Argentina's Economic Program (Stage 3): Domestic Stability (Lower Money Stocks & Balanced Fiscal Flows) Provides a Solid Foundation to Build External Flexibility (Higher FX Stocks & Balanced BOP Flows)

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Vladimir Werning, Deputy Governor of the BCRA

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Domestic Stability Provides a Solid Foundation to Build External Flexibility

I. Collapsing Inflation Expectations: Where are they Heading? (South) and Why? (Rapid Policy Delivery)

1 | Putting an End to a High Inflation Regime: Fiscal, Monetary & FX Policy Shift Averts Hyperinflation
2 | Perception Among the General Public: Inflation is Low and Expected to Decrease Further
3 | Revisions to Analysts' Forecasts: Disinflation advances steadily, avoiding Road-blocks and Pot-holes
4 | Pricing in Financial Markets: Break-Even Inflation is Discounted to Fall Amid Limited Inertia

II. Strong Policy Anchors: Which are Working? (Nominal & Real) and How? (Broad Policy Consistency)

1 | Fiscal policy: Restrained Demand, Eliminated Peso Financing & Sterilizes BOP Flows
2 | Monetary Policy: Shrunk Peso Stocks & Flows, Cleared Peso Contingencies & Lifted Real Rates
3 | FX policy: Realigned Relative Prices (Jump) & Reduced Inertia/Indexation (Crawl)
4 | Income Policy: Reduced Inefficient Subsidies (Regulated Prices) & Increased Direct Transfers (Social Programs)

III. Widespread Impact: In What Dimensions? (Real Variables & Animal Spirits) and When? (Policy Lags & Credibility)

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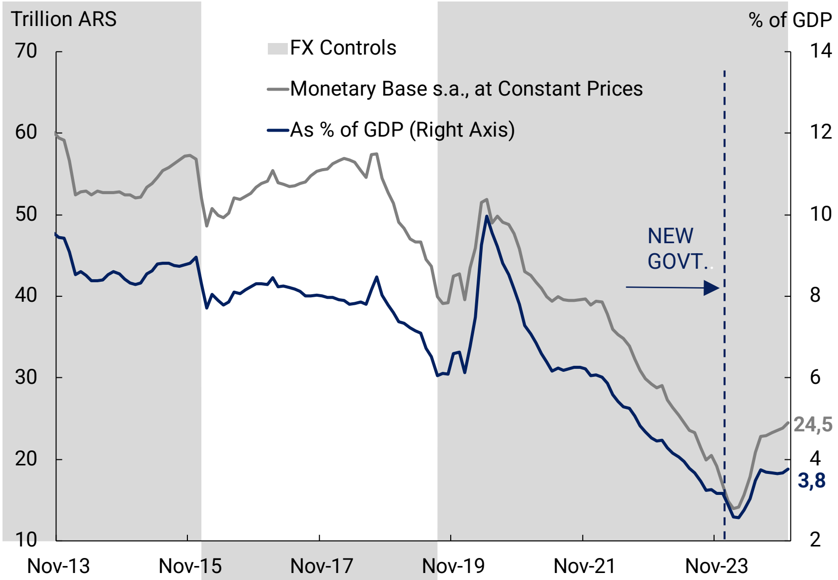
IV. Next Steps: Which Priorities? (Exiting Controls & Currency Competition) and Why? (Greater Policy Flexibility)

1 | Capital Account Inflows (corporate issuance, household repatriation) will be Supportive of the Current Account
2 | Relative Price Level: Abnormal Margins, Taxes & Regulations Contrast with Normal Wage Levels
3 | Exiting FX Controls: Conditions (Inflation Inertia & BCRA Reserves) and Relative Price Flexibility (Speed of FX Passthrough)

1. In 2024, an unprecedented fiscal, monetary and FX policy rebalancing reversed the collapse of money demand and averted hyperinflation

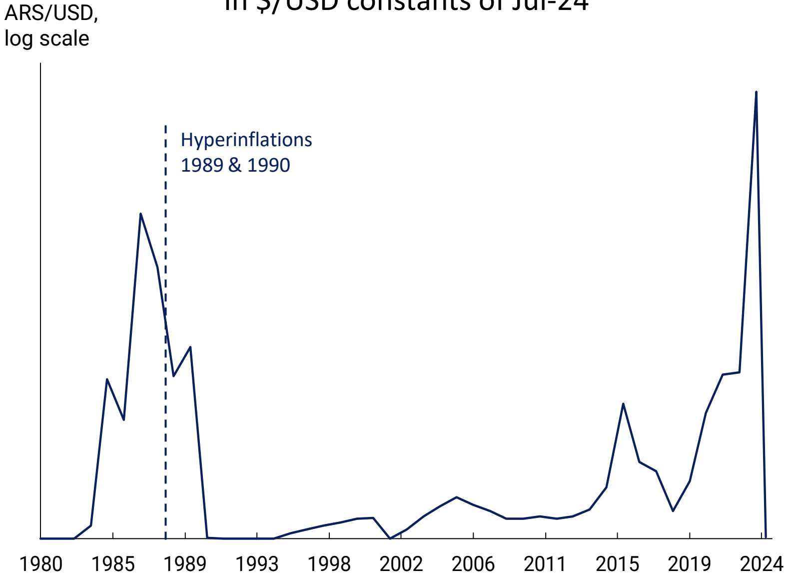
Monetary Base



*Divided over GDP s.a., 3-month moving avg.
Source | BCRA.

BCRA: Ratio of Remunerated Liabilities to Liquid Reserves

In $/USD constants of Jul-24

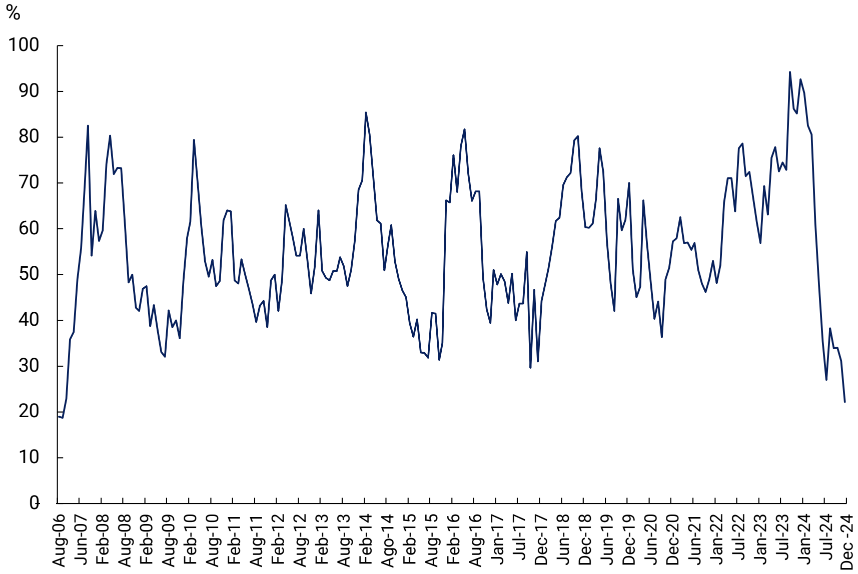


Source | BCRA.

As money demand collapsed the alarm bells for hyperinflation risk (remunerated liabilities-to-FX asset ratio) sounded louder in 2023 than during past episodes when Argentina had collapsed into hyperinflation (1989-90)

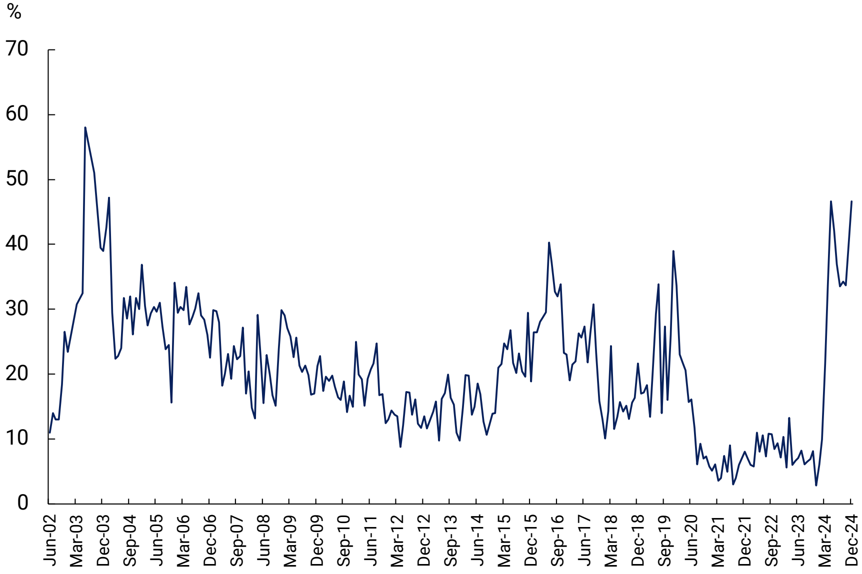
2. By the end of 2024, the general public's perception of inflation and inflation expectation improved to levels not seen in two decades

Opinion Poll Responses: Perception of Previous Month's CPI inflation
Increased Significantly



Source | Poliarquía Consultores national survey

Opinion Poll Responses: Expectation for Next 3 Months' CPI Inflation
Will Remain Stable / Will Decrease

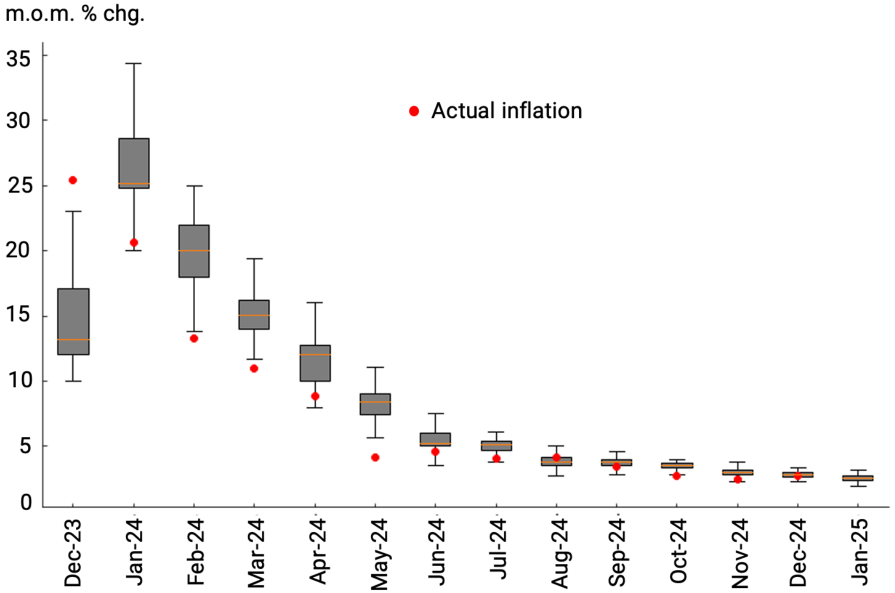


Source | Poliarquía Consultores national survey

Collapsing Inflation Expectations

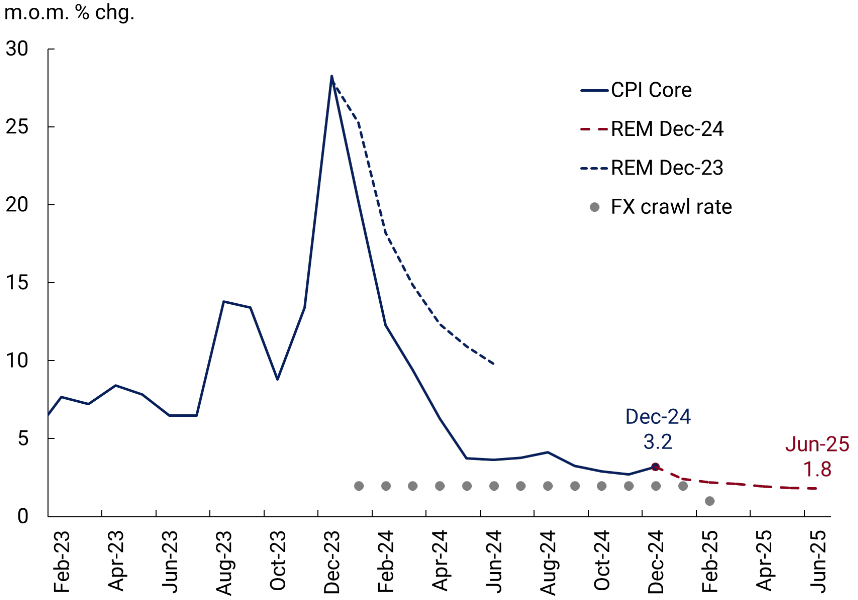
3. By the end of 2024, economic analysts' inflation forecasts continued to be systematically revised downward and dispersion around consensus mean was narrowing

Headline CPI Performance: Consensus forecast (REM) and Actual CPI (INDEC)



Source | Market Expectations Survey-BCRA and INDEC.

Core CPI Inflation, Inflation Expectations (REM) and FX crawl rate

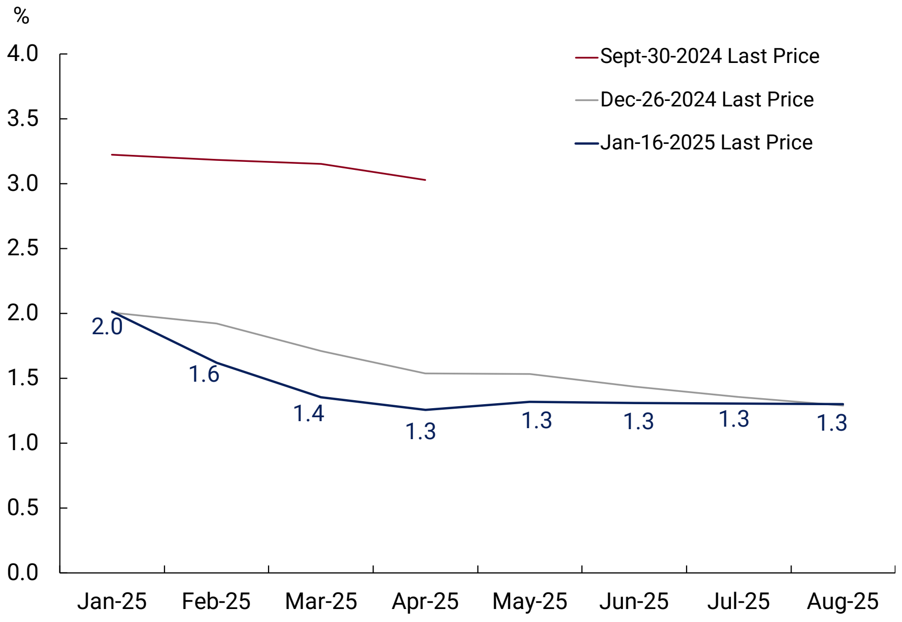


Source | BCRA on data from Market Expectations Survey-BCRA and INDEC.

Collapsing Inflation Expectations

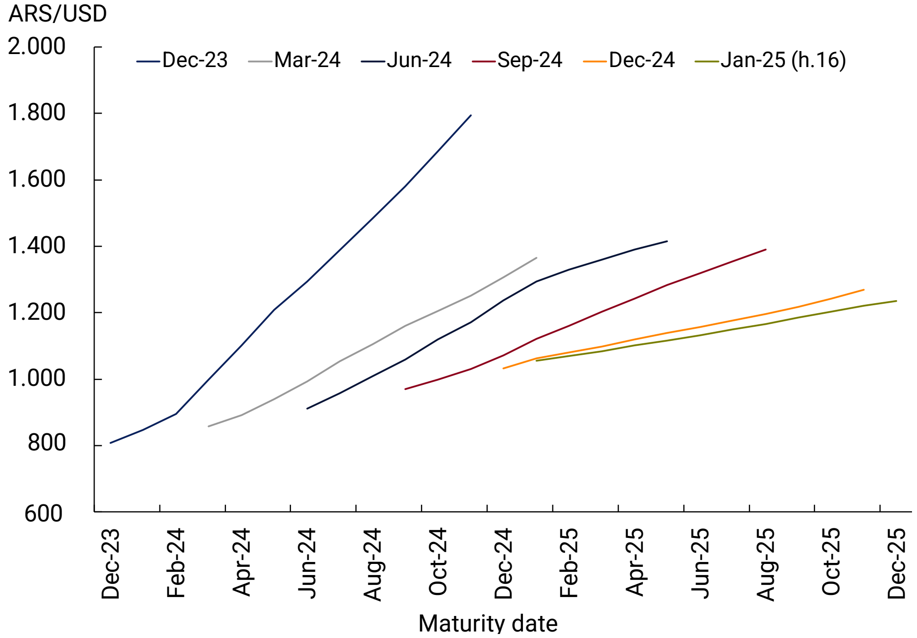
4. By the Beginning of 2025, market prices of domestic Treasury securities were discounting lower B/E inflation and futures priced increased credibility of the FX regime

Breakeven Monthly Inflation priced in Domestic Treasury Securities



Source | BCRA from Bloomberg data.

FX futures (ROFEX)



Source | BCRA from ROFEX data.

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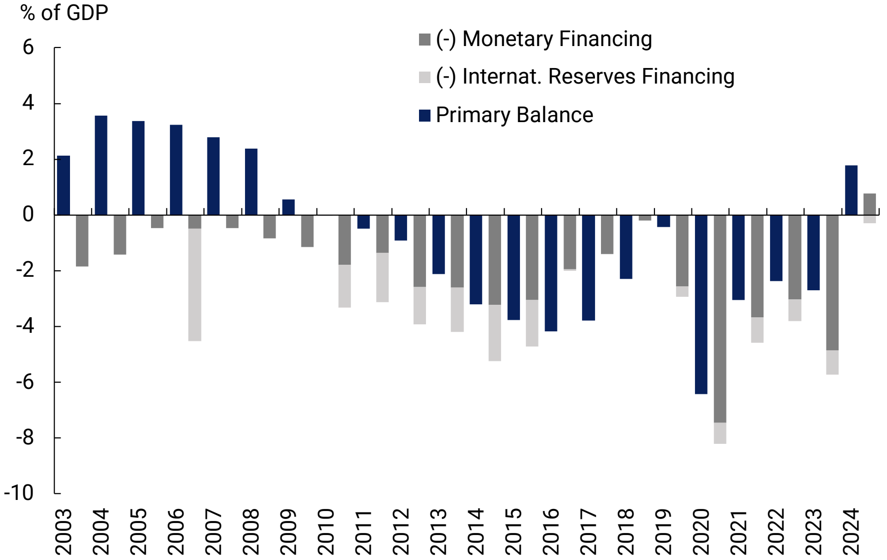
5. Fiscal Policy: With fiscal accounts in surplus, monetary financing was eliminated and domestic demand constrained (while net external debt repayments contributed to monetary contraction)

Primary Fiscal Balance & BCRA Financing of Treasury

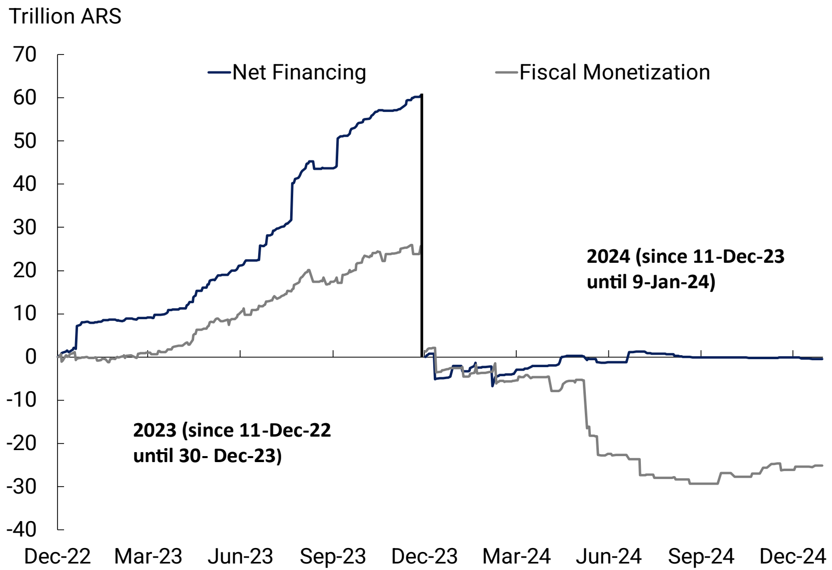
Monetary and Reserve



Note | For 2021 SDR Allocation of $427.4 Billion is not Considered. For 2022 Excess Primary Income from Primary Debt Placement is not Included. 2024: Monetary (Temporary Loans + Dividend Payouts + PUTs and BIDs on Banks net of LECAPs backup at BCRA) and International Reserves Financing (IOUs Placement) since 10th Dec-23.
Source | BCRA from Ministry of Economy data and INDEC data.

Accumulated Net Financing From the Central Bank to the Treasury and the Accumulated Monetary Impact of Fiscal Policy

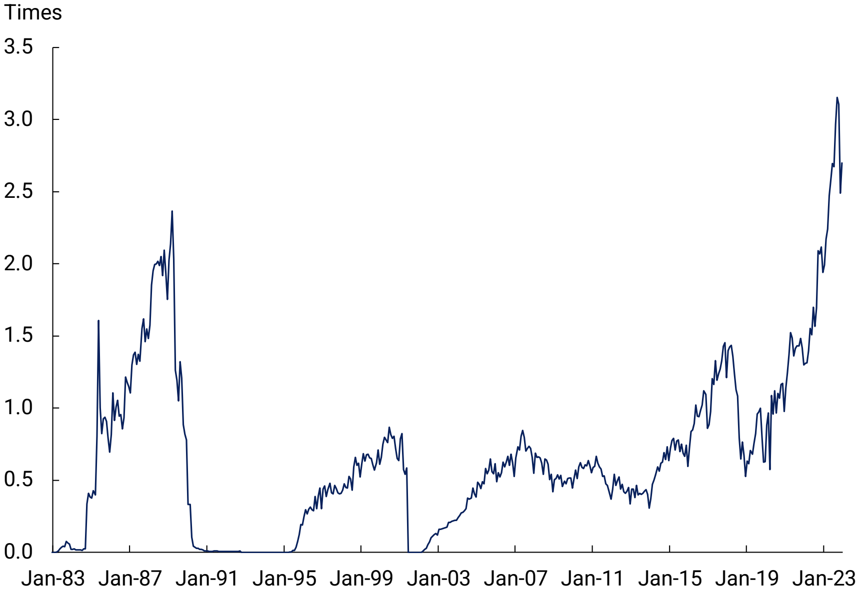
At Constant Prices as of December 31, 2024.



Net financing : IMF definition, 7th Reviews
Fiscal monetization: Fiscal transactions with monetary impact
Source | BCRA.

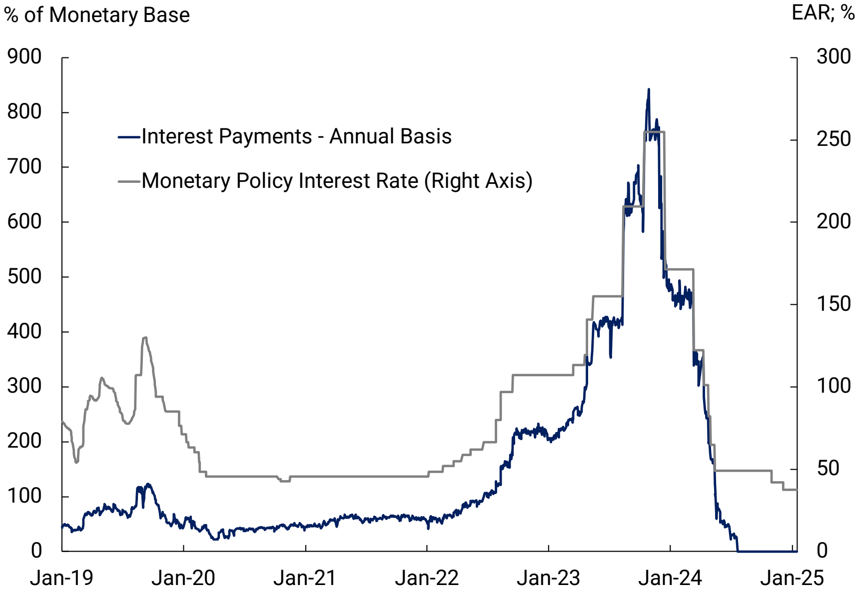
6. Monetary Policy: Cutting interest rate aimed at reducing BCRA's quasi-fiscal deficit was unconventional but very effective to contain money supply and tame inflation expectations

BCRA Remunerated Liabilities Relative to the Monetary Base



Source | BCRA.

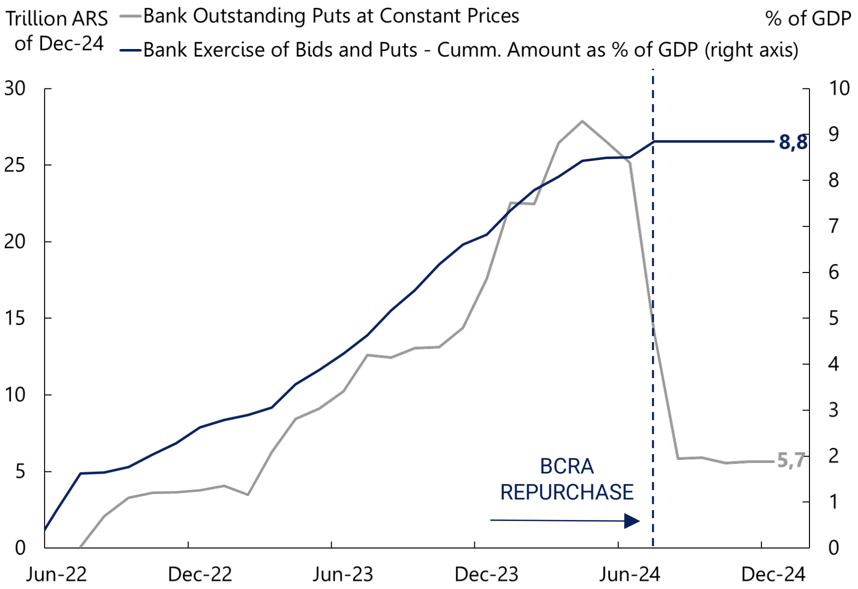
Interest payments on remunerated liabilities of the BCRA (expressed as BM-equivalent issuance) and policy rate



Note | Data as of January 16, 2025.
Source | BCRA.

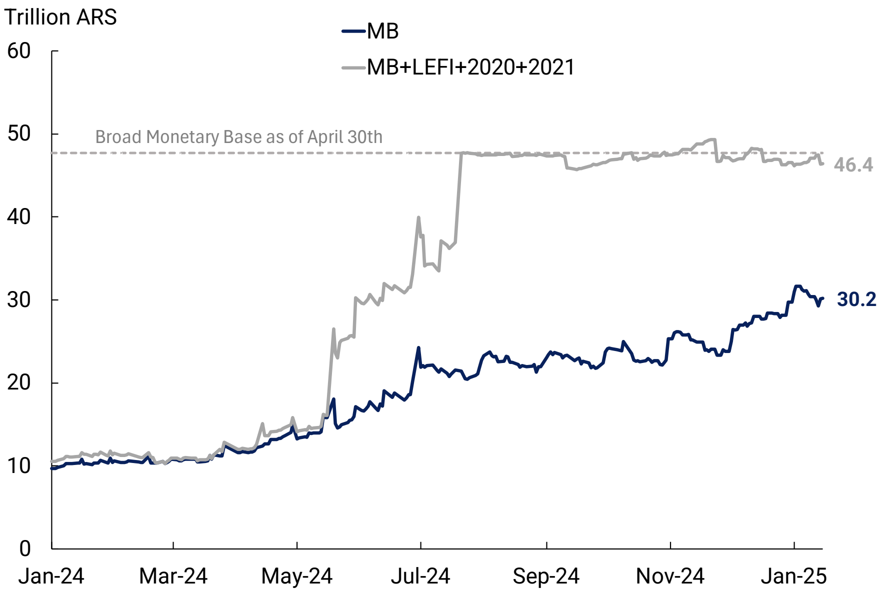
7. Monetary Policy: Inflation risk was reduced (BCRA erased monetary contingencies by repurchasing banks' holdings of puts) & inflation expectations were further anchored (BCRA fixed the broad MB)

Banks Bids and Puts on Treasury Holdings
Market value at constant prices and % of GDP



Note | BCRA repurchases banks' put option contracts at acquisition cost + inflation - time decay
Source | BCRA.

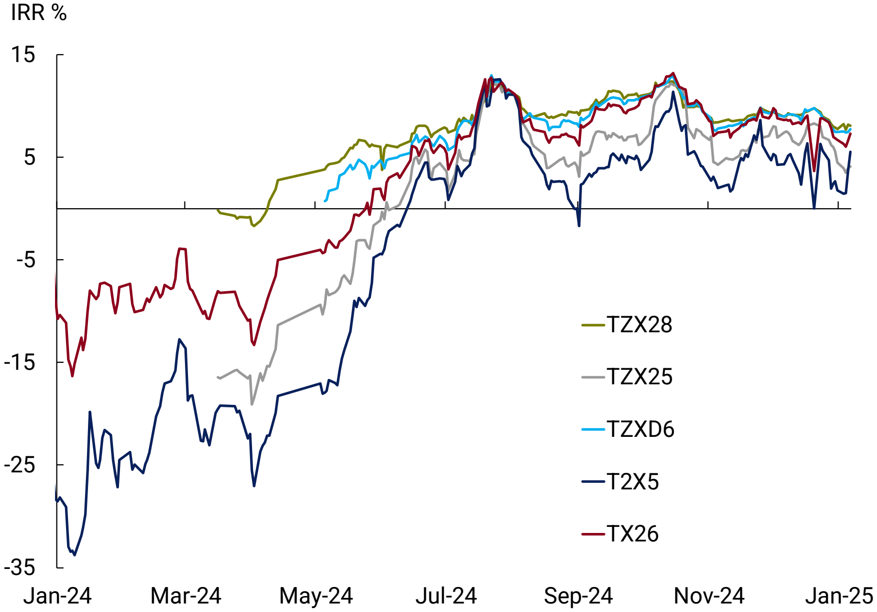
Monetary Base and Fixed Liquidity Level
At Current Prices



Source | BCRA.

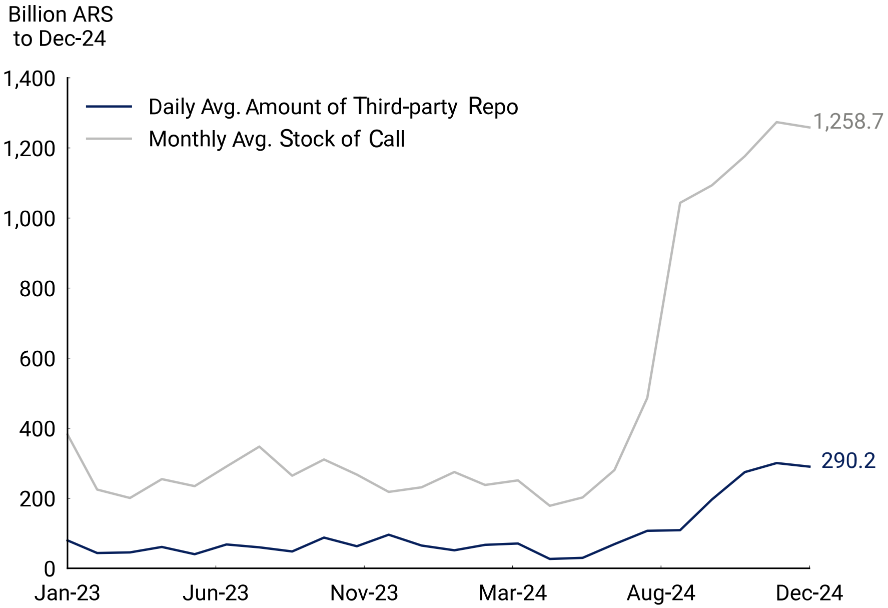
8. Monetary Policy: As BCRA deregulated local rates and off-loaded its liabilities to the Treasury, money markets converged to positive real rates and markets for liquidity resurfaced

Real Interest Rates on Inflation Indexed (CER) Treasury Securities



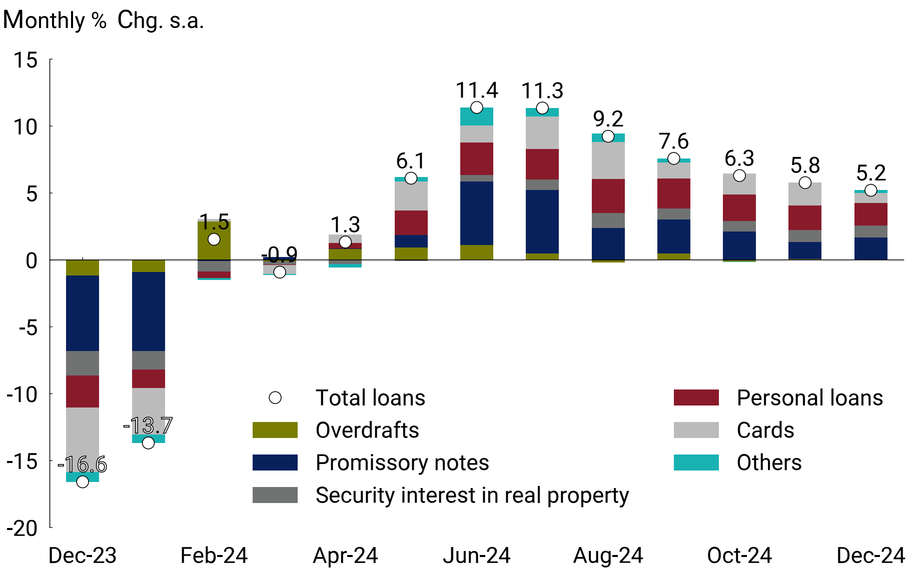
Source | BCRA based on IAMC data.

Interbank Lending and Private O/N Repo Market



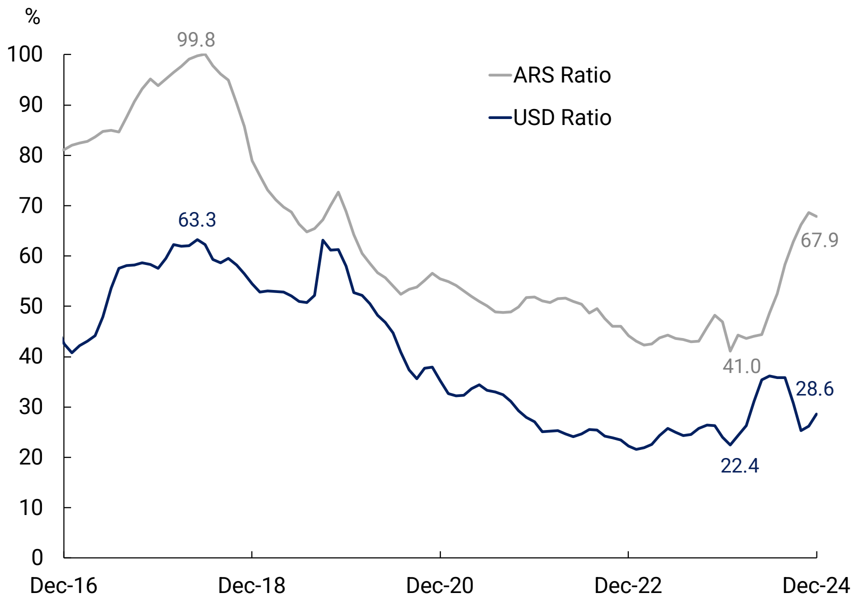
9. Monetary Policy: Stabilization kick-starts the re-monetization of the economy and supports robust demand for peso credit (ultimately transforming the peso into the scarce currency)

Loans to the Private Sector in ARS
At constant prices, s.a.



Source | BCRA.

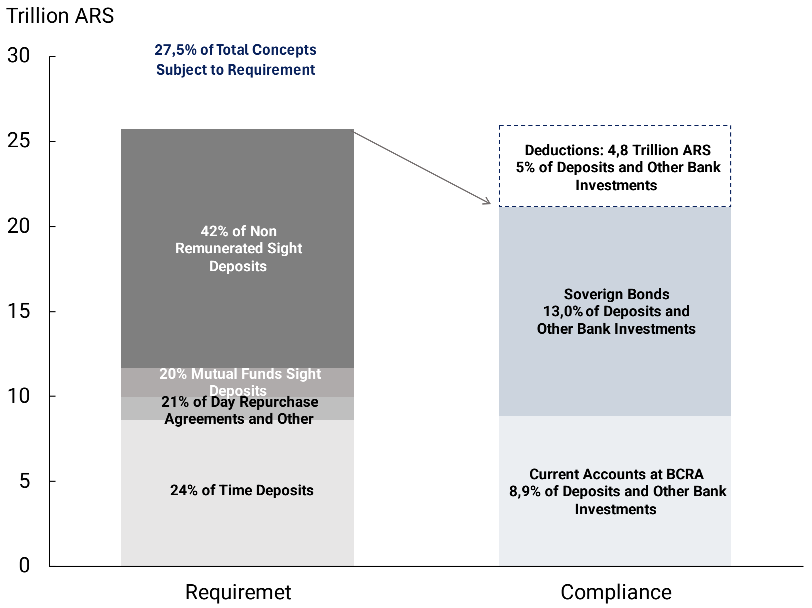
Private Sector´s Loan to Deposit Ratio



Source | BCRA.

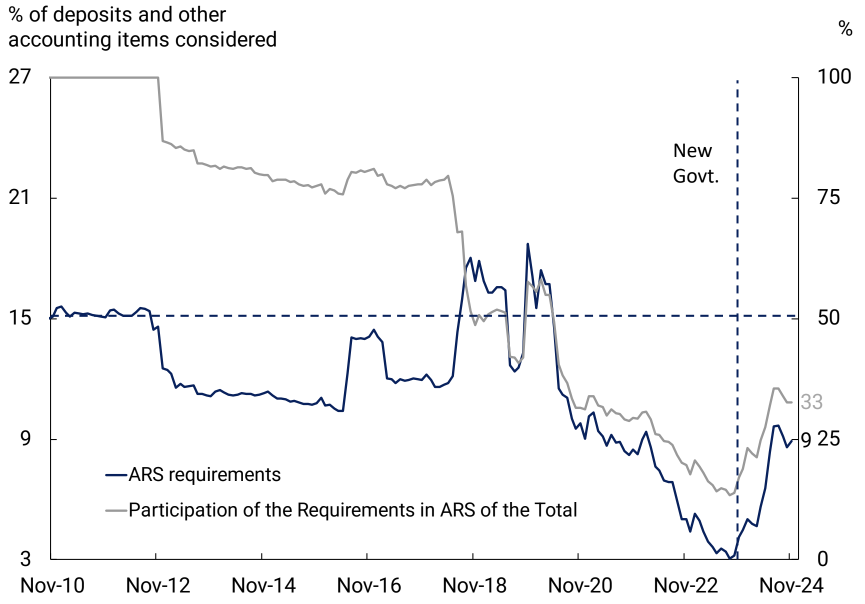
10. Monetary Policy: Normalizing domestic markets ahead of normalizing external markets involved additional engineering (reversing the depletion of cash backing of bank deposits)

Minimum Cash Requirement in Pesos
Requirement and Effective Composition as of November 2024



Source | BCRA.

Minimum Cash Requirement in Pesos
% of Deposits and other Covered Items

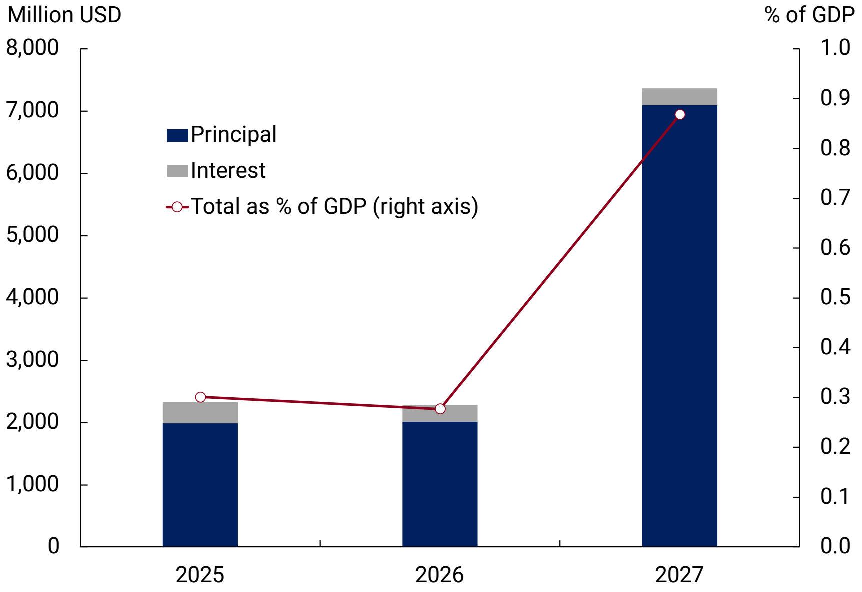


Source | BCRA.

Strong Policy Anchors

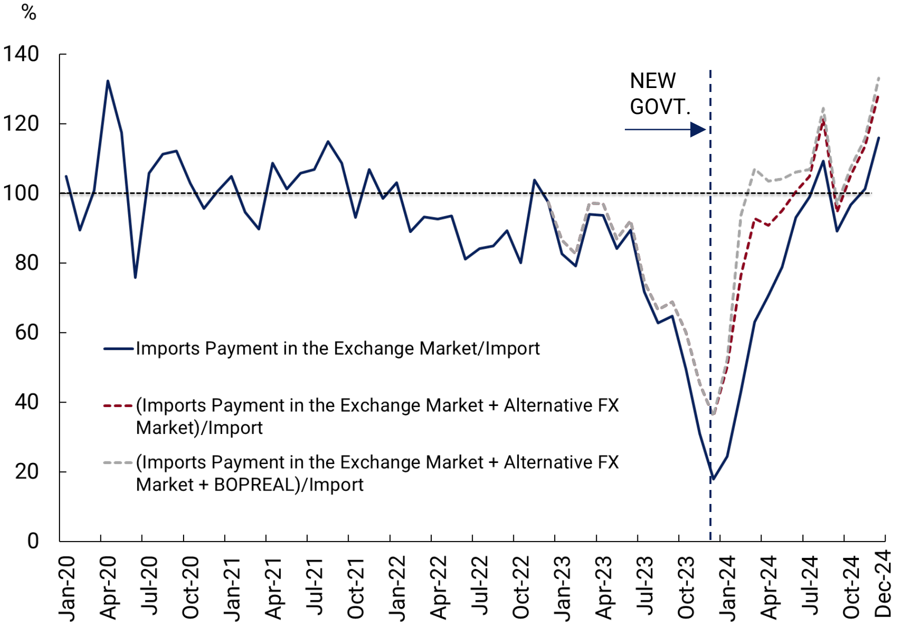
11. FX Policy: Initial imbalances (stock of importers' FX debt) was voluntarily transformed into flows and BCRA's FX supply for corporates was normalized, avoiding a collapse of activity

Maturity Profile of BCRA-Importer FX Swap (BOPREAL)



Note | GDP in dollars based on Market Expectation Survey (REM-BCRA) December 2024. In 2027, it assumes a variation of the nominal exchange rate equal to inflation.
Source | BCRA and REM-BCRA.

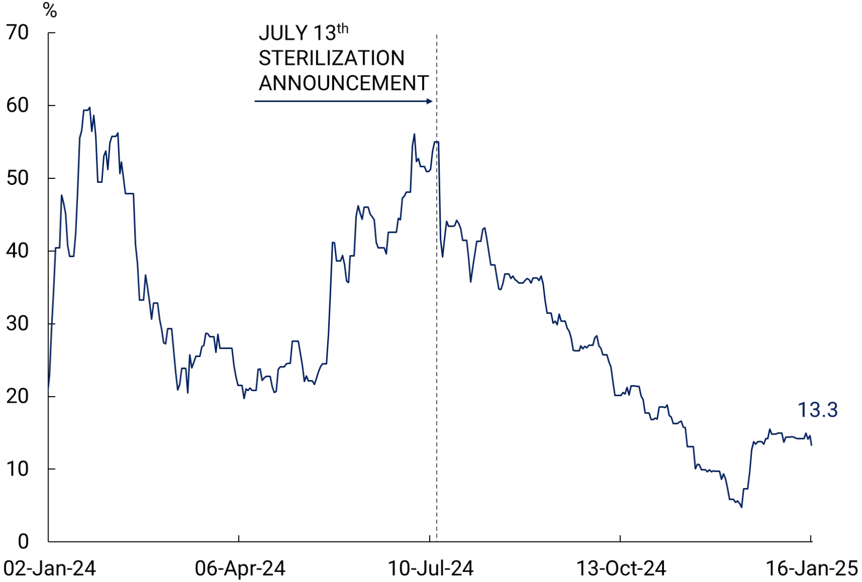
Ratio of Import Payments to Total Imports



Source | BCRA.

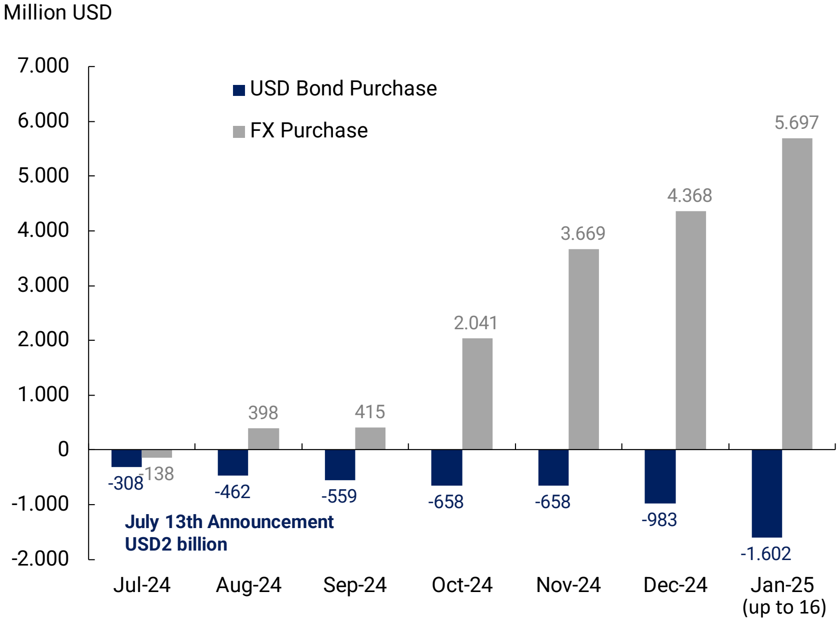
12. FX Policy: When macro fundamentals are solid the sterilization of pesos via the exchange market is efficient, credible and on a net basis does not imply a sacrifice of reserves (which increased instead)

FX Gap
CCL vs. Benchmark Exchange Rate (Comm. A 3500)



Note | Last data January 16.
Source | BCRA and Ámbito Financiero

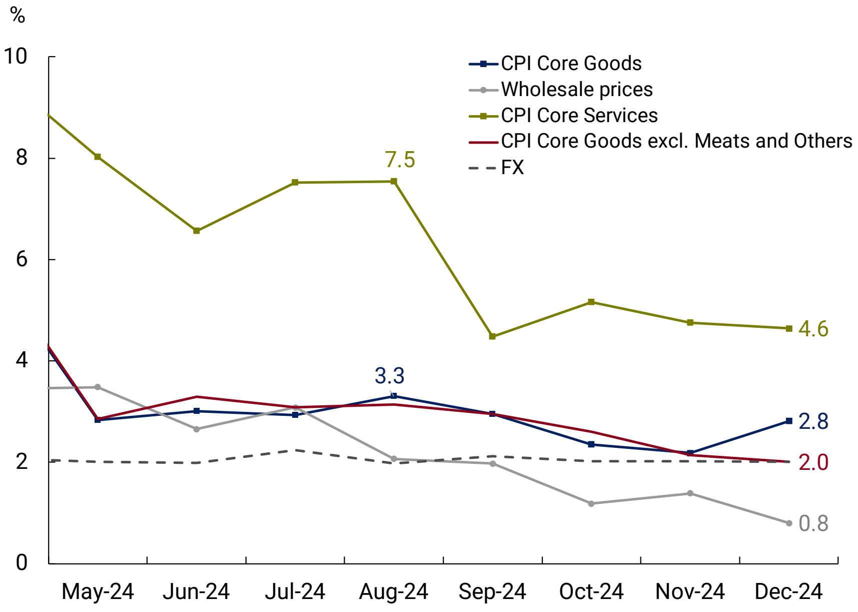
BCRA Net Purchase of Foreign Currency in MLC and of USD-Denominated Bonds
Accumulated as from July 1st



Source | BCRA.

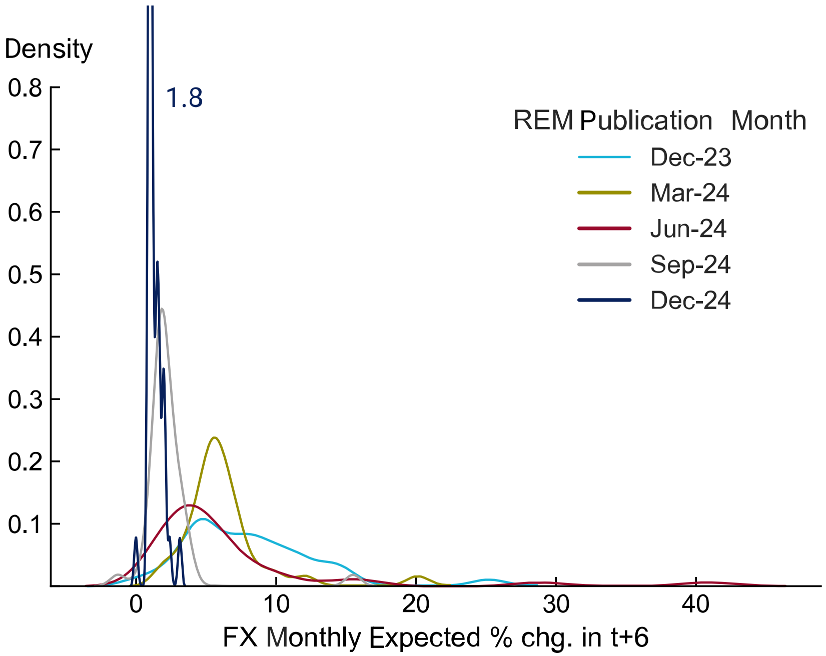
13. FX Policy: After an initial adjustment of the exchange rate, a 2% crawl (recently adjusted to a 1% rate) helped to anchor expectations and gained credibility

Monthly Inflation and FX Crawl Rate



Source | BCRA based on INDEC data.

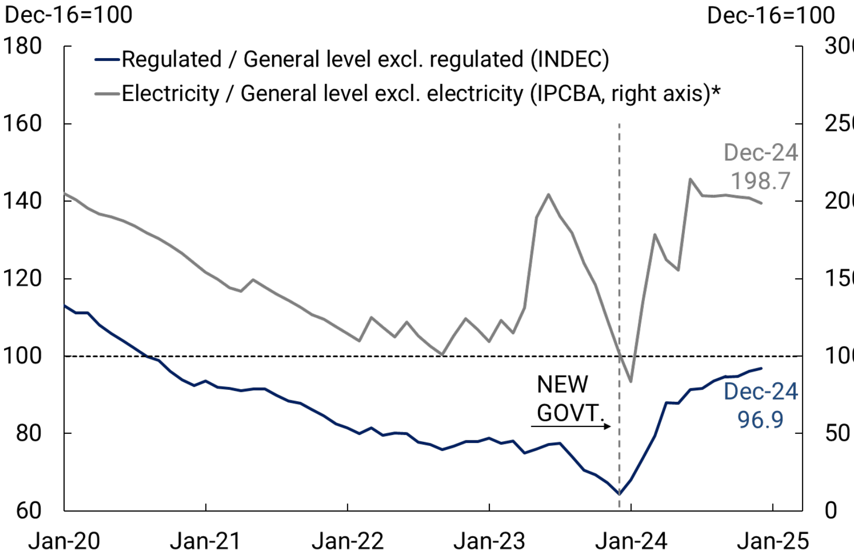
Distribution of Analysts' FX Forecasts around Consensus (REM)



Source | Market Expectations Survey-BCRA.

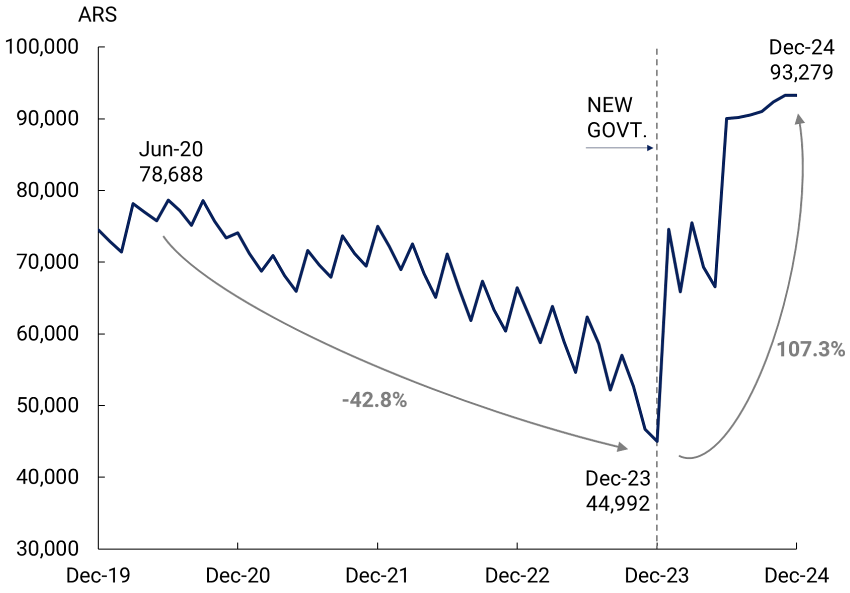
14. Relative Prices and Income Policy: Public service prices were rapidly normalized (without adversely affecting the CPI dis-inflation trend) and social transfer programs were reinforced

Regulated CPI / General CPI Excluding Regulated Items



*based on CPI of Buenos Aires City.
Source | INDEC and IDECBA

Universal Child Allowance
at Constant Prices of December 2024



Source | BCRA, Ministry of Economy and INDEC.

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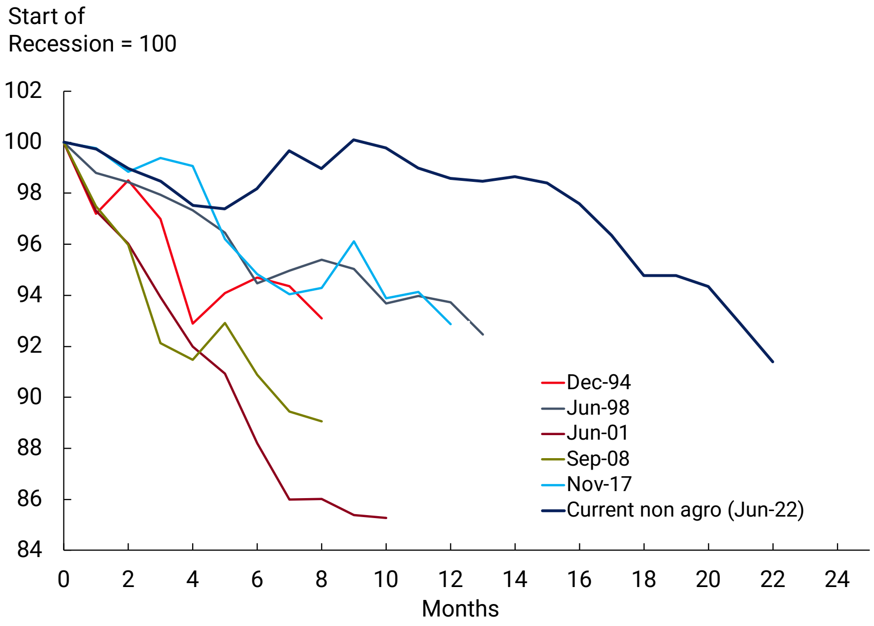
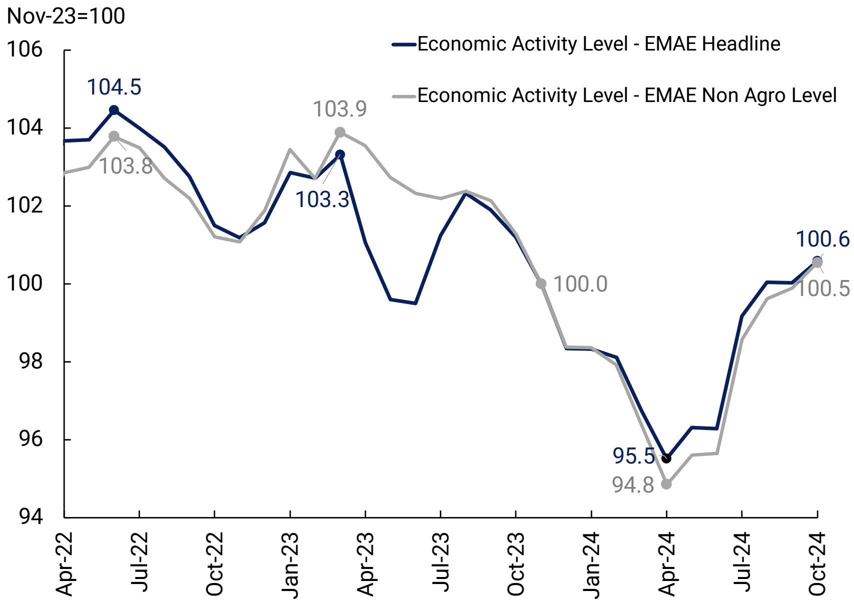
15. A V-shaped economic recovery: The longest recession since the 90s' ended in 2Q24 and the pace of economic recovery since then is sharp

Recessions (EMAE)



Source | BCRA from INDEC data.

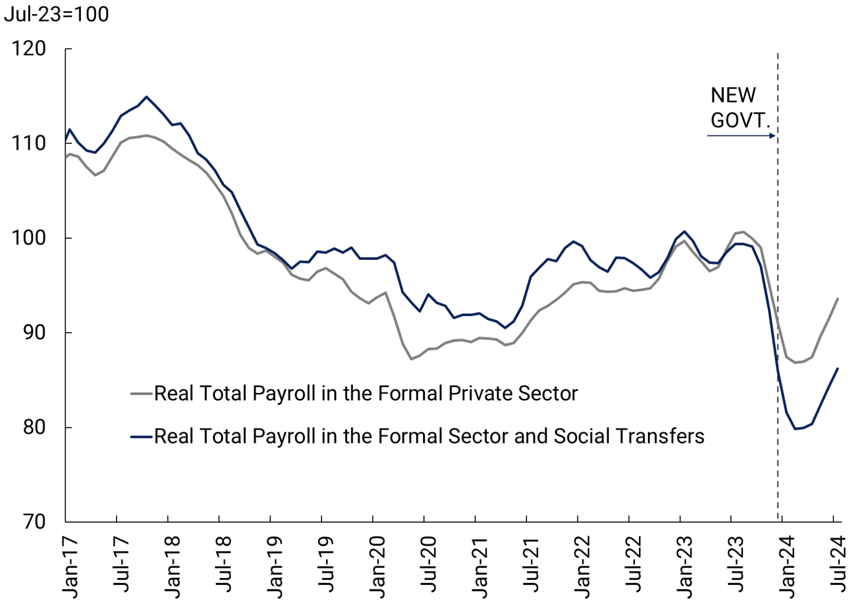
Economic activity. EMAE Adjusted for Seasonality



Source | BCRA based on INDEC data.

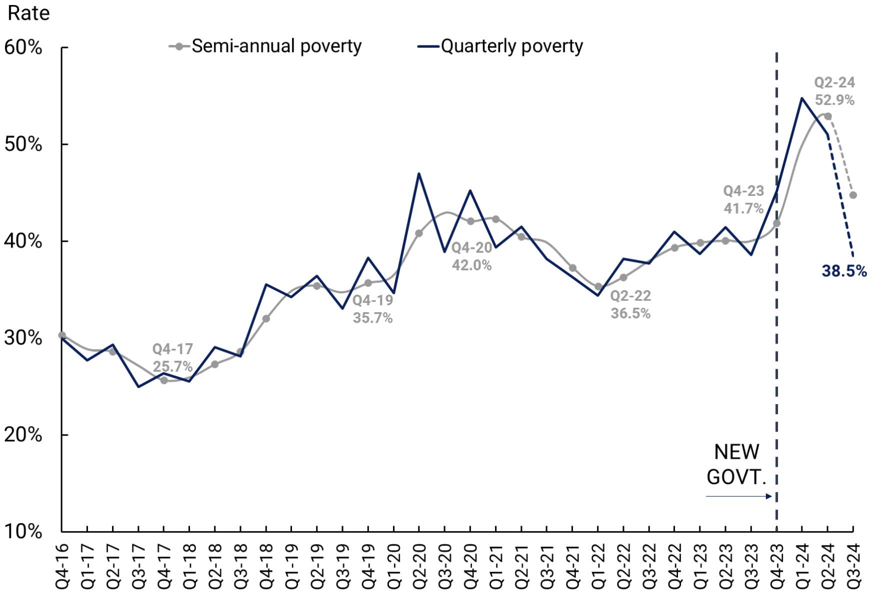
16. The economic adjustment was extremely short-lived: Real GDP already exceeds its November 2023 level, payroll growth is recovering, and the poverty rate has declined sharply

Real Payroll s.a. (Private Formal and Broad)
3-Months Centered Moving Average



Source | BCRA from STEySS, Ministry of Economy and INDEC data.

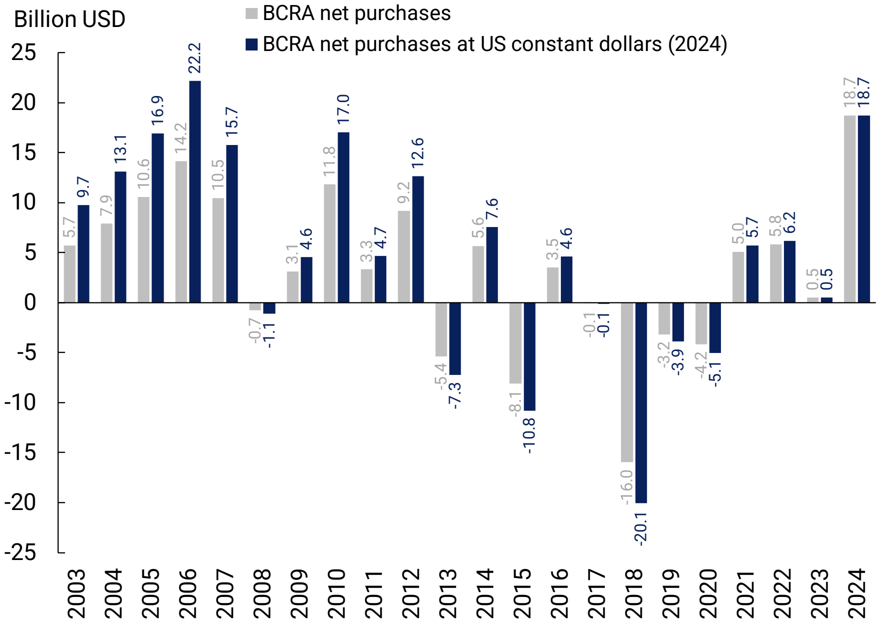
Poverty



Source | BCRA based on INDEC data.

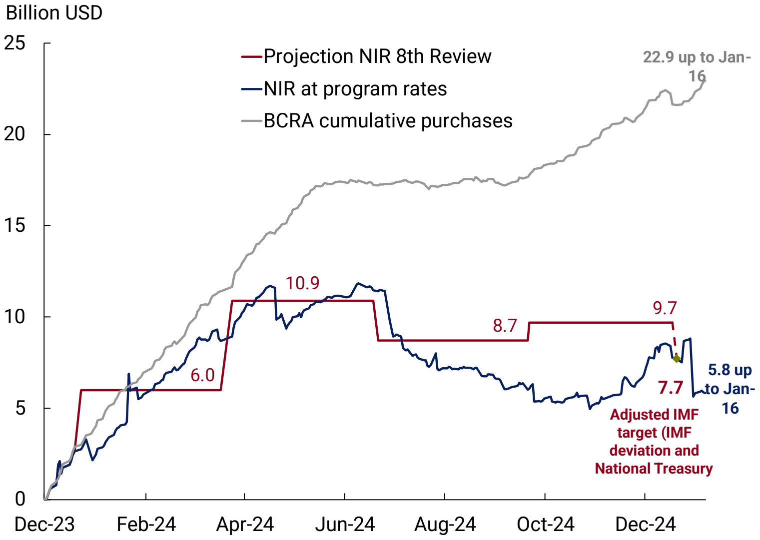
17. BCRA Reserves hit the IMF target if adjusted for accounting items (prepayments of bonds and IMF disbursement postponement in 4Q24): macro policies delivered the expected external equilibrium

BCRA's USD Net Purchases



Source | BCRA.

International Reserves and BCRA's USD Purchases

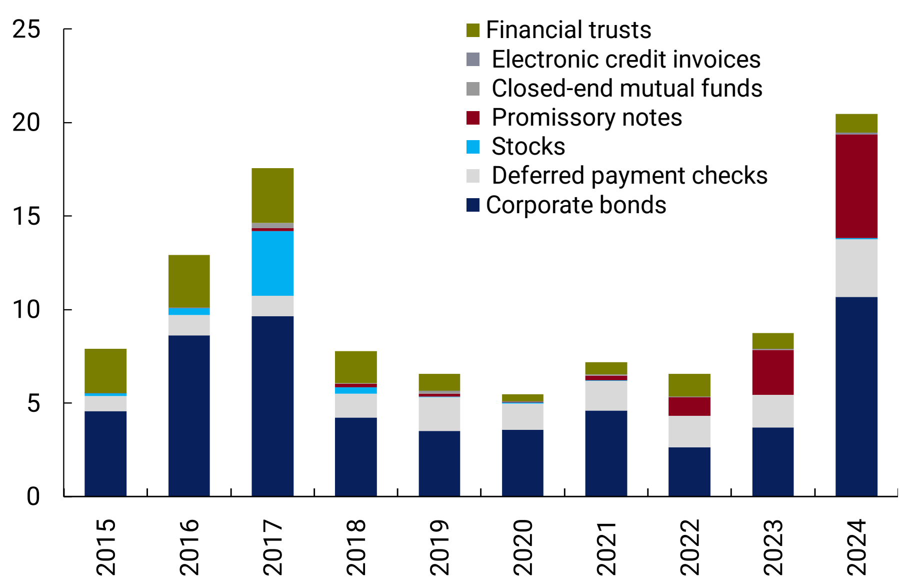


Difference between projected 8th Review and observed up to Dec-30	-2,0
IMF disbursements vs. Scheduled (2024)	-1,0
National Treasury escrow account payment (Jan-25)	-1,1
BCRA's purchases to the private sectornet of MEP and CCL operations	0,2
Others net	-0,1

Source | BCRA.

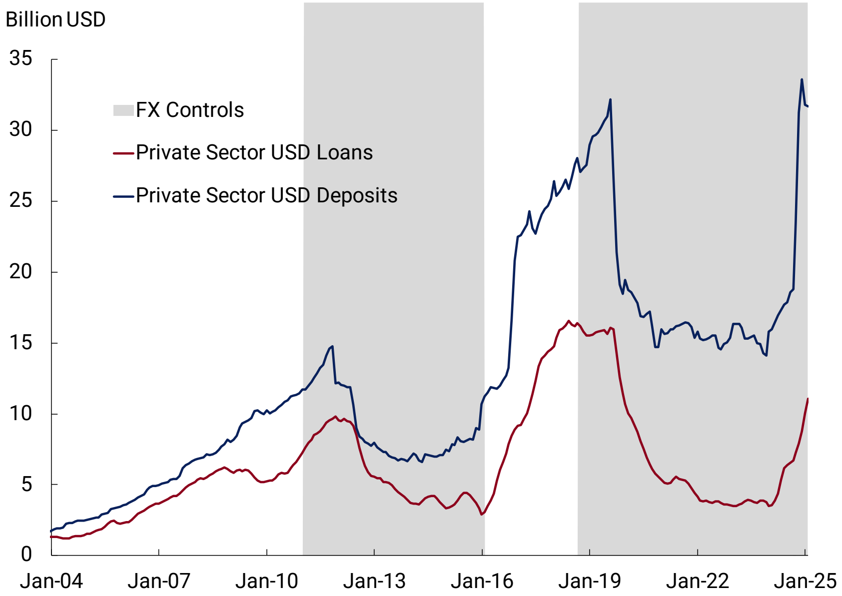
18. Skin in the Game: Capital repatriation will Boost credit in dollars, thereby bolstering BCRA's net reserves.

Capital Markets Financing
Annual flows



Note | Electronic payment market dollar (MEP dollars).
Source | BCRA based on data from CNV, CNV, using blue-chip USD rate (MEP).

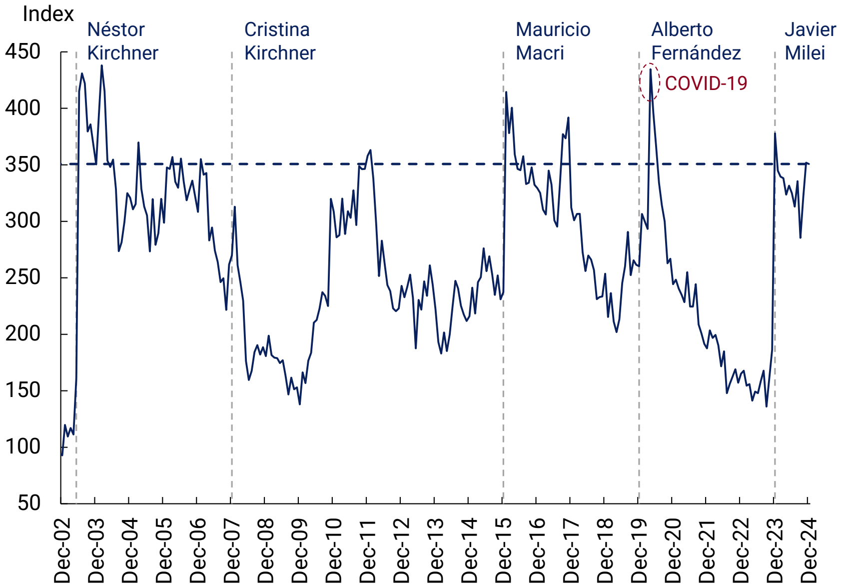
Private Sector's Total Deposits and Loans in Foreign Currency
Average monthly stock



Source | BCRA.

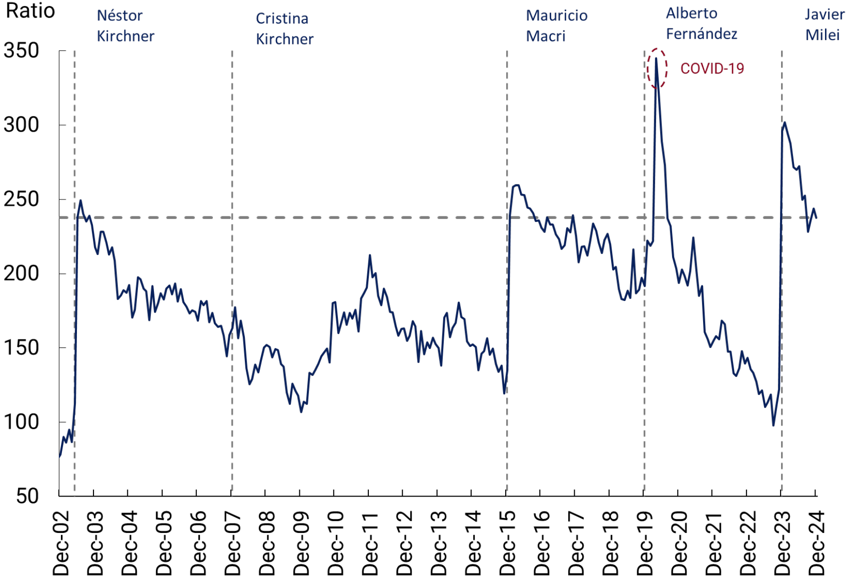
19. Skin in the Game: The economic program enjoys broad social support.

Confidence in Government Index



Source | BCRA from Universidad Torcuato Di Tella data.

Cyclically Adjusted Confidence: Ratio of Confidence in Government Index to Consumer Confidence Index



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3 | FX policy: Realigned Relative Prices (Jump) & Reduced Inertia/Indexation (Crawl)
4 | Income Policy: Reduced Inefficient Subsidies (Regulated Prices) & Increased Direct Transfers (Social Programs)

III. Widespread Impact: In What Dimensions? (Real Variables & Animal Spirits) and When? (Policy Lags & Credibility)

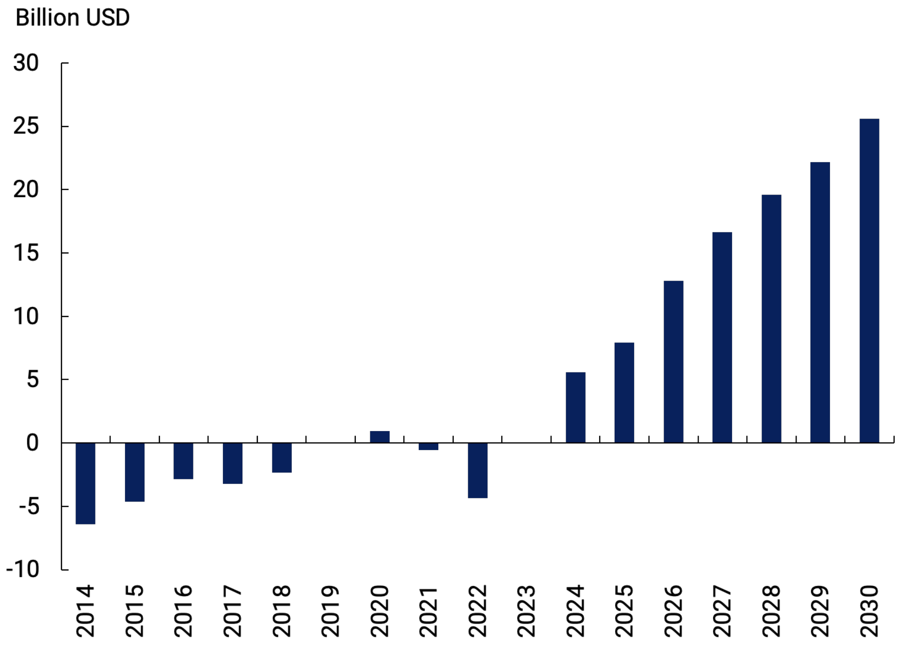
1 | Non-neutrality of Money: Already the Economy is Lifting Off & Poverty is Reversing Gears
2 | Keeping Close Score: BCRA Reserves are On Target (Adjusting for One Less IMF Disbursement & One Early Bond Payment)
3 | Residents with Skin-in-the-Game: Public Support (in Election Year) & Capital Repatriation (Improving BOP)

IV. Next Steps: Which Priorities? (Exiting Controls & Currency Competition) and Why? (Greater Policy Flexibility)

1 | Capital Account Inflows (corporate issuance, household repatriation) will be Supportive of the Current Account
2 | Relative Price Level: Abnormal Margins, Taxes & Regulations Contrast with Normal Wage Levels
3 | Exiting FX Controls: Conditions (Inflation Inertia & BCRA Reserves) and Relative Price Flexibility (Speed of FX Passthrough)

20. Key Private Sector BOP Dynamics: The energy sector's projected improvement supports the current account structurally while low corporate leverage facilitates capital account inflows for corporate investment

Projected Energy Trade Balance



Source | BCRA from INDEC data

Leverage Ratios of Publicly Traded Argentine Corporates

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

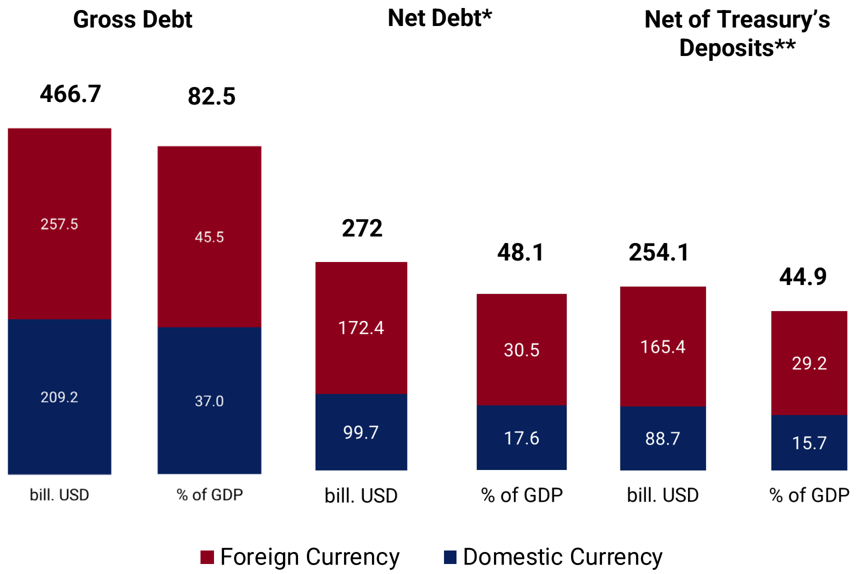
Net Leverage	3Q19	3Q20	3Q21	3Q22	3Q23	3Q24
YPF	2.1x	3.8x	2.0x	1.2x	1.7x	1.5x
Vista	1.2x	3.1x	1.1x	0.5x	0.7x	0.7x
TGS	0.8x	0.8x	0.6x	0.1x	0.2x	-0.3x
TGN	0.3x	0.0x	-0.7x	-0.5x	-1.2x	-0.5x
Transener	0.1x	0.0x	-0.4x	-0.6x	-0.5x	0.0x
Pampa Energía	1.7x	2.3x	1.4x	1.3x	1.0x	0.7x
Central Puerto	1.1x	3.2x	2.0x	0.9x	0.1x	0.9x
GEMSA*	2.9x	3.6x	5.4x	4.5x	5.9x	7.0x
MSU Energy	8.5x	7.4x	4.6x	4.9x	4.8x	4.3x
Genneia		3.2x	3.4x	2.8x	2.9x	3.2x
YPF Luz		3.9x	2.6x	2.1x	1.9x	1.8x
Telecom Arg.	1.4x	1.4x	2.0x	2.2x	2.1x	2.2x
Loma Negra	0.8x	0.1x	0.0x	0.6x	1.0x	1.0x
Ternium Arg.	0.7x	-1.0x	-0.7x	-0.9x	-1.2x	-0.7x
IRSA	3.4x	2.6x	7.1x	1.4x	1.4x	1.7x

* For 3Q24 the figure corresponds to Grupo Albanesi.

Source | BCRA based on data from Latin Securities and individual companies.

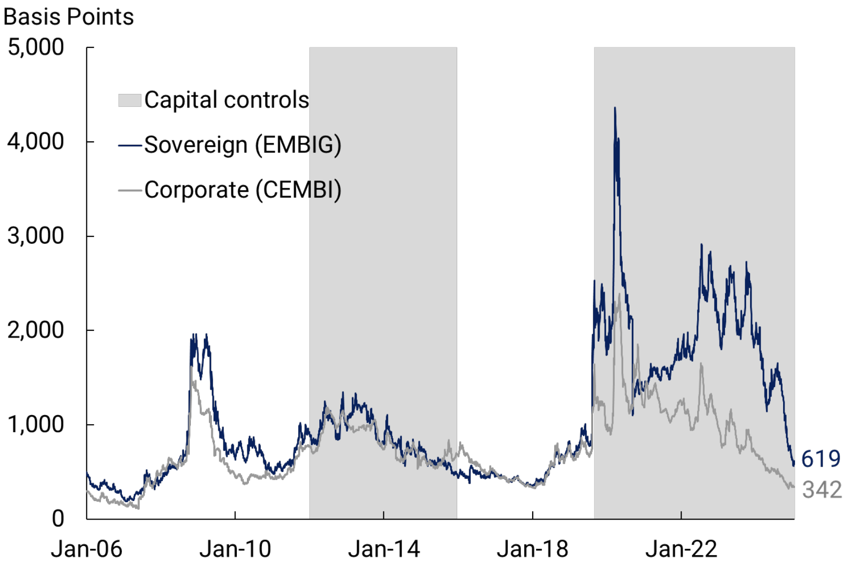
21. Evolving Capital Account Dynamics: Access to external financing of the BOP already available to Argentine corporates is due to extend to the Treasury

Central Administration's Stock of Public Debt



Note | Data as of December 2024. *Net of estimated intra public holdings **Deposits, and Jan-25 bonds prepayments
Source | BCRA from Secretariat of Finance and INDEC data.

Argentine Risk Premium: Sovereign and Corporates



Note | Last data 16-Jan-2025.
Source | Bloomberg.

22. Evolving Capital Account Dynamics: FX Controls on new capital account inflows are already being relaxed by way of the RIGI regime

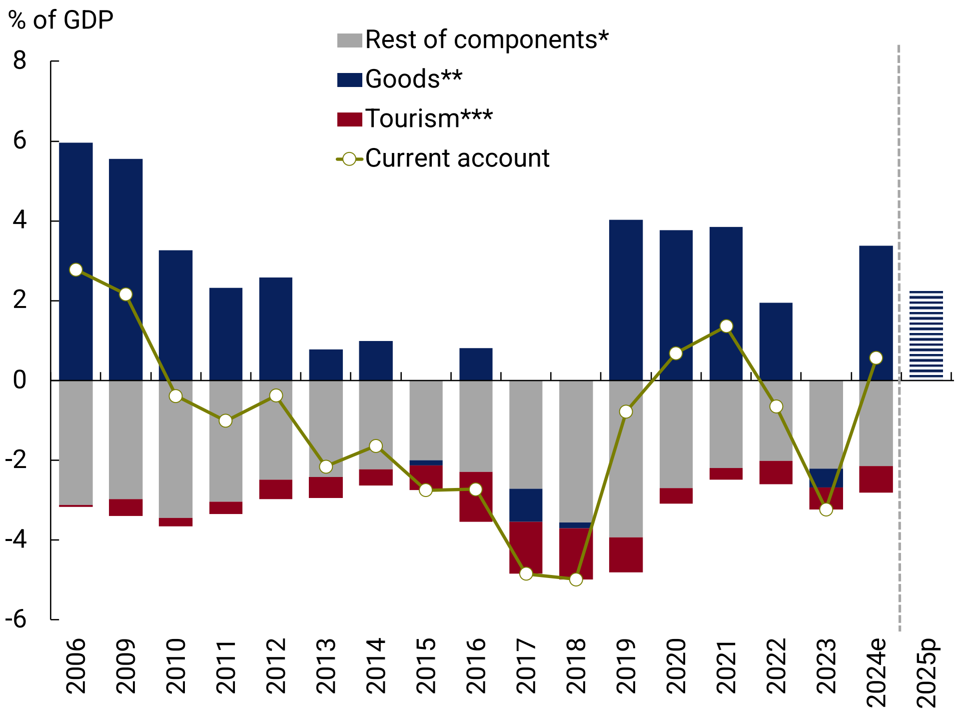
RIGI's Main Investment Projects

Status	Investor	Project	Sector	Province	Ammount (Bn. USD)
Approved project	YPF Luz	Wind energy parc 'El Quemado y Anexos'	Renewable energy	Mendoza	**0.2**
Announced projects	Galan Lithium	Lithium 'Hombre Muerto Oeste'	Mining	Catamarca	**0.2**
	Posco	Lithium 'Sal de Oro'	Mining	Salta y Catamarca	**1.0**
	Minas Argentinas	'Gualcamayo'	Mining	San Juan	**1.0**
	YPF	Pipeline 'Vaca Muerta Oleoducto Sur'	Oil & Gas	Río Negro	**2.5**
	PAE	PAE-Golar	Oil & Gas	Río Negro	**6.9**
	Sidersa	Sidersa	Industry	Buenos Aires	**0.3**
	PCR	Wind energy	Renewable energy	Salta, Catamarca and Jujuy	**0.3**
Total					**12.4**

Source | BCRA from Ministry of Economy data.

23. Outlook for 2025: The current account should revert moderately in 2025

Current Account Balance and Components



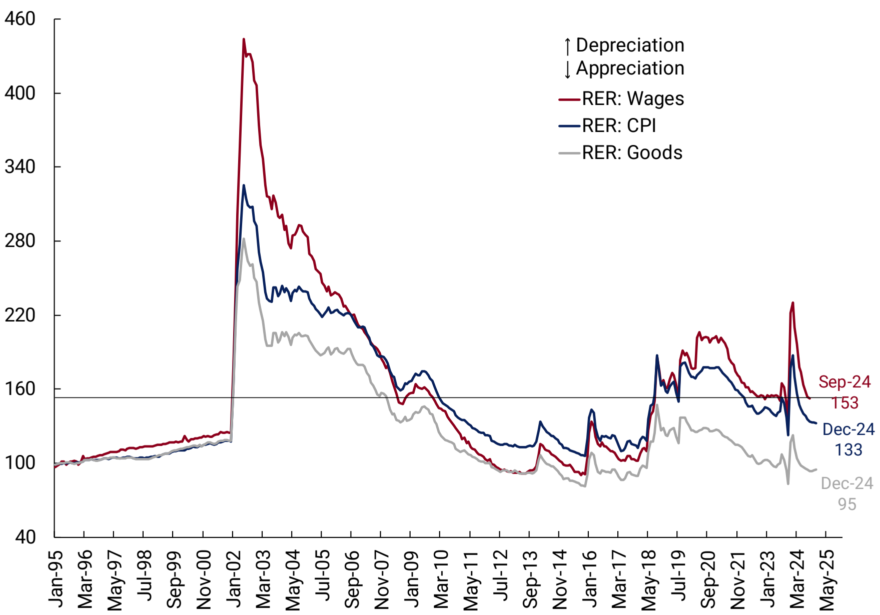
*Includes other services, primary and secondary income.**IV-24 data up to Nov-24. Dec-24 own estimation**Tourism includes expenses on travel and passenger services. e: Estimated p: Projection based on Market Expectations Survey (REM), adjusting the REM median of CIF imports to FOB) and USD GDP proxy from REM, linearly extrapolating with GDP growth, headline inflation, and implicit exchange rate.
Source | BCRA based on INDEC data.

Next Steps

24. Real Exchange Rate vs Wages in Real and USD Terms: Appreciation which normally accompanies stabilization reveals a contrast between goods and services this time

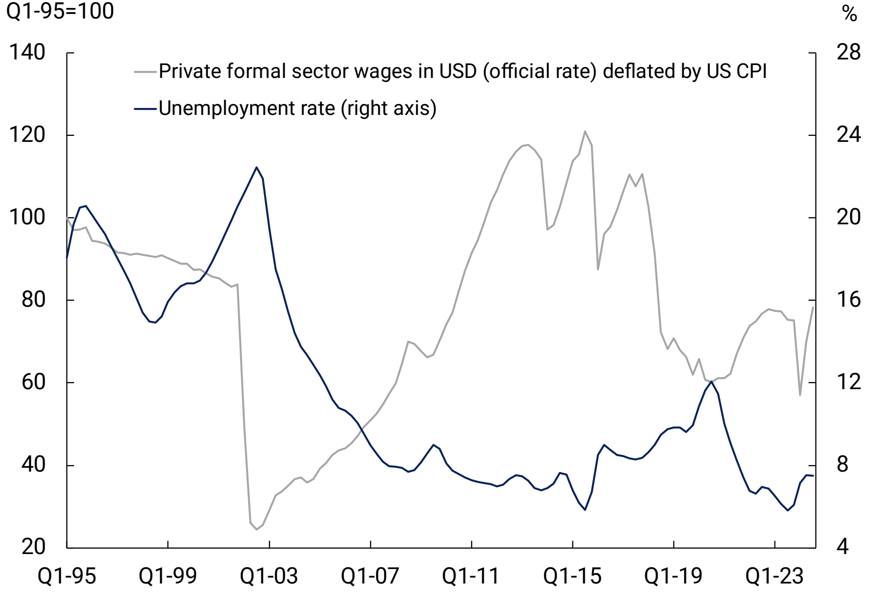
Bilateral Real Exchange Rate: ARG-USA

Avg. 1995 = 100



Source | BCRA

Wages and Unemployment



Source | BCRA from STEySS, St. Louis Fred and INDEC data.

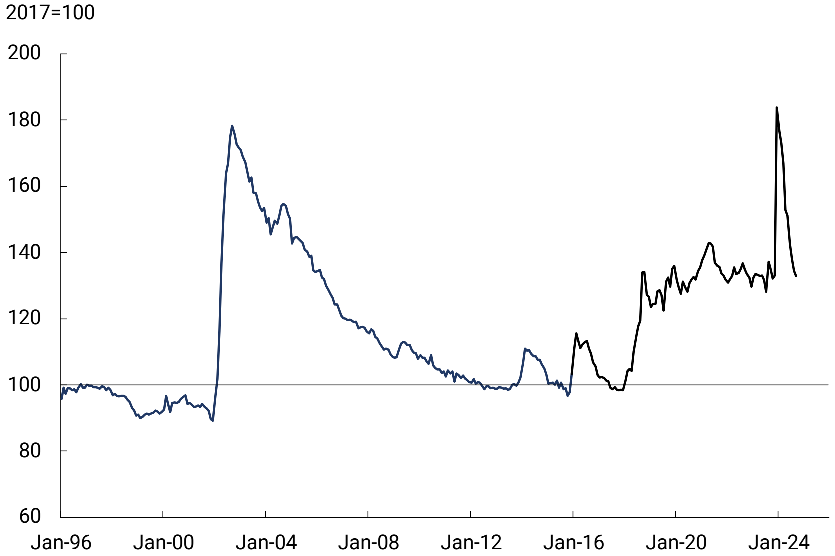
25. Price Level and Cost Structure: An overview of Argentina's price level suggests that margins, taxes, trade barriers and other factors are prominent determinants of the USD price level relative to wages

Wholesale Price to Salary Ratios Across Sectors

Sector	Dec-15	Nov-23	Mar-24	Jun-24	Sep-24	Nov-24
Publishing Activities	100	200	226	204	178	190
Electrical Equipment Manufacturing	100	190	239	196	158	148
Paper Products	100	151	204	178	152	143
Chemical Products	100	161	189	170	147	142
Tobacco Products	100	118	167	137	138	136
Machinery and Equipment Manufacturing	100	170	194	155	141	134
Other Non-Metallic Mineral Products	100	147	183	162	136	131
Petroleum Products	100	98	178	135	134	128
Other Transport Equipment Manufacturing	100	125	134	131	122	124
Rubber and Plastic Products	100	168	180	151	128	123
Motor Vehicle Manufacturing	100	149	165	141	123	119
Fabricated Metal Products	100	154	182	147	125	117
Textile Products	100	127	138	125	111	108
Furniture Manufacturing	100	151	161	134	111	106
Basic Metals	100	127	183	154	108	102
Wood Products	100	135	137	122	104	99
Food Products	100	114	130	115	102	99
Apparel Manufacturing	100	128	121	100	100	97
Medical Instruments Manufacturing	100	115	128	113	96	94
Leather Products	100	97	91	84	70	67
Radio and Television Equipment Manufacturing	100	34	46	36	32	30

(*) Price data was used up to November 2024, while wage data was considered up to September 2024, adjusted for seasonality exclusively for wages using the X13-ARIMA method. For the period from October to November 2024, internal projections of seasonally adjusted aggregate wage variations were used, applying the same variation across all sectors.
Source | BCRA from INDEC data.

Ratio of Wholesale Price Index to Salaries

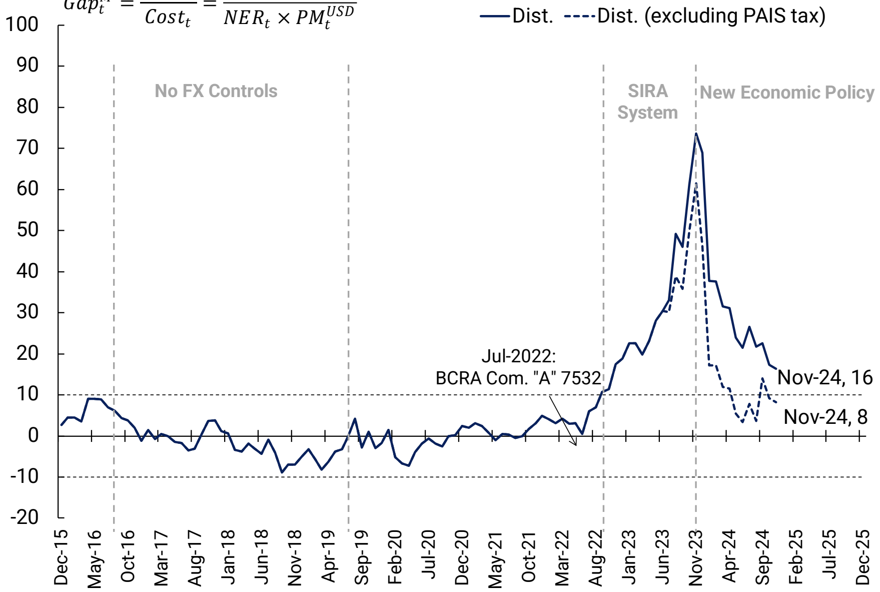


Wholesale Price for the period Jan-07 to Nov-15 estimated using, among other variables, CPI as reference.
Source | BCRA from INDEC data.

26. Determinants of Goods Prices: The adverse impact of trade barriers on the price level in USD terms has been meaningful and is currently being reversed

Import Price Gap
In % over "official" cost

$$Gap_t^M = \frac{Price_t}{Cost_t} = \frac{PPI_t^M}{NER_t \times PM_t^{USD}}$$



Source | BCRA from INDEC data

Deregulation of Foreign Trade and Cost Reduction

- **Transparency:** Elimination of SIRA, SIRASE and launch of SEDI.
- **Efficiency Improvement:** Removal of arbitrary controls, simplification of imports, and elimination of overseers.
- **Reduction in Financial Costs:** Lowering VAT and income tax withholdings, removal of stamping fees and "Criterion Values," and a reduction in export documentation processing time from up to 45 days to 1 day.
- **Reduction of Tariff Rates:** Decrease in import duties by up to 22.4 percentage points for industrial matrices, plastic metals, fertilizers, herbicides, tires, plastic inputs, and large household appliances.
- **Flexibility:** Increase in import limits for courier shipments.
- **Free Export of Natural Gas**
- **Improved Profitability/Productivity in the Agricultural Sector:** Reduced taxes and bureaucratic hurdles.
- **Two-step Elimination of the "País" Tax:** For goods (September 2024 and December 2024) and definitively for services in December 2024.
- **Shortening of Antidumping Measures Duration**.

Thank you