AURORA

Aurora Argentina Report: Are You There IMF? It's Me, Argie
January 21, 2025

The Tearsheet

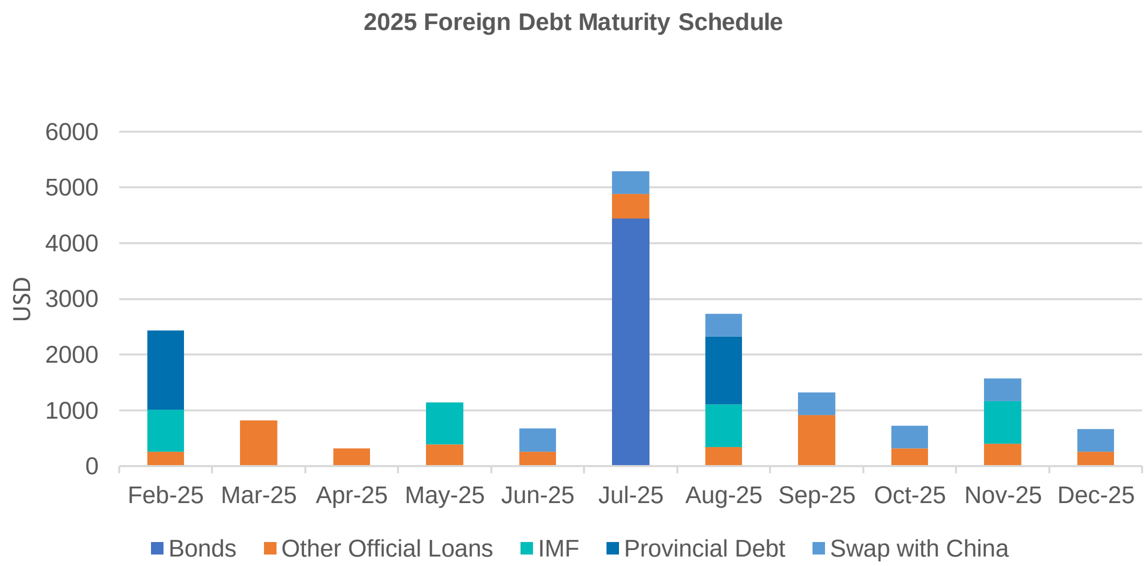
20 Jan	Congress Extraordinary sessions begin.
13 Feb	CPI January
21 Feb	Congress Extraordinary sessions end.
1 March	Congress Ordinary sessions begin.
Q1 2025	Negotiating new IMF Program
May 15	Midterm's deadline to establish alliances
Aug 2025	Mid-term Primaries
Oct 2025	Mid-term Elections
Q4 2027	Presidential Elections

- As anticipated by Aurora, Argentina successfully met its ~USD 4 billion in January bond maturities. Even more shockingly, the remaining 2025 maturities, particularly the substantial USD 5 billion bond payment due in July, also appear on track to be honored.
- This uncharacteristic meticulousness in debt servicing—an anomaly for Argentina historically—has been made possible by fiscal policies, which have enabled the Treasury to generate the necessary pesos to secure dollars for repayment.
- Despite the Central Bank's persistently low reserves, Argentina has made notable progress in rebuilding its foreign currency stockpile. Targeted purchases and financial agreements, including a USD 1 billion REPO deal with private banks, supported by a declining country risk premium, have significantly bolstered the Central Bank's capacity to meet dollar demand.
- With midterm elections approaching in October, a key question is whether the government will follow through on its repeated promises to lift the long-standing capital controls, in place since 2019. The timing and feasibility of such a move have become politically tied to a potential IMF agreement, which Milei has positioned as necessary to sufficiently strengthen Central Bank reserves in advance.
- Significant gaps remain between Argentina and the lender of last resort. While the IMF Executive Board recently acknowledged Milei's progress and broadly supports his economic plan, two primary risks continue to delay an agreement:
    - **Legislative uncertainties,** as evidenced by the failure to pass the 2025 budget.
    - **Disputes over exchange rate management,** exacerbated by the government's decision to reduce the crawling peg from 2% to 1%, further diverging from the IMF's flexibility requirements.
- An eventual IMF agreement remains our base case, as both parties recognize its necessity, particularly given rising IMF debt maturities from 2026 onward. However, we do not believe it will materialize before the midterm elections, once favorable results for Milei's political coalition—assuming his popularity holds—strengthen the government's negotiating position, paving the way for a deal.

1. With Pesos and Dollars, Argentina Pays

- Argentina's repayment of January maturities in cash, to the tune of USD 4 billion, extended an ongoing decline in country risk—dropping below the 600 thresholds for the first time since 2018 and down from above 2,000 when Milei took office—and bolstered Argentina's prospects of re-entering international markets.
- Congress nonetheless remains a roadblock, however, as any foreign debt issuance under foreign jurisdiction requires legislative approval.

- Looking ahead to the remainder of 2025, July's USD 5 billion private bond maturities stand out as the next major challenge on Argentina's long road to recovery.



Source: Aurora Analysis and Finance Secretariat of Argentina

- Key fiscal policy objectives, particularly achieving a surplus to fund dollar purchases, currently appear achievable, supported by stable revenue projections and disciplined spending controls under Milei's "chainsaw" cost-cutting strategy.
- The PAIS tax, a surcharge on foreign currency purchases that contributed 1.1% of GDP, expired as planned in 2024.
- Despite the revenue loss from its expiration, 2025 tax revenue is projected to remain steady—holding at 22.92% of GDP, down only slightly from 22.95% in 2024—thanks to stronger performance in other consumption-linked taxes, such as Income Tax, Social Security Contributions, Fuel Taxes, and Import and Export Duties.
- Milei's "chainsaw" strategy continues to enforce tight spending controls, keeping expenditures aligned with fiscal surplus targets.
- As the fiscal framework comes increasingly under control, the government is expected to secure dollars through Central Bank cash reserves, which are improving via market purchases, along with the recently signed USD 1 billion REPO deal. Additional support could come if the Central Bank strengthens its reserves through a new IMF program, which we will analyze below.
- As Aurora has previously outlined, Argentina's 2025 obligations include USD 6.6 billion in interest payments to the IMF and other international organizations, USD 2.2 billion in provincial debt, and USD 2.85 billion for China's currency swap.
- The government intends to roll over most of these commitments, leveraging the declining country risk to secure better refinancing terms and ease pressure on Central Bank reserves.
- Finally, Moody's recent upgrades of several Argentine provinces and companies—encompassing USD 4.6 billion in private sector obligations for 2025—likewise reflects larger boosts to credit profiles at the national level and increased access to alternative financing channels, further reducing pressure on the Central Bank's reserves.

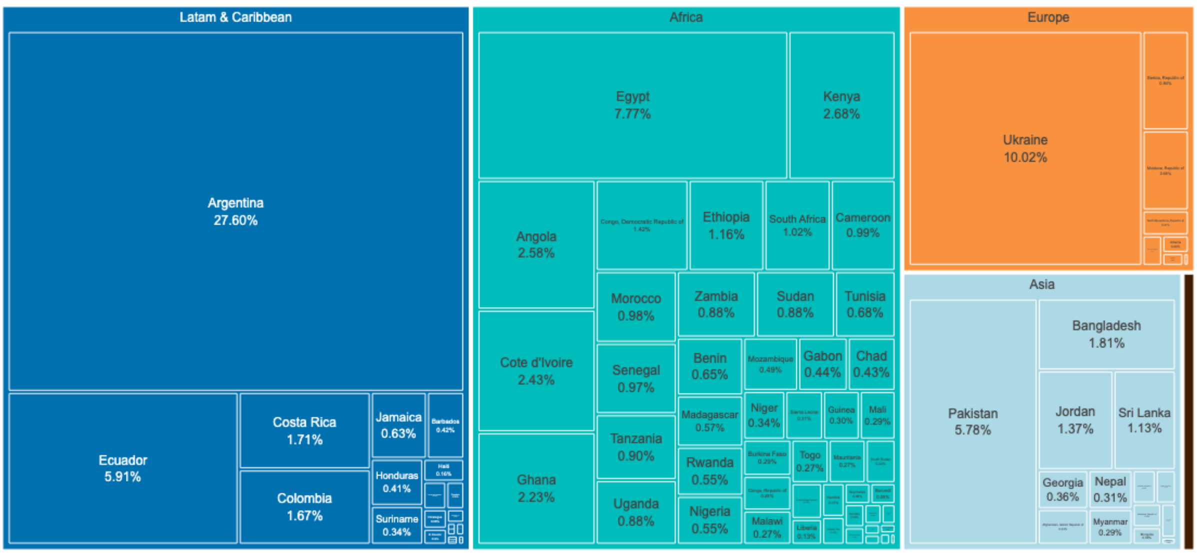
- Additionally, Milei's upcoming visit to China, expected to be confirmed soon, aims to secure favorable terms for renewing the currency swap agreement.
- The visit marks a decisive shift from his presidential campaign's anti-communist rhetoric, as his administration has embraced a more pragmatic approach driven by the vital importance of the currency swap agreement with China. This RMB 130 billion (USD 18.5 billion) facility, of which a RMB 35 billion (USD 5 billion) tranche was activated in June 2024 until July 2025, has become essential for managing Argentina's payment flows.
- Milei's engagement with China aims to strategically leverage Beijing's growing influence as a major IMF quota holder. Argentina hopes to leverage scheduled gradual reduction of the activated Sino-swap, beginning in July 2025, as a bargaining chip with key IMF stakeholders such as the **US, Japan, and Germany**—predicating the choice to either phase out or renew Chinese financial cooperation based on the terms negotiated with the Fund.

Argentina's Upcoming IMF Debt Maturities

Year	USD Billions	% GDP
2025	2.8	0.5
2026	3.9	0.7
2027	6.9	1.2

Source: Portfolio Personal Inversiones (PPI)

Total Outstanding IMF Credit as of Dec 6, 2024



Source: IMF

2. I.M.F.E.C.T. (Find out what It means to Argie.)

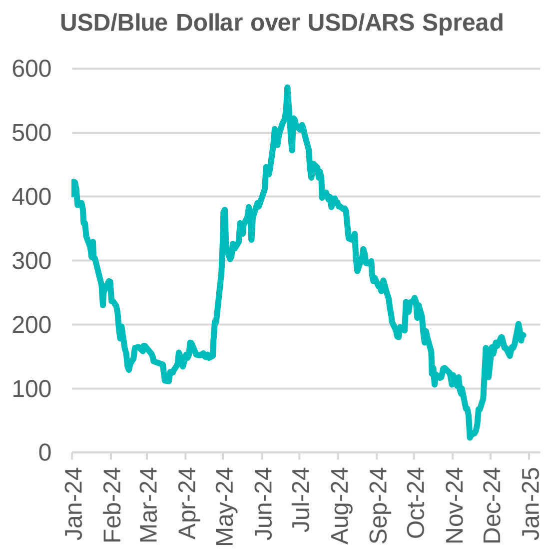
- The key question for 2025 is whether the government will lift existing capital controls. According to Milei, securing an USD 11 billion IMF loan to strengthen central bank reserves is a necessary first step.

- Positive signaling to this effect, has come from the IMF Executive Board's recent assessment of the staff report on Argentina's Exceptional Access Under the 2022 Extended Fund Facility. The report indicates growing support for a new program while acknowledging significant hurdles.
- Chief among these challenges is the Board's critique of Argentina's extensive currency control system, which private analysts estimate has trapped **USD 5 billion in foreign dividends**. The Board warns that these "temporary" measures have evolved into entrenched barriers, delaying essential economic adjustments.
- While the Board commends fiscal discipline and the crawling peg's stabilizing impact, it underscores the need for **greater exchange rate flexibility** and a reduced reliance on central bank intervention.
- However, exchange rate management remains a contentious issue, with potential tensions resurfacing. This is particularly sensitive given past clashes involving current Economy Minister Caputo during his tenure as Central Bank president in 2018. The recent decision to reduce the crawling peg rate from 2% to 1%—effective in February—further complicates this dynamic.
- According to Central Bank Vice President Werning, this policy aims to curb inflation by addressing concerns that the previous crawling peg mechanism was amplifying price increases rather than containing them.
- Legislative backing for a new IMF agreement remains a critical variable. Insufficient support undermined the previous government's 2022 IMF program when one-third of the ruling coalition—led by Máximo Kirchner and Cristina Kirchner—opposed it in Congress. This ongoing political constraint makes a **Q1 2025 IMF agreement** unlikely, despite the pressing need to address 2026 maturities.
- While both Argentina and the IMF are motivated to reach an agreement, particularly given the rising debt maturities starting in 2026 and continuing through 2027 and beyond, **two key factors** suggest delays:
  - The government's reliance on the **crawling peg strategy** as its primary anti-inflation tool, which conflicts with the IMF's demands for greater exchange rate flexibility.
  - The current lack of congressional support for a new deal.
- Both constraints could ease following the October midterms, potentially creating a more favorable environment for negotiations.

3. The Monetary Matters

- Despite market expectations for a rate cut following the reduction of the crawling peg from 2% to 1%, the Central Bank held firm at a 32% nominal annual rate (2.7% monthly).
- This decision reflects concerns about seasonal peso surpluses from year-end bonuses and holiday spending, which could pressure parallel dollar rates if monetary policy is eased prematurely.

- The Treasury's first 2025 debt placement reinforced this cautious approach, offering higher-than-expected monthly rates of 2.15% to 2.27%. Notably, this was the first fixed-rate instrument with over 18-month maturity issued in five years. This aggressive peso absorption strategy, while increasing financial expenses, is designed to shield parallel exchange rates from upward pressure.
- The government's anti-inflation strategy now hinges on the crawling peg reduction as its primary tool. For this exchange rate anchor to work effectively, monetary policy must remain tight to prevent portfolio shifts into dollars, which could destabilize parallel rates and undermine disinflation efforts.



Source: Bloomberg

- Looking ahead, while rate cuts are anticipated, they are likely to proceed more gradually than initially expected. The government appears to be following a clear sequence: first anchor expectations with the crawling peg reduction, then stabilize exchange rates through tight monetary policy, and only after that consider easing financial conditions.

4. Congressional Fragmentation

- The government has called for extraordinary sessions from January 20 to February 21, notably excluding the 2025 Budget—marking the second consecutive year operating under an extended budget.
- While this confirms the continuation of spending cuts and peso allocations for debt payments, it also presents a new obstacle for IMF negotiations.
- The agenda includes the "Clean Record" law (*Ficha Limpia*), which would bar individuals with second-instance corruption convictions from running for office—a measure that would affect Cristina Kirchner but is unlikely to pass the Peronist-controlled Senate.
- Originally championed by Juntos por el Cambio (JxC), the government's tepid support—evidenced by its absence during PRO's previous push for passage—suggests an effort at damage control rather than genuine reform, especially as negotiations with Peronist sectors continue.
- Diego Valenzuela, a prominent mayor from Buenos Aires Province, has defected from PRO (the center-right party founded by Mauricio Macri and part of the JxC coalition) to LLA (Milei's right-wing Liberty Advances party).
- After being politically cannibalized by LLA for over a year, PRO has only recently begun circling the wagons: advancing local elections in Buenos Aires City to distance them from the challenging national midterms, while Macri himself increasingly signals a potential return to politics with a Senate run.
- On electoral reform, the government's bill proposes eliminating primary elections altogether, but congressional dynamics suggest a more limited compromise: a one-time suspension for 2025. This aligns the interests of both LLA and Kirchnerism, enabling

Cristina and Máximo Kirchner, as national and provincial party leaders, to retain control over candidate selection.

- This intricate legislative landscape also constrains Buenos Aires Governor Kicillof's ongoing efforts to distance himself from Kirchnerism, which recently blocked his provincial budget as part of Peronism's internal power struggle.
- The confirmation struggles for Milei's Supreme Court nominations highlight the increasingly personalistic and fragmented nature of Argentine politics.
- While Ariel Lijo's nomination currently appears secure, bolstered by Peronist backing that essentially guarantees committee approval and a Senate supermajority, Manuel García-Mansilla's candidacy faces significant resistance.
- The government is pursuing an all-or-nothing strategy, relying on Lijo's confirmation to build enough momentum for García-Mansilla's eventual approval. However, significant political maneuvering still lies ahead.
- The fate of the nominations could ultimately hinge as much by internal Court dynamics as by legislative counts.
- Justices Rosenkrantz and Rosatti recently issued a ruling establishing operational procedures for a three-member Court following Justice Juan Carlos Maqueda's retirement. This ruling requires unanimous decisions for rulings, adding pressure to the process—particularly as both justices reportedly have reservations about Lijo's candidacy, which is supported by Justice Lorenzetti.
- A broader negotiation package appears to be taking shape that could bode well for eventual confirmation, linking the Court nominations to other political initiatives, such as the strategic suspension of certain primaries currently under debate and the recent replacement of the Financial Intelligence Unit's director, previously criticized for alleged bias against Cristina Kirchner.

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