Argentina under IMF Orthodox Adjustment Policy

In February 2024, the Argentine Government under the presidency of Javier Milei (2023-...) and the International Monetary Fund (IMF) reached an agreement for the seventh review if the arrangement under the Extended Fund Facility (EFF), supporting the new authorities' policy efforts to get the program back on track. In March 2022, the IMF Board of Directors approved the deal reached by the former administration led by Alberto Fernández (2019-2023) in order to service preceding obligations signed in the Stand By Agreement in 2018 by Macri administration (2015-2019)[1], which was the largest loan in the history of the organization, for a total amount of $57.1 billion, which represented 127 times the debt capacity of the country with the IMF.

With the completion of the seventh review of the arrangement under the EFF, the IMF disbursed $4.7 billion for Argentina, consolidating a clear support to the new administration of President Milei and its so-called "stabilization plan"[2]. Argentina is facing one of the largest fiscal adjustments in history and an unprecedented social crisis. In 2023, Argentina paid the IMF $20.7 billions of which $3.014 million were interests. In 2024, according to the current scheme, Argentina must pay back $7.463 million. IMF finances the payment of its previous programs with new credit, keeping its surveillance role and receiving juicy interests[3]. Why is debt (in)sustainability and its effects on the population's human rights not on the table of discussion?

The program relies on proposals that have historically failed (in Argentina and many other countries) in economic policy while locking Argentina in a neverending broken economic and development model. The new administration's economic policy is centered on severe fiscal austerity measures that have created a fast decline of wages -around 20% in the private sector, 30% in public sector- and a severe economic recession. Instead of evaluating its responsibility and the effectiveness of the orthodox program, the IMF maintains its proposal and supports the new administration fiscal adjustment policies.

The IMF's influence over fiscal policy

The EFF is mainly focused on the establishment of a strong fiscal anchor, which relies mainly on shrinking the public pension system, public wages, public investment and social protection policies. The IMF encourages a large upfront adjustment of around 5% of GDP, a highly ambitious goal even in international terms. The effectiveness of an adjustment of that size lacks evidence of success. In fact, as public expenditure falls, fostering a recession, taxes based on economic activity -such as VAT- also falls, therefore inducing new rounds of expenditure cuts… to meet the same result. The so-called "expansionary austerity" does not work, as explained and proved by many scholars and country cases. This austerity scheme seems to bite its own tail. However, the IMF envisages the scaling up of social assistance to protect the most vulnerable.

Since the new government took office in December 2023, all social components of public expenditure have fallen, in contrast to increases in debt payments. This proves that human

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[1] The Stand By Agreement signed by Macri administration and the Fund was plagued by irregularities and the National Legislation, which requires that multilateral loans be approved in the National Congress, was not complied with.

[2] https://www.imf.org/en/News/Articles/2024/02/23/pr2455-argentina-statement-by-the-first-deputy-managing-director

[3] During 2023, IMF charged as much as 7.25% annual interest rate for its credit. It is the most expensive credit Argentina had that year. Argentina is one of the 22 countries paying harmful surcharges to IMF.

rights are sacrificed on the altar of"debt sustainability." Social assistance, pensions and the public wage bill falls in real terms have been drastically reduced. By the time the IMF made its evaluation, the total expenses of the National Administration registered a fall of 11.9% y/y in the first month of 2024 in real terms and the cut in primaries reached 30.8%. Retirements and pensions (-32.5%), social programs (-59.6%) and personnel expenses (-18.0%) were the items that contributed the most to reducing expenses.
In the meanwhile, the interest on the debt grew 139.1% y/y, basically due to the payment of coupons on bonds issued after the restructuring. Under these circumstances, the poverty rate increased 13% in two months and reached 57%, reaching almost 27 million people. The highest rate in 20 years. Indigency rate climbed to 15% and inflation reached 20.6% mensual in January 2024. Fiscal austerity not only damages human rights and social development but also difficulties economic recovery. By March 2024, this was still the bias of austerity cuts -social expenditure fallen, with interest payments rising-, with a two months tax collection fall.

Crushing Argentina's climate commitments

The agreement's success relies on the promotion of structural improvements in Argentina's fossil energy, agriculture and mining balance to generate foreign exchange while failing to properly scale up climate action. The Fund continues to encourage legislation and regulation reform to boost exportation of the Argentinian fossil energy and mining sector[4]. These three are the primary sectors with the greatest pollution and with the most carbon dioxide emissions. Energy (45%) and agriculture (45%) sectors account for 90% of Argentina's GHG emissions.

In a climate change context, reliance on export pressure in the primary sector -mostly affected by climate shocks- represents a threat to macroeconomic stability and accentuates the reprimarization of the economic matrix oriented to the export of raw materials. During 2023, Argentina suffered the harshest drought in six decades, which reduced total exports by 24.5% and claimed 3% of GDP. However, the IMF insisted on the continuity of the program targets and the disbursement of payments, instead of softening macroeconomic goals or suspending debt services.

Under these circumstances, the IMF strategy could very likely put Argentina's international climate committees at serious risk. In the 2021-2022 period, only $968 million were allocated in climate financing; the distribution of the amount reflects 44% for mitigation, 10% for adaptation and 46% for the transversal category. That is about half of what the country paid to the IMF only insurcharges.

Looking a fossil future

The IMF continues to spur Argentina's fossil fuel expansion by encouraging exploitation of unconventional gas and oil with the mega project Vaca Muerta and boosting up LNG exportation to repay debt. According to the Fund estimation, Argentina crude oil exports could rise steadily from around 100 kbbl/d in 2023 to 900 kbbl/d by 2030. Moreover the Fund claims that potential export of LNG also provides significant upside in the energy trade

[4]According to the IMF Seventh revision Argentina should "create a simpler, rules-based, and market-oriented economy". In terms of mining, the Fund has promoted its development with focus on critical minerals exports (lithium and copper), and highlights the sector could deliver a near five-fold increase in its exports over the medium term. Achieving this potential will require the execution of important investment. In this line, the National Government intends to stimulate FDI by a new regime for large investments, which bill is supported by the IMF.

balance, encouraging major infrastructure investment to construct liquefaction terminals in the country. While the IMF proposes a fierce adjustment, it calls to a “(iv)strict prioritization of capital spending, focusing on construction of critical pipelines”.

The IMF is locking Argentina in a fossil future with related infrastructure assets that may become stranded in the near future putting financial stability at risk. What is more, Vaca Muerta, exploited by fracking techniques, brings high social-environmental conflicts in surrounding communities such as earthquakes, water contamination and toxic waste.

Furthermore, policy conditionalities included under the EFF target consumer energy subsidies, leading to higher energy prices, which began with tariff segmentation and continues with the direct removal of demand subsidies, while IMF endorse maintaining supply side subsidies to hydrocarbon companies. Subsidies for fossil fuel companies reached almost $10bln in 2016-2022. During the first two months of 2024, more than $7.3 billion were executed in subsidies for hydrocarbon companies; not a single dollar was executed for subsidies to consumers. In a context of economic crisis where 58% of households in Argentina have some kind of energy deprivation, the Fund endorses subsidies to fossil companies while affecting the population's access to energy.

The continued promotion of fossil fuel dependence and endorsing subsidies for hydrocarbon companies distances Argentina from the international commitments assumed at the climate level, such as achieving carbon neutrality by 2050, but it is also detrimental to autonomy in the development of policies for an energy transition to low.

Influence democratic institutions

IMF limits Argentinian domestic politics and institutional design in order to support its programs. In the framework of the EFF, the IMF explicitly supports the program of the new administration, unleashed through a catch-all presidential decree and a 300 article bill[5] presented by the current government less than a month after it took office, breaking Argentininian constitutional and democratic arrangements[6]. In this sense, both proposed the dysregulation of the economy and regulatory flexibility to advance against protected ecosystems and provide economic benefits to the primary extractive sectors to export.

The Fund praises the policies of the new Argentine administration, regardless these policies tend to violate human rights, threaten freedom of expression and the right to protest protected by International Law. **The situation raised the concerns of CSOs due to its set back on human rights, social needs and environmental protection (including the promotion of extractive activities with relevant climate consequences), the risk of attempting democracy and parliamentary institutions. It is important to recall that, as the United Nations General Assembly indicated to the IMF and the World Bank when they were engaged with regimes that violated human rights, they should not facilitate nor support human rights violations of any kind, they can be held accountable for complicity.**

[5] After weeks of negotiations, the omnibus bill did not obtain the necessary majority in the Chamber of Deputies. At present, a new version of the bill is being negotiated.
[6] For more information: https://farn.org.ar/wp-content/uploads/2024/01/FARN-sobre-Ley-Omnibus.pdf

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