

## Box 1

## RECENT ECONOMIC POLICY MEASURES IN ARGENTINA

## Economic problems facing Argentina

Since 2011 Argentina has seen an extended period of economic stagnation (see Chart 1) and fiscal deterioration (see Chart 2). The latter was mainly driven by higher government spending, although falling tax revenue was

another contributing factor. No growth for over a decade pushed the poverty rate<sup>1</sup> from 29% in 2017 H1 (first year available) to 40% in 2023 H1. While the unemployment rate is relatively low (5.7% in 2023 Q3), some private analysts believe that almost one-half of employment is informal.<sup>2</sup>

Chart 1  
GDP. Country comparison

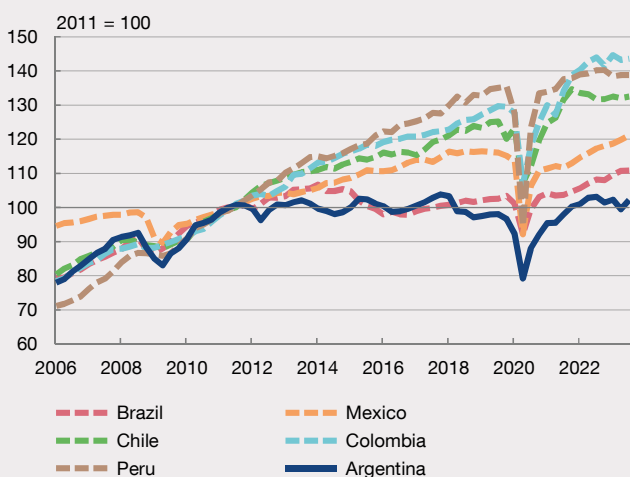


Chart 3  
Central bank transfers to the Treasury and inflation

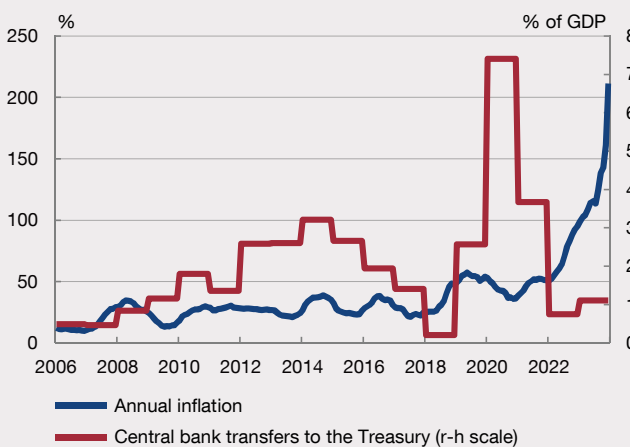


Chart 2  
Budget balance

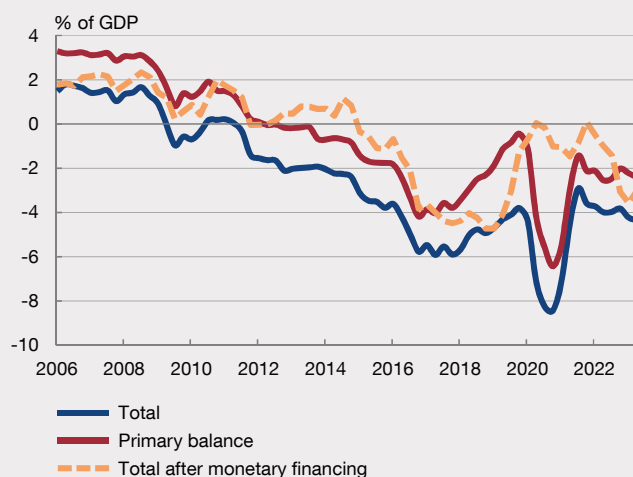
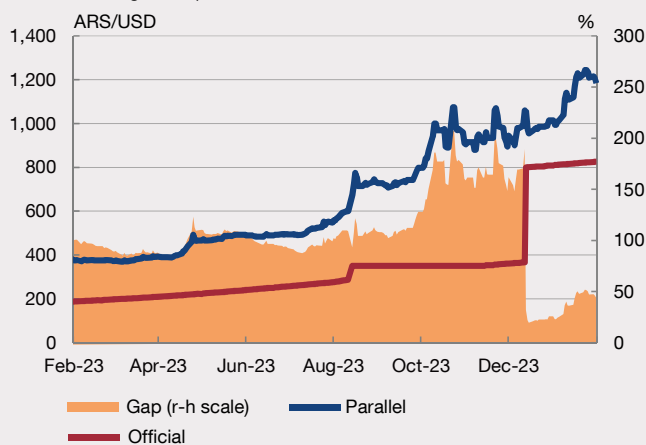


Chart 4  
Exchange rate and FX gap (percentage difference between the market and official exchange rates)



SOURCES: Refinitiv and Banco de España.

- 1 The poverty rate is measured as the percentage of the population in large urban centres whose income does not cover basic food and non-food needs as defined by the National Institute of Statistics and Censuses (INDEC). The poverty line varies over time according to the general price level and changes in the relative prices of goods.
- 2 Informal employment is defined as dependent employment and self-employment without making social security contributions. The INDEC does not calculate an official informal employment rate. However, private estimates calculated using INDEC data exist. The source most cited in the media is the *Barómetro de la Deuda Social Argentina* (Argentinian Social Debt Barometer) published by Universidad Católica Argentina. In its latest report (E. R. Donza. (2023). Escenario laboral en la Argentina del pos-COVID-19. Persistente heterogeneidad estructural en un contexto de leve recuperación del mercado de trabajo (2010-2022). Documento estadístico - Barómetro de la Deuda Social Argentina, (1st ed.) EDUCA), the informal employment rate was estimated to be 49.8% in 2022.

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**RECENT ECONOMIC POLICY MEASURES IN ARGENTINA (cont'd)**

Unable to raise funding on the financial markets and, above all, after abandoning the International Monetary Fund (IMF) programme,<sup>3</sup> the Argentine Treasury has increasingly had to turn to monetary financing. This has triggered, with some lag, an acceleration in the inflation

rate (see Chart 3) and a depreciation of the Argentine peso (see Chart 4). In 2023 Q3 the current account deficit in the balance of payments stood at 2.6% of GDP. Turning to government debt, the relative share of official creditors has increased since Argentina was shut out from

Chart 5  
Government debt, by creditor

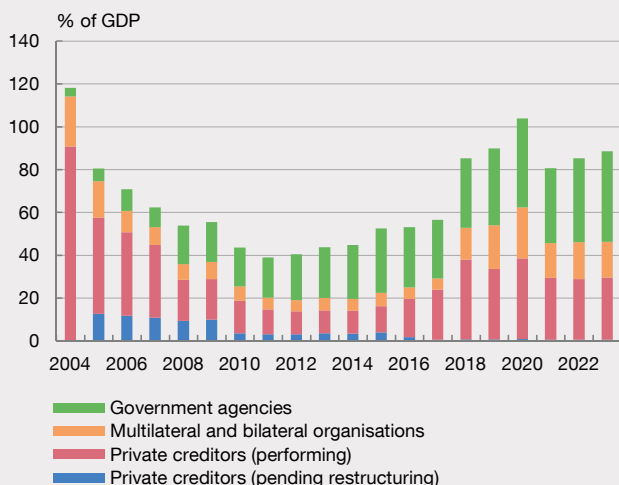


Chart 6  
Government debt, by currency

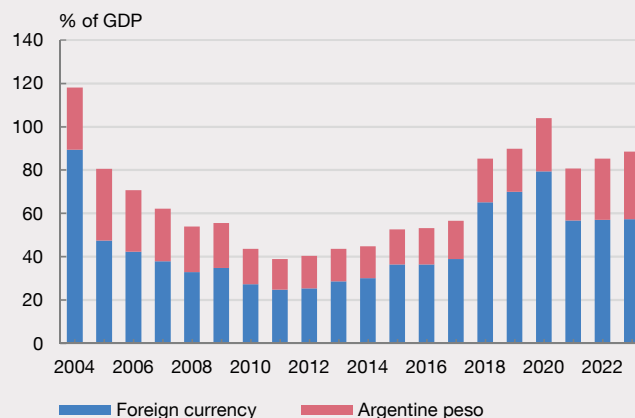


Chart 7  
Repayments to the IMF falling due

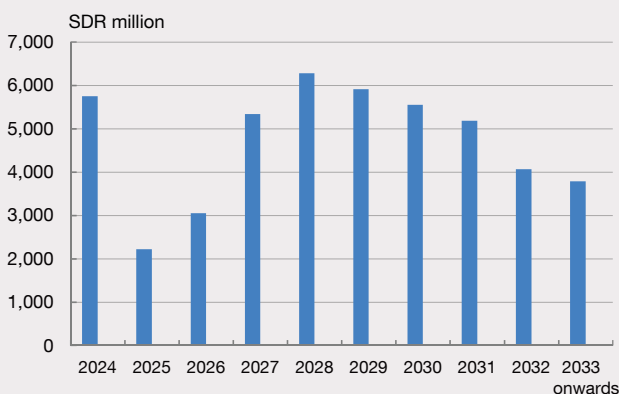


Chart 8  
Repayments of central government debt falling due



**SOURCES:** Ministerio de Economía (Argentina) and IMF.

3 The IMF programme had gone significantly off track due to the previous administration's failure to achieve the objectives (see "Argentina: Fifth and Sixth Reviews Under the Extended Arrangement Under the Extended Fund Facility, Request for Rephasing of Access, Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for Argentina"), but a new agreement has been reached with Argentina to bring the programme back on track, disbursing \$4.7 billion (see press release and "Argentina: Seventh Review under the Extended Arrangement under the Extended Fund Facility, Requests for Rephasing of Access, Extension of the Arrangement, Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for Argentina").

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**RECENT ECONOMIC POLICY MEASURES IN ARGENTINA** (cont'd)

international markets<sup>4</sup> (see Chart 5). Most government debt is denominated in foreign currency (57.2% of GDP), while peso-denominated debt amounts to 31.2% of GDP (see Chart 6). Sizeable portions of Argentina's government debt with the IMF (see Chart 7) and private creditors (see Chart 8) are set to fall due.

**The first policies implemented by the new Government**

Faced with this situation, the new Argentine Government that took office on 10 December 2023 put forward a fiscal consolidation plan that aims to take the primary fiscal balance from an estimated deficit of 3% of GDP in 2023 to a surplus of 2.1% of GDP in 2024. Debt interest payments amount to around 2% of GDP. The budget would therefore be balanced and there would be no need to turn to monetary financing. The fiscal consolidation plan (see Table 1) envisages hikes to the tax on FX access (*Impuesto PAIS*),<sup>5</sup> levied on non-essential imports, and to taxes on non-agricultural exports. According to official estimates, these two measures combined will raise tax revenues by 1.8% of GDP. The plan also envisages the unwinding of a personal

income tax reform, expected to boost tax revenues by 0.4% of GDP, and a fresh tax amnesty that could raise 0.5% of GDP. Under the plan, government spending would be cut by 2.9% of GDP. The main items affected include transport and energy subsidies (0.7% of GDP), public works (0.7% of GDP), transfers to provinces (0.5% of GDP), pension benefits (0.4% of GDP) and social programmes (0.4% of GDP). The plan also foresees a 0.5% of GDP cut to government operating costs and a 0.3 percentage point of GDP increase in unspecified social spending for vulnerable households. The tax hikes and the tax amnesty must be passed into law.<sup>6</sup> The reduction in the real value of pensions, which would rise less than inflation, requires that the indexation formula currently in force in Argentina be eliminated by law.

In December the Government also devalued the official exchange rate<sup>7</sup> from 366 pesos to the dollar to 800 pesos to the dollar (see Chart 4) and announced that it would continue the devaluation at a "crawling rate" of 2% per month. Given that monthly inflation of over 2% is expected, this rate of depreciation will lead to currency appreciation in real terms

Table 1  
Fiscal policy measures expressed as a % of GDP

	2023	Adjustment in 2024
<b>Revenue</b>		
Taxes on international trade	2.4	1.8
Other taxes	8.2	0.4
Tax amnesty		0.5
<b>Expenditure</b>		
Subsidies	2.3	-0.7
Capital investment	1.5	-0.7
Transfers to provinces and state-owned enterprises	0.9	-0.5
Pensions	7.6	-0.4
Social assistance	3.3	-0.4
Government operating costs	4.0	-0.5

**SOURCES:** Ministerio de Economía (Argentina) and IMF.

4 Argentina was cut off from international markets, but has remained able to place government debt on the domestic market.

5 This tax, called *Impuesto Para una Argentina Inclusiva y Solidaria* (tax for an inclusive and solidary Argentina) was introduced in 2019. It affects certain foreign-currency transactions, including card purchases and payments for travel services abroad, music or film streaming platforms, messaging services, insurance and IT services.

6 These tax measures were part of an Omnibus bill that the Government had sent to Congress, but were withdrawn to be debated separately on an as yet unspecified date.

7 The fixed official exchange rate had led to a widening gap between the official and market exchange rates.

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## RECENT ECONOMIC POLICY MEASURES IN ARGENTINA (cont'd)

over the coming months. The Government announced that, for the time being, it would keep the multi-tiered exchange rate system, with several official exchange rates and a free-floating rate, but only temporarily and it expects to converge towards a free market in the future. The devaluation of the peso drove up inflation. Meanwhile, the increase in the official exchange rate had a positive impact on the central bank's international reserves, which started to grow in the

days following the devaluation. The dollarisation announcements made during the election campaign are yet to materialise in specific legislative proposals.

In addition to these measures, intended to remedy the budget deficit and the depleted international reserves, the Government issued an Emergency Decree<sup>8</sup> that seeks to eliminate some of the impediments to long-term economic

Chart 9  
Sovereign spread

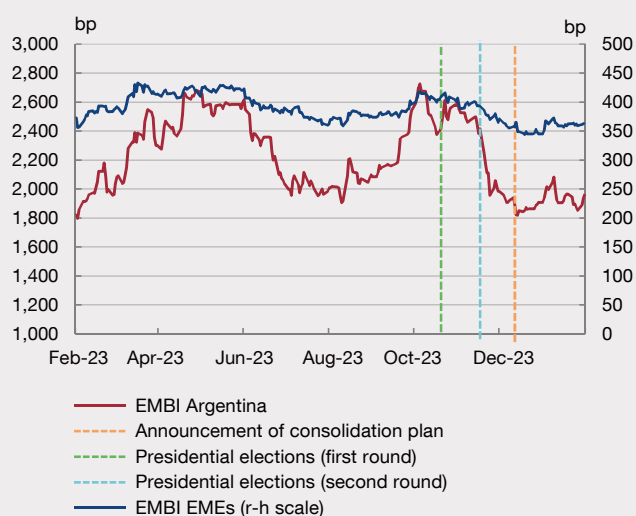


Chart 10  
Buenos Aires stock market



Chart 11  
Exchange rate

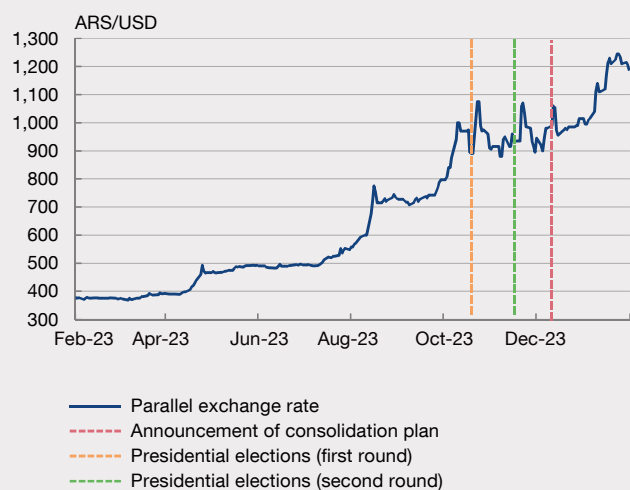


Chart 12  
International reserves



SOURCES: Refinitiv and Banco de España.

<sup>8</sup> Issuance of emergency decrees (*decretos de necesidad y urgencia*) is an exceptional power conferred on the Government to be used in the face of an emergency. They enter into force without having to pass through Congress. However, the decree can be overturned if both houses vote against it. Emergency decrees cannot legislate on taxation, criminal or electoral matters.

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growth. The measures envisaged in the decree include changes to the labour market and the deregulation of a variety of goods markets,<sup>9</sup> e.g. pharmaceutical and air transport, among others, and a substantial liberalisation

of imports and exports,<sup>10</sup> which no longer require permits to be granted. The rental market has been deregulated, thereby allowing the parties to stipulate indexation mechanisms in the contracts. The Government also

Table 2  
Exposure of Spain  
Shares of the material third countries in the variables of Spain's external position (2022)

Share (%)	Argentina	Brazil	Chile	Colombia	United Kingdom	Mexico	Peru	Türkiye	United States	Aggregate of the material third countries
Total bank assets	1.14	9.28	3.85	1.16	22.44	10.21	1.38	2.92	12.05	64.44
Loans	0.82	9.36	3.69	1.33	26.12	9.78	1.66	3.16	11.12	67.05
Debt securities	3.04	11.99	3.37	0.61	3.22	14.50	0.70	3.06	15.41	55.89
Equity instruments	0.84	3.14	0.10	0.42	14.26	2.94	0.05	0.86	18.29	40.90
Derivatives	0.01	2.40	7.44	0.62	30.44	5.31	0.13	0.12	13.20	59.67
Total bank liabilities	1.41	6.93	3.39	1.20	25.75	11.20	1.51	2.88	11.10	65.37
Deposits	1.57	7.26	3.01	1.28	25.52	11.66	1.65	3.19	10.66	65.79
Derivatives	0.02	1.46	8.17	0.39	32.88	5.76	0.17	0.18	15.66	64.69
Shorts	0.01	15.64	0.17	0.92	3.95	13.56	0.34	0.00	12.07	46.66
Exports of goods	0.31	0.92	0.46	0.38	5.47	1.34	0.20	1.74	4.86	15.67
Imports of goods	0.50	1.99	0.35	0.34	2.46	1.30	0.38	2.18	7.40	16.91
Exports of services (a)	0.83	1.02	0.79	—	14.08	1.65	—	0.55	8.10	28.87
Imports of services (b)	0.59	0.97	0.34	—	9.01	1.31	—	1.03	9.28	23.70
Tourism exports	—	—	—	—	—	—	—	—	—	29.44
Tourism imports	—	—	—	—	—	—	—	—	—	21.39
Exports in value added (c)	0.31	1.22	0.43	0.11	4.73	1.07	0.14	0.57	5.15	13.72
Imports in value added (c)	0.39	0.46	0.20	0.07	4.53	1.80	0.04	0.69	1.36	9.53
Spanish FDI in	2.62	6.71	3.43	1.62	18.10	8.84	0.77	1.25	14.72	58.05
FDI in Spain by	0.11	0.36	0.01	0.34	12.63	2.64	0.08	0.00	3.52	19.69
Active portfolio investment in Spanish debt securities in (d)	0.05	—	0.26	—	3.94	—	0.02	0.04	9.04	14.74
Active portfolio investment in Spanish equity in (e)	0.01	—	0.01	—	2.05	—	0.01	0.00	9.32	11.90

**SOURCES:** Banco de España, United Nations Conference on Trade and Development (UNCTAD) and Ministerio de Industria, Comercio y Turismo.

**a** The aggregate of Colombia and Peru is 1.84.

**b** The aggregate of Colombia and Peru is 1.17.

**c** 2019 data.

**d** The aggregate of Brazil, Colombia and Mexico is 1.40.

**e** The aggregate of Brazil, Colombia and Mexico is 0.50.

<sup>9</sup> Companies no longer have to go through a registration process before being able to engage in certain activities and other entry barriers to competition are eliminated.

<sup>10</sup> Most imports by firms were subject to non-automatic imports licensing, requiring prior approval by the Secretariat of Trade. Exports of certain products, e.g. some cuts of meat, were also banned.

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submitted to Congress an Omnibus bill that sought further economic deregulation and paved the way for the privatisation of several state-owned enterprises or the transfer of shares to employees, but withdrew it upon verifying that it did not have the parliamentary support required for the bill to be passed in its entirety.

Many of the measures adopted by the Government coincide with recommendations by the IMF in its latest Article IV report.<sup>11</sup> For instance, it recommended reducing energy subsidies, eliminating monetary financing of the fiscal deficit, depreciating the official exchange rate of the peso and streamlining the foreign exchange system. The IMF report also mentions the need to improve the long-term sustainability of the pension system and envisages a more gradual fiscal consolidation without cutting government investment.

The Emergency Decree is in force, save for its labour market provisions, which have been suspended by the courts of first instance. The Government has, however, appealed this decision. Both the decree and the parliamentary reading of the Omnibus bill have sparked strikes and demonstrations and could heighten the social

unrest in the country (in contrast to the easing of tensions in the rest of the region).

**Financial market response**

The markets have remained largely unmoved in the wake of the announcement of the different pieces of legislation. This is likely because the goal of a balanced budget was part of President Milei's election campaign. The largest market movements were actually observed upon his victory in the second round of the presidential elections on 19 November 2023, with the sovereign risk premium narrowing (see Chart 9) and the Buenos Aires stock market index (measured in dollars) picking up markedly (see Chart 10). The parallel exchange rate initially depreciated, but this movement reversed a few days later (see Chart 11). International reserves (see Chart 12) did not undergo significant changes immediately after the elections, but they have followed an upward path since the fiscal consolidation package was announced. However, in this case, developments are likely linked to the simultaneous announcement of the slashing of the official exchange rate, which

Chart 13  
Exposure of the Spanish financial system for CCyB purposes (a)

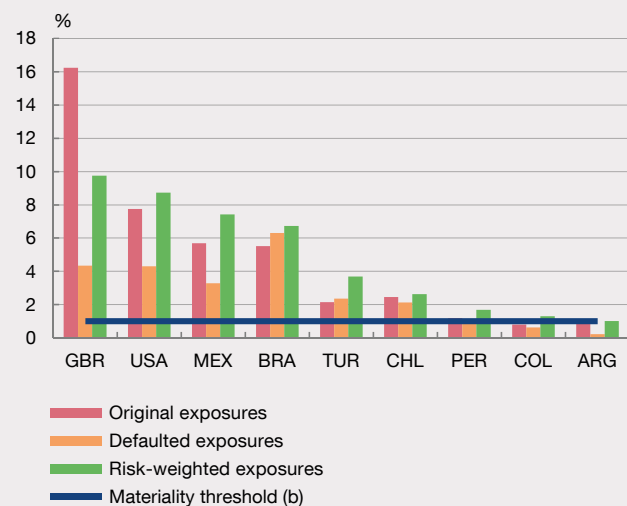
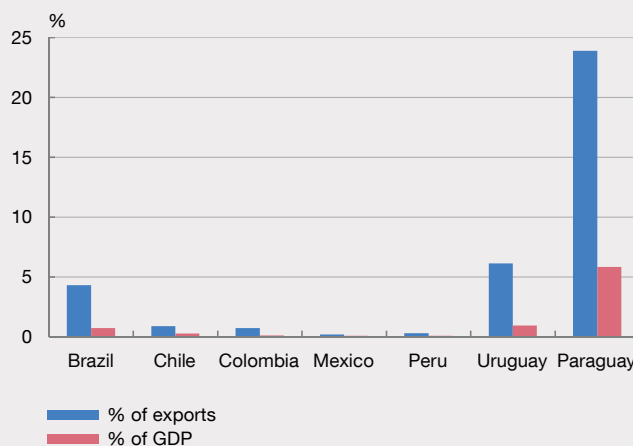


Chart 14  
Exports to Argentina



SOURCES: Banco de España and Refinitiv.

a Credit and other claims on households and non-financial corporations, excluding public entities and financial institutions.

b 1% of any type of exposure.

11 Argentina: Staff Report for 2022 Article IV Consultation and request for an Extended Arrangement under the Extended Fund-Facility-Press Release; Staff Report; and Staff Supplements.

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dissuaded importers from purchasing dollars from the central bank and encouraged exporters to settle currency at the official exchange rate.

**Spain's exposure and possible impact of the measures announced on countries in the region**

Argentina has been considered a material third country for the Spanish banking sector for countercyclical capital buffer (CCyB) purposes since 2023, as the bank assets held by Spanish banks in Argentina surpass the threshold value. However, Spain's exposure to the country is very low (see Chart 13). The sharp devaluation of the official exchange rate has actually placed Argentina below the threshold used to determine the material third countries for Spain. The percentage shares of bank assets and

liabilities are currently the lowest of all the material third countries for Spain. The Spanish economy's trade exposure to Argentina is also low, with Spanish exports to and imports from Argentina accounting for less than 1% of Spain's trade flows in both directions. Spain's highest exposure is in foreign direct investment (FDI) (2.6% in Argentina) (see Table 2).

The impact of the announced measures on activity in other countries in the region is uncertain. Should they have contractionary effects, the countries potentially most affected are the Common Market of the South (Mercosur) countries, especially Paraguay and Uruguay, which have closer trading ties with Argentina, and, to a lesser extent, Brazil (see Chart 14).