The keys to Argentina's IMF agreement: old wine in a new bottle

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Theme[1]

The programme that the Argentine government has agreed with the International Monetary Fund (IMF) is a classic stabilisation programme with an impeccable technical design. What does the programme consist of? What are the expected outcomes? What are the probabilities of success? What risks does it face? How to manage them?

Summary

Phase 3 of the stabilisation plan, based on a zero deficit rule, a flexible exchange-rate regime with a moving band (an initial floor of 1,000 and a ceiling of 1,400 pesos per US$, which will be lowered and raised, respectively, at a rate of 1% per month), a technically impeccable monetary-financial programme, and an ambitious agenda of structural reforms, seeks to consolidate the stability achieved in Phases 1 and 2 of the stabilisation plan and the recovery of the economy.

The US$20 billion programme with the International Monetary Fund (IMF) reaffirms all that has been done so far and significantly strengthens the international reserves of the Banco Central de la República Argentina (BCRA). With this injection of funds from the IMF, the BCRA now has sufficient firepower to preserve exchange rate stability. Exchange rate controls (the *cepo*) were lifted without turbulences, and if everything evolves according to projections, Argentina could eradicate in two years the inflationary scourge and enter a phase of sustained growth. The programme foresees that inflation will converge to one digit in 2027 and that the economy will experience strong growth – 5% and 4.5%– in the next two years.

The programme faces two opposing risks. On the one hand, the possibility of the deterioration of external conditions, which the programme foresees will be faced by the authorities with a tightening of fiscal and monetary discipline, which could force the BCRA to raise the peso interest rate to meet the international reserves target and enter into a short-term peso debt dynamics that undermines the credibility of the plan. On the other hand, if Argentina regains access to international financial markets, it may face a surge of capital inflows and the dilemma of how to absorb them while maintaining the exchange rate band and without triggering inflationary pressures.

[1] This article went to press at the close of the markets on 22 April 2025.

The challenge, whether to manage success or periods of stress, will be to activate the contingency mechanisms –adjust targets and, if necessary, intelligently recalibrate deadlines and objectives– to bring the programme to a successful conclusion.

Analysis

Neither closing of the Central Bank nor dollarisation. The programme that the Argentine government has just agreed with the International Monetary Fund (IMF) is a classic programme, a merit of Finance Minister Luis Caputo and his team. Undoubtedly, with the unequivocal political support of President Milei to sustain a draconian fiscal adjustment that banished the fiscal deficit and to promote an ambitious programme of deregulation and pro-market and pro-investment reforms lead by the new Ministry of Deregulation and State Transformation headed by Federico Sturzenegger.

All the heterodoxy of this plan was concentrated in Phases 1 and 2. The stabilisation plan is now entering Phase 3, that of a classic monetary and financial programming (with fiscal targets, international reserves targets and indicative targets for the net domestic assets of the Banco Central de la República Argentina (BCRA).

If successful, according to the projections, the IMF programme will bring inflation to single digits by 2027 and will definitively eradicate a scourge that has condemned Argentina to a prolonged period of decline. A century ago, it was among the 10 richest countries in the world in per capita income, today it is number 80. A regression that has very few precedents in modern history.

What does this third phase of the programme consist of? What are the probabilities of success? What risks does the programme face? How to manage them?

1. The IMF agreement

Let us start at the beginning. Unlike previous IMF programmes, this one does not seek to control a crisis, but to consolidate a comprehensive stabilisation plan already underway. Argentina has carried out on its own a fiscal adjustment of 5% of GDP to balance public finances; a clean-up of the BCRA's balance sheet that has allowed it to recover the use of the interest rate as a monetary policy instrument;[2] a capital repatriation scheme that resulted in the repatriation of more than US$20 billion (doubling private sector bank deposits denominated in US dollars prior to the launching of the scheme); an agenda of deregulation and pro-market and pro-investment structural reforms, led by

[2] The clean-up of the BCRA's balance sheet consisted of the transfer of interest-bearing liabilities to the Treasury, the dismantling of contingent liabilities through the issuance of Bonds for the Reconstruction of a Free Argentina (BOPREAL) and the repurchase of put options on Treasury Bills. The Bonds for the Reconstruction of a Free Argentina (BOPREAL) are financial instruments issued by the Central Bank of Argentina (BCRA) that may be purchased in pesos for importers to regularise outstanding debts for imports of goods and services registered until 12 December 2023. Put options are contracts that grant the holder the right, but not the obligation, to sell an asset at a predetermined price within a specific term. The BCRA issued these instruments so that banks could sell public debt securities to the BCRA in case of liquidity needs or in the event of a fall in the value of such securities. However, the existence of these puts represented a potential source of monetary expansion, since, if the banks exercised their right to sell, the BCRA had to issue pesos to purchase the securities. To mitigate this risk and reduce monetary policy uncertainty, the BCRA decided to buy back a significant portion of these puts.

the new Ministry of Deregulation and State Transformation; and an Incentive Regime for Large Investments (RIGI).[3]

The government's stabilisation plan paid off: the official exchange rate stabilised, the exchange gap between the official dollar and the parallel dollar (Blue, as it is known in Argentina) was drastically reduced (from 160% to 20%), gross international reserves increased (although net reserves remained negative), country risk dropped to one third (although Argentina still did not regain access to international financial markets), inflation collapsed to less than 3% per month (although it showed in the last few months a tendency to stagger at that level and had a rebound in March), and after an initial stage of great sacrifices for the population, the economy is recovering swiftly, real wages in the private sector are also recovering (both are above November 2023 levels), and poverty levels are decreasing (to levels below the second half of 2023, although still very high at 38%).

Why was an IMF agreement necessary? It was. In order to unblock the remaining obstacles to the influx of investments in strategic sectors such as mining, energy and renewables, and project Argentina towards a path of stability and vigorous growth, it was essential to lift exchange rate controls (*cepos*) without turbulences and to regain access to international financial markets. To this end, Argentina needed an injection of external financing to strengthen its international reserves.

This is the rationale of the agreement that Argentina negotiated with the IMF for several months and the IMF Board approved on 11 April.

2. The programme with the IMF: projections and targets

The Extended Fund Facility (EFF) will last 48 months and will be for a total amount of US$20 billion, of which US$15 billion will be disbursed this year and the remainder in the following three years, subject to compliance with the programme's targets. This injection of reserves will be in addition to other contributions from the World Bank and the IDB and, eventually, from a second repo that Argentina is negotiating with a consortium of international banks.[4]

This means that Argentina will significantly strengthen its international reserve position, which is expected to reach US$48 billion by the end of this year. This level of reserves represents 130% of the BCRA's liabilities in pesos (Monetary Base + LEFI),[5] providing the BCRA with the necessary firepower to exit the *cepo* without surprises –as it did– and to stabilise the exchange rate in cases of extreme volatility.

[3] The Incentive Regime for Large Investments (RIGI) is a programme established by Law No. 27,742 in Argentina, aimed at promoting large investments in key sectors such as agribusiness, infrastructure, forestry, mining, oil and gas, energy and technology. It offers tax, customs and exchange rate benefits to projects exceeding US$200 million, providing stability and legal certainty for 30 years.

[4] A few days after the IMF Board approved the programme, US Treasury Secretary Scott Bessent visited Argentina in an unequivocal show of support for the plan.

[5] Fiscal Liquidity Bills (LEFI) are bills with a maximum maturity of one year, issued by the National Treasury and accruing daily at the monetary policy rate. The BCRA sets the rate, but the Treasury pays the interest. It is the instrument with which the BCRA carries out its open market operations.

2.1. Fiscal target

The cornerstone of the programme is the zero fiscal deficit rule. And its corollary: zero monetary expansion by the BCRA to finance the public sector.

Consistent with the zero fiscal deficit, the fiscal target set in the programme foresees a primary surplus of 1.3% of GDP in 2025, rising to 2.5% of GDP over the course of the programme in anticipation of what will be an increasing path of debt interest payments (Figure 1). In turn, meeting fiscal targets implies that public debt remains stable in nominal terms and decreases as a percentage of GDP (see Figure 1).

This improvement in the primary balance is supported by the maintenance of a strict public spending discipline, as well as by reforms –foreseen in the programme– to the tax system, the co-participation system between the federal government and the provinces, and the pension system.[6] [7] [8]

Figure 1. IMF programme projections and targets

	2024	2025	2026	2027	2028	2029
Projections						
GDP growth (%)	-1.7	5.5	4.5	4.0	4.2	3.1
Inflation (dec vs dec %)	117.8	20	12.5	7.5	7.5	7.5
Fiscal Balance (% GDP)	0.3	0	0	0.4	0.4	0.4
Public Debt (US$ billion)	479	473	458	444	434	428
Current Account (% GDP)	1.0	-0.4	-0.3	0.2	0.6	1.1
Money Base (% GDP)	5.0	5.1	6.1	7.0	7.6	7.9
Targets						
Primary Fiscal Balance (% GDP)	0.3	0	0	0.4	0.4	0.4
International Reserves variation	1.8	1.3	2.2	2.5	2.5	2.5
US$ billion	4.9	4.0	4.0	4.5	3.5	3.0

Source: IMF Staff Report.

[6] The tax reform proposed in the programme will be revenue neutral, gradually eliminate the most distortionary taxes (on trade and financial transactions), reduce inefficient subsidies (targeted at certain groups and regions) and significantly simplify the tax system.

[7] To improve fiscal incentives and discipline at different levels of government, the programme complements tax reform at the federal level with a reform of the co-participation system, with the objective of dismantling the complex and highly distortionary set of provincial and municipal taxes.

[8] The programme proposes a comprehensive reform of the pension system, focused on improving both its equity and sustainability. The proposed initiative will aim to rationalise the current fragmented system and better align contributions with benefits, among other things to encourage formality in the labour market.

2.2. Monetary & Exchange Rate Regime

Given the high level of dollarisation of the Argentine economy, the programme envisages a convergence to a currency competition regime with a floating peso against the dollar, similar to that existing in Peru and Uruguay.

In the transition, an exchange band is adopted with a floor of 1,000 pesos per dollar (decreasing at a rate of 1% per month) and a ceiling of 1,400 pesos per dollar (increasing at a rate of 1% per month) with the peso floating within that band.[9] The adoption of this new exchange regime was accompanied by the lifting of exchange controls (*cepo*) with some exceptions.[10]

The new exchange rate regime will work as follows. When the exchange rate operates in the lower band, the BCRA will buy dollars in exchange for pesos. This intervention will not be sterilised and will result in an expansion of the amount of pesos in circulation. In this way, increases in demand for peso liquidity will be satisfied, as the economy remonetises with falling inflation –expected to be 20% in 2025– and economic growth –expected to be 5.5% in 2025– (Figure 1).

On the contrary, when the exchange rate operates in the upper band, the BCRA will sell dollars in exchange for pesos. This intervention will not be sterilised and will result in a contraction of the amount of pesos in circulation in circumstances in which the demand for peso liquidity decreases.

Within the band, the exchange rate will float and will be determined by market conditions. For the purposes of monetary policy management within the floating band, the BCRA will monitor monetary aggregates, in particular the evolution of private transactional M2, due to its close association with the inflation rate.[11] To ensure the desired trajectory of transactional M2, the BCRA will conduct open market operations to inject and absorb peso liquidity (using its Treasury securities portfolio) at the monetary policy rate set by the BCRA.[12]

On the one hand, this mixed regime offers an anchor for expectations to the extent that the price of the dollar is a key thermometer in price formation in Argentina. At the same time, it has enough flexibility –a 40% amplitude between floor and ceiling that will increase month by month– to accommodate unforeseen external shocks such as those the world has experienced after the application –and then the temporary suspension for 90 days– of the reciprocal tariffs announced by the Trump Administration.

[9] The BCRA may intervene within the band to purchase dollars in accordance with its macroeconomic and international reserve accumulation (NIR) objectives, as well as to sell dollars in periods of unusual volatility.

[10] The main exception to the lifting of the cepo refers to legacy stocks of dividends and debt service with related entities. To that end, the BCRA will issue a new series of dollar-denominated Bonds for the Reconstruction of a Free Argentina (BOPREAL, for its acronym in Spanish). These securities may be acquired in pesos, to comply with obligations related to debts or dividends prior to 2025, and commercial debts dated prior to 12 December 2023.

[11] To monitor the targets of the IMF agreement, the programme uses as an indicative target the evolution of the BCRA's net domestic assets (NDA) and not transactional M2.

[12] The BCRA may also choose to use other instruments of monetary control, such as modifying regulations regarding minimum cash requirement ratios and the composition of minimum cash requirements.

2.3. International reserves target

This monetary-exchange rate architecture must be consistent with the programme's target of international reserves accumulation at a rate of US$4 billion per year until the end of the programme in March 2025 (see Figure 1).

The cumulative increase in international reserves over the life of the programme is very similar to the amount to be disbursed by the IMF. In other words, the IMF's financial support acts as a bridge loan to immediately strengthen Argentina's international reserves and give it time –four years– to accumulate a stock of international reserves large enough to ensure the stability of the peso and smooth access to international financial markets.

How will Argentina accumulate these international reserves? Fundamentally in two ways: as the programme assumes that there will be a balanced current account (see Figure 1), the accumulation of international reserves will come as the counterpart of the remonetisation of the economy (see Figure 1) and regaining access to international financial markets, which is expected for 2026.[13]

2.4. Structural reforms

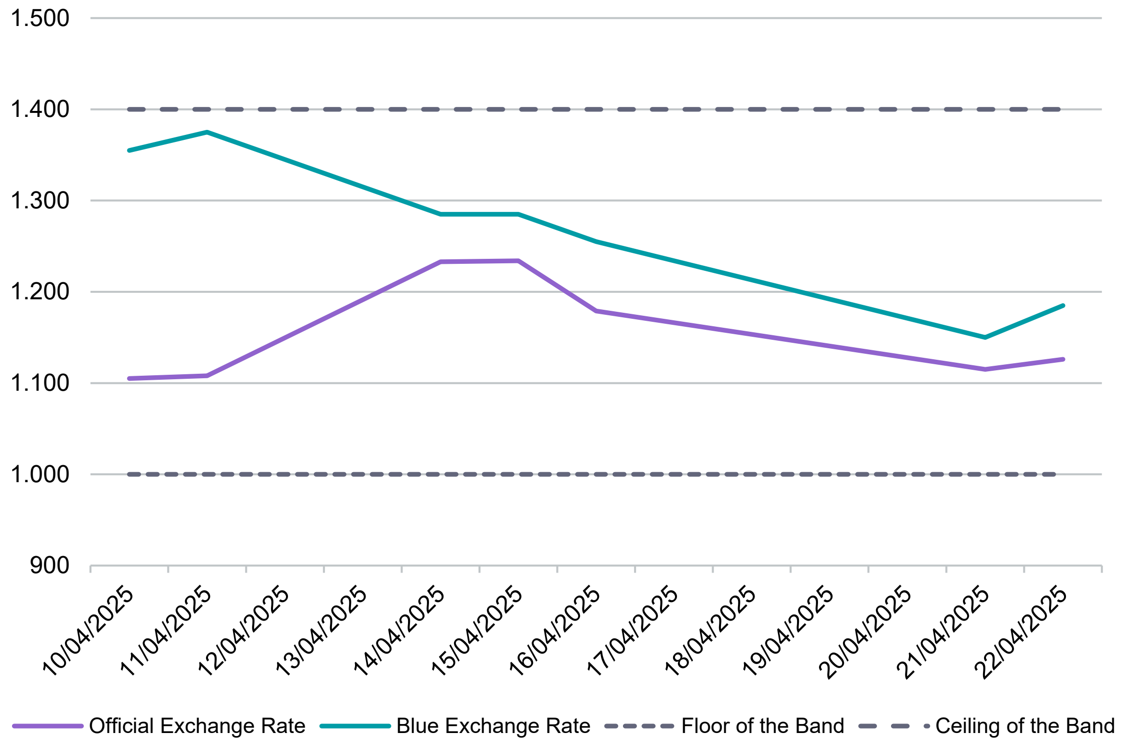
The programme is complemented by an ambitious deregulation and reform agenda. While a lasting strengthening of macroeconomic fundamentals is a necessary condition for sustained growth, the programme is complemented by addressing structural challenges. Specifically, the newly created Ministry of Deregulation and State Transformation will continue to implement the legislation passed at the beginning of the Milei government (*Ley Bases*) and carry out additional reforms to deregulate and open the economy. The main areas of reform envisaged in the programme are: (a) increasing the flexibility of goods and labour markets, while addressing barriers to trade and competitiveness; (b) reducing the weight of the State by streamlining functions and structures; and (c) improving governance by strengthening procurement processes.

3. Impact of the announcement of the IMF programme

The impact of the announcement of the IMF agreement was immediate. The exit from the *cepo* has been smooth, as announced by the economic team. The parallel dollar fell by 12%, which has resulted, as it was natural to expect, in a convergence with the official dollar (which initially jumped by 10%) to the extent that the removal and/or relaxation of the restrictions imposed by the *cepo*, imply a quasi-unification of the exchange market. In fact, the 'unified' exchange rate has operated close to the middle of the band (see Figure 2).

[13] The programme explicitly states that Argentina will not use access to international capital markets to assume new debt.

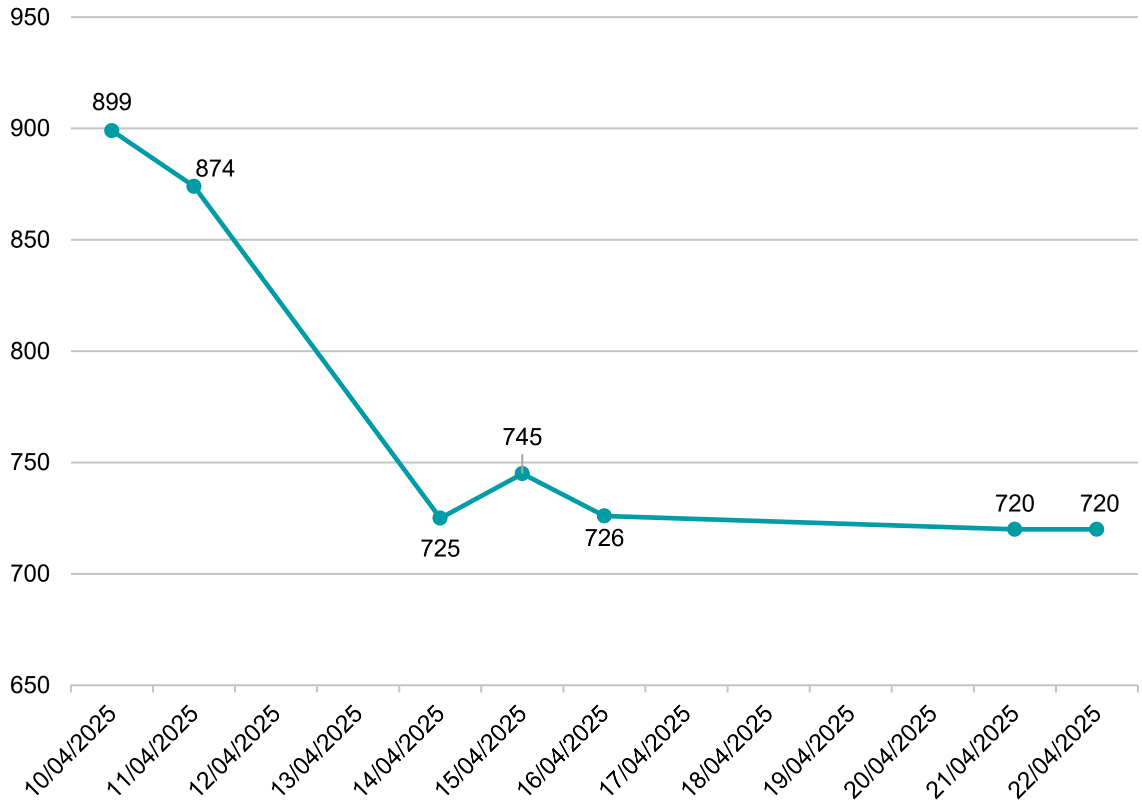
Figure 2. Official and blue exchange rate (pesos per US$)



Source: the author.

The other key variable, country risk, also moved in the expected direction. It fell from 900 to 720 basis points, although still above the 400 to 500 basis points that would be necessary for Argentina to regain access to international financial markets (Figure 3).

Figure 3. Country risk: spread over US Treasury Bonds, in basis points



Source: the author.

4. Opposite risks

The programme from a technical point of view is impeccably designed. It has all the necessary ingredients to be a successful programme: fiscal fundamentals, pro-growth policies and internal consistency in monetary and financial programming.

The most obvious risk is that of a significant deterioration in the global environment. In fact, the programme considers it a likely scenario: 'Risks to the outlook remain elevated. A more challenging external backdrop clouds the outlook, given recent intensification of trade tensions the continuation of which could weigh on global demand, and lead to tighter global financial conditions and further declines in commodity prices for some time, negatively impacting Argentina's growth prospects and ability to re-access international capital markets in a timely manner'.

In this scenario, it will be difficult for the programme's assumptions to materialise, especially in fiscal and reserve accumulation targets. The programme provides for contingency measures: 'Should external or domestic risks materialise, and FX pressures emerge, the authorities are prepared to tighten fiscal and monetary policies, among other adjustments, as needed'.[14]

[14] Specifically, the programme provides for the following: '(i) Liquidity conditions would be tightened as (cont.)

What is the risk? That in order to meet the international reserves target –instead of doing so via remonetisation of the economy and/or regaining access to international financial markets– the BCRA is forced to increase the peso interest rate to induce the sale of dollars, offering in exchange government securities in pesos with juicy returns.

This strategy cannot last. If it lasts long enough, taking on expensive short-term debt in pesos to accumulate international reserves exponentially increases domestic currency debt and undermines the credibility of the stabilisation programme.[15] It would be a mistake to follow this path. Not accumulating reserves at the according to target is a problem for the programme. Accumulating reserves at unsustainably high interest rates for prolonged periods of time is an even bigger problem. What is the solution then? The most natural, but by no means a simple one. Recalibrate the programme's targets and deadlines, taking into account that reality turned out to be more complex than expected.

4.1. The 'risk' of success

The exact opposite could occur and that is another type of 'risk': that the programme is more successful than expected. Even success brings its complications, and they must be managed with skill and precision.

If exchange rate stability consolidates and Argentina regains access to international financial markets, it could trigger a strong inflow of capital. In such a scenario, there will be strong pressure for exchange rate appreciation –nominal and real– as usually occurs in periods of strong capital inflows. In and of itself, exchange rate appreciation generates challenges for programme management to the extent that it affects the competitiveness of very important segments of domestic production.

But the biggest challenge for programme management under this scenario is the dilemma of how to absorb capital inflows without triggering inflationary pressures. Under the current rules, the nominal exchange rate can only go down to the floor of the band, ie, currently 1,000 pesos per dollar. If this nominal appreciation is insufficient to reestablish the equilibrium of the real exchange rate, the remainder will happen through the rise in domestic prices. How? The BCRA is obliged to buy dollars and pesos to defend the floor of the band and the resulting monetary expansion will accelerate the rise in prices until the real exchange rate finds its equilibrium.

Should this scenario materialise, the government will have two options: to accept a temporarily higher inflation rate –which is normally associated with a high political cost– or to reduce the floor of the band –today 1,000 pesos per US$– in order to allow for the nominal exchange rate to find its equilibrium without generating inflationary pressures.

needed (with interest rates rising endogenously) if negative shocks to money demand arise, consistent with the strict NDA ceiling, with the central bank and Treasury acting in coordination, (ii) Fiscal policy would also be tightened as required to safeguard reserve accumulation and stability, through measures available to the executive. Moreover, should revenues disappoint, the authorities would reduce primary expenditure accordingly, while any revenue overperformance would be either saved or used to reduce distortive export taxes (if the windfall is permanent) to support competitiveness'.

[15] In a paper published in 1991, Professor Guillermo Calvo baptised this phenomenon as 'The Perils of Sterilisation', and the conceptual framework he develops applies to the case we are describing.

Conclusions

Phase 3 of the stabilisation plan, based on a zero deficit rule, a flexible exchange rate regime with a moving band (initial floor of 1,000 and ceiling of 1,400 pesos per dollar, which will be lowered and raised, respectively, at a rate of 1% per month), a technically impeccable monetary-financial programme and an ambitious agenda of structural reforms, seeks to consolidate the stability achieved in Phases 1 and 2 of the stabilisation plan and the recovery of the economy.

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The challenge, whether to manage success or periods of stress, will be to activate contingency mechanisms –adjust targets and, if necessary, intelligently recalibrate deadlines and objectives– to bring the programme to fruition.