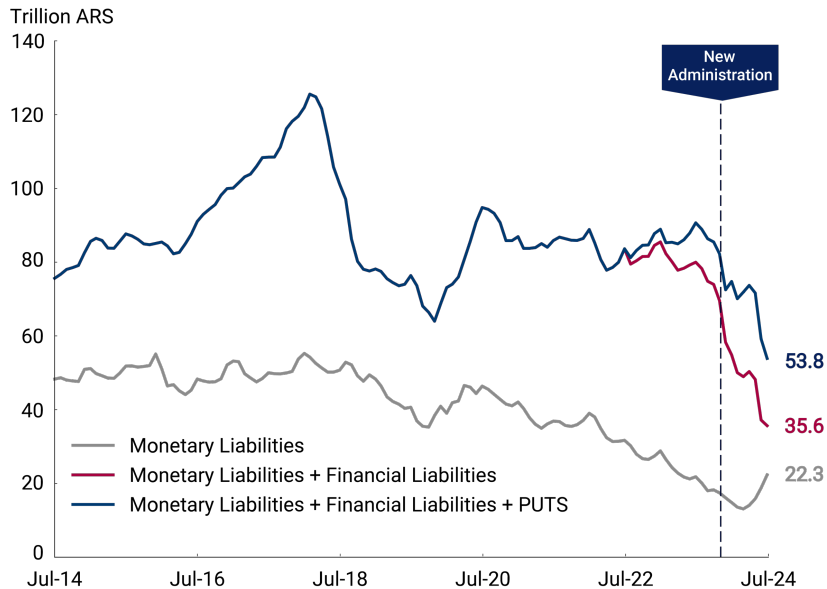


Note | Data as of July 10th.

Source | BCRA.

BCRA's Liabilities and Contingencies (BIDS+PUTS)

at Constant Prices of July 10, 2024



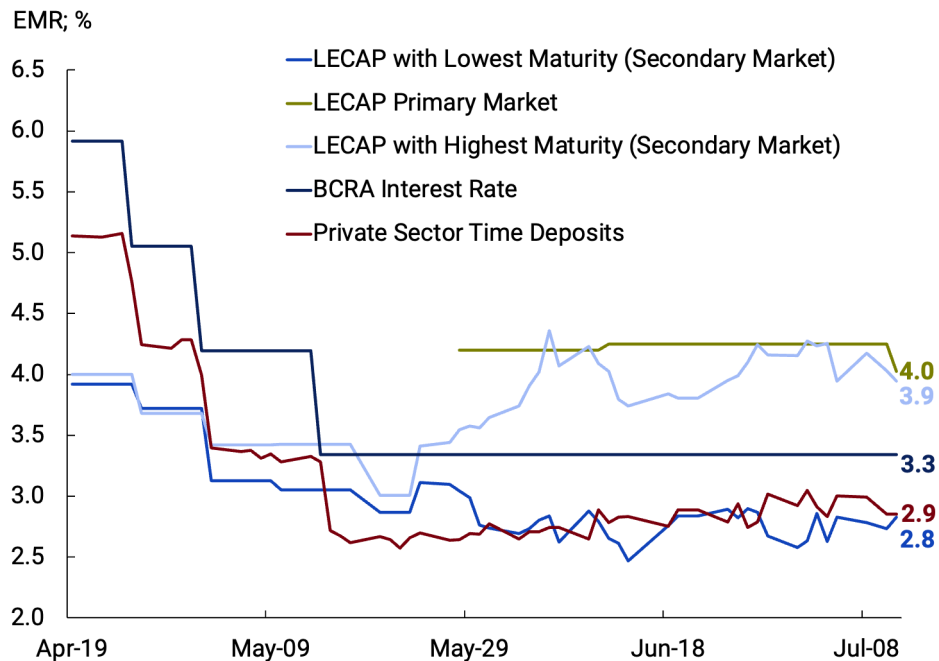
Note | BCRA's Remunerated Liabilities in Foreign Currencies are Excluded. Data as of July 10th, 2024.

Note | Through Communication 'A' 7546 Issued on July 12th, 2022, the BCRA Enabled the Auctioning of Put Options on Sovereign Bonds.

Source | BCRA.

- Put options on Treasury bonds held by banks (\$17.7 Tn) constitute an indirect source of "Fiscal Dominance" morphed into "Banking System Dominance"(BCRA's peso issuance is subject to banks discretionary exercise of puts).
- Contingent monetary liabilities from puts peaked at 4,2% of GDP and currently represent 3% of GDP or 0.8x the monetary base.
- Rotation to issuance of European puts (20% of total) mitigates, but does not eliminate, the contingency.
- Eliminating puts will allow BCRA to reduce uncertainty regarding the path of money supply.

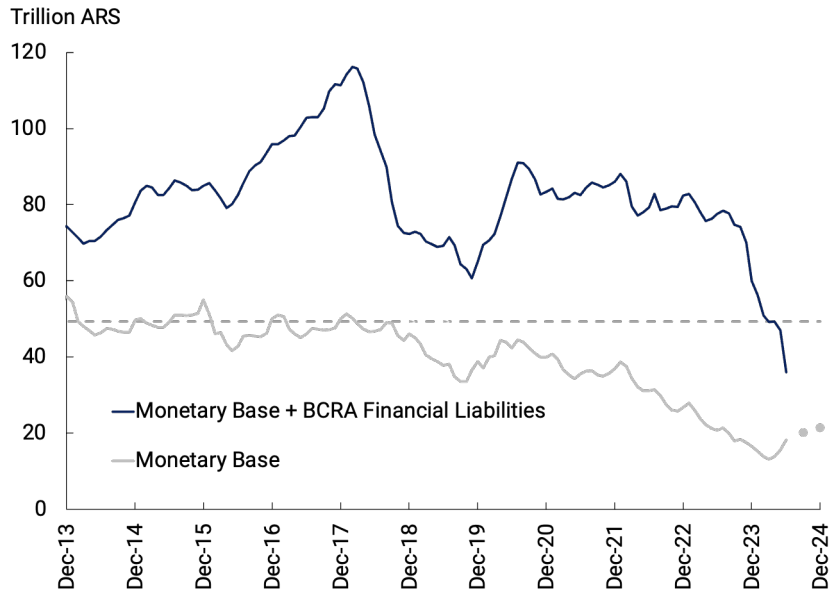
Interest Rates
Monthly Average



- **BCRA's Models provide BCRA's Board with monetary aggregate projections that are consistent with preserving domestic price stability.**
- **BCRA's policy rate reached a floor of 3.3% (monthly effective rate) in May and has remained stable since.**
- **The elimination of remunerated liabilities allows BCRA to:**
 - **Eliminate a tax wedge affecting the effective policy rate.**
 - **Assess adjustments to this rate in response to liquidity conditions reflecting economic fundamentals.**

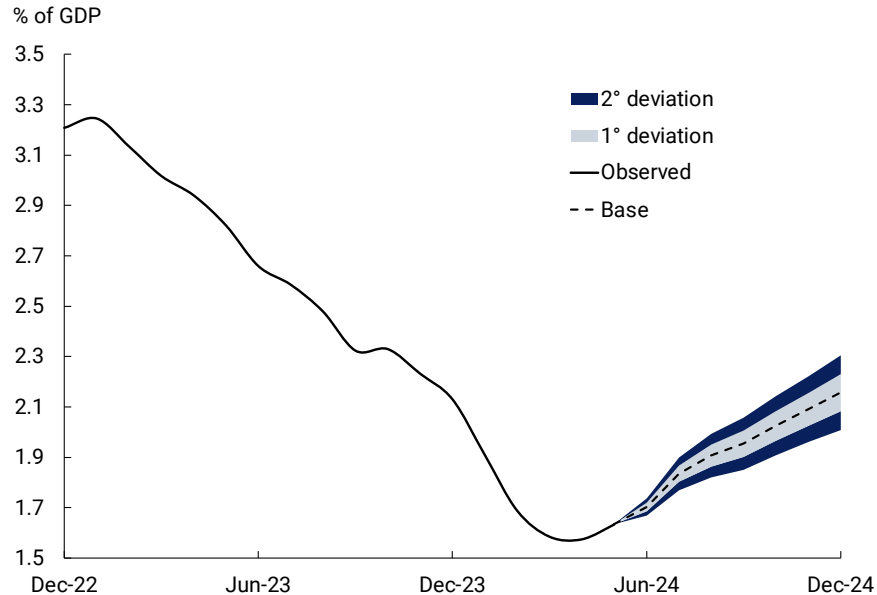
Source | BCRA.

Monetary Liabilities in ARS
At Constant Prices of June, 2024

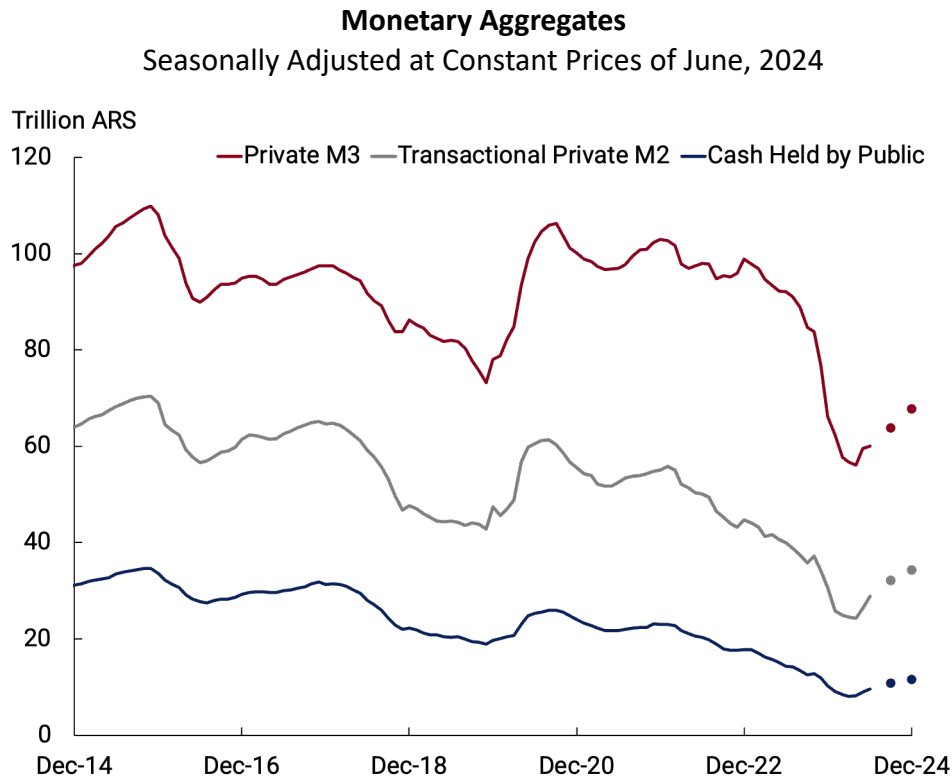


Note | Sep-24 and Dec-24 Forecasted.
Source | BCRA.

Cash Held by Public
In terms of GDP



Note | Projected Trajectory of Currency Demand and Confidence Bands for 2nd Half 2024
Derived from Model Output of BCRA Monetary Programming
Source | BCRA.



- The projected trajectory of monetary aggregates (and confidence bands) for 2nd half 2024 are derived from model output of BCRA monetary programming framework
- The path of money growth is consistent with price stability
- BCRA's policy tools provide authorities with the flexibility to respond, when necessary, to perceived deviations of liquidity from equilibrium

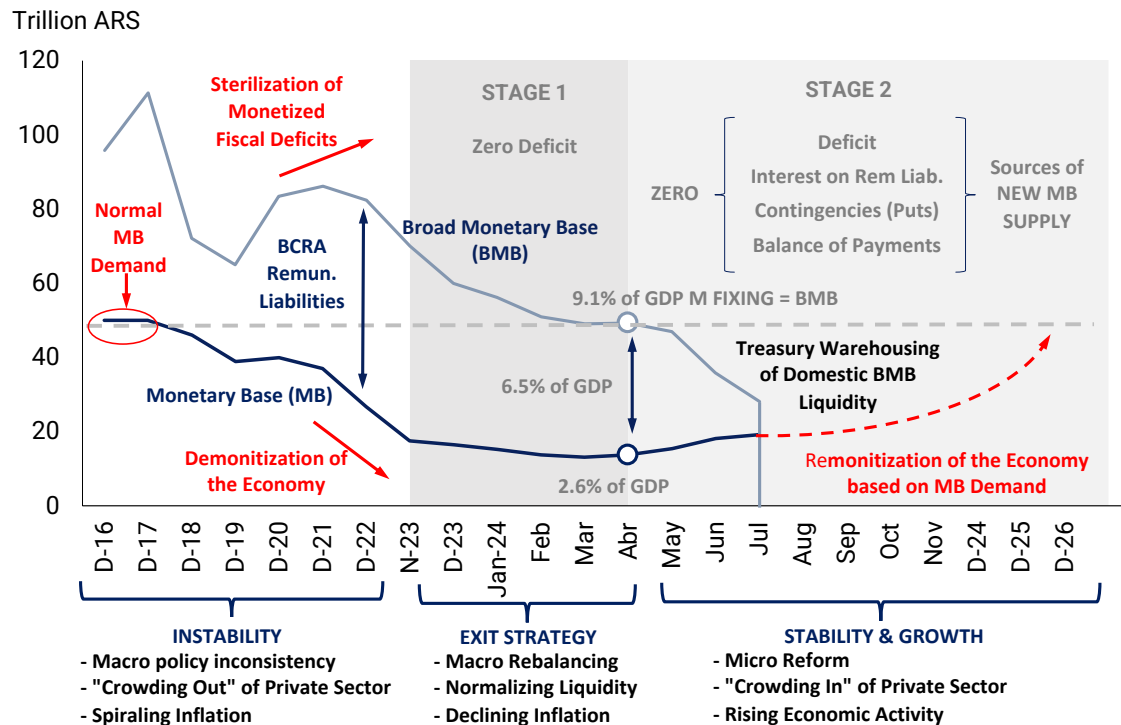
Note | Sep-24 and Dec-24 Forecasted.
Source | BCRA.

Stage II: Establishing an Orthodox Monetary Framework (Nuts & Bolts)

- 1 | The Monetary Strategy in Images: Fixing $M = \text{Broad Monetary Base}$
- 2 | The Monetary Strategy in Words: Fixing $M = \text{Broad Monetary Base}$
- 3 | Strengthening BCRA's Balance Sheet to Reclaim Policy Tools
- 4 | Strengthening BCRA's Balance Sheet to Avoid Debt Sterilization
- 5 | An Orthodox Monetary Framework: New Plumbing
- 6 | Putting the Gears of the New Monetary Framework in Motion

Monetary Base and Broad Monetary Base (Incl. BCRA Remunerated Liabilities)

At constant Prices of June 2024



NEW MONEY FLOWS:

Sources of Undesired Monetary Supply

- **Faucet #1:** Fiscal Deficit
- **Faucet #2:** BCRA Interest Payments

Transfer of Sterilization to Treasury

- **Faucet #3:** Put Options
- **Faucet #4:** External Surplus (in a Context of FX Controls)

EXISTING MONEY STOCK:

Fixing M = Broad Monetary Base

— Monetary Base (MB)
— Broad Monetary Base (BMB)

Source | BCRA.

1. Prior to Exchange Controls and Fiscal Monetization: Monetary Equilibrium

Monetary equilibrium was associated with demand for Base Money (MB) between 8-9% of GDP

2. On the Brink of Hyperinflation: Monetary Imbalances Rise Throughout 2022-23

In November 2023 Base Money fell to only 3,2% of GDP and Broad Money Base (BMB) rose to 12,7% of GDP, as BCRA policy rate hikes inflated remunerated liabilities (RL) to 9,5% of GDP

3. Stage I of the Stabilization Program: Zero Fiscal Deficit + Reduction of Excess Remunerated Liabilities

BCRA policy rate cuts diluted RLs thereby reducing the BMB which, by April 2024, converged to the historic equilibrium of the MB

4. Stage II of the Stabilization Program: Zero Sources of New Monetary Base Growth + Preservation of Domestic Liquidity Stock

Negative real rates cease to constitute a policy goal. In "fixing $M = \text{BMB}$ ", banks' idle stock of domestic liquidity will be preserved.

5. Stage III of the Stabilization Program: Currency Competition Regime and "Crowding In" of the Private Sector

Following the elimination of BCRA's RLs, equivalent to 6,5% of GDP (end April), idle liquidity will be "warehoused" in the form of bank holdings of Lecaps & LEFI, providing future fuel for the expansion of bank credit to the private sector. As money demand lifts the MB and credit growth absorbs bank liquidity, banks' LECAP and LEFI positions will be naturally unwound, reducing Treasury debt.

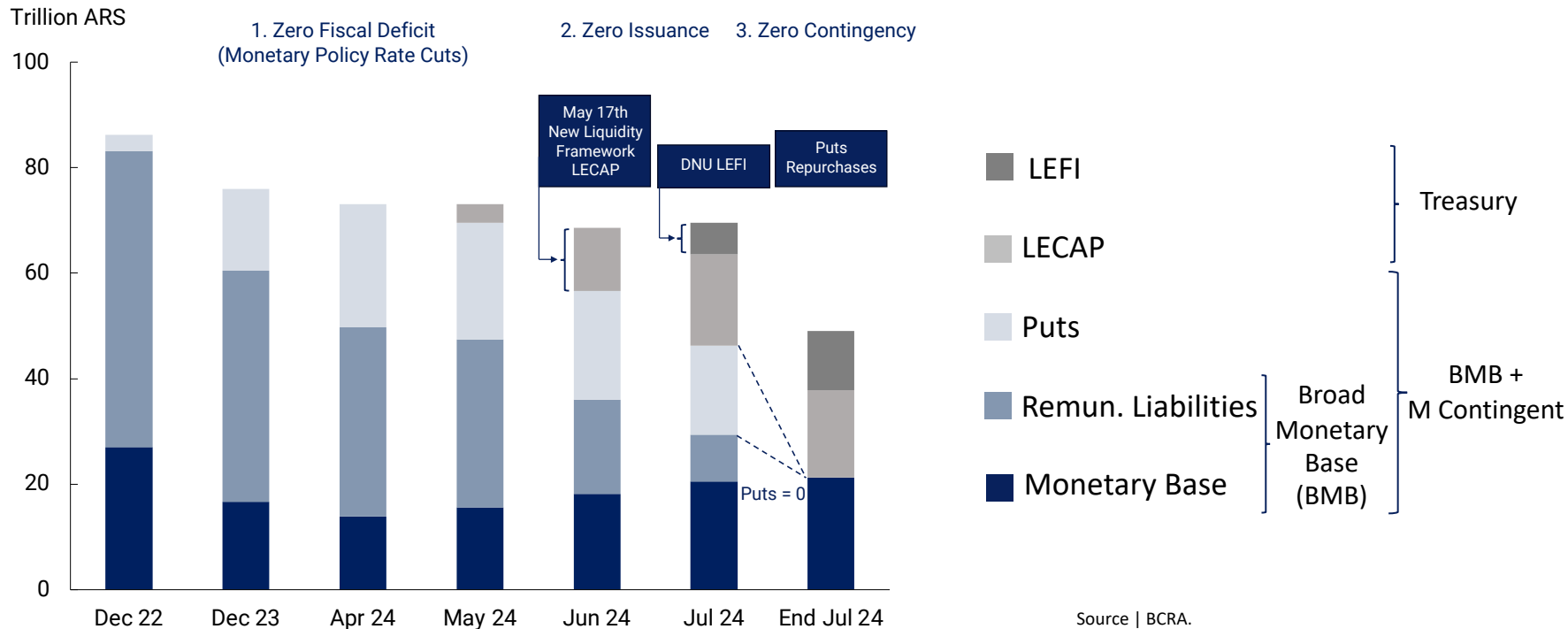
6. Convergence to the Steady State: A More Rapid Real GDP Recovery with Less Real Exchange Rate Appreciation

The unwinding of "warehoused" domestic liquidity diminishes the economy's reliance on external sources of liquidity to feed the re-monetization process. The benefits for the economy are two-fold for the domestic and external balance:

- 1. Domestic Equilibrium:** Commitment to fiscal balance sets initial conditions (low real interest rates) for "crowding in" private sector
- 2. External Equilibrium:** Exchange rate appreciation pressure associated with re-monetization processes will be minimized

Liquidity Administration

Monthly Average at Constant Prices of June 2024



The Perils of Sterilization

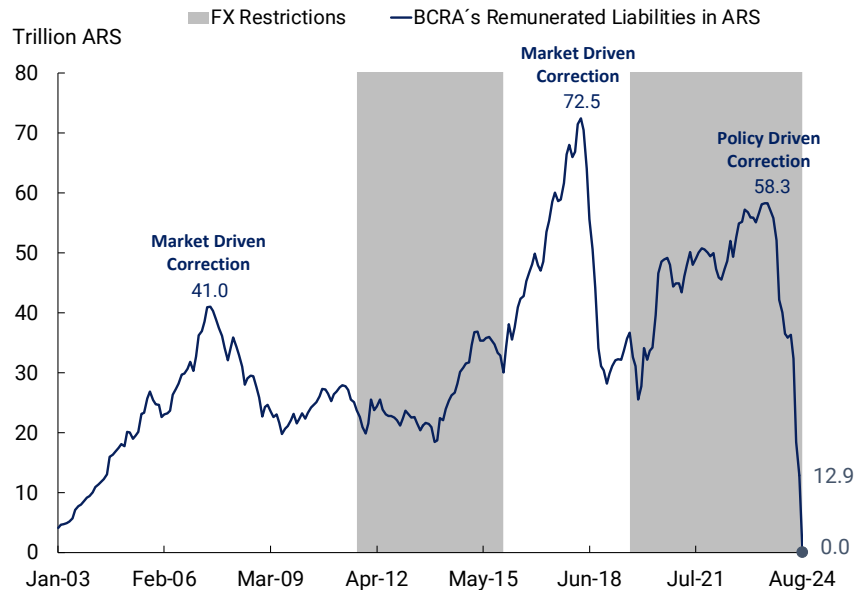
GUILLERMO A. CALVO*

The sterilization of capital inflows at the start of a price stabilization program may give rise to future pressures to discontinue the program as a result of the unduly high debt-service burden that the sterilization policy may generate. [JEL F31]

CAPITAL INFLOWS often accompany the first stages of stabilization programs based on exchange rates. This is, in principle, a welcome development, since these inflows contribute to the accumulation of reserves at the central bank. However, the monetary authorities are often reluctant to let money supply grow by the amount corresponding to the accumulation of reserves. They fear that such monetary expansion—which may actually be sizable in the aftermath of hyperinflation—is taken by the private sector as a clear signal that the stabilization program is beginning to falter. Consequently, it is not unusual for the monetary authorities to decide to sterilize some of the capital inflows by, in effect, acquiring some of the additional reserves through the sale of domestic government debt.

Sterilization of capital inflows has the obvious advantage of keeping money supply under control. However, it will be argued in this note that if the associated open market operation is carried out by expanding the stock of nominal domestic debt, forces may be set in motion that could also jeopardize the credibility—and, hence, sustainability—of the anti-inflationary effort.

BCRA's Remunerated Liabilities in ARS Monthly Average, at Constant Prices of July 2024

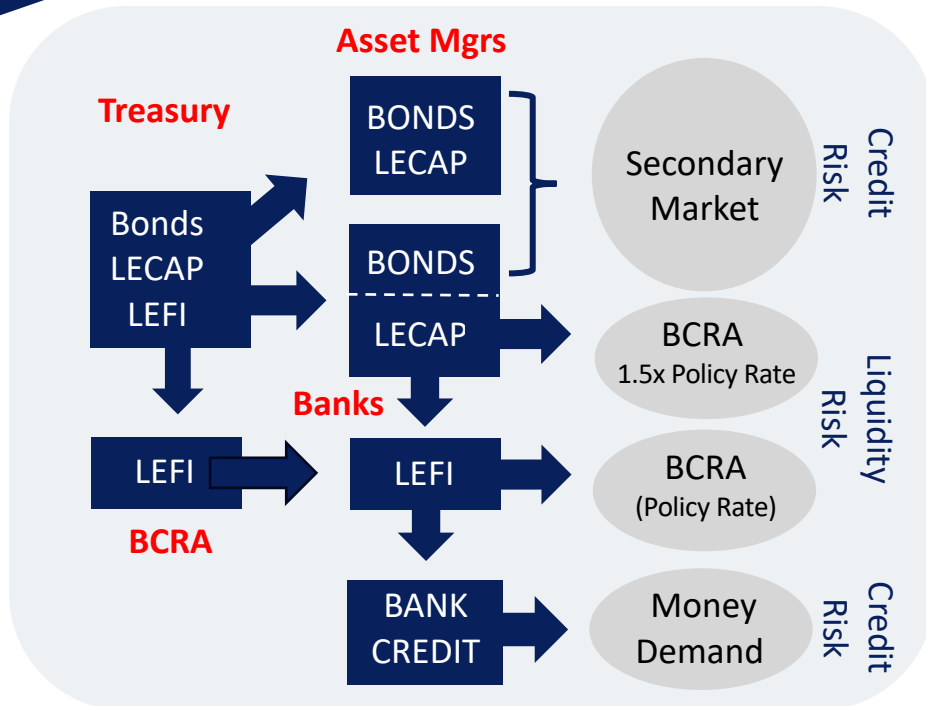
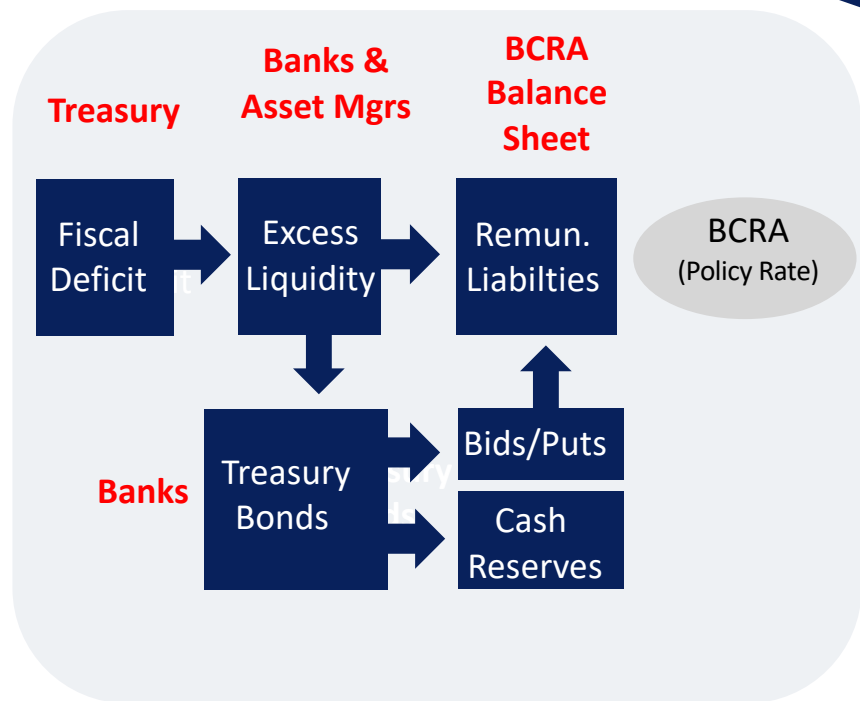


Source | BCRA.

High Inflation Regime

Zero Deficit

Orthodox Monetary Framework



Fundamental Policy Progress

- **Interest Cost Transfer** → From BCRA to Treasury
- **Reinforces Policy Orthodoxy** → Reduces Money Supply Growth
- **Alignment of Incentives** → BCRA Policy Rate / Liquidity Management
- **Necessary Groundwork** → FX Regime / Currency Competition

Key Financial Implications

- **Tax Wedge Elimination** → More Efficient Policy Rate Transmission
- **No Treasury Roll Over Risk** → Cash Deposit
- **Compliance with IMF Program** → June Structural Benchmark

Transparent Accounting Standards

- **Treasury Debt Stock** → No Change / Declines Over Time
- **Treasury Interest Payment** → Capitalized / Paid

Relevant Regulatory Constraints

- **Banks' Exposure to Treasury** → Regulatory Limits & Transition Period

Smooth Operational Transition

- **BCRA & Treasury** → New Instrument (LEFI) & Swap (CER Bonds)
- **BCRA & Treasury** → Treasury Account for Interest Payments
- **BCRA & Banks** → Replacement of Repo Window with a Trading Facility

Stage III: Transiting to Currency Competition & Prudent Lifting FX Controls

1 | Lifting Exchange Controls Requires Prudential Reserve Management

2 | BCRA Reserve Dynamics: Driven by Seasonality, not 80/20 Policy

- Lower Formal Market USD Supply: Normal Agro Exports but Lower Prices & Paying off Debt
- Higher Formal Market USD Demand: Higher Debt and Winter Energy Payments

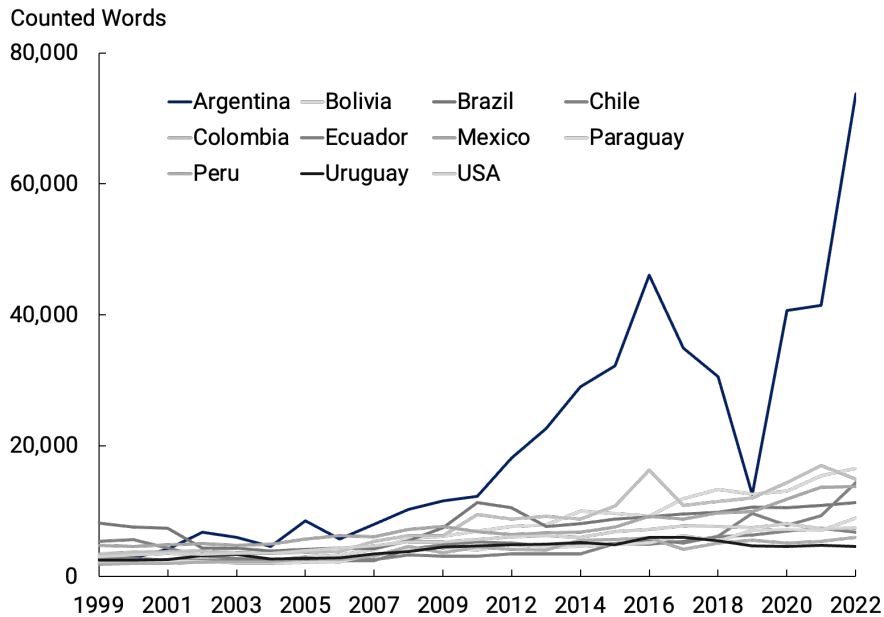
3 | FX Gap Dynamics: Bond Spreads, Importer Debt Repayments

- Higher Informal Market USD Demand: External Risk, Migration of Import Payment

4 | Real Exchange Rate Dynamics: 2% FX Crawl

- Low Wages in USD Terms, High Margins
- Lessons Learned: Fiscal Anchor Makes a Difference

Complexity of FX Regulations



Source | BCRA From Federico Forte's Data (IMF-AREAER).

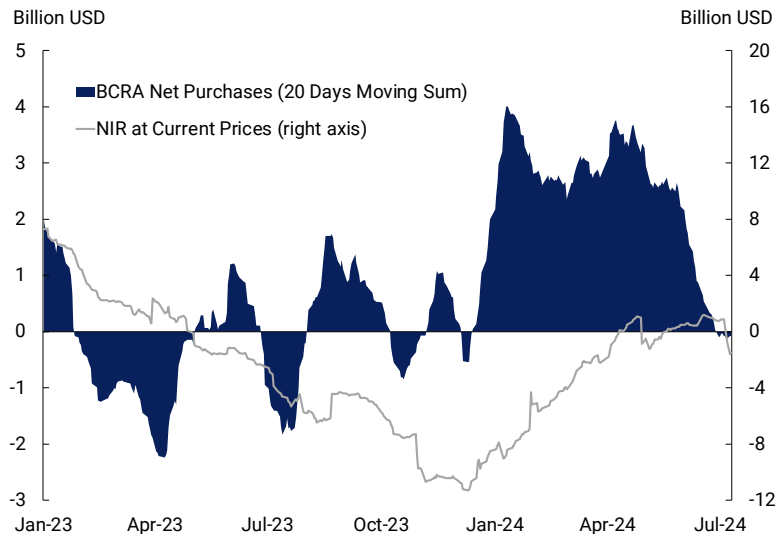
Ratio of BCRA Remunerated Liabilities to Net Reserves Excluding Liabilities with Foreign Residents



Note | Data as of July 8th, 2024.

Source | BCRA.

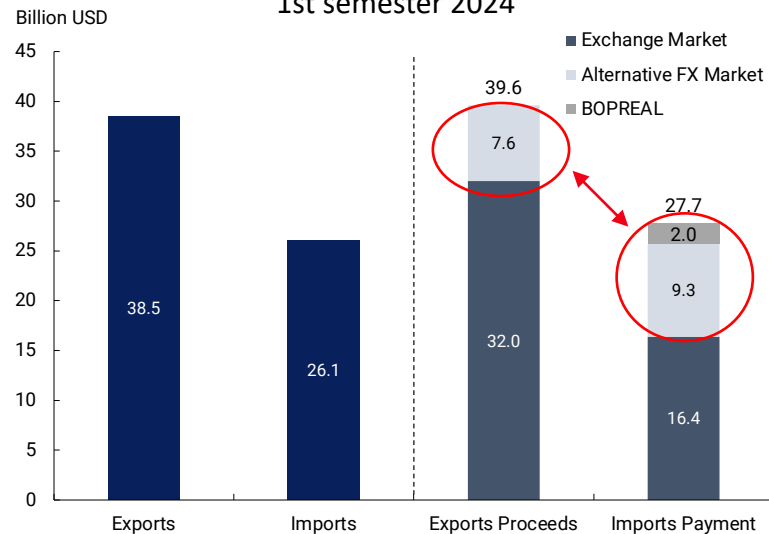
BCRA USD Purchases and Net International Reserves



Note | Data as of July 11th, 2024.

Source | BCRA.

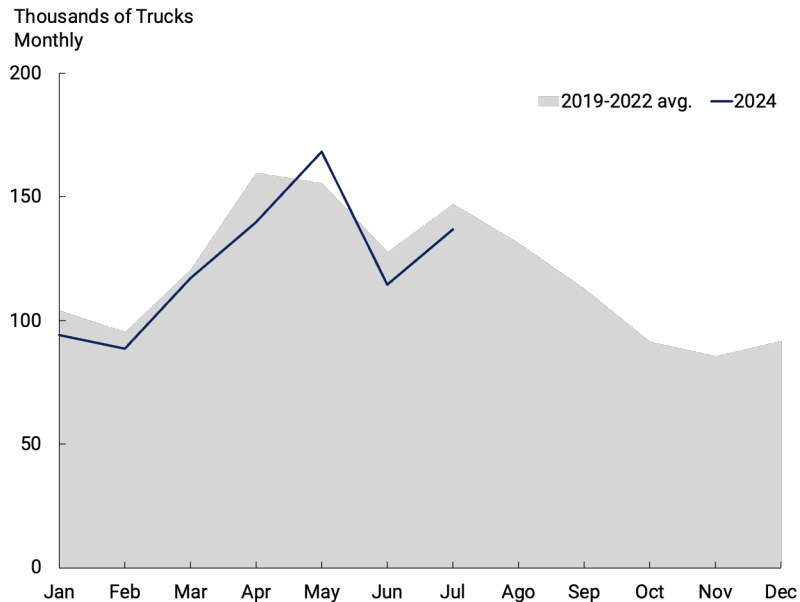
Actual Exports and Imports of Goods vs Export Proceeds and Import Payments in Official + Parallel FX Markets 1st semester 2024



Source | CNV, SEPAIMPO, RIOCI and INDEC.

Reserve Accumulation in formal FX market: Import Payments Through CCL (9.3 bn) Exceed Loss of Exporter Proceeds (7.6 bn for Goods, or 8.2 bn for G&S) Attributed to Maintaining the 80/20 Benefit

Trucks with Crops Entering Argentine Ports



Note | Includes: Wheat, Corn, Sorghum, Barley, Soybeans and Sunseeds. Jul-24: Estimated with Eleven Days Data.

Source | BCRA from Secretariat of Agriculture, Livestock, and Fisheries Data

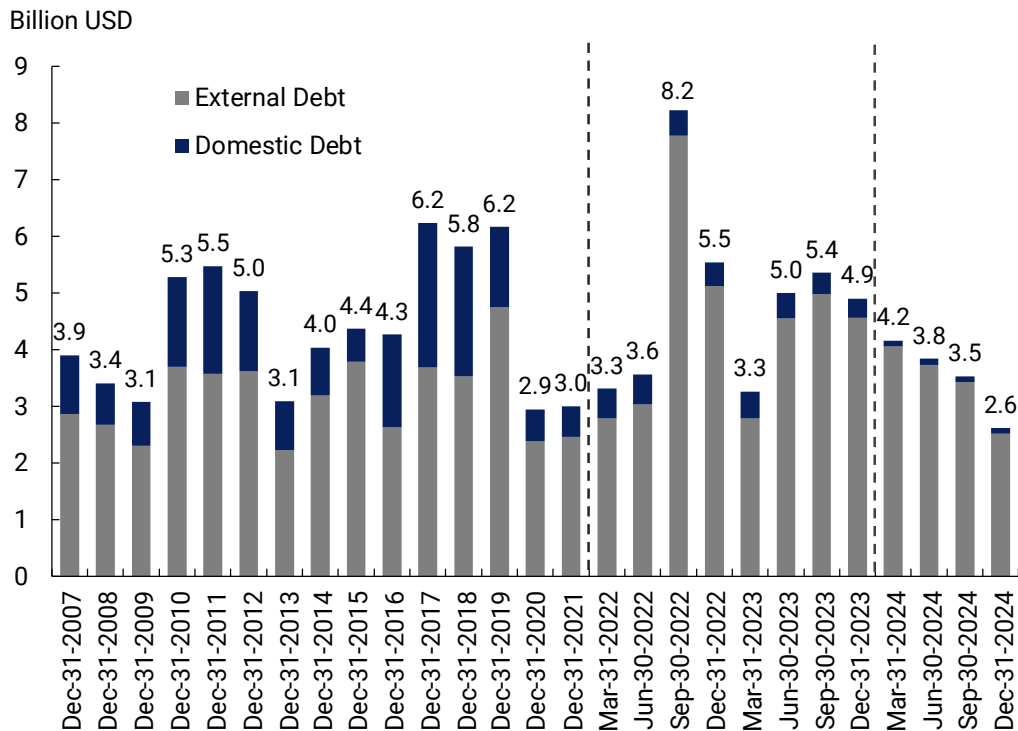
Commodities Prices (IPMP BCRA)

Deflated by US CPI



Source | BCRA from Fred St. Louis and Own Data.

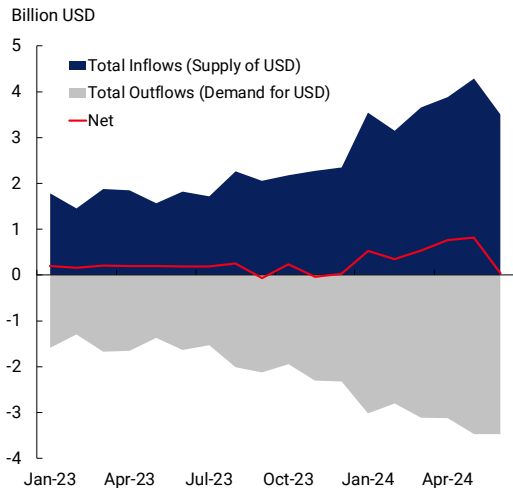
Oilseeds and Grains Sector Exporter Debt Stock



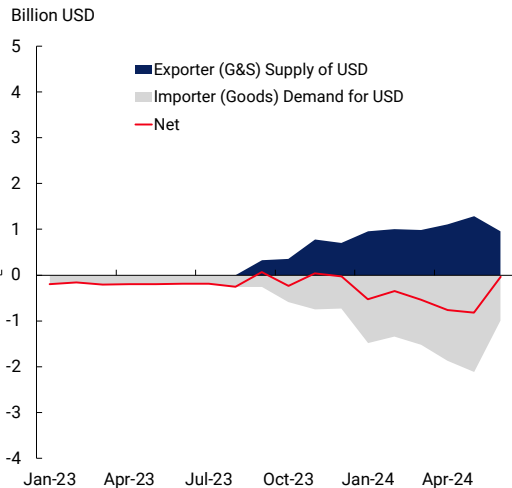
Agro Sector: Gross Export Receipts are Trending firmly, while Debt Repayment of 2.3 Billion Explains Less Net Export Receipts from the Sector

Source | BCRA, INDEC & CNV.

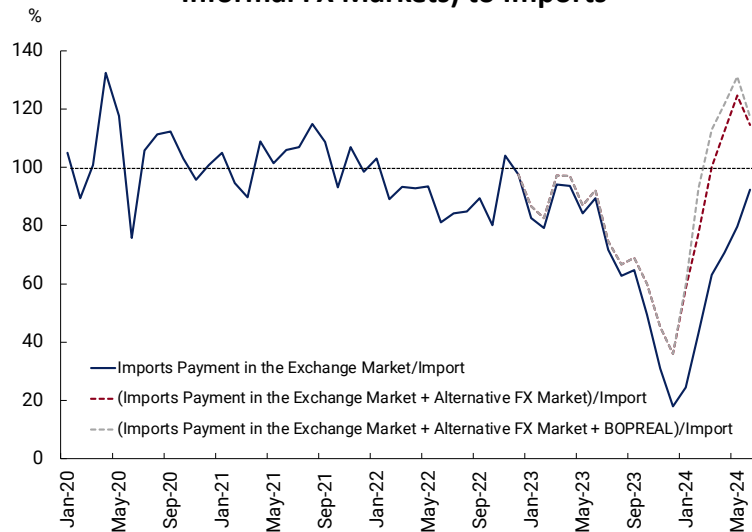
Parallel FX Market (CCL)
Financial Flows



Parallel FX Market (CCL)
Trade Flows



Ratio of Importer Payments (Formal and Informal FX Markets) to Imports



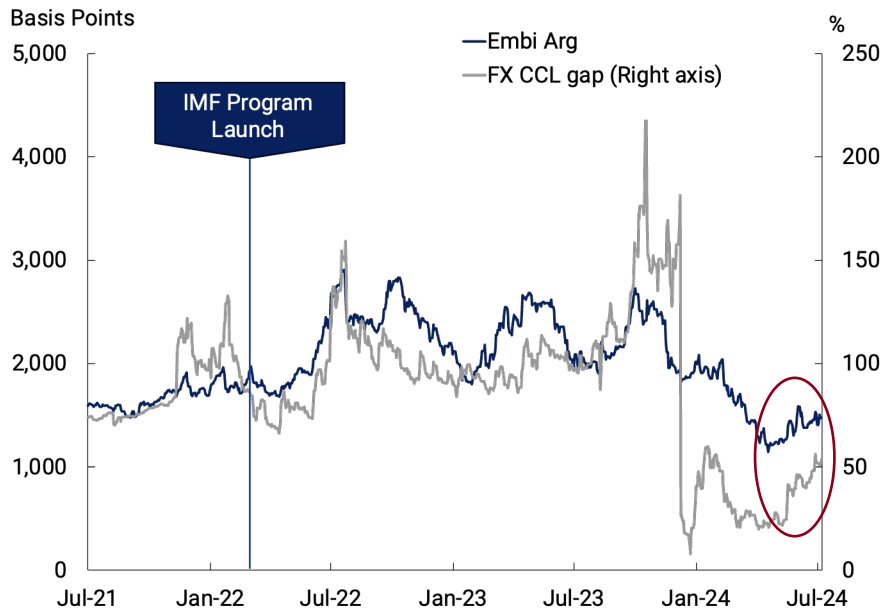
Note | Data as of June 28th.
Source | CNV and BCRA.

Source | BCRA.

Importer Payments Through CCL (Now Waning) Has Added Demand Pressure on FX Gap

Excess Demand in Parallel FX Market: Since March, Importers are Paying More than a Full Months' of Import (Paying DOWN Debt)

Argentine Government Debt Spreads and FX GAP



Source | Bloomberg.

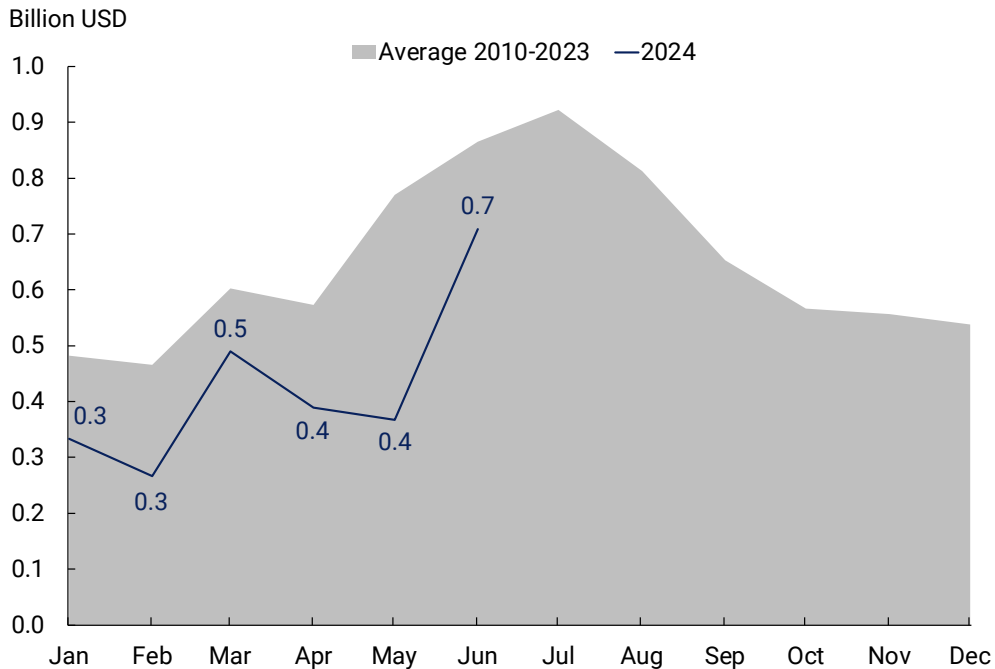
Regional Country Risk
Cumulative Change since 07/01/2023



Note | LATAM excl. Argentina: Simple Average of Brazil, Colombia, Mexico, Peru, Chile, Paraguay and Ecuador.

Source | Bloomberg.

**Energy Sector Import Payments
Official FX Market**



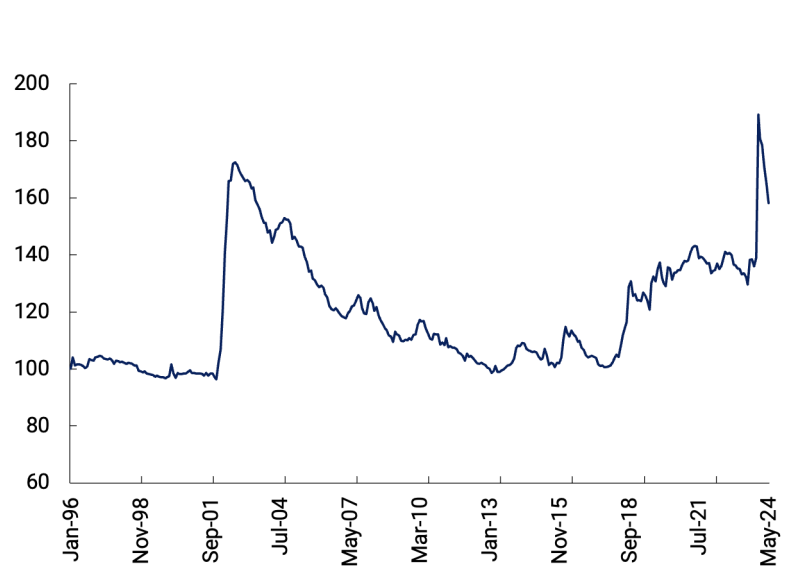
Source | BCRA.

Sectoral Price to Salary Ratios

Sector	Dec-15	Mar-18	Mar-19	Jul-23	Nov-23	Mar-24	May-24
Electrical Equipment Manufacturing	100	104	128	165	187	241	213
Publishing Activities	100	108	122	180	205	220	212
Petroleum Products	100	139	139	108	102	186	181
Paper Products	100	95	114	139	151	199	181
Chemical Products	100	106	136	145	159	189	178
Machinery and Equipment Manufacturing	100	97	116	148	166	195	173
Tobacco Products	100	111	110	124	120	172	171
Basic Metals	100	102	122	138	127	190	171
Other Non-Metallic Mineral Products	100	98	134	135	146	181	168
Fabricated Metal Products	100	94	111	139	152	183	161
Rubber and Plastic Products	100	96	121	150	165	183	161
Motor Vehicle Manufacturing	100	92	125	138	154	176	159
Furniture Manufacturing	100	81	102	126	154	161	142
Other Transport Equipment Manufacturing	100	82	97	125	130	136	133
Textile Products	100	99	127	135	132	138	124
Medical Instruments Manufacturing	100	82	98	97	112	133	124
Wood Products	100	85	99	120	138	136	124
Food Products	100	100	114	106	115	129	121
Apparel Manufacturing	100	86	97	119	128	116	103
Leather Products	100	82	83	88	97	92	82
Radio and Television Equipment Manufacturing	100	70	82	38	33	50	44

Note | The value for May is an estimate based on wage projections for April and May.
 Source | BCRA from INDEC Data.

Wholesale Price to Salary Ratio



Source | BCRA from INDEC Data.

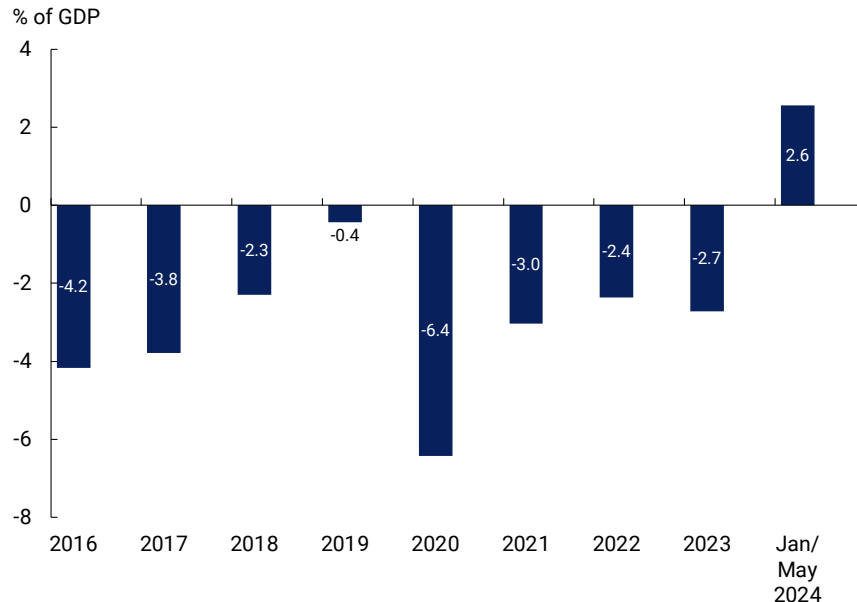
LOSING CREDIBILITY: THE STABILIZATION BLUES*

BY PABLO E. GUIDOTTI AND CARLOS A. VÉGH†¹

Ministry of Finance, Argentina
University of California at Los Angeles, U.S.A.

In exchange rate-based stabilization programs, credibility often follows a distinct time pattern. At first it rises as the highly visible nominal anchor provides a sense of stability and hopes run high for a permanent solution to fiscal problems. Later, as the domestic currency appreciates in real terms and the fiscal problems are not fully resolved, the credibility of the program falls, sometimes precipitously. This paper develops a political-economy model that focuses on the evolution of credibility over time, and is consistent with the pattern just described. Inflation inertia and costly budget negotiations play a key role.

Primary Balance of the Non-Financial Public Sector



Note | Jan/May 2024: Seasonally Adjusted Annualized Primary Balance
Source | BCRA and Ministry of Economy.

Stage I, II, & III: Promoting Private Sector-Led Growth: Market Incentives

1 | Initiatives to Support Growth, Employment & Competitiveness

- Fiscal Package # 27,743
- Foundations Law # 27,742 ("Ley Bases"): State, Labor & Energy Reform and RIGI Regime

2 | Private Sector Announcements of Large Investments Linked to Approval of RIGI

3 | Reform Initiatives + New Ministry of Deregulation & Transformation

Stage I, II, & III: Tapping Private Sector Potential & Political/Popular Support

4 | Energy Sector Expansion: A Structural Improvement for the Balance of Payments

5 | Healthy Balance Sheets: Low External Indebtedness of the Corporate Sector

6 | Crowding In: Low Domestic Bank Credit Exposure to Corporates and Households

7 | Broadening Commitments: Declaration of May (President and 18 Provincial Governors)

8 | High Popular Support for the Reform Process Amid Economic Adjustment

Recently Enacted Fiscal Package Law 27,743

- **Reinstatement of the Personal Income Tax** in specific tax brackets
- **Launching Tax Moratorium** for up to 70% of interest and installments of up to 84 Months
- **Asset Tax moratorium** with 5% tax penalty > USD 100,000
- **Reduction or Elimination Different Taxes**
 - Personal asset tax: Phasing out through 2027, optional one-off personal asset tax payment for 2023-2027 at discounted 0.45%/0.50% rate alongside tax stability shield through 2038;
 - Elimination of real estate transfer tax (ITI),
 - Update to the simplified tax regime for small businesses or self-employed
- Framework to provide greater **transparency related to the tax burden** affecting consumers/taxpayers.
- Establishment of **minimum threshold for automatic tax withholdings.**

Recently Enacted Foundations Law 27,742 (“Ley Bases”)

1. CHAPTER ON STATE REFORM

- **Modification or Elimination of Competencies, Functions or Responsibilities and the Legal Structure of Some Public Organizations and Trust Funds**
- **Privatization** of Certain Public Enterprises
- **Reform of the Administrative Procedure Law 19,549** (to Streamline the State)
- Framework for the Review of **Public Employment**
- **Concessions to Private Sector** of Public Infrastructure (Built, Works) or Public Services

2. CHAPTER ON LABOR REFORM

- **Regularize** Unregistered or Poorly Registered **Labor Relations** and Simplify Registration
- Extends to **6-month Labor Trial Period** (1 Year in Firms with up to 5 Employees)
- **Possibility of Replacing Final Compensation** with a Fund or Termination of Employment System
- **Independent Workers can Subcontract** up to 3 Independent Workers.
- **Definition of Objective Causes for Dismissal**

Recently Enacted Foundations Law 27,742 (“Ley Bases”)

3. CHAPTER ON ENERGY SECTOR

- **Business Friendly Legal Framework** Promoting Infrastructure Development, **Free Trade and no State Intervention in Local Fuel Prices** and **Unification of Gas and Electricity Regulatory Entities**

4. CHAPTER ON LARGE INVESTMENT - INCENTIVE REGIME (RIGI for > USD 200 M)

- **Free Trade Granted. Right to Pay Profits, Dividends and Interest. Regulatory Stability in Tax, Customs and Exchange Matters.**
- **Tax Benefits: Income Tax of 25%** (Tax on Debits and Credits in Bank Accounts Will be Considered as Income Tax Credits). Certain Beneficial Income Tax Amortizations Periods. **VAT Payments with Tax Credit Certificates. Import Duties Exemption** for Imports of New Capital Goods, Spare Parts, Parts, Components and Consumer Goods, as well as Temporary Imports. **Exports Duties Exemption after 3 Years (2 Years if They are Very Large-Scale Projects).**
- **FX access Benefits:** Gradual Export Proceeds Exemption from the Obligation of Entry and/or Negotiation and Settlement in the Local Exchange Market. Foreign Currency from Local or External Financing are Freely Available.

Main Investment Opportunities in the Energy Sector

Sector	Projects	Deadline Until	Billion USD
Oil Production & Infrastructure	◦ Upstream Investments: Andes Project (Auction of Oil Areas) and Development of Vaca Muerta	2027	7,4
	◦ Petrochemicals and Biofuels: New Fertilizer Plant, Agrochemicals Plant, Polyduct and Maritime Terminal and Port Expansion and Refinery Reconversion)	2030	3,8
Gas Production & Infrastructure	◦ Shale Gas Wells	2026	4,8
	◦ Gas Pipelines for the Internal Market	2026	6,8
	◦ Export Gas Pipelines	2027	9,1
	◦ LNG (Plant, Ship and Gas pipeline)	2027	14,5
Generation and Transportation	◦ Transportation System Expansion	n.d.	4,6
Renewable	◦ Wind projects (Green Hydrogen)	2032	2,0*
	◦ Sustainable Aviation Fuels (SAF)	2027	0,4
	◦ Bioethanol	2026	0,3
	◦ Cogeneration	2026	0,6
Total			54,3

*Million USD for Each GW of Installed Wind Power.

Source | BCRA From Ministry of Economy

Some Announcements Across Sectors

1. Posco USD 800 million for Litio
2. SIDERSA USD 300 million
3. Genneia USD 250 million
4. Tech Firms USD 1 Billion

Source | @Finanzas Argy.

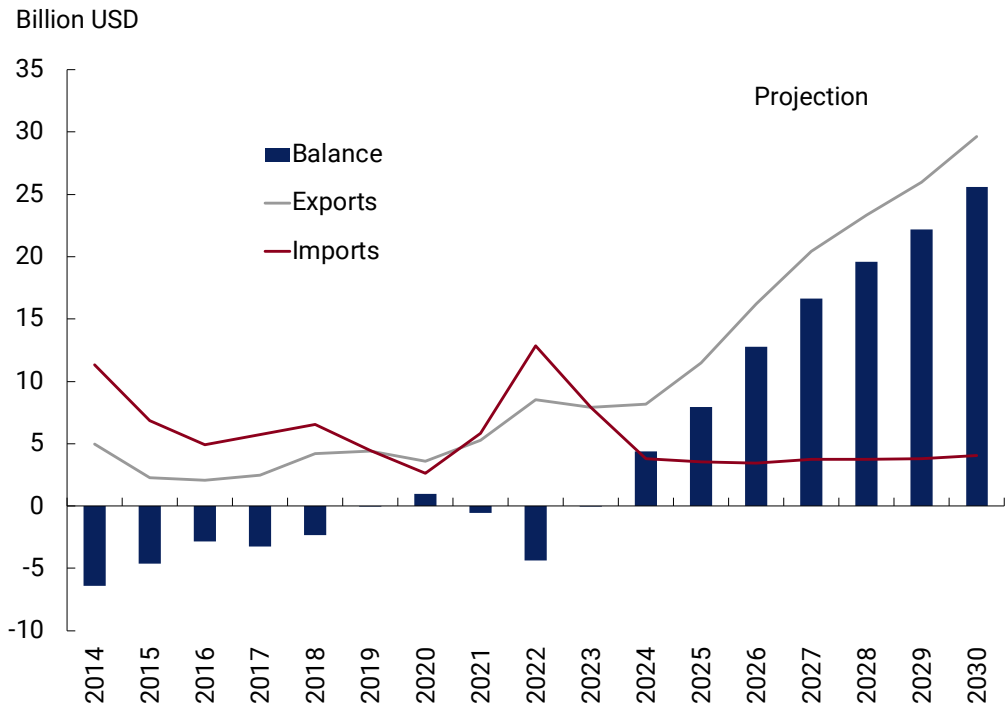
Foreign Trade Deregulation and Cost Reduction Initiatives

- **Transparency:** Eliminating the opaque SIRA system to the more streamlined SEDI that includes an automatic payment schedule based on priorities and elimination of the SIRASE system with a 30 days payment schedule
- **Increased Efficiency:** Eliminating the requirement to undergo arbitrary controls to each container loaded with labeled and antidumping regime products.
- **Reduction of Financial Cost:** Reduction of withholding on VAT and income tax applied to food, hygiene products, and medication for 120 days.
- **Reduction of Tariffs Rates:** Reducing import tariff on industrial matrices, metals (35% to 12.6%) and plastic (24.% to 12.6%), fertilizers (3.6-6.0% to 0%), herbicides (35% to 12.6%), tires (35% to 16%), plastic inputs (12.6% to 6%) and big-ticket household appliances (35% to 20%).
- **Flexibility:** Increasing limits for importing by courier from USD1.000 to USD3.000.

Market Deregulation + State Streamlining + Creation of Ministry of Deregulation & Transformation

- **State Reform** (Including Public Employment Reduction at the National Level)
- Reduction of the **Tax Burden on Imported Basic Consumption Goods**.
- **Elimination of Government Price Control Programs** (Which Affected Products of the Basic Consumer Basket, Prepaid Medicine and Fuels, Among Others)
- **Regulated Public Service Rates** Were Significantly Updated
- **Deregulation of Real Estate Rentals Market, Tourism (Agencies) and Health Sector**
- **CREATION OF THE MINISTRY OF DEREGULATION AND TRANSFORMATION**
- **Deregulation and Competition Incentives in the Airline Sector (Open Skys):** Free Access to the Local Market for New Companies without Bureaucracy, Free Competition Between Airlines, Tariff Deregulation, Free Setting of Frequencies, Transparency in the Allocation of Space at Airports.
- **Closure of 136 automotive property registries and 12 in approval process**

Projected Energy Trade Balance



Source | BCRA from INDEC and Secretary of Energy Data.

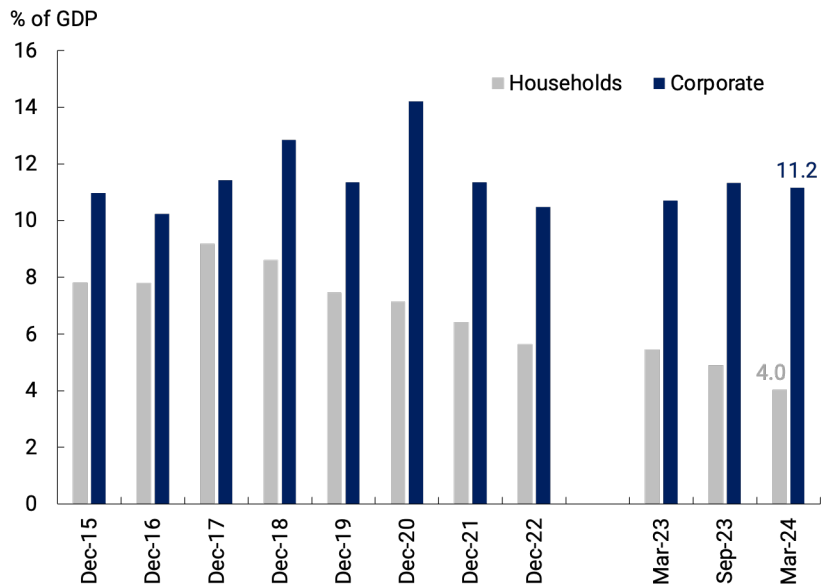
Leverage Ratios of Publicly Traded Argentine Corporates

Net Debt Ratio = (Gross Debt – Cash) / EBITDA

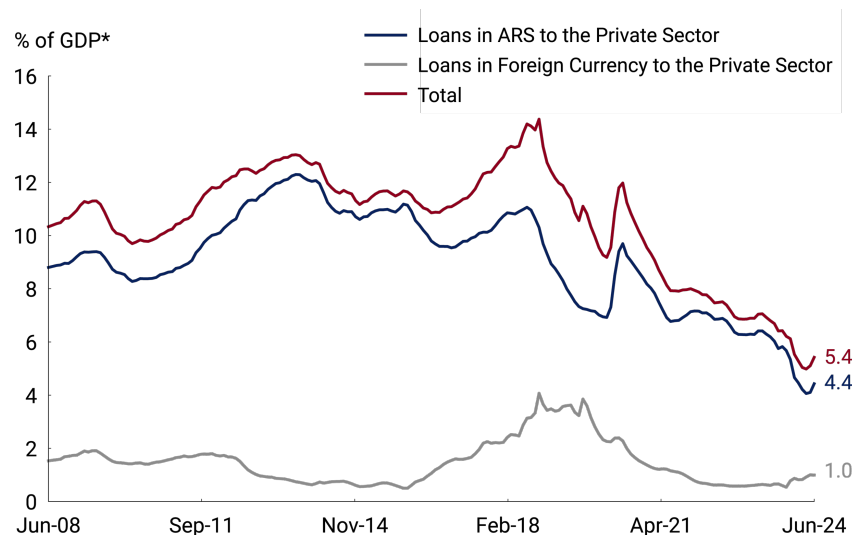
Net Leverage	2Q19	4Q19	2Q20	4Q20	2Q21	4Q21	2Q22	4Q22	2Q23	4Q23	1Q24
YPF	2.0x	2.2x	3.0x	5.0x	2.7x	1.6x	1.3x	1.2x	1.4x	1.7x	1.7x
Vista	1.6x	1.1x	2.4x	3.5x	1.7x	0.8x	0.6x	0.4x	0.5x	0.5x	0.6x
TGS	0.7x	0.8x	0.8x	0.9x	0.6x	0.3x	0.2x	0.2x	-0.1x	0.1x	0.1x
TGN	0.4x	0.3x	0.1x	0.2x	0.5x	-0.9x	-1.1x	0.4x	-0.8x	-0.8x	-3.5x
Transener	0.2x	0.1x	0.1x	-0.1x	0.0x	-0.6x	-0.2x	-0.6x	-0.3x	-0.3x	-0.6x
Pampa Energía	1.8x	1.8x	2.2x	2.1x	1.6x	1.3x	1.3x	1.2x	1.1x	0.9x	1.1x
Central Puerto	1.1x	1.5x	1.4x	2.4x	2.1x	1.5x	1.2x	0.8x	0.3x	0.8x	1.1x
GEMSA	2.5x	3.3x	3.5x	3.8x	4.8x	5.1x	4.4x	4.9x	5.8x	6.3x	6.6x
MSU Energy	8.3x	8.1x	7.9x	6.3x	5.0x	4.7x	4.8x	4.9x	4.9x	4.8x	4.7x
Genneia		4.4x	3.5x	3.3x	3.4x	3.0x	2.8x	2.8x	2.8x	3.2x	3.3x
YPF Luz		3.5x	3.9x	3.9x	3.1x	2.3x	2.1x	2.1x	2.0x	2.1x	2.2x
Telecom Arg	1.3x	1.6x	1.5x	1.8x	1.8x	2.0x	2.1x	2.2x	2.3x	3.2x	2.4x
Loma Negra	0.8x	0.8x	1.2x	0.1x	0.1x	-0.1x	0.0x	0.4x	0.8x	0.9x	1.3x
Ternium Arg	0.8x	0.1x	-0.4x	-0.9x	-0.6x	-0.8x	-1.0x	-1.2x	-1.0x	-1.1x	-1.4x
IRSA	2.6x	3.6x	4.5x	2.6x	4.6x	5.6x	1.7x	1.4x	1.8x	1.3x	1.5x

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

Total Debt of Non-financial Corporates and Households
Total stock of debt in terms of GDP (%)



Loans to the Private Sector
In Terms of GDP (%)



Note | In Addition to Bank Credit, It Includes Other Types of Non-bank Financing (eg Domestic Negotiable Obligations, Foreign Loans and Bonds, Checks, Other Credit Providers, Non-bank Credit Cards, FGS-ANSeS Loans, etc.).
Source | BCRA.

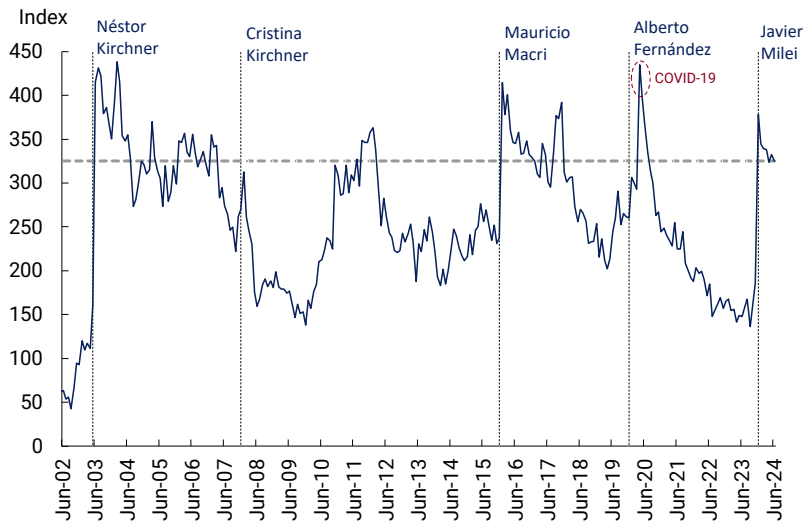
*Calculated Using the 3 Months Moving Average of Seasonally Adjusted GDP.
Source | BCRA.

Declaration of May (“Pacto de Mayo”): Federal & Provincial Government Agreement

1. Protection of **Private Property**.
2. Non-negotiable Commitment to **Fiscal Balance**.
3. Reduction of General **Government Spending** to 25% of GDP.
4. High Quality **Education**: Initial, Primary and High School; 100% Literacy, 0% Dropout Rate.
5. **Tax Reform** to Reduce Tax Burden, Simplify the System and Promote Trade.
6. Proposal for a **Federal Tax Sharing System** with Provinces, Fostering Responsibility and Progress.
7. Prioritize Exploitation of **Natural Resources** Endowment.
8. Modern **Labor Reform**, Oriented to Promotes Labor Formality.
9. **Pension Reform** Aimed at a Sustainable System that Prioritizes Pensioners Compliant with Deductions.
10. **Openness to International Trade**.

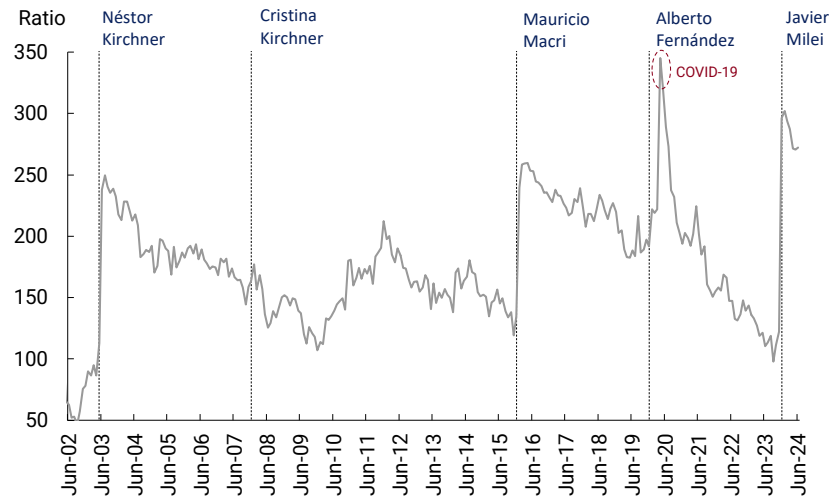
Note | The Pact Was Signed on July 9th by the President of the Nation and by 18/24 Governors of Subnational Districts. Only 6 Governors of Provinces did Not Sign it: Buenos Aires, La Pampa, Formosa, Tierra del Fuego, La Rioja y Santa Cruz (whose governor would later sign it).

Confidence in Government



Source | BCRA from Universidad Torcuato Di Tella data.

Ratio Confidence in Government Index (Dec-01=100) and Consumer Confidence Index (Dec-01=100)



Source | BCRA from Universidad Torcuato Di Tella data.

Electoral Enthusiasm: 7-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.

Thank You