April 12, 2025

Good Bye Cepo

Argentina is entering a new phase. To the surprise of many, the government decided to take advantage of the agreement with the IMF—something likely unavoidable—to almost completely lift capital controls (the Cepo) before the midterm elections. We believe this is a major step forward and welcome the fact that it is being implemented as soon as possible. We did not agree with the strategy of delaying the removal of controls until after October, with the aim of strengthening Congress in the legislative elections. One only needs to recall what happened during Macri's administration: he won the midterm elections at the cost of accumulating imbalances, and just a few months after a sweeping victory, he had to face a severe currency crisis. We applaud the decision to address macroeconomic imbalances as soon as possible, even if it comes at a political cost in the legislative elections. Does lifting capital controls involve macroeconomic risks? Of course it does—it could bring greater exchange rate volatility, some additional inflation, and weaker short-term economic activity. But in our view, these risks are no greater than the alternative of continuing with the rigid current framework, which encouraged an excessive appreciation of the real exchange rate.

We do have concerns regarding the new exchange rate regime, but there's no doubt that it moves in the right direction—one we've been advocating for some time now, from our modest position. From the beginning, we believed the previous exchange rate regime carried many unnecessary risks, often going against market consensus, which remained strikingly optimistic for months. Undoubtedly, it would have been preferable to reach an agreement a few months ago, when the exchange rate gap was under 10%, and both inflation and interest rates were running at 2.5% monthly, rather than now—with a 25% gap, a terrible inflation figure of 3.7% for March, and a very anxious peso market. But it's easy to judge from the outside without taking into account the timing constraints involved in negotiations with the IMF bureaucracy.

To bring long term stability, like Brazil, Peru, Chile or Uruguay, fiscal discipline and exchange rate flexibility are absolutely necessary conditions, no matter how much noise they may generate in the short term. Let's take a look at the main points of the new macroeconomic framework under the Extended Fund Facility (EFF) agreement with the IMF.

Fresh Funds

We finally know the size of the agreement and the fresh funds that will come with the program. The EFF agreed with the IMF amounts to USD 20 billion, most of which will be disbursed upfront. As the government had already hinted, these resources will be used to strengthen the Central Bank's balance sheet through the repurchase of non-transferable bonds (letras intransferibles) by the Ministry of Economy. According to statements from members of the economic team and the international organizations themselves, Argentina will receive no less than USD 19.6 billion before June this year, coming from the IMF, IDB, World Bank, CAF, and repos from private banks.

The original agreement with the IMF is being extended with new funds, giving Argentina increased liquidity and valuable time, as the EFF includes a four-and-a-half-year grace period.

USD Million	IMF	Other IIOO	Repo BCRA	Total
Now	12.000	1.500	2.000	**15.500**
Aditional June 2025	2.000	2.100		**4.100**
Rest 2025	1.000	2.500		**3.500**
Total 2025	15.000	6.100	2.000	**23.100**

Source: Sekoia Research based on Secretary of Finance.

In this way, the Central Bank regains valuable liquidity at a challenging moment. Since the new government took office in December 2023, the Central Bank has purchased around USD 23 billion in the foreign exchange market, but it also had to pay off nearly USD 16 billion in debt and sold almost USD 4 billion in the blue chip swap (CCL) market. As a result, it was able to accumulate very few reserves. The Central Bank is facing a very weak balance sheet position, with net reserves standing at negative USD 6 billion. Over the past few weeks, the government faced a significant doubt regarding the sustainability of the exchange rate regime and was forced to sell around USD 2.5 billion in the foreign exchange market.

As we can see in the following table, considering the nearly immediate disbursements between now and June, the Central Bank will strengthen its balance sheet thanks to the agreement. Gross reserves would increase from USD 25 billion to USD 44.6 billion, while net reserves would shift from negative USD 6 billion to positive USD 13.4 billion. The improvement in liquidity is significant—Argentina is emerging from a stressful liquidity situation. However, it is still far from the more orderly economies of Latin America, where reserve buffers average around 10% of GDP. Applying that same 10% benchmark to Argentina would imply roughly USD 60 billion. This is great news for the country, as it alleviates immediate pressure, but it still falls short of a comfortable position.

USD Million	Dec-21	Dec-22	Dec-23	Dec-24	Apr-25	IMF Agreement (Jun-25)
Gross FX Reserves	**41.500**	**39.007**	**23.073**	**31.500**	**25.000**	**44.600**
Commercial bank reserve	11.400	11.905	9.096	15.100	11.390	11.390
Chinese Swap	20.400	18.705	18.182	17.882	17.890	17.890
BIS	3.157	3.100	3.100	-	-	
Sedesa	1.900	1.900	1.900	1.900	1.900	1.900
Net FX Reserves	**4.643**	**3.397**	**- 9.205**	**- 3.382**	**- 6.180**	**13.420**
Gold	3.520	3.550	4.096	5.200	5.850	5.850
Rest	- 1.327	- 2.943	- 13.301	- 8.582	- 12.030	7.570

Source: Sekoia Research based on Central Bank of Argentina and IMF Country Report No. 25/95.

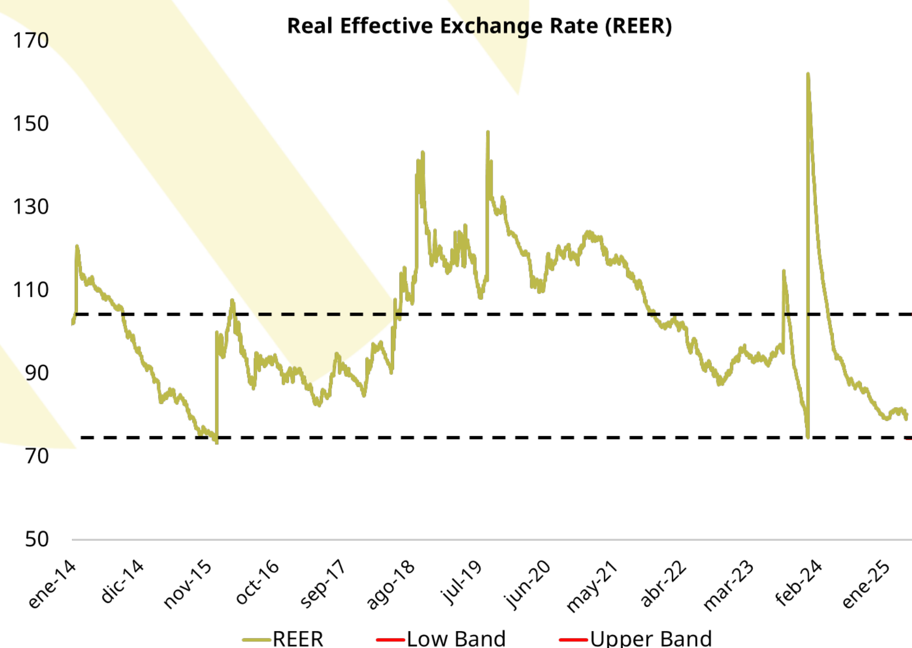
The New Exchange Rate Regime

The agreement eliminates the "dólar blend" and introduces exchange rate bands for the official exchange rate. These bands will range from 1000 to 1400—a wide range, but with some particular features. The bands are mobile but asymmetric. This means the upper bound will increase by 1% per month, while the lower bound will adjust downward by 1%—the latter seeming more like a symbolic gesture than a practical one. It is difficult to name this crawling bands. At the lower bound—an optimistic scenario—the Central Bank will buy dollars to defend the value within the band and accumulate international reserves. The resulting peso issuance will not be sterilized, facilitating remonetization. In a more challenging scenario, where the exchange rate approaches the upper bound, the Central Bank will sell dollars to

defend the peso and, in doing so, reduce monetary liabilities. The dollar sales will help absorb pesos from the market.

In exchange rate band regimes, the level of the upper band is of critical importance. The 1400 ceiling implies an exchange rate 30% higher than the current level. We have two impressions on this matter. At first glance, this level seems more than reasonable for normal periods (setting aside times of crisis). Argentina has regained fiscal discipline, no longer monetizes its deficit, and Vaca Muerta will contribute around USD 5 billion per year, which will help finance potential import demand associated with growth. Let's remember that when the Argentine economy grows by 1%, imports typically increase by around 3% (elasticity), and this could be exacerbated since the Argentine economy is incredibly closed. The other impression is less optimistic. The upper band moves by 1% per month, while inflation is running at a much higher rate. In real terms, the upper band will appreciate over time. We believe it would have been wise to initially set the upper band at a 2% monthly increase for a prudent period. The worst-case scenario in this band system is that the exchange rate quickly reaches the upper band.

We are less concerned about the lower band. A higher lower band (e.g., 1,200) would allow the Central Bank to rebuild reserves more quickly in a favorable scenario. However, the agreement seems to leave the door open for the Treasury to purchase foreign currency within the bands. In practice, the Treasury could buy dollars in the market with the fiscal surplus to meet external debt payments. This would help improve the foreign currency position of the consolidated public sector. On the other hand, the Central Bank can sell within the band if volatility deserves it.

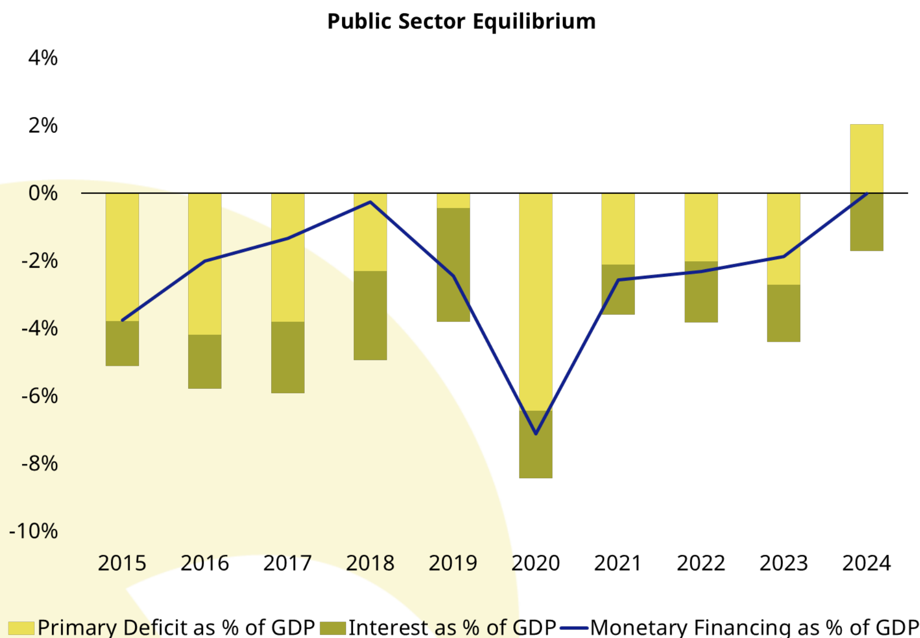


Source: Sekoia Research based on Central Bank of Argentina and IMF Country Report No. 25/95.

Fiscal Policy, Monetary Policy, and Reserve Targets

At this point, the agreement implies more continuity than change. Although, like any EFF, it requires long-term structural reforms, in the short term, this is not a point of concern in the fiscal side. The government

inherited a primary deficit of 3% of GDP, financed purely through monetary issuance, and consolidated public expenditure that accounted for 40% of GDP. In its first year, the primary balance was positive at 1.8% of GDP, and consolidated expenditure closed the year around 34% of GDP. For 2025, Finance Minister Caputo announced yesterday that the government has decided to raise the primary surplus target for this year from 1.3% to 1.6% of GDP. Another valuable signal of fiscal discipline. As can be seen below, the drastic fiscal shift allowed for moving beyond deficit monetization and fiscal dominance.



Source: Sekoia Research based on Mecon.

We believe that the most relevant aspect of monetary policy will continue to be the fiscal surplus. In countries like Argentina, macroeconomic coordination is far more important than the specifics of the monetary regime. That said, the agreement implies moving toward a monetary aggregates regime. This makes perfect sense, as it is typically an intermediate step before transitioning to an inflation targeting regime once the country gains credibility and reduces its nominal volatility. The targets will be set for M2, and the Central Bank expects this aggregate to continue growing due to the increasing monetization, as seen in the estimates published yesterday by the monetary authority.

It is likely that next week we will see an increase in the Central Bank's interest rates for two reasons. The first is the poor inflation data for March, which would justify a rate hike. Secondly, the rate should rise to cushion the volatility of the exchange rate under this new scheme.

Finally, the program with the IMF includes quarterly guidelines for the accumulation of net international reserves (NIR) and the evolution of net internal assets (NIA). Both are determined based on the quarterly projection of the monetary base. We still have several questions regarding the IMF's Press Release (IMF Country Report No. 25/95). At this point, please allow us a few days to better digest the Staff Report.

Programación Monetaria (BCRA)

Variable	Saldos (promedio mensual - $ billones)					Serie Sin Estacionalidad (en % del PIB Trimestral)				
	Observado		Estimado			Observado		Estimado		
	dic-24	mar-25	jun-25	sept-25	dic-25	dic-24	mar-25	jun-25	sept-25	dic-25
Base Monetaria	27,6	30,3	36,9	41,1	45,6	3,7	3,9	4,6	4,7	4,7
Circulante	16,1	18,6	20,3	22,7	24,7	2,2	2,4	2,5	2,6	2,6
Reservas bancarias	11,4	11,7	16,6	18,4	20,9	1,6	1,5	2,1	2,1	2,1
M2 privado transaccional*	43,6	47,2	52,3	57,0	65,8	5,6	6,1	6,4	6,5	6,6
M3 total	113,1	122,8	136,2	148,0	158,8	15,0	15,7	16,2	16,4	16,3
Depósitos totales	97,0	104,2	115,9	124,8	134,1	12,8	13,3	13,7	13,9	13,7
Depósitos sector privado	74,8	81,0	91,7	98,7	110,6	9,8	10,4	10,9	11,0	11,3
Vista (transaccional y remunerada)	37,3	37,4	44,0	47,3	55,4	4,8	4,8	5,3	5,4	5,5
Plazo	36,4	42,4	46,3	49,9	53,6	5,0	5,4	5,6	5,6	5,7
Depósitos sector público	21,9	22,8	23,7	26,1	22,9	3,0	2,9	2,8	2,9	2,4

*Variable objetivo

Source: Central Bank of Argentina.

Regulatory Changes and the Drastic Reduction of Capital Controls

The Central Bank published Communication A 8226, which establishes modifications to the exchange market access regime, with clear differences for individuals and legal entities, and differential treatment for flows and stocks.

For individuals, almost all capital controls are lifted. The monthly limit of USD 200 access is eliminated, along with all restrictions on access to the foreign exchange market (MULC) linked to government assistance received during the pandemic, subsidies, public employment, and others. The cross-restriction (restricción cruzada) for individuals is also removed. The tax perception on the purchase of foreign currency is eliminated, but it remains in place for tourism and credit card payments, which we believe is a wise decision to marginally increase the cost of tourism of residents overseas.

For legal entities, broadly speaking, flows are freed up, but stocks are not. For stocks prior to 2025, dividends, and debt services with related entities, the Central Bank communicated that it is working on designing a new series of Bopreales. For flows this year, the capital controls are lifted for companies. The most important change is related to the cross-restriction. The Central Bank will remove the 90-day restriction contained in Communication A 7340 (restricción cruzada) for the first time. We understand that the cross-restriction still applies; it just provides a sort of reset for the last 90 days, allowing companies that accessed the blue chip (CCL) to return to the MULC. Regarding imports, capital controls are completely dismantled, and payments are almost fully liberated, as in all cases, deadlines are reduced. In this regard, the Central Bank has been normalizing the market since last year.

Conclusions

Since the beginning of 2024, we have been warning about the inconsistencies of the exchange rate regime and the excessive appreciation of the exchange rate. We celebrate the fiscal correction, but we believe it is a necessary but not sufficient condition for stabilization. It would be foolish of us not to celebrate the exchange rate flexibility now. Of course, it carries known risks, especially in a country where people think and save in dollars, due to having had a "sand currency" for decades. That said, we do not

believe the risks of the new scheme are any greater than the risks of staying trapped in the current rigid exchange rate system (tablita).

In the short term, there may be more noise, volatility, slightly higher inflation, and a reduction in the economic recovery. But in the medium term, the goal is to converge with the stable Latin America, the one that enjoys the desired stability. We believe that in the short term, the country risk will fall again. Our main criticism of the program lies in the sliding of the upper band. With inflation currently flying around 2.5%-3.5%, we think that instead of a 1% monthly increase, a 2% increase would have been more prudent, at least in the first few months. On the positive side, initially the harvest and the fact that exports were delayed and imports brought forward over the last two weeks could work in favor.

One important note: As you well know, the world is going through a period of immense uncertainty. The success or failure of the program will largely depend on what happens with the international situation.

Thank you very much, and have a great weekend.

Sekoia Research
research@sekoia.com.uy