INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/219

ARGENTINA

July 2018

REQUEST FOR STAND-BY ARRANGEMENT—PRESS RELEASE AND STAFF REPORT

In the context of the Request for Stand-By Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 20, 2018, following discussions that ended on June 7, 2018, with the officials of Argentina on economic developments and policies underpinning the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 13, 2018.
- An **Assessment of the Risks to the Fund and the Fund's Liquidity Position**.
- A **Staff Supplement** updating information on recent developments.
- A **Staff Statement** updating information on recent developments.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Argentina*
Memorandum of Economic and Financial Policies by the authorities of Argentina*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

Press Release No. 18/245
FOR IMMEDIATE RELEASE
June 20, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Approves US$50 Billion Stand-By Arrangement for Argentina

The Executive Board of the International Monetary Fund (IMF) today approved a three-year Stand-By Arrangement (SBA) for Argentina amounting to US$50 billion (equivalent to SDR 35.379 billion, or about 1,110 percent of Argentina's quota in the IMF).

The Board's decision allows the authorities to make an immediate purchase of US$15 billion (equivalent to SDR 10,614 billion, or 333 percent of Argentina's quota). One half of this amount (US$7.5 billion) will be used for budget support. The remaining amount of IMF financial support (US$35 billion) will be made available over the duration of the arrangement, subject to quarterly reviews by the Executive Board. The authorities have indicated that they intend to draw on the first tranche of the arrangement but subsequently treat the remainder of the arrangement as precautionary.

The Argentine authorities' economic plan backed by the SBA aims to strengthen the country's economy by restoring market confidence via a consistent macroeconomic program that lessens financing needs, puts Argentina's public debt on a firm downward trajectory, and strengthens the plan to reduce inflation by setting more realistic inflation targets and reinforcing the independence of the central bank. Importantly, the plan includes steps to protect society's most vulnerable by maintaining social spending and, if social conditions were to deteriorate, by providing room for greater spending on Argentina's social safety net.

Following the Executive Board discussion of Argentina's economic plan, Ms. Christine Lagarde, Managing Director and Chair, summarized the Board's findings:

"For the past 2½ years, Argentina has been engaged in a systemic transformation of its economy, including deep changes to foreign exchange markets, subsidies, and taxation, as well as improvements to their official statistics. Nonetheless, a recent shift in market sentiment and an ill-fated confluence of factors have placed Argentina under significant balance of payments pressures. Amid these challenging circumstances, the Government has requested IMF support in implementing its own policy plans.

"The authorities' intended policies seek to address longstanding vulnerabilities, ensure that debt remains sustainable, reduce inflation, and foster growth and job creation, while reducing poverty.

"Given the large fiscal deficits over the past several years, the Government's economic program is anchored on the goal of achieving federal government primary balance by 2020. This will be key to restoring market confidence. Improving the budgetary process and providing this medium-term anchor for fiscal policy will help to entrench these gains.

“The authorities also aim to rebuild the credibility of the inflation targeting framework, including by strengthening central bank independence and ending direct and indirect central bank financing of the government. These efforts are expected to bring inflation to single digits by end-2021.

“The authorities are committed to a floating, market-determined exchange rate. They intend to limit foreign exchange intervention to periods of significant volatility and market dysfunction, and to rebuild reserve buffers.

“The program places considerable emphasis on maintaining social cohesion, encouraging gender equality, and protecting society’s most vulnerable. The authorities, at the highest level, are strongly committed to these principles. The most vulnerable population will be assisted by well-designed government support programs that will be prioritized within the program targets. The Government has also prioritized gender equity to realize the potential and benefits from Argentine women fully participating, on equal footing, in the economy.

“The Argentine Government has demonstrated its strong ownership of the program, which is custom-tailored for the situation faced by the people of Argentina. There are evident risks to the program but steadfast implementation of the policy plans will allow the country to fully capitalize on its economic potential, and to ensure that all Argentines are included in the country’s future prosperity.”

ANNEX

Recent economic developments

Argentina's financial markets came under sudden pressure in April as the result of a confluence of factors. A severe drought led to a sharp decline in agricultural production and export revenue, world energy prices increased, and global financial conditions tightened through an appreciation of the U.S. dollar and an upward shift in U.S. interest rates. These changes interacted with vulnerabilities that Argentina's policy path had embedded, including significant fiscal and external financing requirements. These economic forces manifested themselves principally in the form of pressure on the Argentine peso, market anxiety about the roll-over of short-term central bank paper, and an increase in Argentina's sovereign risk premium.

Program summary

The IMF-support economic plan aims to strengthen the Argentine economy by focusing on four key pillars:

- ***Restore market confidence.*** The government has committed to a clear macroeconomic program that lessens federal financing needs and puts public debt on a firm downward trajectory. This will help create a clear path to strong, sustained, and equitable growth and robust job creation. Anchoring this effort is a fiscal adjustment that ensures that the federal government reaches primary balance by 2020, with a significant up-front adjustment to secure a primary deficit of 1.3 percent of GDP in 2019.

- ***Protect society's most vulnerable***. Steps will be taken to strengthen the social safety net, including through a redesign of assistance programs (which are often overlapping, yet still result in gaps in coverage) and through measures to increase female labor force participation (by eliminating the second-earner tax penalty and providing working families with assistance with childcare). The level of social spending will be protected under the program. Also, if needed, additional spending on pre-identified, high-quality, means-tested social assistance projects will be accommodated. The authorities' goal is to continue to reduce poverty rates throughout the course of the arrangement even if there were to be a slower-than-expected economic rebound.

- ***Strengthen the credibility of the central bank's inflation targeting framework***. The government has pledged to provide the central bank with the institutional and operational independence and autonomy that is needed to achieve effectively inflation objectives. In addition, the central bank has adopted a new credible path of disinflation to bring inflation to single digits by the end of the three-year SBA period. Plans are also being developed to ensure the central bank has a healthy balance sheet and full financial autonomy. The plan also foresees steps to diminish the Central Bank's vulnerability from a short term peso denominated debt (LEBACs).

- ***Progressively lessen the strains on the balance of payments.*** This would involve rebuilding international reserves and reducing Argentina's vulnerability to pressures on the capital account.

Table 1. Argentina: Selected Economic and Financial Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Proj.					
	(Annual percentage changes unless otherwise indicated)								
National income, prices, and labor markets									
GDP at constant prices	2.7	-1.8	2.9	0.4	1.5	2.5	3.1	3.1	3.2
Domestic demand	4.2	-1.3	6.3	-1.4	0.5	2.0	2.7	2.8	3.0
Consumption	4.2	-0.8	3.3	-0.9	1.6	1.9	1.9	1.6	1.7
Private	3.7	-1.0	3.6	-0.6	2.3	2.5	2.4	1.9	2.0
Public	6.9	0.3	2.0	-2.2	-2.0	-1.6	-0.9	-0.4	-0.3
Investment	3.5	-4.9	11.3	-1.2	-2.1	3.0	6.8	8.3	8.3
Private	4.4	-5.3	11.0	1.9	2.5	4.0	7.1	8.0	6.8
Public	3.9	-4.7	13.5	-12.0	-19.1	-1.6	5.3	9.8	15.9
Exports	-2.8	5.3	0.4	5.6	6.8	5.4	5.6	5.8	5.5
Imports	4.7	5.7	14.7	-2.7	1.6	3.1	3.8	4.1	4.2
Change in inventories and stat. disc.	0.2	0.2	1.6	-0.5	-0.5	0.0	0.0	0.0	0.0
Nominal GDP (bn Argentine pesos)	5,955	8,189	10,558	13,240	16,068	18,746	21,227	23,191	25,135
Output gap (percent)	1.1	-1.8	-1.5	-2.9	-3.7	-3.3	-2.5	-1.8	-1.3
CPI inflation (eop, y/y % change)	...	...	24.8	27.0	17.0	13.0	9.0	5.0	5.0
GDP deflator (y/y % change)	26.6	40.1	25.3	24.9	19.6	13.8	9.9	5.9	5.1
Unemployment rate (%)	...	8.5	8.4	8.5	8.6	8.4	8.2	8.0	7.8
	(Percent of GDP unless otherwise indicated)								
External sector									
Exports f.o.b. (goods, bn US$)	56.8	57.9	58.4	66.4	71.6	75.3	80.1	84.9	89.6
Imports f.o.b. (goods, bn US$)	57.6	53.5	64.0	65.7	67.7	72.2	77.4	82.1	86.8
Trade balance (goods bn US$)	-0.8	4.4	-5.5	0.7	4.0	3.1	2.7	2.8	2.8
Trade balance (goods)	-0.1	0.8	-0.9	0.1	0.7	0.5	0.4	0.4	0.4
Terms of trade (% change)	-4.4	6.0	-2.7	4.0	-1.9	-3.0	-1.4	-0.3	-0.1
Total external debt	27.9	34.2	37.0	51.3	52.6	52.0	50.8	50.0	49.2
Savings-Investment balance									
Gross domestic investment	15.6	14.6	14.8	15.1	14.8	14.9	15.5	16.4	17.2
Private	11.9	11.2	11.3	12.1	12.2	12.4	12.9	13.6	14.1
Public	3.6	3.4	3.5	3.1	2.6	2.5	2.6	2.7	3.1
Gross national savings	12.8	12.0	10.0	11.6	11.6	12.2	13.3	14.3	15.1

Private	15.0	14.9	12.9	13.7	12.8	12.6	13.4	14.1	14.4
Public	-2.1	-2.9	-3.0	-2.1	-1.2	-0.4	-0.1	0.1	0.7
Current account balance	-2.7	-2.7	-4.8	-3.6	-3.2	-2.7	-2.2	-2.1	-2.1
Public sector 1/									
Primary balance	-4.4	-4.7	-4.2	-2.8	-1.3	0.2	0.8	1.2	1.3
of which: Federal government	-3.8	-4.2	-3.8	-2.7	-1.3	0.0	0.5	0.9	1.2
memo: Structural federal primary balance 2/	-4.2	-4.5	-3.7	-2.1	-0.6	0.6	0.9	1.2	1.4
Overall balance	-5.8	-6.4	-6.5	-5.1	-3.8	-2.9	-2.7	-2.6	-2.4
of which: Federal government	-5.1	-5.8	-6.0	-5.0	-3.7	-3.0	-2.9	-2.7	-2.3
Revenues	35.4	35.1	34.8	35.0	35.6	35.8	35.8	35.5	35.2
Primary expenditure 3/	39.8	39.8	39.0	37.8	36.9	35.6	34.9	34.3	34.0
Total public debt (federal)	55.1	53.3	57.1	64.5	60.9	57.4	55.8	54.1	53.0
Money and credit									
Monetary base (eop, y/y % change)	34.9	31.7	21.8	25.9	21.3	18.0	14.5	14.2	13.8
M2 (% change)	28.2	30.4	25.8	22.5	25.3	18.6	14.5	14.2	13.8
Credit to the private sector (eop, y/y % change)	35.7	31.2	51.3	34.9	21.9	18.0	23.8	16.9	16.2
Credit to the private sector real (eop, y/y % change)	…	…	21.2	6.2	4.2	4.4	13.6	11.3	10.6
Interest rate (eop) 4/	32.2	23.9	28.8	37.2	22.5	15.8	11.0	10.0	9.7
Real interest rate (eop), 12-m ahead y/y inflation 4/	…	…	9.7	17.2	8.4	6.2	5.7	4.8	4.5
Real interest rate (eop), 1-m ahead m/m inflation 4/	…	…	7.4	14.2	6.6	4.5	4.5	4.7	4.4
Memorandum items									
Gross international reserves (bn US$)	25.6	39.3	55.1	65.4	69.0	79.7	88.4	96.0	103.8
Net international reserves, (bn US$) 5/	-1.5	10.3	27.9	29.7	33.4	44.0	54.6	69.8	83.2
Change in REER (eop, % change)	5.3	-3.4	5.4	-18.1	3.9	0.7	0.1	0.0	0.0

Sources: Ministerio de Hacienda y Finanzas Públicas, Banco Central de la República Argentina (BCRA), and Fund staff estimates.

1/ The primary balance excludes profit transfers from the central bank of Argentina. Interest expenditure is net of property income from the social security fund before 2016.
2/ Percent of potential GDP.
3/ Includes transfers to municipalities, but excludes municipal spending.
4/ Average of all LEBAC maturities before 2017 and midpoint of the repo corridor starting in 2017; ex ante real rates.
5/ Assumes that entire first tranche would remain deposited at the BCRA. Projections and program targets will be adjusted accordingly upon changes.

INTERNATIONAL MONETARY FUND

ARGENTINA

REQUEST FOR STAND-BY ARRANGEMENT

June 13, 2018

EXECUTIVE SUMMARY

Context. Despite a difficult economic context, President Macri's administration, over the past two and a half years, has taken bold steps to eliminate a wide range of distortions in the economy. Efforts were also made to strengthen institutions (including the complete reconstruction of the statistics agency, in an effort to restore credibility to Argentine data), as well as an assertive effort to tackle corruption. Despite these efforts, a gradual approach to fiscal consolidation, combined with a tightening of global financial conditions, a poor harvest, and the introduction of a tax on nonresident holdings of short-term central bank paper, generated significant anxiety among market participants. Starting in mid-April, Argentina came under abrupt balance of payments pressures as both domestic and foreign investors decided to liquidate their position in onshore peso assets. To stem the outflows, the authorities significantly increased short-term interest rates, tightened fiscal policy, and sold foreign exchange. Shortly after taking these steps the government announced its intention to approach the IMF for an exceptional access Stand-By Arrangement. The government subsequently developed a credible and ambitious policy plan to:

- ***Restore market confidence.*** The government has committed to a clear macroeconomic program that lessens the federal financing needs and puts public debt on a firm downward trajectory. This will help create a clear path to strong, sustained, and equitable growth and robust job creation. Anchoring this effort is a fiscal adjustment that ensures that the federal government reaches primary balance by 2020, with a significant upfront adjustment to secure a primary deficit of 1.3 percent of GDP in 2019.

- ***Protect society's most vulnerable.*** Steps will be taken to strengthen the social safety net, including through a redesign of assistance programs (which are often overlapping, yet still result in gaps in coverage) and through measures to increase women labor force participation (by eliminating the second-earner tax penalty and providing working families with better childcare infrastructure). The level of social spending will be protected under the program. Also, if needed, additional spending on pre-identified, high-quality, means-tested social assistance projects will be accommodated. The authorities' goal is to continue to reduce poverty rates

throughout the course of the arrangement even if there were to be a slower-than-expected economic rebound.

- ***Strengthen the credibility of the central bank's inflation targeting framework.*** The government has indicated it will provide the central bank the institutional and operational independence and autonomy that is needed to achieve this objective. In addition, the central bank has adopted a new, credible path of disinflation to bring inflation to single digits by end-2021. Plans are also being developed to ensure the central bank has a healthy balance sheet and full financial autonomy.

- ***Progressively lessen the strains on the balance of payments.*** This would involve rebuilding international reserves and reducing Argentina's vulnerability to pressures on the capital account.

Program modalities. In pursuit of their policy plan, the Argentine authorities have requested support from a 36-month Stand-By Arrangement in an amount equivalent to SDR 35,379 million (1,110 percent of quota). The phasing would be front-loaded. Thirty percent of the access (333 percent of quota or SDR 10,613.71 million) would be made available upon approval of the arrangement (with equal phasing thereafter). The authorities intend to draw the first tranche and would use one-half of the domestic counterpart of Fund resources (SDR 5,306.855 million) for budgetary purposes. They intend to treat the remainder of the arrangement as precautionary. Such an indication of intent does not, however, affect the legal character of the arrangement. Presuming all conditions in the arrangement are met, the member can still present that it faces an actual balance of payments need and request a purchase under the Stand-By Arrangement.

Approved By:
Nigel Chalk (WHD) and Daria Zakharova (SPR)

A mission team undertook discussions in Washington, D.C. from May 18 to June 7, 2018. The team consisted of R. Cardarelli (head), J. Canales-Kriljenko, Y. Carrière-Swallow, L. Lusinyan, and J. Wong (all WHD), P. Dudine (FAD), R. Garcia-Verdu and J. Menkulasi (SPR), and R. Veyrune (MCM). The mission was aided by A. Aghababyan, A. Diaz, and J. Sarmiento Monroy. Mr. Lopetegui (Alternate Executive Director) participated in most meetings.

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APPENDIX

ECONOMIC AND POLITICAL CONTEXT

1. **President Macri took office in December 2015 at the helm of a country facing pervasive macroeconomic imbalances, microeconomic distortions, and a debilitated institutional framework.** At the macro level, large fiscal deficits, predominantly financed by financial repression and money creation, had created an unstable economy where inflation was very high, investment was at historically low levels, and international reserves were virtually depleted. At the same time, an elaborate system of microeconomic distortions was in place, including: administrative controls on prices; large and regressive energy and transportation subsidies; a plethora of trade restrictions; the rationing of foreign exchange (FX); an uncompetitive business environment; the provision of inaccurate official statistics; and corruption. Despite a plethora of social transfers and government interventions into the economy, when President Macri took office, one in three Argentines were living below the official poverty line.

2. **Argentina has been engaged in a systemic transformation of its economy.** The new government moved assertively on multiple fronts: unifying the exchange rate and allowing the level of the currency to be determined by market forces; putting in place an inflation targeting framework for monetary policy; eliminating FX controls; settling the outstanding FX forward contracts and rebuilding international reserves; beginning the difficult process of realigning utility prices and eliminating inefficient electricity and fossil fuel subsidies; cutting government spending and reducing the most distortive taxes; and reaching a debt exchange agreement with foreign creditors to reopen international capital markets. Finally, with IMF assistance, the government restored credibility to official statistics through a top-to-bottom rebuild of the statistics agency. All of this was achieved with the government holding a minority of the seats in Congress.

3. **Not surprisingly, the unwinding of these distortions led to a recession in the first year of the administration.** However, the economy recovered in 2017, with strong investment and consumption alongside an acceleration in job creation, and the government's coalition was able to win Senate races in the five largest population centers in October 2017. Nonetheless, the governing coalition remains a minority party in both houses of Congress. Finally, in November 2017, the government signed a "fiscal pact" with the provinces that settles past provincial claims on the federal government, increases revenue sharing, and finances the pension deficits of certain provinces. In return, the provinces agreed to eliminate certain distortionary taxes and to keep their growth in nominal spending below the rate of inflation.

4. **To maintain social consensus the government undertook many of these policy steps—most notably the fiscal adjustment—at a gradual pace.** Largely as a by-product of this understandable preference for gradualism, the country was left vulnerable on a number of fronts (these vulnerabilities were highlighted in the 2017 Article IV Consultation):

- With most of the reductions in energy subsidies offset by lower taxes, greater automatic transfers to provinces, and higher spending on pensions, the primary deficit remained broadly unchanged as a share of GDP through 2016 and 2017. Interest spending, however, increased rapidly, as financing from money creation and financial repression was replaced with public debt, much of it in foreign currency. As of March 2018, about 70 percent of the federal debt stock was denominated in U.S. dollars or other foreign currencies and, since January 2016, the federal government has issued US$56 billion in external debt (with a further US$13 billion issued by provinces). As a result, the overall fiscal deficit and gross fiscal financing needs of the federal budget increased markedly.

- In parallel, the current account deficit (as a percent of GDP) tripled between 2014 and 2017 as FX controls were released and import compression was reversed. Sizable capital inflows—much of it used to finance the general government—allowed the central bank (BCRA) to rebuild reserves (from US$25.6 billion in gross reserves at end-2015 to about US$55 billion at end-2017; net of short-term external liabilities, reserves rose from −US$1.5 million to almost US$28 billion over the same period). Nonetheless, the higher current account deficit and debt amortization led to a dramatic increase in gross external financing needs (projected to reach about US$94 billion for the remainder of 2018).

- Second-round effects from the normalization of utility tariffs, an insufficient countervailing force from fiscal retrenchment, continued strong nominal wage growth, and some backward indexation of contracts have resulted in significant inflation inertia. This has disrupted the central bank's planned path of disinflation.

- The peso became increasingly overvalued as the pace of disinflation was slower-than-planned and strong capital inflows (much of it to finance the general government budget) put upward pressure on the nominal exchange rate. The 2017 Article IV Consultation Staff Report judged the peso to have been 10–25 percent overvalued relative to medium-term fundamentals and desirable policies.

MARKET VOLATILITY

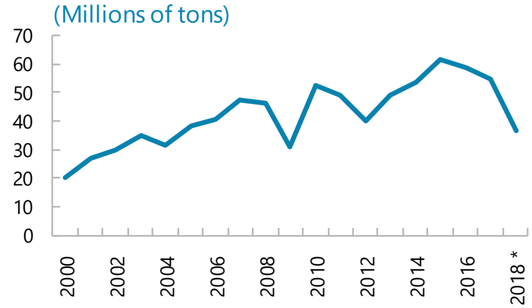
5. **It is against this backdrop of known vulnerabilities that Argentina began to come under significant capital account pressures.** The proximate causes of this shift in market sentiment was an ill-fated confluence of factors including:

- ***On December 28, 2017, the government took the decision to reset its inflation targets,*** raising the midpoint of the 2018 target from a 10±2 percent band to a point estimate of 15 percent. Then, at the following monetary policy meeting, on January 9, 2018, the central bank lowered its policy rate by 75 basis points (bps), and by another 75 bps on January 23. The combined effect led inflation expectations to quickly rise to 22 percent for end-2018 (i.e. by more than the increase in the target), triggering a rapid depreciation of the peso (by about 15 percent from December to February) and calling into doubt both the BCRA's independence and its commitment to lower inflation. The path for disinflation was further disrupted by utility price increases in the first half of 2018, causing inflation to stall at around 25 percent over the last several months.

- ***Global financial conditions tightened.*** The U.S. dollar strengthened and the U.S. treasury yield curve shifted upwards as markets priced in a faster pace of monetary normalization by the Federal Reserve. This resulted in a reduced appetite for Argentine international bonds, particularly after the federal government placed US$9 billion in debt on January 4 (at historically low yields). Subnational governments have, so far, not issued external debt in 2018.

- ***A domestic drought is expected to significantly erode agricultural export revenue.*** Hot and dry conditions during much of November–March lead to large reductions in crop yields, particularly for soy and corn. Later, heavy rains led to waterlogged fields and hampered efforts to harvest the crop. Estimates suggest that the crop will be 20–30 percent lower than in the previous harvest likely making this one of the worst droughts in recent decades.

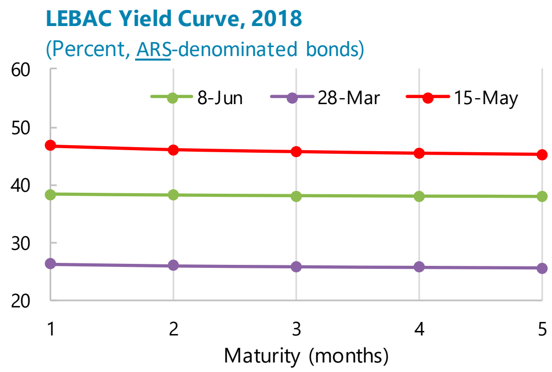
Soy Production
(Millions of tons)



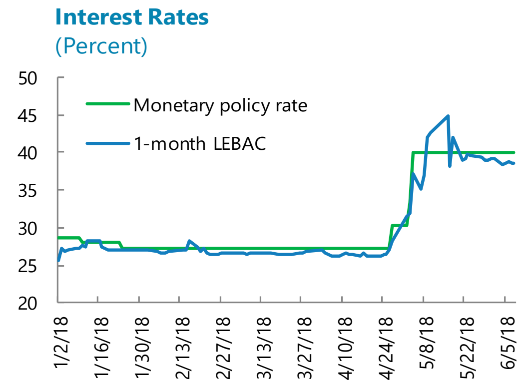
Source: Argentine Ministry of Agroindustry.

- ***Investing in short-term BCRA paper became a crowded carry trade among foreign asset managers,*** offering high returns insofar as the exchange rate remained relatively stable.[1] However, the steady depreciation of the peso versus the U.S. dollar in the first quarter of 2018 ate into investor returns. By early April, both residents and nonresidents were looking to exit their positions, and the latter were fueled by the expected introduction of a 5 percent withholding tax on interest earned on central bank bills (the measure passed the Congress in December 2017 but was to become effective on April 26). In April, the central bank facilitated this exit out of peso assets by selling US$4.7 billion dollars into the market, effectively setting up a one-way bet for investors. As the run on short-term peso liabilities accelerated, the government faced increasing strains. The situation came to a head on April 25 when the central bank sold US$1.5 billion on that one day alone.

[1] A significant stock of LEBACs, out of the total 10 percent of GDP currently, needs to be rolled over every 35 days. More than half of the outstanding amount is held by non-bank investors, which hampers the BCRA's capacity to control peso liquidity via the reserve requirement.



Source: BCRA and Bloomberg.

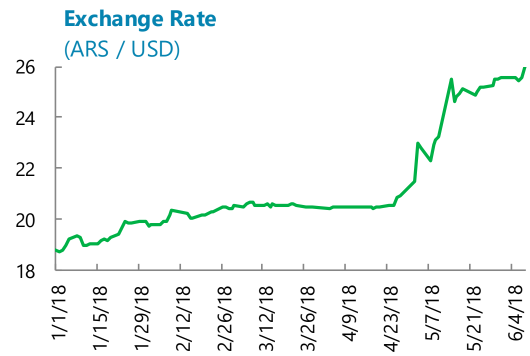


Source: BCRA and Bloomberg.

6. **What had started as a portfolio rotation out of short-term peso liabilities of the central bank soon became a more generalized run on Argentine assets.** The central bank responded to these pressures by raising interest rates by 300 bps on April 27, accompanied by substantial sales of international reserves amidst disorderly market conditions. This was insufficient to relieve pressures on the peso. On May 3, the central bank raised rates a further 300 bps. What was intended as a mechanism to stabilize markets, however, became a source of panic, and investors rushed to offload peso assets. On May 4, the government announced a package of measures to restore investor confidence that included:

- A further increase in the policy rate by 675 bps (a cumulative increase of 1,275 bps over the space of one week, bringing the mid-point 7-day repo rate from 27¼ percent to 40 percent).
- A widening of the corridor around the policy rate.
- A reduction in the ceiling on domestic banks' net FX long positions from 30 to 10 percent of their net equity or liquidity.
- A decrease in the 2018 federal government primary deficit target from 3.2 to 2.7 percent of GDP, largely achieved through cuts to capital spending and a real cut in public sector wages. There was no change, however, to the 2019 target (of 2.2 percent of GDP). The government indicated that the reduction in the 2018 primary deficit would lower financing needs by US$3 billion. However, the announcement did not take account of the higher gross fiscal financing needs arising from an increase in the interest bill—due to the higher interest rates and a more depreciated peso. This partly undermined the government's communication strategy.

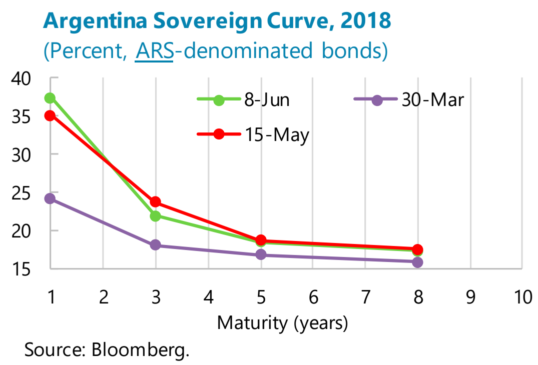
7. On May 8, amid continued volatility and pressure in FX markets, President Macri announced that discussions would begin on a high access arrangement with the IMF. On May 11, the currency depreciated a further 2.7 percent, the central bank sold US$1.2 billion, and interest rates on 35-day maturity central bank paper rose to 49 percent. On May 14, the peso lost a further 7 percent. While the private sector accumulation of external assets has accelerated, dollar deposits have remained stable, and there is no evidence of a run on the banking system. The depreciation and higher interest rates are also affecting perceptions of sovereign risk, with average spreads on foreign currency bonds having risen by around 120 bps from mid-April until mid-May (larger increases have been seen on shorter-maturity U.S. dollar bonds). Fitch also decided to lower Argentina's rating outlook from positive to stable in the wake of this volatility.

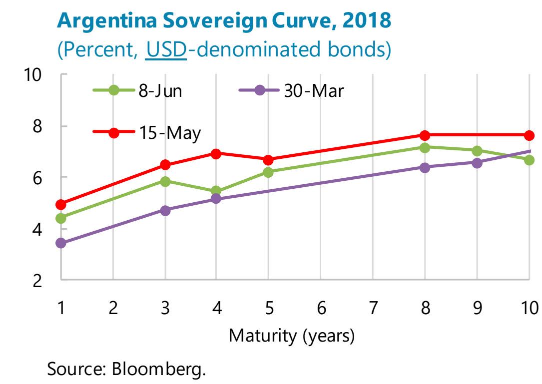


Source: Bloomberg.

8. On May 16, the government successfully rolled over US$28 billion in maturing short-term BCRA paper (at a 40 percent annual rate on one-month paper), and pressures on the currency moderated. With the central bank offering up to US$5 billion in foreign exchange at 25 pesos to the U.S. dollar, and with anticipation of an agreement with the Fund increasingly discussed in the local media, pressure on the currency waned and financial markets in Argentina calmed. The exchange rate was stable at around AR$25 per U.S. dollar, the central bank did not undertake spot intervention in the currency market, and interest rates remained high (with one-month central bank liabilities yielding close to 40 percent). Following the announcement of a staff-level agreement with the Fund on June 7, the BCRA removed its FX offer of US$5 billion at an exchange rate of AR$25 per U.S. dollar. In the following two days the exchange rate depreciated by 5 percent and, in June 12, the BCRA sold around US$700 million in spot markets and US$300 million in non-deliverable futures.

9. Following the announcement of staff-level agreement on an exceptional access Stand-By Arrangement on June 7, there are tentative signs of a return of market confidence. Upon news of the announcement, sovereign spreads fell and bond prices appreciated by around 3 percent. The EMBI spread fell from 479 bps to 474 bps while one-year CDS spreads fell by 10 bps (to 178 bps). The stock market index rose by 4 percent.





A MORE ACCELERATED FISCAL PATH

10. **The authorities' adjustment program is anchored on the goal of achieving federal government primary balance by 2020.** The fiscal effort will be front-loaded with a targeted primary deficit of 2.7 percent of GDP in 2018 and 1.3 percent of GDP in 2019. This represents a bold and ambitious commitment, especially coming from the 3.8 percent of GDP primary deficit outturn of 2017. Such a fiscal path would put the debt-to-GDP ratio on a steady, downward trajectory throughout the duration of the program (falling from about 65 percent of GDP at end-2018 to below 56 percent of GDP by end-2021). On June 7, the Treasury announced their commitment to these new federal government primary balance targets. Staff considers that the completion by the authorities of this action meets the test (i.e., that the upfront implementation of the measure is critical for the success of the program) for a prior action.

11. **The program includes a quarterly performance criterion on the primary deficit of the federal government.** To aim to ensure that convergence to a balanced budget is matched at the provincial level, an indicative target will be set on the primary balance of the general government. Submission to Congress of a 2019 budget that is consistent with the program will be an end-October 2018 structural benchmark.

12. **This realignment of the fiscal position will be underpinned by measures already underway for 2018 and a commitment to implement further steps in the context of the 2019 budget.** These include:

- Delaying implementation of parts of the recently-passed tax reform to 2020 as a means to preserve revenues (i.e., the reduction in employers' social security contributions and the ability to deduce the financial transaction tax from income taxes).

- Maintaining the average export tax rate on soy products at 25.5 percent.

- Further reducing inefficient subsidies for energy and transportation.

- Rationalizing spending in other goods and services, with a 15 percent cut in real terms in 2018 and continuing in 2019.
- Reducing the wage bill by reducing public employment through sustained attrition of non-priority employees in 2018 and a hiring freeze in the federal administration (excluding universities) for 2019 and 2020.
- Capping the nominal growth of public sector wages (including non-wage benefits and payments) to an average of 8 percent during June 2018–June 2019. An agreement with the unions to this effect has already been signed.
- Cutting transfers to state-owned enterprises by a total of 15 percent by 2019, combined with efforts to strengthen their financial position.
- Reducing discretionary transfers to provinces by 1.2 percent of GDP by 2019 and ensuring those reductions are offset by cuts in provincial spending on wages and goods and services. The resulting reduction in the federal deficit will, therefore, be reinforced at the subnational level. The identified reductions in provincial spending are designed to preserve social assistance and other poverty alleviation programs that are executed at the provincial level.
- Reducing capital spending by 0.6 percent of GDP by 2019 with the expectation that private-public partnership projects would protect the overall level of outlays on public infrastructure.
- Scaling back tax expenditures linked to the corporate income tax.
- Selling land and amortizing pension fund assets that are currently held by the government to partially finance the government's payment of past pension claims.[2]

The government also intends to continue working within the appropriate parliamentary commission toward defining a path to improve the pension system and make it financially sustainable and fairer, for both current and future generations.

13. **The government recognizes the uncertainties in the outlook and, in the interests of fiscal prudence, has identified a further 0.2 percent of GDP in contingent measures.** These are largely related to reductions in capital spending and would be drawn upon in the event that GDP growth was weaker-than-expected or some other event were to put at risk the achievement of the primary deficit target of 2.7 percent of GDP in 2018. On the other hand, if economic and fiscal outturns evolve in a more positive direction, the authorities would consider a more front-loaded elimination of distortive taxes in order to better support growth and investment (in line with the pace that was outlined in the tax reform that was

[2] The accounting treatment of these past pension claims and the amortization of the corresponding pension fund assets would be examined in detail by technical specialists in FAD and STA to ensure the fiscal accounts fully correspond to guidance in the Government Finance Statistics Manual.

adopted in late 2017). The fiscal position and implications for policy measures would be assessed at the time of each program review.

Summary of Identified Fiscal Measures
(Cumulative relative to 2017, in percent of GDP)

	2018	2019
Delayed implementation of tax reform	0.0	0.3
Export tax on soy products	0.0	0.1
Reductions in inefficient energy and transportation subsidies	0.3	0.7
Savings on goods and services spending	0.1	0.2
Real wage and employment reduction for public employees	0.2	0.3
Cutting transfers to state owned enterprises	0.1	0.1
Reductions in discretionary capital and current transfers to provinces	0.5	1.2
Reductions in capital spending of the federal government	0.3	0.6
Scale back tax expenditures linked to the corporate income tax	0.0	0.1
Sale of land and amortization of pension fund assets	0.2	0.6
Total	**1.7**	**4.2**

Source: Fund staff calculations.

14. The broader budgetary framework will also be strengthened.

- The annual budget will be complemented with simple and transparent medium-term objectives for the primary balance, cast in a Medium-Term Fiscal Framework (MTFF) that shows the path of expenditure and revenue consistent with these objectives. The annual budget documents will transparently indicate the impact of new measures that will be undertaken to achieve those primary balance objectives (a structural benchmark for end-October 2018).

- A new mid-year fiscal report will be published by June 2019 that contains updated estimates of fiscal outturns and a revised MTFF, with new macroeconomic and fiscal projections for the medium term.

- Adequate resources and staffing will be provided to the newly created CBO (*Oficina de Presupuesto del Congreso)*, so that it can effectively (i) evaluate budgetary and macroeconomic forecasts (including those contained in the annual budget and mid-year budget report); (ii) provide independent costing to Congress of new policy initiatives; and (iii) assess the government's fiscal plans, including the annual budget (a structural benchmark for end-December 2018). There would also be a comprehensive examination of the CBO's design features to ensure that it is fully able to achieve the government's desired objectives.

- Adequate resources will also be provided to the Federal Council of Fiscal Responsibility (FCFR) so that it can effectively fulfill its mandate of monitoring and evaluating fiscal performances of Federal and provincial governments, including compliance with the Fiscal Responsibility Law. There would also be a comprehensive examination of the FCFR's design features to ensure that it is fully able to achieve the government's desired objectives.

- The Budget documents will continue showing a statement quantifying the size and type of tax expenditures.

- A fiscal risk analysis framework will be developed with a view to be included in the 2020 budget documents. This would include the publication of a fiscal risks scenario analysis, a long-term fiscal sustainability analysis (undertaken for the federal and general government), and an analysis of contingent liabilities (explicit and implicit) including those related to the financing of PPP projects, state enterprises, and unfunded pension obligations of the federal government.

- Revenue administration will be strengthened through (i) developing a comprehensive taxpayer compliance program with AFIP; (ii) modernizing and integrating AFIP's information and communication technology with their data management capacity; (iii) improving the functioning of the single taxpayer account; and (iv) improving the administration of the small taxpayers' (*monotributo*) regime. There will also be support to the provinces in their effort to modernize their tax administration.

PROTECTIONS FOR THE MOST VULNERABLE

15. The authorities are keen to minimize the effects of the adjustment on the most vulnerable. The economic prospects over the near-term are highly uncertain and much will depend on investor confidence. The program, therefore, puts in place safeguards to protect Argentina's most vulnerable. In addition, contingency measures will provide resources to the poor in the event that social outturns worsen relative to the outlook that underpins the program. These protections include:

- ***A program floor on federal government spending on social assistance*** (a quarterly performance criterion) equivalent to 1.3 percent of GDP (or AR$177 billion) in 2018 and at a level that safeguards program coverage for 2019–20 while allowing benefits to rise according to the existing indexation formula. This represents an effort by the government to ensure that such spending is prioritized and protected within the budget. The focus will be on programs that cover children through the existing social safety net: the universal child allowance program (*Asignación Universal por Hijo*, AUH) and the allowance for pregnant mothers (*Asignación por Embarazo*, AUE). Both programs (which together comprise the

Asignación Universal para Protección Social) are efficiently administered, have reasonably wide coverage, and have been shown to improve socioeconomic outcomes in the target population. In addition, the floor will protect social spending on contributory family allowances (including allowances to *monotributistas* which are included under the budgetary program named *Asignaciones Familiares*). Table 1 provides quantitative information on the nature of coverage and the level of spending on these programs.

- ***An adjustor to the primary deficit to prioritize additional spending on pre-specified, high-impact social assistance programs.*** If economic conditions worsen such that the government judges either the benefits under the universal child allowance program to be insufficient or the level of enrollment becomes higher than expected, spending on this specific program can be increased by up to 0.2 percent of GDP (or AR$30 billion) per calendar year.

Table 1. Priority Social Protection Programs

	2016	2017	2018 Proj.
Programs to which floor on social assistance spending applies			
Number of Beneficiaries (million)	7.8	8.1	8.5
Total spending (AR$ bn)	107.6	141.9	177.5
Total spending (in percent of GDP)	1.3	1.3	1.3
Coverage of those families in first or second decile, in percent	…	66.5	…
Asignaciónes Familiares			
Number of Beneficiaries (million)	4.0	4.2	4.4
Total spending (AR$ bn)	57.1	81.8	102.7
Total spending (in percent of GDP)	0.7	0.8	0.8
Coverage of those families in first or second decile, in percent	…	24.0	…
Asignación Universal para Proteccion Social			
Number of Beneficiaries (million)	3.9	3.9	4.1
Total spending (AR$ bn)	50.5	60.1	74.8
Total spending (in percent of GDP)	0.6	0.6	0.6
Coverage of those families in first or second decile, in percent	…	42.5	…
Coverage as percent of number of persons in poverty	46.7	55.5	…
Memorandum Items			
Total number of people in poverty (million)	8.3	7.1	…

Sources: INDEC, Cuenta de Inversion, Budget 2018, and "Analisis y Propuestas de Mejoras Para Ampliar la Asignacion Universal por Hijo" (ANSES, UBA, CEDLAS, UNICEF).

16. To protect the most vulnerable the government also intends to:

- Work with the World Bank and IDB to identify measures that can be taken to protect households and individuals that have no children, since this part of the population is insufficiently covered by the existing social safety net and is likely to be affected by any worsening of social conditions.

- Work with the provinces to integrate the provision of social services to those in poverty, reducing duplication, improving targeting and lowering the administrative costs of their social programs.

- Following a comprehensive review, revise the social tariffs system to make it better protect the bottom four deciles of the income distribution.

SUPPORTING GENDER EQUITY

17. In addition to the broader social assistance protections that the government has proposed, special attention will be given to provide support to women. There is clear gender inequality in the Argentine labor market, with female labor force participation well below that of other Latin American economies. In Argentina, 39 percent of women work in the informal sector (versus 34 percent of men) and there is a 24 percent wage gap between women and men. This is a macroeconomically relevant bias that has important consequences for growth, income inequality, and broader social cohesion and equity.

18. To help lessen these negative outcomes, the authorities intend to:

- Eliminate the second-earner penalty in the current tax system which will encourage participation of second-earners in the labor force.

- Continue investing in publicly-funded infrastructure for childcare and early childhood education.

- Introduce legislation to equalize maternity and paternity leave.

- Introduce legislation that requires listed companies to publish data annually on the gender balance on their Board and among their managerial positions.

- Introduce legislation that will increase penalties on perpetrators of gender-based or domestic violence and provide support networks for victims of such violence.

MONETARY FRAMEWORK UNDERPINNING THE PROGRAM

19. **The reform program will aim to strengthen the credibility of the inflation targeting framework.** Argentina adopted inflation targeting (IT) at a time when inflation rates were high and the central bank's credibility had not yet been fully entrenched. As a result, inflation has repeatedly surprised to the upside, expectations have not aligned with announced targets, and the IT framework has not delivered the nominal anchor it promised. The program will thus support the building of institutional strength of the central bank, reducing the fiscal pressure that undermined prior efforts at disinflation, and ensuring a freely floating exchange rate.

20. **Going forward, monetary policy will focus on achieving single-digit inflation by end-2021, within the context of a flexible exchange rate regime.** With steps already taken toward renewed independence, the central bank has revised its inflation targets, to reach single digit inflation by end-2021. These targets balance a realistic outlook with an ambitious path for disinflation that is consistent with the macro-framework underlying the program. Program conditionality for monetary policy will include an inflation consultation clause centered on the authorities' inflation targets. If the 12-month inflation rate were to breach the inner inflation band, this will trigger a consultation with staff on the appropriate policy response. If the outer band were to be exceeded, the authorities will complete a consultation with the Executive Board on their proposed policy response before being eligible for further purchases under the program. Both bands will gradually narrow over time as the inflation process becomes more stable. In addition, to provide additional protections given the uncertainty over both the demand for money and the likely path for future inflation, if net domestic assets of the central bank were to exceed the thresholds established in the program, this same clause would be triggered, requiring a consultation with the Executive Board on the authorities' proposed policy response before being eligible for further purchases under the program.

Inflation Targets and Consultation Bands

(y/y, in percent)

	Dec-2018	Dec-2019	Dec-2020	Dec-2021
Outer Band - Upper Limit	32	21	16	11
Inner Band - Upper Limit	29	19	15	10
Midpoint	*27*	*17*	*13*	*9*
Inner Band - Lower Limit	25	15	11	8
Outer Band - Lower Limit	22	13	10	7

21. **The BCRA has committed to not loosen monetary policy until there are clear signs of a decline in both end-2019 inflation expectations and in realized year-on-year inflation outcomes.** Staff expect domestic nominal contracts to become more forward-looking as targets are met and credibility is re-established. In this regard, it will be important that the government aim to ensure that, over the duration of the program, public sector wage agreements are kept in line with the government's inflation goals.

22. **In addition, the authorities have taken a key set of actions that they view as critical for the successful implementation of their policy plan including:**

- Issuing a memorandum of the Ministry of Finance that ends all new direct or indirect central bank net financing of the government. This constitutes a key step in helping to strengthen the credibility of the BCRA's inflation targeting framework and in lowering inflation expectations. The program further includes a continuous performance criterion on providing no new central bank net financing to the government, including through the distribution of unrealized gains derived from currency depreciation.

- Publishing a central bank communication to formally adopt the new inflation targets (specified above). Staff considers that the completion by the authorities of these actions meets the test (i.e. that the upfront implementation of the measure is critical for the success of the program) for prior actions.

23. **Lessening the BCRA's vulnerability from a large stock of short-term, peso-denominated debt (LEBACs) will be a key component of the program.** The program includes a plan to reduce the BCRA's net claim on the government—that includes short-term credits and nontransferable Treasury bonds—by at least US$10 billion by end-March 2019, and by US$25 billion by end-May 2021. Quarterly performance criteria have been established for the first steps in this process (and further quarterly performance criteria will be established at future reviews). This operation will be financed through the issuance of peso-denominated securities in the local market. The repayment of government liabilities held by the central bank will be used to drain peso liquidity, thereby lessening the central bank's reliance on issuing its own (LEBAC) securities. By end-September 2019, the BCRA will limit its counterparties for sale of LEBACs, open market operations, and repos to local banks to encourage re-intermediation through the banking system and to enhance the BCRA's control over peso liquidity. By end-May 2021, the central bank is expected to have reduced the stock of LEBACs from the current 10 percent of GDP to about 3.5 percent of GDP. To facilitate these changes will require a closely coordinated approach. In this regard, the government intends to establish a senior-level, debt management coordinating committee between Treasury-Finance-BCRA that would meet weekly and coordinate activities linked to sterilization actions of the BCRA and debt issuance plans of the Finance Ministry (an end-September 2018 structural benchmark).

24. **To ensure the central bank's financial autonomy, the government will provide resources to recapitalize the BCRA.** Following an independent assessment of the BCRA's

balance sheet, the government will inject the necessary amount of peso-denominated, interest-bearing marketable securities onto the central bank's balance sheet to achieve an adequate level of capital by end-December 2019. This will be accompanied by an agreement—to be formalized under the planned revisions to the BCRA charter described below—that distributable central bank profits (excluding unrealized gains) will be remitted each year in the form of a transfer to the Treasury for as long as the central bank's capital exceeds the adequate level of capital. If its capital declines below that level, the BCRA will be allowed to retain its distributable profits entirely.

25. The central bank is committed to maintaining a floating exchange rate, with foreign currency sales restricted to countering periods of clear market dysfunction. The exchange rate will be allowed to fully adjust to prevailing market conditions.

- The program will include a floor on the change in net international reserves of the central bank (measured relative to June 4 stock) of +US$5.5 billion by end-June 2018 and remaining at that level for the remainder of 2018. Upon approval of the arrangement, NIR will rise by US$7.5 billion as a result of the IMF's direct budget support. The NIR floor in the program would rise to +US$7.5 billion by June 2019 and to +US$28 billion by June 2021 as the central bank builds reserves to safer levels. The goal would be for reserves to exceed 100 percent of the Fund's ARA metric by the end of the arrangement so as to provide sufficient precautionary foreign currency liquidity so as to mitigate potential risks to the balance of payments. An adjustor to the NIR floor will be incorporated to allow for the use of up to US$7.5 billion in budget support to either extinguish foreign currency obligations of the federal government or to sell to the market, in a transparent and pre-announced central bank auction to meet peso expenditure needs of the budget.

- The program includes a quarterly ceiling on the stock of non-deliverable forwards (NDF). The notional amount of non-deliverable forwards will be gradually reduced from US$2.3 billion on June 4, 2018 to US$1 billion by end-June 2019.

- The central bank will also initiate a consultation with staff if its net foreign exchange sales in spot and forward markets are excessive. This consultation will involve a general overview of monetary and intervention policies with a goal of identifying how best to allow for greater exchange rate depreciation or to raise domestic interest rates and tighten liquidity conditions in the event of a reduced demand for pesos.

- Finally, the BCRA will publish, by end-September 2018, a regulation to introduce a foreign exchange auction to intervene in the spot and forward markets.

26. BCRA charter. To strengthen the monetary policy framework and central bank governance, the government will submit a draft of a new BCRA charter to Congress by end-March 2019 (structural benchmark). The details of the required legislative amendments will be specified during the safeguards assessment (to be undertaken prior to the first program review), especially regarding the governance and the status of the BCRA's official foreign reserves. While passage of this new charter requires congressional approval, the authorities have committed to propose legislation that will:

- Reinforce price stability as the key objective of the BCRA.
- Prohibit all new, direct or indirect central bank financing of the Government.
- Entrust the competence for monetary policy formulation to the new Executive Board including giving the BCRA's Executive Board the authority to set, in consultation with the Ministry of Finance, the inflation targets for three years ahead.
- Strengthen the avenues of BCRA accountability with Congress and the Argentine people (including an accountability mechanism for when inflation deviates from the BCRA's inflation objective by a pre-set amount).
- Provide for well-defined, and limited, grounds and procedures by which the Governor, Vice-Governor, Board of Directors, and Executive Board members could be dismissed from their posts.
- Improve transparency by restoring international accounting standards, to ensure a transparent report of the Central Bank's balance sheet.
- Clarify the legal status of the BCRA's official foreign reserves, which should only serve to implement exchange rate and monetary policies.
- Establish in the charter the adequate level of capital for the BCRA, the process for automatic recapitalization, profit sharing and retention rule, as well as the retention of unrealized gain and losses.
- Strengthen the central bank governance arrangements to support its autonomy.

In anticipation of approval of this legislation, the administration has indicated its strong commitment to treat the central bank as operationally independent with monetary policy decisions to be taken by the Monetary Policy Council in accordance with the Council's forward-looking views on inflation prospects.

THE BANKING SYSTEM

27. At present, there are no material signs of strain in the banking system. While there has been some modest rotation of deposits out of pesos and into U.S. dollars, there has been no sign of a run on deposits. The Argentine banking system is small (bank credit amounts to only 16 percent of GDP); well-capitalized (regulatory capital was 15 percent of risk-weighted assets at March 2018, with 90 percent of that amount in the form of tier-1 capital); and liquid (liquid assets cover over 45 percent of short-term liabilities). Exposure to the sovereign is limited, especially for private banks, as a result of prudential regulation and the history of monetary financing of fiscal deficits. There are, however, important data gaps including those relating to real estate transactions, cross-border activities, and non-bank financial institutions.

28. Nonetheless, there is a potential for a worsening in both bank and corporate balance sheets that may need to be handled within the program framework. Despite the relatively favorable starting position of the banks, real interest rates are likely to remain high for some time and the economy will slow. This will put upward pressure on nonperforming loans (which stood at 1.9 percent of the loan portfolio in March 2018 and were fully provisioned) and constrain the provision of new credit to the economy. The first review mission will be joined, therefore, by MCM experts who will (i) assess the authorities' preparedness to handle strains in the banking system (including reviewing Argentina's bank resolution framework) and (ii) to develop a contingent strategy in the event there are either significant liquidity strains (e.g. from deposit outflows) or a weakening of the balance sheets from a substantial rise in bad loans.

29. As pressures on the capital account grew, the BCRA lowered the limit on net long foreign exchange positions from a monthly average balance of 30 percent to a daily balance of 10 percent of banks' previous month's net equity. The measure was implemented in a near-crisis situation amid intense peso depreciation and BOP pressures, and was accompanied by other policy responses to stem capital outflows. However, the measure was designed to limit capital flows and thus constitutes a capital flow management measure. In managing the capital account risks faced by Argentina, a key role was played by macroeconomic policies (notably an increase in policy interest rates, a tightening of the fiscal position, and a depreciation of the peso). As such, this CFM does not substitute for or avoid warranted macroeconomic adjustment but rather has been used to support macroeconomic policy adjustment. The CFM implemented by the central bank is viewed as consistent with the Fund's institutional view on capital flows.

MACROECONOMIC FRAMEWORK AND RISKS

30. The recent market disruptions and the expected fiscal contraction will lead to a slowdown in 2018. The implied fiscal multipliers underpinning the program, at a one-year horizon, are 0.8 on average for changes to spending (at constant prices) and 0.6 for changes to tax revenues. This is consistent with the range of multiplier estimates for Latin American countries (see chapter 4 in *April 2018 Regional Economic Outlook: Western Hemisphere*). While high real interest rates and fiscal retrenchment will be a drag on growth, the significant real peso depreciation will be a countervailing force, improving competitiveness and supporting external adjustment. In addition, a strong recovery in the agriculture sector—which is typical in Argentina following a drought—will contribute to growth in the second half of this year. The expected gradual restoration of market confidence should also reverse the drag on activity. The slowdown in 2018 will, however, serve to put downward pressure on core inflation to mitigate the upward pressure from the currency depreciation and the planned faster pace of realigning utility tariffs with international prices (particularly in the context of higher world energy prices and a weaker peso).

31. **Steady implementation of policies should, however, spur a growth acceleration into 2019.** Growth is expected to be around 1½ percent in 2019. The economy will continue to improve into 2020 with growth eventually rising above potential, to around 3 percent, beginning the process of closing the output gap. The rebalancing of the policy mix will facilitate a broader re-composition of demand from the public to the private sector with consumption and investment being the primary drivers in 2019–20. Further progress in addressing corruption would strengthen the business climate and build public support for reforms. As the government's commitment to the objectives of the program become entrenched, market confidence should be restored, leading to a progressive reduction in short-term interest rates and a modest rebound in the peso.

32. **A lower primary deficit of the federal government and a weaker peso will facilitate a contraction of the current account deficit to 2¼ percent of GDP by 2021.** A return of capital inflows, lower government interest payments, and disbursements from the Fund will allow for gradual reserve accumulation. Gross reserves are forecast to reach around US$88 billion (or 115 percent of the ARA metric) by end-2021.

33. **Debt is expected to peak at end-2018 and fall steadily thereafter.** The fiscal adjustment, economic recovery, and lower real interest rates (as and central bank credibility is established) will all work to place public debt-to-GDP ratio on a steady downward trajectory from 2019 onwards (see DSA). After peaking this year at 65 percent of GDP, debt would fall under the planned fiscal consolidation to below 56 percent of GDP by the last year of the program. Gross fiscal financing needs remain elevated for much of the program period but are not projected to breach the 15 percent of GDP risk threshold in the baseline throughout the medium term.

34. **There are still important risks to debt sustainability.** The most evident near-term risks are linked to:

- The size of the gross fiscal financing needs under a stressed scenario.
- The large share of foreign currency debt (which makes Argentina's debt dynamics susceptible to a sustained weakening of the real exchange rate) and the large external financing needs (which, based on international experience, have shown to be a strong predictor of a debt crisis).
- The fact that the proposed fiscal consolidation is ambitious relative to similar country situations (i.e., in the top 13 percent of the distribution of consolidations achieved by program countries).

- The DSA covers only federal government debt and so could understate the sustainability of general government debt. However, most provinces are running close to a balanced budget, and provincial debt is only 6 percent of GDP.

- The national government faces contingent liabilities from needing to recapitalize the central bank (this has not yet been built into the DSA given the uncertain size of those recapitalization needs), from loss-making publicly-owned corporations, and from unfunded pensions.

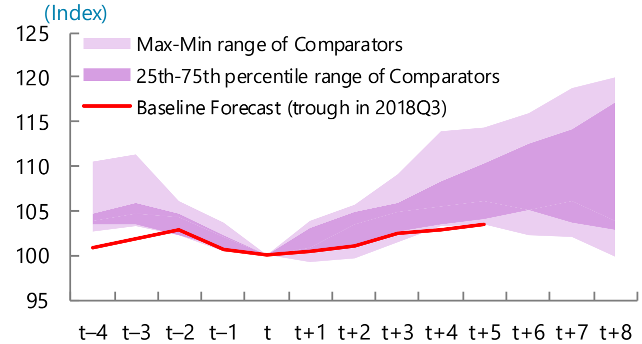
These risks are, however, mitigated by the high share of federal government debt that is held by other public-sector entities and the relatively long maturity of dollar-denominated debt issued on international markets (only about one-fifth of the government's US$-denominated debt held outside the Argentine public sector will mature by end-2020). ***Overall, staff assesses that, under the baseline of the program, federal debt is sustainable, but not with a high probability.***

35. The macroeconomic framework underpinning the program assumes that Argentina draws the first tranche upon approval of the SBA and treats the remainder of the arrangement as precautionary. The drawing of the first tranche will help bolster market confidence and add to gross reserves. The indication of an intent to treat the Stand-By Arrangement (or a portion thereof) as precautionary does not affect the legal character of the arrangement. As such, this intent is not a binding commitment and does not prevent the member from making such purchases if all conditions set forth in the arrangement are fulfilled. When the member requests a purchase under the Stand-By Arrangement it must, however, represent that it has an actual balance of payments need for such purchase. Given the expected gradual return to markets to finance the federal deficit, one-half of the domestic counterpart of Fund resources in the first tranche will be used for direct budget support. It will be deposited at the Treasury's account at the BCRA and subsequently withdrawn, as needed, to pay for budget outlays. The determination of this amount of access under the program for budget support was based on the federal government's gross fiscal financing needs and an assessment about a likely path for new borrowing from the private sector between now and end-2018 (Table 8). Monetary targets in the program will be adjusted at the pace at which this budget financing is drawn down. The authorities have indicated their intention to treat the remaining drawings under the arrangement as precautionary.

36. Under the program gross reserves reach 115 percent of the ARA metric by end-2021 and peak at 121 percent of the ARA metric in 2023. This level of reserves provides some insurance against Argentina's vulnerabilities that arise from a high degree of dollarization, elevated external debt levels, vulnerability to a potential further tightening of global financial conditions, and still-sizable gross financing needs. Access under the program will also support the authorities' switch from a reliance on borrowed reserves toward nonborrowed reserves.

37. The path for growth under the program could be viewed as optimistic. The path for the economy shows a short-lived and limited interruption to growth. This is a very mild downturn relative to other Argentine recessions that have occurred since 1992 (excluding the 1999–2002 contraction, see chart). However, the Argentine authorities are confident that, with a rebound in the agricultural sector and the pre-emptive way they have dealt with the current crisis (including approaching the Fund for support), the economic downturn can be contained.

Real GDP Levels
(Index)



Sources: Haver Analytics; IMF, Global Data Source database; national authorities; and IMF staff calculations.

38. The broad contours of the program would, nonetheless, remain robust to a weaker macroeconomic outlook. A scenario was constructed that assumes fiscal multipliers that are about twice as large as those assumed in the forecasts that underpin the baseline. In this scenario (i) growth would be -0.8 percent in 2018 and 1 percent in 2019; (ii) the nominal exchange rate would be 5 percent weaker at end-2018 and 6 percent weaker at end-2019; (iii) nominal policy rates would rise by 4½ percent at end-2018 containing inflation to the top of the outer inflation consultation band; (iv) an additional ¼ of fiscal measures would need to be identified to maintain a primary deficit-GDP at program target in 2018, although the pace of debt reduction would be slower due to weaker growth. In such a scenario, Argentina would have to draw access under the arrangement until end-2019 and rely on some portion of the domestic counterpart of Fund resources for budgetary purposes. Gross reserves accumulation would reach 83 percent of the ARA metric by end-2019 (lower than would be achieved in the program's baseline).

AN ADVERSE SCENARIO

39. There is a low probability that a shift in global financial conditions disrupts the expected return of market confidence. It is possible that a faster-than-expected tightening of global financial conditions will slow the pace at which investors rollover their investments in Argentine assets. To model that scenario, staff assumed (Box 1):

- Lower rollover rates on Argentine public debt by both residents and nonresidents (see table). These are well above the 25th percentile of historical experience.
- A more depreciated path for the real and nominal exchange rate, in line with the persistent shock to capital inflows and the reduced demand for peso assets.

(Assumed rollover rates, percent)	Program Baseline		Adverse Scenario	
	Residents	Nonresidents	Residents	Nonresidents
International law debt	95	90	85	75
Domestic law debt:				
Government (foreign currency)	95	90	85	75
Government (peso)	95	90	85	75
BCRA (peso)	100	75	90	75
Source: Fund staff calculations.				

- A higher path for nominal and real interest rates that is calibrated to hold inflation at the top of the inflation target band.

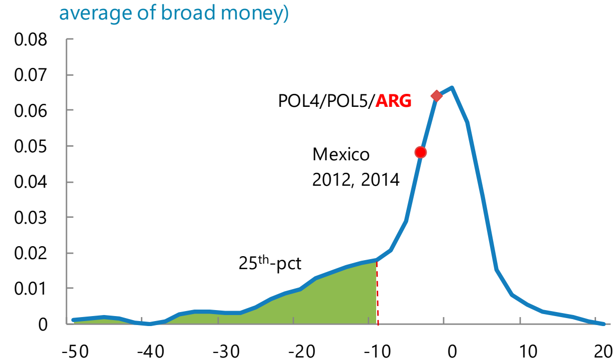
- A recession in 2018 and a more protracted recovery into 2020. The combination of higher interest rates and weaker confidence would also lower the path for potential growth.

- A need to find an additional 1 percent of GDP in measures to keep the primary deficit from rising above 2 percent of GDP in 2019 and 1 percent of GDP in 2020. Unfortunately, a lack of fiscal financing in this scenario makes pro-cyclical policies inevitable.

- A full loss in US$-denominated deposits (around US$7 billion) together with about a 2 percent loss in peso deposits. The magnitude of the shock is similar to the experience during 2008–11 in Argentina. As a share of broad money, the shock is close to the center of the distribution of past outcomes in emerging markets.

- Rollover rates on external debt of the private sector falls from 100 percent to 90 percent.

Portfolio and Other Investment Assets
(Probability density, in percent of proceeding 3-year average of broad money)



Source: Fund staff calculations.

- In the baseline forecast, FDI is assumed to remain relatively strong, buoyed by improved investor confidence and PPP projects. In the adverse scenario, FDI drops by 45 percent, putting it at the 25th percentile of historical experience.

40. **Under this adverse scenario, federal debt would be 4 percent of GDP higher than in the baseline by end-2021.** Gross fiscal financing needs would also be more elevated throughout the projection period. In particular, under the adverse scenario there would be an additional US$35 billion in external financing needs which would be met by Argentina drawing the full amount of access under the Stand-By Arrangement. In addition, even with these drawings, the reserve path would be lower than in the baseline (due to a combination of no new issuances by the federal government on international markets and the assumption

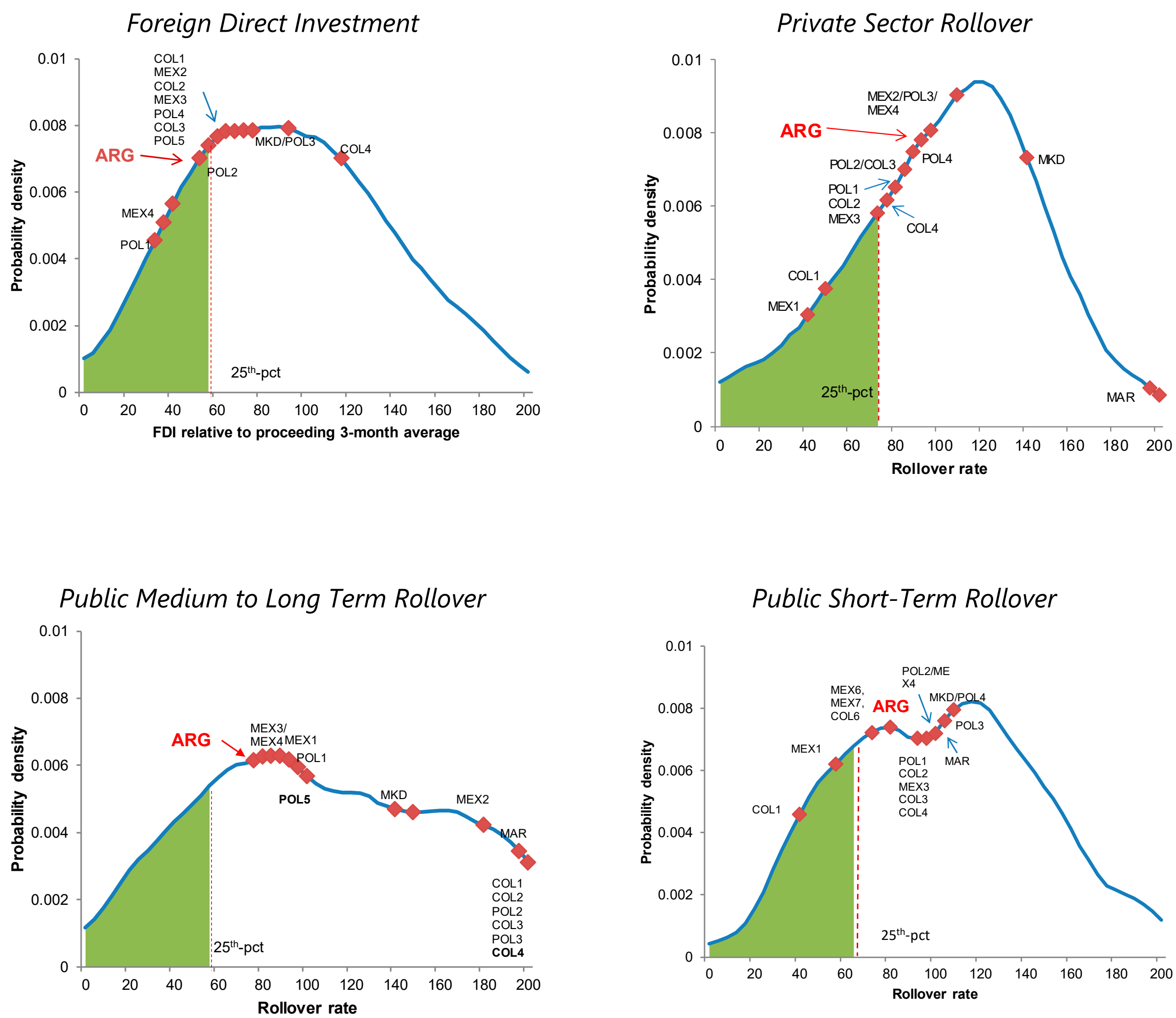
that the domestic counterpart of the access drawn under the arrangement would be made available to be used as budget support). ***In this scenario, it is important to highlight that the federal debt remains sustainable, but not with a high probability.***

Table 2. Macroeconomic Outlook: Baseline and Adverse Scenarios
(Percent unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023
Program Baseline							
GDP Growth	2.9	0.4	1.5	2.5	3.1	3.1	3.2
CPI inflation (eop)	24.8	27.0	17.0	13.0	9.0	5.0	5.0
Federal primary balance (percent of GDP)	-3.8	-2.7	-1.3	0.0	0.5	0.9	1.2
Federal debt (percent of GDP, DSA)	57.1	64.5	60.9	57.4	55.8	54.1	53.0
Gross international reserves (US$ bns)	55.1	65.4	69.0	79.7	88.4	96.0	103.8
(share of ARA metric)	92%	100%	101%	110%	115%	119%	121%
Nominal policy rate (eop)	28.8	37.2	22.5	15.8	11.0	10.0	9.7
Change in REER (y/y, eop; "+"=appreciation)	5.4	-18.1	3.9	0.7	0.1	0.0	0.0
Current Account (percent of GDP)	-4.8	-3.6	-3.2	-2.7	-2.2	-2.1	-2.1
Adverse Scenario							
GDP Growth	2.9	-1.3	0.0	1.0	1.2	1.7	2.3
CPI inflation (eop)	24.8	31.7	20.8	15.0	10.0	9.0	5.0
Federal primary balance (percent of GDP)	-3.8	-2.0	-0.9	-0.2	-0.1	0.2	0.4
Federal debt (percent of GDP, DSA)	56.8	68.6	65.4	60.0	59.8	59.0	57.9
Gross international reserves (US$ bns)	55.1	54.3	53.6	54.2	57.1	73.7	89.7
(share of ARA metric)	92%	84%	79%	75%	74%	89%	101%
Nominal policy rate (eop)	28.8	43.0	26.8	16.5	15.3	10.8	10.3
Change in REER (y/y, eop; "+"=appreciation)	5.4	-24.0	2.2	0.0	0.0	0.0	0.0
Current Account (percent of GDP)	-4.8	-3.0	-1.2	-1.0	-0.5	-0.3	-0.2

Source: Fund staff estimates and projections.

Box 1. Argentina and Selected FCL/PLL Countries: Comparing Adverse Scenarios[1]



Source: Fund staff calculations.

1/ The empirical distributions are based on countries' actual experiences during the crisis year (for all four types of debt rollover rates), or countries' experiences during the crisis year relative to preceding 3- year average (for FDI). For the presented FCL/PLL country cases, shocks are defined according to the adverse scenario and placed on the kernel curve.

Argentina: External Financing Requirements and Sources in Access Scenario
(In billions of U.S. dollars)

		2018			2019			2020			2021		
	2017	Baseline	Adverse	Contribution to Gap	Baseline	Adverse	Contribution to Gap	Baseline	Adverse	Contribution to Gap	Baseline	Adverse	Contribution to Gap
Gross external financing requirements	**96.8**	**139.7**	**131.8**	**-7.9**	**124.5**	**110.0**	**-14.4**	**113.0**	**97.2**	**-15.8**	**112.3**	**94.6**	**-17.8**
Current account deficit	30.8	19.9	15.9	-3.9	18.6	6.0	-12.6	16.7	5.2	-11.5	14.6	3.0	-11.7
Amortization and Service of Bonds and Loans		115.0	115.0	0.0	89.2	89.2	0.0	69.6	69.6	0.0	56.1	56.1	0.0
Public Sector		95.6	95.6		76.6	76.6		58.2	58.2		46.3	46.3	
LEBACs		10.8	10.8		3.3	3.3		0.6	0.6		0.0	0.0	
Private Sector		8.6	8.6		9.3	9.3		10.8	10.8		9.7	9.7	
Accumulation of international reserves	15.7	3.4	-0.8	-4.1	3.6	-0.7	-4.3	10.6	0.6	-10.1	15.7	3.0	-12.8
Other outflows	50.2	1.5	1.7	0.2	13.0	15.5	2.5	16.1	21.8	5.7	25.9	32.6	6.7
Available external financing	**96.8**	**139.7**	**126.0**	**13.7**	**124.5**	**98.4**	**26.0**	**113.0**	**88.3**	**24.8**	**112.3**	**85.9**	**26.4**
Net FDI inflows	10.7	4.9	2.8	2.1	5.2	2.8	2.4	5.5	3.0	2.5	7.7	4.2	3.5
Financing through Bonds and Loans		114.9	103.4	11.5	89.2	67.1	22.1	69.6	49.2	20.4	56.1	39.7	16.3
Public Sector		95.6	92.0		76.6	58.2		58.2	40.7		46.3	32.4	
LEBACs		10.8	3.2		3.3	1.0		0.6	0.2		0.0	0.0	
Private Sector		8.6	8.2		9.3	7.9		10.8	8.3		9.7	7.3	
Other inflows (including errors and omissions)	86.1	19.9	19.7	0.2	30.0	28.5	1.5	37.9	36.0	1.9	48.6	42.0	6.6
Gap (USD billions)				**5.8**			**11.6**			**8.9**			**8.7**
Percent of quota				128%			254%			196%			190%

Sources: Argentinian authorities and IMF staff estimates.

PROGRAM MODALITIES

41. In support of their policy plans, the authorities have requested a 36-month Stand-By Arrangement with a final test date of end-March 2021. The program would aim to restore confidence, reverse the current run on Argentine assets, and guard against concerns that Argentina will be unable to meets its large external financing needs.

42. BOP need. Front-loading of access is warranted since the program seeks to address an actual BOP need in the early stages of the program (including through budget support) as a result of the tightening of external financing conditions that Argentina is currently facing. Under the baseline, further drawing under the arrangement would be unnecessary and it will be appropriate for the authorities to treat the arrangement as precautionary. However, the program is designed to also provide assurances against a potential BOP need that could occur in an adverse scenario where global financial conditions tighten, constraining the government's ability to issue new debt to meet its sizable gross financing needs.

43. Access and Phasing. Access is proposed to be set at about US$50 billion (1,110 percent of quota, SDR 35.379 billion, or 8 percent of GDP).

- Under an adverse scenario, the proposed level of access would be sufficient to keep gross reserves from falling below 74 percent of the ARA metric.
- Thirty percent of access (or SDR 10,613.71 million) would be made available upon approval of the arrangement with the goal of bringing gross reserves to about 100 percent of the ARA metric by end-2018. The remaining access will be made available in equal disbursements upon completion of quarterly reviews of the program. The first review would be considered by the Board in September 2018, based on end-June performance criteria.

- The program assumes that the first tranche is drawn upon approval of the arrangement, but the authorities will treat the arrangement as precautionary thereafter.

- One-half of the domestic counterpart of the first tranche (SDR 5,306.855 million) would be made available to be used as budget support. A memorandum of understanding has been established between the central bank and the government on their respective roles and obligations. For the amounts used as direct budget support, the resources would be deposited at the Treasury's account at the BCRA and then withdrawn, as needed, to finance the budget.

- The amount of budget support (US$7.5 billion) would be split between FX financing for (i) the net reduction in the stock of domestic-law FX federal liabilities that are held by the private sector (US$7 billion of such debt matures between June and end-September); (ii) repayment of official loans (US$0.6 billion); (iii) service of international-law debt (US$1.7 billion); and (iv) peso financing to cover the primary deficit and any needed debt amortization and interest in pesos.

44. Capacity to Repay. Under the baseline macro scenario, where only one tranche is drawn, Argentina's capacity to repay is good and reserves would remain adequate (Table 16). Under the adverse scenario, where all tranches are drawn, Argentina's capacity to the repay the Fund is assessed as adequate, although the Fund's exposure in terms of certain debt service metrics is at the higher end compared with other exceptional access cases (see the Supplement on the Assessment of the Risks to the Fund and the Fund's Liquidity Position for details). If all purchases were made as scheduled, Argentina's projected payments obligations to the Fund would peak in 2023 at SDR 11 billion, or 18 percent of official reserves at a time when gross reserves are projected to be about US$90 billion (Table 17). Public debt in the adverse scenario is expected to be sustainable but not with a high probability and to fall as a share of GDP through the course of the program. International reserves in the adverse scenario would remain adequate (albeit at lower levels than in the baseline). Argentina's impressive efforts over the past few years to strengthen institutions, improve governance, and increase transparency help provide assurances. Finally, a successful IMF-supported program in Argentina is likely to significantly reduce perceived sovereign and balance of payments risks which will be reflected in lower spreads and more open access to global capital markets.

45. Risks to the Program.

- These are inherent risks, as outlined in the adverse scenario, linked to the pace at which market confidence can be restored, especially if this was either caused by, or associated with, an abrupt tightening of global financial conditions. In the event markets view the Fund program as an opportunity to exit Argentine assets there would inevitably be a significant real depreciation, much higher real interest rates, and lower growth rates. Such a scenario would increase the risks to debt sustainability.

- There are somewhat lesser risks that arise from a shift in Argentina's terms of trade (for example from a fall in global soy prices), disruptions arising from changes in tariff policy by trading partners, or a weakening of the economies of regional neighbors.

- A rapid return of investor confidence could lead to significant capital inflows and, with still high inflation, result in an appreciation of the real exchange rate that prevents the REER from returning—as is assumed under the program—to a level that is consistent with medium-term fundamentals and desired policies.

- There are further risks arising from the authorities' strong political commitment to undertake the needed adjustment. The political pressure on the government, and possibly the social divisions that creates, could be sizable, particularly in the early stages of the program. If this were to lead to an inability to implement their policy plans then, not surprisingly, the framework would not hold together and program outcomes will be far from those that are forecast in this document.

46. Conditionality and Monitoring. Program performance will be monitored by quarterly reviews. The first review would be scheduled for Board consideration in September 2018 based on end-June 2018 targets. Quantitative and structural conditionality will be based on Table 2 and 3 of the authorities' Memorandum of Economic and Financial Policies.

47. Financing Assurances. The program is fully financed, given firm commitments for financing for the first 12 months of the arrangement and good prospects for full financing thereafter. This is based on a comprehensive assessment of the gross external and fiscal financing needs for the course of the program and realistic assumptions about the prospects for market issuance in the coming months. The World Bank has provided assurances for new support equivalent to US$1.75 billion in the next 12 months. The Interamerican Development Bank has also provided assurances for new budget support of US$0.6 billion during the same period. These amounts have been incorporated into the baseline under the program.

48. Safeguards Assessment. A safeguards assessment of the BCRA will be completed prior to the first review of the program. The assessment will also review the process of compiling monetary program data, including compliance with the Technical Memorandum of Understanding under the program.

49. Implications for Financial Transactions Plan.[3] The disbursement of SDR 10,613.7 million under the emergency financing mechanism represents the largest single purchase under any Fund arrangement. The timely execution of this disbursement, possibly under

[3] The current FTP for the May–October period was approved by the Executive Board on April 27, 2018. See Decision No. 16368-(18/38) and Financial Transactions Plan and NAB Resource Mobilization Plan for the Period May–October 2018 (EBS/18/30, 4/19/2018).

shortened timelines, will as always, rely on the international and cooperative nature of Fund financing through its creditor members under the Financial Transaction Plan (FTP). In parallel to the Executive Board's consideration of Argentina's SBA, staff will issue an amended FTP for the May–October 2018 period, which would augment the quota resources that may be used in transfers during the plan period. The amended FTP will need to be considered at short notice and would only become effective upon approval of Argentina's SBA.

50. Argentina continues to have outstanding arrears to private creditors and the Fund's lending into arrears policy will apply.

- The debt exchange undertaken by the government in 2016 reopened capital markets and resolved the bulk of the arrears that had built up over the past several years with the previous two administrations. However, a residual amount of arrears to private creditors remains unresolved (a total of around US$1.3 billion in principal or US$3 billion including accrued interest).

- Since taking office on December 2015, the current administration has sought to settle the outstanding claims with the holders of the defaulted bonds. On March 2016, Congress passed a Debt Authorization Law (*Ley de Normalización de la Deuda Pública y Acceso al Crédito*) which repealed various laws prohibiting payment or settlement on untendered debt, thus allowing the negotiation and settlement with certain debt holders and the issuance of new debt.

- The Ministry of Finance has designed a debt restructuring and cancellation program with the aim of reducing the amount of outstanding debt arrears. It has also designed several information dissemination campaigns—including in Germany, Japan, and Italy—to try to reach as many debt holders as possible. The Ministry of Finance has continued settling claims with untendered debt holders throughout this period. The terms offered to them are the same as those offered to the creditors who accepted in 2016. Litigation initiated by bondholders that have not responded to Argentina's settlement proposal (that the bulk of other creditors accepted in 2016) continues in several jurisdictions. As of end-December 2017, the outstanding principal amount of untendered debt that was not subject to a settlement agreement totaled approximately US$1.2 billion.

- Staff is of the view that, based on the authorities' actions, they are making good faith efforts as required under the Fund's Lending into Arrears policy.

Settlement of Untendered Debt as of December 31, 2017
(In billions of US$, unless otherwise noted)

	Nominal Amount	Claims	Agreements	Haircut (Percent)
Agreements	5.53	17.44	11.34	35
Pending	1.18	3.29	0.81	75
Total	**6.71**	**20.73**	**12.15**	**41**

Source: Ministry of Finance.

51. **There are limited outstanding arrears to official bilateral creditors.** These arrears, of approximately US$30 million claimed by the French export credit agency, relating to the building of a gas pipeline in the Tierra del Fuego region of Argentina by a French company in the late 1970s. The parties are currently in arbitration in the International Chamber of Commerce International Court of Arbitration.

EXCEPTIONAL ACCESS CRITERIA

52. **In view of Argentina's large balance of payments need, exceptional access would be required under the proposed program.** An evaluation of the exceptional access criteria finds that:

CRITERION 1. *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account resulting in a need for Fund financing that cannot be met within the normal limits.* The tightening of global financial conditions and a shift in portfolio preferences away from peso assets have led to exceptional capital account pressures. It is expected that, with the credible policy plan presented by the Argentine government and support from the international community, these pressures will dissipate. However, there is a risk that such a reversal in sentiment could occur over a more protracted period. Given the large size of Argentina's external financing need over the course of the proposed arrangement, this would give rise to a substantial external financing need that would not be able to be met within the normal limits of access.

CRITERION 2. *A rigorous and systematic analysis indicates that debt is sustainable but not with a high probability; exceptional access is justified as financing from sources other than the Fund improves debt sustainability and sufficiently enhances the safeguards for Fund resources.* In the baseline scenario—which assumes a partial draw—Argentina's federal government debt and gross financing needs are projected to remain below the respective risk thresholds (70 and 15 percent, respectively); and federal debt-GDP, after peaking this year, falls steadily over the medium term. There are, however, risks around this baseline: the large share of foreign currency debt, alongside significant rollover needs, leaves Argentina vulnerable to changing market sentiment; and there are potential contingent liabilities from the broader public sector. In an adverse scenario where events trigger a full draw of the arrangement, debt is likely to stabilize at a later date and at a higher level, with continued risks around this trajectory. Staff's assessment, therefore, is that debt is sustainable but not with a high probability under both the baseline and adverse scenarios. Exceptional access in such situations requires the existence of non-Fund financing that improves debt sustainability and enhances sufficient safeguards for Fund resources. Staff judges the requisite safeguards to be in place. Notably:

(i) The long maturity of Argentina's privately-held foreign currency-denominated debt improves the prospects of adequate private creditor exposure being maintained throughout the program. Of the outstanding stock of the federal government's foreign currency debt held outside the public sector ($156 billion), only about one-fifth is expected to mature by end-2020.

(ii) Argentina has access to both domestic and foreign financial markets. Provided such access continues to be on favorable terms and fiscal targets are met, debt sustainability should improve. The availability of market financing allows for some smoothing of the adjustment path, supporting higher growth and maintaining political and social consensus for the program. Argentina is expected to maintain substantial market access under a range of scenarios, which reduces the risk of Fund resources being used to pay out private creditors.

CRITERION 3. *Staff judges that the member has access to private capital markets on a scale that would enable the member to meet its obligations falling due to the Fund.* Argentina continues to maintain access to both domestic and foreign financial markets, as evidenced by recent peso- and US$-denominated bond placements in domestic markets and the rollover of 100 percent of the central bank's paper that came due on May 16. Global and domestic factors have, however, tightened external financing conditions and average yields on Argentina's external bonds have risen. Staff expects that with the successful implementation of Argentina's policy program, combined with support from the international community, there should be a steady restoration of confidence and a decline in costs of budgetary financing.

CRITERION 4. *Staff judges that the policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.* The Macri administration, which took office in December 2015, has shown its adeptness over the past two years in delivering on its policy priorities and unwinding a significant set of distortions while protecting the most vulnerable from the burden of adjustment. The administration is committed to prudent policy making, transparent government, and a strong governance framework. Staff deems the administration's institutional capacity and technical competence to be strong and fully able to deliver the core elements of the expected reform program. However, there is a concern linked to the government's ability to build support for possible policy measures that need to be passed by Congress (given that the governing coalition has a minority in both houses of Congress). Building a social consensus around the main elements of the program will be both critical and challenging, particularly given the difficult history of IMF lending to Argentina and very divided social and political views on the net benefits of seeking Fund support. Failing to do so would raise serious questions about the political sustainability of the authorities' reform efforts. Therefore, strong, sustained and consistent policy implementation will be crucial, and broad societal ownership of the government's economic plan, including in Congress, will be essential for program success. Discussions with the authorities already point to strong ownership of their policy framework and a high-level political commitment to partnering with the Fund in their efforts. There are, however, already significant domestic criticisms of the Fund's involvement in supporting Argentina and this is likely to present an ongoing challenge throughout the course of the arrangement.

STAFF APPRAISAL

53. Argentina is confronting a difficult situation in international markets and has come under significant balance of payments pressure. This chain of events has been a consequence of domestic policy choices, unforeseeable supply-side shocks, and a shifting environment in international capital markets. The authorities have responded to these shifts with appropriate policies on both the fiscal and monetary side and are to be commended for their swift action.

54. While capital outflows have stabilized, and pressures on the currency have waned, the situation remains fragile and Argentina is vulnerable, particularly to a further external shock either to the terms of trade or to financial market access. Argentina's sizable current account deficit, large external financing need, and relatively undiversified source of export earnings make it particularly exposed.

55. The program is based on strong ownership of a policy plan that has been developed by the Argentine government and is custom-tailored for the domestic situation that the people of Argentina face. The core of the program is centered on an ambitious fiscal adjustment over the course of the arrangement, underpinned by measures that are largely designed to contain federal expenditures and realign the government's outlays to be consistent with the revenue envelope that the country can mobilize. Equally important are steps to reinforce credibility of the inflation targets and to construct an institutional framework for monetary policy that create a well-managed, independent and financially autonomous central bank.

56. The government has emphasized in its policy plans the critical need to maintain social cohesion, move toward gender equality, and protect the most vulnerable. The government's strong commitment to these principles is clear. It can no longer be the case that IMF supported programs with Argentina are associated with austerity, worsening poverty, and a decline in living standards. The burden of the needed adjustment will be shared fairly across society. Those that are most vulnerable will be assisted by well-designed government support programs. Further, the program is designed to better realize the macroeconomic potential from women's full participation in the labor force and in the productive economy; these gains are judged to be large. The authorities' policy plans aim to fully capitalize on this economic potential and to ensure all Argentines are included in the country's future prosperity.

57. **Equally important will be structural measures to strengthen institutions and facilitate stronger growth.** These include a range of fiscal measures to improve the budgetary process and to provide a medium-term anchor for fiscal policy and for expectations. In addition, the government intends to redouble its efforts in tax administration and examine carefully the options for strengthening the pension system. Attention will also be paid to ensuring the financial system remains resilient and is well-placed to handle any fallout from a slowing economy and higher real interest rates.

58. **The staff supports the authorities request for a 36-month Stand-By Arrangement.** The government's economic plans will address longstanding vulnerabilities and provide time to the administration to undertake the needed realignment of policies. They will help ensure that the debt remains sustainable, that inflation comes down, and that growth and job creation will both increase alongside a path of declining poverty. As such, their plans merit the support of the international community.

Table 3. Argentina: Selected Economic and Financial Indicators

	Average 2009–14	2015	2016	2017	Proj. 2018	2019	2020	2021	2022	2023
					(Annual percentage changes unless otherwise indicated)					
National income, prices, and labor markets										
GDP at constant prices	1.5	2.7	-1.8	2.9	0.4	1.5	2.5	3.1	3.1	3.2
Domestic demand	2.6	4.2	-1.3	6.3	-1.4	0.5	2.0	2.7	2.8	3.0
Consumption	2.8	4.2	-0.8	3.3	-0.9	1.6	1.9	1.9	1.6	1.7
Private	2.6	3.7	-1.0	3.6	-0.6	2.3	2.5	2.4	1.9	2.0
Public	4.5	6.9	0.3	2.0	-2.2	-2.0	-1.6	-0.9	-0.4	-0.3
Investment	1.6	3.5	-4.9	11.3	-1.2	-2.1	3.0	6.8	8.3	8.3
Private	1.0	4.4	-5.3	11.0	1.9	2.5	4.0	7.1	8.0	6.8
Public	5.0	3.9	-4.7	13.5	-12.0	-19.1	-1.6	5.3	9.8	15.9
Exports	-1.0	-2.8	5.3	0.4	5.6	6.8	5.4	5.6	5.8	5.5
Imports	4.4	4.7	5.7	14.7	-2.7	1.6	3.1	3.8	4.1	4.2
Change in inventories and stat. disc. (contribution to growth)	0.1	0.2	0.2	1.6	-0.5	-0.5	0.0	0.0	0.0	0.0
Nominal GDP (billions of Argentine pesos)	2,609	5,955	8,189	10,558	13,240	16,068	18,746	21,227	23,191	25,135
Output gap (percent)	...	1.1	-1.8	-1.5	-2.9	-3.7	-3.3	-2.5	-1.8	-1.3
CPI inflation (eop, y/y percent change)	...	...	...	24.8	27.0	17.0	13.0	9.0	5.0	5.0
GDP deflator (y/y percent change)	...	26.6	40.1	25.3	24.9	19.6	13.8	9.9	5.9	5.1
Unemployment rate (percent)	7.5	...	8.5	8.4	8.5	8.6	8.4	8.2	8.0	7.8
					(Percent of GDP unless otherwise indicated)					
External sector										
Exports f.o.b. (goods, billions of U.S. dollars)	71.9	56.8	57.9	58.4	66.4	71.6	75.3	80.1	84.9	89.6
Imports f.o.b. (goods, billions of U.S. dollars)	60.2	57.6	53.5	64.0	65.7	67.7	72.2	77.4	82.1	86.8
Trade balance (goods, billions of U.S. dollars)	11.7	-0.8	4.4	-5.5	0.7	4.0	3.1	2.7	2.8	2.8
Trade balance (goods)	2.6	-0.1	0.8	-0.9	0.1	0.7	0.5	0.4	0.4	0.4
Terms of trade (percent change)	1.7	-4.4	6.0	-2.7	4.0	-1.9	-3.0	-1.4	-0.3	-0.1
Total external debt	34.7	27.9	34.2	37.0	51.3	52.6	52.0	50.8	50.0	49.2
Savings-Investment balance										
Gross domestic investment	16.3	15.6	14.6	14.8	15.1	14.8	14.9	15.5	16.4	17.2
Private	12.7	11.9	11.2	11.3	12.1	12.2	12.4	12.9	13.6	14.1
Public	3.6	3.6	3.4	3.5	3.1	2.6	2.5	2.6	2.7	3.1
Gross national savings	15.7	12.8	12.0	10.0	11.6	11.6	12.2	13.3	14.3	15.1
Private	15.0	15.0	14.9	12.9	13.7	12.8	12.6	13.4	14.1	14.4
Public	0.7	-2.1	-2.9	-3.0	-2.1	-1.2	-0.4	-0.1	0.1	0.7
Current account balance	-0.6	-2.7	-2.7	-4.8	-3.6	-3.2	-2.7	-2.2	-2.1	-2.1
Public sector 1/										
Primary balance	-1.9	-4.4	-4.7	-4.2	-2.8	-1.3	0.2	0.8	1.2	1.3
of which : Federal government	-3.4	-3.8	-4.2	-3.8	-2.7	-1.3	0.0	0.5	0.9	1.2
memo : Structural federal primary balance 2/	-1.4	-4.2	-4.5	-3.7	-2.1	-0.6	0.6	0.9	1.2	1.4
Overall balance	-2.9	-5.8	-6.4	-6.5	-5.1	-3.8	-2.9	-2.7	-2.6	-2.4
of which : Federal government	-2.4	-5.1	-5.8	-6.0	-5.0	-3.7	-3.0	-2.9	-2.7	-2.3
Revenues	31.7	35.4	35.1	34.8	35.0	35.6	35.8	35.8	35.5	35.2
Primary expenditure 3/	35.0	39.8	39.8	39.0	37.8	36.9	35.6	34.9	34.3	34.0
Total public debt (federal)	40.4	55.1	53.3	57.1	64.5	60.9	57.4	55.8	54.1	53.0
Money and credit										
Monetary base (eop, y/y percent change)	27.5	34.9	31.7	21.8	25.9	21.3	18.0	14.5	14.2	13.8
M2 (percent change)	28.7	28.2	30.4	25.8	22.5	25.3	18.6	14.5	14.2	13.8
Credit to the private sector (eop, y/y percent change)	28.9	35.7	31.2	51.3	34.9	21.9	18.0	23.8	16.9	16.2
Credit to the private sector real (eop, y/y percent change)	...	...	...	21.2	6.2	4.2	4.4	13.6	11.3	10.6
Interest rate (eop) 4/	16.3	32.2	23.9	28.8	37.2	22.5	15.8	11.0	10.0	9.7
Real interest rate (eop), 12-m ahead y/y inflation 4/	...	...	...	9.7	17.2	8.4	6.2	5.7	4.8	4.5
Real interest rate (eop), 1-m ahead m/m inflation 4/	...	...	...	7.4	14.2	6.6	4.5	4.5	4.7	4.4
Memorandum items										
Gross international reserves (billions of U.S. dollars)	42.0	25.6	39.3	55.1	65.4	69.0	79.7	88.4	96.0	103.8
Net international reserves, (billions of U.S. dollars) 5/	...	-1.5	10.3	27.9	29.7	33.4	44.0	54.6	69.8	83.2
Change in REER (eop, percent change)	8.4	5.3	-3.4	5.4	-18.1	3.9	0.7	0.1	0.0	0.0

Sources: Ministerio de Hacienda y Finanzas Públicas, Banco Central de la República Argentina (BCRA), and Fund staff estimates.

1/ The primary balance excludes profit transfers from the central bank of Argentina. Interest expenditure is net of property income from the social security fund before 2016.

2/ Percent of potential GDP.

3/ Includes transfers to municipalities, but excludes municipal spending.

4/ Average of all LEBAC maturities before 2017 and midpoint of the repo corridor starting in 2017; ex ante real rates.

5/ Assumes that entire first tranche would remain deposited at the BCRA. Projections and program targets will be adjusted accordingly upon changes.

Table 4. Argentina: Summary Balance of Payments, 2014–23

							Proj.			
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					(Billions of U.S. dollars)					
Current account	**-9.2**	**-17.6**	**-14.7**	**-30.8**	**-19.9**	**-18.6**	**-16.7**	**-14.6**	**-14.7**	**-15.5**
Trade balance in goods	5.5	-0.8	4.4	-5.5	0.7	4.0	3.1	2.7	2.8	2.8
Exports f.o.b.	68.4	56.8	57.9	58.4	66.4	71.6	75.3	80.1	84.9	89.6
Primary products	14.2	13.3	15.7	14.8	18.1	20.8	22.6	24.6	26.8	29.1
Manufactures of agricultural origin	26.4	23.3	23.3	22.5	22.6	22.7	23.4	24.7	25.9	27.2
Manufactures of industrial origin	22.9	18.0	16.9	18.7	22.0	24.7	25.8	27.3	28.6	29.7
Energy	5.0	2.2	2.0	2.4	3.6	3.4	3.5	3.5	3.6	3.6
Imports f.o.b.	62.9	57.6	53.5	64.0	65.7	67.7	72.2	77.4	82.1	86.8
Capital goods (includes parts and accessories)	23.7	23.4	22.4	26.6	26.5	27.6	29.9	32.4	34.9	37.3
Intermediate goods	17.9	17.3	14.8	17.1	17.3	16.9	18.0	19.7	21.4	23.2
Consumer goods	10.0	10.5	11.6	14.7	15.9	17.6	18.7	19.5	19.9	20.3
Fuels and lubricants	11.2	6.4	4.7	5.6	6.0	5.6	5.7	5.8	5.9	6.0
Trade balance in services	-4.6	-5.8	-8.2	-9.8	-8.8	-9.0	-9.7	-10.5	-11.0	-11.7
Exports	13.4	13.2	12.8	14.2	13.0	13.7	15.1	16.7	18.0	19.6
Imports	18.0	19.0	21.0	24.0	21.8	22.7	24.8	27.2	29.1	31.4
Primary income, net	-11.6	-12.1	-12.1	-15.9	-12.0	-13.8	-10.3	-7.0	-6.6	-6.8
Secondary income, net	1.5	1.1	1.2	0.4	0.3	0.2	0.2	0.2	0.2	0.2
Capital Account	**0.1**	**0.1**	**0.4**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account	**9.3**	**18.5**	**14.5**	**30.4**	**19.7**	**18.4**	**16.6**	**14.4**	**14.5**	**15.3**
Foreign direct investment, net	3.1	10.9	1.5	10.7	4.9	5.2	5.5	7.7	8.8	9.9
Portfolio investment, net	-2.3	0.4	35.3	34.7	42.1	23.0	23.6	25.2	20.6	25.4
Derivatives, net	0.2	0.0	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	9.5	2.2	-7.7	-0.5	-23.7	-6.2	-1.9	-2.7	-7.3	-12.2
Reserve assets	-1.2	4.9	-14.3	-14.6	-3.6	-3.6	-10.6	-15.7	-7.6	-7.8
Errors and Omissions	**-0.2**	**-0.9**	**-0.2**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
					(Percent of GDP)					
Current account	**-1.6**	**-2.7**	**-2.7**	**-4.8**	**-3.6**	**-3.2**	**-2.7**	**-2.2**	**-2.1**	**-2.1**
Trade balance in goods	1.0	-0.1	0.8	-0.9	0.1	0.7	0.5	0.4	0.4	0.4
Exports, f.o.b.	12.1	8.8	10.5	9.2	11.9	12.4	12.2	12.1	12.2	12.2
Imports f.o.b.	-11.2	-9.0	-9.7	-10.0	-11.8	-11.7	-11.7	-11.7	-11.8	-11.8
Trade balance in services	-0.8	-0.9	-1.5	-1.5	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Exports	2.4	2.1	2.3	2.2	2.3	2.4	2.4	2.5	2.6	2.7
Imports	-3.2	-3.0	-3.8	-3.8	-3.9	-3.9	-4.0	-4.1	-4.2	-4.3
Primary income, net	-2.1	-1.9	-2.2	-2.5	-2.2	-2.4	-1.7	-1.1	-1.0	-0.9
Secondary income, net	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital Account	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	1.7	2.9	2.6	4.8	3.5	3.2	2.7	2.2	2.1	2.1
Foreign direct investment, net	0.6	1.7	0.3	1.7	0.9	0.9	0.9	1.2	1.3	1.3
Portfolio investment, net	-0.4	0.1	6.4	5.4	7.6	4.0	3.8	3.8	3.0	3.5
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	1.7	0.3	-1.4	-0.1	-4.2	-1.1	-0.3	-0.4	-1.1	-1.7
Reserve assets										
Memorandum items:										
Exports volumes (percent change)	-7.8	-1.6	6.8	-0.4	5.8	7.6	5.6	5.7	5.8	5.5
Imports volumes (percent change)	-10.8	2.6	3.6	14.2	0.2	0.2	4.0	5.0	5.5	5.6
Gross international reserves (billions of U.S. dollars) 1/	31.4	25.6	39.3	55.1	65.4	69.0	79.7	88.4	96.0	103.8
Net international reserves (billions of U.S. dollars) 1/	…	-1.5	10.3	27.9	29.7	33.4	44.0	54.6	69.8	83.2
Net International Investment Position (percent of GDP)	9.7	8.8	9.3	3.5	9.0	8.0	6.3	5.3	5.1	5.4
Terms of Trade (Index, 2000 = 100)	529.4	505.9	536.1	521.7	542.3	531.9	515.8	508.4	507.1	506.8
Real effective exchange rate (percent change)	6.9	5.3	-3.4	5.4	-18.1	3.9	0.7	0.1	0.0	0.0

1/ Assumes that entire first tranche would remain deposited at the BCRA. Projections and program targets will be adjusted accordingly upon changes.

Sources: INDEC, Fund staff estimates and projections.

Table 5. Argentina: Consolidated Public Sector Operations, 2011–23

								Proj.					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
							(Billions of Argentine pesos)						
Revenues	**700.7**	**891.7**	**1,150.1**	**1,584.4**	**2,106.6**	**2,871.6**	**3,669.8**	**4,633.7**	**5,718.0**	**6,705.3**	**7,594.7**	**8,234.5**	**8,859.4**
Tax revenues	489.2	613.6	792.1	1,095.7	1,429.9	1,952.8	2,452.0	3,076.3	3,794.8	4,477.1	5,111.0	5,597.4	6,046.6
Social security contributions	167.8	219.5	287.8	378.3	529.5	709.8	919.0	1,153.2	1,429.1	1,673.5	1,890.5	2,013.6	2,167.2
Other revenues	43.7	58.6	70.2	110.4	147.2	209.0	298.8	404.2	494.1	554.7	593.3	623.5	645.6
Primary Expenditures 1/	**735.3**	**936.4**	**1,238.5**	**1,744.6**	**2,368.9**	**3,255.5**	**4,114.5**	**4,998.7**	**5,926.7**	**6,670.7**	**7,417.3**	**7,966.1**	**8,543.9**
Wages	227.6	294.4	378.2	523.7	738.7	1,008.4	1,277.9	1,527.6	1,801.6	2,055.8	2,231.3	2,347.5	2,427.7
Goods and services	53.3	64.3	86.3	120.3	169.7	205.8	280.9	313.7	364.5	409.5	451.6	479.3	499.9
Transfers to the private sector	277.2	356.0	466.1	663.0	932.0	1,343.4	1,655.1	2,070.5	2,514.5	2,789.0	3,111.5	3,342.8	3,576.4
Of which: federal pensions	147.1	204.6	272.1	363.4	535.7	734.7	1,022.5	1,312.1	1,643.4	1,927.2	2,173.9	2,368.6	2,511.8
Capital spending	77.7	83.2	121.0	171.6	216.6	280.1	373.4	404.4	416.0	467.6	552.2	634.5	775.3
Other	99.4	138.5	186.9	266.0	311.9	417.9	527.3	682.5	830.0	948.9	1,070.7	1,162.0	1,264.5
Primary balance	**-34.6**	**-44.7**	**-88.4**	**-160.2**	**-262.3**	**-383.9**	**-444.6**	**-365.0**	**-208.7**	**34.6**	**177.4**	**268.4**	**315.5**
Interest cash	25.2	34.9	20.6	34.5	82.3	136.7	240.7	313.4	403.7	582.6	753.0	873.3	916.8
Overall balance	**-59.8**	**-79.6**	**-108.9**	**-194.7**	**-344.6**	**-520.6**	**-685.4**	**-678.4**	**-612.4**	**-548.0**	**-575.6**	**-604.9**	**-601.3**
							(Percent of GDP unless otherwise indicated)						
Revenues	**32.2**	**33.8**	**34.3**	**34.6**	**35.4**	**35.1**	**34.8**	**35.0**	**35.6**	**35.8**	**35.8**	**35.5**	**35.2**
Tax revenues	22.4	23.3	23.7	23.9	24.0	23.8	23.2	23.2	23.6	23.9	24.1	24.1	24.1
Social security contributions	7.7	8.3	8.6	8.3	8.9	8.7	8.7	8.7	8.9	8.9	8.9	8.7	8.6
Other revenues	2.0	2.2	2.1	2.4	2.5	2.6	2.8	3.1	3.1	3.0	2.8	2.7	2.6
Primary expenditures 1/	**33.7**	**35.5**	**37.0**	**38.1**	**39.8**	**39.8**	**39.0**	**37.8**	**36.9**	**35.6**	**34.9**	**34.3**	**34.0**
Wages	10.4	11.2	11.3	11.4	12.4	12.3	12.1	11.5	11.2	11.0	10.5	10.1	9.7
Goods and services	2.4	2.4	2.6	2.6	2.8	2.5	2.7	2.4	2.3	2.2	2.1	2.1	2.0
Transfers to the private sector	12.7	13.5	13.9	14.5	15.7	16.4	15.7	15.6	15.6	14.9	14.7	14.4	14.2
Of which: federal pensions	6.8	7.8	8.1	7.9	9.0	9.0	9.7	9.9	10.2	10.3	10.2	10.2	10.0
Capital spending	3.6	3.2	3.6	3.7	3.6	3.4	3.5	3.1	2.6	2.5	2.6	2.7	3.1
Other	4.6	5.3	5.6	5.8	5.2	5.1	5.0	5.2	5.2	5.1	5.0	5.0	5.0
Primary balance	**-1.6**	**-1.7**	**-2.6**	**-3.5**	**-4.4**	**-4.7**	**-4.2**	**-2.8**	**-1.3**	**0.2**	**0.8**	**1.2**	**1.3**
Interest cash	1.2	1.3	0.6	0.8	1.4	1.7	2.3	2.4	2.5	3.1	3.5	3.8	3.6
Overall balance	**-2.7**	**-3.0**	**-3.3**	**-4.3**	**-5.8**	**-6.4**	**-6.5**	**-5.1**	**-3.8**	**-2.9**	**-2.7**	**-2.6**	**-2.4**
Structural primary balance (General Government) 2/	**-2.6**	**-2.3**	**-3.5**	**-3.3**	**-5.0**	**-4.8**	**-3.9**	**-1.9**	**-0.3**	**1.1**	**1.5**	**1.6**	**1.6**
Structural primary balance (Federal) 2/	**-1.5**	**-1.7**	**-3.0**	**-3.4**	**-4.2**	**-4.5**	**-3.7**	**-2.1**	**-0.6**	**0.6**	**0.9**	**1.2**	**1.4**
Structural primary balance (Provinces) 2/	**-1.1**	**-0.6**	**-0.5**	**0.1**	**-0.8**	**-0.3**	**-0.2**	**0.2**	**0.3**	**0.4**	**0.5**	**0.4**	**0.2**

Sources: Ministerio de Economía y Finanzas Públicas and Fund staff calculations.

1/ Include transfers to municipalities, but exclude municipal spending.

2/ Percent of potential GDP.

Table 6. Argentina: Federal Government Operations, 2015–23

				Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023
				(Billions of Argentine pesos)					
Revenues	**1,609.8**	**2,180.9**	**2,754.8**	**3,512.8**	**4,373.8**	**5,174.5**	**5,925.0**	**6,479.9**	**7,008.0**
Tax revenues	1,115.2	1,528.3	1,874.4	2,365.2	2,931.8	3,489.0	4,034.6	4,467.8	4,847.5
Social security contributions	419.4	558.1	727.3	912.7	1,137.3	1,333.0	1,505.0	1,592.4	1,710.7
Nontax revenues	75.2	94.6	153.2	234.9	304.7	352.5	385.5	419.6	449.8
Primary expenditures	**1,834.4**	**2,524.5**	**3,159.0**	**3,871.1**	**4,584.8**	**5,170.4**	**5,818.6**	**6,269.2**	**6,708.1**
Federal expenditures	1,331.2	1,835.0	2,232.8	2,694.5	3,188.5	3,480.9	3,862.7	4,131.2	4,420.6
Wages 1/	236.8	316.8	401.0	489.2	580.9	640.6	680.4	693.4	695.1
Goods and services 1/	78.9	91.8	121.3	123.3	141.0	153.3	167.7	176.6	182.5
Pensions	535.7	734.7	1,022.5	1,312.1	1,643.4	1,927.2	2,173.9	2,368.6	2,511.8
Current transfers to private sector	322.4	511.0	507.1	594.4	672.3	629.7	674.9	687.2	728.3
Social assistance	138.2	219.9	282.0	351.6	431.9	477.5	534.6	576.2	607.6
Energy	124.0	209.2	125.7	149.3	141.0	95.9	104.5	98.3	107.3
Transport	57.1	80.2	90.5	93.6	99.4	56.4	35.8	12.7	13.5
Other	3.1	1.7	9.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital spending	91.7	117.8	121.1	99.9	78.6	73.9	106.4	147.5	247.5
Other current primary spending	65.7	62.8	59.7	75.5	72.3	56.2	59.4	58.0	55.3
Transfers to provinces	503.2	689.5	926.2	1,176.6	1,396.3	1,689.5	1,955.9	2,138.0	2,287.5
Automatic	406.4	551.6	756.8	1,027.0	1,327.2	1,622.0	1,885.8	2,066.1	2,214.6
Discretionary	96.8	137.8	169.5	149.6	69.1	67.5	70.0	71.9	72.9
Capital	69.2	64.3	86.8	68.8	27.3	18.7	21.2	23.2	25.1
Current	27.6	73.6	82.7	80.8	41.8	48.7	48.8	48.7	47.8
Primary balance	**-224.6**	**-343.5**	**-404.1**	**-358.3**	**-211.0**	**4.1**	**106.4**	**210.6**	**299.9**
Interest cash (net of ANSES and public sector)	79	131.3	224.9	301.8	387.8	560.8	724.6	839.1	880.8
Overall balance	**-303.8**	**-474.8**	**-629.0**	**-660.1**	**-598.8**	**-556.7**	**-618.2**	**-628.4**	**-580.9**
Memorandum items:									
Capital spending, including capital transfers to provinces	160.9	182.0	207.9	168.8	105.9	92.6	127.7	170.7	272.6
Arrears and advances	0.0	-33.0	16.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-224.6	-310.5	-420.1	-358.3	-211.0	4.1	106.4	210.6	299.9
Overall balance, accrual basis	-303.8	-441.8	-645.0	-660.1	-598.8	-556.7	-618.2	-628.4	-580.9
Structural primary balance	-249.0	-375.2	-392.9	-290.8	-101.2	120.1	204.4	289.2	361.0
					(Percent of GDP)				
Revenues	**27.0**	**26.6**	**26.1**	**26.5**	**27.2**	**27.6**	**27.9**	**27.9**	**27.9**
Tax revenues	18.7	18.7	17.8	17.9	18.2	18.6	19.0	19.3	19.3
Social security contributions	7.0	6.8	6.9	6.9	7.1	7.1	7.1	6.9	6.8
Nontax revenues	1.3	1.2	1.5	1.8	1.9	1.9	1.8	1.8	1.8
Primary expenditures	**30.8**	**30.8**	**29.9**	**29.2**	**28.5**	**27.6**	**27.4**	**27.0**	**26.7**
Federal expenditures	22.4	22.4	21.1	20.4	19.8	18.6	18.2	17.8	17.6
Wages 1/	4.0	3.9	3.8	3.7	3.6	3.4	3.2	3.0	2.8
Goods and services 1/	1.3	1.1	1.1	0.9	0.9	0.8	0.8	0.8	0.7
Pensions	9.0	9.0	9.7	9.9	10.2	10.3	10.2	10.2	10.0
Current transfers to private sector	5.4	6.2	4.8	4.5	4.2	3.4	3.2	3.0	2.9
Social assistance	2.3	2.7	2.7	2.7	2.7	2.5	2.5	2.5	2.4
Energy	2.1	2.6	1.2	1.1	0.9	0.5	0.5	0.4	0.4
Transport	1.0	1.0	0.9	0.7	0.6	0.3	0.2	0.1	0.1
Other	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital spending	1.5	1.4	1.1	0.8	0.5	0.4	0.5	0.6	1.0
Other current primary spending	1.1	0.8	0.6	0.6	0.4	0.3	0.3	0.3	0.2
Transfers to provinces	8.5	8.4	8.8	8.9	8.7	9.0	9.2	9.2	9.1
Automatic	6.8	6.7	7.2	7.8	8.3	8.7	8.9	8.9	8.8
Discretionary	1.6	1.7	1.6	1.1	0.4	0.4	0.3	0.3	0.3
Capital	1.2	0.8	0.8	0.5	0.2	0.1	0.1	0.1	0.1
Current	0.5	0.9	0.8	0.6	0.3	0.3	0.2	0.2	0.2
Primary balance	**-3.8**	**-4.2**	**-3.8**	**-2.7**	**-1.3**	**0.0**	**0.5**	**0.9**	**1.2**
Interest cash (net of ANSES and public sector)	1.3	1.6	2.1	2.3	2.4	3.0	3.4	3.6	3.5
Overall balance	**-5.1**	**-5.8**	**-6.0**	**-5.0**	**-3.7**	**-3.0**	**-2.9**	**-2.7**	**-2.3**
Memorandum items:									
Capital spending, including capital transfers to provinces	2.7	2.2	2.0	1.3	0.7	0.5	0.6	0.7	1.1
Arrears and advances	0.0	-0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-3.8	-3.8	-4.0	-2.7	-1.3	0.0	0.5	0.9	1.2
Overall balance, accrual basis	-5.1	-5.4	-6.1	-5.0	-3.7	-3.0	-2.9	-2.7	-2.3
Structural primary balance 2/	-4.2	-4.5	-3.7	-2.1	-0.6	0.6	0.9	1.2	1.4

Sources: Ministerio de Economía y Finanzas Públicas and Fund staff calculations.

1/ It includes universities.

2/ Percent of potential GDP.

Table 7. Argentina: Summary Operations of the Financial System, 2015–23

(Billions of Argentine pesos, end of period, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Proj.					
				I. Central Bank					
Net foreign assets	-19.0	162.9	524.5	788.1	974.6	1,357.4	1,793.8	2,348.2	2,896.7
Net domestic assets	642.9	658.8	476.6	472.1	554.5	446.4	270.7	9.6	-213.5
Credit to the public sector (net)	1,194.4	1,459.9	1,741.1	2,155.3	2,047.1	1,938.3	1,806.5	1,627.4	1,447.5
Credit to the financial sector (net)	-401.7	-589.4	-681.2	-734.9	-922.9	-1,200.6	-1,190.1	-1,168.7	-1,088.7
Official capital and other items (net)	-149.8	-211.8	-583.3	-948.3	-569.6	-291.3	-345.8	-449.1	-572.2
Monetary base	623.9	821.7	1,001.1	1,260.2	1,529.1	1,803.8	2,064.4	2,357.9	2,683.2
Currency issued	478.8	594.6	786.7	990.3	1,201.6	1,417.5	1,622.3	1,852.9	2,108.6
Bank deposits at the Central Bank	145.1	227.0	214.4	269.9	327.5	386.3	442.1	505.0	574.6
				II. Consolidated Financial System					
Net foreign assets	-20.6	196.0	511.0	723.0	912.9	1,302.2	1,743.6	2,307.8	2,866.2
Net domestic assets	1,507.2	1,847.3	2,151.3	2,697.7	3,402.6	3,975.8	4,489.9	4,835.5	5,305.8
Credit to the public sector (net)	1,110.2	1,361.5	1,620.1	2,122.5	2,049.6	1,941.2	1,805.6	1,637.9	1,532.5
Credit to the private sector	858.3	1,124.6	1,701.2	2,298.1	2,801.7	3,304.8	4,092.2	4,782.0	5,554.8
Net capital, reserves, and other assets	-461.3	-638.9	-1,170.0	-1,722.9	-1,448.7	-1,270.2	-1,407.8	-1,584.5	-1,781.5
Liabilities with the private sector	1,484.7	2,042.8	2,662.1	3,420.4	4,315.1	5,277.7	6,233.3	7,143.0	8,171.7
Currency outside banks	425.5	527.6	702.0	872.6	1,058.7	1,248.9	1,429.4	1,632.6	1,857.8
Local currency deposits	920.4	1,158.5	1,464.1	1,794.0	2,319.8	2,914.6	3,467.0	3,966.8	4,514.1
Foreign currency deposits	138.7	356.6	495.9	753.8	936.6	1,114.2	1,336.9	1,543.7	1,799.8
				I. Central Bank (Percent of GDP)					
Net foreign assets	-0.3	2.0	5.0	6.0	6.1	7.2	8.5	10.1	11.5
Net domestic assets	10.8	8.0	4.5	3.6	3.5	2.4	1.3	0.0	-0.8
Credit to the public sector (net)	20.1	17.8	16.5	16.3	12.7	10.3	8.5	7.0	5.8
Credit to the private sector	-6.7	-7.2	-6.5	-5.6	-5.7	-6.4	-5.6	-5.0	-4.3
Official capital and other items (net)	-2.5	-2.6	-5.5	-7.2	-3.5	-1.6	-1.6	-1.9	-2.3
Monetary base	10.5	10.0	9.5	9.5	9.5	9.6	9.7	10.2	10.7
Currency issued	8.0	7.3	7.5	7.5	7.5	7.6	7.6	8.0	8.4
Bank deposits at the central bank	2.4	2.8	2.0	2.0	2.0	2.1	2.1	2.2	2.3
				II. Consolidated Financial System (Percent of GDP)					
Net foreign assets	-0.3	2.4	4.8	5.5	5.7	6.9	8.2	10.0	11.4
Net domestic assets	25.3	22.6	20.4	20.4	21.2	21.2	21.2	20.9	21.1
Credit to the public sector (net)	18.6	16.6	15.3	16.0	12.8	10.4	8.5	7.1	6.1
Credit to the private sector	14.4	13.7	16.1	17.4	17.4	17.6	19.3	20.6	22.1
Net capital, reserves, and other assets	-7.7	-7.8	-11.1	-13.0	-9.0	-6.8	-6.6	-6.8	-7.1
Liabilities with the private sector	24.9	24.9	25.2	25.8	26.9	28.2	29.4	30.8	32.5
Currency outside banks	7.1	6.4	6.6	6.6	6.6	6.7	6.7	7.0	7.4
Local currency deposits	15.5	14.1	13.9	13.5	14.4	15.5	16.3	17.1	18.0
Foreign currency deposits	2.3	4.4	4.7	5.7	5.8	5.9	6.3	6.7	7.2
				Changes in monetary base (y/y, in AR$ billion)					
Monetary base	161.3	197.8	179.4	259.1	268.9	274.6	260.7	293.5	325.3
Foreign exchange purchases	-69.5	209.1	266.3	-391.0	101.5	322.4	307.2	379.1	362.3
Public sector	175.7	151.2	142.8	100.1	-260.4	-190.3	-216.8	-208.4	-213.8
Sterilization, net (-)	-2.4	-176.6	-226.7	550.7	427.8	142.5	170.3	122.8	176.8
Other items, net	57.5	14.0	-2.9	-0.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
M2 1/	1,052.6	1,372.3	1,726.5	2,115.5	2,650.9	3,145.1	3,599.6	4,111.2	4,678.5
M2 (percent change) 1/	28.2	30.4	25.8	22.5	25.3	18.6	14.5	14.2	13.8
Gross international reserves (US$ billions)	25.6	39.3	55.1	65.4	69.0	79.7	88.4	96.0	103.8
Credit to the private sector (eop, y/y percent change)	35.7	31.2	51.3	34.9	21.9	18.0	23.8	16.9	16.2
Credit to the private sector real (eop, y/y percent change)	…	…	21.2	6.2	4.2	4.4	13.6	11.3	10.6
Interest rate (eop) 2/	32.2	23.9	28.8	37.2	22.5	15.8	11.0	10.0	9.7
Real interest rate (eop), 12-m ahead y/y inflation 2/	…	…	9.7	17.2	8.4	6.2	5.7	4.8	4.5

Sources: Banco Central de la República Argentina (BCRA) and Fund staff estimates.

1/ Currency in circulation outside banks plus peso-denominated deposits in checking and savings accounts.

2/ Average of all LEBAC maturities before 2017 and midpoint of the repo corridor starting in 2017; ex ante real rates.

Table 8. Argentina: External Debt, 2011–23

	2011	2012	2013	2014	2015	2016	2017	Proj. 2018	2019	2020	2021	2022	2023
							(Billions of U.S. dollars)						
Total external debt (gross; includes holdouts)	167.5	168.0	167.0	170.4	178.9	189.6	235.7	285.7	303.4	320.7	337.2	348.1	362.0
Percent of GDP	*31.7*	*29.0*	*27.3*	*30.2*	*27.9*	*34.2*	*37.0*	*51.3*	*52.6*	*52.0*	*50.8*	*50.0*	*49.2*
By type of creditor													
Debt to official creditors	30.4	28.1	26.5	38.4	46.0	50.3	55.5	68.1	74.4	80.4	86.4	92.5	98.7
Debt to banks	8.9	9.0	8.3	7.5	6.2	6.5	8.1	9.8	10.4	11.0	11.6	12.0	12.5
Debt to other private creditors	128.2	130.8	132.1	124.5	126.7	132.8	172.1	207.8	218.6	229.2	239.2	243.7	250.9
By type of debtor													
Official debt	103.8	103.3	103.0	109.9	113.2	130.2	164.1	207.7	221.8	235.1	247.6	254.9	265.2
Bank debt	5.4	4.2	4.3	4.1	5.3	5.3	8.9	11.3	12.5	14.1	15.7	17.3	18.9
Non-financial private sector	58.2	60.4	59.8	56.4	60.5	54.1	62.7	66.7	69.1	71.5	73.9	75.9	77.9

Sources: Instituto Nacional de Estadística y Censos (INDEC), Banco Central de la República Argentina (BCRA), and Fund staff estimates.

Table 9. Argentina: Public Debt, 2011–23

	2011	2012	2013	2014	2015	2016	2017	Proj. 2018	2019	2020	2021	2022	2023
							(Billions of Argentine pesos)						
Gross federal debt	818	1,027	1,396	1,996	3,280	4,366	6,025	8,543	9,786	10,752	11,840	12,536	13,329
By currency:													
In domestic currency	307	399	503	666	1,210	1,401	1,904	2,084	2,576	3,028	3,476	4,122	4,519
In foreign currency	511	629	893	1,330	2,070	2,965	4,121	6,460	7,210	7,724	8,364	8,415	8,811
By residency:													
Held by external residents	309	352	471	675	1,210	1,727	2,339	3,500	4,334	4,974	5,678	6,163	6,597
Held by domestic residents	509	675	925	1,321	2,069	2,639	3,686	5,043	5,452	5,777	6,162	6,373	6,733
							(Percent of GDP)						
Gross federal debt	37.5	38.9	41.7	43.6	55.1	53.3	57.1	64.5	60.9	57.4	55.8	54.1	53.0
By currency:													
In domestic currency	14.1	15.1	15.0	14.5	20.3	17.1	18.0	15.7	16.0	16.2	16.4	17.8	18.0
In foreign currency	23.4	23.8	26.7	29.0	34.8	36.2	39.0	48.8	44.9	41.2	39.4	36.3	35.1
By residency:													
Held by external residents	14.2	13.4	14.1	14.7	20.3	21.1	22.1	26.4	27.0	26.5	26.7	26.6	26.2
Held by domestic residents	23.4	25.6	27.6	28.8	34.8	32.2	34.9	38.1	33.9	30.8	29.0	27.5	26.8

Sources: Ministerio de Economía y Finanzas Públicas and Fund staff estimates.

Table 10. Argentina: Federal Government Gross Financing Needs and Sources

(US$mn, as of May 31, 2018)

	2018			2018	2019				2019	2020	2021
	June	Q3	Q4		Q1	Q2	Q3	Q4			
Primary Balance	3,094	3,999	5,054		631	2,441	1,951	2,466		(1,138)	(5,552)
Interest	2,817	2,642	6,011		2,353	4,888	1,917	4,413		19,721	24,349
FX	1,538	1,117	3,844		1,366	3,154	1,116	2,764		12,207	15,072
of which: to non-public sector	756	956	2,829		1,203	2,313	1,038	1,892		9,369	11,567
AR$	1,279	1,525	2,167		987	1,734	801	1,648		7,514	9,277
of which: to non-public sector	306	507	1,225		452	1,197	429	1,193		4,754	5,869
Amortizations	6,359	15,396	29,789		17,769	20,335	9,036	15,918		47,979	39,651
FX	2,774	6,799	11,870		7,776	13,798	6,527	5,979		25,930	21,430
of which: to non-public sector	2,333	6,524	8,539		5,629	13,694	6,480	5,934		24,149	19,957
AR$	3,586	8,597	17,920		9,993	6,537	2,509	9,939		22,049	18,221
of which: to non-public sector	173	3,775	1,591		1,825	84	99	100		1,604	1,326
Reducing liabilities with the BCRA	5,000	1,933	314		5,205	1,037	3,820	1,481		6,300	-
Total Needs	17,270	23,970	41,168	**82,408**	25,958	28,701	16,725	24,278	**95,661**	**72,862**	**58,448**
Deposit drawdown	5,000	2,237	-		-	-	-	-		-	-
IFIs	251	754	754		1,200	1,200	1,200	1,200		1,300	2,400
Intra-Public Sector Rollovers	4,128	5,459	21,055		11,516	7,320	2,743	11,035		21,500	15,500
Private Sector Rollovers	1,347	7,941	7,452		6,930	10,047	6,075	5,580		25,542	26,581
of which: FX	1,344	4,544	6,020		5,105	9,963	5,976	5,480		23,000	23,000
Public Sector New Borrowing	1,500	5,277	11,753		16,750	5,013	5,250	2,603		24,520	13,967
of which: External	-	3,000	753		12,000	-	-	-		10,500	6,000
Total Sources	12,226	21,668	41,014	**74,908**	36,396	23,581	15,268	20,417	**95,661**	**72,862**	**58,448**
Gap	5,044	2,302	154	**7,500**	(10,438)	5,120	1,457	3,861	**0**	**0**	**0**
Memo Items:											
Interest to Non-residents	743	1,024	2,838		1,156	2,454	1,025	2,157		7,889	4,870
FX	529	669	1,980		840	1,614	724	1,321			
AR$	214	355	858		317	839	301	837			
Amortization to Non-Residents	7,276	10,605	8,199		3,033	8,503	3,443	3,369		8,156	10,706
FX	1,907	5,332	6,979		2,624	6,384	3,021	2,766			
AR$	64	1,407	593		217	-	-	-			
LEBACs	5,305	3,866	627		191	2,119	422	603		632	-

Table 11. Argentina: External Gross Financing Needs and Sources

(US$mn, as of May 31, 2018)

	2018			2018	2019				2019	2020	2021
	June	**Q3**	**Q4**		**Q1**	**Q2**	**Q3**	**Q4**			
Imports G&S	7,971	22,625	23,081		20,510	22,639	23,375	23,846		96,978	104,634
Debt Service	1,306	2,713	4,527		2,846	4,145	2,716	3,849		10,194	6,697
Public Sector	743	1,024	2,838		1,156	2,454	1,025	2,157		7,889	4,870
Private Sector	563	1,690	1,689		1,689	1,691	1,691	1,691		2,305	1,828
Amortizations	7,892	11,709	9,908		4,043	9,094	3,796	3,916		19,636	20,446
Public Sector	1,971	6,739	7,572		2,841	6,384	3,021	2,766		8,156	10,706
Private Sector	616	1,103	1,709		1,011	592	353	547		10,848	9,740
LEBAC to Non-residents	5,305	3,866	627		191	2,119	422	603		632	-
Other outflows	2,882	1,089	(1,707)		13,694	(6,652)	(4,191)	(3,033)		(13,786)	(19,422)
Total Needs	20,051	38,136	35,810	**93,996**	41,093	29,226	25,696	28,578	**124,594**	113,022	112,355
Exports G&S	7,555	19,848	19,042		20,198	23,292	21,344	20,477		90,343	96,784
FDI	428	573	2,580		989	871	614	2,767		5,521	7,678
IFIs	251	754	754		1,200	1,200	1,200	1,200		1,300	2,400
Private Sector Rollover and Issuances	872	2,617	3,056		2,700	2,283	2,044	2,238		7,531	4,519
LEBAC rollovers of Non-Residents	1,620	1,180	191		19	212	42	60		316	-
Public Sector Rollover and Issuances	1,478	8,054	6,432		14,131	4,788	2,266	2,075		18,656	16,706
Rollover	1,478	5,054	5,679		2,131	4,788	2,266	2,075		8,156	10,706
Issuances	-	3,000	753		12,000	-	-	-		10,500	6,000
Reserve Drawdown (- = accumulation)	756	956	-		1,856	(3,420)	(1,814)	(239)		(10,646)	(15,732)
Total Sources	12,960	33,982	32,054	**78,996**	41,093	29,225	25,697	28,578	**124,593**	113,022	112,355
Gap	7,091	4,154	3,755	**15,000**	0	0	(0)	(0)	0	(0)	0

Table 12. Argentina: Evolution of the BCRA's Balance Sheet
(in billions of Argentine pesos unless otherwise stated)

	2018				2019			
	May	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Analytical balance sheet (eop, billion ARS)								
Net Domestic Assets	433	312	380	472	535	493	471	554
Credit to government 1/	2204	2309	2221	2157	2113	2065	2057	2049
LEBAC 2/	1215	1170	1054	782	686	679	686	574
Net Foreign Assets	588	804	783	788	757	871	944	975
Monetary base	1020	1117	1163	1260	1292	1364	1415	1529
Memorandum items								
Credit to government (% of GDP) 1/	17.6%	17.9%	16.3%	15.1%	14.0%	13.1%	12.5%	12.0%
Stock of LEBAC (% of GDP) 2/	9.7%	9.1%	7.7%	5.5%	4.6%	4.3%	4.2%	3.4%
Growth rate of monetary base (% change, yoy)		34.0%	34.0%	25.9%	29.8%	22.2%	21.6%	21.3%
Growth rate of nominal GDP (% change, yoy)		21.7%	24.5%	23.9%	23.9%	22.0%	20.5%	19.4%

Notes: 1/ As defined in the TMU; 2/ Assumes no sterilization of budget support usage, as permitted by the program adjustors; includes LELIQ.

Table 13. Argentina: Schedule of Reviews and Purchases

Available on or after	Amount of Purchase		Conditions 1/
	SDR millions	% Quota	
June 20, 2018	10,613.71	333%	Approval of Arrangement
September 15, 2018	2,063.78	65%	First Review and end-June 2018 performance criteria
December 15, 2018	2,063.78	65%	Second Review and end-September 2018 performance criteria
March 15, 2019	2,063.78	65%	Third Review and end-December 2018 performance criteria
June 15, 2019	2,063.78	65%	Fourth Review and end-March 2019 performance criteria
September 15, 2019	2,063.78	65%	Fifth Review and end-June 2019 performance criteria
December 15, 2019	2,063.78	65%	Sixth Review and end-September 2019 performance criteria
March 15, 2020	2,063.78	65%	Seventh Review and end-December 2019 performance criteria
June 15, 2020	2,063.78	65%	Eigth Review and end-March 2020 performance criteria
September 15, 2020	2,063.78	65%	Ninth Review and end-June 2020 performance criteria
December 15, 2020	2,063.78	65%	Tenth Review and end-September 2020 performance criteria
March 15, 2021	2,063.78	65%	Eleventh Review and end-December 2020 performance criteria
June 1, 2021	2,063.71	65%	Twelfth Review and end-March 2021 performance criteria
Total	35,379	1110%	

1/ Apart from periodic performance criteria, conditions also include continuous performance criteria.

Table 14. Argentina: Quantitative Performance Criteria, Indicative Targets, and Consultation Clauses 1/2/

(In billions of Argentine pesos unless otherwise stated)

	Proposed Performance Criteria		Indicative Targets		
	2018			2019	
	end-Jun	end-Sep	end-Dec	end-Mar	end-Jun
Fiscal targets					
Performance Criteria					
1. Primary balance of the federal government (floor) 3/ 10/	-148.0	-256.0	-362.5	-32.0	-100.0
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0	0.0	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	8.2	14.9	21.6	27.1	39.7
4. Social assistance spending (floor)	87.7	131.1	177.5	60.0	112.6
Indicative targets					
5. Primary balance of the general government (floor) 3/	-163.0	-272.0	-382.4	-40.0	-110.0
Monetary targets					
6. Change in net international reserves (floor) 6/ 10/	5.5	5.5	5.5	5.5	7.5
7. Change in stock of non-deliverable FX forwards (ceiling) 7/	1.0	0.0	-0.5	-1.0	-1.5
8. Change in central bank credit to government (ceiling) 8/	0.0	-78.0	-156.0	-234.0	-312.0
9. Central bank financing of the government (ceiling) 4/	0.0	0.0	0.0	0.0	0.0
Inflation Consultation Clause					
10. Inflation bands (in percent, y-o-y)					
Outer Band (upper)	32	32	32	28	26
Inner Band (upper)	29	29	29	26	24
Center inflation target	27	27	27	24	22
Inner Band (lower)	25	25	25	22	20
Outer Band (lower)	22	22	22	20	18
11. Change in net domestic assets of the central bank (ceiling) 9/ 10/	15	64	166	173	184

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on June 4, 2018.
7/ In billions of U.S. dollars. The change is measured against the value on June 4, 2018.
8/ The change is measured against the value on end-May 2018, which stood at 2,204.4 billion pesos, as defined in the TMU.
9/ The change is measured against the value on end-May 2018, which stood at 432.9 billion pesos, as defined in the TMU.
10/ Targets subject to adjustors as defined in the TMU.

Table 15. Argentina: Structural Program Conditionality

	Structural Benchmarks	Timing	Implementation status
1	Publish a regulation to introduce a foreign exchange auction for BCRA intervention in the spot and forward markets.	Jun-2018	Proposed
2	Establish a senior-level debt management coordinating committee between Treasury-Finance-BCRA that would meet weekly and coordinate activities linked to sterilization and debt issuance plans.	Sep-2018	Proposed
3	Present a 2019 budget to Congress, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program. The budget would include details on realistic and prudent macroeconomic assumptions underlying the medium-term budget, a statement of fiscal risks and of tax expenditures, and details on the key policy measures that will be undertaken to achieve the 2019 primary balance objective. The budget will include the elimination of article 27 of Law 11,672.	Oct-2018	Proposed
4	Provide sufficient resources to the newly created CBO (Oficina de Presupuesto del Congreso), so that it can effectively evaluate macroeconomic and budgetary forecasts (including those contained in the annual budget and MTFF), provide independent costing to Congress of new policy initiatives, assess the government's fiscal plans (including the annual budget), and monitoring public finances at the central level.	Dec-2018	Proposed
5	Submit to Congress a new charter for the central bank that will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability	Mar-2019	Proposed
6	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Sep-2019	Proposed
7	Recapitalize the central bank to ensure it has the adequate level of capital as percent of the monetary base plus the outstanding stock of LEBACs.	Dec-2019	Proposed
8	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	Proposed

Table 16. Argentina: Indicators of Fund Credit, 2018–26—Baseline Scenario

(In millions of SDRs, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Prospective drawings (36 month SBA)	10,614	0	0	0	...	...	...	...	...
(in percent of quota)	333	0	0	0					
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/									
Amortization 1/	0.0	0.0	0.0	2,653.4	5,306.9	2,653.4	0.0	0.0	0.0
GRA charges and surcharges 1/	106.9	293.4	293.5	302.8	159.7	29.0	0.0	0.0	0.0
GRA service charge 1/	53.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR charges and assessments 1/	1.5	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total debt service 1/	161.5	295.5	295.6	2,958.4	5,468.7	2,684.5	2.1	2.1	2.1
(in percent of exports of G&S)	0.3	0.6	0.6	5.3	9.3	4.3	0.0	0.0	0.0
(in percent of GDP)	0.0	0.1	0.1	0.6	1.1	0.5	0.0	0.0	0.0
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/									
Outstanding stock 1/	10,613.7	10,613.7	10,613.7	7,960.3	2,653.4	0.0	0.0	0.0	0.0
(in percent of quota)	333.0	333.0	333.0	249.7	83.3	0.0	0.0	0.0	0.0
(in percent of GDP)	2.7	2.5	2.3	1.6	0.5	0.0	0.0	0.0	0.0
Memorandum items:									
Exports of goods and services (US$ mn)	66,375	71,478	74,966	79,695	84,516	89,228	94,203	99,455	105,000
Gross International Reserves (US$ mn)	65,419	69,034	79,678	88,400	96,031	103,795	111,658	120,116	129,215
% of ARA metric	100%	101%	110%	115%	119%	121%	123%	125%	127%
Quota	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3

Source: Fund staff estimates.

1/ Assumes that the first purchase under the SBA will be made

Table 17. Argentina: Indicators of Fund Credit, 2018–26—Adverse Scenario

(In millions of SDRs, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Prospective drawings (36 month SBA)	14,741	8,255	8,255	4,127	…	…	…	…	…
(in percent of quota)	463	259	259	129					
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/									
Amortization 1/	0.0	0.0	0.0	2,911.4	8,918.5	10,134.6	7,997.1	4,643.5	773.9
GRA charges and surcharges 1/	115.9	530.9	852.4	1,263.3	1,313.1	835.7	380.1	82.6	8.7
GRA service charge 1/	73.7	41.3	41.3	20.6	0.0	0.0	0.0	0.0	0.0
SDR charges and assessments 1/	1.5	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total debt service 1/	191.1	574.3	895.7	4,197.4	10,233.6	10,972.4	8,379.4	4,728.2	784.7
(in percent of exports of G&S)	0.4	1.1	1.7	7.6	17.4	17.7	12.8	6.9	1.1
(in percent of GDP)	0.1	0.2	0.2	1.0	2.4	2.5	1.8	1.0	0.2
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/									
Outstanding stock 1/	14,741.3	22,996.4	31,251.5	32,467.6	23,549.1	13,414.5	5,417.4	773.9	0.0
(in percent of quota)	462.5	721.5	980.5	1,018.7	738.8	420.9	170.0	24.3	0.0
(in percent of GDP)	4.0	6.4	8.3	8.0	5.6	3.1	1.2	0.2	0.0
Memorandum items:									
Exports of goods and services (US$ mn)	66,423	71,993	74,928	79,148	83,929	88,590	93,510	98,703	104,184
Gross International Reserves (US$ mn)	54,277	53,580	54,158	57,120	73,683	89,676	97,346	105,673	114,712
% of ARA metric	84%	79%	75%	74%	89%	101%	103%	105%	107%
Quota	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3

Source: Fund staff estimates.

1/ Assumes that all eligibile purchases under the SBA would be made.

Table 18. Argentina: External Debt Sustainability Framework, 2013–23
(Percent of GDP, unless otherwise indicated)

	Actual 2013	2014	2015	2016	2017	10-Year Historical Average	10-Year Standard Deviation	Projections 2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
Baseline: External debt	27.3	30.2	27.9	34.2	37.0			**51.3**	**52.6**	**52.0**	**50.7**	**50.0**	**49.2**	**-2.3**
Change in external debt	-1.7	2.9	-2.4	6.4	2.7			14.3	1.3	-0.7	-1.2	-0.8	-0.8	
Identified external debt-creating flows (4+8+9)	-0.9	3.4	-2.7	6.7	-1.8			2.5	1.6	0.6	-0.4	-0.7	-0.7	
Current account deficit, excluding interest payments	1.5	0.9	2.2	1.8	3.6			2.7	2.2	2.1	1.9	1.4	1.6	
Deficit in balance of goods and services	-3.0	-3.4	-1.9	-3.1	-1.4			-2.5	-3.1	-2.9	-2.9	-3.0	-3.0	
Exports	14.7	14.5	10.9	12.8	11.4			14.2	14.8	14.6	14.6	14.8	14.8	
Imports	11.7	11.2	9.0	9.7	10.0			11.8	11.7	11.7	11.6	11.8	11.8	
Net non-debt creating capital inflows (negative)	-1.5	-0.6	-1.7	-0.4	-2.1			-0.9	-0.9	-0.9	-1.2	-1.3	-1.3	
Automatic debt dynamics 1/	-0.9	3.0	-3.1	5.3	-3.3			0.7	0.3	-0.6	-1.2	-0.8	-1.0	
Contribution from nominal interest rate	0.6	0.7	0.6	0.9	1.2			0.9	1.0	0.6	0.3	0.7	0.5	
Contribution from real GDP growth	-0.7	0.7	-0.7	0.6	-0.9			-0.2	-0.7	-1.2	-1.5	-1.5	-1.5	
Contribution from price and exchange rate changes 2/	-0.8	1.6	-3.0	3.9	-3.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.8	-0.4	0.3	-0.3	4.5			11.8	-0.3	-1.2	-0.8	-0.1	-0.1	
External debt-to-exports ratio (in percent)	186.4	208.2	255.5	268.1	324.6			360.2	355.6	355.0	348.4	338.2	331.5	
Gross external financing need (in billions of US dollars) 4/	85.8	82.6	81.7	104.5	96.8			139.7	124.6	113.8	112.5	138.3	143.3	
in percent of GDP	14.0	14.7	12.7	18.9	15.2			25.1	21.6	18.4	16.9	19.9	19.5	
Scenario with key variables at their historical averages 5/								**51.3**	**47.7**	**44.6**	**42.0**	**38.9**	**36.4**	**-3.8**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	2.4	-2.5	2.7	-1.8	2.9	1.7	4.6	0.4	1.5	2.5	3.1	3.1	3.2	
GDP deflator in US dollars (change in percent)	3.0	-5.5	11.0	-12.2	11.9	7.1	10.9	-13.0	2.0	4.4	4.5	1.6	2.5	
Nominal external interest rate (in percent)	2.3	2.4	2.2	2.7	4.1	2.5	0.6	2.0	2.1	1.2	0.6	1.4	1.1	
Growth of exports (US dollar terms, in percent)	-5.0	-8.7	-14.4	1.0	2.7	2.0	15.3	9.2	7.5	5.9	7.1	6.3	6.1	
Growth of imports (US dollar terms, in percent)	9.6	-11.8	-8.4	-7.1	19.6	6.7	24.1	2.6	3.1	6.7	7.2	6.0	5.7	
Current account balance, excluding interest payments	-1.5	-0.9	-2.2	-1.8	-3.6	-0.4	2.1	-2.7	-2.2	-2.1	-1.9	-1.4	-1.6	
Net non-debt creating capital inflows	1.5	0.6	1.7	0.4	2.1	1.6	0.7	0.9	0.9	0.9	1.2	1.3	1.3	

Source: Fund staff calculations and estimates.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

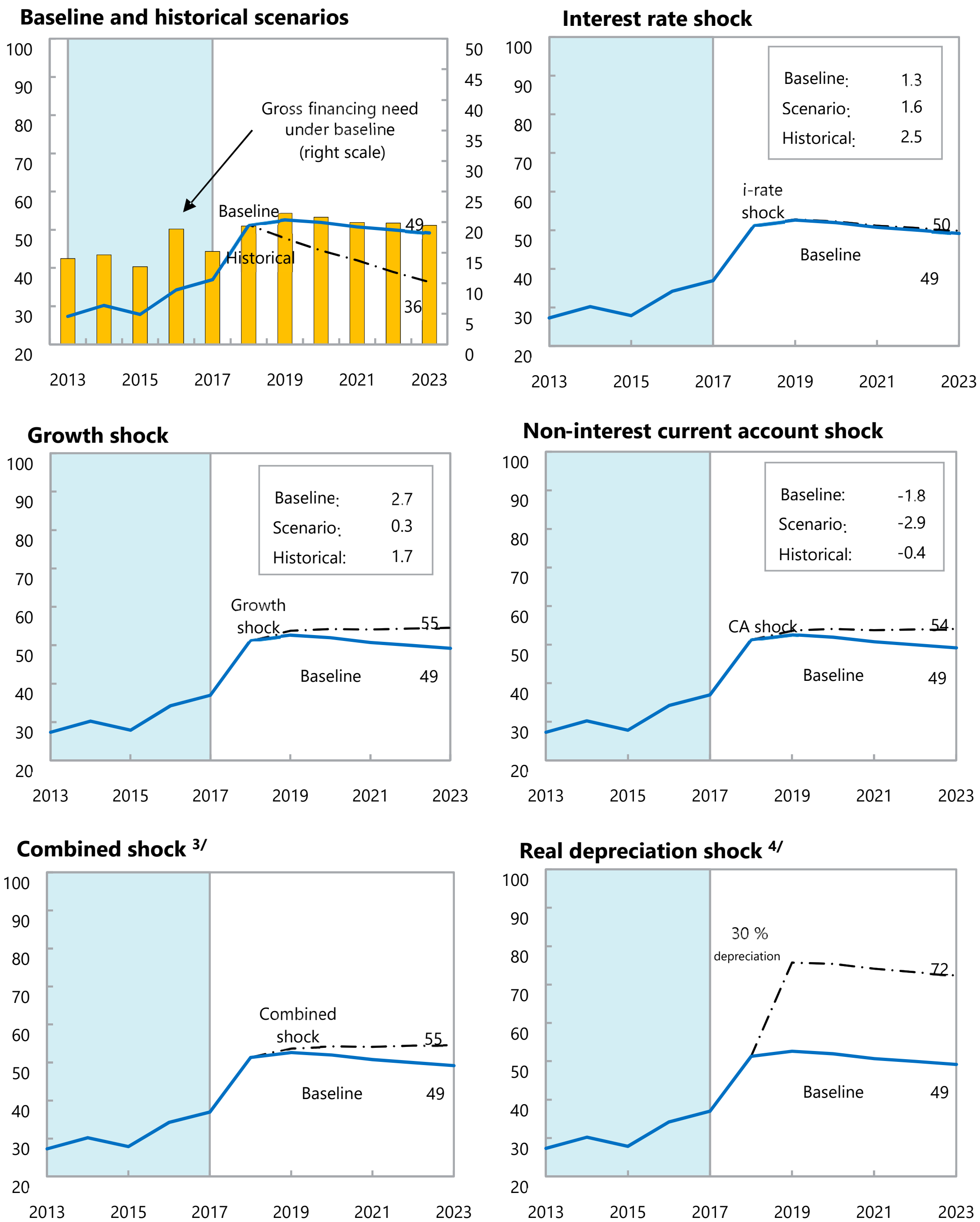
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Argentina: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Source: Fund staff calculations and estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2018.

Annex I. Public Debt Sustainability Analysis

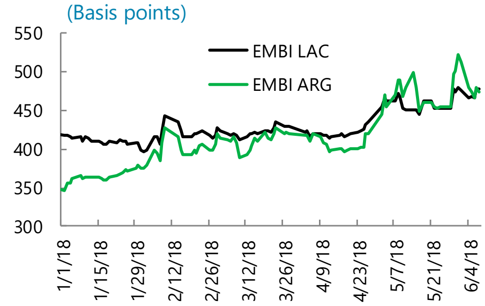
Debt vulnerabilities have become evident following the tightening of global monetary conditions and a series of domestic policy changes. Federal government debt is projected to rise to 65 percent in 2018 before gradually declining again. Risks to debt stabilization are contained as the increase in the debt to GDP ratio in 2018, as a result of the peso depreciation, is expected to be more than offset after 2019 by a lower primary fiscal deficit, which is assumed to turn into a surplus beginning in 2021. However, high gross financing needs, a high share of foreign currency debt, high external financing needs, and potential contingent liabilities pose important risks. On balance, under the program baseline, staff assesses debt to be sustainable but not with high probability. In the adverse scenario, federal debt would be about 4 percent of GDP higher than in the baseline by end-2021. US$50 billion of access under the program would be needed to ensure the program remains fully financed, and in that scenario, the DSA shows Argentina's debt to be sustainable, albeit not with a high probability.

A. Background

At end-2017, gross federal government debt, which includes intra-public-sector debt, was AR$6,025 billion or 57 percent of GDP, which represents an increase of 3.7 percent of GDP relative to end-2016. This concept includes guarantees issued by the Federal Government (*Letras en garantia*, *Garantia a las provincias* and *Avales*). It excludes debt issued by the provinces (see Box 1) and the BCRA as well as GDP-warrants.[1]

- ***Recent developments.*** Since the previous DSA, two series of bonds have been placed: three euro-denominated bonds for a total equivalent of US$2.75 billion in November 2017, and three dollar-denominated bonds for a total equivalent of US$ 9 billion issued on January 4, 2018. There have also been two repo operations for US$ 1 billion each: one with HSBC at end-March 2018 and the other with Credit Suisse at end-April 2018. The upward revision at end-2017 of the inflation targets and a tax on capital gains for non-residents which came into effect at end-April 2018 led to pressures on the exchange rate. Capital outflows accelerated in March–April 2018, forcing the central bank to increase interest rates sharply. Following these developments, sovereign spreads have increased by about 120 basis points from mid-April until end-May. In

EMBI
(Basis points)



Source: Bloomberg.

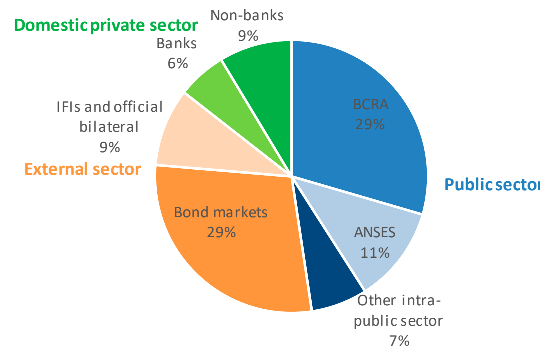
[1] GDP warrants (*Valores Negociables Vinculadas al PBI*) are excluded since they are contingent liabilities whose payments depend on the level and growth rate of real effective GDP (subject to a maximum payment restriction). There have been no payments associated with these instruments since 2011.

response, the government changed its plans for issuing more international bonds, so it is now reliant only on domestic market financing, and on IFIs and official bilateral support.

- ***Currency composition.*** Nearly 70 percent of Argentina's debt stock is denominated-in or linked-to a foreign currency, mainly the U.S. dollar. Of the peso-denominated debt, just under one-quarter is linked to inflation.

- ***Debt holders.*** The federal debt held by other public sector entities continues to represent a large share of the total stock (48 percent by the end of 2017). Of this total, the BCRA, which holds (effectively) zero-interest bonds, accounts for 29 percent, ANSES for 11 percent, and other public sector institutions (excluding Banco Nación) the remaining 7 percent. The other 52 percent of the total stock of debt is held by the private sector (including both domestic and external) and by International Financial Institutions and other official bilateral creditors.

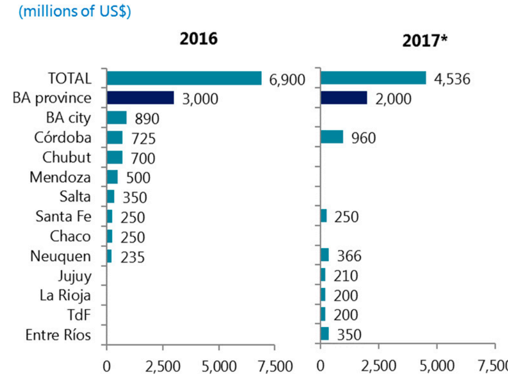
Gross Federal Debt by Creditor, 2017



Box 1. Provinces

In 2017, the provinces are projected to have run an overall fiscal deficit of 0.8 percent of GDP. As the federal government, they also have been active in issuing foreign currency debt on international capital markets. External debt issuance was US$6.7 billion in 2017, concentrated in the province of Buenos Aires and, to a lesser extent, Cordoba. The only provincial issuance in 2018 has been a domestic market public issue by the Province of Buenos Aires in April. Total debt of all provinces at end-2017 is projected to have been around AR$ 542 billion, or 5.3 percent of GDP, of which around a third held by the federal government.

Provincial Debt Issuance in External Markets
(millions of US$)



Source: Dealogic

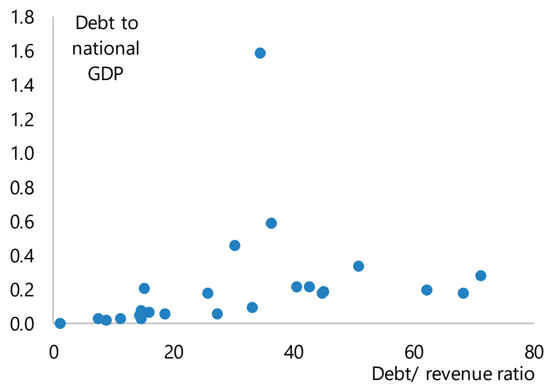
*October 9, 2017

Going forward, the overall fiscal deficit is expected to decline somewhat ending in 2022 at 0.4 percent of GDP. This places provincial debt on an upward trajectory to 7.3 percent of GDP (and 55 percent of revenues) by 2022. While this is still below historical highs, risks remain, including:

- 60 percent of debt is denominated in foreign currency, although this ranges significantly between 0 and 90 percent. A sudden adjustment of the overvalued exchange rate would raise the debt level, jeopardize continued full market access, and force a faster fiscal consolidation (and/or a bail-out by the federal government). An additional 20 percent depreciation in 2018 would increase debt by 0.5 pts of GDP (to 6.1 percent of GDP).

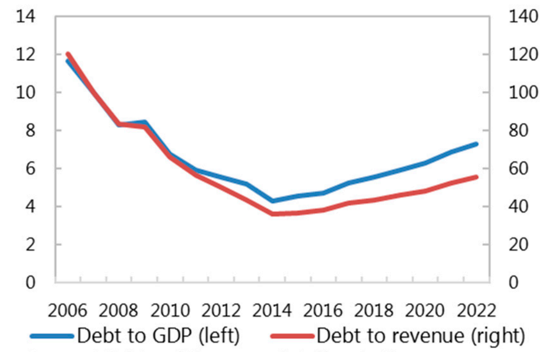
- The overall debt level of provinces masks significant heterogeneity within the group. The ratio of debt to total revenues ranges from 1 to 70 percent, and those provinces that have the greatest debt to revenue ratios tend also to have the largest absolute debt stock, suggesting potential contingent liability risks for the federal government.

Debt Indicators by Province



Provincial Debt Ratios

(percent)



Source: Ministry of Finance and staff projections

A. Baseline Scenario

Debt is expected to increase to 65 percent of GDP in 2018, largely as a result of the peso depreciation, and to decline gradually afterwards towards 53 percent of GDP by 2023. Gross financing needs (GFN) will remain high, but they are expected to remain below the 15 percent high-risk threshold for emerging markets under the baseline. This projection is based on the following assumptions:

- ***Growth and inflation***. Growth in 2018 is expected to decelerate to 0.4 percent, and then to rebound to 1.5 percent in 2019 and to accelerate gradually to 3.2 percent by 2023. Inflation is expected to continue to erode the real value of long-maturity, peso-denominated debt, supporting debt dynamics.

- ***Primary deficit***. The fiscal consolidation throughout the period will contribute to contain the accumulation of debt going forward. This contrasts with the 2017 Article IV DSA, which had a more gradual decline of the primary fiscal balance (see below).

- ***Exchange rate***. The significant real peso depreciation in 2018 is expected to worsen debt dynamics, although it will contribute to correct the REER overvaluation estimated as of end-2017.

- ***Financing assumptions***. Continued rollover of intra-public sector financing is assumed, although statutory advances from the BCRA now are assumed to be zero starting in 2018. No further international bond issuances are expected in 2018, although they are assumed to resume in 2019. Domestic creditors, in particular the non-banking sector, will provide part of the remaining financing. The average effective interest rate on total debt is expected to increase gradually from 7.1 percent in 2018 to almost 8 percent in 2021.

Compared to the December 2017 Article IV DSA, both gross financing needs and effective interest rates have dropped. This is due to several changes:

- While interest rate assumptions for 2018 and 2019 are higher in the current baseline, these are assumed to fall in the medium term (versus in the 2017 AIV where they remained broadly constant), as reforms succeed in improving Argentina's risk premium and generating a shift towards longer term debt. The calculated effective interest rate is also lowered due to a higher debt stock denominator.

- The more sizable and accelerated fiscal consolidation under the current baseline, directly lowers financing needs in the early projection years, generating a virtuous cycle.

- The current baseline, in essence, assumes the resolution of the vulnerabilities identified in the Article IV consultation (e.g. sizable twin deficits, high inflation), thus generating more benign financing needs, debt costs, and placing debt on a clear downward trajectory.

Box 2. Adverse Scenario

The Debt Sustainability Analysis was also performed under the assumptions of the Adverse Scenario described in ¶39 of the Staff Report, in which there is a tightening of global financial conditions that leads to: (i) lower rollover rates on Argentine debt by both residents and nonresidents; (ii) more depreciated paths for the real and nominal exchange rates; (iii) higher paths for nominal and real interest rates; (iv) a deeper recession in 2018, a more protracted recovery into 2020 and lower potential growth; (v) a need to find an additional 1 percent of GDP in measures to keep the primary deficit from rising above 2 percent of GDP in 2019 and 1 percent of GDP in 2020; and (vi) the full amount of the SBA is drawn and used for budget support.

As can be seen from the results below for this DSA for the Adverse Scenario, federal debt would be about 4 percent of GDP higher than in the baseline by end-2021. Gross fiscal financing needs would also be more elevated throughout the projection period. Effective interest rates, however, are lower than in the baseline. This is so despite the fact that domestic interest payments are sizably higher (due to higher reliance on ST debt). In this scenario, US$50 billion of access under the program would be needed to ensure the program remains fully financed and debt remains sustainable, but not with a high probability.

Argentina Public Sector Debt Sustainability Analysis (DSA) - Adverse Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of May 09, 2018		
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023	Sovereign Spreads		
Nominal gross public debt	47.4	53.3	56.8	68.6	65.4	60.0	59.8	59.0	57.9	EMBIG (bp) 3/		491
Public gross financing needs	9.5	12.5	13.1	13.1	11.3	11.2	11.3	14.8	14.2	5Y CDS (bp)		348
Real GDP growth (in percent)	2.8	-1.8	2.9	-1.3	0.0	1.0	1.2	1.7	2.3	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	23.5	40.1	25.3	26.6	24.1	16.6	11.0	8.5	6.9	Moody's	B3	B3
Nominal GDP growth (in percent)	26.8	37.5	28.9	24.8	24.3	17.7	12.3	10.4	9.3	S&Ps	B	B
Effective interest rate (in percent) [4/]	4.5	4.0	8.3	8.4	7.2	6.4	6.1	5.1	6.0	Fitch	B	B

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

B. Realism of the assumptions

- ***Growth and inflation***. The track record shows that the median forecast error for real GDP growth has been in the lowest quartile of the distribution, while the median forecast error for inflation suggest somewhat pessimistic bias. The assumption in the baseline that growth in 2018 will decelerate to 0.4 percent, and then to rebound to 1.5 percent in 2019 and to accelerate gradually to 3.2 percent by 2023 could be seen as optimistic. Nevertheless, as discussed above, the program is robust to the stress-scenario in which growth rate would be lower in 2018 and 2019 by around 1 percent in each year than that in the program.

- ***Primary deficit***. The track record shows that the median forecast error for the primary balance has been on the optimistic side. The tool for assessing the realism of projected fiscal adjustment shows that it is ambitious compared with the distribution of observed adjustments. In particular, the projected adjustment places Argentina in the top 13 percent of the distribution of consolidations achieved by program countries.

C. Shocks and Stress Tests

Solvency risks

- Given the high share of foreign currency denominated debt, a shock to the exchange rate is a major vulnerability. The standard DSA stress test (50 percent real depreciation with 0.25 pass-through) shows that debt could jump to 81 percent of GDP in such a scenario, above the high-risk threshold. Debt is also vulnerable to a growth shock, which under the stress test could raise debt to 70 percent of GDP. Given the relatively long debt maturity profile, a shock to interest rates is not a major risk, although it is important to keep in mind that the concept of debt considered here does not include BCRA debt, which is mostly short-term.

- Fiscal consolidation is critical to stabilizing the debt level. If the primary balance were to remain unchanged at its 2018 level (–2.7 percent of GDP), debt would follow an upward trajectory, exceeding 70 percent of GDP by 2023. A 'combined macro-fiscal' shock would cause debt to rise to nearly 103 percent of GDP, likely triggering a crisis.[2]

Liquidity risks

- A combined macro-fiscal shock will lead to GFN of 23 percent of GDP. In such a scenario, it may not be possible to finance this through market access, triggering the need for steep fiscal consolidation.

- Liquidity risks are somewhat mitigated by the significant share of debt held by public sector entities. However, while the public sector holds around half of the federal debt stock, the contribution of this debt to the medium-term GFN profile is relatively small. Even if these principal payments are fully rolled over, as assumed, a significant GFN remain.

D. Overall Assessment

59. Debt is expected to peak at end-2018 and fall steadily thereafter. The fiscal adjustment, economic recovery, and lower real interest rates (as central bank credibility is established) will all work to place public debt-to-GDP on a steady downward trajectory from 2019 onwards. After peaking this year at 65 percent of GDP, debt would fall under the planned fiscal consolidation to about 56 percent of GDP by the end of 2021. Gross financing needs remain elevated for much of the program period but are not projected to breach the 15 percent of GDP risk threshold in the baseline throughout the medium term.

60. Nonetheless, there are still risks to debt sustainability. The most evident near-term risks are linked to:

- The size of the gross financing needs under a stressed scenario;

- The large (and potentially rising) share of foreign currency debt (which makes Argentina's debt dynamics susceptible to a sustained correction in the real exchange rate);

[2] This involves: (i) a one-standard deviation shock to growth, with the corresponding automatic stabilizers and lower inflation; (ii) a 50 percent real depreciation, with 0.25 pass-through to inflation; and (iii) 200bps shock to interest rates.

- The large external financing needs of the economy, which in past emerging market crises have shown to be a strong predictor of a debt crisis;

- The fact that the proposed fiscal consolidation is ambitious relative to similar country situations (i.e., in the top 13 percent of the distribution of consolidations achieved by program countries);

- The DSA covers only federal government debt and so could understate the sustainability of general government debt. However, most provinces are running close to a balanced budget and provincial debt at end-2017 was projected to be around 6 percent of GDP;

- The national government faces contingent liabilities from needing to recapitalize the central bank, from loss-making publicly-owned corporations, and from unfunded pensions.

These risks are, however, mitigated by the high share of federal government debt that is held by other public-sector entities and the relatively long maturity of dollar-denominated debt issued on international markets (less than one-fifth of the government's US$-denominated debt held outside the Argentine public sector will mature by end-2020).

61. Taking all these considerations into account, staff assesses that, under this baseline, the federal debt is sustainable but not with a high probability.

Table. Argentina - Federal Government
Gross Financing Needs and Sources (US$mn, as of May 31, 2018)

	2018			2018	2019				2019	2020	2021
	June	Q3	Q4		Q1	Q2	Q3	Q4			
Primary Balance	3,094	3,999	5,054		631	2,441	1,951	2,466		(1,138)	(5,552)
Interest	2,817	2,642	6,011		2,353	4,888	1,917	4,413		19,721	24,349
FX	1,538	1,117	3,844		1,366	3,154	1,116	2,764		12,207	15,072
of which: to non-public sector	756	956	2,829		1,203	2,313	1,038	1,892		9,369	11,567
AR$	1,279	1,525	2,167		987	1,734	801	1,648		7,514	9,277
of which: to non-public sector	306	507	1,225		452	1,197	429	1,193		4,754	5,869
Amortizations	6,359	15,396	29,789		17,769	20,335	9,036	15,918		47,979	39,651
FX	2,774	6,799	11,870		7,776	13,798	6,527	5,979		25,930	21,430
of which: to non-public sector	2,333	6,524	8,539		5,629	13,694	6,480	5,934		24,149	19,957
AR$	3,586	8,597	17,920		9,993	6,537	2,509	9,939		22,049	18,221
of which: to non-public sector	173	3,775	1,591		1,825	84	99	100		1,604	1,326
Reducing liabilities with the BCRA	5,000	1,933	314		5,205	1,037	3,820	1,481		6,300	-
Total Needs	17,270	23,970	41,168	**82,408**	25,958	28,701	16,725	24,278	**95,661**	**72,862**	**58,448**
Deposit drawdown	5,000	2,237	-		-	-	-	-		-	-
IFIs	251	754	754		1,200	1,200	1,200	1,200		1,300	2,400
Intra-Public Sector Rollovers	4,128	5,459	21,055		11,516	7,320	2,743	11,035		21,500	15,500
Private Sector Rollovers	1,347	7,941	7,452		6,930	10,047	6,075	5,580		25,542	26,581
of which: FX	1,344	4,544	6,020		5,105	9,963	5,976	5,480		23,000	23,000
Public Sector New Borrowing	1,500	5,277	11,753		16,750	5,013	5,250	2,603		24,520	13,967
of which: External	-	3,000	753		12,000	-	-	-		10,500	6,000
Total Sources	12,226	21,668	41,014	**74,908**	36,396	23,581	15,268	20,417	**95,661**	**72,862**	**58,448**
Gap	5,044	2,302	154	**7,500**	(10,438)	5,120	1,457	3,861	**0**	**0**	**0**
Memo Items:											
Interest to Non-residents	743	1,024	2,838		1,156	2,454	1,025	2,157		7,889	4,870
FX	529	669	1,980		840	1,614	724	1,321			
AR$	214	355	858		317	839	301	837			
Amortization to Non-Residents	7,276	10,605	8,199		3,033	8,503	3,443	3,369		8,156	10,706
FX	1,907	5,332	6,979		2,624	6,384	3,021	2,766			
AR$	64	1,407	593		217	-	-	-			
LEBACs	5,305	3,866	627		191	2,119	422	603		632	-

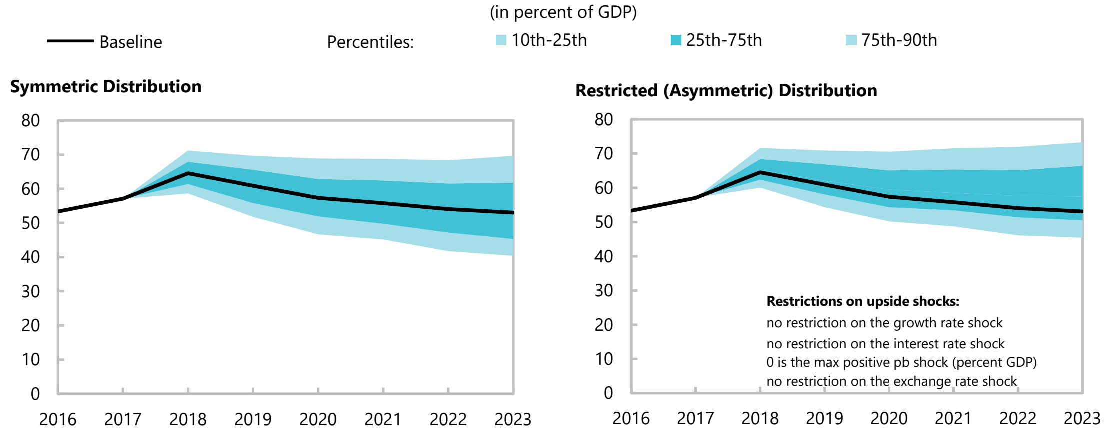
Argentina Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

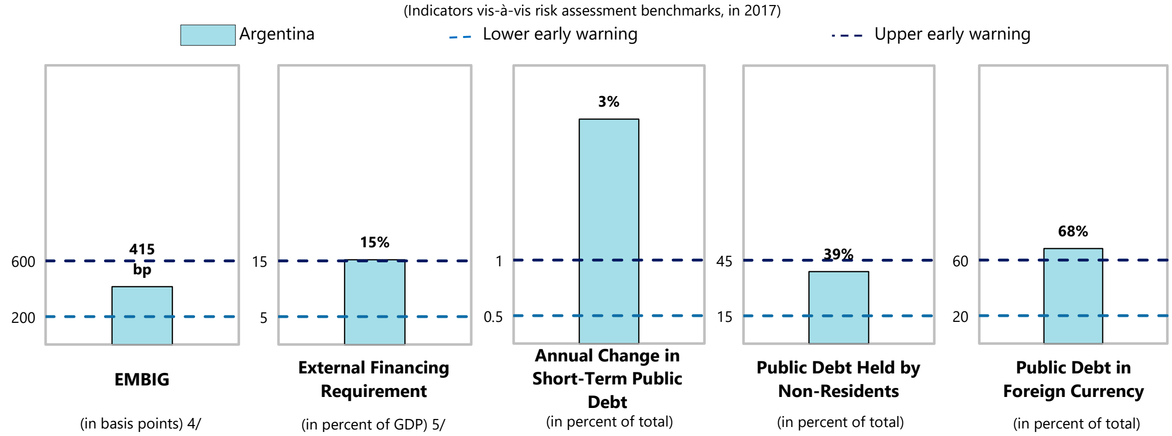
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

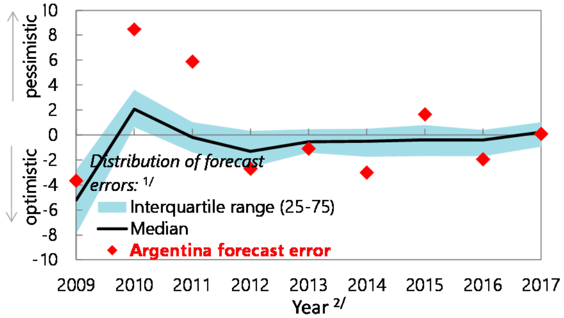
4/ EMBIG, an average over the last 3 months, 08-Feb-18 through 09-May-18.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

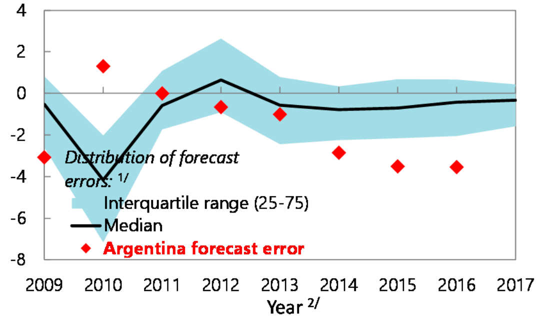
Argentina Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus all countries

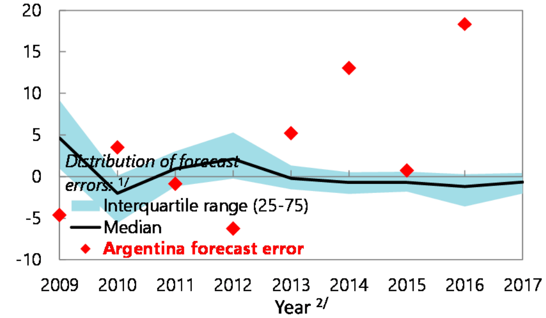
Real GDP Growth
(in percent, actual-projection)
Argentina median forecast error, 2009-2017: **-1.10**
Has a percentile rank of: **22%**



Primary Balance
(in percent of GDP, actual-projection)
Argentina median forecast error, 2009-2017: **n.a.**
Has a percentile rank of: **n.a.**

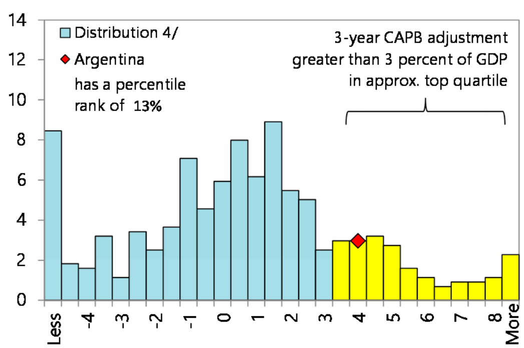


Inflation (Deflator)
(in percent, actual-projection)
Argentina median forecast error, 2009-2017: **n.a.**
Has a percentile rank of: **n.a.**

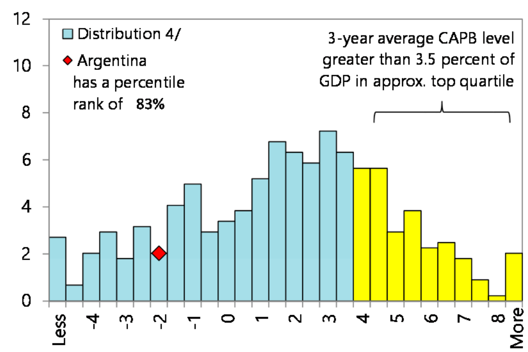


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

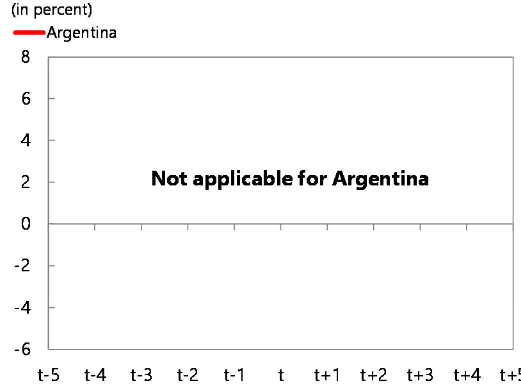


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Argentina, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Argentina Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

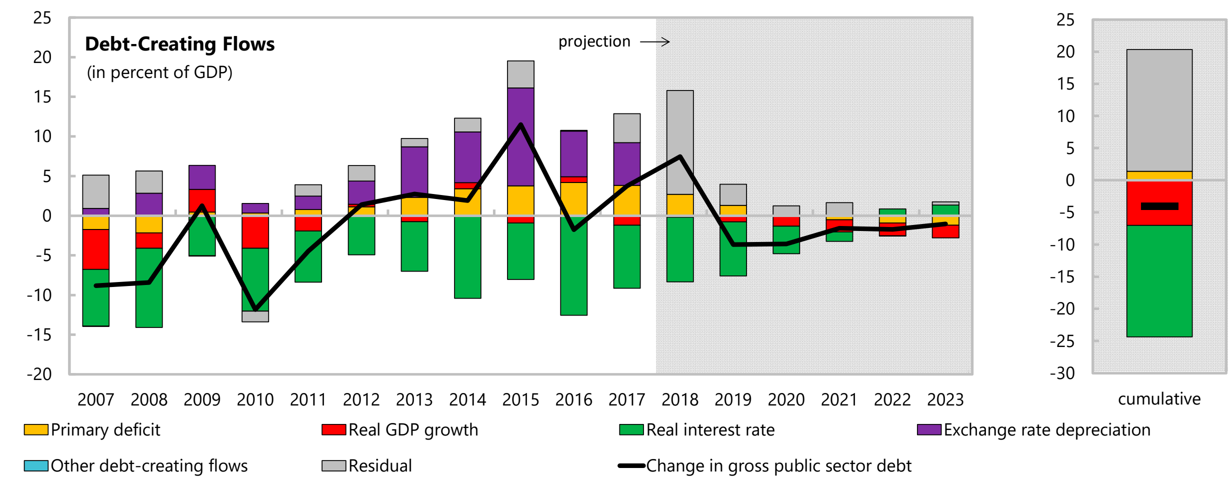
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	47.4	53.3	57.1	64.5	60.9	57.4	55.8	54.1	53.0
Public gross financing needs	9.5	12.5	13.1	13.0	10.7	9.6	8.7	10.3	10.8
Real GDP growth (in percent)	2.8	-1.8	2.9	0.4	1.5	2.5	3.1	3.1	3.2
Inflation (GDP deflator, in percent)	23.5	40.1	25.3	24.9	19.6	13.8	9.9	5.9	5.1
Nominal GDP growth (in percent)	26.8	37.5	28.9	25.4	21.4	16.7	13.2	9.3	8.4
Effective interest rate (in percent) [4/]	4.5	4.0	8.3	7.1	7.0	7.5	7.9	7.8	7.9

As of May 09, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		491
5Y CDS (bp)		348
Ratings	Foreign	Local
Moody's	B3	B3
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.6	-1.8	3.7	7.5	-3.6	-3.5	-1.6	-1.7	-1.0	-4.0	
Identified debt-creating flows	-3.3	-1.9	0.1	-5.6	-6.3	-4.8	-3.2	-1.7	-1.4	-23.0	
Primary deficit	0.9	4.2	3.8	2.7	1.3	0.0	-0.5	-0.9	-1.2	1.4	1.0
Primary (noninterest) revenue and grants	25.3	26.6	26.1	26.5	27.2	27.6	27.9	27.9	27.9	165.1	
Primary (noninterest) expenditure	26.2	30.8	29.9	29.2	28.5	27.6	27.4	27.0	26.7	166.5	
Automatic debt dynamics [5/]	-4.2	-6.1	-3.7	-8.3	-7.6	-4.8	-2.7	-0.7	-0.2	-24.4	
Interest rate/growth differential [6/]	-8.4	-11.8	-9.1	-8.3	-7.6	-4.8	-2.7	-0.7	-0.2	-24.4	
Of which: real interest rate	-7.3	-12.5	-7.9	-8.1	-6.8	-3.5	-1.2	0.9	1.4	-17.4	
Of which: real GDP growth	-1.2	0.7	-1.2	-0.2	-0.8	-1.3	-1.6	-1.6	-1.6	-7.0	
Exchange rate depreciation [7/]	4.2	5.8	5.4	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Government and Public Sector Finance: (	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.7	0.1	3.7	13.1	2.7	1.2	1.6	-0.1	0.4	18.9	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

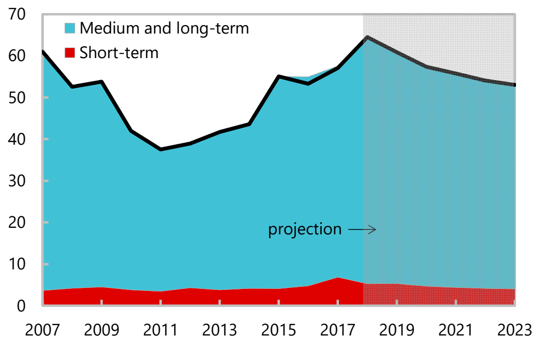
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

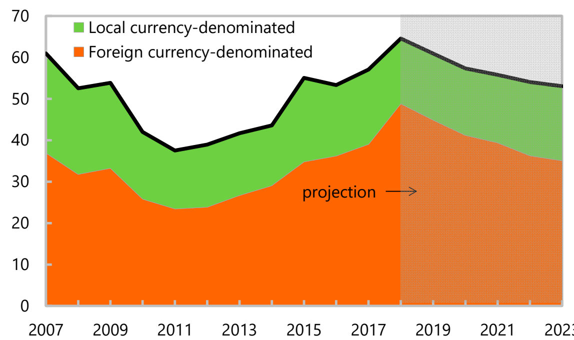
Argentina Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



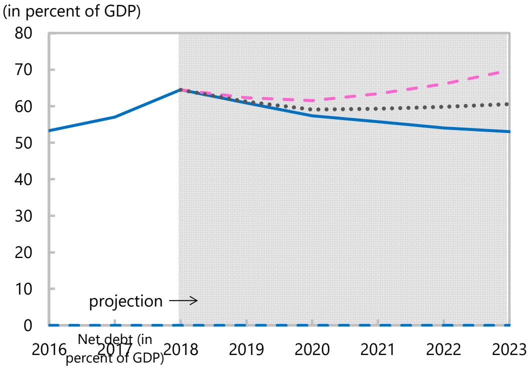
By Currency
(in percent of GDP)



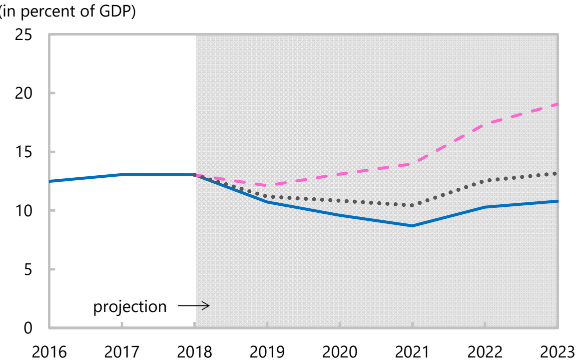
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	0.4	1.5	2.5	3.1	3.1	3.2
Inflation	24.9	19.6	13.8	9.9	5.9	5.1
Primary Balance	-2.7	-1.3	0.0	0.5	0.9	1.2
Effective interest rate	7.1	7.0	7.5	7.9	7.8	7.9
Constant Primary Balance Scenario						
Real GDP growth	0.4	1.5	2.5	3.1	3.1	3.2
Inflation	24.9	19.6	13.8	9.9	5.9	5.1
Primary Balance	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Effective interest rate	7.1	7.0	7.7	8.3	8.3	8.4

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	0.4	1.7	1.7	1.7	1.7	1.7
Inflation	24.9	19.6	13.8	9.9	5.9	5.1
Primary Balance	-2.7	-1.8	-1.8	-1.8	-1.8	-1.8
Effective interest rate	7.1	7.0	5.9	5.3	4.4	3.3

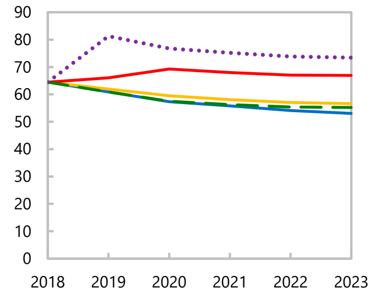
Source: IMF staff.

Argentina Public DSA - Stress Tests

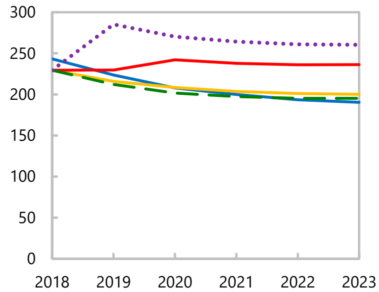
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

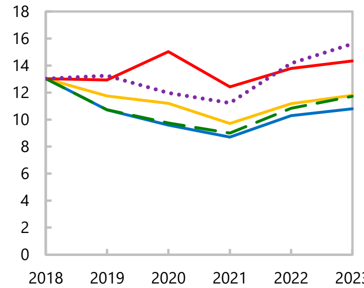
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



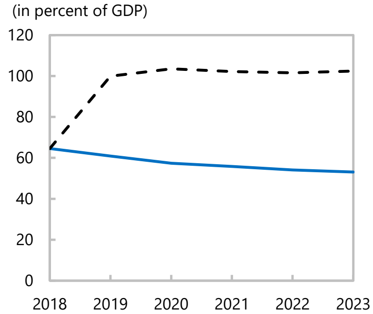
Public Gross Financing Needs
(in percent of GDP)



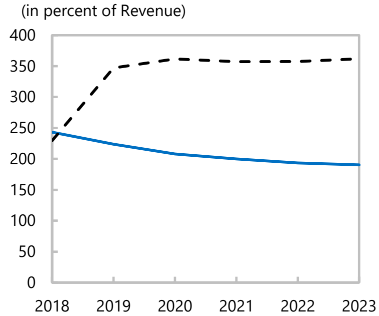
Additional Stress Tests

Baseline
Combined Macro-Fiscal Shock

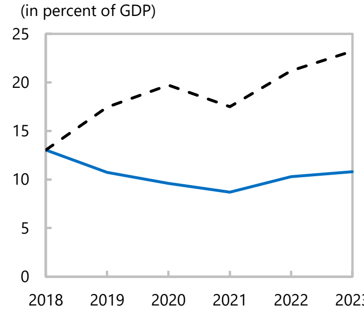
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	0.4	1.5	2.5	3.1	3.1	3.2
Inflation	24.9	19.6	13.8	9.9	5.9	5.1
Primary balance	-2.7	-2.3	-1.0	0.5	0.9	1.2
Effective interest rate	7.1	7.0	7.7	8.2	8.1	8.2
Real Interest Rate Shock						
Real GDP growth	0.4	1.5	2.5	3.1	3.1	3.2
Inflation	24.9	19.6	13.8	9.9	5.9	5.1
Primary balance	-2.7	-1.3	0.0	0.5	0.9	1.2
Effective interest rate	7.1	7.0	7.8	8.3	8.4	8.7
Combined Shock						
Real GDP growth	0.4	-3.2	-2.2	3.1	3.1	3.2
Inflation	24.9	18.4	12.7	9.9	5.9	5.1
Primary balance	-2.7	-3.0	-3.3	0.5	0.9	1.2
Effective interest rate	7.1	9.4	7.3	8.1	8.3	8.7

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	0.4	-3.2	-2.2	3.1	3.1	3.2
Inflation	24.9	18.4	12.7	9.9	5.9	5.1
Primary balance	-2.7	-3.0	-3.3	0.5	0.9	1.2
Effective interest rate	7.1	7.0	7.8	8.5	8.4	8.5
Real Exchange Rate Shock						
Real GDP growth	0.4	1.5	2.5	3.1	3.1	3.2
Inflation	24.9	36.9	13.8	9.9	5.9	5.1
Primary balance	-2.7	-1.3	0.0	0.5	0.9	1.2
Effective interest rate	7.1	9.4	6.9	7.4	7.4	7.6

Source: IMF staff.

Appendix I. Letter of Intent

June 12, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Madame Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic objectives and policies of the Government of Argentina for 2018 and beyond. Also attached is a Technical Memorandum of Understanding that sets out the specific objectives that we are committed to achieving under the IMF arrangement in support of our economic plan.

The Argentine government requests the IMF's support for this policy program. It is a plan that has been designed by the Argentine government in a way that we judge best fits our current political, economic and social situation.

As part of that support, we are formally requesting an IMF Stand-By Arrangement for a period of 36 months, in the amount of SDR 35,379 million (equivalent to around US$ 50 billion, or 1,110 percent of Argentina's quota with the IMF). We plan to draw the first tranche (US$ 15 billion) upon approval of the arrangement, half of which will be used as budget support, while treating the remaining of the arrangement as precautionary.

We consider that the plan that we have designed is strong and will help build confidence, reduce uncertainties and strengthen Argentina's economic prospects.

Importantly, we are committed to ensuring that the burden of the needed recalibration of the fiscal policy is shared fairly and that the most vulnerable segments of Argentina's population are fully protected. Under our program we intend to protect our spending on social assistance and, in the unlikely event that social conditions deteriorate, we are committed to identifying additional resources to increase the funding of our most effective social assistance programs.

Consistent with the priorities of President Macri's administration, included in our G20 agenda, we also intend to use this opportunity to take important steps to address long-standing gender inequities that are embedded in the Argentine economic system. One of our goals for this program is to ensure that women are treated equitably and are afforded the economic opportunities that they are entitled to. We especially seek your personal backing in this matter.

In sum, we ask that the IMF stands with Argentina through this more challenging international environment. We view the objectives of the plan described in the attachments as mileposts that should be used in the design of the requested Stand-By Arrangement.

To demonstrate our commitment to this plan, on June 7 we announced our intention to accelerate the convergence to a primary fiscal balance and to lower inflation within a more consistent and institutionally sound monetary policy framework.

We believe that these policies and those set forth in the attached MEFP are adequate to achieve the macroeconomic and financial objectives of the program. But we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation.

We remain, of course, committed to maintaining the usual close policy dialogue with IMF staff and to providing IMF staff with the data and information it requests for the purpose of monitoring program implementation. Reaffirming our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the Technical Memorandum of Understanding, and the accompanying Executive Board documents.

We trust that we can count on your support.

Yours sincerely,

/s/	/s/
Nicolas Dujovne	Federico Sturzenegger
Minister of the Treasury	President, Central Bank of Argentina

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

Argentina's financial markets came under sudden pressure in April, an unfortunate confluence of a range of factors. A severe drought led to a sharp decline in agricultural production and export revenue, world energy prices increased, and global financial conditions tightened through an appreciation of the U.S. dollar and an upward shift in the U.S. yield curve.

These unexpected changes interacted with the known vulnerabilities that our policy path had embedded. Our decision to gradually reduced the macroeconomic imbalances inherited from the previous administration implied significant fiscal and external financing requirements.

These forces have manifested themselves in the form of pressure on our currency, market anxiety about the roll-over of short-term central bank paper, and an increase in our sovereign risk premium. Even though the economy was showing healthy growth rates at the time of seeking the assistance of the IMF, these events convinced us that this assistance was needed to moderate the impact of the increased international financial volatility on our economy.

The message we have taken from these unfortunate circumstances is the need to deepen and accelerate the economic reforms that our administration has been committed to since taking office in December 2015.

Our objectives are:

- To fully restore market confidence through macroeconomic policies that lessen the federal government's financing needs and put our public debt on a firm downward path.
- To strengthen the central bank's institutional and inflation targeting framework by reinforcing its autonomy and setting a realistic path for inflation that takes into account the implications of the recent market volatility but, nonetheless, seeks to bring down inflation to single digits by the end of 2021.
- To lessen the strains on our balance of payments by allowing our exchange rate to operate flexibly as a shock absorber, increasing our international reserves, lowering our current account deficit, and reducing our external financing needs.

- To protect Argentina's most vulnerable citizens from the burden of this needed policy recalibration.

Ultimately, these efforts will raise our economic dynamism, create new jobs, encourage investment in our economy, reduce poverty, improve social cohesion, and raise the living standards for all Argentines.

Further, we are committed to transparency and integrity and will continue sharing fully with the Argentine public all the details of our economic plan. This has been a fundamental principle of this administration. Our commitment to this approach is evidenced by the announcement of the full details of our policy proposals on June 7 and the publication of this document.

A. Fiscal Policy

Medium-term Fiscal Goals

At the core of our economic program is our intention to accelerate the pace at which we have been reducing the federal government's primary deficit since 2016. We reaffirm our longstanding commitment to reaching fiscal equilibrium and we will bring the primary balance of the federal government to zero by 2020.

We will reduce public spending to appropriate and sustainable levels as this is fundamental in order to attain both fiscal and macro-economic balance.

We started with an oversized primary expenditure in 2015. Before the 2001-2002 crisis, the consolidated primary spending of the three levels of government (federal, provincial and municipal) represented 26 percent of GDP, and by 2015 it had reached 42 percent of GDP (increase driven mainly by the public wage bill, pension benefits, and energy and transportation subsidies). From that peak, we have brought down primary expenditure during 2017 by almost 2 points of GDP.

In 2017 we over-achieved the fiscal target of the Federal government by 0.4 percent of GDP with primary expenditures increasing slower than revenues for the first time since 2004.

Primary spending last year was reduced by 1.3 percent of GDP, a decrease which had not been seen since 1991. During the first 5 months of 2018 we managed to reduce the federal primary deficit by 40 percent with revenues growing 5 percentage points faster than expenditures. Primary spending contracted by 6 percent in real terms year-over-year.

Our assessment is that our chosen medium-term fiscal framework will ensure that gross public debt to GDP will fall from 2018 onwards, reaching 55.8 percent of GDP by end-2021. We are also committed to undertaking proactive debt management to lengthen maturities, optimize the cost of our liabilities, and increase the share of our federal public debt that is denominated in pesos.

We intend to achieve this more front-loaded fiscal trajectory by meeting the fiscal target in 2018 that we have already announced (primary deficit of 2.7 percent of GDP) and making important additional effort in the 2019 budget. Specifically, by October 2018 we will submit to Congress a federal budget that targets a primary fiscal deficit of 1.3 percent of GDP in 2019, and this is a structural benchmark for our program.[6]

In light of the uncertainties we currently face, we will ensure that our revenue forecasts in the budget are appropriately conservative and we intend, as a prudent contingency, to build in some spending reserves that will only be drawn in case of unexpected developments. If circumstances change and economic outcomes are not in the direction we currently expect, we stand ready to identify additional fiscal measures to achieve our intended primary balance targets in 2018 and 2019. On the other hand, if economic and fiscal outturns evolve in a more positive direction, we would be prepared to undertake a more front-loaded elimination of distortive taxes in order to better support growth and investment (in line with the pace that was outlined in the tax reform that was adopted in late 2017).

This pace of convergence to a balanced budget at the federal level will be matched by the provinces with the consolidated primary balance of the provinces expected to go from a deficit

[6]The budget balance for program purposes is defined in the TMU.

of 0.4 percent of GDP in 2017 to a surplus of 1/4 percent of GDP by the end of the Stand-By Arrangement.

Fiscal Policies

These fiscal targets will be supported by several key policy measures:

- We will continue to make progress on the reduction of subsidies on energy and transport with the objective of increasing the proportion of the cost of producing those services that is covered by prices charged to the consumer from around 80 percent in 2017 to 90 percent in 2020, on average, for gas, and from almost 60 percent in 2017 to 90 percent in 2020, on average, for electricity. At the same time, we will continue working towards eliminating the differences across regions. We will maintain the social tariff component that will protect those that cannot afford the higher tariffs.

- We will continue our efforts to rationalize public sector employment, which will be reduced through: (i) the sustained attrition of non-priority employees, (ii) a commitment to freeze new hiring in the federal civil service for two years, and (iii) permanently closing redundant positions. Our goal is that spending on personnel declines from 3.2 percent of GDP in 2017 to 2.7 by the end of the program.

- We will reduce other goods and services spending of the federal government by 15 percent in 2018, in real terms, relative to the 2017 outturn. We will continue this process in 2019. Strict control over commitments will prevent accumulating arrears.

- While we will continue executing the public infrastructure projects that are key to foster the competitiveness of the country, we will delay those that are not deemed crucial.

- We will reduce transfers associated with the operating deficit of Government enterprises that are not related to public utility tariffs, from their current level of 0.1 percent of GDP in 2017 to almost zero in 2021.

- We remain pledged to the commitment that we took with the *Ley de Reparación Histórica* to work within the appropriate parliamentary Commission towards improvements in the pension system that will make it financially sustainable and fairer for both current and future generations.

- While we remain committed to the reduction and eventual elimination of distortive taxes in line with the Tax reform adopted in late 2017, we will extend the implementation period of some of these changes as necessary to achieve our fiscal targets.

- We remain committed to improving Argentina's federal fiscal structure. The automatic transfers from the Federal Government to the Provinces have increased in recent years, and will continue to increase through 2020. The discretionary transfers to Provinces associated with expenditure responsibilities that have been assigned to each Province by the Constitution will be reduced going forward, as the Provinces take over those responsibilities. These identified reductions in spending are designed to ensure that the incidence is not borne by social assistance or other poverty alleviation programs that are executed at the provincial level.

- We do not expect the reduction of discretionary transfers to Provinces to lead to larger fiscal deficits at the Provincial level. The Fiscal Responsibility Law passed in late 2017 contributes towards achieving a sustainable fiscal path for the federal government and the provinces. Under the provisions of the law, the contemplated increase in automatic transfers to the provinces will offset the anticipated reduction in discretionary transfers to the provinces. In addition, the law establishes that primary spending cannot be increased in real terms. This implies that, for the first time in many years, we foresee that the aggregate fiscal position of the provinces will show a balanced primary budget in 2018 and a surplus by the end of the Stand-By Arrangement. As described in the TMU, a floor for the primary federal fiscal deficit at a general government level is an indicative target of the program.

- We will continue working towards rationalizing tax expenditure in the corporate income tax. We will also continue to publish a complete accounting of all tax expenditures in the budget.

- We will amortize pension fund assets that are currently held by the government as a mean to help finance the government payment of pensions, including those contained in the *Ley de Reparación Histórica*.

In case the economy were to underperform and federal tax collection were to be affected, we have identified a further 0.2 percent of GDP in contingent expenditure cuts (largely on infrastructure) that will be drawn upon in order to meet the fiscal targets.

Improving the fiscal framework

Beyond the fiscal path itself, we have been working on strengthening our fiscal and budgetary framework in a way that increases transparency, provides the public with a more complete view of our fiscal position and risks, helps build credibility, and guides expectations. Specifically, our plan contemplates:

- That the annual budget provides simple and transparent medium-term objectives for the primary balance that are consistent with the parameters of the program. The budget shall include details on realistic and prudent macroeconomic assumptions underlying the medium-term outlook, a statement of fiscal risks and of tax expenditures, and details on the key policy measures that will be undertaken to achieve the 2019 primary balance objective. The budget will contain a classification of revenues and of current and capital spending that is consistent with the most modern methodologies of fiscal reporting. In addition, we commit to include in the budget law the elimination of Article 27 of Law 11,672. This is a structural benchmark for our program (Table 3).

- To introduce a new mid-year fiscal report, starting in June 2019, that contains updated estimates of fiscal outturns and revised macroeconomic and fiscal projections for the medium-term.

- To make sure that the Federal Council of Fiscal Responsibility (FCFR) and the recently created Congress Budgetary Office (CBO, *Oficina de Presupuesto del Congreso*) have sufficient funding and capabilities to pursue their missions. The CBO is tasked with periodically evaluating macroeconomic and budgetary forecasts, providing independent costing to Congress of new policy initiatives, assessing the government's fiscal plans (including the annual budget). This is a structural benchmark in the program. The FCFR is mandated to monitor and evaluate fiscal performances of Federal and provincial governments, including compliance with the Fiscal Responsibility Law.

- To develop a fiscal risk analysis framework with a view to include it in the 2020 budget documents. The framework shall contemplate the publication of a fiscal risk scenario analysis, a long-term fiscal sustainability analysis (undertaken for the federal and consolidated government), and an analysis of contingent liabilities (explicit and implicit), including those related to the financing of PPP projects and to the unfunded pension obligations of the government.

- To support reaching our fiscal targets we will strengthen our revenue administration. We will continue working within our Tax Administration Agency (AFIP, *Administración Federal de Ingresos Públicos*) on improving our compliance plans and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes. This is a structural benchmark for our program.

B. Protecting Society's Most Vulnerable

Past fiscal reforms in Argentina have floundered because insufficient attention was given to building the needed social consensus for reform and, particularly, to protecting society's most vulnerable from the burden of the needed changes. We will not make this mistake. This is particularly pressing given the intolerable situation with regards to poverty that we inherited from the previous administration.

A central plank of our policy plan is to put in place measures that will offer opportunity and support to those living in poverty and for the less well-off members of Argentine society. We will concentrate our efforts on the protection of children and young people, whose poverty levels are substantially higher than those of any other group in our society.

We will adopt a set of social indicators to be monitored within the periodic reviews as a central component of the program. During the duration of the program we intend to continue improving Argentina's social safety net. The protected social expenditure and safeguards will be channeled through existing automatic, well-targeted cash transfer programs that reach most of the poor and vulnerable population.

We will maintain a floor on social assistance spending of 1.3 percent of GDP, a level that safeguards program coverage for 2019-20 while allowing benefits to rise according to the existing indexation formula. This is a performance criterion in the program. The floor will involve a defined set of programs that cover children through the existing social safety net: the *Asignación Universal por Hijo* (AUH) conditional cash transfer program and the *Asignación por Embarazo* (AUE – pregnancy allowance) which are included under the budgetary program named "*Asignación Universal para Protección Social.*" Both programs are efficiently administered, have ample coverage, and have been shown to be well targeted and to induce positive socioeconomic outcomes in the target population. In addition, the floor will also protect social spending on Contributive Family Allowances (including allowances to "*monotributistas*"). All the allowances mentioned in this paragraph are included under the budgetary program named "*Asignaciones familiares*".

In addition, as future prospects are uncertain, we may well need to spend more resources on the "*Asignaciones Universales para Protección Social"* (high quality social assistance programs that are specifically designed to protect the most vulnerable) in case social conditions worsen. Hence, we intend to build into our plan a provision to allow additional spending of up to AR$13.5 billion in 2018 and the equivalent of 0.2 percent of GDP on these highly targeted and well administered programs.

We will also revise the design of social protection programs to make them more efficient and better targeted, where needed. Specifically:

- We will work together with IFIs in order to strengthen programs that protect households or singles with no children, as this part of the population is less satisfactorily reached by existing social safety net.
- We will continue working with the provinces to integrate the provision of services, reduce duplication, improve targeting and lower the administrative costs of the social programs.
- We will revise the social tariffs system to make it better targeted (in particular toward the bottom 4 deciles of the income distribution).

C. Supporting Gender Equity

Enabling Argentine women to live up to their potential is not only a moral issue it also makes economic sense. Women in Argentina earn less than men on average for similar posts, are more likely to work in the informal economy, are less likely to participate in the labor force, and suffer poorer employment conditions. Addressing this situation has been a concern since the start of our administration, and we will continue to do so as part of our policy efforts. We will reinforce the steps we have already taken in order to level the playing field and provide women with the economic opportunities and support that every Argentine citizen is entitled to.

Specifically, we intend to:

- Work towards reforming the current tax system so as to reduce the disincentives for women to participate in the labor force.
- Continue implementing our projects and initiatives on actions to promote equal pay, a more equal system of paternity and maternity leave (both in our *Propuesta de Ley de Equidad de Género*, submitted to Congress this year).
- Continue building infrastructure for childcare and early child education.
- Require listed companies to publish data annually on the gender balance on their Board and among their managerial positions.
- Continue working on our initiatives to fight gender-based and domestic violence and provide support networks for victims of such violence (*Plan Nacional de Acción para la Prevención, Atención y Erradicación de Violencia contra las Mujeres*).

D. Monetary Policy

We will redouble our efforts to reduce inflation, which has placed hardship on the Argentine population. To that end, we remain committed to an inflation targeting framework for monetary policy. While the monetary policy managed to reduce inflation in the second half of 2016 and in 2017, the results fell short of what we would have liked. We will strengthen the institutional framework for monetary policy, and steadily build credibility through actions that show our commitment to our inflation objectives.

Reinforcing the BCRA's autonomy

To reinforce our commitment to low and stable inflation, we will strengthen the central bank. By March 2019, we will submit to Congress a new charter for the central bank. This is a structural benchmark for our program. This charter will give the central bank more operational autonomy and will also increase accountability and transparency at the institution. Among other features, the new charter will:

- Reinforce price stability as the key mandate of the BCRA.
- Give the BCRA the authority to set, in consultation with the Ministry of the Treasury, the inflation targets for the three years ahead.
- In order to improve accountability, in case of material deviations from the targets the BCRA will send a public letter to Congress and the President, explaining the reasons for the deviation and how it intends to address it.
- Provide for well-defined and limited grounds by which the Governor, Vice-Governor, and Board members could be dismissed from their positions.
- Improve transparency by restoring international accounting standards, to ensure a transparent report of the Central Bank's balance sheet.
- Discontinue all direct or indirect central bank financing of the Government and reduce the credit exposure of the central bank to the government in a predictable and phased manner.
- Clarify the legal status of the BCRA's official foreign reserves, which should only serve to implement exchange rate and monetary policies.
- Limit transfers to the Treasury only to realized profits, which will only take place when the BCRA's capital exceeds an adequate level. Unrealized profits and losses from foreign currency revaluation would be booked separately on a revaluation account and not distributed.

In order to show our commitment to these principles, we have committed on June 7 to immediately end all new direct or indirect central bank transfers to the Treasury. The continued adherence to this policy represents a performance criterion within the program. The BCRA will also begin working on improving transparency and accountability by introducing the International Financial Reporting Standards within the next two years.

Central Bank Balance Sheet

Under the previous two administrations, the central bank's financial structure has been severely compromised. Non-interest bearing, non-marketable securities were built up on the central bank's balance sheet, in detriment of international reserves, in an effort to mask the real magnitude of the government's debt.

The time has come to reverse these measures and provide the central bank with a solid balance sheet to achieve its price stability objective. This will start with an independent assessment of its balance sheet and the adoption of international accounting standards, including a more transparent valuation of the BCRA's assets and liabilities. By December 2019, the government is committed to provide the BCRA with financial autonomy in the form of an adequate level of capital. This is a structural benchmark under the program (Table 3).

As part of this process, the Ministry of Finance intends to gradually repurchase a sizable portion of the non-marketable government securities held by the Central Bank, starting in June 2018. The objective is to reduce the BCRA's net claim on the government by at least US$25 billion by May 2021, which is a performance criterion within the program (Table 2).

The BCRA is committed to reducing the vulnerability attached to an excessively large stock of LEBAC securities, and to fostering the re-intermediation of the financial sector. To this end, the repayment of government liabilities held by the central bank will be used to drain peso liquidity, lessening the central bank's reliance on issuing LEBAC securities. To facilitate this process, we will establish a senior-level debt management coordinating committee between Treasury-Finance-BCRA that shall meet weekly and coordinate activities linked to sterilization and debt issuance plans. This is a structural benchmark under the program (Table 3). Moreover, the BCRA intends to limit its counterparties to local banks by the end of September 2019, which represents a structural benchmark for the program.

Inflation Goals

In the context of its strengthened independence, the BCRA has decided to re-establish realistic and meaningful inflation targets. While it is regrettable to again reset our targets to a higher path for inflation, this change is inevitable given the financial market volatility that Argentina has experienced and the inflationary impulse that is underway following recent depreciation of the exchange rate and increases in world energy prices.

With a new and stronger fiscal plan, we believe that now is the right moment to set our inflation targets for the next three years, and commit to do whatever it takes to meet them. The program includes consultation bands surrounding the inflation target and net domestic assets of the central bank, a way of stepping up our commitment to the disinflation process (Table 2).

We have formally adopted new targets for the BCRA to achieve a year-on-year rate of consumer price (IPC) inflation. The target will be equal or below current market expectations (REM) for end 2018 (27 percent), and then 17 percent, 13 percent and 9 percent by the end of the following 3 years.

Given the uncertainties in the initial stage of this effort, we are committed to maintaining our current restrictive monetary policy until we see a tangible sign that both realized inflation and end-2019 inflation expectations are starting to move lower.

We will calibrate our monetary policy in a forward-looking manner to ensure that inflation converges to our targets. Once inflation expectations are well anchored to our targets, in the event of an identifiable adverse supply or external shock, we would adjust policies to bring inflation back to the target over a time horizon that is consistent with our understanding of the lags in monetary policy and is sensitive to the size, nature, and persistence of that shock.

Exchange Rate

As part of our inflation targeting framework we are fully committed to a flexible and market-determined exchange rate. We intend to limit the sales of foreign currency reserves to periods when there is clear market dysfunction. Even then, we plan to absorb such external pressures through a flexible exchange rate and very limited foreign currency sales to accommodate such market-driven pressures on the peso.

Over the medium-term, our intention is to build international reserves to levels that are prudent given Argentina's exposure to global shocks on both the current and capital accounts. As part of a mechanism to achieve this reserve build-up, we will not let net international reserves fall below a floor that provides some space for the decumulation of reserves during the current period of market volatility but which also rises over time until reaching an adequate level (Table 2).

In the unlikely event that our intervention in foreign exchange markets (both spot and forwards) is above what is consistent with meeting this path we will engage with the IMF staff to discuss the conditions in foreign exchange markets and our policy response.

The BCRA will publish by the end of June 2018 a regulation that introduces a foreign exchange auction to intervene in the spot and forward markets, a structural benchmark for the program (Table 3).

The BCRA, at the request of the Treasury, will announce a program to sell in the market part of the IMF budget support to fund the peso denominated obligations of the Treasury. The program will consist of preannounced daily sales, which will be executed through a foreign exchange auction.

E. Banking Sector

We view the risks of the current macro-economic circumstances on the banking sector as limited because of the small size of the sector, its high level of capital and liquid assets, as well as the limited exposure of banks to the sovereign. We will, however, closely monitor developments in the financial sector and prepare ourselves to respond promptly to any sign of deterioration in this sector.

F. The Economic Outlook Underpinning the Program

Recent financial market volatility, the drought that affected our agricultural economy, and higher world energy prices are taking a toll on the economy. So, our expectation is that growth will be between 0.4 percent and 1.4 percent for the year as a whole. As has been characteristic of this administration at the time of planning fiscal performance, we rather err on the conservative side, for which reason we are working with an assumption of economic growth being 0.4 percent for fiscal projection purposes.

We expect the combined effect of our economic program and the IMF's support for Argentina to quickly rebuild confidence allowing for a reduction in the cost of financing and supporting a return of capital inflows. Both factors, together with the weaker real exchange rate, should facilitate an increase in capital investment and job creation. Growth for 2019 as a whole is expected to be around 2 percent. Stronger investment and efforts in the program to lessen distortions will likely lead to an acceleration of potential GDP through the medium-term, supported by greater capital formation, an increase in the labor supply, and higher efficiency and productivity.

The prospects for the balance of payments are good with our policy program likely to lead to a rapid reversal of the recent rise in the current account deficit. The current account deficit is likely to continue falling through 2020 which should be comfortably financed by foreign direct investment inflows. Additional portfolio capital inflows are expected, which, as discussed above, the central bank intends to absorb through an increase in the stock of international reserves.

G. Supply Side Policies

Our administration is committed to increasing growth and private investment as a means to raising living standards for all of Argentina's people. To do this we need to make Argentina an attractive destination for local and international businesses alike. Much has been achieved in reversing the distortions put in place by the past administration and in rooting out corrupt practices. However, there is more to be done.

We will continue strengthening the anti-corruption regime, focusing on its effective implementation, improving the institutional framework, and strengthening prosecutorial and judicial proceedings. We are working with the OECD on a study on integrity in Argentina, which will help design general strategies and efficient public policies.

On AML-CFT, we want to improve the legal framework in certain areas, including the regime of penalization of noncompliance with prescriptions of the law, and strengthen information-sharing, and asset freezing and administration capabilities. On the regulatory and supervisory front, the Financial Intelligence Unit will continue strengthening its operations leaning on a risk-based approach and strategic analysis to fight crime. In this regard, we are committed to further strengthening the AML and anticorruption frameworks and ensuring their effective implementation, and we will design concrete measures to this effect in consultation with Fund staff by the first review date. In all these matters, we would welcome technical assistance by the IMF.

Our administration has made major progress in rebuilding statistical information about the economy and regaining credibility in this area. We will continue our efforts to improve our statistical system to further align it with the internationally accepted methodologies and reporting standards, in collaboration with international organizations, including the OECD and IMF.

Developing Domestic Credit Markets

The newly enacted *Ley de Financiamiento Productivo* aims at developing financing for small sized corporations and household mortgages, while promoting savings and strengthening transparency and certainty in credit markets. Key instruments to develop financing for small and medium-sized firms are new electronic invoices to facilitate factoring, simplified debentures, and tradable IOUs. For enhancing access to housing, the law allows for inflation-adjusted mortgages, which will facilitate securitization, covered bonds, and new insurance instruments for mortgages. To promote long-term savings and investment, the law eliminates double taxation in closed-end mutual funds which anchor productive and real-estate investments. Enhancing transparency and reducing uncertainty, the national securities commission (CNV) is empowered to issue regulations to avoid conflicts of interest in the asset management industry, reduce systemic risk, simplify administrative processes, and pursue faster sanctions for noncompliance. Importantly, the CNV has lost previous powers to intervene corporations and appoint overseers to their boards with veto powers on corporate actions. We enjoy the benefits of a stronger capital markets regulator with less discretionary powers.

Competition Reform

The new antitrust regulatory framework, approved by Congress in May 2018, adopts best international practices to deter collusion and strengthens the independence, transparency, efficiency and predictability of the agency in charge of overseeing these matters. One of the main objectives of the new law is the creation of an independent authority, the National Competition Authority (the "ANC"), with sufficient powers to adopt its own decisions, control its own budget, and function without political interference.

Regarding mergers and acquisitions, the new law includes an ex-ante control, which would replace the current ex-post regime. This change comes to solve a current problem of mergers and acquisitions, which are submitted for evaluation after deals are closed. This also creates new important challenges for the antitrust authority, in terms of timing for decision making, which will be addressed through a fast-track procedure for those mergers and acquisitions that fall into a specific scope of low potential impact on competition. This change serves the purpose of speeding up the procedure in those cases, as well as dedicating more resources to more complex cases.

Following international best practices, the new law includes a leniency program, with the purpose of facilitating proper detection, prosecution and sanction of cartels. Argentina has a poor record of cartel sanctioning compared to other countries in Latin America which have already implemented their own leniency programs.

Finally, the law also provides for the creation of a specialized court (the Appellate Court in Antitrust Matters) to deal with competition matters, in order to improve the judicial review of the competition authority decisions. This specialized court shall act under the scope of the Federal Courts of Appeals in Civil and Commercial Matters.

De-bureaucratization

The government remains committed to improving the relationship between the State and Argentina's citizens and productive sectors, through administrative simplification and de-bureaucratization efforts. To this end, Congress recently approved a law to remove useless regulations and costly norms. Among others, the law allows simplified incorporation of corporations, allows for digital accounting record keeping, simplifies the process of granting patents, expedites the establishment of ports, unifies air traffic control, removes restrictions on road cargo transportation and circulation of agricultural equipment, and removes barriers for access to financial services. The law also upgrades bureaucratic procedures resulting in shorter processing times and allowing for digital files and electronic signatures at all levels of the federal government.

Table 1. Argentina: Schedule of Reviews and Purchases

	Amount of Purchase		
Available on or after	SDR millions	% Quota	Conditions 1/
June 20, 2018	10,613.71	333%	Approval of Arrangement
September 15, 2018	2,063.78	65%	First Review and end-June 2018 performance criteria
December 15, 2018	2,063.78	65%	Second Review and end-September 2018 performance criteria
March 15, 2019	2,063.78	65%	Third Review and end-December 2018 performance criteria
June 15, 2019	2,063.78	65%	Fourth Review and end-March 2019 performance criteria
September 15, 2019	2,063.78	65%	Fifth Review and end-June 2019 performance criteria
December 15, 2019	2,063.78	65%	Sixth Review and end-September 2019 performance criteria
March 15, 2020	2,063.78	65%	Seventh Review and end-December 2019 performance criteria
June 15, 2020	2,063.78	65%	Eigth Review and end-March 2020 performance criteria
September 15, 2020	2,063.78	65%	Ninth Review and end-June 2020 performance criteria
December 15, 2020	2,063.78	65%	Tenth Review and end-September 2020 performance criteria
March 15, 2021	2,063.78	65%	Eleventh Review and end-December 2020 performance criteria
June 1, 2021	2,063.71	65%	Twelfth Review and end-March 2021 performance criteria
Total	35,379	1110%	

1/ Apart from periodic performance criteria, conditions also include continuous performance criteria.

Table 2. Argentina: Quantitative Performance Criteria, Indicative Targets, and Consultation Clauses 1/2/

(In billions of Argentine pesos unless otherwise stated)

	Proposed Performance Criteria		Indicative Targets		
	2018			2019	
	end-Jun	end-Sep	end-Dec	end-Mar	end-Jun
Fiscal targets					
Performance Criteria					
1. Primary balance of the federal government (floor) 3/ 10/	-148.0	-256.0	-362.5	-32.0	-100.0
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0	0.0	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	8.2	14.9	21.6	27.1	39.7
4. Social assistance spending (floor)	87.7	131.1	177.5	60.0	112.6
Indicative targets					
5. Primary balance of the general government (floor) 3/	-163.0	-272.0	-382.4	-40.0	-110.0
Monetary targets					
6. Change in net international reserves (floor) 6/ 10/	5.5	5.5	5.5	5.5	7.5
7. Change in stock of non-deliverable FX forwards (ceiling) 7/	1.0	0.0	-0.5	-1.0	-1.5
8. Change in central bank credit to government (ceiling) 8/	0.0	-78.0	-156.0	-234.0	-312.0
9. Central bank financing of the government (ceiling) 4/	0.0	0.0	0.0	0.0	0.0
Inflation Consultation Clause					
10. Inflation bands (in percent, y-o-y)					
Outer Band (upper)	32	32	32	28	26
Inner Band (upper)	29	29	29	26	24
Center inflation target	27	27	27	24	22
Inner Band (lower)	25	25	25	22	20
Outer Band (lower)	22	22	22	20	18
11. Change in net domestic assets of the central bank (ceiling) 9/ 10/	15	64	166	173	184

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on June 4, 2018.
7/ In billions of U.S. dollars. The change is measured against the value on June 4, 2018.
8/ The change is measured against the value on end-May 2018, which stood at 2,204.4 billion pesos, as defined in the TMU.
9/ The change is measured against the value on end-May 2018, which stood at 432.9 billion pesos, as defined in the TMU.
10/ Targets subject to adjustors as defined in the TMU.

Table 3. Argentina Structural Program Conditionality

	Structural Benchmarks	Timing	Implementation status
1	Publish a regulation to introduce a foreign exchange auction for BCRA intervention in the spot and forward markets.	Jun-2018	Proposed
2	Establish a senior-level debt management coordinating committee between Treasury-Finance-BCRA that would meet weekly and coordinate activities linked to sterilization and debt issuance plans.	Sep-2018	Proposed
3	Present a 2019 budget to Congress, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program. The budget would include details on realistic and prudent macroeconomic assumptions underlying the medium-term budget, a statement of fiscal risks and of tax expenditures, and details on the key policy measures that will be undertaken to achieve the 2019 primary balance objective. The budget will include the elimination of article 27 of Law 11,672.	Oct-2018	Proposed
4	Provide sufficient resources to the newly created CBO (Oficina de Presupuesto del Congreso), so that it can effectively evaluate macroeconomic and budgetary forecasts (including those contained in the annual budget and MTFF), provide independent costing to Congress of new policy initiatives, assess the government's fiscal plans (including the annual budget), and monitoring public finances at the central level.	Dec-2018	Proposed
5	Submit to Congress a new charter for the central bank that will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability	Mar-2019	Proposed
6	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Sep-2019	Proposed
7	Recapitalize the central bank to ensure it has the adequate level of capital as percent of the monetary base plus the outstanding stock of LEBACs.	Dec-2019	Proposed
8	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	Proposed

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the performance criteria (PCs), indicative targets (ITs), and consultation clauses, that will be applied under the Stand-by Arrangement, as specified in the Memorandum of Economic and Financial Policies (MEFP) and its attached tables. It also describes the methods to be used in assessing the program's performance and the information requirements to ensure adequate monitoring of the targets.

2. For program purposes, all foreign currency-related assets, liabilities and flows will be evaluated at "program exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on May 31, 2018. Accordingly, the exchange rates for the purposes of the program are shown in Table 1.

Table 1. Program Exchange Rates 1/

Argentine Pesos to the US dollar	24.96
Argentine Pesos to the SDR	35.36
Argentine Pesos to the Euro	29.14
Argentine Pesos to the Canadian dollar	19.22
Argentine Pesos to the British pound	33.16
Argentine Pesos to the Renminbi	3.89
Gold prices (US$/ounce)	1298.29

1/ Average daily selling rates at the end of May 2018.

3. Any variable that is mentioned herein for the purpose of monitoring a PC or IT and that is not explicitly defined, is defined in accordance with the Fund's standard statistical methodology, such as the Government Finance Statistics. For any variable or definition that is omitted from the TMU but is relevant for program targets, the authorities of Argentina shall consult with the staff on the appropriate treatment to reach an understanding based on the Fund's standard statistical methodology.

General Definitions

4. Pre-announced BCRA foreign exchange sale of the counterpart of Fund resources to be used for budgetary purposes definition: the BCRA sells for the Treasury a pre-announced amount of US dollars on a daily basis to fund Treasury obligation denominated in pesos. The program is fixed for a month and the daily fixed amount is announced at least three business days ahead of time.

5. Foreign exchange auction definition: the auction is a mechanism in which the BCRA sells US dollars to banks for Argentine pesos. All banks in Argentina can participate in the auction. Bids are allotted solely based on the price proposed by the counterparties, starting from highest peso per US dollar rate until the pre-announced amount is exhausted. The auction weighted average, marginal rate, total bid amount, and the final allotment are published one hour after the auction allotment.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

6. **Definitions:** The Federal government (*Sector Público Nacional No Financiero*) for the purposes of the program consists of the central administration, the social security institutions, the decentralized institutions (*Administración Nacional*), and PAMI, fiduciary funds, and other entities and enterprises of the federal government.

Cumulative Floor of the Federal Government Primary Balance

7. **Definitions**: The primary balance of the Federal government is defined in accordance with the monthly and annual reporting of the "*Esquema IMIG*". This is equivalent to total revenues (*ingresos totales*, according to "Esquema IMIG") minus primary spending (*gastos primarios*). Revenues are recorded on a cash basis and include tax revenues (*ingresos tributarios*), revenue income (*rentas de la propiedad*), other current revenues (*otros ingresos corrientes*), capital revenues (*ingresos de capital*), and imputed revenues associated with the 2008 nationalization of private pension assets. Revenues exclude financial transfers from the Central Bank (*Adelantos Transitorios*), interest income from intra-public sector holding of securities and debt obligations, and proceeds from the sale of other financial assets. Profit transfers from the central bank would, however, be regarded as revenues for program purposes.

8. Federal government primary expenditure is recorded on a cash basis and includes spending on social protection (*prestaciones sociales*), economic subsidies (*subsidios económicos*), operational expenses (*gastos de funcionamiento*), current transfers to provinces (*transferencias corrientes a provincias*), other current spending (*otros gastos corrientes*), and capital spending (*gastos de capital*), which includes capital transfers to provinces, and capital spending on *Programa de Inversiones Prioritarias* currently recorded under "*Adelantos a Proveedores y Contratistas*".

9. The accounting of the revenues from pension assets held by the *Fondo de Garantía y Sustentabilidad* (FGS) as a result of the 2008 pension fund nationalization poses a complex methodological issue. While the budget reported an immediate increase in pension spending after 2008, it never reported the revenues (contributions) capitalized in the nationalized pension assets available in 2008. The authorities and staff agreed on an IMF technical assistance mission by end-2018, that will collect the necessary information and advise the authorities on the correct record keeping of the nationalization operation and of subsequent changes to the pension system that is consistent with sound statistical principles as embedded in the IMF's Government Finance Statistics. Should the mission's recommendations lead to any changes in the measurement of the budget balance, no additional policy measures would be sought or applied for the purposes of the IMF-supported program. For the time being, the value of pension fund assets seized in 2008 will be spread over time as revenue to partially offset future pension spending. In particular, the amount will be divided by the average life expectancy of contributors to those schemes at 2018, that is 20 years. The limit on the amount to be recognized as revenue shall be 0.4 percent of GDP per year.

10. Government-funded, public-private partnerships will be treated as traditional public procurements. Federal government obligations associated with public private partnerships would be recorded transparently in budget data and measured as part of the Federal government deficit as they occur (on a cash basis).

11. Costs associated with divestment operations or liquidation of public entities, such as cancellation of existing contracts or severance payments to workers, will be allocated to current and capital expenditures accordingly.

12. All primary expenditures (including fines) that are directly settled with bonds or any other form of non-cash liabilities will be recorded as spending above-the-line and will therefore contribute to a decrease in the primary balance. This excludes the settlement of pension liabilities towards people enrolled in the federal pension system (the *Sistema Integrado de Pensiones y Jubilaciones*) incurred in the past and related to existing and pending court rulings, and payments of arrears as per ICSID or similar arbitration rulings.

13. The Federal government's primary balance will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

14. **Monitoring**: All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund with a lag of no more than 25 calendar days after the end of each month.

Floor on Federal Government Spending on Social Assistance Programs

15. **Definition:** Social spending for the purpose of the program is computed as the sum of all federal government spending (both recurrent and capital) on the following social protection programs:

- *Asignación Universal para Protección Social* which includes the following sub-programs: *Asignación Universal por Hijo, Asignación por Embarazo*, and *Ayuda Escolar Anual.*
- *Asignaciones Familiares Activos*, which includes the *Asignación Prenatal, por Adopción, por Hijo, por Hijo Discapacitado, por Maternidad, por Matrimonio, por Nacimiento,* and the *Ayuda Escolar Anual.*
- *Asignaciones Familiares Pasivos*, which includes the *Asignación Prenatal, por Cónyuge, por Hijo, por Hijo Discapacitado,* and *the Ayuda Escolar Anual.*
- *Asignaciones Familiares Sector Público Nacional*, which includes the *Asignación Prenatal, por Hijo, por Hijo Discapacitado, por Maternidad,* and *the Ayuda Escolar Anual.*

16. **Monitoring:** Data will be provided to the Fund with a lag of no more than 25 calendar days after the end of each month.

Adjustors to the floor on the primary balance

17. **Adjustor to the primary balance for social spending**: The floor on the primary balance of the federal government (cumulative since the beginning of the year) would be adjusted downward by an amount equivalent to the amount that expenditures in the Universal Allowances for Social Protection programs (*Asignación Universal para Protección Socia*l, which includes the *Asignación Universal por Hijo*, the *Asignación por Embarazo*, and the *Ayuda Escolar Anual*) exceed the programmed values defined in Table 2. The value of the adjustor would be capped at 13,500 million of pesos in 2018 and 0.2 percent of GDP in each successive calendar year.

Table 2. Social Spending Subject to Adverse Economic Conditions

(program baseline)

	AR$ millions 1/
end-June 2018	37,187
end-September 2018	55,368
end-December 2018	74,836
end-March 2019	25,818
end-June 2019	47,735

1/ Cumulative from January 1

18. **Adjustor for external financing projects:** The target for the primary balance of the budget sector will be adjusted up (down) by the shortfall (excess) in the expenditure financed by disbursements of external project loans by International Financial Institutions and bilateral partners, compared to the capital expenditures settled in the budget (Table 3). The value of the adjustor would be capped at cumulative 30,000 million pesos in 2018, and 0.2 percent of GDP in each successive calendar year. Starting in 2019 the benchmark will be the expenditure financed by disbursements of external project loans by IFIs and bilateral partners, as stated in the budget.

Table 3. Multilateral/Bilateral Funded Capital Spending
(program baseline)

	AR$ millions 1/
end-June 2018	15,171
end-September 2018	20,025
end-December 2018	30,341

1/ Cumulative from January 1

Ceiling on Federal Government Accumulation of Domestic Arrears

19. **Definition:** Domestic arrears are defined as the floating debt, that is the difference between primary spending recorded on an accrual basis (*gasto devengado*, from the SIDIF system) and primary spending recorded on a cash basis (*base caja,* from the Treasury). This excludes intra-public transfers (*transferencias figurativas*), and includes primary spending for personnel (*gasto en personal*), acquisition of goods and services (*bienes y servicios*), non-professional services (*servicios no profesionales*), capital expenditures (*bienes de uso*), and transfers (t*ransferencias*).

20. **Measurement**: The arrears are measured on a daily basis. The program will cap the quarterly average of arrears at 0.5 percent of GDP, that is at 67,500 million pesos by the end of December 2018.

21. **Monitoring**: Data recorded at daily frequency will be provided to the Fund with a lag of no more than 25 calendar days after the end of each month.

Federal Government Non-Accumulation of External Debt Payments Arrears

22. **Definition of debt:** External debt is determined according to the residency criterion (and, as such, would encompass nonresident holdings of Argentine law peso and foreign currency debt). The term "debt"[1] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of

[1] As defined in Guidelines on Public Debt Conditionality in Fund Arrangements, Decision No. 15688-(14/107).

assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

23. **Definition of external arrears:** External debt payment arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after May 30, 2018 that have not been paid, considering the grace periods specified in contractual agreements. Under the definition of debt set out above, arrears, penalties and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

24. **Coverage:** This performance criterion covers the federal government. This performance criterion does not cover (i) arrears on trade credits, (ii) arrears on debt subject to

renegotiation or restructuring; and (iii) arrears resulting from the nonpayment of commercial claims that are the subject of any litigation initiated prior to May 30, 2018.

25. **Monitoring:** This PC will be monitored on a continuous basis.

Floor on the Change in Net International Reserves

26. **Definitions:** Net international reserves (NIR) of the BCRA are equal to the balance of payments concept of NIR defined as the U.S. dollar value of gross official reserves of the BCRA minus gross official liabilities with maturities of under one year. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the program exchange rates.

27. **Gross official reserves** are defined consistently with the Sixth Edition of the Balance of Payments Manual and International Investment Position Manual (BPM6) as readily available claims on nonresidents denominated in foreign convertible currencies. They include the (i) monetary claims, (ii) free gold, (iii) holdings of SDRs, (iv) the reserve position in the IMF, (v) holdings of fixed income instruments and (vi) net cash balances within the Latin American Trade Clearing System (ALADI). Excluded from reserve assets are any assets that are pledged, collateralized or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency vis-à-vis domestic currency (such as futures, forwards, swaps and options), precious metals other than gold, assets in nonconvertible currencies and illiquid assets.

28. **Gross official liabilities** in foreign currencies include (i) foreign currency liabilities with original maturity of one year or less, (ii) the use of Fund resources extended in the context of the exceptional financing package, (iii) any deliverable forward foreign exchange (FX) liabilities on a net basis—defined as the long position minus the short position payable in foreign currencies directly undertaken by the BCRA or by any other financial institutions on behalf of the BCRA. The Federal government's foreign liabilities are not considered as gross foreign liabilities of the BCRA. The foreign currency swap with the People's Bank of China would be considered, for program purposes, as a foreign exchange liability of the BCRA with a maturity of one year or less.

29. The change in net international reserves will be measured as the change in the stock of NIR at each test date relative to the stock on June 4, 2018, which stood at US$23.1 billion.

30. **Monitoring:** Foreign exchange asset and liability data will be provided to the Fund at daily frequency within one day.

31. **Adjustors**:

- The NIR targets will be adjusted upward (downward) by the surplus (shortfall) in program loan disbursements from multilateral institutions (the IBRD, IDB and CDB) and grants, relative to the baseline projection reported in Table 4. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are usable for the financing of the general government.

Table 4. External Program Disbursements (Baseline Projection)

Cumulative flows from end-May 2018	(In millions of US$)
Budget support loans from multilateral sources	
End-June 2018	0
End-September 2018	0
End-December 2018	900
End-March 2019	900
End-June 2019	900

- The NIR targets will be adjusted downward by the total amount of dollars sold by the Treasury through transparent, pre-announced, BCRA-run auctions undertaken each business day to the market (to meet the peso obligations of the government) plus the total amount of net cash payments financed from the accounts numbered 20501, 20502, 20503, 20504, 20505, 20506, 20518 on FX-denominated debt of the federal government. This cumulative amount of this adjustor would be capped at US$7.5 billion.

Ceiling on the change in the BCRA's stock of non-deliverable forwards (NDF)

32. **Definitions**. The stock of non-deliverable forwards (NDF) will be defined as the sum of the U.S. dollar notional value of all contracts entered by the BCRA involving the Argentinian peso, either directly or through any institution they use as their financial agent.

33. **Monitoring.** Daily data will be provided to the Fund at the end of each day.

34. The change in the stock of NDF will be measured as the change in the stock of NDF at each test date relative to the stock on June 4, 2018, which stood at US$2.3 billion.

Continuous Stop to BCRA's Financing of the Government

35. **Definitions**. Central bank (BCRA) financing to the government includes overdraft transfers from the BCRA to the Federal Government (line *Adelantos Transitorios* in the summary account of the BCRA, as published on its web site), advance distribution of unrealized profits, and the acquisition of government debt on the primary market or by purchase from public institutions. The BCRA will extend zero net financing to the government for the duration of the program.

36. **Monitoring.** Daily data will be provided to the Fund within two days. This target will be monitored on a continuous basis.

Ceiling on Central Bank Credit to the Government

37. **Definitions.** Central bank (BCRA) credit to the government is defined as the sum of the stock of government securities held by the BCRA (line *Títulos Públicos* in the summary account of the BCRA, as published on its web site) and overdraft transfers from the BCRA to the Federal Government (line *Adelantos Transitorios* in the summary account of the BCRA, as published on its web site). Starting in July 2018, the stock of central bank credit to the government shall decrease by the peso equivalent of US$3.125 billion per quarter until end-June 2019, and then per semester until end-April 2021. By end-May 2021, the total decrease will correspond to US$25 billion. This decrease in the claim shall reflect cash payments of this amount in pesos by the Treasury to the BCRA; variation in the value of the claim due to changes in exchange rates or accounting practices are excluded.

38. **Monitoring.** Daily data will be provided to the Fund within two days.

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

Cumulative Floor on Primary Balance of the General Government

39. **Definition:** The general government is defined as the federal government (as defined above) plus the aggregate position of the provincial governments (defined for purposes of this TMU as the 23 provinces plus the Autonomous City of Buenos Aires).

40. **Definition:** The primary balance of the general government will include the primary balance of the federal government (as defined above, including adjustors) plus revenues of the provincial governments (including transfers from the federal government) less cash expenditures of the provincial governments. Total expenditures of the provincial government will include wages, goods and services, transfers and subsidies, capital spending and transfers to municipalities from the provincial government. Expenditures of municipalities and municipal revenues are excluded. The result of the provincial governments will be measured from above-the-line, with expenditure defined according to the information provided by the *Secretaría de Hacienda*.

41. **Reporting**: Data will be provided to the Fund with a lag of no more than 60 calendar days after the end of each quarter.

INFLATION CONSULTATION CLAUSE

42. **Definitions.** Inflation is defined as the change over 12 months of the end-of-period headline national consumer price index (*Indice de Precios al Consumidor*, IPC), as measured and published by INDEC.

43. **Monitoring.** Data will be provided to the Fund on a monthly basis with a lag of no more than 20 calendar days after the end of each month.

44. The quarterly consultation bands on inflation are specified as follows:

Table 6. Inflation Consultation Band

	2018			2019			
	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Outer Band - Upper Limit	32	32	32	28	26	23	21
Inner Band - Upper Limit	29	29	29	26	24	21	19
Midpoint	*27*	*27*	*27*	*24*	*22*	*19*	*17*
Inner Band - Lower Limit	25	25	25	22	20	17	15
Outer Band - Lower Limit	22	22	22	20	18	15	13

45. Inflation prospects will be a critical part of each review under the arrangement. The BCRA will discuss with the Fund staff the appropriate policy response should the 12-month rate of IPCA inflation exceed the upper limit of the inner band specified in the table above. Should the 12-month rate of IPCA inflation exceed the upper limit of the outer band specified above, the authorities will complete a consultation with the Executive Board of the IMF on their proposed policy response before purchases under the arrangement would become available. Specifically, that consultation with the Executive Board will explain (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for deviations from the specified band, considering compensating factors; and (iii) proposed remedial actions, as deemed necessary.

46. **Definition**: The BCRA's net domestic assets (NDA) are defined as the difference between the monetary base and the net international reserves of the BCRA (NIR), converted into Argentine pesos at the program's exchange rate.

- The **monetary base** includes currency in circulation and the accounts denominated in Argentine pesos at the BCRA of the banks subject to the reserve requirement.
- The **NIR** are defined as in this TMU.

47. **Monitoring**: Data will be provided to the Fund on a monthly basis with a lag of no more than 10 days.

48. **Adjustor**: The NDA ceiling will be adjusted if the minimum reserve requirement on commercial banks is changed. The ceiling will be increased (decreased) by the same peso amount as the increase (decrease) in required reserves.

49. **Adjustor**: The NDA ceiling will be adjusted in line with any adjustments made to the floor on the change in Net International Reserves at program exchange rates, as described in this TMU, in the section on Quantitative Performance Criteria. The NDA ceiling will be increased (decreased) by the same amount as the decrease (increase) in the floor on the change in NIR.

50. Should the NDA of the BCRA exceed the upper limit, specified in Table 2 of the MEFP, the authorities will complete a consultation with the Executive Board of the IMF on their proposed policy response before purchases under the arrangement would become available. Specifically, that consultation with the Executive Board will explain (i) the reasons for deviations from the specified ceiling, considering compensating factors; and (ii) proposed remedial actions, as deemed necessary.

Intervention Staff Consultation Clause

Ceiling on BCRA's and the Federal government's foreign currency intervention in both spot and deliverable forwards markets

51. **Definitions**. Foreign exchange interventions are defined as spot and deliverable foreign currency sales by the BCRA either directly or through any institution they use as their financial agent. The BCRA commits to not loosen monetary conditions, particularly by lowering the policy rate, in the context of foreign exchange interventions, until there has been such a discussion with IMF staff.

52. **Monitoring**. Daily data will be provided to the Fund at the end of each day. This consultation clause applies on a continuous basis.

Ceiling on the change in the BCRA's stock of non-deliverable forwards (NDF)

53. **Definitions.** The stock of non-deliverable forwards (NDF) will be defined as the sum of the US$ notional value of all contracts entered by the BCRA involving the Argentine peso, either directly or through any institution they use as their financial agent.

54. If net sales exceed an accumulated amount, the BCRA commits to not loosen monetary conditions, particularly by lowering the policy rate, until there has been such a discussion with IMF staff.

55. **Monitoring.** Daily data will be provided to the Fund at the end of each day. This consultation clause applies on a continuous basis.

Other Information Requirements

56. **In addition to the data needed to monitor program conditionality, the authorities will also provide the following data so as to ensure adequate monitoring of economic variables:**

A. Daily

- Nominal exchange rates; interest rates on domestic debt instruments including LETES (at different maturities), LEBAC (at different maturities), and BOTES; total currency issued by the BCRA; deposits held by financial institutions at the BCRA; required and excess reserves of the banking sector in local and foreign currency; total liquidity assistance to banks through normal BCRA operations, including overdrafts; interest rates on overnight deposits and on 7-day repurchase and reverse repurchase agreements.
- Individual banks' gross foreign exchange positions by currencies.
- Individual banks' foreign currency accounts with the BCRA.
- Weekly: BCRA balance sheet.

B. Monthly

- Federal government operations including monthly cash flow from the beginning to the end of the current fiscal year (and backward revisions as necessary), with a lag of no more than 25 days after the closing of each month, according to both the format of the *Informe Mensual de Ingresos y Gastos* (IMIG) and to the format of the *Cuenta Ahorro Inversion Financiamiento* (AIF). On Federal and Provincial Debt:
  - The expected monthly federal government and provincial government debt amortization and repayments (local currency and FX bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). This would include

both direct and guaranteed debt. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution.

- Federal government and provincial government debt stock by currency, as at end month, including by (i) creditor (official, commercial domestic, commercial external; (ii) instrument (local currency and FX denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); and (iii) direct and guaranteed.

- The balances of the (federal) government at the central bank and in the commercial banking system needed to determine the cash position of the (federal) government.

- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.

- Balance sheets of other financial corporations (non-deposit taking), including holdings of federal and provincial debt and of the BCRA instruments within one month after month end.

- Data on the total loans value of all new federal government-funded public private partnerships.

INTERNATIONAL MONETARY FUND

ARGENTINA

June 15, 2018

ASSESSMENT OF THE RISKS TO THE FUND AND THE FUND'S LIQUIDITY POSITION

Approved By
Andrew Tweedie and Daria Zakharova

Prepared by the Finance and Strategy, Policy, and Review Departments.

CONTENTS

INTRODUCTION

1. **This note assesses the risks to the Fund arising from the proposed Stand-By Arrangement (SBA) for Argentina and its effects on the Fund's liquidity, in accordance with the policy on exceptional access.**[7] The authorities are requesting a 36-month SBA with access equivalent to SDR 35.379 billion (1,110 percent of quota). Under the proposed phasing, access is significantly frontloaded, with a first purchase equivalent to SDR 10.614 billion (333 percent of quota) available upon approval. The authorities intend to make the first purchase, using one-half of the Fund resources (SDR 5.307 billion) for budgetary purposes, and intend to treat the remainder of the arrangement as precautionary. However, in a full-drawdown scenario, in which real GDP ends up being 8 percent lower than in the precautionary baseline by 2023, the first purchase would be followed by 12 quarterly purchases each equivalent to SDR 2.064 billion (64.8 percent of quota) during the remainder of the arrangement period. By mid-June 2019, about a year into the arrangement, cumulative available purchases would amount to SDR 18.869 billion (592.0 percent of quota or 53.3 percent of the proposed access). The final purchase would become available in June 2021, following the completion of the twelfth review (Table 1).

Table 1. Argentina: Proposed SBA — Access and Phasing

			Percent of quota	
Availability	Date 1/	SDR millions	Purchase	Cumulative
2018	June	10,613.71	333.0	333.0
	September	2,063.78	64.8	397.8
	December	2,063.78	64.8	462.5
2019	March	2,063.78	64.8	527.3
	June	2,063.78	64.8	592.0
	September	2,063.78	64.8	656.8
	December	2,063.78	64.8	721.5
2020	March	2,063.78	64.8	786.3
	June	2,063.78	64.8	851.0
	September	2,063.78	64.8	915.8
	December	2,063.78	64.8	980.5
2021	March	2,063.78	64.8	1045.3
	June	2,063.71	64.7	1110.0
	Total	35,379.0	1,110.0	

Source: Finance Department
1/ After approval of the arrangement, all subsequent purchases will depend on the completion of a review and compliance with performance criteria and consultation clause to be established under the arrangement.

[7] See paragraph 5 of Decision No 14064-(08/18), adopted 2/22/2008, as amended, and The Acting Chair's Summing Up of the Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy (3/5/03).

BACKGROUND

2. **Argentina had been a prolonged and large user of Fund resources up to the mid-2000s (Table 2).** It had been among the top five borrowers during most of the 1980s and 1990s. During the 1990s, two SBAs and two arrangements under the Extended Fund Facility (EFF) were approved in 1991 and 1996, and in 1992 and 1998, respectively. The 1998 EFF was treated as precautionary, and no drawing was made under it. A successor three-year SBA was approved on March 10, 2000 for SDR 5.4 billion. Thereafter, the Board approved two requests for augmentation of access to SDR 16.9 billion, including SDR 6.1 billion under the Supplemental Reserve Facility (SRF). Only SDR 9.8 billion of the approved SDR 16.9 billion was disbursed by the time the program was interrupted. The December 2001 program review was not completed and Argentina declared default on its sovereign debt obligations on December 23, 2001, as the currency peg collapsed.[8] After protracted program discussions in 2002, a transitional SBA was approved on January 24, 2003, followed by a three-year SBA approved on September 20, 2003 with access equivalent to SDR 9.0 billion. Argentina incurred short-term arrears to the Fund when it failed to meet a repurchase obligation of SDR 2.9 billion on September 9, 2003.[9] This overdue obligation was cleared on September 11, 2003. On January 4, 2006, Argentina repaid all its obligations to the Fund and cancelled the 2003 SBA the following day.

3. **Argentina's total external debt-to-GDP has been moderate in recent years, with most of the debt owed by the public sector (Table 3).** From a low level of 27⅓ percent in 2013, total external debt-to-GDP increased marginally over a two-year period to nearly 28 percent by end-2015. It increased significantly during 2015–17 while remaining moderate at almost 37 percent of GDP by end-2017, below the median of recent exceptional access cases (Figure 1, Panel A). Short-term debt represents about one-third of total external debt. Public sector debt accounts for a large share of Argentina's external debt (70 percent in 2017). Total external debt is expected to increase further, to 51 percent of GDP in 2018, reflecting bonds issued earlier this year and the scheduled first purchase under the proposed SBA (Table 4).

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[8] In 2003, Argentina decided to restructure its debt starting in 2005. The restructuring process has been protracted. Since taking office in December 2015, the current administration has sought to settle outstanding claims with holders of the defaulted bonds. Settlement with most of the holdout creditors in April 2016 allowed for the country to regain access to international capital markets. According to information made available to staff, Argentina continues to have outstanding arrears to private creditors and one official bilateral creditor (see the main report).

[9] There had been other incidents of Argentina's short-term overdue obligations to the Fund, mostly in the late 1980s.

Table 2. Argentina: IMF Financial Arrangements and Fund Exposure, 1984–2026 [1/]
(In millions of SDR)

Year	Type of New Arrangement		Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Fund Exposure 1/	
1984	SBA		28-Dec-1984	30-Jun-1986	1,182.5	1,182.5	1,120.6	
1985							2,105.1	
1986							2,240.8	
1987	SBA		23-Jul-1987	30-Sep-1988	947.5	616.5	2,716.2	
1988							2,733.0	
1989	SBA		10-Nov-1989	31-Mar-1991	736.0	506.0	2,358.8	
1990							2,167.2	
1991	SBA		29-Jul-1991	31-Mar-1992	780.0	438.8	1,735.9	
1992	EFF		31-Mar-1992	30-Mar-1996	4,020.3	4,020.3	1,682.8	
1993							2,562.4	
1994							2,884.7	
1995							4,124.4	
1996	SBA		12-Apr-1996	11-Jan-1998	720.0	613.0	4,376.0	
1997							4,349.3	
1998	EFF		4-Feb-1998	10-Mar-2000	2,080.0	0.0	3,865.1	
1999							3,262.6	
2000	SBA	2/	10-Mar-2000	23-Jan-2003	16,936.8	9,756.3	3,880.3	
2001							11,121.1	
2002							10,547.5	
2003	SBA SBA		24-Jan-2003 20-Sep-2003	31-Aug-2003 5-Jan-2006	2,174.50 8,981.00	2,174.5 4,171.0	10,446.2	
2004							9,073.0	
2005							6,655.7	
2006							0.0	
:							:	
:							:	
2017							0.0	
2018	SBA		20-Jun-2018	19-Jun-2021	*35,379.00*		*14,741.3*	3/
2019							*22,996.4*	3/
2020							*31,251.5*	3/
2021							*32,467.6*	3/
2022							*23,549.1*	3/
2023							*13,414.5*	3/
2024							*5,417.4*	3/
2025							*773.9*	3/
2026							*0.0*	3/

Source: Finance Department
1/ As of end-December, unless otherwise stated.
2/ The amount reflects also two augmentations including SDR 6.1 billion under the Supplemental Reserve Facility (SRF).
3/ Figures including transactions under the proposed program are in italics. Fund exposure is derived assuming purchases are made as per the schedule in Table 1 and Argentina remains current on all its scheduled repurchases.

Table 3. Argentina: External Debt Structure, 2011–2017 1/

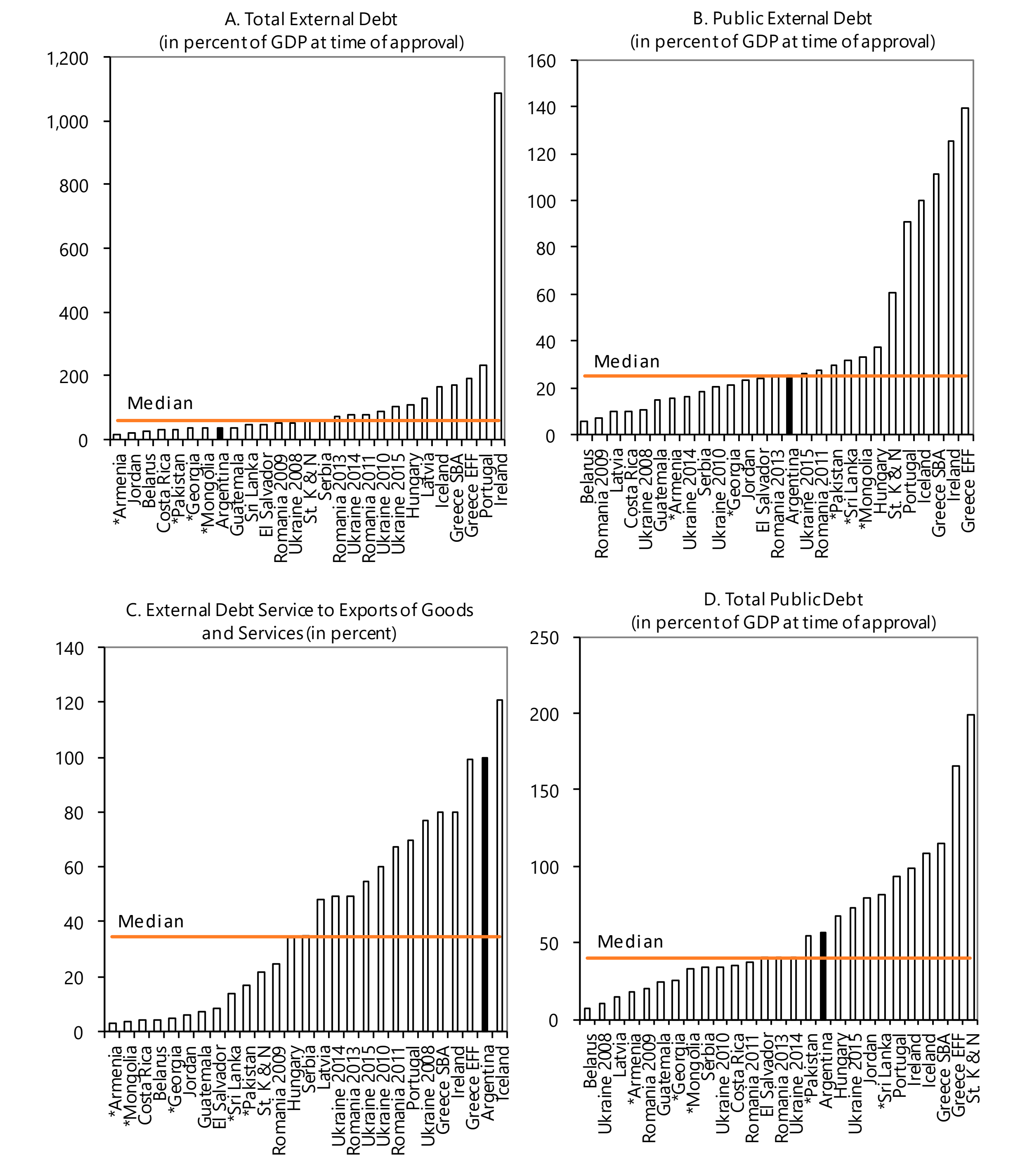
	2011	2012	2013	2014	2015	2016	2017
	(In Millions of U.S. Dollars)						
Total External Debt	167,477	167,960	167,018	170,375	178,933	189,639	235,740
of which:							
Public	103,809	103,343	102,973	109,862	113,180	130,228	164,130
Loans	35,441	33,950	33,053	35,643	43,007	40,498	47,358
Multilateral	16,224	16,583	17,661	19,857	19,768	20,230	21,327
Of which IMF	0	0	0	0	0	0	0
Bonds	68,368	69,393	69,921	74,219	70,173	89,730	116,772
Of which Holdouts	11,177	11,482	11,529	11,633	11,521	8,468	2,788
Private	63,668	64,617	64,045	60,513	65,753	59,410	71,610
Loans	55,501	57,379	56,650	52,747	56,037	46,457	55,577
Short-term	49,205	50,870	50,224	46,763	49,680	41,487	48,913
Long-term	6,296	6,509	6,426	5,984	6,357	4,970	6,664
Bonds	8,167	7,238	7,394	7,766	9,716	12,953	16,033
	(In Percent of GDP)						
Total External Debt	31.7	29.0	27.3	30.2	27.9	34.2	37.0
of which:							
Public	19.7	17.8	16.8	19.5	17.6	23.5	25.8
Loans	6.7	5.9	5.4	6.3	6.7	7.3	7.4
Multilateral	3.1	2.9	2.9	3.5	3.1	3.7	3.3
Of which IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IBRD/IDA	0.9	0.8	0.9	1.1	0.9	1.1	1.0
IDB	1.9	1.7	1.7	2.0	1.7	2.1	1.8
Other multilateral	0.3	0.3	0.4	0.4	0.4	0.5	0.5
Bilateral	1.2	0.7	0.8	1.6	1.4	1.4	1.3
Commercial	2.5	2.3	1.7	1.2	2.2	2.2	2.8
Bonds	13.0	12.0	11.4	13.2	10.9	16.2	18.3
Of which Holdouts	2.1	2.0	1.9	2.1	1.8	1.5	0.4
Private	12.0	11.2	10.5	10.8	10.2	10.7	11.2
Loans	10.5	9.9	9.3	9.4	8.7	8.4	8.7
Short-term	9.3	8.8	8.2	8.3	7.7	7.5	7.7
Long-term	1.2	1.1	1.1	1.1	1.0	0.9	1.0
Bonds	1.5	1.2	1.2	1.4	1.5	2.3	2.5

Source: Argentine authorities and IMF staff estimates.
1/ End of year unless otherwise indicated.

4. **Argentina's external debt service is high, reflecting the large share of short-term debt.** As a share of GDP, Argentina's total external debt service for 2017 is estimated at around 11 percent of which more than 70 percent represents obligations of the private sector. The large external debt service is almost equivalent to exports of goods and services in 2017, making Argentina second only to Iceland among recent exceptional access cases (Figure 1, Panel C).

5. **Argentina's public debt is relatively high and is projected to rise further by end-2018**. Over the period 2007–15, the public debt-to-GDP ratio averaged nearly 47½ percent. Reflecting larger gross financing needs since 2016, public debt increased to nearly 57 percent of GDP by end-2017. This debt level is 17 percentage points of GDP above the median public debt at the time of approval of recent exceptional access cases (Figure 1, Panel D). It is projected to increase further to almost 63½ percent of GDP by end-2018 (Table 4).

Figure 1. Argentina: Debt Ratios for Recent Exceptional Access Arrangements [1/ 2/]



Source: Argentine Authorities and IMF staff estimates

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. For Argentina, ratios reflect end-2017 data.

2/ Asterisks indicate PRGT-eligible countries at the time of the program.

THE NEW STAND-BY ARRANGEMENT—RISKS AND IMPACT ON FUND'S FINANCES

H. Risks to the Fund

6. Access under the proposed SBA would exceed both annual and cumulative access limits and would be among the highest on a number of indicators.

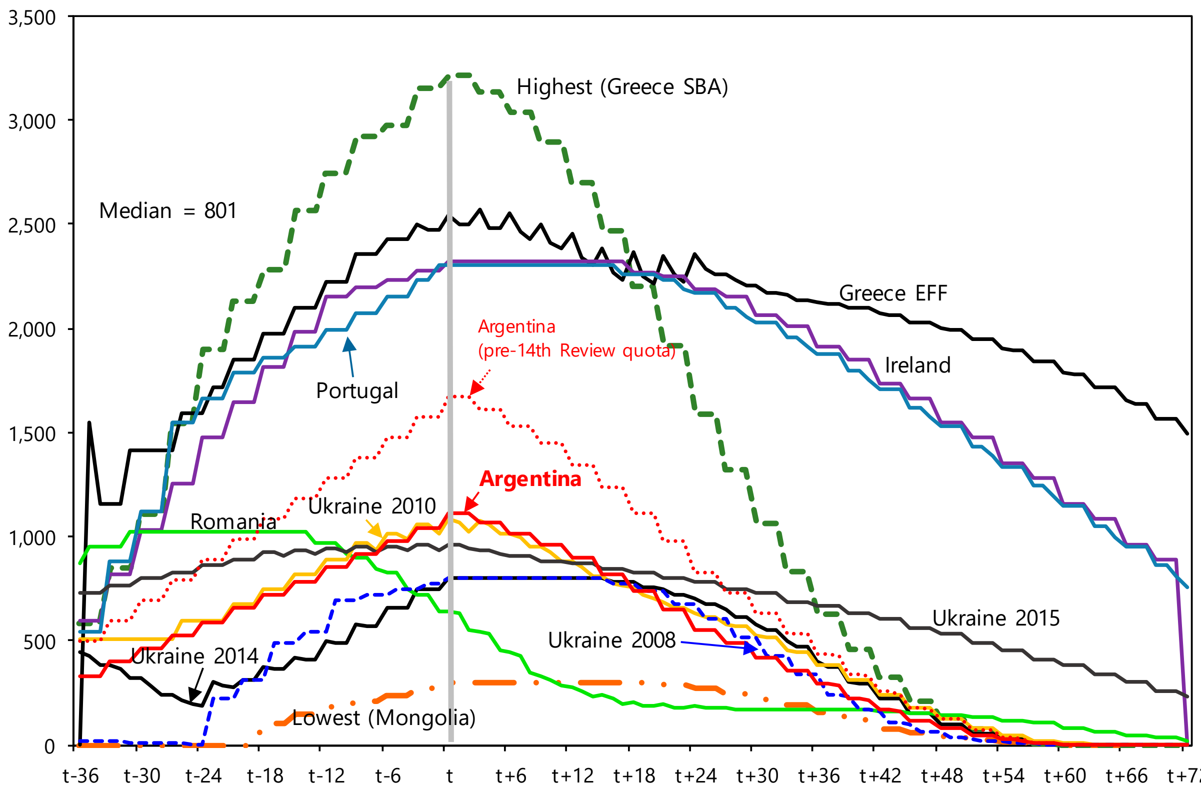
- It would be the largest arrangement in absolute terms, in the Fund's history, excluding arrangements under the Flexible Credit Line (FCL).
- After the scheduled first purchase upon approval of the arrangement, Argentina would be the Fund's largest borrower, with SDR 10.6 billion credit outstanding (333 percent of quota), representing 22 percent of total Fund credit outstanding.
- If Argentina did not treat the remainder of the arrangement as precautionary, and all purchases were made according to the proposed schedule, Argentina's outstanding use of GRA resources would rise to 592 percent of quota and 722 percent of quota at end-June 2019 and end-December 2019, respectively. It would peak at 1,110 percent of quota in June 2021 (Figure 2). This level of access relative to quota would be almost the same as that of Ukraine 2010 SBA and would be more than 38 percentage points above the median of peaks in recent exceptional access cases. It would however be below recent exceptional access peaks in arrangements with euro area members— Greece, Ireland, Portugal—even if Argentina's access is scaled by its pre-14th review quota.
- If all purchases were made in accordance with the proposed schedule, peak Fund exposure to Argentina would consistently exceed corresponding medians in recent exceptional access cases. Fund exposure would peak around 83 percent of projected gross international reserves, which is over twice as high as the 39 percent median peak of recent exceptional access cases.[10] As a share of total external debt, peak Fund exposure would be 14 percent, compared with 11 percent which is the median peak of recent exceptional access cases. As a share of GDP, peak Fund exposure would be 8.4 percent, compared with 10.4 percent, which is the median peak of recent exceptional access cases (Table 4 and Figure 3).
- If all purchases were made in accordance with the proposed schedule, projected payment obligations to the Fund would peak in 2023 at SDR 11 billion, representing almost 18 percent of projected gross international reserves. Debt service to the Fund as a share of exports of goods and services would peak at about 15 percent, twice the median peak level for recent exceptional

[10] The computation of the median of peak Fund exposure in percent of gross international reserves excludes arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

access cases. Total external debt service as a share of projected exports of goods and services is projected to peak at 178 percent, which is the highest ratio of external debt service to exports among recent exceptional access cases (Table 4 and Figure 3).

Figure 2. Credit Outstanding in the GRA around Peak Borrowing 1/
(In percent of quota)

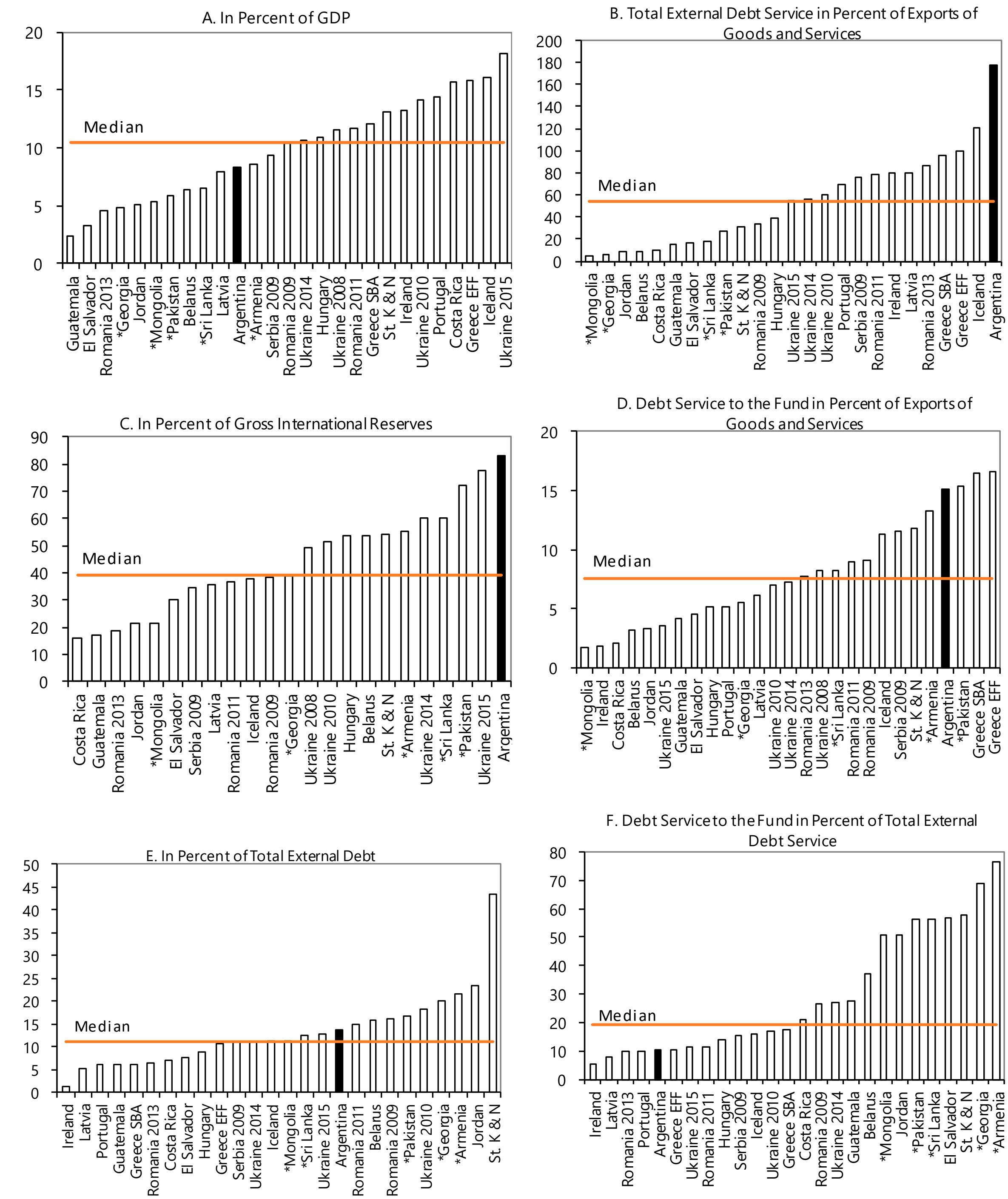
Approved Exceptional Access Cases since September 2008 2/



Source: Finance Department and IMF staff estimates.
1/ Peak borrowing "t" is defined as the highest level of credit outstanding for a member. Repurchases are assumed to be on an obligations basis.
2/ Based on quotas at the time of approval, i.e., pre-14th Review quotas for all countries except Argentina. Median credit outstanding at peak is 802 percent of quota; average is 1,041 percent of quota.

Figure 3. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases 1/ 2/

Peak Fund Exposure Ratios ***Peak Debt Service Ratios***



Source: Argentine authorities and IMF staff estimates, and World Economic Outlook.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008.

2/ Asterisks indicate PRGT-eligible countries at the time of the program.

Table 4. Argentina—Capacity to Repay Indicators [1/]

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Exposure and Repayments (In SDR millions)									
GRA credit to Argentina	14,741.3	22,996.4	31,251.5	32,467.6	23,549.1	13,414.5	5,417.4	773.9	0.0
(In percent of quota)	(462.5)	(721.5)	(980.5)	(1,018.7)	(738.8)	(420.9)	(170.0)	(24.3)	(0.0)
Charges due on GRA credit 2/	196.3	589.6	915.8	1,313.6	1,330.4	844.7	381.8	83.6	10.2
Debt service due on GRA credit 3/	196.3	589.6	915.8	4,225.0	10,248.9	10,979.3	8,378.9	4,727.1	784.1
Debt and Debt Service Ratios 4/									
In percent of GDP									
Total external debt	51.4	59.2	61.6	60.9	63.6	65.4	67.7	69.9	72.2
External debt, public	36.8	43.1	45.3	45.0	47.3	49.0	51.1	53.1	55.3
GRA credit to Argentina	4.0	6.4	8.4	8.0	5.7	3.1	1.2	0.2	0.0
Total external debt service	15.6	18.4	20.4	21.6	23.8	25.2	27.4	29.4	31.7
Public external debt service	8.4	10.0	11.3	12.0	13.1	14.0	15.1	16.2	17.5
Debt service due on GRA credit	0.1	0.2	0.2	1.0	2.5	2.6	1.9	1.0	0.2
In percent of Gross International Reserves									
Total external debt	505.7	566.3	612.2	621.6	517.3	456.5	391.1	340.0	293.5
External debt, public	362.0	412.2	450.4	459.5	384.8	342.1	295.1	258.4	224.6
GRA credit to Argentina	38.8	61.7	83.2	82.3	46.4	21.8	7.0	0.8	0.0
Debt service due on GRA credit	0.5	1.6	2.4	10.7	20.2	17.8	10.9	5.0	0.7
In percent of Exports of Goods and Services									
Total external debt service	105.5	112.1	124.6	134.5	143.1	150.1	159.2	168.0	177.7
Public external debt service	57.0	61.1	68.9	74.9	79.2	83.1	88.1	92.9	98.3
Debt service due on GRA credit	0.4	1.0	1.5	6.5	14.9	15.2	10.9	5.8	0.9
In percent of Total External Debt									
GRA credit to Argentina	7.7	10.9	13.6	13.2	9.0	4.8	1.8	0.2	0.0
In percent of Total External Debt Service									
Debt service due on GRA credit	0.3	0.9	1.2	4.8	10.4	10.1	6.9	3.5	0.5
In percent of Total Public External Debt									
GRA credit to Argentina	10.8	14.9	18.4	17.9	12.0	6.4	2.4	0.3	0.0
In percent of Total Public External Debt Service									
Debt service due on GRA credit	0.6	1.6	2.2	8.7	18.9	18.3	12.4	6.3	0.9

Source: Argentine authorities, Finance Department, and IMF staff estimates.

1/ Assumes full drawings and indicators based on the adverse macroeconomic scenario presented in the staff report.

2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges. Of the 2018 figure, SDR 195.4 million is for the period subsequent to the Executive Board discussion of the staff report for the request of the proposed SBA.

3/ Includes charges due on GRA credit and repurchases. Of the 2018 figure, SDR 195.4 million is for period subsequent to the Executive Board discussion of the staff report for the request of the proposed SBA.

4/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, are based on the adverse scenario in the staff report for the request of the proposed SBA up to 2023 and extended to 2026.

I. Impact on the Fund's Liquidity Position and Risk Exposure

7. The proposed SBA arrangement would have a significant impact on the Fund's liquidity and on the Fund's credit risk exposure.

- The proposed arrangement would reduce the Fund's liquidity by 16.0 percent (Table 5). It would reduce the one-year forward commitment capacity (FCC) from SDR 222 billion as of June 7, 2018 to SDR 186 billion.
- After Argentina's scheduled first purchase under the proposed arrangement, the Fund's exposure to the top five borrowers would decline marginally (Table 5). The share of the top five borrowers amounts to 77.9 percent. After Argentina's scheduled first purchase, its share of outstanding GRA credit would be 22.1 percent and the share of the top five borrowers would fall to 74.8 percent (Figure 6).[11]
- GRA exposure to Argentina would exceed the Fund's current level of precautionary balances (Table 5). The GRA commitment to Argentina amounts to nearly twice the current level of precautionary balances. If all purchases are made as scheduled, Fund exposure to Argentina as a share of the current level of precautionary balances would rise from 61 percent after the first purchase is made to 132 percent by end-2019 and would peak at 203 percent in June 2021 (assuming the current level of precautionary balances).
- Were Argentina to accrue arrears on charges after drawing under the proposed arrangement, the Fund's burden sharing mechanism would be clearly insufficient. In the current environment of relatively low interest rates, GRA charges for Argentina, which are projected at SDR 194 million for the remainder of 2018, and to average SDR 894 million a year over 2019–2024 if all purchases are made as scheduled, significantly exceed the Fund's limited current capacity to absorb charges in arrears through the burden sharing mechanism.

[11] The decline in the share of the top five borrowers is due to the impact of Argentina's large scheduled first purchase on total credit outstanding.

Table 5. Argentina—Impact on GRA Finances
(millions of SDR unless otherwise noted)

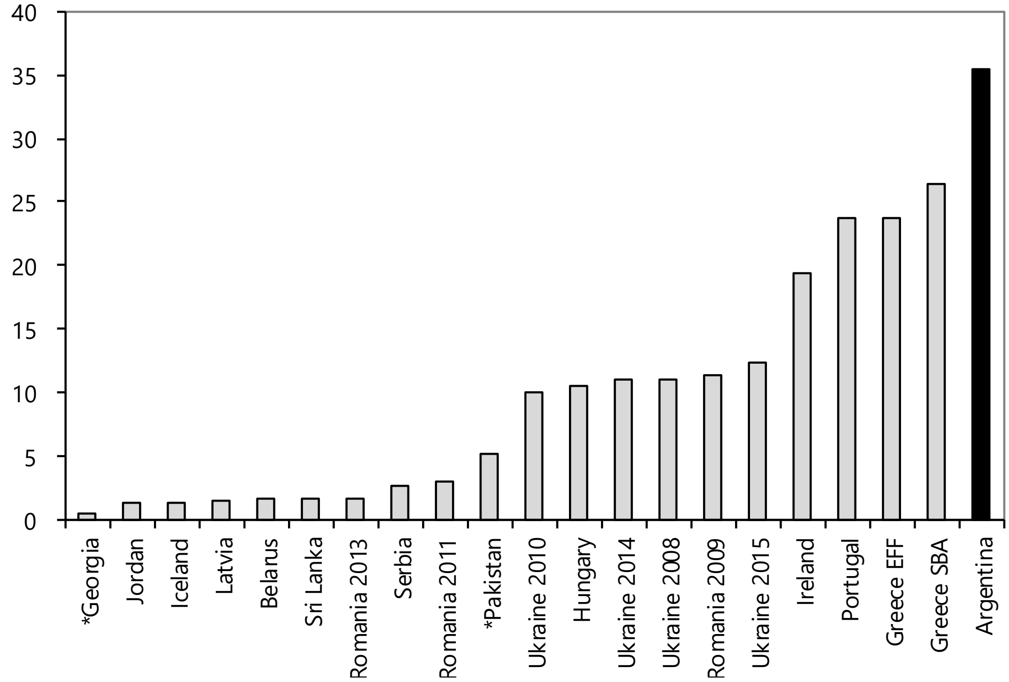
	As of 6/7/2018
Liquidity measures	
Current one-year Forward Commitment Capacity (FCC) 1/	221,590.8
Impact on FCC on approval 2/	-35,379.0
(in percent of current one-year FCC)	-16.0
Prudential measures	
Fund GRA credit outstanding to Argentina 3/	10,613.7
In percent of current precautionary balances 4/	61.0
In percent of total GRA credit outstanding	22.1
Fund GRA credit outstanding to top five borrowers	
In percent of total GRA credit outstanding	77.9
In percent of total GRA credit outstanding including Argentina's first purchase	74.8
Argentina's annual GRA charges in percent of Fund's residual burden sharing capacity for 2018	180.2
Memorandum items	
Fund's precautionary balances (FY 2018)	17,400
Fund's residual burden-sharing capacity 4/	107.8

Sources: Argentine authorities, Finance Department, and IMF staff estimates.

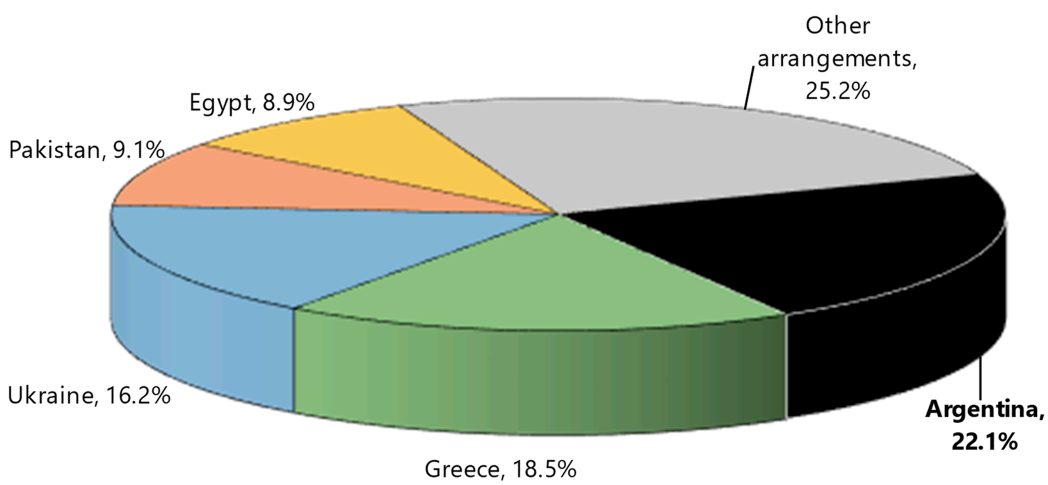
1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the New Arrangements to Borrow or 2016 Bilateral Borrowings Agreements.
2/ A single country's negative impact on the FCC is defined as the country's sum of Fund credit and undrawn commitments minus repurchases one-year forward.
3/ Projected credit outstanding for Argentina at time of approval of the proposed arrangement, which amounts to the scheduled first purchase.
4/ Burden-sharing capacity is calculated based on the floor for remuneration which, under current policies, is 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges.

Figure 4. Exceptional Access Levels and Credit Concentration

A. Total Access of Recent Exceptional Access Arrangements 1/
(In billions of SDRs)



B. Credit Concentration of Fund GRA Exposure 2/



Source: Finance Department.

1/ Does not include FCL arrangements as well as arrangements with relatively low access in SDRs. Asterisks indicate countries that were PRGT-Eligible at the time of approval.
2/ Total credit outstanding refers to credit outstanding as of June 7, 2018 plus Argentina's first purchase under the proposed arrangement.

ASSESSMENT

8. **The proposed SBA for Argentina is intended to support the authorities' economic program during a period of macroeconomic adjustment to reduce vulnerabilities and promote strong, sustainable, and inclusive growth.** The success of the program will depend critically on the acceleration of fiscal consolidation to restore credibility of the authorities' reforms and boost market confidence. Against the backdrop of the long and sometimes controversial history of Fund program engagement in Argentina, building a broad consensus on the objectives of the program and the associated policies would be critical to ensure the political sustainability of the program and maintain the implementation momentum needed for the program to succeed.

9. **The program faces substantial risks.** As highlighted in the staff report and in the debt sustainability analysis, gross financing needs and debt vulnerabilities are expected to remain high. The debt trajectory is sensitive to deviations from program assumptions, in particular for the exchange rate, economic growth, and fiscal adjustment paths. If key policies or program assumptions do not materialize, the stabilization of Argentina's economy would be undermined, with the likelihood that gross financing needs will increase and debt would follow an upward trajectory:

- There is a risk that domestic support for the policies and reform measures underpinning the program would not be sustained notwithstanding measures aimed at protecting the most vulnerable from the burden of adjustment.

- If the envisaged fiscal adjustment is not realized, there would be a deterioration in market confidence that could fuel a sell-off of Argentine assets, curtail access to new private financing, and trigger significant pressures on the exchange rate as observed in the run-up to the initiation of discussions on the proposed arrangement.

- An even less favorable macroeconomic framework relative to the full-drawing scenario could pose serious risks to debt sustainability and exacerbate Argentina's already high burden of debt service. Such a scenario could result from policy slippages that erode market confidence, lingering crisis of confidence that constrain Argentina's access to capital markets more than assumed in the adverse scenario discussed in the staff report, unfavorable external conditions such as weaker growth in trading partner countries that subdues exports, a deterioration of its terms of trade, tighter-than-expected global financing conditions, or a combination of adverse factors.

10. **The steadfast implementation of the program will be critical**. With the proposed access and schedule of purchases and repurchases, the Fund would be highly exposed to Argentina for an extended period in terms of both the stock of outstanding credit and debt service falling due. Reflecting the proposed frontloaded access, Argentina would become the Fund's top borrower soon after approval of the proposed SBA. The Fund's

exposure to Argentina would be significant and increase thereafter with each purchase, if made, exceeding the Fund's precautionary balances for several years to come. Also, scheduled repayments to the Fund are large during 2022–25, with a peak of SDR 10.98 billion (almost 344 percent of quota) in 2023. The experience with Argentina's 2003 SBA-supported program highlights the importance of sustaining broad political support for reforms. The authorities' ability to garner such support and their readiness to recalibrate their policies in reaction to potential adverse shocks would be crucial to help stabilize the economy and facilitate sustained meaningful market access and financing by other official lenders during the program period and beyond. This is key to reduce financial risks to the Fund arising from the proposed arrangement.

11. The proposed arrangement will have a significant, though manageable, impact on the Fund's liquidity. On approval of the arrangement, the Fund's liquidity would be reduced by the full amount of the proposed access, which is the largest ever in absolute size for a Fund arrangement (except for some arrangements under the FCL). While the Fund's liquidity position would remain adequate, the current uncertainties in the global economy could result in further demands for Fund resources. Therefore, a close monitoring of the Fund's liquidity position is warranted.

INTERNATIONAL MONETARY FUND

ARGENTINA

June 19, 2018

REQUEST FOR STAND-BY ARRANGEMENT – SUPPLEMENTARY INFORMATION, SUPPLEMENTARY LETTER OF INTENT, AND AMENDMENT TO THE TECHNICAL MEMORANDUM OF UNDERSTANDING

Approved By
Nigel Chalk (WHD) and Daria Zakharova (SPR)

Prepared by the Argentina team

1. **This supplement provides additional information that has become available since the Staff Report (EBS/18/53) was circulated to the Executive Board on June 13, 2018**. The information does not alter the thrust of the staff appraisal.

2. **In efforts to institutionalize exchange rate flexibility, the authorities have announced the introduction of a multiple-price auction to buy and sell foreign exchange (FX).** The introduction of an FX auction is in line with IMF staff recommendations. All domestic banks will have access to the auction and FX will be allocated solely based on the rates proposed by auction participants to ensure full arbitrage opportunity between the auction and the rest of the FX market. Auctions will be conducted for a period of no more than 12 months.

3. **The multiple price auction gives rise to a multiple currency practice (MCP) subject to Fund approval under Article VIII, Section 3 of the Articles of Agreement.** In the absence of a mechanism that would prevent (i) a spread deviation of more than 2 percent in the exchange rates at which the BCRA sells foreign exchange to successful bidders; and (ii) a spread deviation of more than 2 percent between the auction rates and the market exchange rate, the auction results in an MCP.

4. **The authorities have requested Fund approval for the retention of the multiple currency practice.** Staff supports the Executive Board's approval of the multiple price auction, which is maintained for non-balance of payment reasons, given that it is temporary (i.e., limited in duration to no more than 12 months), does not harm the interest of other members and does not discriminate between Fund members. A decision is proposed to this effect for consideration of the Executive Board. The Technical Memorandum of Understanding has also been amended to carve-out from the continuous performance criterion on introduction or modification of multiple-currency practices any modification to this foreign exchange auction.

Appendix I. Supplementary Letter of Intent

June 18, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

Dear Madame Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic objectives and policies of the Government of Argentina for 2018 and beyond. Also attached is a Technical Memorandum of Understanding that sets out the specific objectives that we are committed to achieving under the IMF arrangement in support of our economic plan.

The Argentine government requests the IMF's support for this policy program. It is a plan that has been designed by the Argentine government in a way that we judge best fits our current political, economic and social situation.

As part of that support, we are formally requesting an IMF Stand-By Arrangement for a period of 36 months, in the amount of SDR 35,379 million (equivalent to around US$ 50 billion, or 1,110 percent of Argentina's quota with the IMF). We plan to draw the first tranche (US$ 15 billion) upon approval of the arrangement, half of which will be used as budget support, while treating the remaining of the arrangement as precautionary.

We consider that the plan that we have designed is strong and will help build confidence, reduce uncertainties and strengthen Argentina's economic prospects.

Importantly, we are committed to ensuring that the burden of the needed recalibration of the fiscal policy is shared fairly and that the most vulnerable segments of Argentina's population are fully protected. Under our program we intend to protect our spending on social assistance and, in the unlikely event that social conditions deteriorate, we are committed to identifying additional resources to increase the funding of our most effective social assistance programs.

Consistent with the priorities of President Macri's administration, included in our G20 agenda, we also intend to use this opportunity to take important steps to address long-standing gender inequities that are embedded in the Argentine economic system. One of our goals for this program is to ensure that women are treated equitably and are afforded the economic opportunities that they are entitled to. We especially seek your personal backing in this matter.

In sum, we ask that the IMF stands with Argentina through this more challenging international environment. We view the objectives of the plan described in the attachments as mileposts that should be used in the design of the requested Stand-By Arrangement.

To demonstrate our commitment to this plan, on June 7 we announced our intention to accelerate the convergence to a primary fiscal balance and to lower inflation within a more consistent and institutionally sound monetary policy framework.

We believe that these policies and those set forth in the attached MEFP are adequate to achieve the macroeconomic and financial objectives of the program. But we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation.

We remain, of course, committed to maintaining the usual close policy dialogue with IMF staff and to providing IMF staff with the data and information it requests for the purpose of monitoring program implementation. Reaffirming our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the Technical Memorandum of Understanding, and the accompanying Executive Board documents.

We trust that we can count on your support.

Yours sincerely,

/s/	/s/
Nicolas Dujovne	Luis Caputo
Minister of the Treasury	President, Central Bank of Argentina

Attachments (2)

Attachment II. Amendment to the Technical Memorandum of Understanding

To account for the impact of the recently announced introduction of a multiple price foreign exchange auction, an addendum will be added to the June 2018 TMU that will read as follows:

Performance Criterion on the Introduction or Modification of Multiple Currency Practices
The performance criterion on the introduction or modification of multiple currency practices (MCP) excludes multiple currency practices arising from any modification to the multiple-price foreign exchange auction system introduced in June 2018.

Statement by the Staff Representative on Argentina
June 20, 2018

This statement provides additional information that has become available since the Staff Report (EBS/18/53) was circulated to the Executive Board on June 13, 2018. The information does not alter the thrust of the staff appraisal.

Pressures on the FX have intensified since the Staff Report was sent to the Board. On Thursday June 14, the peso depreciated by 6.5 percent, at the end of a day where markets operated with very low levels of liquidity and without any intervention of the BCRA.

On the evening of Thursday June 14, the Governor of the Central Bank, Federico Sturzenegger, resigned, and was replaced by the Finance Minister, Luis Caputo. Sturzenegger motivated his decision with the loss of confidence in his stewardship by the markets. Together with Sturzenegger, other key members of the Monetary Policy Committee presented their resignation. The Finance Ministry will be reabsorbed into the Treasury. The Minister of Energy and the Minister of Production were also replaced.

On Monday, June 18, the authorities announced a series of measures to help stabilize FX markets. The measures aimed at absorbing liquidity and reducing the risk of a disorderly auction of the LEBACs, scheduled for Tuesday June 19. They included:

- Increasing the reserve requirements by 3 percentage points on June 21 (and a further 2 percentage points on July 18). The incremental part of this reserve requirement could be satisfied through holdings of fixed rate, peso Treasury bonds maturing in 2020.

- Relaxing the restrictions on banks' ability to purchase US$-denominated, domestic law debt in the secondary market.

- Reducing the limit on banks' net open FX position from 10 to 5 percent of regulatory capital. However, an additional 25 percent of regulatory capital could be held in these US$-denominated Treasury instruments.

- Announcing the mechanism (although not the volumes) for the central bank to auction the Treasury's FX holdings (arising from Fund budget support), based on a multiple-price auction set to begin on Thursday of this week.

- Announcing a process (but without an indication of volumes) for central bank auctions of foreign currency, to be implemented after market close, in cases where there are clear signs of market dysfunction (in terms of bid-ask spread, market volumes, or intraday volatility). An after trading-hours FX intervention, such as this one, is a highly unusual practice and possibly could prejudice price discovery during the trading day.

- Announcing the intention to auction FX for an amount up to US$ 400 million, only on Monday and Tuesday of this week, based on a multiple price auction that would take place after market close.

The measures contributed to stabilize the peso. The peso appreciated about 2 percent on Monday and was relatively stable on Tuesday, two days with still relatively low traded volumes. After market closed on Monday, the central bank sold US$ 175mn at a rate of AR$ 27.5, slightly more appreciated than the market close. The bank did not sell any FX on Tuesday.

The authorities also successfully issued USD 4 billion equivalent in peso bonds on Monday, although at relatively high rates. Treasury placed US$ 2 billion equivalent in a 28-month peso bonds (at a yield of 27.7 percent) and another US$ 2 billion (1.7 of which in US dollars) in a 12- month dual currency bond (that gives the investor a choice between a US$ yield of 4.5 percent or peso yield of 33 percent). The revenues from the issuance would finance the buyback of non-marketable, low interest, Treasury papers held by the BCRA. This would in turn allow the BCRA to roll off LEBACs by an equivalent amount.

Equity and bond markets have been suffering heavy losses over the past few days. The stock market lost 4½ percent since last week with a pronounced decline in utility companies and banks. The equity markets were affected by both political uncertainty (including the changes in the cabinet) and reports that Argentina would not be included as part of the MSCI emerging market index. The EMBI spread has increased by around 70 bps over the last week and reached its highest level (590 bps) since 2015. Bonds prices have also fallen since last Wednesday, (by about 1½ percent for 3-year US dollar denominated bonds).

On Tuesday, the BCRA completed its monthly LEBAC auction. With the peso equivalent of US$ 18.5 billion in LEBAC coming to maturity on Thursday, the BCRA accepted offers for a total of US$ 11.5 billion, with a cut-off interest rate of 47% for the 1-month bills.