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The IMF talks about climate change but it pushes Argentina into more and more fracking

The IMF, its climate policy
and the conditions for Argentina

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Key points

The International Monetary Fund (IMF) plays a leading role in the international financial architecture, looking after the macroeconomic and financial stability of countries. Nevertheless, its limited objectives and decision-making structure make its policies discretionary.

Recent attempts to add climate into their work are unambitious and risky. Its climate strategy does not mention the 1.5°C goal and does not propose a real transformation of the organization and its way of operating: the goal of short-term debt repayment and prescribed market-based policies are seen as more important than strategies of development aligned with 1.5°C and the principles of a fair transition.

This is evident in the case of Argentina: the speeding-up of the extraction of unconventional gas and oil from Vaca Muerta for export is at the centre of the repayment strategy as well as the deepening of an export matrix based on raw materials.

The IMF expressly supports the use of fossils for export more than for local consumption; in fact, in a recent report, it recommends increasing carbon prices locally to secure more fossil fuels for export. The carbon price is the main tool that the organization proposes in the face of the climate crisis. This is the case in other countries such as Uganda, Senegal and Surinam, also pursuant to financial agreements with the organization.

The World Bank itself, in a document quoted by the IMF in reports for Argentina, questions the sustainability of this model, with the objective set on increasing the economic benefits of the private sector but that can bring about great risks for the public sector given the high probability of declining fossil demand prices and high state investment in future stranded assets.

Introducción

¹ On the IMF board, the body with decision-making power over the institution where policies are decided and financing agreements are voted on, the vote is determined by the 'quota', that is, how much each country contributes financially to the IMF. Although the countries of the South have been demanding a larger quota for decades and are willing to pay more to have more votes, in the recent 16th review of this system, the G7 countries continue to decide to concentrate voting power among themselves.

² Currently, there is no debt resolution mechanism that brings together all creditors (bilateral, multilateral, and private) and that allows fair negotiation between debtors and creditors. Debt issues have clauses that ensure their regulation under the American or British judicial systems, putting the sovereignty of the countries at risk. The fear of countries of falling into default or having their debt rating lowered pushes them to take orthodox economic measures to ensure the income of foreign currency and the payment of basic imports such as energy, medicines, and industrial supplies.

The international financial system, of which the International Monetary Fund (IMF) is a major actor, makes it difficult for countries in the Global South to respond quickly and effectively to the climate crisis. The lack of cash flow, the unequal access to international credit markets and the lack of mechanisms to resolve debt crises are all backbones of a scheme that continues to distance countries from the Paris Agreement. The Bridgetown Agenda and the subsequent Paris Summit, for a new financial agreement between the South and the North, are clear examples of the recognition of the need to reform this system by the international leadership so as to react to the various crises (development, debt, climate, biodiversity, etc.) that these countries are going through.

However, the main reform proposals are limited to increasing the amounts that these institutions can manage, without questioning their undemocratic nature¹, lack of transparency, and how influenced their policies are by the agendas of the economies of the Global North. In fact, the proposals under discussion exclude a structural reform of the debt architecture². In this way, the interest of creditors continues to be valued more, pushing debtor countries towards unsustainable economic models from an environmental and social point of view. This is what happens in Argentina with Vaca Muerta (which translates as 'dead cow'), a mega-project associated with the world's fourth largest oil and second largest unconventional gas basin.

What does the IMF do? What are its policy "recommendations" to countries?

The IMF, created in 1944 in the Bretton Woods agreement and **celebrating its 80th anniversary this year**, is the only international institution in charge of looking after global macroeconomic and financial stability. This institution is best known for the emergency loans that it grants to countries facing balance of payment crises or debt service difficulties.

In this way, the IMF designs, together with national governments, economic programs that ensure the return to international credit markets, that is, international financing. The implementation of these programs is carried out with previously agreed policies that must be met to receive the different disbursements of the financial agreement.

The IMF missions visit debtor countries regularly and monitor the progress of macroeconomic variables considered relevant by the institution (international reserves, fiscal deficit, monetary emission, etc.) and decide whether or not to continue economic programs with the institution.

Countries of the Global South in delicate financial conditions can hardly access international financing without IMF approval of their political and economic plans. This inequality of power allows the countries with the highest number of votes on the Board (such as, currently, the United States, Japan, China and Germany) to have a great influence on the direction of the countries in times of crisis: this is how the IMF was principal actor of the design of structural adjustment plans that were set as a condition to guarantee financing **in the context of the debt crisis of the '80s and '90s**³.

In this way, the countries of the Global South had to reduce their fiscal spending, privatise services and public companies and deregulate prices with the promise of economic development. This model ignored environmental and social impacts and was a failure for debtor countries, but was a success for creditor countries that ensured debt repayment and achieved great business opportunities in the South given the privatization of basic services such as energy, transportation, telecommunications and the media, among others.

The IMF's nature, where funds are not allocated to specific projects, means that its scope is focused on the design of the countries' policies, both as conditions in their loan programs, and also as policies counsel in the framework of their annual "economic health checks". The World Bank, through its **Development Policy Loans**, also conditions its financing to the implementation of specific policies, work generally aligned with the objectives proposed by the IMF.

The absence of methodologies to assess the support through financing for fossil fuels in political reforms implies a large gap in financial institutions such as the IMF. In this sense, the United States government, through a **2021 executive order**, asked the Treasury Department - which represents the federal government on the Board of Directors of several international financial institutions such as the IMF - to develop a strategy about how its voice and vote will be aligned with the Paris Agreement. However, when preparing this **guide**, the Treasury focused on development banking (that finances projects), which excluded the IMF which provides **financial support** to countries in crisis and not for particular projects.

³ The IMF and the World Bank were major protagonists in the debt crisis that Latin American countries went through in the '80s, since they designed the structural adjustment plans that were conditions to be part of the Brady Plan for debt reduction.

The IMF's "interest" in climate change

As happened in the decades of structural adjustment - where **without the necessary evidence** a consensus was created on what was the best path towards macroeconomic and financial stability, and this was then imposed on the countries through conditions - within the IMF it was decided what could be the best way for the institution to get involved in climate issues.

In 2021, after years of minimal meddling in the climate crisis, the IMF disclosed a climate strategy within the framework of the **general supervisory review** and in the approach towards Small Island Developing States (SIDS). This aims to "help Fund countries respond to policy challenges related to climate change", **however does not mention at all the 1.5°C goal of the Paris Agreement**. IMF Directors agreed through this strategy how many bilateral surveillance reports should cover climate policy challenges each year and how many persons would be needed for that work.

The focus of the IMF's work is on macroeconomic and financial stability and it is from this point on that the institution focuses in order to work on the challenges of mitigation, adaptation to climate change and transitions. This approach presents great limitations because it does not propose a concept of "macroeconomic stability" that includes climate impacts, moving away from a comprehensive change in the business as usual. In fact, **the current climate strategy values macroeconomic stability more than other objectives (mitigation and adaptation, for example)**, opens the door to the expansion of fossils in countries of the Global South with hydrocarbon reserves so as to make sure the repayment of debt services and balance of payments stability (for an example see the case study presented in this work).

The limited ambition of the IMF Climate Strategy leaves open the possibility of increasing public investment for the extraction of fossil fuels in Argentina for export (as will be seen later in this work), as well as in other countries like **Uganda, Senegal, Surinam, Colombia and Indonesia**. An example is the case of the Resilience and Sustainability Fund (see Box 1) where the IMF values much more than others those climate policies aligned with macroeconomic and financial stability, such as those that reduce fiscal spending (reduction of energy subsidies or carbon price) without analysing its social and environmental impact. Furthermore, this takes place where there are no accountability mechanisms as in development banking and where staff and management are not held responsible for their decisions.

In this way. This is worrying for several reasons. One of them is that the Fund has not stopped supporting subsidies for the supply of fossil fuels, through policies that make them more profitable for hydrocarbon companies, as is the case of **Mozambique and Mongolia**. Another is that the resources that such a tax could bring about **are not close to being enough** to offset the impacts of climate change. Furthermore, it is important to consider the social impacts that this tool may have by being designed together with an institution that never values distributive impacts in its analyses, and by the pressure for this **measure to be part of a broader range of climate policies**.

Under this logic, climate change is a market failure that can/ must be easily corrected by a tax under the assumption of the polluter payer principle. Besides, **in a recent report**, the IMF defends the **carbon price** arguing that it can reduce national consumption of fossils, allowing greater volumes for export⁴, with a consequent positive impact on the balance of payments (and ignoring again the potential negative social impact).

Therefore, the organization's "climate concern" shows a clear contradiction with its usual modus operandi by stimulating countries to reduce fiscal spending and raise exports without analysing the social and environmental impacts, as is the case of Argentina, which requires a wake-up call.

⁴The logic in this sense is that oil and gas extraction be devoted to export rather than the domestic market. This is because the hydrocarbon market will adjust according to supply and demand based on the carbon price. Therefore, if a country is high-income it will be able to pay the carbon price and consume fossils, while if it is middle- or low-income it will export it.

Box 1: Resilience and Sustainability Fund: climate conditions

Doubts regarding the negative impacts that the IMF can produce with its involvement in climate issues under the current paradigm were exacerbated with the creation of the Resilience and Sustainability Trust (RST), by which the institution could redirect Special Drawing Rights (SDR)⁵ unused through long-term financing programs with climate conditions.

While the existence for the first time of a long-term and more concessional financing program is great news for the region, the IMF is using this program to impose its climate approach on countries. According to the recently published **Operational guidance note**, the IMF will provide more concessional financing to those countries that implement policies such as deregulation of electric power rates and reduction of subsidies, creation of private water markets and carbon pricing, among others.

Furthermore, a requirement for having access to this program is the existence of a 'traditional' program of the higher credit tranches with the institution, that is, an orthodox macroeconomic plan that has stability at that level as a short-term objective without ad

addressing the long-term impacts in climatic and social terms. This leads to major contradictions, as in Senegal, where the program under the RST has as one of its objectives mitigation through the adjustment of electric power rates (ignoring the regressive impact) while the “traditional” concurrent program proposes a raise in exports of fossil fuels by 7% of gross domestic product (GDP) in 2025 to achieve macroeconomic stability.

The World Bank, which within the framework of strengthened collaboration with the IMF, is in charge of climate analytical tools and designs climate policy in the Resilience and Sustainability Fund.

⁵The IMF defines them as an international reserve asset whose value is based on a basket of five currencies: the US dollar, the euro, the Chinese renminbi, the Japanese yen and the pound sterling.

Climate change in Argentina

According to data from **National Inventory of greenhouse gases (GHG)**, by 2020 in Argentina, the energy and agribusiness sectors were the main emitters, with 45% of emissions respectively. This latest inventory marks a 3.3% increase in emissions in the country since the enforcement of the Paris Agreement (2016). This would imply that in order to meet the goals established in the **second updated national contribution** of Argentina, **Argentine emissions should be reduced in absolute terms by 7% by 2030**.

According to data from the United Nations Environment Program (UNEP), Argentine emissions represent **0.8% of the global total**, putting the country in 25th place globally. In terms of per capita emissions, Argentina is responsible for **8.89 tCO₂eq** per person per year, which is above the global average of 6.71 tCO₂eq. Argentina's level is similar to that of the European Union.

Argentina embraced the Paris Agreement through **Law 27,270** and subsequent climate policy **measures** are established with the purpose of reducing GHG emissions based on the narrative of gas as a bridge fuel⁶. The narrative of gas as fuel opens two fronts of battle. The first is to demystify that narrative, since gas is responsible for emitting methane, a gas with the greatest impact on global warming. The second is the promotion of unconventional gas extraction through hydraulic fracturing in Vaca Muerta. **According to the IMF, sectoral policies in the country are not aligned with the national contribution, nor with the Paris Agreement**. Besides, the gap between emissions reductions and national contribution in the current path is the third highest in the G20, after Brazil and Russia.

⁶ These measures are: the promotion of renewable energy, hydroelectric, biofuels and nuclear; thermal park gasification to replace the use of liquid fuels; energy efficiency and the development of infrastructure for the transportation of natural gas.

Meanwhile, the impacts of climate change are becoming increasingly clear in the Argentine economy with the deepening of the drought. Indeed, during the 2022/2023 campaign, **agricultural production fell by 40%**, which had an equal impact on exports. This led to a reduction in **65% of the collection** of the government's export tariffs in 2023 in comparison to the previous year.

Argentina and the debt, an unending love

Argentina has an estimated debt stock in 2023 of USD 403,836 million, with a public debt/GDP ratio of 88.4%. Regarding the relationship between the debt service and annual income exports, the ratio of 28.8% indicates that the external debt service is so high that exports cannot, at present, produce enough foreign currency to repay interests and principal owed.

Since the last civil-military dictatorship (1976), public debt in Argentina has undergone continuous growth. Despite having gone through different government administrations, its main purpose has not been linked to productive, social or environmental investments; rather, it has been oriented toward financing the capital outflow.

Argentina, due to its status as a country of average income, is generally not included in initiatives aimed at addressing the problem of over-indebtedness. Under this circumstance, to comply with debt payments, the trend has been to deepen dependence on the export of raw materials.

A new “match” between Argentina and the IMF

⁷ According to the IMF, Stand-By Agreements aim to provide short- to medium-term assistance to countries with short-term balance of payments difficulties. The conditions established are the adoption of policies that in still confidence that the country will be able to overcome balance of payments difficulties within a reasonable period of time.
⁸ Annual: 145% of the fee; cumulative: 435% of the quota.

Argentina signed a Stand By Agreement (SBA)⁷ with the IMF in June 2018, and its respective appendix in October of the same year. The amount subscribed according to the October appendix was approximately USD 57 billion (40.71 billion SDR) or 1.277% of Argentina's quota in the IMF. Finally, the disbursements were for USD 44.21 billion or 31.91 billion SDR.

ASB funds were used to meet commitments of short-term debt, mainly in the payment of public securities services related to debt issues from the period 2016-2019. This loan represented 8.8% of the direct debt stock of the Central Administration in 2018 and 14% in 2019. In turn, regarding GDP in 2018 it represented 6% and 10% in 2019. As regards the international reserves, during 2019, they equalled more than 90% of reserves and almost 68% of exports.

This amount is above the IMF loans normal limits⁸. However, this can be framed in its exceptional access policy, which im-

plies an in-depth analysis by the Executive Board of the institution. Furthermore, the loan was not authorized nor signed by the appropriate authority in accordance with the regulations⁹. To which the report of the General Auditor's Office of the Nation (AGN for its name in Spanish) concludes, that “this crossing of powers determined a series of procedural and functional gaps that (...) contributed to incur, without timely technical evaluations, in a debt that, given its amount and structure (particularly the currency and the term), increases the risk of unsustainability of the debt”.

The AGN concludes that the amount of the IMF loan financing raises significant exposure to domestic currency devaluations and increases the need to obtain a high volume of foreign currency in a very short period of time. This results in a demand for a strong increase in the primary surplus in case of facing troubles for obtaining the necessary resources for its repayment, a situation that affects the sustainability of the debt (according to the IMF's own definition).

In March 2022, due to difficulties in refinancing the debt contracted under the SBA in 2018, the Argentine government reached an understanding with the IMF for an Extended Facilities Agreement (EFA), with the commitment to reduce the fiscal deficit and its monetary financing over a three-year period. The axes of deficit reduction are to reduce discretionary transfers to provinces and public companies, cuts in energy subsidies, and restraint of salaries and pensions. New disbursements are made quarterly, but require previous technical review by the IMF staff and board.

As of February 2024, Argentina is the IMF's main debtor with 28.8% of total global debts of the institution. In 2023, the repayment of principal and interest on the debt involved an outlay of USD 2.61 billion¹⁰, and according to IMF data, USD 2.88 billion will have to be paid by 2024. The total debt of USD 37.21 billion would be cancelled in 2042, when the 47th climate summit (COP47) should take place.

⁹ The agreement was signed by the then Treasury Department when these functions corresponded to the Ministry of Finance.
¹⁰ Payments to the IMF accumulated \$Arg. 794.116 billion in 2023.

Why does the IMF encourage fossil extraction in Argentina?

¹¹ Data until October 2023.

When going through the documents published at country level by the IMF from 2016 (Article IV) to early 2024 (seventh review of the Expansion of the Financing Procedure), the priorities are clear. The organization's proposal is economic growth based on exports: when designing the agreement together with the national government, the IMF considered that the repayment could take place given that it expected a 28% increase in exports (USD 22 billion) between 2021 and 2027. Given that in the economic structure of Argentina, 70% of exports¹¹ depend directly on the exploitation of natural assets, based on commodities with low added value, highly dependent on international prices, the agreement has extractivism at its centre.

Even though the IMF recognizes that Argentina is within the top 25 issuers of greenhouse gases at a global level, its proposals come hand in hand with the deepening of the economy of "strategic sectors" such as agribusiness, mining and hydrocarbons. For these sectors, the proposal creates incentives to attract investments and avoid expensive tax and regulatory burdens.

The fossil fuel sector is the focus of this work, where the IMF documents from 2016 onwards proclaim Vaca Muerta as a key part of the economic solution for the country, not only through the reduction of imports of energy, but by proposing an export horizon in the short term. It proposes, as a solution to the drought crisis of 2018 (2020 and 2023 also) that affected the agricultural sector, a growth in exports in the unconventional field.

While focusing on exports can offer improvements in exchange balance, dependence on international oil and gas prices raises the level of volatility of domestic economic activity, employment, foreign exchange inflows and tax revenues of the hydrocarbon provinces. Besides, the internationalization of prices will directly have an effect on the increase of energy rates and the value of fuel, internally.

Along these lines, the IMF recommends that Argentina advances in the "vast oil and gas reserves" of Vaca Muerta that would allow the country not only to increase exports but to become a net energy exporter in the medium term. To move forward with the increase in exports, the IMF highlights the need for associated infrastructure, with a prominent role for the President Néstor Kirchner Gas Pipeline (GPNK)¹².

Box 2: The Vaca Muerta megaproject

Vaca Muerta is a geological formation of unconventional hydrocarbons (UH) with a surface of 30,000 km² (147 times that of the City of Buenos Aires), distributed between Neuquén, Río Negro, La Pampa and Mendoza. According to the Energy Information Agency (EIA) of the United States, Vaca Muerta has the second largest unconventional gas resources and fourth in unconventional oil resources globally. So, in order to get oil and gas, the technique of fracking or hydraulic fracturing is necessary. Vaca Muerta is considered a megaproject that directly crosses 7 provinces of Argentina, including hydrocarbon and sand extraction and associated infrastructure such as export plants. (For more information about Vaca Muerta, Annex 2 is recommended).

The GPNK is considered a key work in strengthening the export basket by facilitating the increase in income from sales abroad, improving repayment capacity and increasing reserves. All of this, in turn, would improve Argentina's access to international capital markets. This work is considered key in increasing gas extraction from Vaca Muerta, along with the importance of the Argentine Natural Gas Production Promotion Plan (Gas.Ar Plan)¹³. Between 2021 and 2023, USD 2.66 billion¹⁴ was spent in the construction of the GPNK, funds that in the energy transition framework could be transformed into stranded assets in the medium term. The cost of the first stretch was equal to the estimate of what would be the total cost of the gas pipeline, around USD 2.54 billion¹⁵. The expenditures made on the gas pipeline would have covered 92% of the investments necessary for electric transportation¹⁶ in an energy transition scenario to 2030 with 20% of renewables, according to the Energy Plan 2030.

The topic of subsidies is a key part of the IMF country documents with Argentina. In them, the importance of reducing subsidies is highlighted as a key tool to reduce the fiscal deficit. Reference is made, mainly, to the demand energy subsidies, given its high regression as well as its high level, that makes Argentina the country in Latin America with the highest subsidies and lowest energy prices. Therefore, the proposal is not only to remove demand subsidies, but also to increase rates in such a way that they cover the costs of energy production.¹⁷

On the contrary, on the supply subsidies a gradual reduction is mentioned, only in 2018, but already in 2022 the importance of supporting the Gas.Ar Plan for the advancement of Vaca Muerta is highlighted. However, supply subsidies were 70% higher than demand subsidies in the 2023 budget.¹⁸

¹² The pipeline was opened on July 9, 2023. Its Section I begins in the town of Trabayén, in Neuquén and ends in the town of Salliqueló in the province of Buenos Aires, crossing 573 km.

¹³ It is a program to stimulate gas production, valid until 2028, within the framework of which National Public Bidding are carried out, called Rounds, where gas companies make offers to cover the volumes required by the demand for fossil gas, with those with the cheapest offers being selected. In return, participating producers agree to provide said volumes and meet injection and local content requirements.

¹⁴ \$ Arg. 442,908 million

¹⁵ (Secretary of Energy, 2021:64)

¹⁶ The estimated cost of electric transportation is USD 2,875 million (Secretary of Energy, 2021:58)

¹⁷ According to IMF data, in 2022 the rates covered 37% of the cost of electricity and 44% of gas.

¹⁸ According to the data of Presupuesto Abierto, the budget for supply subsidies was \$150 billion while for demand \$87 billion (last review on 01/02/2024).

¹⁹ Data that arises from own calculations based on the work of FARN (2023:15) and Presupuesto Abierto

Between 2016 and 2023, the Argentine government spent more than USD 4 billion on supply subsidies, devoted to private companies for the extraction of gas from the Vaca Muerta formation. This amount represents 9% of the SBA. It is important to note that in Argentina, **energy subsidies** do not arise due to a problem with demand, but from supply. Although tariffs influence the amount of subsidies¹⁹, in the last years these have been associated with variations in the quantities of imported energy and its cost.

Box 3: Not so different: the World Bank and the IMF

But the IMF is no exception to other international financial institutions that, despite various announcements about decarbonization of their project portfolios, continue to support fossil fuels through their support lines for the private sector. For example, the International Finance Corporation (part of the World Bank Group) made a loan of USD 135 million to the Pan American Energy refinery in 2019. For its part, the U.S. International Development Finance Corporation (DFC), also gave a USD 300 million loan to drill 110 wells in Vaca Muerta for the company Vista Oil & Gas in 2019.

It's not drought, it's looting

In the IMF documents, the word 'drought' is the one that shows the implications of climate change on the Argentine economy, highlighting the drop in exports given **the decrease in agricultural production**. This drop in exports, apart from reducing the trade surplus, brings in a loss of foreign currency with a **consequent stress for public finances**. This type of process tends to produce pressure towards **devaluation and higher inflation** - conditions that tend to reduce the growth opportunities of the economy and increase levels of **uncertainty**.

Although the frequency of these decreases in production due to drought was **5/10 years**, the IMF highlights that climate shocks will have **higher frequency and severity**. In fact, it emphasizes that the 2023 drought process was the most relevant in the **last 60 years** resulting in a loss of a **20% of corn production and 35% of soybeans**. It is estimated that this process cost Argentina **USD 20 billion** due to the fall in exports, to which the cost of imports would have to be added **-USD 2.5 million-** to make up for production shortages. In total, the losses are estimated at **1.5% of gross domestic product**.

Easier said than done: what does the IMF say it recommends in climate policy to Argentina?

In 2022, the IMF highlights that it is necessary to redouble efforts to begin to address the **challenges of climate change**. To this end, it highlights that the **initiatives** to encourage include the Electromobility Law, the law for the promotion of investment in the hydrogen sector, and the implementation of a Green Productive Development Plan to promote environmental adaptation and energy efficiency of companies. These measures are mentioned but **without any investment responsibility** on the part of the State nor commitments on the part of the IMF. Furthermore, it is important to highlight that no review of the Extended Facilities Agreement, nor the previous ones corresponding to Article IV, have expressly taken into consideration **the climate situation** of the country in the repayment capacity.

²⁰ The estimated amount in the National Plan for Adaptation and Mitigation of Climate Change for the Energy Transition is equal to USD 86 billion and for the Productive Transition equal to USD 15 billion.

Since 2018, the IMF recommendation to cut **the fiscal deficit** has limited the funds that the State can devote to energy transition processes. In fact, the IMF recognizes the importance of moving forward with mitigation and adaptation measures with the challenge of a reduced fiscal space. Along these lines, the need to reduce the expensive energy subsidies is mentioned as well as **the relaxation of capital controls** in the energy sector as an economic strategy aligned with the mitigation of climate change.

In data, according **Asociación Civil por la Igualdad y la Justicia (ACIJ)** the amount of the EFA (through which the SBA was restructured) **"is equal to half the estimated cost of the strategic line of energy transition, or triple that one calculated for the productive transition."** by the former Ministry of Environment and Sustainable Development²⁰. Furthermore, the IMF recognizes that **Argentinian policies are not aligned** with the goals of the Paris Agreement.

Although it points out the need to move towards the transition towards a cleaner energy matrix, the proposals tend to deepen a process of dependence on a fossil economy. In this regard, the deepening of copper and lithium mining appears as part of a process of changing the energy matrix but in the face of an export basket dependent on primary products, estimating **the potential of multiplying mining exports by five by 2030**.

The IMF bases its **recommendations** on climate policy in the World Bank documents as well as the Climate Public Investment Management Assessment (C-PIMA), the latter dated is January 2022 but which **is not public**.

In its [Report on the climate and development of the country](#), the World Bank encourages exploitation in Vaca Muerta as it presents an opportunity for the trade balance, although it recognizes that the benefits will be less than expected in light of the necessary subsidies and the possible long-term negative impacts on the trade balance given the transition at international level. The report mentions that in the different scenarios they explore, the private sector always has benefits but this is not the case for the public sector, given the risks in the trade balance and in tax collection (53% and 77% of the results of the scenarios are negative).

The report goes further and mentions ecological impacts such as high water use and pollution. Regarding climate issues, the report underlines that to keep the global temperature rise below 2°C, Argentina's unconventional extraction should decrease by up to 40%, taking 2018 as a baseline, and between 19% and 27% of the gas reserves will continue to be non-combustible, bringing in "stranded assets".

You ask for it, you have it: The demands of the IMF and the link with the changes in the Argentine policy of the new government

At the World Economic Forum in Davos (01/16/2024) when asked about the economic results of the new Argentine government, Kristalina Georgieva responded that "so far everything is going well." "What this administration is doing is very aggressively addressing some of the deficiencies that we all see".

The extension of the budget from 2023 to 2024 results in the immediate deflation of funds assigned to sectors such as health, education, culture and, of course, the environment, taking into account that the budget items will be of equal value year-on-year in a context with an inflation that is around 250%. This brings about an [immediate increase in financial burden](#) for the Argentine people to cover the payments of debt services, debt that is composed in foreign currency and in national currency linked to the performance of the exchange rate.

Both the [Decree of Necessity and Urgency 70/2023](#) and the bill sent to the National Congress by the National Executive Branch entitled "Bases and Starting Points for the Freedom of Argentines", also called "Omnibus Law", are aligned with the demands established by the IMF, although the bill has been discussed again in committees of the Chamber of Deputies. Coincidence? In these two regulations, the environment is exposed to market rules, with a view to greater economic benefit and its indefinite exploitation with a great risk of regression in the current regulatory framework for the protection and conservation of the environment.

Additionally, the plan to privatise for YPF (the national oil and gas company) seems to respond to what was outlined by the IMF: to abandon the conventional oil and gas extraction areas, focusing on Vaca Muerta, with a view to [export fossil fuels worth USD 30 billion per year as from 2030](#). The company will also lead a working group with the country main gas producing companies to progress in the construction of a gas liquefaction plant.

Final words

Although Argentine climate policy responds to the bureaucratic demands of the Paris Agreement, it is not aligned with 1.5°C. The narrative of gas as a bridge fuel and the advance of the hydrocarbon extractive frontier, with a view mainly to exports, moves away from the path of commitments. This also applies to the IMF, as what is the use of a climate strategy that does not mention 1.5C? Should we aim for macroeconomic and financial stability without guaranteeing environmental and social sustainability?

The high costs of international financing and external restrictions are major barriers for Argentina to comply with its international climate obligations. Putting the repayment of debt services first, as happens under the current agreement between the national government and the IMF, implies a clear deferral of long-term goals and of the possibility of countries to design economic and social programs that guarantee climate justice.

The measures and conditions that the IMF demand of Argentina, far from reducing its carbon footprint, go hand in hand with the promotion of policies based on economic growth based on exports, and with a focus on Vaca Muerta. This is far from a climate narrative and it is aligned with fossil extraction for development; the main beneficiaries will be the companies involved in the sector, **whose mode of operation includes the constant transfer of foreign currency abroad.**

In this way, the IMF foray into climate policy has completely failed so far: if it is not capable of pointing out the risks for macroeconomic stability of the dependence of the export balance on fossils in the framework of the transition and if it continues to promote reducing energy subsidies regardless of the impact on energy access, it is far from promoting climate justice.

Climate policy must be associated with the concept of climate justice, that is associated with a fair distribution of income and access to energy. On the contrary, when the proposal is based on reducing emissions by reducing the consumption of the most vulnerable or through market mechanisms, it brings about negative distributive impacts. The IMF has already done this in countries like **Pakistan**, **Egypt** and **Ecuador** (the other main debtors of the organization) with few (if not zero) positive impacts.

In this context, pressures from the Global North on countries in the Global South to pay off their financial debts results in

processes of deepening extractivism that advance on territories and bodies. It is necessary for international financial institutions, and in particular the IMF, to be aware of their climate policies and their lending policies, assuming responsibility for the impacts that conditions have on the productive matrices of debtor countries, all of them in the Global South and in the process of seeking climate justice.

This implies that if international financial institutions want to be collaborators and not blockers, they must transform themselves to be more democratic and more transparent. Guaranteeing that their policies respond to scientific criteria and not to the temporary needs of the largest creditors is essential to find answers to the various development crises. The IMF can only support fair transitions if it ceases to focus on macroeconomic stability and stops ignoring the long-term impacts of its short-term interventions.

Recommendations for the IMF

- Develop a climate strategy that ensures short-term interventions are aligned with long-term objectives such as development paths under 1.5°C with mechanisms for the involvement of governments and civil society.
- Reduce the eagerness of the conditions of their programs, allowing national governments to design economic, social and environmental plans that respond to the needs of the people and are aligned with the climate commitments assumed at the international level (aligned with 1.5°C).
- Integrate the climate perspective into all the financial operations of the organization. The Resilience and Sustainability Fund should not be the only space for the IMF to address compliance with the climate goals assumed voluntarily and sovereignly by the countries.
- Increase concessional financing, long-term and without conditionality, so as to prevent countries from having to choose between default or relegating their development plans to debt repayment in the short term.

- Include in debt sustainability analyses the investments necessary for the long-term environmental and social sustainability of debtor countries.
- Carry out exhaustive analyses on the risks to macroeconomic and financial stability implied by dependence on the export of raw materials (particularly fossil fuels) given the volatility of international prices.

Sources

FMI, 2016. Argentina: 2016 Article IV Consultation-Press Release; Staff report; and Statement by the Executive Director for Argentina.

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FMI, 2018a. Argentina: Request for Stand-By Agreement-Press Release and Staff Report

FMI, 2018b. Argentina: First Review under the Stand-By Agreement; Consultation on Inflation; Review of financing guarantees; and Request for Rescheduling, Increase, Exemptions from Non-Compliance and Applicability of Performance Criteria, and Modification of Performance Criteria-Press Release; Staff report; and Personnel Supplement

FMI, 2018c. Argentina: Second Review under the Stand-By Agreement; Review of financing guarantees; and Request for Modification of Performance Criteria-Press Release; and staff report

FMI, 2019a. Argentina: Third Review under the Stand-By Agreement, Request for Waiver of Applicability of Performance Criteria, Review of Financing Guarantees and Request for Modification of Performance Criteria - Press Release and Staff Report

FMI, 2019b. Argentina: Fourth Review of the Stand-By Agreement, Request for Exemptions from Applicability and Modification of Performance Criteria and Review of Financing Guarantees-Press Release; Staff report; and Personnel Supplement

FMI, 2020. Argentina: Technical Assistance Report-Staff Technical Note on Public Debt Sustainability

FMI, 2022a. Argentina: Staff Report for 2022 Article IV Consultation and Request for an Expanded Agreement under the Expanded Fund Facility - Press Release

FMI, 2022b. Argentina: First Review under the Expanded Agreement under the Expanded Bottom Line, Request for Modification of Performance Criteria and Review of Financing Guarantees-Press Release; Staff report

FMI, 2022c. Argentina: Second Review under the Expanded Agreement under the Expanded Bottom Line, Requests for Exemptions from Applicability and Non-Compliance with Performance Criteria, Modification of Performance Criteria and Review of Financing Guarantees-Press Release; Staff report; and Statement by the Executive Director for Argentina

FMI, 2022d. Argentina: Third review of the expanded arrangement under the expanded IMF facility, request for exemptions for non-compliance with performance criteria and review of financing guarantees - Press release; Staff report; Personnel supplement; and Statement by the Executive Director for Argentina

FMI, 2023a. Argentina: Fourth review under the expanded agreement under the Expanded Facility of the Fund, requests for modification of performance criteria, exemption for non-compliance with performance criteria and review of financing guarantees - Press release; Staff report; and Statement by the Executive Director for Argentina

FMI, 2023b. Argentina: Fifth and Sixth Review under the Expanded Agreement under the Expanded Facility of the Fund, Request for Rescheduling of Access, Exemptions for Non-Compliance with Performance Criteria, Modification of Performance Criteria and Review of Financing Guarantees - Press release; Staff report; and Statement by the Executive Director for Argentina

FMI, 2023c. Climate crossroads: fiscal policies in a warming world.

FMI, 2023d. Argentina: Seventh Review under the Expanded Agreement under the

Expanded Facility of the Fund, Requests for Rescheduling of Access, Extension of the Agreement, Exemptions for Non-Compliance with Performance Criteria, Modification of Performance Criteria and Review of Performance Assurances Funding-Press Release; Staff report; and Statement by the Executive Director for Argentina

Secretary of Energy, 2021. Annex I. Resolution SE 1036/2021 "Guidelines for a Safety Plan Energy Transition to 2030".

Annex 1: The IMF literal quotes

Below is a list of the literal quotes of the documents. This is a review as an example, in the bibliography section all the documents are available for an exhaustive review.

(1) "Carbon pricing provides incentives to switch to low-carbon energy sources, releasing hydrocarbons for export markets, which can improve health and generate tax revenue" (IMF, 2023c:12)

(2) "During 2019 there will also be a rotation of demand from domestic consumption and investment towards an export-led recovery" (IMF, 2018:73)

"Staff assume that efforts are being made to encourage exports and incentivize FDI, including in the vast Vaca Muerta shale oil and gas reserves in Argentina" (IMF, 2020:12)

"Policies are needed to moderate domestic demand (in the short term), support reserve accumulation, and lay the foundation for stronger, more export-oriented growth" (IMF, 2022b:67)

"In addition, continued efforts are needed to boost Argentina's net export capacity" (IMF, 2023a:27)

"Initial steps have been taken to boost investment and exports in the strategic sectors of energy and mining (...). As far as the energy sector is concerned, the alignment of retail fuel prices with international prices, the proposal to eliminate the internal maximum oil price, along with the pricing of public electricity and natural gas services based in the market, they will support investment in shale oil and gas reserves, subsequently boosting energy exports." (IMF, 2023d:26)

(3) "However, greater efforts will be required since Argentina is among the top 25 greenhouse gas emitting countries in the world" (IMF, 2022a:30)

(4) "Incentives to strategic sectors. Laws and regulations are being advanced, in close consultation with various stakeholders, to encourage investment and exports in a number of key strategic sectors, including hydrocarbons, mining, agribusiness, automotive and the knowledge economy" (IMF, 2022a:119).

"Given Argentina's vast and untapped energy and mining resources, as well as its agricultural potential, positive opportunities also arise from rising commodity prices and geopolitical reconfigurations." (IMF, 2022b:12)

"We are firmly committed to boosting Argentina's net export potential, which is essential to strengthen resilience and lay the foundations for more sustainable and inclusive growth. In this sense, we have redoubled our efforts to advance laws and regulations that boost investment and net exports in strategic sectors. Discussions have intensified with relevant stakeholders, including international investors, to secure financing and increase investment in the hydrocarbon, mining, agribusiness, automotive, hydrogen and biotechnology industries" (IMF, 2022c:6)

"It will be necessary to improve the regulatory frameworks of strategic sectors, including energy, mining and the knowledge economy, to boost investment and Argentina's export potential" (IMF, 2023a:27)

(5) Image 1: Impacts of current policies, compared to no climate policies, on carbon dioxide levels in 2030

Country	CO2 reductions										Emissions reductions		Sectoral policies active binding NDCs?	Implied gap between economy-wide reductions and NDCs/CPY	Paris aligned?		
	Existing carbon pricing	Higher expected prices by 2030	Renewable energy	Coal phase-out	Carbon per kilometers	Electric vehicle targets	Building	Industry	Other policies or inspection	Sectoral policies	Nationally determined contributions	CO2					
Argentina	2,544,137																
Australia	0	0	-26,304	0	0	-1,37264	0	0	0	-27,674	-22,224,900	-22,4024	Yes	0	Yes	-2	
Brazil	0	0	0	0	-8,6605	0	0	0	-20,1567	-1,81806	-22,806851	-11,5079	Yes	26	No	-2	
Canada	-12,106,5395	-10,8115	-6,11499	-1,64305	-1,34033	1,57340	-8,95588	0	0	49,4622	44,289965	23,4525	Yes	0	Yes	0	
China	-1,21754841	-1,48178	0	0	0,06784	0,49848	0,058	0	0	-3,33379	1,16078005	24,3634	Yes	21	No	0	
France	-4,23846491	-2,86785	-11,262	-8,9171	0,06951	-8,3038	-11,1613	-6,26349	0	-41,8266	-28,7147608	11,2783	Yes	0	Yes	-2	
Germany	-11,2063516	-5,06556	-11,6346	-5,62154	0,06631	-3,28883	-10,1947	-6,29101	0	-52,2144	-36,8264543	-54,8815	Yes	0	Yes	-2	
India	0	0	0	0	0	0	0	0	0	0	0	0	No	11	No	-2	
Indonesia	0	0	-4,9568	-1,50547	0	0	-8,34952	0	0	-1,19965	-7,15958	-8,23963294	-34,9833	Yes	0	Yes	-2
Italy	-2,33654395	-2,96316	-1,57328	-3,61191	-7,5245	-8,17937	-5,29532	0	0	-25,3712	-20,4991246	-11,9382	Yes	0	Yes	-2	
Japan	-3,30918136	0	-2,72645	-1,89611	-7,7526	-2,89736	-6,9675	-8,91001	-2,82917	-18,8298	-7,142	-25,967916	-11,9213	No	3	No	-2
Korea, Rep. of	-3,25219166	0	-3,41527	0	0	0	-8,41179	0	0	-18,8298	-7,142	-25,967916	-11,9213	No	15	No	-2
Russia	0	0	0	0	2,24149	0	0	0	0	-22,275	-44,3987	-36,893610	-23,2565	No	22	No	-2
South Africa	0	0	27,3839	0	0	0	0	0	0	-2,24149	-4,48298	-3,72596	Yes	0	No	-2	
South Africa	8,5629166	0	10,7387	0	0	0	0	0	0	13,2642	18,2208	11,437817	16,4313	No	18	No	-2

Source: IMF, 2023c

(6) "Investments in energy production and transportation (in the untapped Vaca Muerta shale oil and gas reserves) have the potential to turn Argentina into a net energy exporter in the short and medium term" (IMF, 2022a:43)

"Boost investment in energy production and transportation in vast reserves of shale oil and gas" (IMF, 2022a:104)

"(...) the construction of the second phase to connect the shale and oil fields (Vaca Muerta) with other large urban areas is a priority. These investments, along with efforts to boost crude oil production and transportation, could help Argentina move from a net energy importer to a large energy exporter" (IMF, 2023b:25)

(7) "The net negative impact on exports is expected to be small, as the measure will likely be offset by an increase in productive capacity due to last year's strong investment in export industries, a rebound in exports agriculture after the drought and an expected increase in energy exports as production recovers in the Vaca Muerta basin" (IMF 2018b:13)

(8) "Staff assumes that efforts are being made to encourage exports and incentivize FDI, including in the vast Vaca Muerta shale oil and gas reserves in Argentina" (IMF, 2020:12)

"Efforts are needed to facilitate the construction of the gas pipeline project connecting the vast shale oil and gas reserves of "Vaca Muerta" with large urban areas, including to reduce dependence on more expensive energy imports" (IMF, 2022b:21)

"Opportunities could arise in the medium term from new developments in global trade and commodity prices, given Argentina's vast reserves of shale oil and gas, as well as its agricultural and mining potential" (IMF, 2022b:64)

"The construction of the Néstor Kirchner gas pipeline - which connects the vast shale oil and gas reserves of "Vaca Muerta" with large urban areas - remains the cornerstone of the authorities' strategy to boost domestic energy production and reduce emissions. expensive energy imports from mid-century onwards. 2023" (IMF, 2022c:22)

"Once completed, the pipeline will connect the vast shale oil and gas reserves of "Vaca Muerta" with large urban areas (...)" (IMF,2022d:21)

"The construction of gas pipelines, connecting the vast shale oil and gas reserves of

Vaca Muerta with large urban areas, has the potential to reshape Argentina's external position, by reducing costly energy imports and boosting energy exports. crude oil and gas to neighboring countries over the next few years. medium term" (IMF, 2023a:21)

(9) "Efforts are needed to facilitate the construction of the gas pipeline project connecting the vast shale oil and gas reserves of "Vaca Muerta" with large urban areas, including to reduce dependence on more expensive energy imports." (IMF, 2022b:21)

"The construction of the Néstor Kirchner gas pipeline, which connects the vast shale oil and gas reserves of "Vaca Muerta" with large urban areas, remains the cornerstone of the authorities' strategy to boost domestic energy production and reduce emissions. expensive energy imports from mid-century onwards. 2023." (IMF, 2022c:22)

"Protection of critical infrastructure projects, particularly gas pipelines." (IMF, 2022d:13)

(10) "It is important to highlight that the completion of the gas pipelines would significantly improve Argentina's external energy trade balance in the coming years, increasing export income, reserves and the country's payment capacity." (IMF, 2023a:25)

(11) "The first phase of the gas pipeline is expected to be completed by the end of June 2023, which will support an increase in the daily supply of domestically produced gas of 11 million cubic meters. This will be complemented by a new "Gas Plan" to encourage national gas production and agreements with Bolivia and Brazil to ensure the supply of energy at favourable prices during the winter." (IMF, 2022c:18)

"This will be complemented by a new "Gas Plan" to promote national gas production and agreements with Bolivia and Brazil to ensure the supply of energy at favorable prices during the winter". (IMF, 2022d:21)

(12) "Eliminate non-targeted energy subsidies. The current system of regressive energy subsidies should be replaced by measures to protect the poor. (...) Staff estimates suggest that, if successful, bringing electricity and natural gas rates to cost recovery while maintaining a social rate would reduce spending by about 1 percent of GDP (...)" (IMF, 2016:31)

"A subsidized tariff to protect the poor from the planned elimination of subsidies (the social tariff introduced last year by the authorities, which reduces the cost of gas, water, electricity and transport for the most vulnerable segments of the Argentine population)" (IMF, 2017:20)

"(...) eliminate inefficient subsidies for electricity and fossil fuels (...)" (IMF, 2018a:11)

"(...) and planned changes in the natural gas industry (following the introduction of auctions between gas producers and distributors), together with planned tariff increases, should reduce subsidies." (IMF, 2019a:12)

"Staff recommended contingency revenue measures in case of additional revenue shortfalls. (...) These could include (i) deeper reductions in economic subsidies (...)" (IMF, 2019a:14)

"At the same time, reductions in energy subsidies and discretionary transfers to provinces and state-owned companies will be necessary to make room for greater social and infrastructure spending" (IMF, 2022a: 20)

"Fiscal consolidation must be supported by (...) reducing energy subsidies (...)" (IMF, 2022b:25)

"The policies that will support fiscal adjustment in 2023 include: (i) reductions in subsidies (0.5 percent of GDP), mainly in the energy sector (...)" (IMF, 2022c:17)

"(...) a reduction in subsidies (0.6 percent of GDP), mainly in the energy sector (... but also in the water and transportation sectors (...)" (IMF, 2022d:15)

"(...) these efforts are expected to reduce energy subsidies by about 0.5 percent of GDP and, according to staff estimates, increase cost recovery levels from around 30 percent in September 2022 to around 60 percent by the end of 2023." (IMF, 2022d:16)

"Energy subsidies are expected to decline to 1.5 percent of GDP in 2023, from 1.9 percent in 2022, while average cost recovery is estimated to improve, reflecting a mix of production costs." lower and higher real tariffs (...)" (IMF, 2023a:15)

"Average wholesale natural gas prices (where historical data is scarce) are expected to change by an average of [-3-6] percent in real terms, with subsidized commercial and high-income residential users seeing an increase in 40-55 percent, offsetting an actual decrease of 20 to 25 percent for other subsidized users. However, average actual tariffs and cost recovery remain low compared to historical standards." (IMF, 2023a:30)

"Once completed, the pipeline is expected to reduce energy imports, supporting the planned reduction in tax subsidies." (IMF, 2023a:31)

"(...) the authorities will announce their decision (prior action) to adjust electricity prices (...) for low- and middle-income residential users, as well as smaller commercial users (in accordance with established legislation and agreed cost recovery objectives). Meanwhile, electricity prices for high-income residential users will continue to evolve with production costs, with larger commercial users reaching full cost recovery by the end of 2023. Staff and officials also discussed the need to better align natural gas prices with changes in production costs (...)" (IMF, 2023b:23)

"(...) steeper spending cuts to moderate domestic demand (including acceleration of energy spending reductions in subsidies) (...)" (IMF, 2023b:25)

(13) "A domestic drought is expected to significantly erode agricultural export earnings" (IMF, 2018a:13)

"An increase in imports in the first quarter together with sharp declines in agricultural production and primary exports (driven by drought) led to a widening of the trade balance." (IMF, 2018b:12)

"(...) due to a sharp reduction in exports (due to the drought) (...)" (IMF, 2023d:64)

(14) "In addition, the intensification of the drought would harm agricultural exports and foreign exchange earnings, all of which would jeopardize key objectives of the program." (IMF, 2022d:14)

"The historic drought caused significant losses in agricultural production, tax revenues and export revenues, straining already weak public finances and complicating Argentina's balance of payments situation." (IMF, 2023b:32)

(15) "The decrease in exports, due to the lower agricultural production induced by the drought, would reduce the trade surplus, which in turn would cause foreign exchange outflows and devaluation pressures on the currency." (IMF, 2022a:104)

"The intensification of the current drought could reduce agricultural exports and foreign exchange earnings, fueling inflation and jeopardizing the objectives of the program." (IMF, 2022d:5)

(16) "Argentina is subject to frequent volatility in its terms of trade as a result of climate shocks that impact agricultural production and exports. (...) These have become increasingly frequent and more severe, as experienced during the severe drought of 2018." (IMF, 2022a:104)

"The evolution of the severe drought introduces a high level of uncertainty in these projections." (IMF, 2023a:55)

(17) "Argentina has historically been subject to drought events every 5 to 10 years, but recent global trends suggest a possible acceleration in the frequency and severity of such events." (IMF, 2023b:36)

(18) "(...) the risks are biased to the downside, as the latest estimates suggest that this drought could be the worst in 60 years. In that case, corn and soybean production could be reduced by an additional 20 and 35 percent, respectively." (IMF, 2023a:29)

(19) "The latest crop estimates by experts (including the Buenos Aires Grain Exchange and the USDA) suggest export losses of around \$20 billion relative to the 2022 crop (compared to \$6 billion). million dollars at the time of the fourth review". (IMF, 2023b:36)

(20) "Reduced agricultural production also generated additional pressures on the balance of payments, including through increased imports from the agriculture-based manufacturing sector to compensate for lower domestic production (around US\$2.5 billion). "U.S." (IMF, 2023b:36)

(21) "(...) with an estimated transitory impact of the drought at around 1.5 percent of GDP." (IMF, 2023d:64)

(22) "Reforms should take into account Argentina's specific factors and challenges arising from climate change" (IMF, 2022a:29)
"More efforts are needed to start addressing the challenges of climate change." (IMF, 2022a:30)

(23) "Ongoing initiatives include (i) the preparation of a new Electromobility Law to incentivize the production and use of vehicles powered by renewable energy; (ii) the establishment of a new regulatory framework to support investment in the hydrogen sector; and (iii) implementation of a Green Productive Development Plan to promote environmental adaptation and energy efficiency by companies" (IMF, 2022a:30)

(24) "Efforts to reduce costly energy subsidies and transition to a cleaner energy matrix must be maintained and renewed." (IMF, 2022a:30)

"The aforementioned initiatives to selectively ease capital controls in the energy sectors and the knowledge economy are part of this broader strategy, which not only helps strengthen the economy, but also supports global energy and food security, as well as such as climate change mitigation." (IMF, 2022b: 116)

"These should be accompanied by further corrections in relative prices and a gradual, conditions-based easing of capital flow management measures as imbalances are ad-

ressed and reserve coverage improves." (IMF, 2023b:11)

(25) "Beyond energy, the foreign and national investment currently being made in the lithium and copper sectors could potentially allow for a five-fold increase in mining exports over the next decade." (IMF, 2023b:25)

(26) "Future policy commitments under the program will be developed in this area based on the recommendations of the ongoing World Bank Climate Change and Development Report (CCDR) and the recently completed PIMA, which included a climate module." (IMF, 2022a:30)

"Over time, the savings generated by new gas pipelines could support fiscal consolidation and the transition towards a more efficient, sustainable and low-carbon energy sector, taking into account the recommendations of the Climate and National Development Report (CCDR) of the World Bank. In this sense, gas pipelines provide an important basis for the development of a broader strategy, which includes increasing investment in renewable energy, reducing energy subsidies and improving energy efficiency." (IMF, 2023a:31)

(27) "The potential export of LNG also offers important advantages, although it would also require significant investments in infrastructure to build liquefaction terminals." (IMF, 2023d:42)

Annex 2: The impacts of the Vaca Muerta megaproject

ECONOMIC

≡ **Even though the development of Vaca Muerta reduces imports, gas and fuel oil mainly, the energy trade balance remains negative.**

Between 2019 - 2021, the energy trade balance had managed to balance. However, in 2022, external sales grew by USD 1,870 million in contrast with the same period in 2021. On the flipside, imports also increased by USD 5,536 million year-on-year and a deficit of around USD 6 billion is expected towards the end of the year.

≡ **Including also the financial balance, the outflow of foreign currency is greater than the inflow, where flight (of capital) prevails via intra-company loans and offshore structures.**

In the 2014-2017 period, there was an influx of foreign currency from loans that companies took out abroad, mainly from their headquarters, to finance, to an extent, their investments in Vaca Muerta. A few years later, there was an outward flow when part of these loans began to be repaid. The outflow of foreign currency due to interest paid between 2019 and 2020 was growing, consuming foreign currency for USD 4.3 billion. Except for 2016, the exchange balance of the energy sector has been negative since 2009.

Public expenditures and transfers support Vaca Muerta production, while subsidies to end users are reduced.

The increase in gas production is highly dependent on state production/supply subsidies, which cover the difference between what is charged in the rate and what is paid at the wellhead to the company. Total energy subsidies went from USD 4.7 billion in 2019 to USD 15.5 billion at the end of 2022.

The carbon tax fixed in the 2017 tax reform also supports the narrative of gas as a bridge fuel since, not only is it not subject to said tax (being the main source of energy generation) but also the value of the tax is estimated on the basis of a price of 10 USD/tonCO₂eq a very low amount, if compared to the value fixed in the original bill (25 USD/tonCO₂eq).

SOCIAL

There are enormous disparities in energy access and consumption, being unequal and concentrated. According to 2020 data, 17.4% of households in Argentina are under energy poverty since they allocate more than 10% of their income to this area.

Jobs have increased in Vaca Muerta and with an above-average salary level, but they are male-dominated positions, limited in total terms, subject to international price variations and exposed to the required production dynamics.

Employment is closely tied to the wide variations in international prices. In the third quarter of 2020, for example, during the outbreak of COVID and the drop to negative values of international prices for a barrel of oil, unemployment increased 13.5% in Neuquén. Then, as activity levels resumed, it decreased until reaching a level of 7.8% in the second quarter of 2022.

- The unemployment rate in Neuquén is above the national average (6.9%). The poverty rate of the Neuquén and Plottier conglomerate is ten points higher in 2022 versus 2017.
- According to data from Statistics and Censuses of the province of Neuquén, comparing the second half of 2016 and the first half of 2022, poverty went from 34.5% to 37.2%, while destitution went from 3.6% to 5.4%.

The sector implemented appendixes of labour flexibility (2017, 2020) based on the increase in productivity and the demanded cost reduction. These were pushed forward by the national government of the day, the Neuquén administration, the operating companies of the sector and oil unions.

- In line with deregulation, the numbers of workplace mortality have gone up, with the death of 15 workers between 2017 and 2022.

ENVIRONMENTAL

During 2018, the Committee on Economic, Social and Cultural Rights (ESCR) of the Economic and Social Council of the United Nations, in the concluding observations on the fourth periodic report of Argentina, recommended the State to reconsider the large-scale exploitation of unconventional fossil fuels in the Vaca Muerta region so as to guarantee compliance with the commitments of the Paris Agreement. Likewise, the Committee encouraged the promotion of alternative and renewable energies

The development of the Vaca Muerta megaproject implies a wide range of socio-environmental risks and impacts. This is due both to the consumption of fossil fuels and to the impacts of the hydraulic fracturing (or fracking) technique and associated infrastructure on the territories and the environment: conflicts over water scarcity and quality (and the low fee paid), the lack of consultation process with the native communities, waste management problems, and associated earthquakes. It is estimated that Vaca Muerta has six environmental incidents a day.

A single well, of the thousands drilled, can reach the equivalent consumption of the total water consumed in one day by the population of the province of Neuquén. With the added aggravation that the water used will be eliminated from the hydrological cycle.

According to data published by the Center of Environmental Technologies and Energy from the University of the Centre of the Province of Buenos Aires (2019), reaching the maximum levels of hydrocarbon extraction would increase greenhouse gas emissions from the "Fugitive Emissions" category of the Vaca Muerta megaproject. In a scenario considered efficient, the country's total emissions would increase between 56% and 66% (relative to 2019 data) depending on the scenario being analysed.

OPPORTUNITIES REGARDING THE ENERGY TRANSITION

Regarding the role that energy subsidies could play in the energy transition, if the current level of subsidies for fossil fuels was continued (both direct and indirect, including transportation) but projected to the year 2045, these would allow to cover the costs of the transition to a 100% renewable matrix.

The funds derived from fossil fuel subsidies would be enough to cover between 58% and 100% of the grids necessary for the alternative scenario based on electrification with renewable energies.

Rising gas and coal prices have made new wind and solar capacity cheaper than fossil fuel plants in a growing number of countries. Argentina is among these countries.

In 2022, wind energy in Argentina supplied 2.7 million homes and has allowed the saving of USD 3.25 billion.

Recent scenarios show more benefits in abandoning fossil fuels. A work published in 2022 by the United Nations Environment Program indicates that for Argentina, a tran

sition process to renewable energies - moving away from the narrative of gas as a bridge fuel - could be highly positive

By 2050, our country could reduce its greenhouse gas emissions by 60%, in addition to saving USD 31,000 million in energy costs, as well as creating 133,000 jobs by moving away from fossil fuels, which could increase to 149,000 if components for renewables would be partially manufactured in Argentina.



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