

Central Bank Reserves drowning in negative waters

- **The entire pragmatic group of economists have warned that Arg monetary authority US dollar reserves have dropped to a worrying (negative) level and that would have dramatic and unknown consequences.** BCRA reserves have "entered into a negative zone" for about US\$1.3 billion, which means, it will "complicate" the banking dollar deposit system. Analysts are expecting the next BCRA official report to know the exact figures, but the common words are: "concern", "alarm". **The initial consequence will unfortunately complicate Arg banking system**, especially the banks' dollar deposits, which is the only system that still holds and still functions adequately. When you compare the accounts with those dollars backed by LELIQs, the system equilibrium will probably burst, and many players will get (are already) "nervous", (softly said). Why? Well simply because the banks are losing +US\$ 100 mm/day. The situation is getting worst, but unless Government uses common sense, and unless it controls all the macro economic variables (which has not so far) and, assuming an agreement with the IMF, the inevitable (disorderly) devaluation explosion could be softened. At the end, what the authority does not dare to do, the market will do it anyways.
- **Arg dollar deposit system has no problems yet, but an additional drainage or exit can generate panic** because people are starting to get frightened. Fewer and fewer dollars in BCRA reserves will add nervousness and both rational and irrational panic.
- **Argentina's main problem:** it will take at least "two to three years" to return to the pre-pandemic level of economic activity, assuming that the main problem is previously solved: the "political mistrust" in AF-CFK Administration. President Fernández is blurred, the Economy Minister Martín Guzmán, is devalued, he behaves as an economic adviser (consultant) and not a strong minister as we used to have, or as Arg needs; we also need a new and efficient cabinet of ministers. Arg needs both a president and Economic Minister with "cojones", excuse my French.
- **Arg needs a true minister of economy, a stabilization economic plan**, a minister with more power, within a strengthened government and more lying on Federal Provincial Governors and cut lose all the ropes related to CFK Instituto Patria. "Cojones Mr. President, cojones".
- **As September-October activity returns and businesses are opening up, the economy is going to continue recovering, (slowly)** but moving on the positive axis, but the truth is that, in order to return to previous pandemic levels Arg will need at least 2 to 3 years. A certain (shy) degree of recovery is inevitable, but the problem is that when this AF Administration finishes its 2019-2023 mandate, Arg will be at the same economic level of 2019. The nasty words that describe the dram are: "13-year-period of chronic stagnation".
- **Private investment is at the lowest historic levels**, mainly because AF-CFK Administration only generates "mistrust", & "concern" with contradictory, prehistoric inspired ideology and ineffective measures, with a persistent orchestrated threats and creating ghosts: ergo, investment is not coming back, not going to recover or will simply choose other geographic or other market options, except Argentina.
- **The role of the State.** The Arg State cannot be the engine of the economy, it may help or accompany private business in times of depression. The problem is that Arg does not have a currency, Arg does not have a capital market, nor it does not have an efficient tax system, but instead, Arg has huge fiscal deficits, enormous monetary emission, heavy trade unios and high inflation rates. Just to remember, a few minutes ago, Arg came out of its 12th. default of its public debt. Argentina is not in a position to have an "Interventionist State" that behaves as the engine of economic recovery. The only engine that the entire world has used to move on is "private investment", and if it is not understood (once and for all) by the political ruling class, we will keep dragging our feet but this time the slope will be steeper and slippery. AF-CFK government does not has an economic plan. Population is getting tired of infectious ideology. We are all expecting governmental "certainties" that an agreement with the IMF will be reached. Arg needs to overcome the crisis with a clear horizon, we need to know what measures are to be taken in order to generate economic growth, a pattern of fiscal improvement, a FX regularization, lowering monetary emission in order to minimize inflationary risk. The AF-CFK government must commit to go in that direction, and all those certainties we do not have today may be cleared up. So far, AF-CFK Government is unreliable, with crazy initiatives that discourage investment. Businessmen are even crossing the river to Uruguay. Over taxation, overregulation, deep stagnation, high inflation, rules of the game changes, expels even the most patriotic entrepreneurs.
- **Does Arg have a risk of re-installing a pen ("Corral")?** We hope not. But the authorities keep taking ineffective measures or doing nothing or implementing "no sense" regulations, then, yes that risk is possible. The permanent loss of credibility keeps boosting the blue dollar and FX gap. There is no point in confiscating deposits when Argentina comes from restructuring public debt and has 8 years of low debt interest payments ahead of it, and in the next 4 years zero debt repayment payments. If AF-CFK install a pen (corral) it will be crazy assuming we are supposedly on the doorstep of an agreement with the IMF. **The IMF will seek the obvious measures to boost the economy so that we can generate payments of the US \$43.6 billion loan.** Current conditions of the financial system differ greatly from the 2001 prevailing situation, when the famous "corralito" was installed. The corralito that was implemented in 2001 was carried out because the Central Bank did not have the required regulations to act within a bi-monetary system. Argentina does not currently have a formal bi-monetary system. Banks take dollar deposits, and they can only lend it in dollars, they cannot convert those dollars into pesos. However, the Government has a serious problem because it faces a crisis of credibility and that generates catastrophic versions proliferate.
- **AF-CFK government should review their communication strategy.** They must come up with sound economic programs that quiet down business actors fears and the market's panic. They must change the financial climate. They must stop using ideology tainted messages. No room for stupidity. The banking system still holds, but if authorities drill the supporting platform, the outcome is unknown or least, problematic. We should not tempt the "Ides of March Evils", we should build more confidence, we should generate reliability to avoid what seems to be our next drama.