Latam Daily: Argentina Primary Deficit Widens Again, FX Restrictions Loosened

- **Argentina: September primary fiscal deficit doubles from August; FX restrictions loosened; investors' faith in policy reset waning**

ARGENTINA: SEPTEMBER PRIMARY FISCAL DEFICIT DOUBLES FROM AUGUST; FX RESTRICTIONS LOOSENED; INVESTORS' FAITH IN POLICY RESET WANING

Argentina's primary fiscal deficit nearly doubled from August to September, widening from ARS -89 bn to ARS -167 bn, in data released Tuesday, October 20 by the Ministry of Economy (chart 1). September took the 12-month rolling deficit from ARS -1.278 tn in August to ARS -1.420 tn in September, expanding it from the equivalent of -4.2% GDP to -4.6% GDP. This puts the Argentina primary deficit well off the -1.6% GDP anticipated in the IMF's March 2020 debt sustainability analysis in the lead-up to Argentina's bond restructurings. The IMF's October 2020 *Fiscal Monitor* sounded a broadly sanguine note on the need for countries quickly to adopt austerity measures in the wake of the pandemic to stabilize their fiscal and debt metrics. That relaxed approach, however, is unlikely to dominate Argentina's ongoing negotiations with the IMF owing to the country's financing challenges.

On Monday, October 19, the Argentine authorities announced their intent to loosen some of the FX restrictions that they imposed on September 15. Notably, the authorities moved to cut from 15 days to 3 days the seasoning period on transactions involving local financial instruments in the parallel FX market, the "contado con liquidez" or CCL. The goal is to increase the liquidity of local markets, but this looks unlikely so long as *any* seasoning requirement remains in place. Additionally, the authorities eliminated the BCRA prohibition on foreign investors trading in USD-denominated local financial instruments. Finally, the Ministry of Economy noted that it would issue USD 750 mn of dollar-denominated bonds in November to support greater liquidity in the local dollar market.

The authorities believe this effort to relax FX controls and raise liquidity in the CCL will move local investors to push more USD into the local market and reduce pressure on the blue-chip swap rate, which now stands at more than USDARS 170 compared with an official exchange rate around USDARS 77. Any such effect—if it emerges—is likely to be small and temporary since these minor policy tweaks will do nothing to change the macro fundamentals that have led to the slide in the value of the ARS.

International investors certainly aren't endorsing the authorities' policy moves since the restructuring of about USD 65 bn in international bonds closed in early-September. Although the bonds resulting from the exchange provide so much upfront cash-flow relief that payments aren't due on them until 2023, they have dropped in value by more than 20% since they began trading. Hopes for a more orthodox policy mix anchored in a new IMF lending program have waned for the time being.

—Brett House

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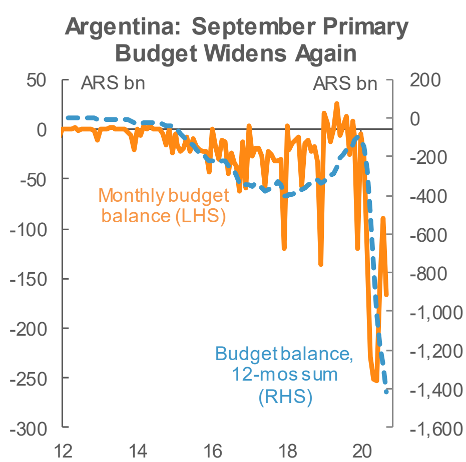
Chart 1



Sources: Scotiabank Economics, Ministerio de Hacienda.