THE ARGENTINE GOVERNMENT REACHED A STAFF-LEVEL AGREEMENT WITH THE INTERNATIONAL MONETARY FUND AND THE BILL WILL BE SENT TO THE NATIONAL CONGRESS

This bill is related to the approval of the "Agreement for the Refinancing of the Debt between the Argentine Republic and the International Monetary Fund", which annexes include the understandings and technical texts reached to replace the failed Stand By program agreed in 2018, by a new program of Extended Facilities.

On Thursday the national Government will send to the National Congress the staff-level agreement with the International Monetary Fund to refinance the record debt of approximately USD 45 billion taken by Juntos por el Cambio administration. Thus, a project is submitted to the Legislative Power annexing all the documents that make up the agreement, that is, the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding.

After intense negotiations, the national Government closed an agreement with the IMF which will allow the country to refinance the commitments undertaken under the failed Stand By program of 2018, which included maturities scheduled mainly in the years 2022 and 2023.

The new program seeks to continue creating the necessary stability conditions to address existing structural challenges and to strengthen the foundations for sustainable and inclusive growth.

The agreement reached is based on what is known as an Extended Service of the IMF (Extended Fund Facility; EFF) that includes 10 reviews that will be carried out on a quarterly basis for two and a half years. The first disbursement will be made after the approval of the program by the IMF board. The remaining disbursements will be made after each review is completed. The repayment period of each disbursement is 10 years, with a grace period of 4 and a half years, which implies paying the debt from 2026 to 2034.

During the months of negotiations, an understanding has been reached with the IMF staff about the importance of reaching a program consistent with the needs and challenges of Argentina, and that does not hinder an economic recovery.

In this sense, there is consensus on the fact that inflation is a multi-causal phenomenon (being one of the main challenges of macroeconomic policy) that requires a comprehensive approach. The necessary condition to consolidate disinflation is to maintain a reserve accumulation process that will grant the State greater autonomy in the execution of public policies. The program reinforces the commitment to exchange rate stability, ruling out sudden movements and guaranteeing that the exchange management will seek to ensure the medium-term compatibility of the real exchange rate with the objective of accumulating reserves. At the same time, progress will be made to achieve a progressive fiscal consolidation that reduces the fiscal deficit, within the framework of the recovery of economic activity and the gradual reduction of its monetary financing, as well as the framework for monetary policy implementation that results in real positive interest rates to strengthen the demand for assets in pesos. This process will also be accompanied by price and income policies that will help to anchor expectations in pursuit of a gradual disinflation together with a continuation of the recovery of real income.

Likewise, the aim is a gradual reduction of the fiscal deficit that is consistent with a moderate growth of public spending in real terms with the purpose of underpinning the ongoing economic recovery, while the local currency and credit get stronger. “We have developed a multi-year fiscal consolidation strategy with the aim of achieving a primary deficit of 2.5% of GDP in 2022, and we expect it to fall to 1.9% of GDP in 2023 and to 0.9% of GDP by 2024”, reads one of the Memorandums.

This path makes it possible to implement a balanced package of spending and revenue measures to support an expansionary policy that allows for an increased investment in infrastructure, science and technology, promoting job creation, and continuing to boost economic activity and strengthening social support focused "on addressing child poverty and redirecting support to promote inclusion in the labor market, mainly of women and people with lower job qualifications”.

Regarding pensions, the agreement with the IMF does not provide for any pension reform, on the contrary, it is expected to continue increasing pensions by applying the pension mobility formula established by Law No. 27,609. This formula allows benefits to grow as tax collection at the national level and the wages in the economy also grow.

Given the great uncertainty seen in the global energy markets and the impact of global energy price developments, the Government is committed to pursuing our broader economic and fiscal goals. Within the framework of our energy strategy targets, we are determined to achieve reasonable rate levels that can be applied to public gas and electricity services observing the standards of justice and distributive equity and in accordance with the relevant objective parameters for each case. These adjustments will reach both residential and non-residential users.

For residential users, the coefficient of variation of wages (previously called CVS, for its acronym in Spanish) will be considered the objective criterion, as established by Law No. 27,443, which was frustrated by the total veto imposed by the previous administration. Under this parameter, the national Executive Power will promote, after a public hearing convened at the end of April 2022, the measures that will trace a path for the period 2022-2023, a new rate proposal with a subsidy segmentation scheme that funnels the efforts of the National government to vulnerable users with less ability to pay.

The segmentation for the 2022-2023 period contemplates three levels based on the parameters the National Executive Power determined within the framework of its competence according to the public service involved: a) users who will no longer be beneficiaries of the subsidy of energy consumption based on their ability to pay fully; b) users who benefit from the social rate, for whom a total increase of the annual bill for each calendar year will be equivalent to 40% of the salary variation coefficient (CVS for its acronym in Spanish) of the previous year, c) for the rest of users the total increase in the bill for each calendar year will be equivalent to 80% of the CVS of the previous year. During 2022 and 2023, no other increases will be contemplated beyond those already stipulated for categories b) and c) of users´ segmentation. For 2022 the increases applied throughout the calendar year will be included in the calculations.

The proposal for non-resident users includes the payment of a full rate for big users of distributor (Gudi for its Spanish name) and for the rest a rate revision will be carried out based on a proposal defined through public audience.

A medium-term energy plan will be developed, which will include actions tending to: (i) encourage private and public investment to increase energy generation and transmission, including building gas pipelines and expanding the GNL (liquid natural gas, for its name in Spanish) and renewable energy production capacity; (ii) reduce the losses of the distribution segment by improving energy meters, billing and collection; (iii) improve the efficiency of energy consumption and conservation; (iv) strengthen the targeting and the progression of the energy subsidies; and (v) ensure that, with time, the energy rates for residential and non-residential users will better, and more predictably; reflect the wholesale costs of gas and electricity.

There is also an understanding on the importance of fostering growth and resilience policies to deal with the long-term bottle necks and to set the bases for a more sustainable and inclusive growth.

These policies will try to boost export growth and diversification; investment and productivity; local and regional economic development; formal employment and job inclusion that includes gender perspectives; improvements in the efficiency and the sustainability of the energy sector; environmental policies of mitigation and adaptation; and, a broader development of capital markets.

The bill will go to the National Congress in terms of Law 27.612 of Strengthening the Sustainability of the Public Debt – promoted by the National Government – that establishes that, among others, all programs carried out with the IMF shall require a Law of the Honorably National Congress expressly approving it.