State of affairs in Argentina and the IMF agreement: views from civil society

October 2024

In 2023, a new political force, *La Libertad Avanza*, won the elections. Its presidential candidate, Javier Milei, led a 112% devaluation of the exchange rate two days after taking office. This triggered a spike in inflation, which reached 25% per month in December 2023. Although the increase in prices then gradually declined, stabilizing at over 4% per month since June 2024, at the time of writing, the price increase reached 271.5% year-on-year. The decline in the inflation rate is explained by the lagged exchange rate (sustained by capital controls, which have not prevented international reserves from declining) and the ongoing severe recession (in the first quarter of 2024, GDP declined 2.6% and experienced a 5.1% y-o-y plunge).

In addition, the government implemented a strong fiscal consolidation process focused on the reduction of public spending. Various budget items were cut and others under-executed, the main way forward being avoiding updates in spending to match the inflation rate, which translated into a spending reduction in real terms. Public spending fell by 27.9% in real terms up to July 2024. Since there was no approved national budget for 2024, the government has great discretion to make these adjustments.

The fiscal surplus created by these policies was achieved through severe budget cuts that have undermined minimum human rights standards. The social situation in Argentina has become extremely unsustainable as the poverty rate soared. It climbed to 52.9% (an increase of nearly ten points compared to a year ago)[1] and extreme poverty (reaching 18%, doubling its previous value), approaching the worst figures since the 2001 crisis. The impact of this rapid decline is even more severe for children: 7 out of 10 children experience deprivation, either monetary or in the exercise of their fundamental rights to education and decent housing. In August 2024, UNICEF warned that one million girls and boys go to bed without dinner and 1.5 million skip meals during the day.

As public revenue collection falls once more in the context of a recession where the government is failing to support the most vulnerable sectors of society, **the reduction in spending is locking the country in a trap of austerity with no way out. This will hardly lead to the fulfillment of the obligations agreed with the IMF and the restructured private creditors from 2025 onwards.** The 2025 budget indicates that this logic is expected to be continued onwards, further reducing social expenditures to guarantee debt payments.

The debt sustainability analysis of the IMF agreement signed in 2022 assumed, in addition to the fiscal adjustment, a dramatic increase in exports, predominantly in primary sectors. If exports were as estimated for 2025 (this was not the case in 2023 due to the drought), **the figures for debt service for exports would reach close to 10% only in repayments to the IMF, and 20% if we include the bonds restructured in 2020 in foreign currency. Debt repayments for the next few years are unsustainable.**

1. For more information, see: Argentina's poverty rate soars above 50% under Javier Milei (Financial Times, September 27, 2024).

Eight months after the inauguration of the new administration, a huge package of laws was passed in Congress called 'Law of Foundations and Points of Departure for the Freedom of Argentines', with the express support of the IMF. The Law declares a public emergency in administrative, economic, financial and energy matters, granting extraordinary powers to the President. This is a step backwards in terms of deliberation and citizen participation and undermines the democratic functioning of the country. The Law introduces a series of structural reforms (including the creation of the Incentive Regime for Large Investments, opposed by more than 50 civil society organizations[2]), privatization of state-owned companies, the undermining of severance payments and reducing labor rights through increased labor flexibility.

In September, as a result of massive demonstrations in the streets, Congress passed laws to guarantee basic levels of retirement benefits and to increase support for underfinanced universities. In both cases, the executive vetoed these measures under the false argument of lack of fiscal resources[3], despite strong social pushback.

The current context in Argentina is concerning in light of the weakening of the rule of law and the restriction of the right to social protest and climate denialism on the part of the authorities. The United Nations High Commissioner for Human Rights has called out recent measures proposed and adopted for undermining the protection of human rights. Issues highlighted included the cuts in public spending that especially affect the most marginalized sectors, the closure of state institutions dedicated to women's rights and access to justice, and the country's suspension of the 2030 Agenda. For its part, the Inter-American Commission on Human Rights (IACHR) and its Special Rapporteurship for Freedom of Expression (RELE) denounced the disproportionate use of public force against people participating in peaceful protests and against journalists in Argentina.

Recent history of the agreement

Argentina has been trapped in a debt crisis for various years now. In 2016 and 2017, under the Macri administration the government especially increased its foreign currency debt, exposing itself to external shocks. Foreign debt broke historical records for any emerging market, growing by $56 billion between January 2016 and March 2018 (excluding $13 billion issued by the provinces).

After 15 years, Argentina resorted again to the IMF in 2018. A Stand By Agreement (SBA) was signed with the IMF for a record $57 billion - the largest loan in the history of the Fund, tainted with irregularities[4] - to deal with an exchange rate crisis. Far from solving the problem, the agreement allowed the government to artificially contain the exchange rate amid capital flight. An internal evaluation in 2021 concluded that:

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2. The RIGI grants investment projects for certain economic sectors -mainly extractive, including hydrocarbons and mining- that exceed USD 200 million a series of tax, exchange, customs and legal stability privileges for 30 years -increasing the tax benefits that these sectors already have. For more information, see: las-dos-caras-del-rigi-fomento-para-las-grandes-inversiones-y-desproteccion-del-ambiente

3. In this argument he did not consider that this failure stemmed largely from the government's own policies - such as the reduction of the personal property tax, an equivalent of the wealth tax in Argentina.

4. The General Audit Office of the Nation in 2023 found that "the framework of processes and procedures that ensure efficiency and effectiveness in debt management was not complied with, causing legal non-compliance, affecting prudence in debt management, violating the adequate supervision of financing, and adversely impacting the solvency and sustainability of the public debt".

"IMF resources ended up servicing unsustainable debt and financing a massive capital flight". Today, the country is burdened with a debt that failed to create the necessary conditions for its repayment.

In 2022, a new arrangement under the Extended Fund Facility (EFF) was signed with the IMF. This new agreement was intended to repay the previous one, and set as objectives the reduction of the fiscal and trade deficit, the reduction of monetary financing of the fiscal deficit, the accumulation of reserves and the implementation of structural reforms. In this agreement, as in the 2018 SBA, debt was considered sustainable "but not with a high probability"[5]. One of the main factors to sustain this unrealistic and over-optimistic assessment was a dramatic projected increase in exports from $95,775 million in 2022 to $144,331 million in 2030 (by 51%). Of this supposed $48,556 million increase, more than half[6] was estimated to come from fossil fuel exports, putting Argentina's obligations under the Paris Agreement at risk (see below).

The IMF renewed a flawed agreement (2018) for a new one (2022) with demands for fiscal adjustment and increased fossil fuel exports as targets. These demands were not eased during 2023, when the country suffered the worst drought in six decades. Throughout this period, the IMF demanded the payment of surcharges associated with both agreements, amounting to approximately $1 billion per year. When the Milei government took office at the end of 2023, it promised to over-fulfill the IMF targets, which it has done on fiscal matters.

The scope of the fiscal adjustment

To comply with the fiscal targets established with the IMF, the government is closing Ministries and eliminating programs and public policies, under-executing certain budget items and refusing to adjust public spending to inflation, which has led to the interruption of public works, the closing down of hospitals, putting the sustainability of public high education at risk, defunding of Argentine culture, and elimination of programs to protect victims from gender violence.

Budget allocations for the environment, education, health and social protection have fallen in real terms year-on-year between July 2023 and 2024. Social benefits fell by -22.7% (y/y real). Thus, the real income of retirees fell by -29.2% (y/y real). Social protection programs fell by 40.3% (y/y real) including family allowances -4.2% (y/y real), support for job insertion under *Potenciar/Volver al Trabajo* -58.6% (y/y real) food support under *Políticas Alimentarias* -18.0% (y/y real) and financial support for children pursuing education *Becas Progresar* -62.7% (y/y real).

Between July 2023 and 2024, investment spending to the Ministry of Education fell -98.4% (y/y real) and transfers to provinces -in charge of health and education services- fell -83.5% (y/y real). The national teachers' incentive fund fell (-85.0% y/y real). Transfers to national universities: -31% (real y/y). Funds for the payment of salaries of teaching staff and higher authorities (-30.6% y/y real), of salaries of non-teaching staff, -26.9% (y/y real). Financial Assistance for University Operations, -35.4% (y/y real). Financial Assistance to University Hospitals, $0.04 billion -25.3% (y/y real).

5. Under the program's baseline and policy framework, staff assesses Argentina's public debt to be sustainable but not with high probability.

6. Preliminary estimates suggest that these measures could increase exports by around over US$25 billion by 2030. For more information, see: Letter of intent of the government of Argentina

The Ministry of Women, Gender and Diversity was closed and the Ministry of Environment and Sustainable Development was demoted to a mere department of the new 'Secretary of Tourism, Environment and Sports'. In the first quarter of 2024, the 2024 national budget available to reduce gender inequality fell -62% (y/y real) and for environmental protection suffered a -65.45% drop (y/y real). The National Parks Administration lost -19.82% (y/y real), Environmental Protection of Native Forests -26.17% (y/y real), Renewable Energies and Energy Efficiency -30.95% (y/y real), Marine Protected Areas System -19.24% (y/y real) and Fire Management -26.30% (y/y real).

In contrast, **the only budget item that increased was debt interest payments** by 0.2%. Thus, debt service payments are being guaranteed through cuts in health, education, salaries, gender policies, climate policies, among others. With the largest debt maturities occurring from 2025 onwards, the human rights of the population of Argentina will be in serious jeopardy, as will the country's ability to achieve any meaningful development and climate goals.

Fiscal adjustment plan pushes Argentina into non-compliance with its international and constitutional obligations

The fiscal policy pursued under the Milei government and endorsed by the IMF has undermined Argentina's compliance with its fundamental human rights and climate commitments. Although the IMF calls for "protecting the most vulnerable sectors", the only indicative target under the last review that was not met was that of social security, which includes the Social Protection Allowance, the Food Card and *Progresar*, while in its press release the institution praised the government's efforts to ensure social protection[7]. Although the allocation to finance the Universal Child Allowance increased by -18% (y/y real) reaching $77,462 pesos in July 2024 -around $80- which is much lower than the child-rearing basket that reaches $418,068 pesos for that month.

In environmental matters, the debt burden hinders the fulfillment of international commitments by pushing the country towards the defunding of climate change adaptation and mitigation policies. In the first six months of 2024, Argentina paid $1.57 billion in interest to the IMF, which represents the equivalent of 148 times the 2024 budget for the promotion of renewable energies, 105 times the budget for fire management and 129 times the budget for the Environmental Protection of Native Forests.

The reliance on extractive, fossil and mining sectors to generate exports for debt payment derails the reduction of emissions committed to by Argentina in its NDC and LTS to meet the objectives of the Paris Agreement. The Fund continues to promote the increase of exports and the changes made through the *Ley Bases* in the Hydrocarbons Law No. 17,319, which aim at the export of fossil fuels, together with the incentives provided by the Incentives Regime for Large Investments, which promote the growth of the hydrocarbon sector. Meanwhile, the budget for the promotion of renewable energies dropped by -47% (y/y real). The UN ESCR Committee was clear in its observations to Argentina's fourth periodic report in 2018: the Argentine State must reconsider the large-scale exploitation of unconventional fossil fuels

7. The indicative floor on social spending (covering three flagship programs) was temporarily missed by a minor margin (0.01 percent of GDP) and is now well above target following recent large transfers to the flagship social safety net programs. For more information, see: https://www.imf.org/-/media/Files/Publications/CR/2024/English/1ARGEA2024002.ashx.

through hydraulic fracturing in the Vaca Muerta region to ensure compliance with its obligations under the Paris Agreement.

Within the *Ley Bases*, with the express support of the IMF, the legal framework for hydrocarbons was changed to deregulate the sector and allow companies to increase oil and gas production and exports, in order to guarantee the repayment of the debt[8]. Again and again, in the successive reviews of Argentina, the IMF insisted on increasing the production of hydrocarbons for export, relying on Vaca Muerta, contrary to the Paris Agreement and the commitments assumed by the countries at a global level.[9]

- *(8)* "Staff assumes efforts are made to encourage exports and incentivize FDI, including in Argentina's vast shale oil and gas reserves of Vaca Muerta" (Article IV, 2020).
- *(10)* "Importantly, completion of the gas pipelines would significantly improve Argentina's external energy trade balance in the coming years, boosting export receipts, reserves, and the country's repayment capacity". Fourth review of the arrangement under the EFF.

The budget allocated for Energy Efficiency fell (-30.95% y/y real), with a budget 484 times less than what is allocated to subsidies for the supply of fossil fuels. Within the programs, the Renewable Energies in Rural Markets Project (PERMER, for its initials in Spanish), aimed at installing solar panels in homes, schools, and hospitals in rural areas, suffered severe cuts of around $387 million pesos in March. Only with what was earmarked for fossil fuel supply subsidies, PERMER could be executed 26 times.

The repayment plan from 2027 is unsustainable under current circumstances

According to the IMF's analysis, the ratio of debt service payments to the IMF to the projected exports would increase from 3.5% in 2025 to 6.9% in 2027, 8% in 2028, 7.7% in 2029 and 6.9% in 2030. The IMF report assumes that exports of goods and services would rise from $96 billion in 2024 to $122 billion in 2028, $127.5 billion in 2029 and $133.5 billion in 2030. **If this export increase doesn't materialize, as it happened in 2023, then the debt-to-exports indicator will exceed the 10% threshold.** The institution's debt sustainability analysis, which concludes a "high risk of sovereign stress", indicates that between 2024 and 2032, Argentina will have to pay the IMF $46.129 billion, of which $15.165 billion in interest ($4.387.3 billion in surcharges).

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8. Supply side policies. The authorities will continue to correct relative price misalignments and create a more market-oriented economy. The expected approval of the landmark reform legislation (Ley Bases) will support the recovery and boost productivity over time through (i) increased labor market flexibility; (ii) upgrades in the legal framework and properly-designed incentives for large long-term investments in hydrocarbon and other strategic sectors; (iii) reduced state participation in the economy; and (iv) removal of entry barriers and policies to safeguard competition. For more information, see: https://www.imf.org/-/media/Files/Publications/CR/2024/English/1ARGEA2024002.ashx.

9. Based on independent assessments, crude oil exports could rise steadily from around 100 kbbl/d in 2023 to 900 kbbl/d by 2030, generating an extra US$14 billion of annual exports. For more information, see: https://www.imf.org/-/media/Files/Publications/CR/2024/English/1ARGEA2024002.ashx.

Interest expenses could rise if the government were to access private international credit markets in 2025, as suggested by the IMF, and borrow even more expensively to pay back the IMF. In this regard, the recent amendments to the Financial Administration Law are worrisome: "The new decree eliminates the obligation of the State that debt swaps comply, at least, with 2 of the following conditions: an improvement in the maturity, amounts and/or interests of the original operations"[10].

So far, the government has not been able to attract investment or credit from abroad. The financial account of the balance of payment was negative in July. On the trade side, although imports decreased, exports did not show dynamism. The Central Bank stopped accumulating reserves as of that month, compromising its goal. Without access to new credits to strengthen reserves, the government cannot remove exchange controls. With controls in place, the government is not accessing new credit, despite over-complying with the fiscal adjustment and having managed to approve structural reforms in June 2024. Macroeconomic uncertainty is high, with no clear signs of recovery.

Conclusions and recommendations

The measures described in this paper have been accompanied by a rhetoric of social confrontation, harassment of journalists and public figures, declaration of environmental organizations as "terrorists", and repression of multiple demonstrations by the authorities[11]. These actions violate the fundamental rights to freedom of opinion and expression, to demonstrate and protest, to petition authorities and to access justice, pillars of environmental democracy and the rule of law. For example, the approval of the *Ley Bases* occurred concomitantly with the arbitrary detention of more than 30 people, the last of whom was only released 84 days later for lack of merit.

The signatories ask the International Monetary Fund:

- Ahead of the start of repayments under the EFF program in 2025 and the likely negotiation of a new agreement, conduct a realistic debt sustainability analysis that ensures that the country can meet its international climate and human rights obligations.
- the Fund has a bigger obligation here, which is grappling with the severe oppressive, democracy-demolishing action that the policies it has endorsed have implied in Argentina.
- Conduct distributional, social, gender and environmental impact assessments of the policies included in the 2025 budget to be approved by the IMF under the conditionalities agreed in the loan.
- An IEO assessment on the above mentioned points.

10. For more information, see: Debt swap: what does the decree say and what maturities must Javier Milei's government face in 2025?

11. During the months of August and September, the government harshly repressed demonstrations by senior citizens demanding their pensions. In June, protests in front of Congress were severely repressed, resulting in the arrest of 33 people, accused of acts of terrorism. After 84 days, all the people were released for lack of evidence of such accusations.

- Negotiations with the Argentine government to ensure respect for Argentina's obligations under the Paris Agreement and the guarantee of the fiscal resources necessary to comply with them.
- Elimination of surcharges to Argentina, and all affected countries.
- Modification of the communication policy with civil society organizations, as expressed by organizations in September 2024, demanding formal and inclusive modalities for civil society opinions to be taken into account.

Signatures

Fundación Ambiente y Recursos Naturales- FARN

Espacio de Trabajo Fiscal para la Equidad - ETFE

Recourse