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ARGENTINA

March 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STAFF SUPPLEMENTS

In the context of the Staff Report for the 2022 Article IV Consultation and Request for an Extended Arrangement Under the Extended Fund Facility, 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 and summarizing the views of the Executive Board as expressed during its March 25, 2022 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 25, 2022, following discussions that ended in early March 2022, with the officials of Argentina on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 4, 2022.
- An **Assessment of the Risks to the Fund and the Fund's Liquidity Position.**
- A **Staff Supplement** updating information on recent developments.
- An **Informational Annex** prepared by the IMF staff.

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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Washington, D.C.

PRESS RELEASE

PR22/89

IMF Executive Board Approves 30-month US$44 billion Extended Arrangement for Argentina and Concludes 2022 Article IV Consultation

FOR IMMEDIATE RELEASE

- *The IMF Executive Board approved a new 30-month arrangement under the Extended Fund Facility for Argentina in an amount of SDR 31.914 billion (equivalent to US$44 billion, or 1000 percent of quota). The Executive Board's decision allows the authorities an immediate disbursement of SDR 7.0 billion, equivalent to US$9.656 billion.*
- *Argentina's IMF-supported program sets pragmatic and realistic objectives, along with credible policies to strengthen macroeconomic stability and begin to tackle Argentina's deep-seated challenges.*
- *The program seeks to improve public finances and start to reduce persistent high inflation through a multi-pronged strategy, involving a gradual elimination of monetary financing of the fiscal deficit and enhancements in the monetary policy framework.*

Washington, DC – March 25, 2022: The Executive Board of the International Monetary Fund (IMF) approved today a 30-month extended arrangement under the Extended Fund Facility (EFF) for Argentina amounting to SDR 31.914 billion (equivalent to US$44 billion[1], or 1000 percent of quota) and concluded the 2022 Article IV Consultation. [2] The Executive Board's decision allows the authorities an immediate disbursement of SDR 7.0 billion, equivalent to US$9.656 billion. The EFF arrangement aims to provide Argentina with balance of payments and budget support that is backed by measures designed to strengthen debt sustainability, tackle high inflation, boost reserves, address the country's social and infrastructure gaps and promote inclusive growth.

The authorities' IMF-supported program, which was recently approved by the Argentine National Congress, aims to strengthen public finances and start reducing persistently high inflation through a multi-pronged strategy involving a gradual elimination of monetary financing of the fiscal deficit and an enhanced monetary and exchange rate policy framework. The program also envisages steps to strengthen the domestic peso debt market, the effectiveness of government spending, labor and gender inclusion, and the competitiveness of key sectors.

Following the Executive Board discussion, Ms. Kristalina Georgieva, Managing Director and Chair, made the following statement:

"While an economic and employment recovery is underway, Argentina continues to face exceptional economic and social challenges, including depressed per capita income, elevated poverty levels, persistent high inflation, a heavy debt burden, and low external buffers. Against

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[1] US dollar amounts have been calculated using today's exchange rate: (SDR 0.724951/US$).

[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team collects economic and financial information, and discusses with officials the country's economic developments and policies. The staff prepares a report, which forms the basis for discussion by the Executive Board.

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this backdrop, the authorities' economic program sets pragmatic and realistic objectives, along with credible policies to strengthen macroeconomic stability and begin to address Argentina's deep-seated challenges. Important financial commitments secured from Argentina's international partners will support the authorities' reform efforts and improve the country's external buffers. Strong political and social consensus is key to sustain the implementation of the reform agenda, including over the medium term, which is essential to address the country's long-standing vulnerabilities.

"The program contains a carefully calibrated set of economic policies. A sustained and growth-friendly fiscal consolidation will strengthen debt sustainability and allow for the elimination of the monetary financing of the fiscal deficit, which will help to start tackling persistent and high inflation. In addition, an enhanced monetary and exchange rate framework delivering positive real interest rates and a competitive real exchange rate will help support the demand for peso assets and improve reserve coverage. These actions will help pave the way for an eventual, conditions-based, easing of foreign exchange controls.

"Importantly, the program includes policies to strengthen the domestic peso debt market, enhance the effectiveness and transparency of government spending, promote labor and gender inclusion, and improve the sustainability and efficiency of key sectors.

"Risks to the program are exceptionally high and spillovers from the war in Ukraine are already materializing. In this context, early program recalibration, including the identification and adoption of appropriate measures, as needed, will be critical to achieve the program's objectives."

Executive Board Assessment[3]

Executive Directors broadly agreed with the thrust of the staff appraisal. Noting the fragile economic, financial, and social situation in Argentina, which has been aggravated by the pandemic and, more recently, by the spillovers from the war in Ukraine, Directors supported the Argentine authorities' request for an Extended Arrangement under the Fund's Extended Fund Facility. They underscored that strong ownership as well as sustained and steadfast implementation of the authorities' program will be critical to strengthen economic stability and begin to address Argentina's deep-seated challenges.

Directors emphasized that a credible, sustained, and growth-friendly fiscal consolidation is key to strengthen debt sustainability and discontinue monetary financing of the fiscal deficit. They stressed the need to improve the efficiency and fairness of, and compliance with, the tax system. Directors called for improvements in the structure of spending, including by reducing costly and untargeted energy subsidies while expanding infrastructure spending. They stressed the need for protecting well-targeted social assistance programs and for a prudent management of the wages and pensions.

Directors underscored the criticality of reducing persistent high inflation and rebuilding international reserves. To support this, they stressed the importance of ending monetary financing and implementing the enhanced monetary policy framework to deliver positive real interest rates and encourage peso demand. Directors underscored the importance of maintaining a competitive real exchange rate and adapting the capital flow management framework—over time and as conditions permit—to secure trade surpluses, encourage long

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

term inflows, and boost reserve accumulation, which would enable an eventual re access to international capital markets.

Directors called for structural reforms that address Argentina’s long-standing structural vulnerabilities. They emphasized the importance of strengthening the domestic peso debt market; enhancing the sustainability and efficiency of key sectors, including energy; and promoting labor and gender inclusion. Directors stressed the need to strengthen the investment climate by gradually removing economic distortions and providing a more predictable regulatory framework, including in strategic sectors. They also called for improving governance, including by boosting the efficiency and transparency of public spending and reinforcing the AML/CFT regime.

Directors agreed that the program is subject to exceptionally high risks. They recognized Argentina’s vulnerability to external shocks and implementation difficulties given the complex social and political situation. Noting that the spillovers from the war in Ukraine are materializing, Directors welcomed the authorities’ agreement to bring forward the first review of the program and urged them to recalibrate policies, as needed, to secure the fiscal objectives and contain second-round inflationary effects from rising commodity prices.

Directors noted that the elevated exposure to Argentina over an extended period creates major financial and reputational risks for the Fund. As these risks cannot be fully mitigated through program design and contingency planning, Directors agreed that finely balanced judgements will be needed when assessing difficult tradeoffs that are likely to arise during the life of the program.

Directors concurred that beyond the program period, further efforts will be required to cement stability and address longstanding structural challenges. In particular, they agreed that over the medium term, Argentina will need to further strengthen debt sustainability, bolster the central bank’s balance sheet and its governance framework, and tackle regulatory barriers to productivity, investment, and formal employment. Some Directors called on the authorities to incorporate some of these reforms in the current program to increase its credibility.

Argentina: Selected Economic and Financial Indicators

	Est.	Proj.	
	2021	2022	2023
		(Annual percentage change)	
National income and prices			
GDP at constant prices	10.2	3.5 - 4.5	2.5 - 3.5
Consumer price index (eop)	50.9	38.0 - 48.0	34.0 - 42.0
	(Percent of GDP unless otherwise indicated)		
External sector			
Current account balance	1.3	0.5	0.4
Trade balance	3.2	2.4	2.3
Foreign direct Investment (net)	1.1	1.3	1.6
Gross international reserves (US$ billions)	39.7	49.1	51.5
Change in Net International Reserves (US$ billions) 1/	-1.5	5.8	4.0
Terms of trade (percent change)	9.4	-0.1	-4.1
REER (avg., percent change)	4.3	...	...
Federal government operations			
Federal primary balance 2/	-3.0	-2.5	-1.9
Revenues	18.2	18.2	18.6
Primary expenditures	21.2	20.7	20.5
Federal overall balance	-4.5	-4.0	-3.4
Federal government debt	80.6	74.4	74.3
excluding intra public sector 3/	49.6	47.8	49.4
Monetary operations			
Monetary base	7.9	7.5	7.5
Monetary financing of the fiscal deficit	3.7	1.0	0.6
BCRA securities	10.9	9.3	9.1
BCRA quasi-fiscal cost	3.3	3.3	2.9

Sources: National authorities and Fund staff estimates and projections.
1/ TMU definition.
2/ Primary balance excludes BCRA profit transfers.
3/ Excludes federal government debt held by the BCRA and the Social Security Fund (FGS).

ARGENTINA

March 10, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Medium-term context. Against the background of a decade of declining per-capita income and high inflation, the Article IV consultation focused on policies to begin to tackle Argentina's underlying impediments to sustained growth and low and stable inflation. Avoiding boom-bust dynamics suggests the need for greater emphasis on policies to promote net exports and mobilize domestic saving to finance much-needed investment. Reversing the high degree of financial dollarization, however, will take time and will require a durable commitment to tackle fiscal dominance and strengthen debt sustainability. Meanwhile, addressing budget rigidities is essential to improve Argentina's resilience to shocks, while reorienting public spending towards investment and innovation is critical to support productivity and reduce intergenerational inequities. Sustained political and social consensus is necessary for policy predictability and to balance demands from financing Argentina's large social welfare system while also encouraging private investment and formal employment.

Program context. Argentina is recovering from the 2018-19 economic crisis, which was further compounded by the significant adverse effects of the Covid-19 pandemic. After contracting by 15 percent during 2017-20, the economy expanded by over 10 percent in 2021 and the unemployment rate fell to 8 percent (from a peak of 13 percent in mid-2020). Efforts are underway to address fiscal and external imbalances, including through significant reduction in the fiscal deficit (after rising sharply in 2020) and a sovereign FX debt rescheduling which provided important cash-flow relief. Despite these favorable developments, Argentina's challenges remain significant. International reserves are precariously low, inflation remains high—at 50 percent—and unanchored, there is no access to international capital markets, and strict capital flow management measures remain in place. Moreover, Argentina faces large balance of payments needs, including due to a concentration of Fund repurchases over 2022–23 and the need to bolster its international reserves. Meanwhile, social conditions, while gradually improving, remain extremely fragile—more than 40 percent of the population lives below the poverty line and the share of labor informality is high, especially for women and young low-skilled workers. A narrow and undiversified export base, significant dollarization, a thin domestic capital market, and barriers to investment continue to hold back Argentina's growth potential. The political landscape remains fragmented, and broad consensus has yet to emerge in support of the authorities' economic program.

Program objectives. The program has pragmatic, realistic, and credible objectives, which take into account the authorities' policy priorities and the fragile economic and social situation. The program will aim to strengthen economic stability, sustain the output and employment recovery underway, and begin to address the country's deep-seated challenges, while recognizing that fully addressing them will take many years (beyond the program period) of steadfast reforms and policy implementation. To this end, the authorities are requesting Fund support for their program with policies that:

- **credibly improve public finances** to strengthen debt sustainability by reducing primary fiscal deficits, while improving the targeting of spending and addressing deep infrastructure gaps.
- **start reducing persistent high inflation**, which disproportionately hurts the poor, through a multi-pronged strategy involving the elimination of monetary financing of the budget, a strengthening of the monetary policy framework and operations, including positive real policy rates, and other measures.
- **strengthen the balance of payments** and support reserve accumulation, trade surpluses, and long-term capital inflows, paving the way to an eventual re-entry into international capital markets.
- **enhance the sustainability and resilience of growth** through reforms to mobilize domestic saving, improve the effectiveness of public investment, promote labor and gender inclusion, strengthen transparency and governance, and encourage the development of strategic tradable sectors.

Program modalities: In pursuit of their policy plans, the Argentine authorities are requesting a 30-month extended arrangement under the Extended Fund Facility (EFF) with access of SDR 31.914 billion (1001.3 percent of quota, exceptional access) to allow Argentina to meet its very large balance of payments needs, while beginning to address imbalances and structural impediments to growth and net exports. The disbursement schedule involves some frontloading to bolster Argentina's current low international reserves position. In line with relevant IMF policies, adequate safeguards have also been built in to support the achievement of program objectives and safeguard Fund resources.

Program risks. The program is subject to exceptionally high risks, arising from the challenges in designing a program in the context of the global pandemic, decade-long imbalances, and a complex social and political environment. Geopolitical risks—associated with the war in Ukraine—have risen significantly in recent weeks and could have serious implications for the Argentine economy and program design (i.e., sharp rise in global commodity prices could challenge disinflation goals). Additional downside risks arise from an intensification of the pandemic, tighter external financial conditions, and adverse climate shocks. Importantly, policy implementation risks remain, amid a complex social and political landscape and open hostility from some quarters towards the Fund from its long engagement in Argentina. Finally, the program may fail to engender confidence and strengthen stability. These risks cannot be fully mitigated through program design and contingency planning, and finely balanced judgements will be needed when assessing difficult tradeoffs that are likely to arise during the life of program.

Approved By

Ilan Goldfajn, Julie Kozack (both WHD), Ceyla Pazarbasioglu, Andrea Schaechter (both SPR)

Discussions took place in Buenos Aires, Rome, Venice, and Washington, D.C., as well as virtually between November 2020 and March 2022. The team included J. Kozack and L. Cubeddu (heads), F. Arizala, A. Chailloux, R. Llaudes, M. Perks, (all WHD), J. Hooley (FAD), C. DeLong (LEG), M. Tamene (MCM), A.C. Paret (SPR), M. Szafowal (Local Economist), and B. Kelmanson (Resident Representative). F. Figueroa (LEG), F. de Paula Machado (FAD), I. Gudbjartsdottir (MCM) joined part of the discussions. V. Bonifacio (WHD) provided research assistance and A. Veras (WHD) provided document management. The team met with M. Guzman (Economy Minister), M. Pesce (BCRA President) and their teams, as well as G. Béliz (Strategic Affairs Minister), W. de Pedro (Interior Minister), M. Kulfas (Industry and Production Minister), C. Moroni (Labor Minister), J. Zabaleta (Social Development Minister), among others. Meetings were also held with representatives from civil society, trade unions, the private sector, and social organizations. Mr. Chodos (OED) participated in the discussions.

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BACKGROUND AND CONTEXT

1. **Argentina experienced another decade of disappointing macroeconomic performance, which ended in a full-blown balance of payments crisis in 2019, despite unprecedented Fund support.** During most of this period, real GDP per capita was on a downward trend, reflecting weak investment and declining total factor productivity (*Figure 1*). Export performance was extremely weak, and there was little progress in attracting foreign direct investment and mobilizing domestic saving. The swift and premature opening of the capital account in late 2015 amid a gradual approach to address significant imbalances, led to a rapid rise in external indebtedness. By mid-2018, concerns over debt service capacity in the context of tighter global financial conditions led to a sudden capital flow reversal and a request for a Fund Stand-By Arrangement (SBA). Efforts to address underlying vulnerabilities proved unsuccessful (see Ex-Post Evaluation (EPE) of the 2018 SBA) and Argentina fell into a new balance of payments crisis in August 2019, prompting the re-introduction of capital controls, the reprofiling of domestic-currency denominated debt, and the initiation of a process to restructure foreign-currency denominated sovereign debt. As such, many of the recommendations of the 2017 Article IV Consultation were not implemented (see **Annex I**).

2. **Argentina was therefore in an extremely weak economic and social position when the COVID-19 pandemic hit**. Not only had the economy contracted by 5 percent since 2017, but the country faced an unsustainable debt burden, low external buffers, and very limited access to capital markets. Importantly, social conditions were already troubling, with the poverty rate near 36 percent and the unemployment rate around 9 percent, masking low labor force participation rates and high informality, especially among women and young low-skilled workers (*Figure 2*). Social discontent was widespread—real wages had fallen by over 20 percent between 2017 and 2019.

3. **The pandemic accentuated Argentina's fragilities, although steps are being taken to begin to address macroeconomic imbalances**. In 2020, the fiscal deficit and public debt rose as a result of efforts to protect vulnerable households and firms from the adverse effects of the pandemic. Unable to tap international capital markets and given limited financing from the dislocated peso debt market, the government resorted to large scale monetary financing of the fiscal deficit, contributing to rising inflationary and depreciation pressures, and leading to a further tightening of capital controls. During 2021, economic activity rebounded strongly, recovering much of the ground lost during 2020, while efforts were made to reign in both the fiscal deficit and monetary financing, including through an unwinding of COVID support. However, inflation rose to over 50 percent (depressing real wage gains), and net reserves fell to precarious levels reflecting continued outflows despite record trade surpluses.

4. **The Argentine authorities are requesting a Fund-supported program to meet the country's large balance of payments needs, including those related to obligations arising from the 2018 SBA.** The authorities are seeking to strengthen macroeconomic stability, while avoiding undermining the ongoing recovery, through a carefully calibrated reduction in the fiscal deficit and a more active monetary policy framework aimed at encouraging peso demand and reducing inflation. The proposed Fund financing, together with financial support from other IFIs and bilateral creditors,

would help Argentina meet its significant balance of payments needs and strengthen reserves both directly and through the improved confidence associated with program implementation. The program would also involve early steps to begin to address some of the many bottlenecks holding back productivity, investment, formal employment, export capacity, and domestic saving (*Figure 3*). The program also draws on some of the recommendations of the EPE, including a generally realistic macroeconomic baseline, policies tailored to Argentina's delicate economic and social situation, and contingency planning (see **Box 1**).

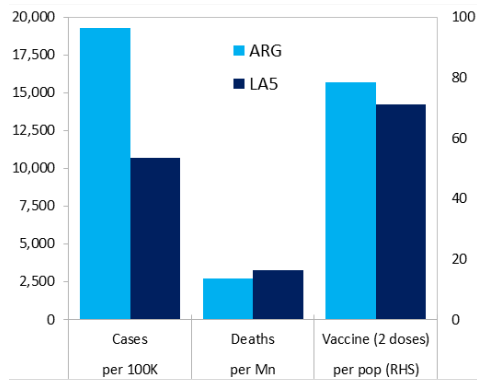
5. Program risks are exceptionally high. Argentina's fragile economic and social situation, alongside tight financing constraints and limited policy space, make the design of the program very complex and subject to significant risks. Argentina's economy is subject to significant downside risks that could undermine the program's objectives. The recent dramatic rise in geopolitical tensions has increased uncertainty on the global outlook for growth, inflation, commodity prices, and capital flows, with the potential of significant implications for Argentina and for the program and its objectives. Moreover, other downside risks cannot be ruled out, including from an intensification of the pandemic, tighter global financial conditions, and climate shocks, with negative implications for growth as well as the fiscal and external balances. In addition, the program may fail to engender confidence and, over time, strengthen stability, especially if political support for the program falters, including ahead of the October 2023 Presidential election. Contingency planning (see ¶18) can facilitate a prompt recalibration of policies but can never fully mitigate high program risks. Finely balanced judgements will be needed when assessing difficult tradeoffs that are likely to arise during the life of program

6. Enterprise risk is also extremely high. The Fund faces major financial, budgetary, and reputational risks stemming from exceptionally large and concentrated repurchases associated with the 2018 SBA, and a highly complex economic, social, and political situation in Argentina. In this context and given large repayments to the Fund during 2022–23 alongside the high implementation and program risks noted above, the risk of arrears to the Fund is not insignificant. Reputational risks are also large: the program may fail to engender confidence, raising questions about the adequacy of program design on the heels of the 2018 SBA that did not meet its objectives. At the same time, there would be significant enterprise risks in the absence of a program, including near-term financial risks as well as institutional risks associated with failing to assist a member facing a large balance of payments need. Moving forward with a realistic and credible program that meets all Fund policy requirements would allow Argentina to stabilize its economy, and begin to address its longstanding economic challenges, thereby mitigating some of these enterprise risks, especially in the near term.

DEVELOPMENTS SINCE END-2019

7. **The impact of the pandemic is gradually receding on the back of a very successful vaccination rollout**. Despite some of the strictest early containment measures in the region, the initial impact of the pandemic in Argentina was among the most severe in Latin America and other emerging economies. Fortunately, the rapid rollout of vaccines helped to limit the impact of the virus on mortality and hospitalizations, including following the rapid propagation of the Omicron variant in early 2022. To date, close to 90 percent of the population has received at least one vaccine dose, and 80 percent of the population has now received both doses, somewhat above regional peers. Mobility restrictions have not been reinstated and efforts are being made to make testing more widely available.

COVID Indicators (cumul., through Feb 23, 2022)



Sources: Johns Hopkins and Fund staff calculations.
LA5: Brazil, Chile, Colombia, Mexico, Peru

8. **Economic activity has recovered strongly following the 2020 COVID shock** (*Figure 4*). After contracting by nearly 10 percent in 2020, real GDP is estimated to have expanded by over 10 percent during 2021. The recovery, which is generally in line with that of Latin American peers, reflects a series of factors, including favorable external conditions, an unwinding of mobility restrictions, and supportive policies. The expansion has been led by strong investment (up 42 percent y/y through Q3-2021) and export volumes growth (up 13 percent y/y through December 2021), with industrial manufacturing exports expanding at much faster pace. Overall, economic activity has reached its pre-pandemic level but has not yet returned to its pre-crisis (2017) level, especially in the services sector where the recovery has lagged.

9. **Social conditions are gradually improving yet remain challenging**. The labor market is recovering in line with the improvement in activity—the unemployment rate reached 8.2 percent in Q3:2021, well below the 13 percent peak of Q2:2020, and labor force participation rates rose to 47 percent, near pre-pandemic levels. That said, labor market gains have not been evenly distributed; women and unskilled young adults have been disproportionally affected by the pandemic and the share of underemployment remains high at over 12 percent and above pre-pandemic levels. Moreover, over half of all workers are independent or informal salaried workers, with a more precarious employment situation. Meanwhile, in mid-2021, the national estimate of the poverty rate stood stubbornly high at above 40 percent (up over 5 ppts since end-2019), with nearly 54 percent for children under the age of 14 living below the poverty line.

10. After widening sharply in 2020, the fiscal deficit narrowed last year (*Figure 5*). After widening to 6½ percent of GDP in 2020, the federal primary fiscal deficit narrowed to 3 percent of GDP in 2021—below the original budget target of 4½ percent of GDP—reflecting the unwinding of COVID support and revenue mobilization efforts, including the one-off Solidarity Levy (½ percent of GDP).[1] That said, fiscal policy was generally supportive with spending (after adjusting for COVID support) growing by 13 percent in real terms, reflecting increases in untargeted energy subsidies and capital spending. The primary fiscal deficit remains about 2½ percent GDP above 2019 levels (see **Box 2**), mainly reflecting higher primary spending on account of COVID-related expenditures, higher energy subsidies—as energy wholesale prices remained largely frozen between March 2019 and December 2021—and the expansion of social protection programs.[2]

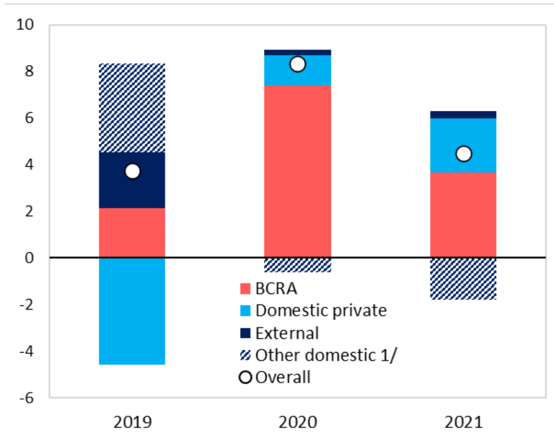
Federal Government Balance, 2019-21 (% of GDP)

	2019	2020	2021	*2021-19*
Revenues 1/	**18.1**	**17.6**	**18.2**	***0.1***
Primary spending	**18.5**	**24.0**	**21.2**	***2.7***
COVID-related	0.0	3.7	0.8	*0.8*
Current	17.4	19.3	19.0	*1.6*
Wages	3.0	3.2	2.9	*-0.2*
Pensions	8.6	9.5	8.0	*-0.6*
Subsidies	1.5	2.5	3.0	*1.4*
Other	4.3	4.0	5.2	*0.9*
Capital	1.1	1.0	1.4	*0.3*
Prmary balance	**-0.4**	**-6.4**	**-3.0**	***-2.6***

Source: Authorities and Fund staff estimates.
1/ Excludes revenues coparticipated w ith provinces.

11. Without access to international capital markets, efforts to tap the domestic capital market have strengthened, yet reliance on central bank financing has continued. Net domestic debt placements by the treasury reached 2.3 percent of GDP in 2021—compared to 1¼ percent in 2020—with higher real interest rates also permitting some extension of average maturities (see **Box 3**). Monetary financing of the fiscal deficit fell to 3.7 percent of GDP in 2021 (from 7.4 percent of GDP in 2020) yet remained large reflecting limited external financing and decentralized cash management by other public sector entities. Net disbursements from official creditors were relatively small during 2020-21, largely focused on pandemic support and project loans.[3] Argentina remains locked out of international capital markets, although the extensive FX debt restructuring with private bondholders in September 2020 pushed back debt service payments, mitigating the need for market access in the near to medium term (see **Box 4**).

Overall Fiscal Deficit and Net Financing, 2019-21 (% of GDP)



Source: Authorities and Staff calculations.
1/ Other domestic includes public sector entities (-, deposit accumulation)

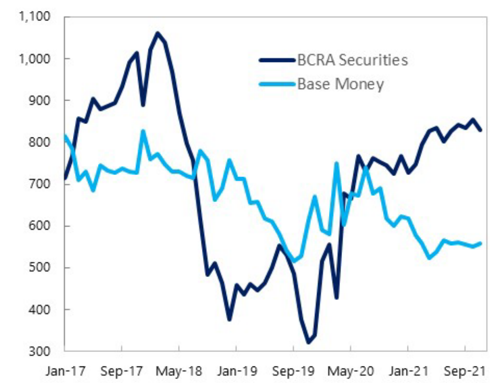
[1] Energy subsidies overruns (0.6 percent of GDP) were broadly matched by an underexecution of the capital budget.

[2] The new pension indexation formula adopted in 2020 delivered short-term gains but at the expense of higher costs in the medium-term, as pensions spending grows in line with formal sector wages and social security revenues.

[3] Understandings were reached with the Paris Club that avoided a declaration of default on obligations worth US$2.4 billion that came due in May 2021, contingent on a Fund-supported program being in place by end-March 2022.

12. Inflation pressures have risen amidst weak peso demand (*Figure 6*). Headline inflation reached 50.9 percent y/y at end 2021, compared to 36 percent y/y at end 2020, with core inflation rising at an even faster pace (55 percent y/y). Inflation dynamics reflect a combination of factors, including: (i) a revival in domestic demand; (ii) higher world commodity and manufacturing prices; and (iii) substantial monetary financing, devaluation expectations, and unanchored expectations in the context of policy uncertainty. Meanwhile, the BCRA balance sheet has expanded significantly since end-2019, with monetary financing of the fiscal deficit absorbed by a rise in sterilization instruments in the context of weak peso demand (base money fell from 9.0 percent of GDP at end-2020 to 7.9 percent of GDP at end-2021). By end-2021, the stock of BCRA remunerated liabilities was 10.9 percent of GDP (140 percent of base money), and quasi-fiscal deficit exceeded 3¼ percent.

Base Money and BCRA securities (Real AR$ bn)



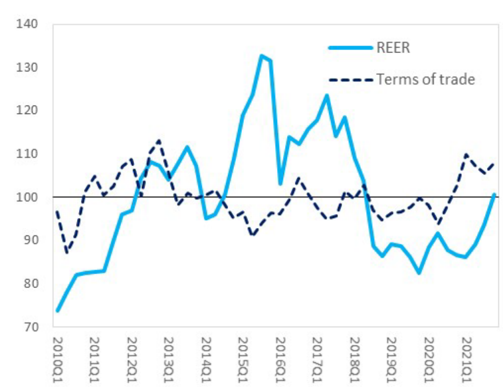
Sources: BCRA, INDEC and Fund Staff calculations.

13. Meanwhile, in the context of the crawling peg, monetary policy has been generally accommodative, until recently. Despite rising inflation over the course of 2021, the BCRA kept policy rates unchanged resulting in negative real policy rates (based on coincident or forward-looking inflation) during much of 2021. Instead, efforts to contain inflation centered on slowing the rate of crawl of the exchange rate, containing the exchange rate gap (by intervening in the securities market), and limiting certain price adjustments. As a result, the real effective exchange rate appreciated (by roughly 20 percent between end-2020 and end-2021), and relative price misalignments grew. However, since end-2021, the central bank appropriately raised its effective policy rate by a cumulative 650 basis points, accelerated the rate crawl (from an average monthly rate of 1 percent during October/November 2021 to over 2½ percent by end-February), and made important modifications to its liquidity management instruments.

14. Despite trade surpluses, Argentina's external position remains fragile (*Figure 7*).

- The external current account moved from a deficit of 0.8 percent of GDP to a surplus during 2020–21, reflecting trade surpluses (3.2 percent of GDP) and sharply lower interest payments, largely on account of FX debt restructuring efforts. Following a collapse in global trade and domestic demand during the pandemic, export volumes and prices rose sharply in 2021, more than offsetting the rapid recovery in

REER and Terms of Trade, 2010-21 (Index, Avg 2010-21=100)



Source: IMF GDS and Fund staff calcuations.

import volumes (up 30 percent).[4] Meanwhile, the average real effective exchange rate (REER) in 2021 was generally consistent with the long-term historical average (text chart) and the staff-estimated REER gap near zero (see **Annex IV**).

- Despite current account surpluses, the SDR allocation in 2021 and strict capital controls, international reserves have fallen since 2019 on account of continued financial outflows and amortization payments (public and private). The deficit in the financial account mainly reflects private sector net debt repayments and the formation of external assets by residents, in part encouraged by currency devaluation expectations. At end-2021, net international reserves, excluding swap lines and reserve requirements on FX deposits, fell to US$2.3 billion and declined to near zero by mid-March mainly on account of sovereign debt service payments (including to the Fund).
- FX pressures remain strong. The various exchange rate gaps have fluctuated significantly over the course of 2020-21, trading in the 100-110 percent range in the runup of the November mid-term congressional elections, after which the BCRA stopped intervening in the securities market (*Contado con Liquidación, CCL; Mercado Electrónico de Pagos, MEP*). However, following the recent increase in policy interest rates and the announcement of the staff-level agreement, the exchange rate gaps have fallen to around 85 percent. That said, sovereign spreads stand near 1,900bps and restructured bond prices continue to trade at distressed levels (around 30-35 cents on the dollar) as markets await policy implementation.

Balance of Payments, 2019-21 (% of GDP)

	2019	2020	2021
Current account	**-0.8**	**0.9**	**1.3**
Trade balance	3.0	3.2	3.2
Income balance	-3.8	-2.4	-1.9
Financial account 1/	**-5.7**	**-3.7**	**-2.0**
FDI	1.1	0.7	1.1
Portfolio	-1.6	-0.7	-1.3
Other	-5.3	-3.7	-1.7
Overall balance	**-6.5**	**-2.8**	**-0.6**
Financing	**6.5**	**2.8**	**0.6**
Reserves (+, loss)	4.7	2.0	-0.1
Official, incl IMF 2/	1.8	0.8	0.7
Memo:			
Export vol. (%chg)	12.2	-13.1	12.8
Import vol. (%chg)	-21.1	-10.7	29.9
Terms of trade (%chg)	-0.9	0.6	9.4
GIR (US$bn)	44.8	39.4	39.7
Swap lines	22.1	22.9	23.4
Other FX liabilities 3/	10.3	12.7	13.9
NIR	12.4	3.8	2.3

Source: INDEC and staff projections.
1/ Includes capital account and errors and omissions.
2/ Includes SDR allocation (US$4.3bn) in 2021.
3/ Reserve requirements on FX Deposits, Sedesa, Other.

15. **Financial and corporate balance sheets risks remain modest and pose limited threats to the system** (*Figure 8*). Financial institutions have contained risks by shrinking their credit exposure and maintaining large liquidity and capital buffers during the pandemic. Bank credit to the private sector is small (about 30 percent of assets or 15 percent of GDP), with limited FX and maturity mismatches and modest exposure to the government in line with tight prudential regulations.[5] As of end-2021, real private credit was weak (down 5.7 percent y/y), and overall NPLs remained relatively contained at 4.3 percent (compared to 5 percent during the pandemic), with higher levels in the consumer credit segment. System-wide provisions remain high (114 percent of NPLs; 4.9 percent of

[4] Large and persistent exchange rate gaps encourage exporters (importers) to under (over) invoice or delay (frontload) shipments, as well as private firms to reduce their USD exposure.

[5] Overall bank exposure to government rose to near 14 percent of total assets (from 9 percent at end-2019) yet remains well below the regulatory limit (75 percent of equity). In addition, holdings of BCRA securities are up, and now represent 28 percent of all banking system assets, given preference for liquidity and weak private credit demand.

private credit), yet bank profitability has weakened somewhat, reflecting a rise in net funding costs (from the regulated interest rates) and higher interest income taxes (including city taxes on holdings of BCRA securities). Corporate sector balance sheets have remained generally sound to date, reflecting limited and declining leverage, especially in foreign currency.

ECONOMIC OUTLOOK AND RISKS

16. The program baseline hinges on a carefully calibrated set of policies designed to reduce macroeconomic imbalances while securing a continuation of the recovery. Against the backdrop of fragile social landscape, the program is underpinned by a growth-friendly fiscal consolidation path, with an upfront reduction in monetary financing to start to reduce inflation and strengthen stability. Prudent and active monetary and FX policies will be required to ensure peso demand, real exchange rate competitiveness, continued trade surpluses and a buildup in reserves. The latter being necessary for an eventual conditions-based easing of capital controls and re-access to international capital markets. Initial steps will also be necessary to mobilize domestic saving, investment, formal employment, and exports. Confidence would be restored only through the steadfast implementation of program commitments. Key features of the baseline include:

- ***A steady private sector-led recovery.*** Real GDP growth is projected to slow from over 10 percent in 2021 to around 3½-4½ percent in 2022, with growth converging to 1¾-2¼ percent over the medium term (consistent with Argentina's 20-year average) as output gaps close. With fiscal consolidation and external conditions exerting a small drag on activity, growth would be underpinned by private consumption and investment, as employment and real incomes gradually expand, and economic imbalances are reduced.[6]
- ***A growth-friendly fiscal consolidation path.*** The federal primary fiscal deficit is assumed to narrow by an average of 0.7 percent of GDP per annum over the program period through a balanced set of revenue and expenditure measures, with early focus on containing energy subsidies. Upfront external financing will support reduced reliance on monetary financing and broader stability goals. Fiscal consolidation will need to be sustained beyond the program—reach zero balance by 2025 and converging to a surplus of 1.3 percent of GDP by 2027—to secure debt sustainability (see **Annex II**).
- ***A gradual, yet uncertain, disinflation process.*** Inflation is projected in the 38-48 percent range in 2022 and to decline by 5 percentage points per annum thereafter as fiscal consolidation proceeds and real interest rates remain sufficiently positive to sustain money demand (base money is assumed to stabilize at about 7½ percent of GDP). Inflation inertia (including from formal and informal indexation schemes), low central bank credibility, unanchored expectation, and existing relative price misalignments add to the challenges of reducing inflation. Projections

[6] Staff assumes an overall fiscal multiplier of 0.8 percent, as infrastructure and social spending are protected. This multiplier is generally in line with the literature (see Carriere-Swallow et al. 2018).

are also subject to elevated uncertainties, including from the recent sharp rise in global energy and food prices (see ¶16).[7]

- ***A strengthening of external buffers.*** The current account surplus is projected to narrow somewhat in 2022–23, reflecting weaker terms trade, and a recovery in domestic demand, and stabilize around ¾ percent of GDP over the medium term, near the estimated norm (see **Annexes III and IV**). The projected current account surpluses and pickup in FDI would be supported by a competitive REER (consistent with the 2021 average), which together with some net official sector financing, would permit a steady buildup in international reserves (about US$5 billion per annum on average) to around 100 percent of the ARA metric by 2025, when a small initial re-access to international markets is assumed. The baseline also assumes a gradual easing of capital controls, and a modest rise in the formation of net foreign assets over the medium term, in line with historical trends.
- ***A set of growth and resilience enhancing reforms.*** Efforts to promote investment in the key sectors (including energy), labor and gender inclusion, capital market development, as well as governance and transparency, are essential to begin to address Argentina's deep-seated challenges. Importantly, these reforms will be accompanied by greater policy and regulatory predictability, whereas an intensification of administrative measures (i.e., price and export controls, import restrictions) will be avoided.

Argentina: Macroeconomic Outlook, 2020–2026 1/

		Est.	Proj.				
	2020	2021	2022	2023	2024	2025	2026
Real GDP growth (percent)	-9.9	10.2	3½ - 4½	2½ - 3½	2¼ - 3¼	1¾ - 2¼	1¾ - 2¼
Inflation (eop, percent)	36.1	50.9	38 - 48	33 - 43	28 - 38	23 - 33	18 - 28
Base Money (avg Dec, % of GDP)	9.0	7.9	7.5	7.5	7.5	7.5	7.5
Primary fiscal balance (%f GDP)	-6.4	-3.0	-2.5	-1.9	-0.9	0.0	0.8
Monetary financing (% of GDP)	7.4	3.7	1.0	0.6	0.0	0.0	0.0
Trade balance (% of GDP)	3.2	3.1	2.3	2.3	2.5	2.8	3.0
NIR change (USD bn) 1/	-8.6	-1.5	5.8	4.0	5.2	5.0	5.0

Source: National authorities and program projections.
1/ Definition in Technical Memorandum of Understanding.

17. The program's baseline is subject to exceptionally high uncertainty and risks.

- Uncertainty arising from geopolitical tensions associated with the conflict in Ukraine is extremely high. An intensification of these risks could lead to a prolonged spike in energy and other commodity prices, sharply lower global growth, and a retrenchment of capital flows to emerging economies. Such an outcome would have significant implications for the Argentine economy and for the program, including the potential need for significant recalibration of the program baseline and policies. In particular, sharply higher commodity prices for a prolonged period could undermine disinflation goals and broader support for the program. (see **Box 5**).
- Other downside risks relate to (i) the intensification of the COVID pandemic, both in Argentina and globally, that could lead to a reintroduction of tighter mobility restrictions and undermine

[7] Inflation at current levels can often exhibit non-linear dynamics (see Bruno and Easterly, 1995).

the ongoing economic recovery; (ii) a faster-than anticipated tightening in global financial conditions with negative knock-on effects on trading partner growth and commodity prices; and (iii) climate-related shocks that could result in sharply lower agricultural exports and foreign currency inflows.

- The program may not engender a recovery in confidence, while implementation slippages could adversely affect macroeconomic stability. The challenges in designing a program in the context of a global pandemic on the heels of a balance of payments crisis, persistent high inflation, and a complex social and political environment are significant.

18. Given elevated risks, and precarious reserve position, contingency planning and agile program recalibration will be essential. Understandings have been reached on the broad outlines of contingency plans to ensure achievement of program objectives in the event that downside risks materialize. In the context of very limited policy space, the authorities recognized the need to recalibrate macroeconomic policies and avoid reliance on coercive and administrative measures, which could prove counterproductive. To strengthen debt sustainability, slippages in the pace of fiscal consolidation should be avoided, and new revenue measures and lower priority expenditure cuts will need to be considered should shocks materialize. Limiting second round effects from higher global commodity prices may require a more active role of monetary policy, along with targeted social assistance to protect the vulnerable. While such contingency planning will help boost readiness, it cannot fully mitigate program risks. As such, finely balanced judgements will be needed when assessing difficult tradeoffs that are likely to arise during the life of program.

Authorities' Views

19. The authorities recognize elevated uncertainties, especially those associated with rising geopolitical tensions, and the challenges they will imply for reducing inflation and the subsidy bill, although higher world agricultural prices will help mitigate external and fiscal effects. They are of the view that despite fragilities, an inclusive recovery can be sustained by steadily addressing imbalances while encouraging net exports and FDI, so that external constraints to growth do not become binding. Moreover, upside risks to the outlook cannot be discarded from opportunities arising from Argentina's large natural resources (including untapped energy and mining reserves) and human capital potential.

PROGRAM AND MEDIUM-TERM POLICIES

The program will aim to strengthen economic stability and begin to address the country's deep-seated challenges through policies that (i) credibly improve public finances and debt sustainability, while enhancing the targeting of spending and deepening the domestic debt market; (ii) start to reduce persistent high inflation. through a multi-pronged strategy involving the elimination of monetary financing of the budget and a strengthening of the monetary policy framework to encourage peso demand; (iii) support reserve accumulation and an eventual re-entry into international capital markets, including by securing real exchange rate competitiveness; and (iv) promote the sustainability and efficiency of key sectors (including energy) while strengthening transparency and governance.

Beyond the program period, further efforts are needed to (i) sustain fiscal consolidation through measures aimed at improving the efficiency, fairness, and sustainability of tax and spending policies; (ii) adapt the monetary and capital flow management frameworks to continue to reduce inflation, encourage long-term inflows and further boost reserve accumulation, (iii) strengthen the central bank's balance sheet and internal governance framework; and (iv) tackle high barriers to productivity, investment, exports, and formal employment, while securing a more predictable regulatory framework.

A. Fiscal Policies

20. The program envisages a balanced and growth-friendly fiscal consolidation to anchor stability while helping to sustain the recovery. The program targets a federal primary fiscal deficit of 2.5 percent of GDP in 2022, and an overall consolidation of 2.2 percent of GDP during 2022-24. Achieving these targets will require an equally balanced set of revenue and expenditures policies (see below), that allows for a reorientation of expenditures from current to capital spending and keeps primary spending growth (net of COVID) slightly positive in real terms. Early actions are intended to lend credibility to the 2022 primary fiscal deficit, including: through (i) commitments to raise wholesale energy prices by June (see ¶22, first bullet) to help secure the programmed reduction of the subsidy bill; and (ii) following congressional approval of the Fund-supported program, the current budget law will be modified in line with the 2022 fiscal targets (***mid-April 2022, structural benchmark***). Importantly, and given exceptional risks, adherence to the fiscal targets and spending reorientation goals will require agile fiscal policy recalibration, in the event that downside risks materialize.

Federal Government Balance, 2021-24 (% of GDP)

	2021	2022	2023	2024	*2024-21*
Revenues 1/	**18.2**	**18.2**	**18.6**	**19.3**	***1.1***
Primary spending	**21.2**	**20.7**	**20.5**	**20.2**	***-1.0***
COVID-related	0.8	0.3	0.0	0.0	*-0.8*
Current	19.0	18.2	18.3	18.1	*-0.9*
Wages	2.9	2.9	2.9	3.0	*0.1*
Pensions	8.0	8.5	8.9	9.2	*1.2*
Subsidies	3.0	2.2	1.9	1.5	*-1.5*
Other	5.2	4.6	4.6	4.4	*-0.8*
Capital	1.4	2.2	2.2	2.1	*0.7*
Primary balance	**-3.0**	**-2.5**	**-1.9**	**-0.9**	**2.2**

Source: Authorities and Fund staff estimates.
1/ Excludes revenues coparticipated with provinces.

21. Given already high statutory tax rates, revenue mobilization efforts will focus on improving progressivity, efficiency, and compliance with the tax system. In the near term, the catch-up of tax payments deferred during the pandemic, and the cyclical recovery in employment and wages are expected to support tax collection, particularly social security contributions. In addition, recent measures have been adopted to improve the progressivity of the personal wealth tax[8], raise fuel excises, and begin to boost property taxes, where assessed valuations are well below market value (***end-September, structural benchmark***). The estimated yield from these measures is 0.1 percent in 2022, rising to 0.3 percent of GDP over the medium term. In addition, and given high levels of non-compliance, the authorities (with Fund technical support) plan to design and start implementing a time-bound revenue administration action plan, focused on improving compliance risk management and identifying compliance gaps (***end-August 2022, structural benchmark***). Gains from tax and customs administration reforms could steadily build to a cumulative 1 percent of

[8] The measure increased the non-taxable minimum and added a top bracket tax of 1.5 percent.

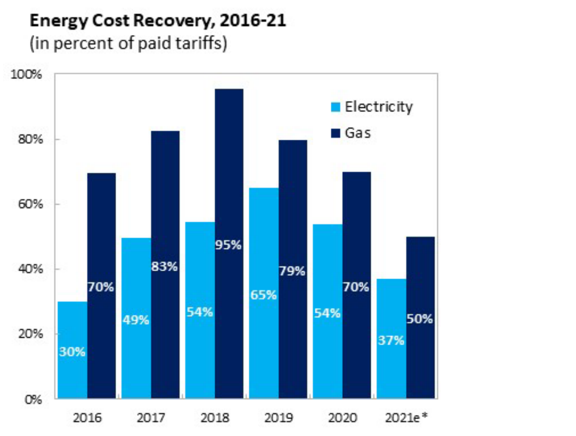
GDP at the federal level over the medium term, although gains can only be expected starting in 2023, are subject to uncertainty, and will be conditional on the strong implementation of the technical assistance plan **(Box 6)**. Tax amnesties and intensification of distortive forms of taxation, like the financial transaction tax (***continuous structural benchmark***),will need to be avoided as they undermine compliance and overall efficiency of the system.

22. Expenditure measures will also be necessary to secure consolidation, while reorienting spending from current to capital. The further unwinding of COVID-support (0.5 percent of GDP) will aid the consolidation in 2022. At the same time, reductions in energy subsidies and discretionary transfers to provinces and state-owned enterprises will be necessary to make room for higher social and infrastructure spending as well as the higher formula-mandated pension outlays.

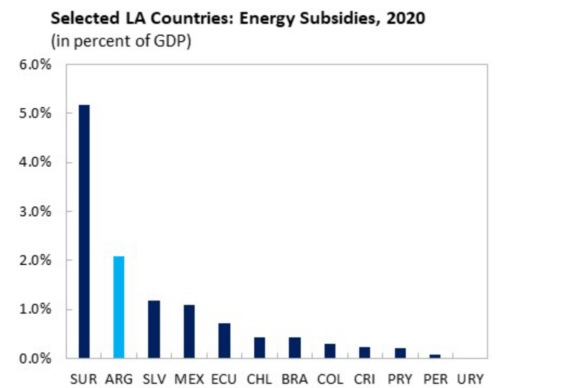
- ***Energy subsidies****:* The program envisages a 0.6 percent of GDP reduction in the energy subsidy bill in 2022 and further reductions during 2023-24, taking cumulative savings to 1 percent of GDP. The baseline assumes this would be achieved through: (i) efforts to lower energy production and transport costs;[9] (ii) the introduction of a new tariff segmentation scheme eliminating energy subsidies to the top 10 percent of urban residential consumers with the greatest capacity to pay (based on objective criteria); and (iii) increases in wholesale electricity prices (*PEST*) and gas prices (*PIST)* to ensure that the weighted average overall price evolves in line with average inflation. Regarding the latter, effective March 1, wholesale electricity prices for residential users and standard commercial users were updated by 28 percent and 42 percent respectively. Additional increases in wholesale energy prices are expected to go into effect June 1st, following the calling of a public hearing (***end-April, structural benchmark***) on the basis of the following principles:
    - For *residential users* (not part of the segmentation scheme), wholesale price increases will be anchored on ensuring that tariffs rise by 80 percent of the average wage growth (coeficiente de variación salarial), except for poor households already receiving a subsidized tariff (*tarifa social*), where the increase will be 40 percent of the average wage growth.
    - For *large commercial users (GUDIs)* wholesale energy prices will reflect full cost recovery, while energy tariff increases for the rest of non-residential users will be defined in the proposal for the public hearings.

These efforts will need to be accompanied by measures to strengthen the efficiency and sustainability of the energy sector, with the support of the World Bank and other international partners (see ¶40). Importantly, close monitoring and policy recalibration may be required given risks from: (i) challenges to hydroelectricity production (should drought conditions persist); (ii) high LNG prices from further intensification of geopolitical tensions; and (iii) implementation difficulties related to the new and untested tariff segmentation scheme.

[9] The latest *Plan Gas* lowered the guaranteed gas price offered at new auctions, from around US$7.5 per MMBTU under previous resolutions to US$3.5 per MMBTU.

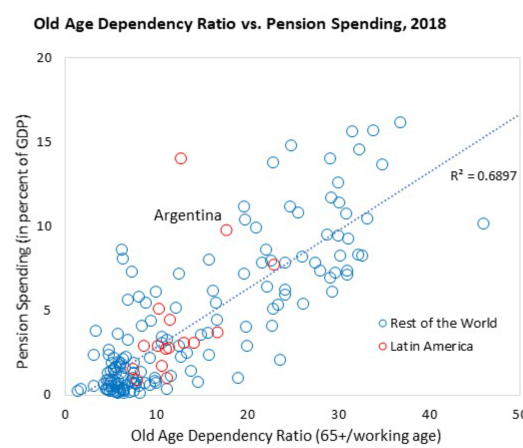


Source: OPC, IAE based on CAMMESA., and Fund staff estimates.



Source: OECD and Fund staff estimates.
Notes: Includes budgetary transfers and tax exemptions related to fossil fuels (electricity, gas, petroleum, coal)

- ***Pension spending***: Pension spending has hovered around 8½ –9½ percent of GDP since 2015, reflecting a combination of high coverage, generous general and special regimes, and unfunded pensions (amnesty/non-contributory). Going forward, pension outlays will be determined by the new pension-indexation formula, which on the basis of the assumed evolution of formal sector wages and social security revenues are projected to increase by around 1½ percent of GDP over the medium- to long-term. While parametric reforms of the system are not contemplated, the authorities committed to conduct and publish a study on the sustainability and equity of the system, including on options to reform special regimes and encourage longer working lives ***(end-December 2022, structural benchmark)***. Discretionary increases in pension outlays should be avoided as they would undermine the fiscal targets and sustainability of the system.



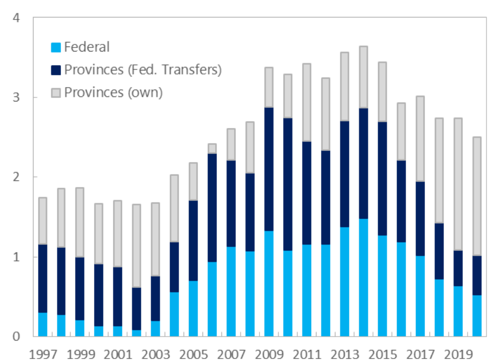
Sources: National authorities and IMF staff calculations.

- ***Wages and other current spending.*** The program envisages the wage bill remaining unchanged near 3.0 percent of GDP, well below the peak of 4.0 percent of GDP in 2015, through continued prudent wage and hiring policies. In addition, discretionary transfers to provinces and state-owned enterprises, which grew during the pandemic, are expected to gradually fall by 0.3 percent GDP during the program period, although efforts will be required to improve the commercial viability and efficiency of these firms. Programmed savings on goods and services (excluding COVID-support) are also expected to reach 0.2 percent of GDP by end-2024.

- ***Social assistance***. After expanding sharply during the pandemic, and in the context of the ongoing recovery in output and employment, efforts are underway to gradually rationalize and reorient social transfers towards employment programs to encourage the participation of women and low skilled workers in the labor market. Improvements in the targeting and efficiency of social protection will also be underpinned by a comprehensive assessment of Argentina's vast and fragmented social protection programs conducted in collaboration with development partners (***end-December 2022, structural benchmark***). Meanwhile, the program includes a floor on social assistance spending focused on effectively-targeted and well-managed flagship programs, covering the Universal Social Protection Allowance (including *AUH*), food stamps (*Tarjeta Alimentar*), and scholarship program (*Progresar*) (***indicative target***). It also envisages enhancements in gender budgeting to better assess the impact of spending policies in addressing deep gender inequities.

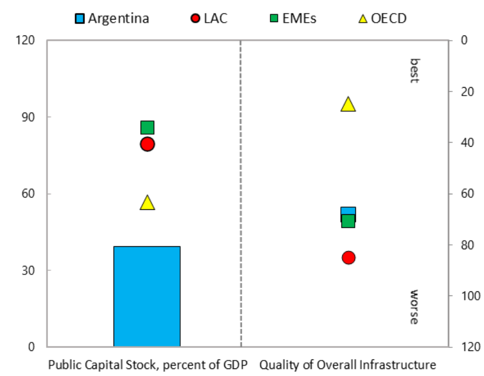
- ***Infrastructure spending***. To support growth-friendly fiscal consolidation and boost the stock of public infrastructure (which stands well below peers), the program envisages raising federal government capital spending to around 2 percent of GDP, nearly double the average during 2018-20. The scaling up of public infrastructure is expected to be accompanied by measures to strengthen the planning, selection, monitoring, and ex-post evaluation of projects, drawing on recommendations of the recently completed Public Investment Management Assessment (PIMA).

Argentina: Infrastructure Spending Across Government Levels
(in percent of GDP)



Sources: Authorities and Fund staff calculations.

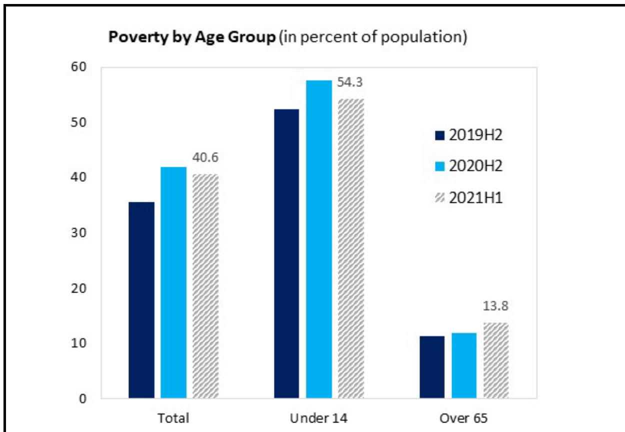
Argentina: Public Capital Stock and Infrastructure Quality



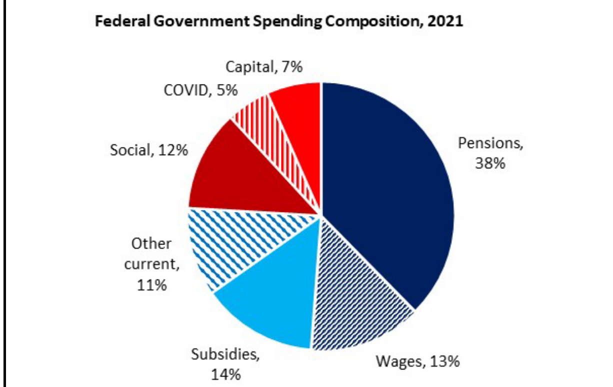
Sources: FAD IMF Public Investment Data Set.

23. Fiscal consolidation efforts will need to be sustained beyond the program period to secure debt sustainability. An additional 2 percent of GDP improvement in the primary balance will be required to reach the steady state surplus of 1.3 percent of GDP, necessary to contain gross financing needs and bring public debt (excluding debt held by the central bank and the social security fund, *FGS*) down to around 40 percent of GDP by 2030. Achieving this consolidation will require further efforts to reduce compliance gaps and strengthen the progressivity and efficiency of the country's tax system (see **Box 7**), including by reducing reliance on distortive taxes. In addition, further rationalization of public spending will be needed, coupled with efforts to tackle budget rigidities (including by enhancing the design of the revenue-sharing scheme with provinces), and improve the structure of spending to address large social and infrastructure gaps (see **Box 8**). Sustained political and social consensus will be required to achieve these goals and balance demands from financing Argentina's large social welfare system in a growth-friendly fashion.

24. Special attention will need to be given to improving the intergenerational equity of spending. Close to 40 percent of all federal spending in Argentina is oriented to pensions, whereas only 5 percent of federal spending goes to flagship social assistance programs (*AUH, Tarjeta Alimentar, and Progresar*) targeted to support vulnerable mothers and children. Partly reflecting these intergenerational differences in spending at the federal level, social outcomes also vary significantly across generations—54 percent of children under the age of 14 live in poverty, compared with 14 percent of the elderly. A reallocation of spending (including at the provincial level, where much of the health and education spending is executed) will be critical to ensure the young are equipped with the skills and human capital to contribute to Argentina's economic development in the context of an aging society.[10] In this regard, the sustainability of the pensions system needs to be strengthened, including through measures that improve the links between contributions and benefits and encourage labor formality and longer working lives.



Source: INDEC.



Sources:` Authorities and Fund staff calculations.

25. The program envisages reforms to improve the efficiency and transparency of public spending, cash management, and coordination with provincial governments.

- *Public investment management.* Building on recommendations of the PIMA, efforts will aim to (i) strengthen the monitoring and governance of investment projects through enhanced reporting by the entities of the national public sector other than the National Administration ***(end-June 2022, structural benchmark)***; (ii) improve the project selection process through the establishment of clear criteria for inclusion in the 2023 Budget ***(end-June 2022, structural benchmark)***; (iii) enhance the procurement legal framework (in place since 1947), through the new regulations (by end-September 2022) that strengthen selection, awarding, execution and sanction processes.

- *Enhancing the budgetary process.* Budget amendments, often not subject to congressional oversight, weaken Argentina's budget process. Budget credibility could be enhanced through improvements in fiscal projections and assessment of fiscal risks. As an initial step, the pre-budget statement for FY2023 will include a description of the macroeconomic and fiscal outlook, as well as a qualitative assessment of risks and measures supporting the achievement of the fiscal framework.

- *Strengthening cash management.* Consideration will be given to strengthen the Treasury Single Account (TSA) and to develop a plan to improve the management of excess liquidity held by

[10] Argentina's old age dependency ratio (population above 65 as a share of population 25-64) is projected to rise from 18 percent to 27 percent between 2020 and 2050.

other public sector entities, including to limit unintended reliance on monetary financing of the budget. Specific actions may be taken based on recommendations of the Fund's Fiscal Safeguards Review (in the context of the first program review).

- *Improving Federal-Provincial Fiscal Coordination.* Given the importance of provincial finances, consideration will also be given to revamping the Fiscal Responsibility Legislation, to better define escape clauses, review the role of Fiscal Council, and limit future foreign-currency denominated borrowing by provincial governments. In addition, efforts will continue to strengthen data-sharing agreements between the federal government and the provinces to ensure timely sharing of quarterly fiscal reports by all provinces.

Authorities' Views

26. According to the authorities, fiscal policy needs to continue to play an active role (with spending growing in real terms) in supporting the ongoing recovery and the delicate social situation. They see significant scope for improving tax compliance, and in strengthening the government's role to address deep social and infrastructure gaps, including through higher and more efficient infrastructure and innovation spending. Given limited fiscal space, they acknowledge the importance of reducing energy subsidies and the challenges posed by the large social welfare system, including pensions. They see merits in reviewing some of the very generous special regimes, although the sustainability of the system requires measures that encourage an expansion of formal employment and a voluntary extension of working lives.

B. Financing Strategy

27. The program envisages a full unwinding of monetary financing underpinned by a further strengthening of domestic debt placements and additional external support.

- *Net peso financing* from the private sector is projected to remain near 2 percent of GDP per annum (with rollover rates of around 130 percent), supported by positive real interest rates and a fiscal consolidation and disinflation path that would gradually reduce reliance on inflation-linked instruments, introduce benchmark securities, and lengthen the maturity profile of domestic debt. Debt management practices would be further strengthened through measures aimed at: (i) enhancing the predictability of auctions; (ii) streamlining the number of current instruments; (iii) limiting the use of minimum auction pricing; and (iv) building benchmark bonds to support secondary market liquidity and price discovery. Efforts would also be made to expand the eligible pool of securities in market makers program and to strengthen the investor relations program, through publication of semi-annual report ***(end-July 2022, structural benchmark)***.

Federal Fiscal Net Financing, 2021-24 (% of GDP)

	2021	2022	2023	2024
Overall	**-4.5**	**-4.0**	**-3.4**	**-3.2**
External (net)	0.2	1.7	-0.1	0.0
IMF	0.1	1.2	-0.3	-0.3
Other official	0.2	0.4	0.4	0.4
MDBs	0.3	0.4	0.3	0.3
Bilateral	-0.1	0.1	0.1	0.1
Paris Club	0.0	0.0	0.0	0.0
Amortization	-0.4	-0.3		
Debt relief	0.4	0.3	...	...
Other Bilaterals	-0.1	0.1	0.1	0.1
Private	-0.1	0.0	-0.1	-0.1
Domestic (net)	0.6	1.3	2.9	3.2
Private	2.3	1.8	2.0	2.0
Other 1/	-1.7	-0.5	0.9	1.2
BCRA	3.7	1.0	0.6	0.0
Memo:				
Dom. rollover rate	142%	118%	139%	130%

Source: Authorities and Fund staff projections.
1/ Includes gov't deposits (-) and placement with public entities.

- *Net official external financing* is expected to reach 1.7 percent of GDP in 2022 to help rebuild reserves and sharply reduce monetary financing to no more than 1 percent of GDP. Aside from net IMF financing for 1.2 percent of GDP in 2022, the program assumes net MDB financing of 0.4 percent of GDP per annum during the life of the program, with only minor net contributions from bilateral creditors.[11] The resumption of access to international capital markets would only start in 2025, with modest initial placements assumed.

28. Beyond the program period, a further strengthening of debt management will be essential. In addition to adhering to the projected fiscal consolidation path (see ¶23), efforts will be requried to continue improving the maturity profile of domestic debt and expanding the investor universe.[12] In this regard, preparation of a medium-term debt management strategy (***end-December 2022, structural benchmark***) will be critical to help manage the growing stock of domestic private peso debt (which reached 12 percent of GDP at end-2021) and secure the projected rollover rates, especially as capital controls are gradually eased and obligations on the restructured foreign-currency debt begin to fall due.

Authorities' Views

29. The authorities consider the development of the peso market, which was severely affected by the 2019 peso-debt restructuring, as essential for anchoring stability and reducing reliance on monetary financing. They generally agreed with staff's DSA analysis yet stressed that an eventual re-entry to capital markets will need to be orderly and at favorable interest rates to ensure FX debt service obligations are consistent with the country's export and broader FX generation capacity. They will seek to mobilize additional external concessional financing to support the country's development goals and help rebuild international reserves.

C. Monetary and Exchange Rate Policies

30. Monetary and exchange rate policies will be critical to securing macroeconomic stability and tackling high inflation. While stability hinges on having a credible and well-executed fiscal consolidation and financing plan, monetary and FX policies under the crawling peg regime will need to play a more active role in supporting a buildup in international reserve and a gradual reduction in inflation. Important challenges, however, will emerge from a starting position of low reserves, high and unanchored inflation, relative price misalignments, sizeable exchange rate gaps, and rising global commodity prices (see **Box 9**). Given large uncertainties and risks, prompt recalibration of monetary and FX policies will be required to protect reserves and contain second round effects from commodity price shocks. Importantly, strong coordination with fiscal policies will

[11] Following a principal payment to the Paris Club for U$190 million in February 2022, the program baseline assumes repayment of the remaining obligations over a period of four years starting in 2023. Net flows from other bilaterals would offset Paris Club payments.

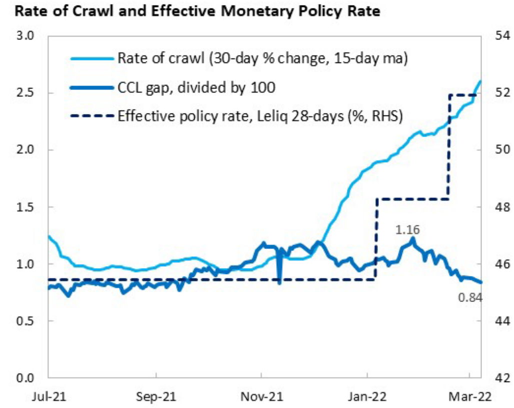
[12] As also explained in DSA Annex 1, the average maturity on peso debt is projected to rise from less than a year in 2021 to 2.5 years in 2028, while domestic real interest rates gradually converge to international market rates—rising from 2 percent in 2022 to 4.5 percent by 2028.

also be essential, with voluntary incomes policies playing a supportive role in the context of high inflation inertia.[13] Coercive approaches (involuntary price controls, export bans, higher export taxes/quotas) should be avoided, as protecting households from food and energy price shocks would be best achieved through existing well-targeted social protection programs.

31. The crawling peg regime remains appropriate, although key elements will need to be strengthened and recalibrated. To start, the rate of crawl should ensure a competitive real exchange rate that supports continued trade surpluses and the program's reserve accumulation target (***quantitative performance criteria***) of US$15 billion during 2022-24. This will require that intervention in the official market (*Mercado Unico y Libre de Cambio, MULC*) is consistent with quarterly reserve accumulation goals, while taking into account variability coming from seasonal factors and temporary bouts of excessive volatility. Furthermore, it will be critical to refrain from intervening in the securities market (CCL, *Contado con Liquidación*), and to limit intervention in the non-deliverable forward (NDF) market only to circumstances when forward guidance on monetary policy may be required ***(indicative target)***.[14] Going forward, consideration will be given to tighten these limits as the new monetary framework is implemented.

32. Building on recent decisions, an enhanced monetary policy framework should help support demand for peso assets. Following recent policy decisions to raise the effective annual policy interest rate by 365 bps (***prior action***) and by a cumulative 650 bps since end-2021, the BCRA is committed to maintain positive real effective policy rate on the basis of a model-based framework that takes into account coincident and forward-looking inflation indicators that are updated monthly in consultation with Fund staff. Positive real policy interest rates are essential to support demand for peso assets, particularly deposit rates, and narrow the exchange rate gaps. In tandem, continued efforts are needed to improve the signaling of monetary policy and streamlining central bank securities to reduce recourse to the overnight facility. In this regard, the quantitative cap on the standard monetary policy instrument (28-day LELIQ) should be gradually lifted, with the newly created 180-day LELIQ absorbing structural liquidity.[15]

Rate of Crawl and Effective Monetary Policy Rate



Sources: BCRA and Fund staff calculations.

33. Further efforts will also be needed to strengthen the transparency and effectiveness of the framework. The recent decision to raise commercial bank interest rate ceilings on certain regulated lending instruments, and the floor on regulated bank deposits have helped to reduce the wedge between the policy rate and bank deposit rates (BADLAR). However, further steps are required

[13] While experiences have been generally mixed, incomes policies could complement disinflation efforts if well designed and accompanied by a credible macroeconomic plan.

[14] During 2020-21, the BCRA sold US$2.7 billion in the parallel markets.

[15] To drain liquidity more durably improve transmission, and encourage banks to lengthen deposit maturities, the BCRA recently introduced 180-day LELIQs at fixed and floating rates (the latter indexed to the 28-days note).

to gradually ease regulations on bank interest rates to amplify the transmission of policy rates, recognizing that concerns about bank competition and financial inclusion are best addressed through other targeted policies. In addition, there is a need to simplify the reserve requirement, including by phasing out the unremunerated reserve requirements for small banks and streamlining special regimes. The BCRA is expected to publish a time-bound plan for reforming the reserve requirement regime by end-June 2022 **(*structural benchmark*)**.[16]

34. Monetary policy credibility would be buttressed by a stronger BCRA balance sheet. The baseline macroeconomic framework should result in a steady strengthening of the BCRA balance sheet, supported by the unwinding of monetary financing. The stock of central bank paper is projected to fall from over 10 percent of GDP to around 8 percent of GDP over the medium term, enabling lower quasi-fiscal deficits, albeit higher real policy rates, which in turn are necessary to sustain base money (see **Box 10**). In the context of the Fund's Safeguard Assessment (to be completed by the First Program Review) and subsequent IMF technical assistance, a comprehensive analysis of BCRA's balance sheet will be undertaken and staff's recommendations will be used to develop and publish a medium-term strategy for durably improving the BCRA financial position *(**end-December 2021, structural benchmark**)*. The medium-term strategy will consider options for (i) strengthening the BCRA's financial relationship with the Treasury; (ii) enhancing the BCRA's governance framework; and (iii) ensuring the gradual adoption of IFRS accounting standards.

35. The monetary policy toolkit must be complemented with an effective capital flow management (CFM) regime in the near to medium term. While not a substitute for appropriate macroeconomic policies, CFM measures introduced during 2019-21 given policy constraints and severe outflow pressures.[17] Going forward, however, these measures will need to be recalibrated in line with evolving circumstances, while not hindering current account transactions. In this regard, the program envisages specific actions to:

- Strengthen transparency and reduce compliance costs, by streamlining the FX regulatory framework. As a first step, redundant regulations limiting trading in the FX securities market were eliminated (***prior action***).
- Boost surveillance and enforcement of CFM measures through (i) better data collection and upstream monitoring of operations; and (ii) improved coordination among relevant agencies (BCRA, AFIP, Customs) to enhance fraud detection.
- Improve the penalty framework, including by introducing the use of administrative fines to make the sanctioning framework more efficient and reduce incentives for circumvention. Relevant

[16] The BCRA will also assess the merits of recent regulations allowing commercial banks to meet reserve requirements (on time deposits) with holdings of government securities, given potential distortive effects on the yield curve.

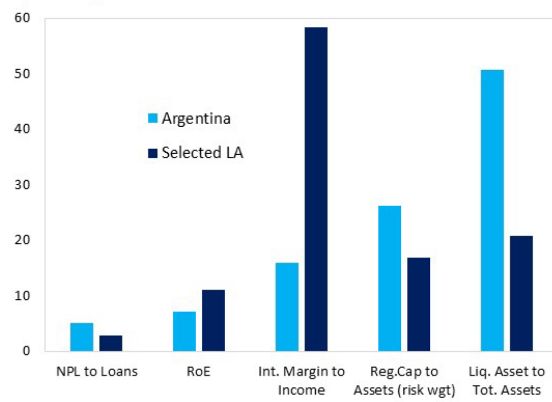
[17] Various CFMs were introduced in 2019, with subsequent adjustments. The BCRA and the securities authority (CNV) introduced regulations to (i) restrict official FX market (MULC) access for financial account transactions; (ii) restrict participation in securities markets (MEP/CCL); (iii) subject FX purchases to two separate taxes of 30 and 35 percent ; (iv) apply tight repatriation and surrender requirements on export proceeds; (v) limit cash withdrawals and restrict selective capital flow-related credit card transactions abroad; and (vi) limit FX holdings of banks, mutual funds and exchange bureaus. These are all considered to be CFMs under the Institutional View on Capital Flows (IV).

legislation—Foreign Exchange Criminal Law—will be submitted to Congress by end-December 2022 (**structural benchmark**).

36. A more efficient CFM framework will not only enhance the capacity to safeguard near-term financial and external stability, but also pave the way for an eventual phased, and conditions-based easing of CFM measures. The design of the roadmap for the easing of these measures will need to consider relevant international experiences as well as Argentina-specific factors, including the country's public debt profile and high dollarization. This roadmap, which will be prepared in consultation with Fund staff, will be published by end-December 2022 (***structural benchmark***) and provide guidance on the conditions for converging towards a new framework that supports stable and sustainable capital flows and encourages the repatriation of resident assets abroad.[18]

37. Banking supervision and regulation should aim at safeguarding the banking system's risk cushions, while facilitating credit to the private sector. Argentine banks are far more liquid and capitalized than regional peers, and continued efforts are needed to avoid unhedged exposures or excessive build-up of risks. Close monitoring of NPLs is required, especially in smaller and state-owned banks, where credit quality is somewhat weaker. Overall profitability (measured as the Return on Equity or Interest Margin to Gross Income) remains below peers, and regulations should be designed that allow banks' to restore an intermediation margin, including by easing unremunerated reserve requirements and regulated interest rates. Bank competition concerns are best addressed through targeted consumer protection and competition policy measures rather than administrative limits and caps (¶33). Facilitating private sector credit will be critically to support growth and investment, especially as idle capacity fades and fiscal consolidation proceeds.

Latin America: Selected Financial Sector Indicators 1/
(Q3-2021)



Sources: FSI database and Fund staff calculations.
1/Selected LA is simple average for Bolivia, Brazil, Colombia, Costa Rica, El Salvador, Honduras, Panama, Paraguay and Peru.

Authorities' Views

38. The authorities are committed to strengthening the crawling peg regime by maintaining positive real policy rates, improving the monetary policy transmission mechanism, and ensuring competitiveness of the real exchange rate. They argued, however, that interest rates play a partial role in anchoring inflation and supporting money demand and that care also needs to be taken to avoid the destabilizing effects from rising quasi-fiscal deficits. They placed priority in strengthening the financial position of the central bank yet argued that the pace of

[18] At Q3-2021, Argentina's net international investment positive was positive (US$123 billion), with gross external assets of private residents reaching US$370 billion.

improvements was constrained by fiscal space considerations. They noted that CFMs will remain an aspect of their toolkit in the near-to-medium term and that the eventual easing of controls would need to be carefully sequenced to avoid the damaging experience of 2016–19.

D. Growth and Resilience Enhancing Policies

39. Beginning to address Argentina's long-standing structural bottlenecks will be critical to set the basis for more sustainable, resilient, and inclusive growth. Aside from reforms to address macroeconomic imbalances, actions are required to strengthen: (i) investment, productivity, and exports, especially in higher value-added sectors; (ii) sustainability and efficiency of the energy sector; (ii) formal employment and labor inclusion, especially of women and young unskilled workers; and (iii) capital market development. Reforms will need to take into account Argentina-specific factors and challenges arising from climate change. Strengthening the efficiency and transparency of government spending (see ¶25), alongside improvements in governance, including tackling tax avoidance and money laundering, are also necessary to enhance the efficacy of reforms and support anti-corruption efforts.

40. Reform efforts under the program will focus on encouraging investment and efficiencies in strategic sectors, and deepening labor, gender, and financial inclusion.

- **Incentives for strategic sectors.** Legislation and regulations are being advanced—in close consultation with various stakeholders—to encourage investment and exports on a number of key strategic sectors, including hydrocarbons, mining, agro-industry, automotive, and knowledge economy.[19] The proposals seek to provide policy predictability and incentives in the form of partial exemptions from FX surrender requirements and lower export and corporate taxes (mainly via accelerated amortizations and tax credits for intermediate and capital goods) that are provided conditional on improved production or export performance. These various initiatives will need to be designed by the authorities in a manner that limits fiscal costs (in terms of forgone revenue) on the basis of proper cost-benefit analysis, avoids overburdensome regulations, maintains consistency with trade law obligations, and ensures their evenhanded application (i.e., state-owned companies should not receive favorable treatment).
- **Sustainability and efficiency of energy sector**. Efforts are needed to improve the efficiency of the energy sector and tap Argentina's vast energy potential to reduce reliance on more expensive energy imports and transition to a cleaner energy matrix. In this regard, a medium-term plan is being prepared, with World Bank technical assistance, to develop concrete actions for: (i) reducing inefficiencies in metering, billing, and collection; (ii) enhancing the efficiency of energy consumption and conservation; (iii) strengthening the quality of energy service; and

[19] Laws currently being considered in congress, include:, (i) the *Hydrocarbons Law,* aimed at promoting investments in exploration, production, transportation (including in the vast shale and oil gas reserves of *Vaca Muerta, as well as* renewables) to lower energy imports and prices in downstream industries; (ii) the *Agro-industrial Law,* aimed mainly at fostering higher value-added agro-industrial exports and promoting environmentally-friendly production; and (iii) the *Auto-industry Law,* which provides incentives for production of light automobiles and auto parts. Implementing regulations to the 2020 *Knowledge Economy Law,* which provides incentives to promote knowledge economy and digital activities in Argentina, are being prepared.

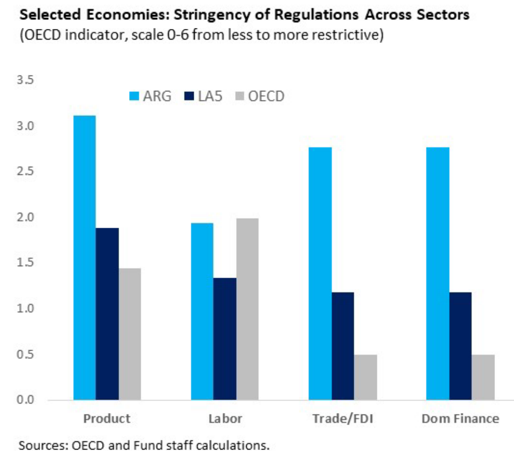
(iv) improving the targeting of energy subsidies. This medium-term plan, which will be made public by end-September 2022 (***structural benchmark***), will be anchored around clear cost-recovery objectives.

- **Labor and gender inclusion.** In light of the ongoing recovery in the labor market, the extraordinary employment protection measures introduced during the pandemic are being unwound —the ban on layoffs on the basis of unexpected circumstances or lack of work has been lifted and the double severance pay for layoffs without fair cause will fully expire by end-June 2022. Importantly, and against the backdrop of high labor informality and the harsh impact of the pandemic on women and low skilled workers, various active labor market initiatives have been scaled up. Specifically, the flagship labor inclusion program (*Potenciar Trabajo*) has been significantly expanded (to cover one million beneficiaries); and new job training programs have been created to encourage employment of low-skilled young workers (*Te Sumo*), and indigenous groups in the Northern provinces. Special emphasis is being given to promote female labor force participation through a multipronged strategy that envisages the expansion of childcare facilities and social infrastructure, as well as scheme to encourage the formalization of domestic employees. Specific commitments in this area will be firmed up in future reviews.

- **Financial inclusion.** A financial inclusion plan has been developed with a view to support the development of the broader domestic capital market by (i) expanding and improving access to financial services; (ii) promoting the use of digital means of payment; (iii) enhancing financial literacy and financial consumer protection; (iv) promoting SME and microcredits; and (iv) addressing geographic, gender, and other socio-demographic gaps through targeted policies. Steps are also being taken to discourage the use of crypto-currencies and prevent money laundering, informality, and disintermediation.

41. Further efforts are needed to start addressing the challenges from climate change. Ongoing initiatives include (i) preparation of a new Electro-Mobility Law to incentivize the production and use of renewable energy-powered vehicles; (ii) establishment of a new regulatory framework to support investment in the hydrogen sector; and (iii) implementation of a Green Productive Development Plan to promote environmental adaptation and energy efficiency by firms. However, further efforts will be required as Argentina is among the top 25 greenhouse gas emitting countries in the world (the share of energy emission stands around 53 percent with the rest mainly coming from agriculture and livestock) and is increasingly vulnerable to droughts and floods (with adverse impacts on agriculture and poverty). Efforts to reduce costly energy subsidies and to transition towards a cleaner energy matrix must be sustained and revamped. Future policy commitments under the program will be developed in this area drawing on recommendations from the ongoing World Bank's Climate Change and Development Report (CCDR) and the recently finalized PIMA, which included a climate module.

42. **Importantly, over the medium-term efforts will need to be revamped to address deep-seated structural challenges.** Reversing decades of low (and highly volatile) productivity growth, limited investment, weak exports, high dollarization, and formal employment growth will take time and require strong political and social consensus. As such, reform efforts will need to be properly sequenced with offsetting measures to protect workers and firms from potential displacement costs. Overburdensome regulations or red tape should be addressed, starting in the product markets (given limited short-term costs), where firm concentration lead to high investment and entrepreneurship barriers. As a first step, a competition authority should be established, and the new competition framework clarified and brought in line with international best practices. More generally, greater policy predictability, and as such consensus about the country's development model, will be essential to promote investment and attract the vast wealth of Argentines abroad.



Authorities' Views

43. **The authorities are committed to exploit Argentina's potential in strategic sectors through more predictable regulatory settings. This is esssential to boost the country's net exports and long-standing vulnerabilities from external constraints to growth.** They recognize the importance of addressing barriers to entry through a modified competition framework, and of boosting labor and financial inclusion, while highlighting that addressing informality requires improved tax compliance and upgrading of worker skills. They argued that past deregulation efforts led to increased inequality, labor informality, and de-industrialization. As such, they favor a model of greater state involvement and protection to ensure growth is associated with employment and social gains (pointing to Argentina's experience of the mid/late 2000s).

E. Governance and Transparency

44. **Strong efforts are underway to improve governance, financial integrity, and transparency frameworks to ensure compliance with international standards and support anti-corruption efforts.** In close consultation with Fund staff, an action plan has been developed to target critical areas in preparation for the AML/CFT evaluation by the Financial Action Task Force (FATF) scheduled for July 2023. The plan includes specific steps, towards: (i) finalizing the national risk assessment on money laundering (ML), consolidating the results with the already-finalized terrorist financing (TF) assessment and disseminating results to all AML/CFT stakeholders; ii) publishing a National AML/CFT strategy, with recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments (***end-September 2022, structural benchmark***); and (iii) amending the current AML/CFT legislation to strengthen the sanctioning regime, the inventory of reporting entities and related AML/CFT obligations applicable to reporting

entities, and requirements for legal entities and legal arrangements to obtain, maintain, and update the ultimate beneficial owner information within the company registry(ies). This draft legislation will be prepared with Fund technical support and be submitted to congress by end-May 2022 (***structural benchmark***). Meanwhile, it will also be necessary to advance on the implementing resolutions to facilitate prompt and full implementation of the amended legislation.

45. In addition, actions to enhance the transparency of COVID-related spending are being taken. As an initial step, the federal government will publish no later than end-December 2022, information on the ultimate beneficial owner(s) of companies awarded COVID contracts and will work with provincial governments to establish a reporting system for the consolidation of information with a view to publish the information of companies awarded COVID contracts by all provinces by end-March 2023. Finally, the National Audit Office (AGN) will publish the ex-post external audits on COVID-19 spending by end-June 2023 ***(structural benchmark)***.

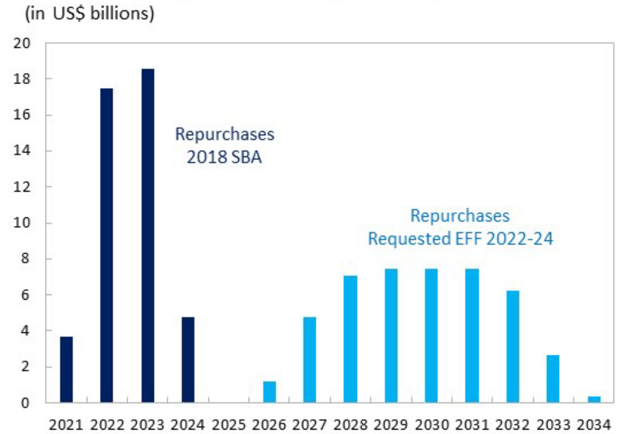
Authorities' View

46. The authorities recognize the need to improve governance and transparency through efforts aimed at strengthening public financial management (¶24), tackling high levels of tax avoidance, and improving the framework to combat money laundering and financing of terrorism.

PROGRAM MODALITIES AND MONITORING

47. <u>Access and phasing.</u> The authorities are requesting a 30-month extended arrangement under the EFF with access to SDR 31.914 billion (1001.3 percent of quota, exceptional access) equivalent to about US$45.5 billion to allow Argentina to meet its very large balance of payment needs arising from important amortization obligations. The requested access level would also help cover the remaining repurchases obligations under the 2018 SBA (US$40.9 billion from March 2022), along with small net financing (US$4.5 billion) [20] to help boost the very low levels of international reserves and catalyze support from other official creditors. Importantly, the EFF arrangement would allow for a repayment period that is more closely aligned with Argentina's capacity to meet its external obligations, while providing the authorities time to begin to address macroeconomic imbalances and deep-seated structural challenges. The arrangement would expire in September 2024. Finally, given the structure of

Fund Repurchases, 2018 SBA vs. Requested EFF, 2021-34
(in US$ billions)



Source: IMF and Fund staff calculations.

[20] The US$4.5 billion is equivalent to total repurchases made September/December 2021 and January 2022.

Argentina's balance of payments needs and the critical importance of restoring a reserve buffer at the start of the program, access would be appropriately frontloaded. The authorities have also requested that all Fund purchases be disbursed in Argentina's SDR holdings account to support their firm commitment to meet their obligations to the Fund as they fall due and to rebuild their international reserve buffer.

48. Budget support. In light of limited market access, the authorities plan to use the projected Fund purchases as budget support. The disbursements would be used to meet Argentina's balance of payment needs, including with respect to repayment of Fund obligations and bolstering international reserves. In line with policy related to exceptional access cases, a new Fiscal Safeguards Review will be conducted by the time of the first program review. Moreover, a framework agreement between the BCRA and the government has been concluded defining the respective roles and responsibilities for servicing the financial obligations to the Fund.

49. Safeguards assessment. An update safeguards assessment of the BCRA will need to be completed prior to the first review of the program. Progress in implementing the 2018 safeguards recommendations has been limited, including to address weaknesses in the legal framework. Staff will follow up on these issues in the update assessment (see ¶34).

50. Financing assurances. Firm financing commitments are in the process of being secured from official creditors over the next 12 months with good prospects for the remainder of the program.[21] Net financing from the MDBs, including the World Bank, Inter-American Development Bank (IADB), and the Andean Development Corporation (CAF), is projected to reach US$2.2 billion this year through a combination of budget support and project loans. Meanwhile, the Paris Club has signaled its intention to engage with Argentina with a view to restructuring the county's legacy debt (US$2.4 billion at end-July 2021). Other official bilateral creditors have committed to provide net financing of around US$0.6 billion per annum during 2022-24. For the program period, projected cumulative trade surpluses (US$41 billion) and net FDI inflows (US$27 billion) are expected to more than offset net external debt obligations and permit an accumulation of international reserves of roughly US$15 billion, with FX controls playing a supportive role and limiting capital outflows.

51. Arrears Policy. Argentina has outstanding arrears to private and official bilateral creditors.

- *Private creditors*. Staff is of the view that Argentina is making good faith efforts, as required under the Fund's Lending into Arrears policy, to resolve its outstanding external arrears, including to (i) external private creditors that did not participate in the 2005/10 debt exchange or did not settle under the terms provided in 2016 (US$2.4 billion), and those to which there is debt outstanding from the 2001 default (US$0.1 billion); and (ii) Mobil Exploration, where negotiations are underway on a repayment plan on principal claims (US$196 million).[22]

[21] Once financing assurances have been received, a Staff Supplement will be issued to assess that the program is fully financed.

[22] Meanwhile, remaining claims by Spanish firm Teinver (US$321 million) are currently in litigation.

- *Official creditors*. Argentina also has arrears (unrelated to official sector involvement) with (i) Paraguay, related to the binational (Paraguayan and Argentine) entity Yacyreta, where compensation for energy provided is now expected by end-2022 (US$76 million);[23] and (ii) the French export credit agency (US$30 million), which is awaiting a decision from the Argentine Supreme Court.

52. Capacity to Repay. Argentina's capacity to repay its obligations to the Fund is subject to very high risks and hinges critically on strong policy implementation (Table 12). While obligations to the Fund related to the 2018 SBA are large during 2022-23—20 percent of exports and 39 percent of gross international reserves—full implementation of the EFF arrangement would help address the balance of payments need arising from these large repurchases as well as those from the EFF arrangement. That said, Fund debt service obligations would remain very large over the medium term—around 6 percent of exports or 10 percent of gross reserves—and Fund credit outstanding will fall only gradually (from 8.5 percent of GDP in 2022 to 7 percent by 2026). Nevertheless, adequate capacity to repay will depend on the implementation of policies enabling a rise in international reserves and the eventual resumption of market access by the time repayments to the Fund begin falling due.

53. Program monitoring and conditionality. The program will be monitored through quarterly performance criteria and reviews, as well as continuous performance criteria. Program quantitative conditionality is focused on key policies (primary fiscal deficit, monetary financing, reserve accumulation) underpinning macroeconomic stability objectives (MEFP Table 1). Meanwhile, structural benchmarks are designed to: (i) help secure fiscal consolidation; (ii) strengthen the monetary policy framework and operations; and (iii) enhance transparency and governance, including of public spending; and (iv) improve the sustainability and efficiency of certain sectors, including energy (MEFP Table 2). Given exceptional uncertainties, key parameters (growth, inflation) are expressed in ranges and frequent recalibration of program targets cannot be ruled out.

54. Prior actions and selected near-term structural benchmarks. To bolster confidence and strengthen their commitment to the program, upfront measures were adopted, including: (i) raising policy interest rates by 365 bps (bringing cumulative rate increases to 650 bps since 2021), in line with the agreed monetary policy framework aimed at securing positive real policy rates; and (ii) easing of security market restrictions that distort effectiveness of capital controls. The authorities also committed to raise wholesale electricity and gas prices effective June 2022 (in line with the relevant legal and administrative procedures), to ensure tariffs remain unchanged in real terms this year, and to modify the current budget, following Congressional approval of the Fund-supported program, so that is consistent with program targets and policies.

[23] A portion of the entire claim is disputed due to differences in views in the applicable exchange rate.

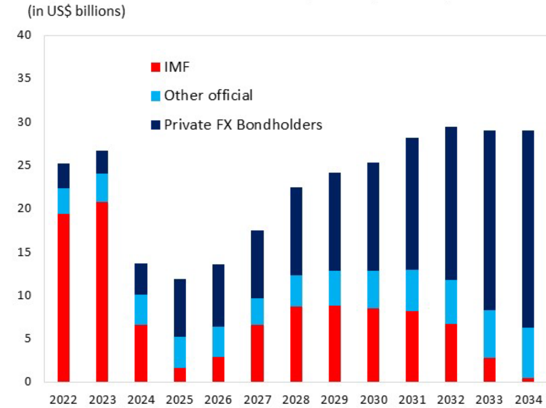
EXCEPTIONAL ACCESS

55. Staff assesses that currently Argentina meets three out the four criteria for exceptional access, contingent on strong program implementation[24]. This assessment has been made in the context of unprecedented uncertainties and risks and involved very difficult judgments. Given the exceptionally high risks around staff's baseline, a similar degree of uncertainty surround staff's assessment of the EA criteria.

- ***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.*
  - **Staff judges this criterion as met.** Argentina is experiencing exceptional balance of payments pressures on the financial account, in the context of low and declining net international reserves, despite trade surpluses and tight capital controls. Meeting the very large debt service external obligations during 2022–24, will require the financial support from the Fund, beyond its normal access limits, as well as the broader support of the international community.

- ***Criterion 2.*** *A rigorous and systematic analysis indicates that there is a high probability that the member's debt is sustainable in the medium-term; where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*
  - **Staff judges this criterion as met.** Under the program's baseline and policy framework, staff assesses Argentina's public debt to be sustainable but not with high probability (see **Annex II**). Consistent with the Fund's EA framework, staff assesses that adequate safeguards are in place to meet EA2. Specifically, in the event that adverse shocks materialize, staff assesses that there would be sufficient restructurable FX debt to the private sector potentially available after the program to improve debt sustainability and enhance safeguards for Fund resources.[25] However, this assessment is subject to exceptionally high risks and hinges critically on the steadfast

Projected Gross External Debt Service by Creditor, 2022-34 1/
(in US$ billions)



Source: Fund staff calculations and projections.
1/ Federal government. For IMF assumes a requested 30-month EFF.

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[24] A final staff assessment of EA4 will be provided in the form of a Staff Supplement prior to the Executive Board meeting and after Congressional consideration of the Program in line with domestic requirements.

[25] The volume of FX-denominated private sector claims falling due during the program period is small (US$4 billion), compared to Fund repurchases (US$40 billion).

implementation of the proposed fiscal consolidation path and the broader set of policies to strengthen growth, exports, FDI, and reserve coverage over the medium term. Importantly, since the projected debt and debt service metrics under the proposed baseline are now above the indicative targets set out in the March 2020 Staff Technical Note on Public Debt Sustainability (at the time, consistent with an assessment of sustainable debt with high probability), margins to maneuver are extremely limited.

- **CRITERION 3.** *Staff judges that the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.*
  - **Staff judges this criterion as met.** Subject to strong program implementation and the envisaged restoration of confidence, Argentina has prospects of regaining access to private capital markets in 2025 by the time obligations to the Fund fall due (beginning in late 2026) on a scale that would enable repayment to the Fund. The program's policy package and financing plan, which assumes some support from other official creditors, would allow an improvement in reserve coverage, underpinned by sustained trade surpluses, increased FDI, and limited financial outflows. This, in turn, would pave the way for a gradual lifting of capital controls and re-access to private capital markets over the medium term. This assessment, however, will be subject to a high degree of uncertainty as shocks and policy slippages could compromise reserve accumulation and the timely re-access to international capital markets to meet prospective Fund obligations.

- **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.*
  - **Staff judges this criterion as not yet met, pending ongoing discussions and Congressional consideration of the EFF**. Following staff-level agreement, the authorities submitted to the Argentine Congress the Fund-supported program for approval. Discussions are ongoing, although broad support for the program is expected. In addition, some 25 stakeholders from civil society, trade unions, and the private sector have issued public statements in support for the program. Given Argentina's long and complicated history with the Fund, there is a wide range of views on engagement with the Fund, including, importantly, within the ruling coalition. Political support for the program may therefore be fragile and could potentially weaken ahead of the October 2023 Presidential elections or earlier if confidence is not quickly rebuilt or shocks derail implementation and achievement of broader macroeconomic goals. Technical assistance from the Fund and development partners will be critical to support capacity building and implementation in key areas, including energy, revenue administration and public financial management. *A final assessment of EA4 will be made by staff in a Staff Supplement ahead of the Executive Board meeting.*

STAFF APPRAISAL

56. Against the backdrop of a decade of falling living standards, Argentina was battered by the effects of the 2019 balance of payments crisis and the COVID-19 pandemic. Argentina entered the pandemic facing a three-year economic recession, an unsustainable debt burden, high and unanchored inflation, low external reserves, and an already fragile social situation. The pandemic and its management exacerbated Argentina's vulnerabilities.

57. While a nascent recovery is underway, and the authorities are taking steps to address underlying imbalances, the situation remains extremely fragile. The economy expanded strongly during 2021, more than recovering the ground lost during the pandemic, supported by favorable terms of trade and a notable pick up in private investment and exports. The fiscal deficit and monetary financing of the budget narrowed sharply last year, with continued efforts to tap the domestic peso market. The central bank raised effective policy rates by 650 basis points in recent months and adopted a new monetary policy framework that ensures positive real policy rates and improved monetary policy transmission. That said, the economic and social situation remains fragile, with poverty rates still above 40 percent and high levels of labor informality. Macroeconomic imbalances remain large--inflation stands above 50 percent, the exchange rate gaps hover near 85 percent, and net international reserves are at precarious levels. Argentine bond prices continue to trade at distressed levels as markets await policy implementation.

58. In this difficult context, Staff supports the authorities' request for a 30-month extended arrangement under the EFF (with access to SDR 31.914 billion) to support Argentina in its efforts to strengthen stability and address its large balance of payments needs, *subject to the assessment that the program is fully financed and that EA4 is met.* The program contemplates a carefully calibrated set of economic policies, involving fiscal consolidation, reduced reliance on monetary financing, a new monetary policy framework ensuring positive real positive rates, and prudent FX management to engender a reduction in inflation, secure a competitive real exchange rate, and improve reserve coverage. The increase in reserves is critical to strengthen Argentina's external position, which is deemed weaker than warranted by fundamentals and desired policies (see Annex IV). The program envisages measures to secure the proposed fiscal consolidation, especially in the areas of tax compliance, energy subsidies and public financial management, as well as actions that start to tackle Argentina's deep-seated vulnerabilities, including through measures to strengthen the domestic debt market, and improve the efficiency and sustainability of key sectors. Strong and sustained policy implementation will be critical to ensure the program's success and the rebuilding of confidence, which is expected to take time. Financing from official creditors will help to support the overall program objectives.

59. Staff recognizes that program risks are extremely elevated, and that prompt program recalibration will be necessary, if risks materialize. Downside risks arise from an intensification of the pandemic, tighter external financial conditions, and other adverse shocks, including those related to climate change. Rising geopolitical tensions—related to the war in Ukraine—will likely have serious implications for the Argentine economy and program design, given their impact on energy subsidies and inflation. In addition, policy slippages cannot be ruled out, especially given the country's complex social and political situation and open hostility from some quarters towards the Fund from its long engagement in Argentina, including more recently under the 2018 SBA. In this context, understandings on contingency plans will help boost readiness to recalibrate policies but cannot fully mitigate elevated program risks. As such, finely balanced judgements will be needed when assessing difficult tradeoffs that are likely to arise during the life of program, and success cannot be guaranteed.

60. Beyond the program, further efforts will be required to cement stability and address Argentina's long-standing structural challenges. Securing debt sustainability and the resumption of market access will require sustaining fiscal consolidation efforts through policies that improve the structure of the budget, making it less susceptible to shocks, more growth friendly and intergenerationally equal, including by strengthening the sustainability of the pension system. Durably bringing down inflation will take time given Argentina's long history of fiscal dominance. As such, continuous improvements in the monetary and foreign exchange regime must be coupled by reforms to strengthen the central bank's balance sheet and governance framework. Sustaining growth will require tackling barriers to productivity, investment, and formal employment. Special emphasis needs to be given to policies that boost net exports and foreign direct investments, through more predictable regulatory frameworks, as well as a pathway on a conditions-based easing of capital controls. Building broad political and social support for these reforms will remain essential.

61. It is recommended that the next Article IV consultation with Argentina be held on the 24-month cycle, in accordance with Decision No. 14747–(1096) on consultation cycles.

Box 1. Argentina: Ex-Post Evaluation of the 2018 Stand-by Arrangement

Argentina has a long history of engagement with the Fund, with 21 financial arrangements since 1956.

The 2018 Stand-by Arrangement amounted to SDR41 billion (equivalent to US$57 billion, or 1,227 percent of quota) and represented, in absolute terms, the largest ever disbursing arrangement with an IMF member. The arrangement was approved in June 2018 and was subsequently augmented in October of that year. Only four out of the twelve reviews were completed with SDR32 billion being disbursed. The program was canceled by the current authorities in July 2020.

The Ex-Post Evaluation (EPE) of the 2018 Stand-By Arrangement reviewed program design and performance, and consistency with Fund policies. The EPE, which was discussed by the Executive Board in December 2021, concluded that while all relevant Fund policies and procedures had been adhered to, the program had not achieved its objectives, despite significant modifications.

Key lessons included the need to:

- build the program using *conservative yet plausible macroeconomic assumptions* to provide a more robust baseline.
- *tailor the program to country-specific circumstances*, including by considering the fiscal-growth linkages and the high degree of dollarization and exchange rate-inflation passthrough.
- *sharpen the application of the exceptional access framework*, while being clear about key assumptions and risks
- engage in *contingency planning* to better prepare for inevitable changes in external and internal conditions.
- *avoid accepting policy redlines* (on debt restructuring and capital controls in the case of the 2018 SBA) that limit the robustness of the program and limit policy adjustment options. *Understand ownership from a broader societal perspective*.
- secure appropriate *burden sharing* from other official creditors.
- ensure *effective communication strategy* at all stages of the program design and implementation process to build public understandings on program policies and objectives.

Box 2. Argentina: Summary of Federal Fiscal Policies, End-2019 to End-2021

This box summarizes key fiscal measures adopted by the Fernández Administration through end-2021 to deal with the inherited economic crisis and the impact of the pandemic.

In December 2019, a package of measures was adopted to boost revenues and support incomes, especially of the poor. The "Social Solidarity" legislation raised revenues by 1¼ percent of GDP through: (i) *higher commodity export taxes* (set at 12 percent for most agriculture goods, except soy at 33 percent); (ii) *a new tax on FX purchases* of 30 percent; and (iii) *higher personal wealth taxes*, with rates raised to pre-2016 levels. Higher revenues were intended to finance *a new food stamp program (Tarjeta Alimentaria)* initially targeting 1.5 million recipients of the Universal Child Allowance (AUH) and *lump-sum bonuses* to low-income pensioners and beneficiaries of social programs.

As the COVID-19 pandemic unfolded, a support package worth almost 4 percent of GDP was adopted in 2020, with more targeted support continuing in 2021. Support was channeled via: (i) *extraordinary allowances/bonuses* under existing flagship programs; (ii) a new *emergency family income (IFE)* targeted at informal workers; and (iii) a new *Program for Work and Production* (ATP) to help firms pay workers' salaries, coupled with regulations prohibiting layoffs through end-2021. Many of the emergency COVID schemes (IFE, ATP) were unwound by early 2021, but targeted support continued via transfers to firms to support employment in hard-hit sectors (*REPRO II*), alongside additional bonuses through pensions and flagship programs to compensate for high inflation.

In 2021, additional efforts were made to temporarily boost revenues, further increase the progressivity of taxes, and address social and infrastructure gaps.

- On the **revenue side**, a one-off time solidarity levy (applied to individuals with net worth over US$2.4 million) was adopted in early 2021, yielding 0.5 percent of GDP and earmarked for spending on select health, education, and social projects, as well as energy production. In addition: (i) the flat corporate income tax (CIT) rate of 30 percent was replaced with a graduated scheme, with rates varying between 25 and 35 percent depending on profitability; (ii) the non-taxable floor on the personal income tax (PIT) was doubled; and (iii) a new threshold and rate was introduced in the small taxpayer (*Monotributo*) regime applying to those with high gross income. These measures are estimated to yield 0.1 percent of GDP.
- On the **spending side**, efforts were made to maintain social protection while expanding priority infrastructure spending (up 0.3 percent of GDP). Currently. AUH benefits 4.4 million children (up from 4.0 million in 2019) and the new food stamp program covers 2.4 million poor families. Discretionary pension adjustments during 2020 were replaced by a new pension indexation formula designed to improve the pensioners' purchasing power over the medium term.

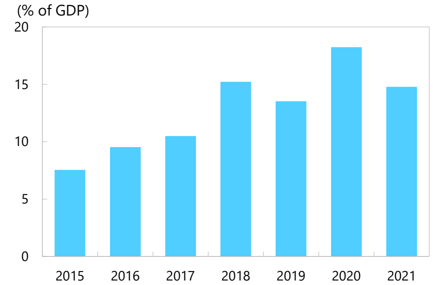
While these extraordinary measures were needed to address the economic emergency and COVID-19 pandemic, a balanced fiscal consolidation will be required going forward, mindful of Argentina's difficult social situation. Primary expenditures (excluding those related to the pandemic) are up almost 2 percent GDP since 2019, while revenues are generally unchanged as a share of GDP, with greater reliance on export and FX taxes. Consolidation efforts will require policies to improve the efficiency and progressivity of taxes, while improving the targeting of overall spending towards the more growth-friendly components.

Box 3. Argentina: Efforts to Strengthen the Domestic Sovereign Bond Market

This box discusses measures taken since December 2019 to strengthen the domestic government bond market.

Argentina's domestic sovereign debt market has been impaired by a long history of economic crises. Past domestic borrowing has been predominantly in USD, and the most recent attempt to develop the peso-denominated domestic market was short lived, as investors unwound their debt holdings in 2019 on concerns over rising inflation, devaluation, and debt sustainability. As a result, domestic debt repayments were forcibly rolled over in late 2019. In addition, central bank issuance of similar instruments, resulting from the need to sterilize monetary financing of the budget amid lower money demand, have saturated the market and bifurcated the investor base, further hindering the development of the government peso debt market.

Argentina: Marketable Peso Debt, 2015-2021/1
(% of GDP)

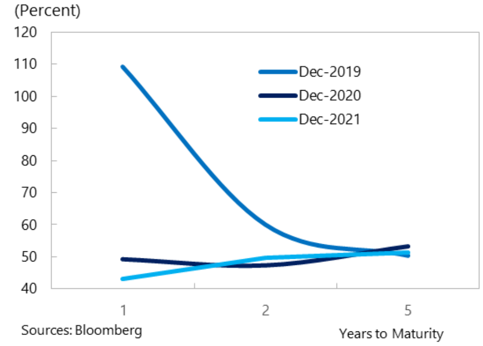


Sources: Authorities and Fund Staff calculations.
1/ Includes USD linked securities payable in pesos.

Since end-2019, domestic peso debt operations have gradually resumed, supported by FX controls and a strategy to ensure that the debt restructuring perimeter excluded peso-denominated debt. Some normalization of the domestic sovereign debt market was achieved through a combination of liability management operations (LMOs) and regular peso issuance:

- *FX-denominated domestic debt was reduced through LMOs,* with US$7.8bn of USD-denominated/linked debt swapped into peso debt, and US$8.2bn of short-term FX debt exchanged for longer-term FX debt. These operations helped to reduce short-term FX debt obligations from US$9.8bn in early-2020 to only US$30 million by end-2020.
- *The peso yield curve was generally stabilized* through regular debt management operations (issuance and LMOs) of peso-denominated securities. That said, policy uncertainties led to some steepening of the yield curve towards end-2021.

Argentina: Domestic Yields, 2019-2021
(Percent)



Sources: Bloomberg

Net domestic financing sourced from the private sector rose further in 2021. Market borrowing has been primarily in peso, with USD-linked bonds only being used in periods of high market volatility (cash proceeds from peso securities reached 9.3 percent of GDP, of which USD-linked bonds contributed only 0.7 percent of GDP). With rising inflation, reliance on inflation-linked bonds deepened, with some maturity extension enabled through higher real interest rates—the average time to maturity of inflation-linked bonds stands at 2.1 years compared to 1.5 years for other bonds. Maturity extensions, however, became more challenging in late 2021 (the average tenor fell by 3 months in Q4-2021), reflecting policy and political uncertainties.

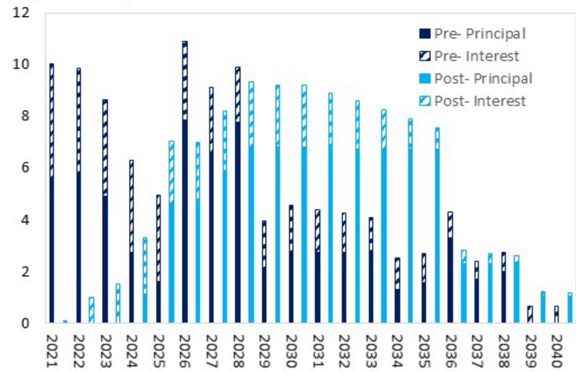
Net market financing has been facilitated by a strengthening of debt management practices. With the yield curve stabilized, minimum pricing at auctions has been removed, except for new instruments, whose pricing is set close to secondary market rates. Auction calendars are announced six months ahead and held on certain weeks of the month. A market makers program (MMP) has been established to facilitate activity of both primary and secondary markets. Key market information, including debt bulletins are being published, and an investor presentation is forthcoming. Regular consultation meetings with investors have commenced.

Box 4. Argentina: FX Debt Restructuring Operation During 2020–21

This box documents Argentina's efforts during 2020-21 to reschedule its FX debt obligations to private bondholders. Despite high participation and significant near to medium-term cash flow relief, Argentine asset prices have remained depressed against a backdrop of policy uncertainty.

Sovereign debt restructuring. The September 2020 restructuring of US$82 billion in FX-denominated debt held by the private sector (US$65.5 billion of which corresponded to the foreign-law debt exchange) provided cashflow relief of roughly US$36 billion over 2020-30, mainly through maturity extensions and lower interest rates. The recovery value of the exchange was estimated at around 52 percent, assuming an exit yield of 10 percent. The exchange achieved a very high level of participation (99 percent), including through the use of a series of legal techniques--two-limb CACs, redesignation (i.e., removing non-consenting bond series from the aggregated voting pool), the threat of "pac man" (i.e., bondholders not consenting to the deal would be crammed down in subsequent deals), and giving non-consenting holders bound by CACs the least favorable financial terms.

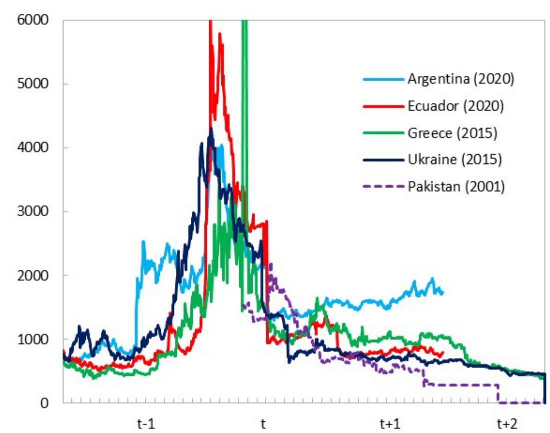
FX Debt Service: Pre vs. Post Restructuring, 2021-40 1/
(US$ billions)



Source: Staff estimates.
1/ Includes domestic law FX debt; excludes accrued interest payments.

Provincial debt restructuring. By end-2021, twelve Argentine provinces had restructured their foreign-law debts worth in total US$13 billion, more than half of which (US$7 billion) belonged to the Province of Buenos Aires (PBA). The associated cash flow relief is estimated at US$6.5 billion over 2020-27, with an average recovery value across the different operations of around 75 percent (at an exit yield of 10 percent). Provincial debt exchanges generally used CACs to achieve high participation, with PBA also using additional legal techniques similar to those used by the sovereign.

Selected Economies: EMBIG spreads (pre/post restructuring)
(t = year of the restructuring)



Source: JPM EMBI and Fund staff calculations.

Despite gaining significant cash flow relief, Argentina's bond prices have remained at distressed levels, as markets await policy implementation. Sovereign spreads have remained well above those of other sovereign restructurings, including Ecuador which also restructured its debt in 2020 in the context of a Fund program. Steadfast implementation of policies that support fiscal consolidation and reserve accumulation would help to rebuild confidence and support a gradual decline in sovereign spreads.

Box 5. Argentina: Economic Spillovers from the War in Ukraine

Spillovers to Argentina from the war in Ukraine largely stem from volatility in global commodity prices and lower global growth and trade. While higher global energy prices will drive up energy imports and the subsidy bill, higher agricultural commodity prices (soy, wheat, and corn) will likely partially buffer the negative effects on external and fiscal balances. However, the impact on inflation is expected to be substantial given high passthroughs. Financial spillovers will be limited given Argentina's lack of international market access.

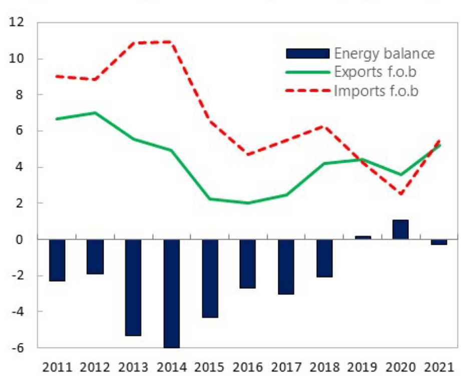
While its too early to quantify the spillovers, a preliminary assessment of the impact follows:

Growth. Spillovers from lower trading partner growth will likely be limited given Argentina's weak trade links to Russia and Eastern Europe, as well as its commodity dependent and relatively closed economy.

External. The impact on the trade balance is expected to be limited, given offsetting effects.

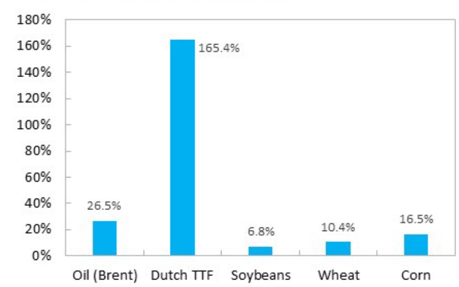
- *Oil and gas prices*. Argentina is currently a small net oil importer, that both exports fuel and imports gas, mainly for electricity generation. The relatively larger increase in Dutch TTF prices (up over 160 percent since mid-February compared to over 25 percent for oil) will likely lead to a higher energy trade deficit, with the impact being larger should the drought that is affecting hydroelectric production become prolonged. Investments in energy production and transportation (in the untapped shale oil and gas reserves of *Vaca Muerta*) have the potential of turning Argentina into a net energy exporter over the near to medium term.
- *Agricultural prices*. Around half of Argentina's goods exports consist of grains, for which prices are projected to remain high (up an average of around 10 percent since mid-February). Higher grain prices will help to partially offset the impact of higher energy prices, although overall effects will also depend on the evolution and composition of grain exports, which, in turn, also depends on climate developments.

Argentina: Energy trade balance, 2011-21 (US$ billions)



Sources: National authorities.

Selected Global Commodity Prices
(% change; Feb .15 to Mar. 4, 2022)



Sources: Haver Analytics and IMF staff calculations. Note: Oil refers to Brent Crude Oil prices, Dutch TTF to Powernext TTF end-of-day spot price, Soybeans to Yellow Soybean Central IL prices, Wheat to Wheat Spring Minneapolis prices and Corn to Yellow Corn Central IL prices.

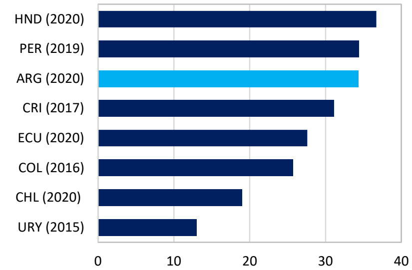
Fiscal. Higher global LNG prices will result in a hihger subsidy bill, with the impact depending on the severity and persistence of the shock (LNG prices stand around US$50-60 MMBTU compared to the US$17 MMBTU assumed in the baseline). That said, an increase in customs duties from higher agricultural exports could partially mitigate the impact of a higher subsidy bill on the fiscal deficit, with the largest impact coming from soy (taxed at 33 percent) followed by wheat and corn (taxed at 12 percent).

Inflation and social. Higher commodity prices will likely add to already strong underlying inflation pressures, given that food and energy represent over 30 percent of the average consumption basket. Unanchored inflation expectations, suggest pass-through from global commodity prices to domestic prices will be high, and likely above that of Latin American peers (staff estimates that a 10 percent increase in global energy and food prices is associated with a 1 percent increase in inflation over 12 months). Absent increased targeted assistance, the impact of this shock on the poor will be especially large, given the high share of food in their overall consumption basket.

Box 6. Argentina: Options for Strengthening Revenue Administration

Argentina has weak tax compliance by international standards. Tax effort, measured as the ratio of actual versus potential tax revenues, stood near 75 percent in 2019, well below levels in other EMs and Latin America peers. Noncompliance is especially problematic for VAT, where actual collections are only two-thirds of potential, with foregone revenues estimated at 3½ percent of GDP. Weak compliance reflects several factors, including the lack of a comprehensive revenue administration risk management strategy, a highly complex tax system, a long history of moratoriums, and perceptions of spending inefficiencies. Compliance in customs is also reportedly weak, although data to conduct a proper gap assessment are scant.

Selected Latin American Economies: VAT Noncompliance Rate (percent)



Source: IMF estimates.

Implementation of a comprehensive revenue administration plan could help to strengthen compliance and support fiscal consolidation. The tax administration agency (AFIP) has finalized a new strategy for 2021-2025, prioritizing areas with the biggest revenue potential. To support implementation of this plan, AFIP is developing, with IMF technical assistance, a timebound action plan with quantitative compliance targets that can be measured and monitored. **The priority areas include**:

- ***Adopting a Compliance Risk Management (CRM) Framework,*** aimed at strengthening all relevant areas of risk management, through the development of specific compliance improvement plans for each control action included in the new strategic plan.
- ***Improving compliance in key taxes,*** through a detailed and time-bound action plan focused on identifying compliance gaps and improving compliance risk management of key domestic taxes and customs duties.
- ***Strengthening large taxpayer administration,*** by increasing the coverage of the large taxpayer unit, improving the database quality, and strengthening the risk assessment process by focusing on large and complex firms (e.g., sectors with transfer pricing abuses).
- ***Managing international tax risks*** by improving the coverage, quality and use of tax information exchanged with other countries to facilitate compliance, especially that related to the underreporting of overseas assets by internationally mobile and high-net worth residents. This will require revamping the risk management models and audits (using internal tax data) and taking risk-based actions in export-oriented sectors.
- ***Limiting abuse of the Monotributo (small autonomous worker) regime*** by (i) using third-party information and exercising periodic sector-specific controls based on risk criteria; (ii) creating a separate dedicated unit; and (iii) stronger controls on small taxpayers, particularly of the VAT.
- ***Strengthening property tax collections****:* Despite high personal wealth tax rates, overall yields remain modest. As such, efforts are needed to update real estate valuations and improve collection incentives with local governments.
- ***Improving customs administration:*** A separate noncompliance diagnostic is needed to design a customs administration plan, that includes a similar CRM strategy with quantitative targets to permit the development of an integrated risk management strategy, with positive compliance spillovers in all the above-mentioned areas.

Box 7. Argentina: Key Features of the Tax System

Argentina's tax burden is among the highest relative to regional and EM peers, with heavy reliance on indirect taxes.

- *Evolution:* The revenue to GDP ratio rose by over 7 percent of GDP to 35 percent during 2005-15, supported by a broad-based increase, with the provincial turnover tax and social security contributions (following the renationalization of the pension system in 2009) playing a key role. Between 2016-19, cuts to personal income tax and export taxes led to some declines in the revenue ratio, although it has bounced back more recently, reflecting higher export and FX transaction taxes, as well as a one-off wealth tax.
- *Composition*: Roughly three-quarters of all taxes are collected at the federal level, with the composition heavily tilted towards indirect taxes: 60 percent is in the form of taxes on goods and services, turnover, trade), while income/property taxes and social security contributions each representing the remaining 20 percent.

General Government Tax Indicators

	Argentina (2020)	Latin America (2019)	OECD (2019)
Tax Revenue (% of GDP)	**23.6**	**16.6**	**25.3**
Income Taxes	5.4	5.6	11.9
PIT	2.3	1.7	8.3
CIT	3.0	3.0	3.1
VAT	6.8	6.0	6.6
Other Taxes on Goods and Services	1.5	2.1	1.8
Property/wealth taxes	1.4	0.3	1.0
Other Taxes	*8.5*	*2.7*	*1.6*
o/w Turnover taxes	3.8	0.3	0.0
o/w Financial Transanction taxes	2.0	0.0	0.0
o/w Export Taxes	1.4	0.0	0.0
Social Security Contributions	**7.4**	**4.3**	**9.1**
Taxes and Social Contributions	**31.0**	**21.0**	**34.4**
VAT Standard Rate (%)	21.0	15.5	19.1
VAT Non-compliance (% of potencial)	33.6	31.2	4.9
PIT minimum Rate (%)	5.0	7.0	9.2
PIT Top Marginal Rate (%)	35.0	36.0	37.4
CIT Standard Rate (%)	30.0	27.5	22.6
CIT plus Dividends (%)	34.9	31.9	N/A

Source: Argentinian authorities (DNIAF); WEO; OECD; IBFD; and Tax Laws.

The tax system suffers from a number of structural weaknesses:

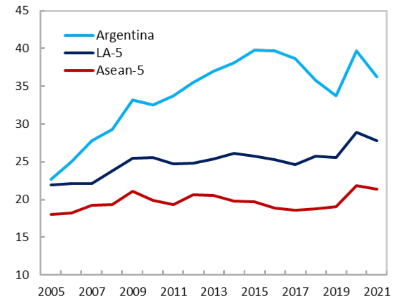
- *Complexity and volatility*. Each of the three levels of government (federal, provincial, municipal) are entitled to establish, regulate, and enforce taxes. The system features over 165 different taxes many of which are characterized by a great dispersion of rates and by special earmarking regimes. Tax policy changes are frequent, adding to compliance costs.
- *Low direct tax collection*. Revenues from taxes on labor income, immovable property are low compared to peers. PIT collection underperforms, reflecting a high minimum income threshold (only the top 12 percent of formal workers' pay the PIT) and high informality. Taxes on immovable property are lower than regional and OECD averages, reflecting in part outdated valuations.
- *Dependency on distortionary taxes*. Reliance on less efficient forms of taxation is high. These include (i) the financial transactions tax (which distorts the payment systems by generating incentives to settle payments in cash), (ii) the provincial turnover tax levied on gross sales (where the tax paid by the final consumer does not depend only on the value--added or final--of the good/service, but instead on the number of transactions during the production process); and (iii) export duties (which affect competitiveness), although recent efforts have been made to reduce duties on value-added exports.
- *Disincentives to formality and firm growth*. A high tax wedge between formal sector employees, informal workers, and the generous simplified tax regime for autonomous workers (*monotributo*) creates disincentives to formal employment and firm size growth. Social security contributions for dependent work (excluding the contributions to unions and work injury insurance) stand near 50 percent, which together with the current PIT scheme, impose a high tax burden on labor income (i.e., tax wedge).

Reforms should seek to improve efficiency and progressivity of the system. Priorities include simplifying the tax code, improving tax policy coordination with subnational governments, expanding the tax base (including for personal income and property), easing certain distortionary taxes as fiscal space considerations allow. These should be accompanied by measures to strengthen tax compliance.

Box 8. Argentina: Public Expenditure Trends and Structure

Argentina's general government primary expenditures are among the highest in the region and other emerging markets (EMs). Primary spending doubled between 2005 and 2015, with three quarters of the expansion taking place at the federal level, driven largely by a rise in pensions and subsidies. Provincial expenditures also rose by over 5 percent of GDP, reflecting mainly an expansion of public employment. Primary spending fell by almost 6 percent of GDP during 2016-19, mainly on account of lower subsidies (alongside the introduction of a social tariff), wages (at the federal and provincial levels), and public investment (which fell to historically low levels). Primary spending has risen since end-2019, driven by increases in COVID spending, energy subsidies and capital/social expenditures.

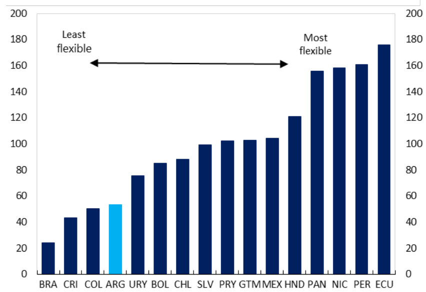
General Government Primary Expenditure, 2005-21
(% of GDP)



Sources: WEO Database

Expenditures are highly rigid and highly skewed towards entitlements. Argentina has one of the least flexible budgets in the LA region, arising mainly from large entitlement spending and a high share of earmarked revenues, which are mainly linked to the constitutional revenue-sharing agreements with the provinces (roughly half of domestic tax revenues are automatically distributed to provinces). Moreover, the high degree of indexation of spending to past inflation complicates the disinflation process.

Selected Economies: Expenditure Flexibility Index
(100 = LatAm average)



Source: OECD (2020). https://doi.org/10.1787/9ce6567a-en

- **Pensions.** Pension outlays account for 40 percent of all federal primary spending and 12 percent of provincial spending. At 10 percent of GDP in 2021, pension spending is well above the OECD average and more than double the average of other LA and EM peers. High spending results both from its extensive coverage and generous benefit levels. The ratio of pensioners to the over-65 population is 140 percent, compared to 109 percent for the OECD average, due to relatively early retirement ages as well as pension amnesties that incorporated individuals with insufficient contributions into the contributory system (now 30 percent of pension spending). Replacement rates exceed 90 percent of the average wage (compared to an OECD average over 58 percent), with generous special regimes, including at the provincial level.
- **Wages.** The wage bill (10 percent of GDP) is the second largest component of general government expenditure and stands well above the LA average (8.6 percent of GDP). About 70 percent of the wage bill is undertaken by provinces, where the share of public employment in overall employment is high in many cases.
- **Subsidies.** Energy subsidies in Argentina (at 2.3 percent of GDP) are currently among the highest in LA while energy tariffs are among the lowest. Cost recovery ratios declined sharply since 2019, and now stand at 37 percent for electricity and 44 percent for gas. Energy subsidies are known to be poorly targeted, with the upper income deciles receiving a higher share of subsidies than lower deciles.
- **Capital spending.** Public investment spending has consistently been lower than for peers, averaging 2.6 percent of GDP since the 1990, compared to 5.7 percent in LA and 6.4 percent in other EMs. As a result, indicators of infrastructure quality and efficiency are below those of peers, also reflecting shortcomings in the project selection and execution process.

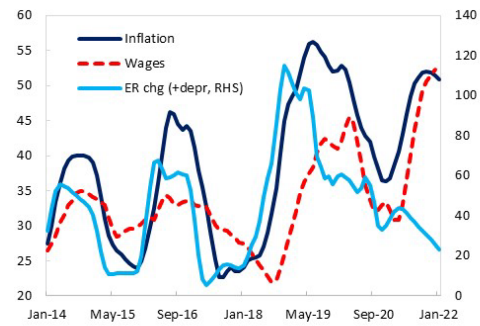
Improving the structure of government spending remains critical. While the program envisages reorienting spending from untargeted current spending to capital spending (and PFM reforms), further efforts will be required over the medium term to reduce budget rigidities, as well as the efficiency and equity of spending. In this regard, it will be critical to improve the sustainability of the pension system and enhance the design of the revenue sharing scheme to strengthen expenditure controls at the subnational level.

Box 9. Argentina: Inflation Dynamics

This box documents inflation dynamics in Argentina, and complications arising from high and unanchored inflation expectations drawing on cross-country evidence.

Inflation in Argentina is closely tied to evolution of the official exchange rate and wages.[1/] The exchange rate serves as a de facto nominal anchor. A depreciation of the peso (at the official rate) leads to inflation via the direct pass-through channel from import prices as well as second-round effects and the impact on inflation expectations. Persistent high inflation also feeds into inflation expectations, reflecting in part a wage setting system with a high level of backward indexation contributing to the inflation inertia. Regulated prices can affect inflation both directly and through second-round effects and have been used as a tool to suppress headline inflation. Central bank financing of the fiscal deficit tends to affect inflation with a lag, even if the liqudity injection is sterilized, as central bank balance sheet concerns weaken money demand.

Argentina: Inflation Drivers
(3-mo-ma, y/y)



Sources: BCRA, INDEC and Fund staff calculations.

In the context of capital controls, the gap between the official and parallel rate mainly affects inflation expectations, including through knock-on effects on the external balance. Exchange rate gaps are proxy of devaluation expectations, and a barometer of macroeconomic imbalances and broader policy uncertainties, as suggested by sharp movements in the gap during 2020-21. While the exchange gap does not affect inflation directly, it can do so indirectly through their effect on the trade balance (export under invoicing, import over invoicing), and financial account (incentives to deleverage and accumulate foreign assets) with implications on international reserves.[2/] As such, reducing the exchange rate gap through prudent macroeconomic policies is critical to support the disinflation process and re-anchor inflation expectations. It is worth noting that unlike earlier periods with high and volatile exchange rate gaps (2012-15), Argentina is currently running a trade surplus and the REER is generally in line with historical levels.

High levels of inflation adds to disinflation challenges. The evidence shows that inflation above 50 percent is unstable *(see Bruno and Easterly, 1995)*.

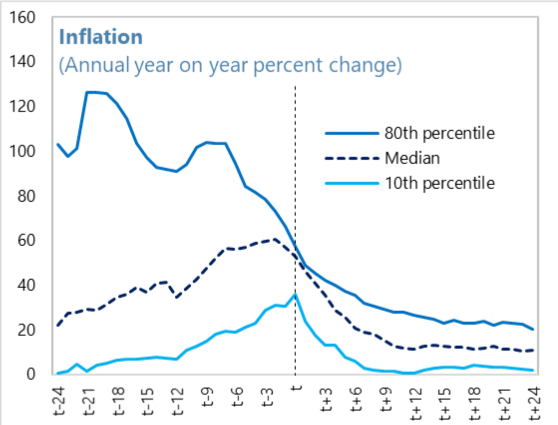
- Fisher, Sahay *et al.* (2002) analyzed 130 episodes of disinflation from high-inflation and found that (text charts) median annual inflation falls from 50-55 percent to 10-15 percent over two years; and that these episodes are accompanied by REER appreciation (15 percent cumulative). Importantly, the fall in inflation tended to be associated with a reduction in money growth, and improvements in the fiscal balance.
- Berg, Jarvis and Stone (2003), studied disinflation in 10 cases, and found that (i) monetary policy alone was not succcessful without credible fiscal anchors, while noting that early and determined monetary tightening (which did not have to be prolonged) contributed to a quicker restoration of nominal stability and at a lower output cost than protracted but more gradual responses; (ii) exchange rate based stabilizations (as opposed to monetary or inflation targetting options) were less costly on output; and (iii) addressing the ex-ante dollar shortages and fiscal contigent liabilities without large liquidity injections were key preconditions for success.

[1/] Results from staff's linear regression model (based on 2012-21 data) show a strong/stable relationship between inflation, the official exchange rate, and wages, that latter also being closely correlated to backward-looking inflation. The model suggests that lagged variations in monetary financing can also play a role, although its significance varies depending on model specification. Meanwhile, the importance of the exchange rate gap is far more limited and insignificant in most specifications.

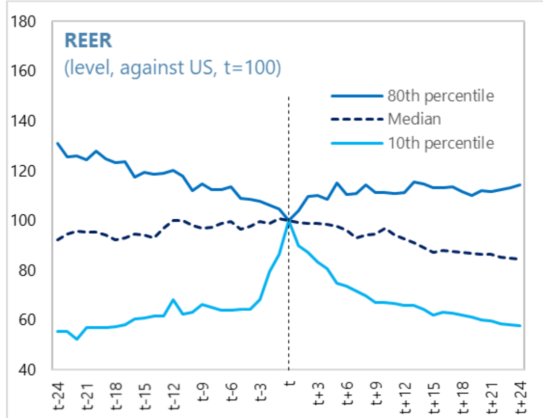
[2/] In certain circumstances, importers risk-averse pricing behavior could play a role.

Box 9. Argentina: Inflation Dynamics (Concluded)

- De Gregorio (2004), who analyzed Chile's successful 1990s disinflation, found that in addition to sound macroeconomic policies, openness reforms boosting productivity and exports reduced the output costs of disinflation. Meanwhile, Israel's disinflation experience during the mid-1980s, where inflation was reduced from over 400 percent to around 20 percent over three years, suggests that incomes polices could help support the effectiveness of tight monetary and fiscal policies (Bahar, 2016).



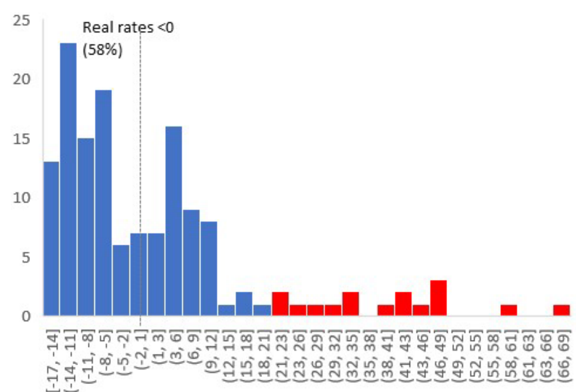
Sample: 63 Emerging Markets and Developing Economies (EMDE)



Sample: 48 Emerging Markets and Developing Economies (EMDE)

Lessons.: The evidence suggests the need for a strong fiscal anchor that credibly reduces reliance on monetary financing, as well as greater efforts to keep policy rates in positive territory and improve the monetary policy transmission channel, bucking historical trends of financial repression during periods of capital controls (see text chart). While implications on quasi-fiscal deficit need to be monitored, the associated output cost would be relatively limited (given the small size of overall banking credit). Efforts to boost exports and productivity are warranted, as past successful disinflation cases included reforms aimed at opening the economy to trade and investment. Meanwhile, incomes policies can, in some cases, support disinflation if accompanied by strong political and social backing and adequate macroeconomic policies.

Argentina: Real Effective Monetary Policy Rates, 2011-21
(Density function)



Sources: BCRA and Fund staff calculations.
1/ Adjusted by contemporaneous inflation. Red represents periods of open capital account.

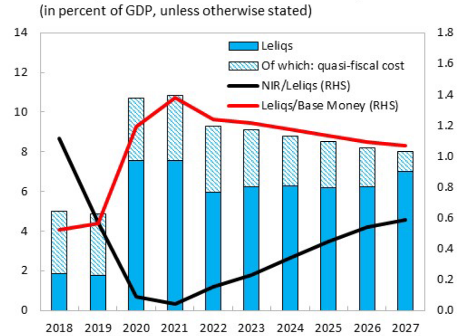
Box 10. Argentina: The BCRA's Balance Sheet

This box documents the recent evolution of the BCRA's financial position, the expected outlook under the baseline, and additional measures to strengthen its governance.

The BCRA's capital position has weakened since 2018, on account of: (i) the downgrade of Argentina's credit rating, which led to a significant markdown of its government securities holdings (US$18 billion) (*letras intransferibles*); (ii) the negative cashflow related to the quasi-fiscal cost of the rising stock of central bank paper (LELIQs) and non-interest-bearing lending to the government; and (iii) the important reserve losses, which were only partially offset by FX valuation gains. In addition, realized and unrealized profits were not retained to improve BCRA's equity, but instead transferred to the Treasury. Using IFRS accounting principles, in particular for the treatment of FX reevaluation gains and the fair valuation of security holdings, staff estimates the BCRA's current equity position to be somewhat negative (5-7 percent of GDP).1/

The BCRA's quasi fiscal deficit is expected to gradually improve under the baseline. The large cost of sterilization—due to a sizable LELIQs stock (remunerated liability) in proportion of base money (unremunerated liability) reflecting the monetary financing of the budget—will converge to seigniorage revenues and valuation gains on reserves by 2025. The projected dynamics of lower quasi fiscal deficits and central bank debt in percent of GDP hinge on key assumptions, including: (i) base money growth in line with nominal GDP; (ii) declining monetary financing with full elimination by 2024; and (iii) no dividend payments to the government starting in 2021.

BCRA: Quasi-Fiscal Deficit and Central Bank Paper
(in percent of GDP, unless otherwise stated)



Source: Fund staff estimates and projections.

Fiscal space will likely limit the pace of at which the BCRA's balance sheet can be strengthened. Alternatives to LELIQ issuance could be considered, and the implementation of monetary operations through government securities to ensure some burden-sharing of quasi-fiscal cost could be required. This strategy, alongside the strengthening of government debt management operations, will provide positive externalities to the government debt market development.

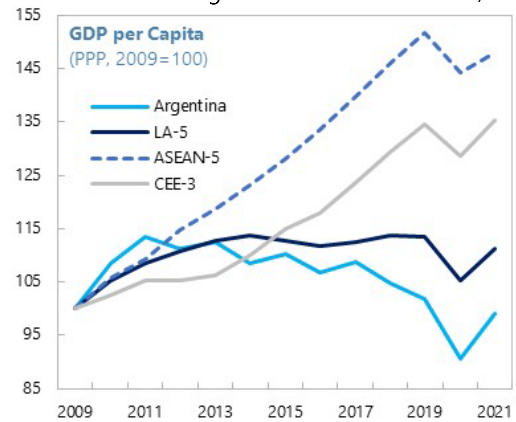
Efforts will also be needed to strengthen the BCRA's governance and accounting framework. The Fund's Safeguards Assessment (to be delivered by the first program review), will be conducted to provide reasonable assurance that the BCRA's legal structure, coupled with its control, accounting, reporting, and auditing systems are adequate.2/

1/ Starting end-December 2019, the BCRA abandoned IFRS accounting and re-valued the *letras intransferibles* at their book value, leading to a US$37 billion boost to its assets. For the purposes of this exercise, we maintain the IFRS valuation to reflect the true economic value of these securities.

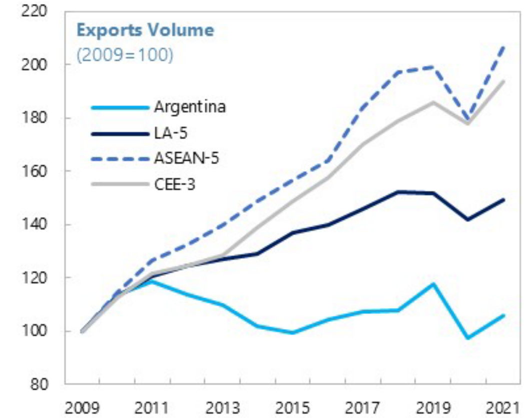
2/ The latest BCRA's safeguards assessment conducted in October 2018 found high-risk to the legal structure of the BCRA and medium-high risk to internal audit and control functions of the central bank.

Figure 1. Argentina: Macroeconomic Trends Over the Past Decade

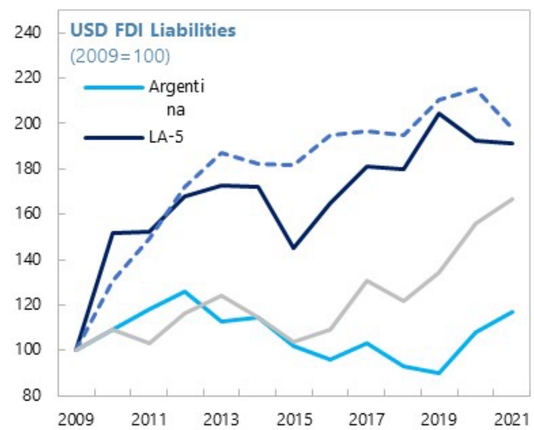
Before the COVID shock, Argentina's income per capita had been on a declining trend over the last decade,...



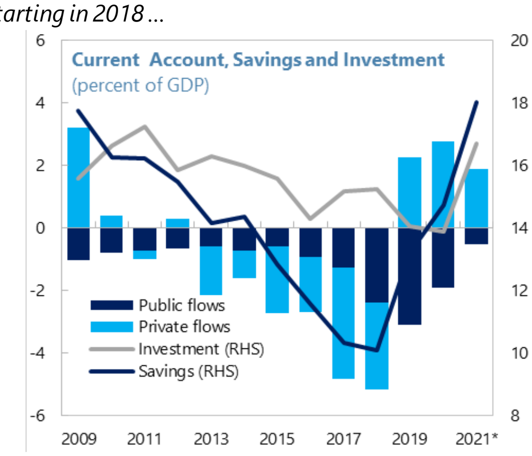
...accompanied by stagnant export growth...



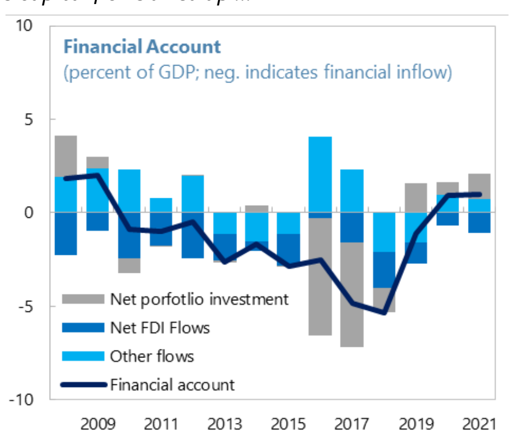
...and weak foreign direct investment.



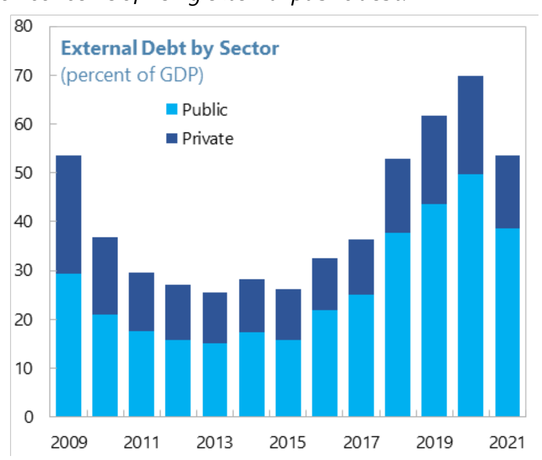
Widening current account deficits were sharply corrected starting in 2018 ...



...as capital flows dried up ...



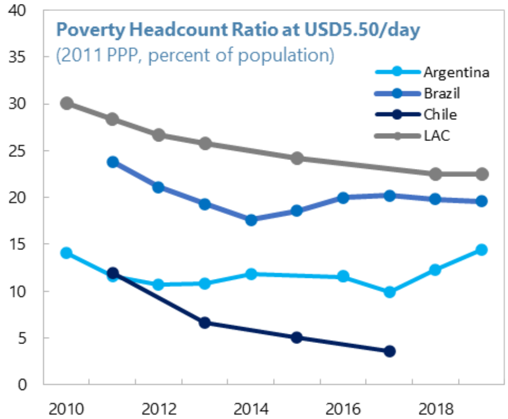
...on concerns of rising external public debt.



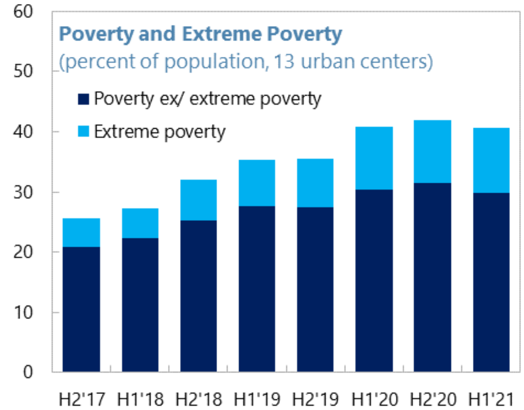
Source: Argentine authorities, IMF WEO database, Haver.

Figure 2. Argentina: Evolution of Social Indicators

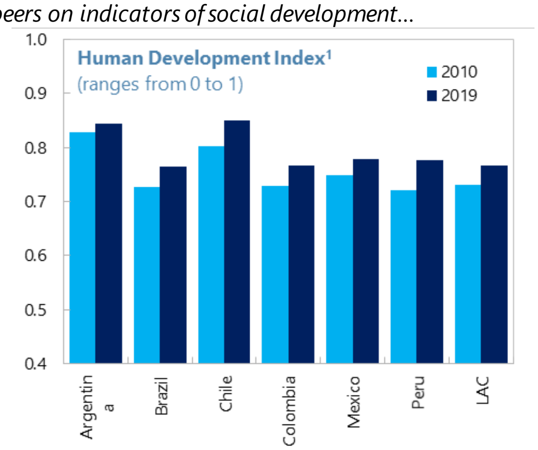
While poverty levels remain below regional peers, they have been on the rise since 2017…



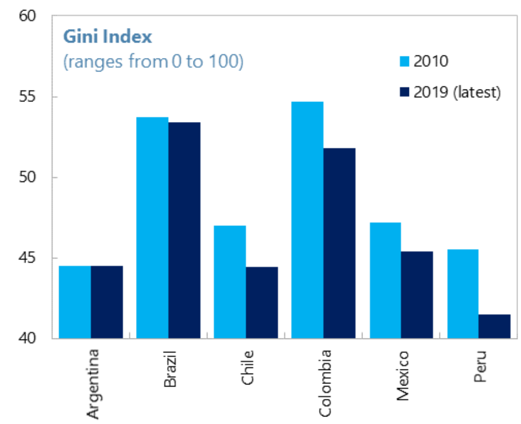
…and sharply increasing in the aftermath of the COVID pandemic, moderating only mildly more recently.



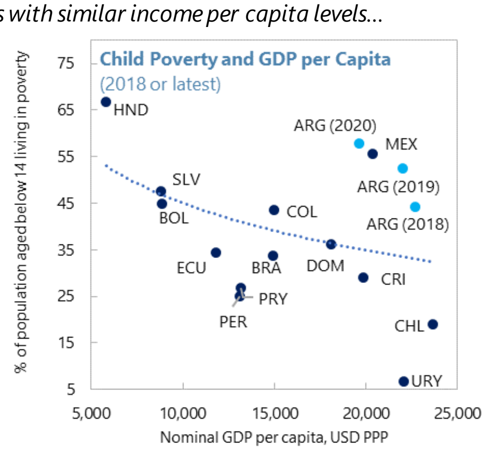
While Argentina continues to perform well relative to peers on indicators of social development…



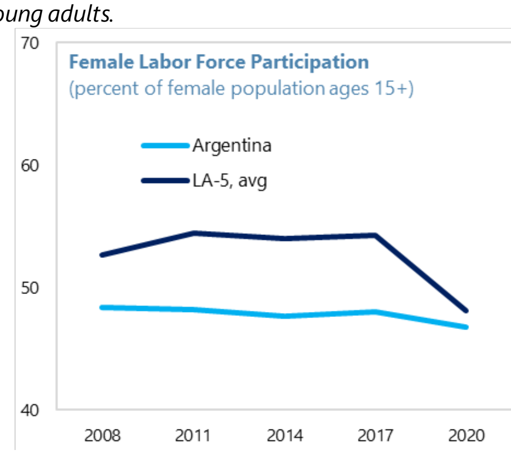
…and has lower levels of income inequality, improvements have stalled and…



…important gaps remain, with child poverty well above EMs with similar income per capita levels…



…and low labor market inclusion among women and young adults.



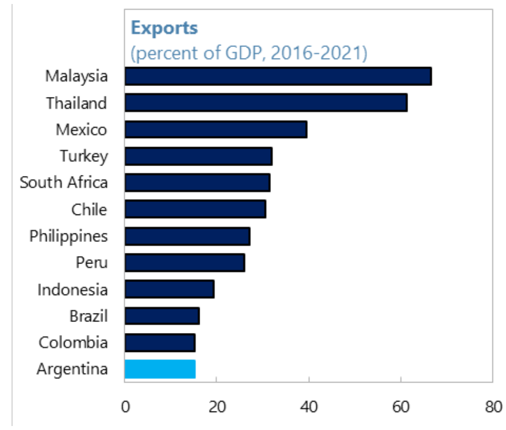
Source: Argentine authorities, World Bank, United Nations, ECLAC, IMF staff calculations.

1/ The HDI is a commonly used indicator for economic development. It offers a relatively rich time series and is constructed in a transparent two-step process. The underlying sources used for computing the indicator includes well-established international data sources which are based on official data. However, as the methodology note acknowledges, there could be potential discrepancies between national and international estimates and the cutoffs used for country groupings into low-, medium-, high- and very high-human development are based on judgement.

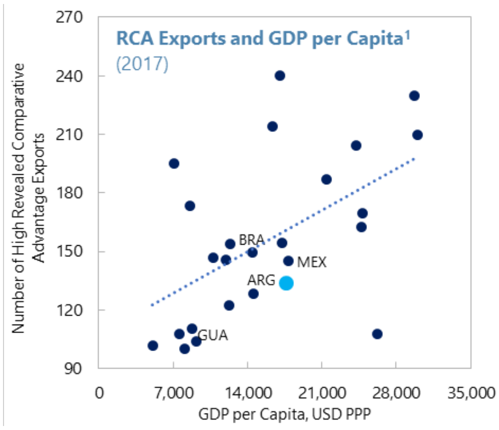
Figure 3. Argentina: Structural Challenges

Argentina needs to boost productivity growth…

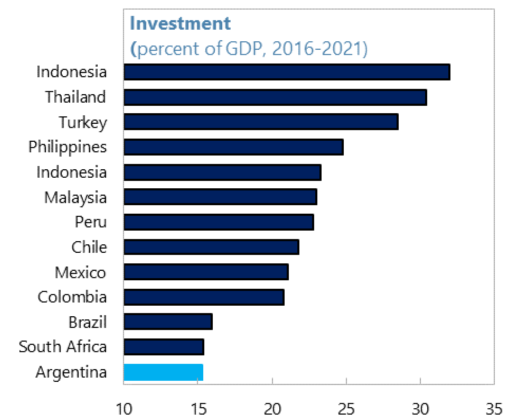
… strengthen FX capacity generation…



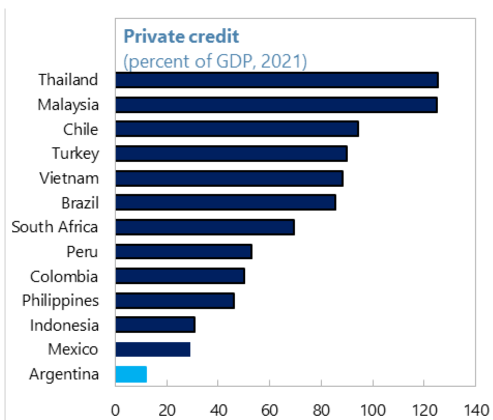
…especially in higher-value products…



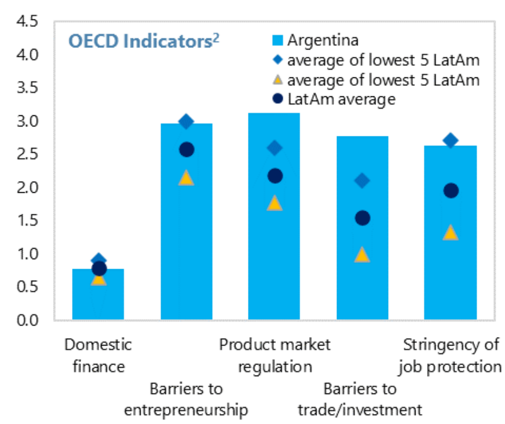
… encourage overall investment…



…and domestic sources of financing…



…including through reforms in key sectors.



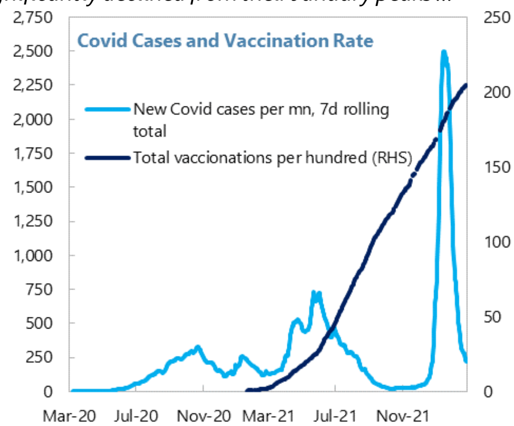
Source: Penn World Tables, Harvard Growth Lab, OECD, World Bank.

1/ The Revealed Comparative Advantage is defined as the ratio of a country's total exports of the commodity of interest in its total exports, and the share of world exports of the same commodity in total world exports. A Revealed comparative advantage if when the RCA greater than one.

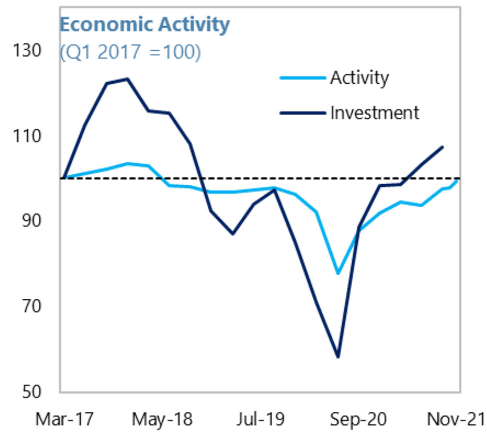
2/ PMR indicators measure a country's regulatory stance in an internationally comparable way. They rely on questionnaires and not direct data. Methodology has change in 2018, hence PMR scores for 2018 are no comparable to earlier vintages. For indicators barriers to strigency data is normalised to a 0-6 scale, higher value reflects a more restrictive regulatory space.

Figure 4. Argentina: Real Economic Developments

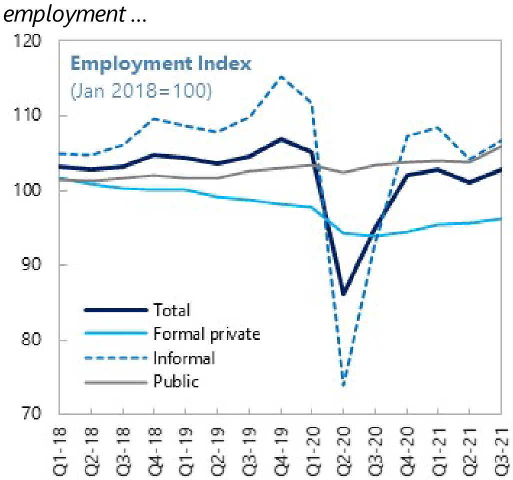
New cases related to the Omicron variant have significantly declined from their January peaks…



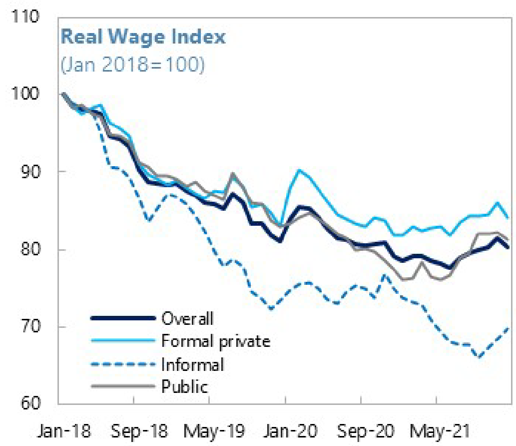
… and activity has rebounded, especially investment…



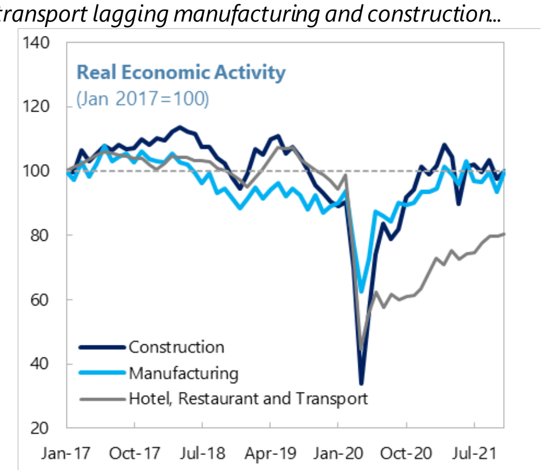
…with consumption lagging, reflecting a weaker recovery in employment…



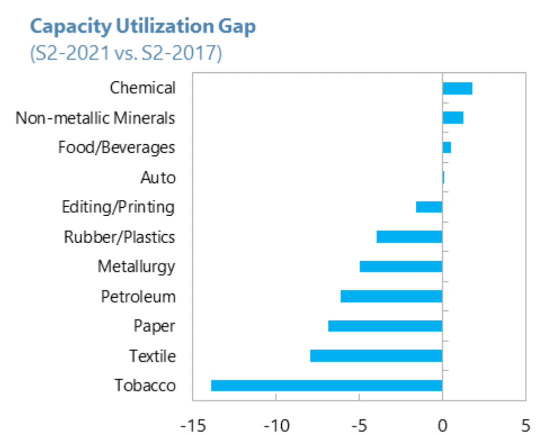
…and declining real wages until very recently.



The recovery remains uneven, with hotel, restaurants and transport lagging manufacturing and construction...



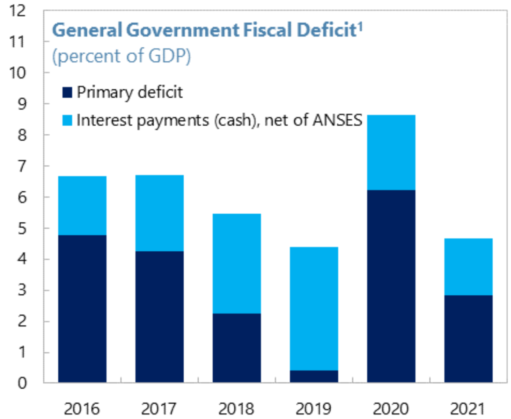
…and capacity utilization is still below 2017 levels for most sectors.



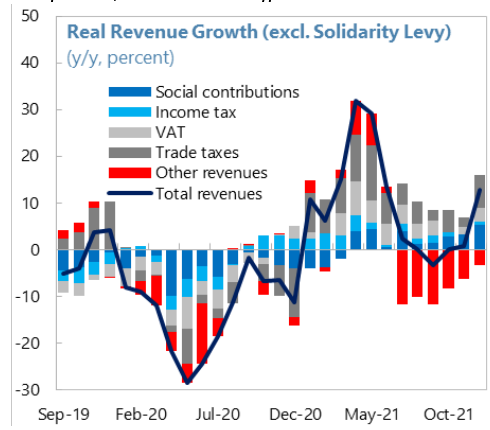
Source: Argentine authorities, Haver, IMF WEO database, IMF staff calculations.

Figure 5. Argentina: Fiscal Sector Developments

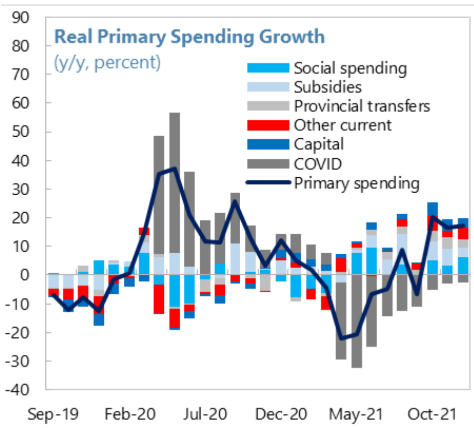
After rising sharply in 2020, the primary deficit narrowed in 2021…



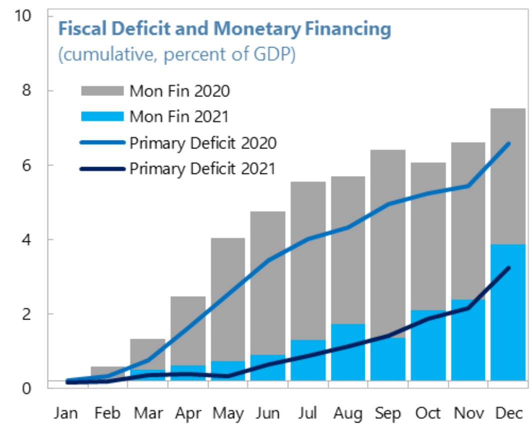
…on account of a cyclical recovery in revenues, better terms of trade, and the one-off wealth tax…



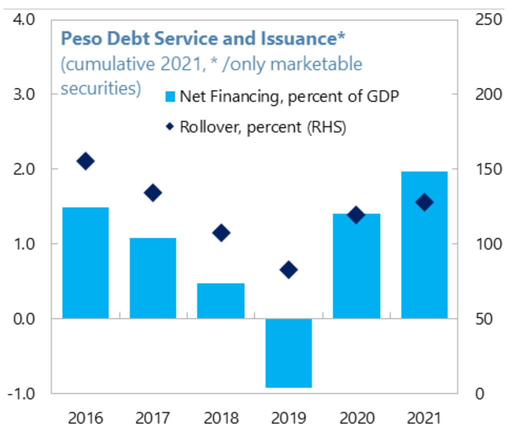
…as well as an unwinding of COVID-related support.



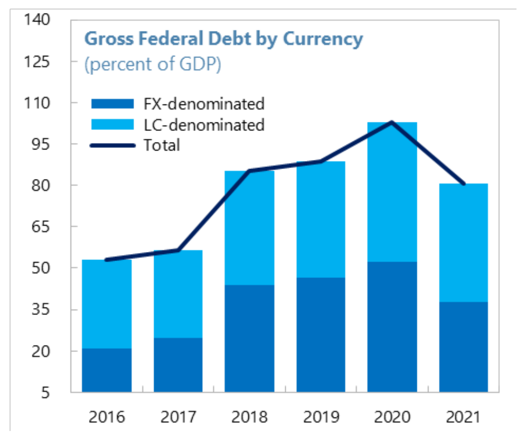
Reliance on monetary financing continues, although it has declined considerably…



…supported in part by an increase in domestic debt placement.



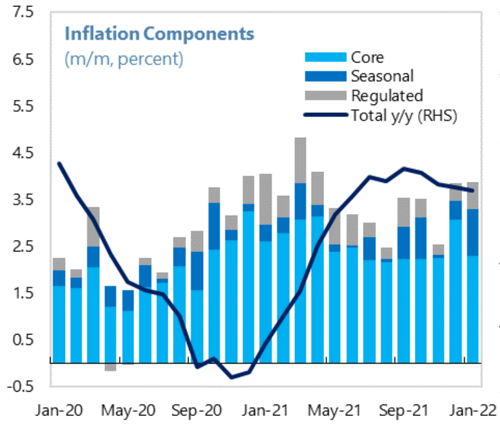
Challenges remain from high levels of public debt, despite the recent restructuring of FX-denominated debt.



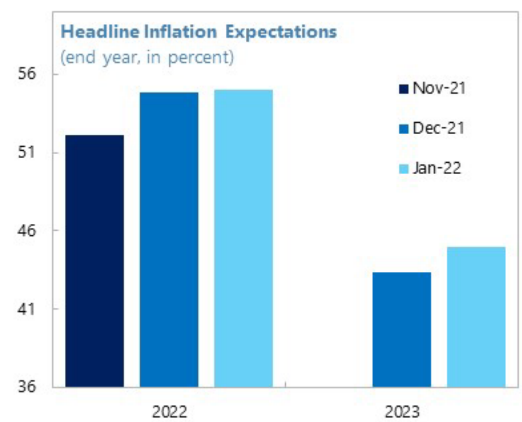
Source: Argentine authorities, IMF WEO Database, IMF staff calculations.
1/ ANSES: National Social Security Administration of Argentina.

Figure 6. Argentina: Inflation, FX, and Monetary Developments

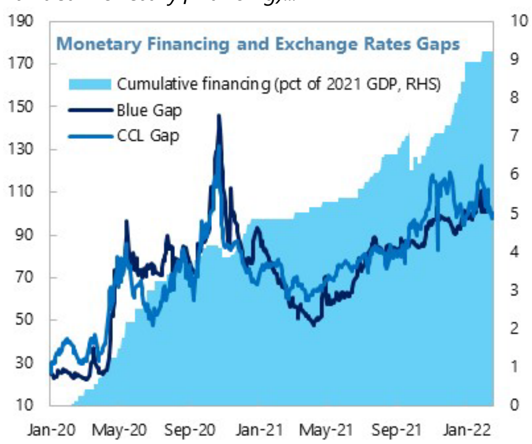
Headline and core inflation are at elevated levels …



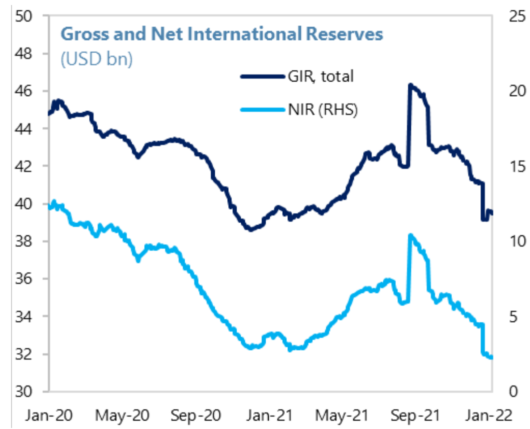
…and inflation expectations remain unanchored.



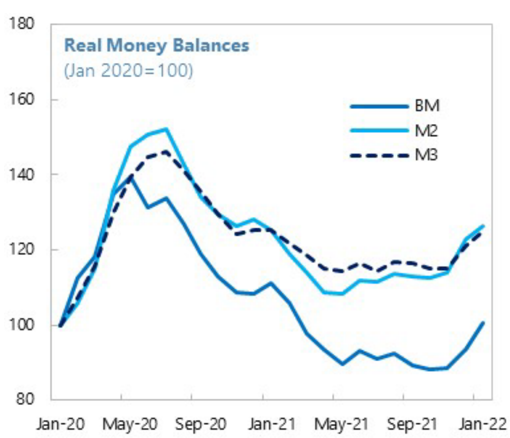
This has reflected depreciation concerns (fueled by continued monetary financing)…



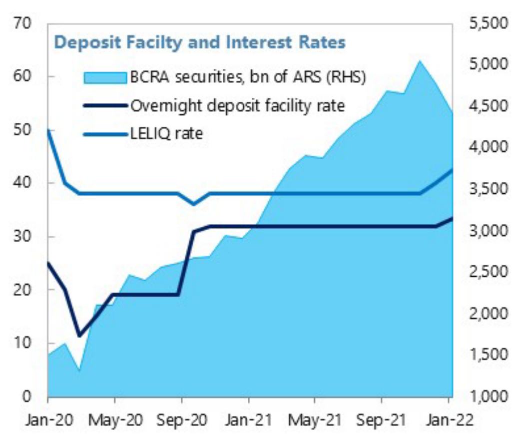
…along with weak and falling reserve coverage…



…in line with falling peso demand…



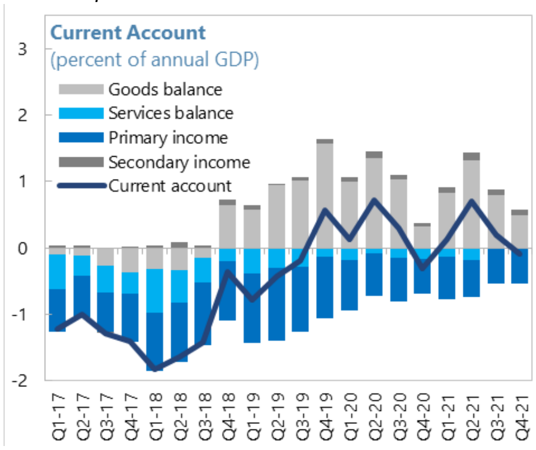
…and in the context of unchanged policy rates, until recently.



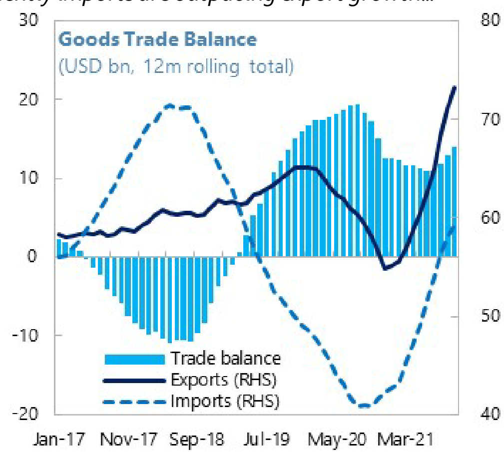
Source: Argentine authorities, BCRA's REM, Haver, IMF WEO database, IMF staff calculations.

Figure 7. Argentina: External Sector Developments

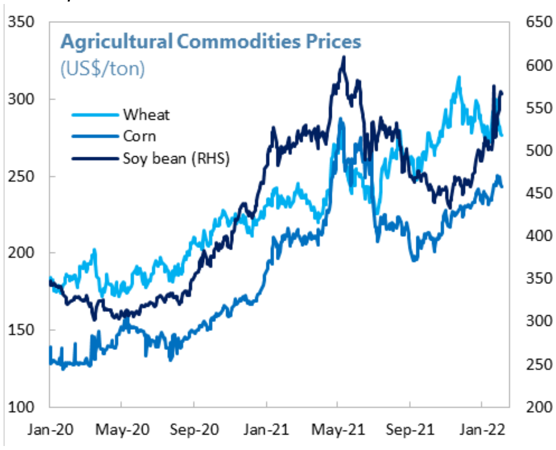
The current account balance has improved since 2018 on the back of a rise in the trade balance...



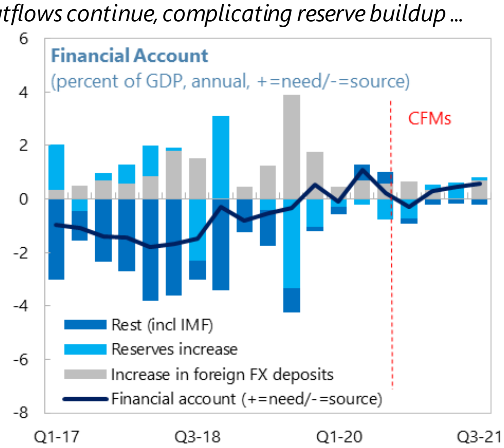
...initially reflecting import compression, although more recently imports are outpacing export growth...



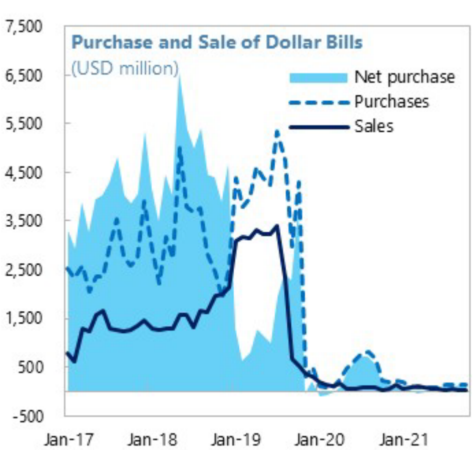
...the latter being supported by favorable (yet volatile) terms of trade.



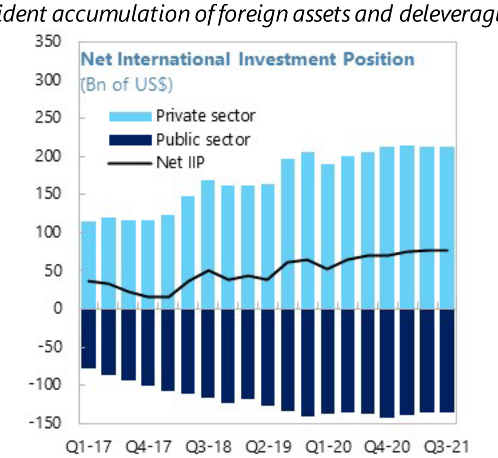
Despite FX debt restructurings and tighter capital controls, outflows continue, complicating reserve buildup ...



...although USD bill purchases by resident are well below 2017-19 levels.



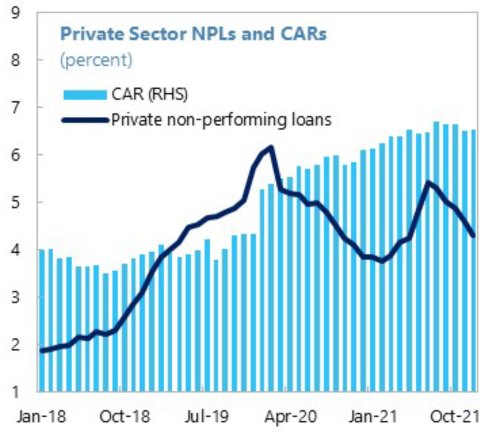
Meanwhile, Argentina's NIIP remains positive and rising with official FX liabilities during 2017-19, largely offset by resident accumulation of foreign assets and deleveraging.



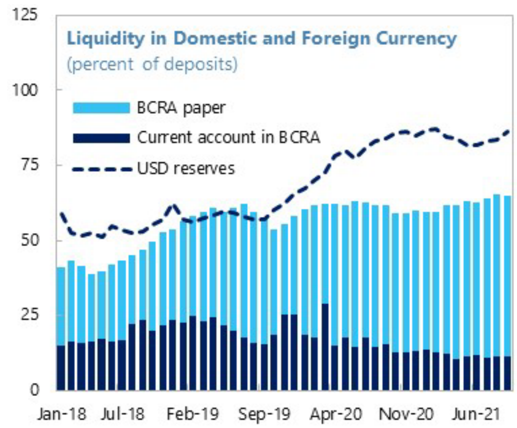
Source: Argentine authorities, IMF WEO Database, IMF staff calculations.

Figure 8. Banking Sector Developments

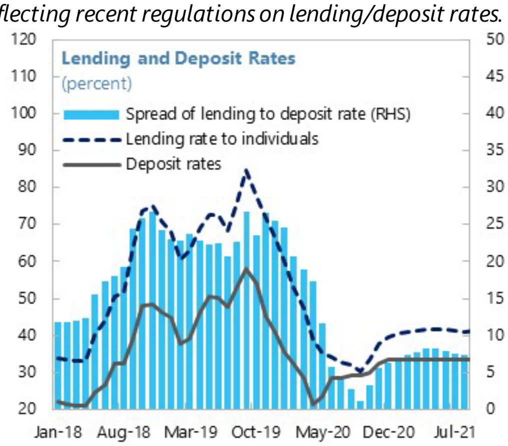
The banking sector remains well capitalized, with NPLs still relatively contained....



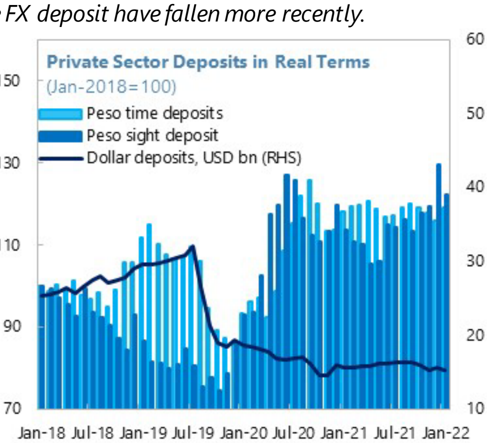
...and comfortable liquidity levels...



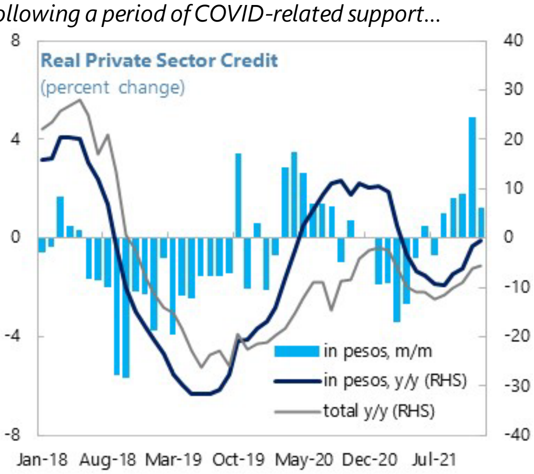
...although banks' net interest margins are down reflecting recent regulations on lending/deposit rates.



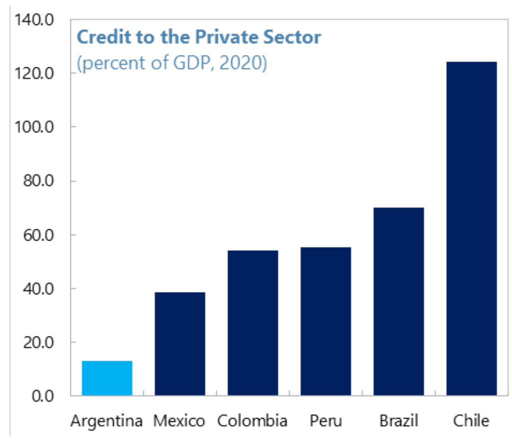
Since late 2020, growth in peso deposits has been limited while FX deposit have fallen more recently.



Meanwhile, credit to the private sector remains weak, following a period of COVID-related support...



...and credit remains significantly below peers.



Source: Argentine authorities, Bloomberg, IMF WEO Database, IMF staff calculations

Table 1. Argentina: Selected Economic and Financial Indicators

		Est.	Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027
	(Annual percentage changes unless otherwise indicated)							
National income and prices								
GDP at constant prices	-9.9	10.2	4.0	3.0	2.8	2.0	2.0	2.0
Domestic demand	-10.1	12.7	4.9	2.8	2.5	2.0	2.1	2.2
Consumption	-12.1	9.2	5.7	2.7	2.3	1.8	2.0	2.1
Investment	-12.9	30.8	2.8	3.6	3.7	2.6	2.5	2.6
Exports	-17.3	8.6	1.4	4.7	4.6	4.2	3.6	3.2
Imports	-17.9	20.0	5.5	3.8	3.4	3.7	3.7	3.7
Net exports (percent contribution to real GDP)	0.3	-2.6	-1.0	0.0	0.1	0.0	-0.1	-0.2
Output gap (percent of potential GDP)	-7.4	-3.5	-1.7	-0.7	0.0	0.0	0.0	0.0
Inflation (eop)	36.1	50.9	43.0	38.0	33.0	28.0	23.0	18.0
Inflation (avg)	42.0	48.4	47.6	38.8	34.5	29.7	25.2	20.2
GDP deflator	39.8	53.2	46.2	37.8	33.8	29.7	25.2	20.2
	(Percent of GDP unless otherwise indicated)							
Savings-Investment balance								
Gross national savings	14.8	18.2	17.4	17.4	17.4	17.6	17.9	18.1
Private	23.4	22.8	21.2	20.5	20.5	20.2	19.8	19.5
Public	-8.6	-4.6	-3.8	-3.2	-3.1	-2.6	-1.9	-1.4
Gross domestic investment	13.9	16.9	16.9	17.0	17.1	17.2	17.3	17.4
Private	11.5	13.8	13.0	13.1	13.3	13.4	13.6	13.7
Public	2.3	3.1	3.9	3.9	3.8	3.8	3.8	3.7
External sector								
Current account balance	0.9	1.3	0.5	0.4	0.3	0.4	0.6	0.7
Trade balance	3.2	3.2	2.4	2.3	2.6	2.8	3.1	3.2
Foreign direct Investment (net)	0.7	1.1	1.3	1.6	1.9	1.9	1.9	1.9
Total external debt	83.1	58.3	55.6	55.5	55.5	53.1	50.8	47.8
Gross international reserves (US$ billions)	39.4	39.7	49.1	51.5	55.5	60.7	66.0	69.2
REER (ave, percent change)	2.3	4.3	…	…	…	…	…	…
REER (eop, percent change)	0.1	21.4	…	…	…	…	…	…
Terms of trade (percent change)	0.6	9.4	-0.1	-4.1	-1.1	-1.1	-0.8	-0.8
Federal government operations								
Revenues	17.6	18.2	18.2	18.6	19.3	19.8	20.1	20.2
Primary expenditure 1/	24.0	21.2	20.7	20.5	20.2	19.7	19.3	18.9
Primary balance 2/	-6.4	-3.0	-2.5	-1.9	-0.9	0.0	0.8	1.3
Overall balance	-8.3	-4.5	-4.0	-3.4	-3.2	-2.9	-2.5	-2.0
Federal government debt	102.8	80.6	74.4	74.3	73.4	70.3	66.6	63.0
Official creditors	23.4	16.1	16.7	16.6	16.5	16.0	15.4	14.2
Private creditors	43.6	33.5	31.1	32.9	33.4	32.3	30.6	29.3
of which: FX-denominated debt	28.9	21.3	19.4	19.0	18.5	16.9	15.7	14.6
Public entities	35.8	31.0	26.6	24.9	23.5	21.9	20.6	19.6
Money and credit								
Monetary base	9.0	7.9	7.5	7.5	7.5	7.5	7.5	7.5
BCRA transfers to the government	7.4	3.7	1.0	0.6	0.0	0.0	0.0	0.0
BCRA securities	10.7	10.9	9.3	9.1	8.8	8.5	8.2	8.0
BCRA quasi-fiscal cost	3.2	3.3	3.3	2.9	2.5	2.3	2.0	1.0
Memorandum items								
GIR (adjusted, US$ billions) 3/	39.4	39.7	45.9	50.1	55.6	60.8	66.1	69.3
GIR change (adjusted, US$ billions) 3/	-7.7	0.3	6.2	4.2	5.5	5.3	5.3	3.3
NIR (TMU definition) (US$ billions)	3.8	2.3	8.1	12.1	17.3	22.3	27.3	30.3
Primary expenditures, excl. COVID (y/y real change) 4/	-1.1	11.8	3.6	3.0	0.7	-0.3	-0.3	0.1
Consolidated public sector balance (percent of GDP) 5/	-11.8	-7.8	-7.1	-6.1	-5.6	-4.9	-3.9	-2.4
Poverty rate (percent) 6/	42.0	40.6	…	…	…	…	…	…
Unemployment rate (percent)	11.6	9.3	9.2	8.1	8.1	8.1	8.1	8.1
GDP per capita (in US$, nominal)	8,451	10,540	…	…	…	…	…	…

Sources: National authorities and Fund staff estimates and projections.

1/ Includes COVID-related spending in 2020, 2021 and 2022, and one-off spending related to the Solidarity Levy in 2021.

2/ Primary balance excludes BCRA profit transfers.

3/ Adjusted GIR correspond to GIR excluding IMF disbursements for future principal repayments.

4/ Federal government.

5/ Includes the overall balance of federal and provincial government, and the quasi-fiscal deficit of the BCRA.

6/ Poverty rate for 2021 refers to first semester.

Table 2. Argentina: External Balance of Payments

	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
	(in billions of U.S. dollars)							
Current account	**3.3**	**6.3**	**3.1**	**2.0**	**1.7**	**2.3**	**3.7**	**4.5**
Trade balance in goods	14.6	18.3	16.5	14.7	15.3	15.4	15.3	14.7
Exports f.o.b.	54.9	78.0	84.5	85.4	89.1	93.2	96.9	100.3
Imports f.o.b.	40.3	59.7	68.0	70.7	73.8	77.8	81.6	85.6
Trade balance in services	-2.2	-2.9	-3.0	-1.4	-0.6	1.0	3.6	6.3
Primary income, net 1/	-10.2	-10.5	-12.1	-12.9	-14.7	-15.9	-17.1	-18.5
of which: public interest payments, net	-5.6	-2.9	-4.2	-5.0	-5.6	-5.6	-5.8	-6.0
Secondary income, net	1.1	1.4	1.6	1.7	1.7	1.8	1.9	2.0
Capital Account	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account	**-14.7**	**-8.3**	**-23.3**	**-21.8**	**-6.0**	**-2.0**	**-3.5**	**-6.2**
Foreign direct investment, net	2.7	5.4	7.5	9.1	10.8	11.1	11.6	12.2
Portfolio investment, net	-2.8	-6.5	-2.6	-1.7	-2.7	-3.1	-1.1	0.5
of which: public, gross	7.8	-0.9	0.2	-0.4	-1.6	-2.0	0.0	1.5
Derivatives, net	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/ 3/	-14.7	-7.2	-28.2	-29.2	-14.1	-9.9	-14.1	-18.8
IMF repurchases	0.0	-3.8	-17.7	-19.0	-4.9	0.0	-1.2	-5.1
Other official repayments	-2.2	-2.4	-2.3	-2.5	-2.6	-2.5	-2.4	-2.0
Other items net	-12.5	-1.0	-8.1	-7.8	-6.6	-7.4	-10.4	-11.7
Errors and Omissions	**0.2**	**-1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-11.0**	**-3.2**	**-20.0**	**-19.5**	**-4.1**	**0.6**	**0.4**	**-1.5**
Financing	**11.1**	**3.2**	**20.0**	**19.5**	**4.1**	**-0.6**	**-0.4**	**1.5**
IMF Financing 5/	0.0	0.0	24.7	17.1	3.5	0.0	0.0	0.0
Other official financing 4/	3.3	3.5	4.7	4.7	4.6	4.6	4.9	4.7
Gross official reserves (increase: -)	7.7	-0.3	-9.4	-2.3	-4.0	-5.3	-5.3	-3.3
GIR adjusted change (increase: -)		-0.3	-6.2	-4.2	-5.5	-5.3	-5.3	-3.3
	(Percent of GDP unless otherwise indicated)							
Current account	**0.9**	**1.3**	**0.5**	**0.4**	**0.3**	**0.4**	**0.6**	**0.7**
Trade balance in goods	3.8	3.8	2.9	2.6	2.7	2.6	2.5	2.3
Exports, f.o.b.	14.3	16.1	15.0	14.9	15.5	15.9	15.7	15.5
Imports f.o.b.	10.5	12.4	12.1	12.3	12.9	13.2	13.2	13.3
Trade balance in services	-0.6	-0.6	-0.5	-0.2	-0.1	0.2	0.6	1.0
Primary income, net	-2.7	-2.2	-2.1	-2.3	-2.6	-2.7	-2.8	-2.9
Secondary income, net	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital Account	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-3.8**	**-1.7**	**-4.1**	**-3.8**	**-1.0**	**-0.3**	**-0.6**	**-1.0**
Foreign direct investment, net	0.7	1.1	1.3	1.6	1.9	1.9	1.9	1.9
Portfolio investment, net	-0.7	-1.4	-0.5	-0.3	-0.5	-0.5	-0.2	0.1
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/	-3.8	-1.5	-5.0	-5.1	-2.5	-1.7	-2.3	-2.9
Errors and Omissions	**0.0**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.8**	**-0.7**	**-3.5**	**-3.4**	**-0.7**	**0.1**	**0.1**	**-0.2**
Financing	**2.8**	**0.7**	**3.5**	**3.4**	**0.7**	**-0.1**	**-0.1**	**0.2**
IMF Financing	0.0	0.0	4.4	3.0	0.6	0.0	0.0	0.0
Other official financing 4/	0.9	0.7	0.8	0.8	0.8	0.8	0.8	0.7
Gross official reserves (increase: -)	2.0	-0.1	-1.7	-0.4	-0.7	-0.9	-0.9	-0.5
Memorandum items:								
Exports volumes (percent change)	-13.1	12.8	1.2	5.0	4.6	4.1	3.6	3.2
Imports volumes (percent change)	-10.7	29.9	6.7	3.6	3.6	3.7	3.7	3.7
Trading partners imports growth (percent change)	-6.1	13.5	1.3	3.9	3.6	3.6	3.6	3.2
GIR (adjusted, US$ billions) 6/	39.4	39.7	45.9	50.1	55.6	60.8	66.1	69.3
in months of imports of goods and services	9.1	6.6	6.7	7.1	7.5	7.9	8.2	8.1
in percent of ARA	64.5	63.7	75.6	84.7	95.7	106.3	116.9	124.4
GIR change (adjusted, US$ billions) 6/	-7.7	0.3	6.2	4.2	5.5	5.3	5.3	3.3
NIR change (program definition, US$ billions) 7/	-8.6	-1.5	5.8	4.0	5.2	5.0	5.0	3.0
excluding IMF contribution in 2022	-8.6	-1.5	2.0	4.0	5.2	5.0	5.0	3.0
Terms of Trade (percent change)	0.6	9.4	-0.1	-4.1	-1.1	-1.1	-0.8	-0.8

Sources: National authorities and Fund staff estimates and projections.

1/ Assumes interest payments to official creditors over the forecast period and interest payment to private creditors in 2020 only.

2/ Excludes disbursements from the IMF and other IFIs.

3/ In 2021 includes the SDR allocation of US$4.3bn

4/ This includes bilateral and multilateral official financing, as well as Paris Club.

5/ Assumes a 3-year EFF program for US$45.3bn, starting in 2022Q1.

6/ Adjusted GIR correspond to GIR excluding IMF disbursements for future principal repayments.

7/ NIR (program definition) corresponds to GIR minus gross official liabilities with maturities of under one year (which include disbursements from the Fund committed for the repayment of near-term Fund repurchases).

Table 3a. Argentina: Federal Government Operations

	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
	(in billions of Argentine pesos)							
Revenues	**4,841**	**8,453**	**12,852**	**18,660**	**26,597**	**36,004**	**46,613**	**57,542**
Tax revenues	2,868	5,129	8,192	11,822	16,785	22,968	30,147	37,200
Social security contributions	1,533	2,382	3,829	5,737	8,298	10,963	13,879	17,152
Nontax revenues 1/	440	942	832	1,101	1,514	2,073	2,587	3,191
Primary expenditures	**6,591**	**9,860**	**14,611**	**20,537**	**27,800**	**35,934**	**44,837**	**53,951**
Wages	881	1,341	2,011	2,904	4,129	5,472	6,747	8,071
Goods and services	231	480	499	601	826	974	1,110	1,217
Pensions	2,614	3,710	6,012	8,912	12,662	17,043	22,126	27,373
Current transfers to private sector	2,181	3,104	3,785	4,906	6,021	7,271	8,552	9,937
Social assistance	1,484	1,723	2,231	3,004	3,991	4,918	5,944	7,091
Subsidies	697	1,382	1,555	1,902	2,030	2,353	2,608	2,846
Other current	81	214	307	501	551	546	581	712
Discretionary current transfers to provinces	324	360	446	501	688	819	930	855
Capital spending 2/	280	651	1,550	2,213	2,924	3,809	4,791	5,786
Primary balance	**-1,750**	**-1,408**	**-1,759**	**-1,877**	**-1,204**	**70**	**1,777**	**3,591**
Interest payments	**543**	**684**	**1,037**	**1,498**	**3,259**	**5,370**	**7,566**	**9,331**
Overall Balance	**-2,293**	**-2,092**	**-2,796**	**-3,375**	**-4,463**	**-5,300**	**-5,790**	**-5,740**
Financing	**2,293**	**2,092**	**2,796**	**3,375**	**4,463**	**5,300**	**5,790**	**5,740**
Treasury deposits (+, drawdown) 3/	**-62**	**-157**	**-499**	**318**	**599**	**0**	**0**	**0**
External	**67**	**113**	**1,185**	**-69**	**32**	**365**	**878**	**40**
IMF (net)	0	53	874	-325	-345	0	-459	-2,265
Other official (net) 4/	83	102	297	396	489	653	937	1,196
Private (net)	-16	-42	14	-140	-112	-287	399	1,110
Issuances	0	191	245	14	149	823	1,830	2,923
Amortization	16	233	231	154	261	1,110	1,430	1,814
Domestic	**2,288**	**2,136**	**2,109**	**3,126**	**3,831**	**4,935**	**4,912**	**5,699**
Private (net) 5/	355	1,060	1,278	1,986	2,739	3,371	2,998	3,530
Issuance	2,017	3,787	8,185	6,512	11,160	13,824	13,624	11,438
Amortization	1,662	2,727	6,907	4,526	8,422	10,453	10,626	7,908
Public entities (net) 6/	2,398	2,088	831	1,140	1,093	1,564	1,914	2,170
of which: BCRA transfers	2,038	1,701	705	573	0	0	0	0
Other 7/	-465	-1,011	0	0	0	0	0	0
Memorandum items:								
One-off support (COVID-19 & Solidarity Levy)	1,024	518	277	0	0	0	0	0
Primary expenditures (y/y real change) 8/	-1.1	11.8	3.6	3.0	0.7	-0.3	-0.3	0.1
Nominal GDP (ARS billions)	27,481	46,463	70,523	100,132	137,626	182,019	232,393	284,899

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting with the inclusion of sales of nonfinancial assets and exclusion of BCRA profit transfers.

2/ Includes federal capital transfers to provinces.

3/ Deposit accumulation in 2022 reflects Federal Government deposits at the BCRA related to IMF purchases.

4/ Assumes repayment to the Paris Club of the outstanding obligations reprofiled in 2014 in four equal annual payments from 2023 to 2026.

5/ Includes Banco Nacion and other public entities.

6/ Includes BCRA and FGS.

7/ Corresponds to cash management operations of the non-financial public sector entities (-, deposits).

8/ Excludes COVID and Solidarity Levy-related spending.

Table 3b. Argentina: Federal Government Operations

	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
	(Percent of GDP)							
Revenues	**17.6**	**18.2**	**18.2**	**18.6**	**19.3**	**19.8**	**20.1**	**20.2**
Tax revenues	10.4	11.0	11.6	11.8	12.2	12.6	13.0	13.1
Social security contributions	5.6	5.1	5.4	5.7	6.0	6.0	6.0	6.0
Nontax revenues 1/	1.6	2.0	1.2	1.1	1.1	1.1	1.1	1.1
Primary expenditures	**24.0**	**21.2**	**20.7**	**20.5**	**20.2**	**19.7**	**19.3**	**18.9**
Wages	3.2	2.9	2.9	2.9	3.0	3.0	2.9	2.8
Goods and services	0.8	1.0	0.7	0.6	0.6	0.5	0.5	0.4
Pensions	9.5	8.0	8.5	8.9	9.2	9.4	9.5	9.6
Current transfers to private sector	7.9	6.7	5.4	4.9	4.4	4.0	3.7	3.5
Social assistance	5.4	3.7	3.2	3.0	2.9	2.7	2.6	2.5
Subsidies	2.5	3.0	2.2	1.9	1.5	1.3	1.1	1.0
Discretionary current transfers to provinces	1.2	0.8	0.6	0.5	0.5	0.5	0.4	0.3
Other current	0.3	0.5	0.4	0.5	0.4	0.3	0.3	0.3
Capital spending 2/	1.0	1.4	2.2	2.2	2.1	2.1	2.1	2.0
Primary balance	**-6.4**	**-3.0**	**-2.5**	**-1.9**	**-0.9**	**0.0**	**0.8**	**1.3**
Interest cash	**2.0**	**1.5**	**1.5**	**1.5**	**2.4**	**3.0**	**3.3**	**3.3**
Overall Balance	**-8.3**	**-4.5**	**-4.0**	**-3.4**	**-3.2**	**-2.9**	**-2.5**	**-2.0**
Financing	**8.3**	**4.5**	**4.0**	**3.4**	**3.2**	**2.9**	**2.5**	**2.0**
Treasury deposits (+, drawdown) 3/	**-0.3**	**-0.4**	**-0.7**	**0.3**	**0.4**	**0.0**	**0.0**	**0.0**
External	**0.2**	**0.2**	**1.7**	**-0.1**	**0.0**	**0.2**	**0.4**	**0.0**
IMF (net)	0.0	0.1	1.2	-0.3	-0.3	0.0	-0.2	-0.8
Other official (net) 4/	0.3	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Private (net)	-0.1	-0.1	0.0	-0.1	-0.1	-0.2	0.2	0.4
Issuances	0.0	0.4	0.3	0.0	0.1	0.5	0.8	1.0
Amortization	0.1	0.5	0.3	0.2	0.2	0.6	0.6	0.6
Domestic	**8.3**	**4.6**	**3.0**	**3.1**	**2.8**	**2.7**	**2.1**	**2.0**
Private (net) 5/	1.3	2.3	1.8	2.0	2.0	1.9	1.3	1.2
Issuance	7.3	8.2	11.6	6.5	8.1	7.6	5.9	4.0
Amortization	6.0	5.9	9.8	4.5	6.1	5.7	4.6	2.8
Public entities (net) 6/	8.7	4.5	1.2	1.1	0.8	0.9	0.8	0.8
of which: BCRA transfers	7.4	3.7	1.0	0.6	0.0	0.0	0.0	0.0
Other 7/	-1.7	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
One-off spending (COVID-19 & Solidarity Levy)	3.7	1.1	0.4	0.0	0.0	0.0	0.0	0.0
Primary balance without COVID support	-2.6	-1.9	-2.1	-1.9	-0.9	0.0	0.8	1.3
Primary expenditures (y/y real change) 8/	-1.1	11.8	3.6	3.0	0.7	-0.3	-0.3	0.1
Structural primary balance 8/ 9/	-1.0	-2.0	-2.0	-1.8	-0.9	0.0	0.8	1.3
Federal government debt 6/	102.8	80.6	74.4	74.3	73.4	70.3	66.6	63.0

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting, with the inclusion of sale of nonfinancial assets and exclusion of BCRA profit transfers.

2/ Includes federal capital transfers to provinces.

3/ Deposit accumulation in 2022 reflects Federal Government deposits at the BCRA related to IMF purchases.

4/ Assumes repayment to the Paris Club of the outstanding obligations reprofiled in 2014 in four equal annual payments from 2023 to 2026.

5/ Includes Banco Nacion and other public entities.

6/ Includes BCRA and FGS.

7/ Corresponds to cash management operations of the non-financial public sector entities (-, deposits).

8/ Excludes COVID and Solidarity Levy-related spending.

9/ Adjusts for the economic and commodity price cycles; in percent of potential GDP.

Table 4. Argentina: General Government Operations 1/

	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
	(Percent of GDP unless otherwise indicated)							
Revenues	**33.5**	**33.5**	**34.1**	**34.8**	**35.7**	**36.4**	**36.8**	**37.1**
Tax revenues	23.6	23.6	24.7	25.2	25.8	26.5	27.0	27.2
Federal	10.4	11.0	11.6	11.8	12.2	12.6	13.0	13.1
Provincial co-participated	8.2	7.6	8.2	8.4	8.6	8.8	9.0	9.1
Provincial own	5.0	5.0	4.9	5.0	5.0	5.0	5.0	5.0
Social security contributions	7.3	6.9	7.2	7.5	7.8	7.8	7.7	7.8
Federal	5.6	5.1	5.4	5.7	6.0	6.0	6.0	6.0
Provincial	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Other revenues	2.6	3.0	2.2	2.1	2.1	2.1	2.1	2.1
Federal	1.6	2.0	1.2	1.1	1.1	1.1	1.1	1.1
Provincial	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Primary expenditures 2/	**39.7**	**36.3**	**36.2**	**36.3**	**36.2**	**35.9**	**35.4**	**35.1**
Wages	11.1	10.0	9.9	10.1	10.6	10.6	10.6	10.6
Federal	3.2	2.9	2.9	2.9	3.0	3.0	2.9	2.8
Provincial	7.9	7.1	7.0	7.2	7.6	7.6	7.7	7.7
Goods and services	2.4	2.5	2.3	2.2	2.2	2.1	2.0	1.9
Federal	0.8	1.0	0.7	0.6	0.6	0.5	0.5	0.4
Provincial	1.6	1.5	1.6	1.6	1.6	1.6	1.5	1.5
Pensions	11.8	10.0	10.7	11.2	11.5	11.7	11.9	12.0
Federal	9.5	8.0	8.5	8.9	9.2	9.4	9.5	9.6
Provincial	2.3	2.0	2.2	2.3	2.3	2.4	2.4	2.4
Transfers to the private sector	9.3	8.1	6.8	6.2	5.5	5.1	4.8	4.6
Federal	7.9	6.7	5.4	4.9	4.4	4.0	3.7	3.5
Provincial	1.4	1.4	1.4	1.3	1.2	1.2	1.1	1.1
Capital spending	2.3	3.1	3.9	3.9	3.8	3.8	3.8	3.7
Federal 3/	0.8	1.0	1.7	1.7	1.6	1.6	1.6	1.5
Provincial	1.5	2.1	2.2	2.2	2.2	2.2	2.2	2.2
Other	2.7	2.6	2.6	2.7	2.6	2.5	2.3	2.3
Federal	0.3	0.5	0.4	0.5	0.4	0.3	0.3	0.3
Provincial	2.4	2.1	2.2	2.2	2.2	2.2	2.1	2.0
Primary Balance	**-6.2**	**-2.8**	**-2.1**	**-1.5**	**-0.5**	**0.5**	**1.5**	**2.0**
Federal government	-6.4	-3.0	-2.5	-1.9	-0.9	0.0	0.8	1.3
Provincial government	0.2	0.3	0.4	0.4	0.4	0.5	0.7	0.7
Interest (cash)	**2.4**	**1.8**	**1.7**	**1.7**	**2.5**	**3.1**	**3.4**	**3.4**
Overall balance	**-8.6**	**-4.6**	**-3.8**	**-3.2**	**-3.1**	**-2.6**	**-1.9**	**-1.4**
Memorandum items								
General Gov't structural primary balance 4/	-3.5	-1.9	-1.8	-1.4	-0.5	0.5	1.5	2.0
Federal structural balance	-4.4	-2.5	-2.4	-1.8	-0.9	0.0	0.8	1.3
Provincial structural balance	0.9	0.6	0.6	0.4	0.4	0.5	0.7	0.7
Consolidated public sector balance 5/	-11.8	-7.8	-7.1	-6.1	-5.6	-4.9	-3.9	-2.4
Federal government debt	102.8	80.6	74.4	74.3	73.4	70.3	66.6	63.0
of which: net of debt held by public entities 6/	67.0	49.6	47.8	49.4	49.9	48.3	46.0	43.4
Provincial government debt	8.1	5.7	4.6	3.9	3.4	2.7	1.8	1.0
BCRA securities	10.7	10.9	9.3	9.1	8.8	8.5	8.2	8.0

Sources: National authorities and Fund staff estimates and projections.

1/ Includes federal and provincial governments. The primary balance excludes BCRA profit transfers.
2/ Includes transfers to municipalities, but excludes municipal spending.
3/ Excludes discretionary capital transfers from federal government to the provinces, which are included in provincial capital spending.
4/ In percent of potential GDP.
5/ Includes the overall balance of federal and provincial government, and the quasi-fiscal deficit of the BCRA.
6/ Gross federal debt, net of debt held by ANSES/FGS and BCRA.

Table 5a. Argentina: Summary Operations of Central Bank
(end of period, unless otherwise indicated)

	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
	(In billions of Argentine pesos)							
Net foreign assets	**1,390**	**1,670**	**3,693**	**5,645**	**8,780**	**12,745**	**17,397**	**21,497**
Gross foreign assets	3,314	4,075	7,055	10,357	15,191	20,742	26,967	32,483
Gross foreign liabilities	1,925	2,405	3,363	4,712	6,411	7,997	9,569	10,985
Net domestic assets	**1,081**	**1,984**	**1,597**	**1,865**	**1,543**	**907**	**33**	**-127**
Credit to the public sector (net)	6,337	9,272	11,607	16,060	21,009	25,342	29,632	33,491
of which: Temporary advances to federal government	1,260	2,173	2,878	3,451	3,451	3,451	3,451	3,451
of which: Non-marketable government bonds 1/	4,491	5,909	8,331	11,674	15,884	19,813	23,709	27,218
of which: Other credit and gvt. deposits (net)	586	1,190	398	936	1,674	2,078	2,472	2,822
Credit to the financial sector, excl. securities	-917	-1,243	-1,664	-2,382	-3,364	-3,502	-3,571	-1,996
BCRA securities	-2,942	-5,045	-6,552	-9,100	-12,094	-15,449	-19,027	-22,756
Official capital and other items	-1,466	-1,001	-1,795	-2,714	-4,008	-5,484	-7,002	-8,865
Monetary base	**2,470**	**3,654**	**5,290**	**7,510**	**10,323**	**13,652**	**17,430**	**21,371**
Currency issued	1,898	2,691	3,925	5,507	7,432	9,647	12,216	14,976
Bank deposits at the BCRA (peso-denominated)	572	963	1,364	2,003	2,891	4,005	5,214	6,395
	(Percent of GDP)							
Net foreign assets	**5.1**	**3.6**	**5.2**	**5.6**	**6.4**	**7.0**	**7.5**	**7.5**
Gross foreign assets	12.1	8.8	10.0	10.3	11.0	11.4	11.6	11.4
Gross foreign liabilities	7.0	5.2	4.8	4.7	4.7	4.4	4.1	3.9
Net domestic assets	**3.9**	**4.3**	**2.3**	**1.9**	**1.1**	**0.5**	**0.0**	**0.0**
Credit to the public sector	23.1	20.0	16.5	16.0	15.3	13.9	12.8	11.8
of which: Temporary advances to federal government	4.6	4.7	4.1	3.4	2.5	1.9	1.5	1.2
of which: Non-marketable government bonds 1/	16.3	12.7	11.8	11.7	11.5	10.9	10.2	9.6
of which: Other credit and gvt. deposits (net)	2.1	2.6	0.6	0.9	1.2	1.1	1.1	1.0
Credit to the financial sector, excl. securities	-3.3	-2.7	-2.4	-2.4	-2.4	-1.9	-1.5	-0.7
BCRA securities	-10.7	-10.9	-9.3	-9.1	-8.8	-8.5	-8.2	-8.0
Official capital and other items	-5.3	-2.2	-2.5	-2.7	-2.9	-3.0	-3.0	-3.1
Monetary base	**9.0**	**7.9**	**7.5**	**7.5**	**7.5**	**7.5**	**7.5**	**7.5**
Currency issued	6.9	5.8	5.6	5.5	5.4	5.3	5.3	5.3
Bank deposits at the BCRA (peso-denominated)	2.1	2.1	1.9	2.0	2.1	2.2	2.2	2.2
Memorandum items:								
NFA (billions of USD)	16.5	16.3	25.7	28.0	32.1	37.3	42.6	45.8
Quasi-fiscal deficit (percent of GDP)	3.2	3.3	3.3	2.9	2.5	2.3	2.0	1.0

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

1/ Letras Intranferibles are non-marketable, non-interest bearing, dollar-denominated IOUs issued by the treasury to the central bank.

Table 5b. Argentina: Summary Operations of the Banking Sector
(end of period, unless otherwise indicated)

	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
	(In billions of Argentine pesos)							
Net foreign assets	**240**	**283**	**425**	**612**	**849**	**1,187**	**1,600**	**2,061**
Net domestic assets	**6,273**	**9,579**	**13,530**	**19,450**	**27,290**	**35,443**	**43,978**	**50,658**
Credit to the public sector	152	462	512	605	759	928	1,072	1,250
Gross credit to public sector	1,594	2,821	3,831	5,692	8,762	12,147	15,016	18,577
Deposits from the public sector	-1,442	-2,359	-3,318	-5,086	-8,003	-11,219	-13,944	-17,327
Claims on the central bank	4,686	7,520	9,981	14,047	19,109	23,943	29,062	32,679
Holdings of central bank securities	2,942	5,045	6,552	9,100	12,094	15,449	19,027	22,756
Reserves at central bank	1,488	2,202	3,029	4,386	6,257	7,509	8,787	8,393
Other	256	273	399	561	758	985	1,248	1,530
Claims on the private sector	3,762	5,356	7,974	11,806	17,212	23,496	30,344	36,957
US$ denominated	478	479	711	1,057	1,527	2,022	2,569	3,131
AR$ denominated	3,284	4,878	7,263	10,749	15,685	21,473	27,775	33,826
Net capital, reserves, and other assets	-2,327	-3,759	-4,937	-7,009	-9,790	-12,923	-16,500	-20,228
Liabilities with the private sector	**6,513**	**9,862**	**13,955**	**20,062**	**28,140**	**36,630**	**45,578**	**52,719**
Local currency deposits	5,170	8,241	11,636	16,722	23,396	31,853	40,878	50,773
Foreign currency deposits	1,343	1,621	2,319	3,340	4,743	4,777	4,700	1,946
in US$ billions	16.0	15.5	16.1	16.6	17.3	14.0	11.5	4.1
	(Percent GDP)							
Net foreign assets	**0.9**	**0.6**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**0.7**
Net domestic assets	**22.8**	**20.6**	**19.2**	**19.4**	**19.8**	**19.5**	**18.9**	**17.8**
Credit to the public sector (net)	0.6	1.0	0.7	0.6	0.6	0.5	0.5	0.4
Gross credit to public sector	5.8	6.1	5.4	5.7	6.4	6.7	6.5	6.5
Deposits of the public sector	-5.2	-5.1	-4.7	-5.1	-5.8	-6.2	-6.0	-6.1
Claims on the central bank	17.1	16.2	14.2	14.0	13.9	13.2	12.5	11.5
Holdings of central bank securities	10.7	10.9	9.3	9.1	8.8	8.5	8.2	8.0
Reserves at central bank	5.4	4.7	4.3	4.4	4.5	4.1	3.8	2.9
Credit to the private sector	13.7	11.5	11.3	11.8	12.5	12.9	13.1	13.0
of which: Dollar denominated	1.7	1.0	1.0	1.1	1.1	1.1	1.1	1.1
of which: Peso denominated	12.0	10.5	10.3	10.7	11.4	11.8	12.0	11.9
Net capital, reserves, and other assets	-8.5	-8.1	-7.0	-7.0	-7.1	-7.1	-7.1	-7.1
Liabilities with the private sector	**23.7**	**21.2**	**19.8**	**20.0**	**20.4**	**20.1**	**19.6**	**18.5**
Local currency deposits	18.8	17.7	16.5	16.7	17.0	17.5	17.6	17.8
Foreign currency deposits	4.9	3.5	3.3	3.3	3.4	2.6	2.0	0.7
Memorandum items:								
M3 (AR$ billions)	7,668	11,529	17,630	24,933	34,407	45,869	59,262	72,661
M3 (percent of GDP)	27.9	24.8	25.0	24.9	25.0	25.2	25.5	25.5
M3 (as a ratio of monetary base)	3.1	3.2	3.3	3.3	3.3	3.4	3.4	3.4
Credit to the private sector, real (eop, y/y percent change)	-2.2	-5.7	4.1	7.3	9.6	6.6	5.0	3.2

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

Table 6. Argentina: Summary Public and External Debt 1/

	2020	Est. 2021	Proj. 2022	2023	2024	2025	2026	2027
	(in billions of U.S. dollars, unless otherwise stated)							
Federal Government Debt								
Gross federal debt	**335.7**	**364.5**	**365.4**	**369.8**	**368.9**	**374.4**	**378.5**	**382.4**
(in percent of GDP)	*102.8*	*80.6*	*74.4*	*74.3*	*73.4*	*70.3*	*66.6*	*63.0*
By creditor:								
Official sector	76.6	72.8	82.2	82.6	83.2	85.3	87.8	86.0
IMF	46.0	41.0	47.9	46.1	44.7	44.7	44.7	40.5
Other IFIs	25.1	27.1	29.3	31.6	33.7	35.9	38.3	40.7
Other official	5.5	4.8	4.9	4.8	4.8	4.8	4.8	4.8
Private sector	142.3	151.5	152.6	163.4	167.6	172.2	173.7	177.7
of which: Holdouts 2/	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Other public entities	116.9	140.3	130.7	123.8	118.1	116.9	117.1	118.7
of which: BCRA	81.9	97.0	95.3	92.2	87.9	85.9	84.8	84.5
By currency:								
Domestic currency	79.3	109.3	100.2	103.3	101.1	104.3	103.4	104.3
Foreign currency	256.4	255.3	265.2	266.5	267.8	270.1	275.1	278.0
of which: held by private sector	94.3	96.5	95.3	94.4	93.0	90.0	89.0	88.6
By residency:								
Non residents	152.6	146.8	155.1	154.5	153.6	150.4	147.6	139.1
of which: private non residents	76.1	74.0	73.0	72.0	70.5	65.2	59.9	53.1
Residents	183.1	217.8	210.3	215.2	215.3	223.9	230.9	243.2
Memorandum items								
Federal Gov't, excl. debt held by public entities	**218.8**	**224.3**	**234.7**	**246.0**	**250.8**	**257.5**	**261.4**	**263.6**
(in percent of GDP)	*67.0*	*49.6*	*47.8*	*49.4*	*49.9*	*48.3*	*46.0*	*43.4*
BCRA Debt (Leliqs and Pases)	**35.0**	**49.1**	**45.6**	**45.2**	**44.2**	**45.2**	**46.5**	**48.5**
(in percent of GDP)	*10.7*	*10.9*	*9.3*	*9.1*	*8.8*	*8.5*	*8.2*	*8.0*
Combined Federal Gov't and BCRA	**253.8**	**273.4**	**280.3**	**291.2**	**294.9**	**302.7**	**308.0**	**312.1**
(in percent of GDP)	*77.7*	*60.5*	*57.1*	*58.5*	*58.7*	*56.8*	*54.2*	*51.4*
Overall External Debt								
Gross external debt (includes holdouts)	**271.4**	**263.8**	**272.7**	**275.9**	**278.7**	**283.0**	**288.6**	**290.3**
(in percent of GDP)	*83.1*	*58.3*	*55.6*	*55.5*	*55.5*	*53.1*	*50.8*	*47.8*
By debtor								
Public sector	193.8	191.4	200.9	201.0	200.0	200.1	201.4	200.5
Federal government	152.6	146.8	155.1	154.5	153.6	150.4	147.6	139.1
Other public sector 3/	41.1	44.6	45.8	46.4	46.4	49.7	53.7	61.4
Private sector	77.7	72.4	71.8	74.9	78.7	82.9	87.2	89.8
Financial	6.5	5.2	4.6	4.8	5.5	6.3	7.0	7.8
Non-financial	71.2	67.3	67.2	70.1	73.2	76.6	80.2	82.0
By creditor								
Debt to official creditors	76.6	72.8	82.2	82.6	83.2	85.3	86.5	84.1
Debt to other private creditors	181.0	182.3	182.4	185.0	186.4	187.9	191.4	194.8
By maturity								
Long-term	222.6	212.4	220.9	222.7	224.1	226.7	230.4	231.2
Of which: Public sector	27.1	29.7	29.7	29.7	29.7	29.7	29.7	29.7

Sources: National authorities and Fund staff estimates and projections.

1/ Local currency debt assessed at end of period exchange rate.

2/ Includes US$ 2.4 bn of debt not included in the exchange offer (based on Decrees 1735/04 y 563/10), and US$ 0.1 bn of debt outstanding from the 2001 default that was not eligible for exchanges.

3/ Includes external debt of BCRA (swap lines), and provincial governments.

Table 7. Argentina: Federal Government Gross Financing Needs and Sources

(in millions of U.S. dollars)

		Est.	2022									
	2020	2021	Q1	Q2	Q3	Q4	Full Year	2023	2024	2025	2026	2027
Primary fiscal deficit	**24,455**	**14,638**	**1,604**	**2,970**	**2,920**	**6,576**	**14,070**	**10,716**	**5,020**	**-227**	**-4,713**	**-8,145**
Interest	**6,422**	**5,848**	**1,063**	**1,729**	**2,264**	**1,533**	**6,588**	**6,788**	**11,908**	**15,639**	**18,352**	**19,439**
External	1,840	1,201	614	252	607	222	1,695	2,268	2,830	3,069	3,090	3,042
Official (non-IMF)	671	624	162	149	160	148	618	853	929	997	1,057	1,072
Private	1,169	577	452	103	447	74	1,076	1,415	1,901	2,071	2,033	1,970
Domestic	4,583	4,647	449	1,477	1,657	1,311	4,894	4,520	9,078	12,571	15,262	16,397
Public entities 1/	445	246	81	50	80	43	254	480	732	867	934	996
Private 2/	4,138	4,401	368	1,427	1,577	1,268	4,640	4,040	8,347	11,704	14,328	15,402
Amortizations	**42,190**	**61,835**	**18,843**	**29,050**	**18,841**	**21,231**	**87,965**	**59,696**	**66,501**	**65,451**	**48,962**	**38,627**
External	2,388	4,883	1,803	939	1,033	423	4,199	3,355	3,675	6,122	6,195	6,121
Official (non-IMF)	2,163	2,434	862	419	657	410	2,349	2,475	2,587	2,535	2,401	2,007
Private	225	2,449	941	520	376	13	1,850	881	1,087	3,586	3,794	4,114
Domestic	39,802	56,953	17,040	28,111	17,807	20,807	83,766	56,340	62,827	59,329	42,766	32,506
Public entities 3/	16,267	28,271	4,639	10,098	4,405	9,360	28,502	30,413	27,705	25,560	14,582	14,570
of which Adelantos	8,610	14,408	1,656	1,411	1,261	8,338	12,666	16,650	14,392	11,148	9,153	7,827
Private 2/	23,535	28,682	12,401	18,013	13,403	11,447	55,264	25,927	35,122	33,769	28,184	17,937
IMF Debt Service	**1,471**	**5,128**	**3,987**	**3,970**	**5,382**	**6,079**	**19,419**	**20,787**	**6,597**	**1,709**	**2,934**	**6,863**
of which: Amortization	0	3,780	3,567	3,567	4,944	5,632	17,710	18,993	4,912	0	1,217	5,138
Total Needs	**74,538**	**87,449**	**25,498**	**37,719**	**29,406**	**35,419**	**128,042**	**97,986**	**90,027**	**82,572**	**65,536**	**56,783**
Treasury deposits (+, drawdown) 4/	-989	-1,820	-5,601	235	1,647	-274	-3,993	1,784	2,500	0	0	0
IMF 5/	0	4,335	0	0	0	0	0	0	0	0	0	0
Official (not IMF)	3,335	3,506	366	1,510	1,501	1,350	4,728	4,742	4,625	4,644	4,887	4,719
Public entities 6/	12,755	17,932	3,278	8,927	3,409	1,228	16,841	17,010	17,870	19,465	10,506	11,664
BCRA monetary financing	37,465	32,295	3,597	3,160	2,615	8,936	18,308	19,932	14,392	11,148	9,153	7,827
Private sector issuances 2/	28,559	41,837	14,776	20,503	16,466	15,707	67,452	37,386	47,165	47,315	40,989	32,574
of which: international market issuance	0	0	0	0	0	0	0	0	0	2,000	4,000	6,000
Other 7/	-6,588	-10,635	0	0	0	0	0	0	0	0	0	0
Total Sources	**74,538**	**87,449**	**16,416**	**34,335**	**25,638**	**26,948**	**103,337**	**80,853**	**86,552**	**82,572**	**65,536**	**56,783**
Total Gap	**0**	**0**	**9,082**	**3,385**	**3,768**	**8,472**	**24,706**	**17,132**	**3,475**	**0**	**0**	**0**
IMF Disbursements	0	0	9,882	4,235	4,235	6,353	24,706	17,132	3,475	0	0	0
Memorandum Items												
Deposit Stock (total, relative to end-2019)	2,117	3,937	11,386	10,815	8,977	9,092	9,092	5,127	2,218	1,972	1,820	1,719
Private Rollover Rates (percent)	120	142	115	109	121	141	118	139	130	127	128	148
Primary Fiscal Deficit (percent of GDP)	6.4	3.0	0.3	0.5	0.5	1.2	2.5	1.9	0.9	0.0	-0.8	-1.3
BCRA monetary financing (net)	28,855	17,886	1,941	1,749	1,354	598	5,642	3,281	0	0	0	0

Sources: National authorities and Fund staff estimates and projections.

1/ Includes BCRA.

2/ Includes Banco Nacion and other public entities.

3/ Includes BCRA and FGS.

4/ Deposit accumulation in 2022 reflects Federal Government deposits at the BCRA related to IMF purchases.

5/ Includes SDR allocation in 2021.

6/ Assumes that both BCRA and FGS roll over 100 percent of amortizations and capitalize interest.

7/ Corresponds to cash management operations of the non-financial public sector entities (-, deposits).

Table 8. Argentina: External (Residency) Gross Financing Needs and Sources

(in millions of U.S. dollars)

	2021	2022					2023	2024	2025	2026	2027
		Q1	Q2	Q3	Q4	Year					
Imports G&S	71,636	19,460	22,208	21,030	19,562	82,259	85,230	88,316	92,620	97,221	102,063
FDI payments	1,569	482	383	357	615	1,837	2,037	2,094	2,128	2,244	2,369
Interest federal government	1,201	614	252	607	222	1,695	2,279	2,893	3,157	3,366	3,649
to IFIs (excl IMF)	624	162	149	160	148	618	853	929	997	1,057	1,072
to private creditors FX	122	436	3	436	3	877	1,293	1,856	2,057	2,206	2,475
to private creditors AR$	455	16	100	11	72	199	133	108	103	103	102
Interest provincial government	381	260	140	260	157	817	963	1,008	780	679	590
Amortization federal government	4,883	1,723	900	1,014	423	4,060	3,664	4,270	7,053	7,373	7,264
to IFIs (excl IMF)	2,434	862	419	657	410	2,349	2,475	2,587	2,535	2,401	2,007
to private creditors FX	10	0	3	0	0	3	13	744	3,751	3,912	4,352
to private creditors AR$	2,439	860	478	356	13	1,708	1,177	939	767	1,059	905
Amortization provincial government	467	202	120	70	128	520	1,112	1,576	1,649	1,614	1,588
Debt service to IMF	5,128	3,987	3,970	5,382	6,079	19,419	20,787	6,597	1,709	2,934	6,844
Other outflows (net)	14,008	4,132	4,177	4,249	4,292	16,851	15,121	14,965	16,736	20,765	23,075
of which NFA formation (incl. tourism outflows)	5,031	1,998	1,998	1,998	1,998	7,992	9,853	9,045	10,175	13,295	14,702
of which private sector net debt payments	1,434	415	415	415	415	1,661	-957	-1,491	-1,492	-1,529	-1,603
of which trade credits	4	-92	-92	-92	-92	-369	-1,357	-1,400	-1,768	-1,823	-1,924
Total Needs	**99,272**	**30,861**	**32,151**	**32,969**	**31,477**	**127,457**	**131,192**	**121,719**	**125,832**	**136,196**	**147,441**
Exports G&S	86,977	21,686	26,810	24,304	22,974	95,775	98,530	103,027	109,061	116,109	123,048
FDI Inflows	6,939	1,678	2,289	2,630	2,709	9,306	11,184	12,921	13,223	13,863	14,540
Borrowing of federal government	5,516	783	1,927	1,918	1,766	6,394	6,136	5,905	8,322	11,034	12,645
from IFIs (excl IMF)	3,506	366	1,510	1,501	1,350	4,728	4,742	4,625	4,644	4,887	4,719
from private creditors FX	0	13	13	13	13	53	84	233	2,808	4,985	6,919
from private creditors AR$	2,010	403	403	403	403	1,612	1,310	1,047	870	1,162	1,007
Borrowing of provincial government	0	106	156	186	279	727	549	404	477	440	458
Reserve Drawdown (- = accumulation)	-286	-3,275	-3,267	-304	-2,604	-9,450	-2,339	-4,013	-5,250	-5,250	-3,250
Total Sources	**99,272**	**20,978**	**27,916**	**28,733**	**25,124**	**102,751**	**114,060**	**118,244**	**125,832**	**136,196**	**147,441**
Total Gap	**0**	**9,882**	**4,235**	**4,235**	**6,353**	**24,706**	**17,132**	**3,475**	**0**	**0**	**0**
IMF Disbursements	0	9,882	4,235	4,235	6,353	24,706	17,132	3,475	0	0	0

Sources: National authorities and Fund staff estimates and projections.

Note: Other outflow net: -(X-M)+(PI+SI-government interest)-[(Portfolio net+Other investment net+EO)-net government flow s]. The reserve accumulation in FX cash terms (on w hich NIR targets under the program are based) can differ from reserve accumulation in accrual (as show n in the BoP tables), as the accrual BoP tables are on a residency basis w hile reserve accumulation in cash are on a currency basis.

Table 9. Argentina: Federal Government Debt by Creditor, 2015-2021 1/

	2015	2016	2017	2018	2019	2020	2021
	(in billions of U.S. dollars)						
Total Gross Federal Government Debt	**240.7**	**275.4**	**320.9**	**332.2**	**323.4**	**335.7**	**364.5**
Debt held by Official and Private Creditors	**102.9**	**129.3**	**165.1**	**206.0**	**206.5**	**218.8**	**224.3**
Official Sector	*29.0*	*28.1*	*29.6*	*57.9*	*73.4*	*76.6*	*72.8*
Multilateral	19.8	20.2	21.3	51.0	68.0	71.1	68.0
IMF	-	-	-	28.3	44.1	46.0	41.0
Other IFIs	19.8	20.2	21.3	22.8	23.9	25.1	27.1
Bilateral	9.3	7.9	8.3	6.9	5.4	5.5	4.8
Paris Club	7.5	6.0	5.5	3.7	2.1	2.4	1.9
Non-Paris Club	1.7	1.8	2.8	3.2	3.3	3.1	2.9
Private Sector	*74.0*	*101.3*	*135.5*	*148.0*	*133.1*	*142.3*	*151.5*
Foreign Law	25.0	46.5	67.2	64.9	66.6	68.5	67.7
Bonds with new contractual clauses	-	21.9	41.3	40.4	41.2	43.5	42.8
Bonds with old contractual clauses	25.0	24.6	25.8	24.6	24.3	25.0	24.8
Other	0.0	0.0	0.0	0.0	1.1	0.1	0.1
Domestic Law	31.0	46.3	65.5	80.3	64.1	71.3	81.2
FX denominated	19.3	25.6	41.1	45.4	27.6	23.3	26.2
ARS denominated	11.7	20.7	24.4	34.8	36.5	48.0	55.0
Pending Restructuring from 2005/10 **2/**	18.0	8.5	2.9	2.8	2.4	2.5	2.6
Debt Held by the Public Sector 3/	**137.7**	**146.1**	**155.8**	**126.2**	**116.9**	**116.9**	**140.3**
	(Percent of GDP)						
Total Gross Federal Government Debt	**52.6**	**53.1**	**56.5**	**85.2**	**88.8**	**102.8**	**80.6**
Debt held by Official and Private Creditors	**22.5**	**24.9**	**29.1**	**52.8**	**56.7**	**67.0**	**49.6**
Official Sector	*6.3*	*5.4*	*5.2*	*14.9*	*20.2*	*23.4*	*16.1*
Multilateral	4.3	3.9	3.8	13.1	18.7	21.8	15.0
IMF	-	-	-	7.2	12.1	14.1	9.1
Other IFIs	4.3	3.9	3.8	5.8	6.6	7.7	6.0
Bilateral	2.0	1.5	1.5	1.8	1.5	1.7	1.1
Paris Club	1.6	1.2	1.0	1.0	0.6	0.7	0.4
Non-Paris Club	0.4	0.3	0.5	0.8	0.9	0.9	0.6
Private Sector	*16.2*	*19.5*	*23.9*	*38.0*	*36.6*	*43.6*	*33.5*
Foreign Law	5.5	9.0	11.8	16.7	18.3	21.0	15.0
Bonds with new contractual clauses	-	4.2	7.3	10.4	11.3	13.3	9.5
Bonds with old contractual clauses	5.5	4.7	4.6	6.3	6.7	7.6	5.5
Other	0.0	0.0	0.0	0.0	0.3	0.0	0.0
Domestic Law	6.8	8.9	11.5	20.6	17.6	21.8	18.0
FX denominated	4.2	4.9	7.2	11.7	7.6	7.1	5.8
ARS denominated	2.6	4.0	4.3	8.9	10.0	14.7	12.2
Pending Restructuring from 2005/10 **2/**	3.9	1.6	0.5	0.7	0.7	0.8	0.6
Debt Held by the Public Sector 3/	**30.1**	**28.1**	**27.4**	**32.4**	**32.1**	**35.8**	**31.0**
Memorandum items:							
FX-Denominated Debt held by private and official sector	91.2	108.6	140.7	171.1	170.0	170.9	169.2
(percent of GDP)	19.9	20.9	24.8	43.9	46.7	52.3	37.4
Debt held by private sector nonresidents	34.6	63.9	100.0	103.2	82.5	76.1	74.0
(percent of GDP)	7.6	12.3	17.6	26.5	22.7	23.3	16.4
Provincial Debt **4/**	20.7	28.4	35.6	29.1	26.6	26.6	25.9
(percent of GDP)	4.5	5.5	6.3	7.5	7.3	8.1	5.7

Source: National authorities.

1/ Debt is based on the authorities' data and estimated using eop exchange rate. Debt to GDP ratio presented is based on average GDP (estimate for 2021 GDP).

2/ Includes US$ 2.4 bn of debt not included in the exchange offer (based on Decrees 1735/04 y 563/10), and US$ 0.1 bn of debt outstanding from the 2001 default that was not eligible for exchanges.

3/ Public sector include BCRA and FGS.

4/ Provincial debt as of end-September 2021.

Table 10. Argentina: International Investment Position, 2017-2021

	In millions of US dollars					In percent of GDP				
	2017	2018	2019	2020	2021 (est)	2017	2018	2019	2020	2021 (est)
Net IIP	**17,332**	**65,630**	**115,268**	**121,514**	**126,604**	**2.7**	**12.6**	**25.9**	**31.7**	**26.2**
Direct Investment	-39,770	-30,362	-27,629	-43,334	-48,704	-6.3	-5.8	-6.2	-11.3	-10.1
Equity and Investment Fund Shares	-15,976	-6,626	-4,696	-12,501	-19,630	-2.5	-1.3	-1.1	-3.3	-4.1
Debt Instruments	-23,794	-23,735	-22,933	-30,833	-29,074	-3.7	-4.5	-5.1	-8.0	-6.0
Portfolio Investment	-97,130	-52,404	-2,527	9,984	11,415	-15.3	-10.0	-0.6	2.6	2.4
Equity and Investment Fund Shares	13,039	22,433	31,844	37,476	35,073	2.1	4.3	7.1	9.8	7.3
Debt Securities	-110,169	-74,838	-34,371	-27,492	-23,657	-17.3	-14.3	-7.7	-7.2	-4.9
Financial Derivatives	-3,451	-1,296	-543	-128	-145	-0.5	-0.2	-0.1	0.0	0.0
Other Investment	102,628	83,906	101,118	115,605	124,376	16.2	16.1	22.7	30.1	25.7
Other Equity	2,806	3,074	3,223	3,364	3,432	0.4	0.6	0.7	0.9	0.7
Debt Instruments	99,823	80,832	97,896	112,241	120,944	15.7	15.5	22.0	29.3	25.0
Reserve Assets	55,055	65,786	44,848	39,387	39,662	8.7	12.6	10.1	10.3	8.2
Assets	**337,123**	**377,521**	**399,273**	**399,280**	**403,588**	**53.1**	**72.2**	**89.6**	**104.1**	**83.5**
Direct Investment	40,930	42,228	42,829	40,985	42,554	6.4	8.1	9.6	10.7	8.8
Equity and Investment Fund Shares	40,930	42,228	42,829	40,985	42,554	6.4	8.1	9.6	10.7	8.8
Debt Instruments	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Portfolio Investment	59,405	60,789	69,294	69,415	66,866	9.4	11.6	15.5	18.1	13.8
Equity and Investment Fund Shares	38,806	33,370	39,500	41,808	39,546	6.1	6.4	8.9	10.9	8.2
Debt Securities	20,599	27,419	29,794	27,607	27,319	3.2	5.2	6.7	7.2	5.7
Financial Derivatives	0	13	11	17	0	0.0	0.0	0.0	0.0	0.0
Other Investment	181,733	208,705	242,289	249,475	254,506	28.6	39.9	54.4	65.0	52.7
Other Equity	2,806	3,074	3,223	3,364	3,432	0.4	0.6	0.7	0.9	0.7
Debt Instruments	178,927	205,631	239,066	246,111	251,074	28.2	39.4	53.6	64.2	52.0
Reserve Assets	55,055	65,786	44,848	39,387	39,662	8.7	12.6	10.1	10.3	8.2
Liabilities	**319,791**	**311,891**	**284,004**	**277,766**	**276,984**	**50.3**	**59.7**	**63.7**	**72.4**	**57.3**
Direct Investment	80,700	72,589	70,458	84,319	91,258	12.7	13.9	15.8	22.0	18.9
Equity and Investment Fund Shares	56,906	48,854	47,525	53,486	62,184	9.0	9.3	10.7	13.9	12.9
Debt Instruments	23,794	23,735	22,933	30,833	29,074	3.7	4.5	5.1	8.0	6.0
Portfolio Investment	156,535	113,193	71,821	59,432	55,451	24.6	21.7	16.1	15.5	11.5
Equity and Investment Fund Shares	25,767	10,937	7,656	4,333	4,474	4.1	2.1	1.7	1.1	0.9
Debt Securities	130,768	102,257	64,165	55,099	50,977	20.6	19.6	14.4	14.4	10.6
Financial Derivatives	3,451	1,309	554	145	145	0.5	0.3	0.1	0.0	0.0
Other Investment	79,105	124,799	141,170	133,870	130,131	12.5	23.9	31.7	34.9	26.9
Other Equity	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Debt Instruments	79,105	124,799	141,170	133,870	130,131	12.5	23.9	31.7	34.9	26.9
Memorandum items										
Debt liabilities	233,667	250,791	228,269	219,802	210,181	36.8	48.0	51.2	57.3	43.5

Sources: National authorities and Fund staff estimates.

Table 11. Argentina: Financial Soundness Indicators, 2015–2021

	2015	2016	2017	2018	2019	2020	2021
				(Percent, end-of-period)			
Financial System							
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	13.3	16.7	15.6	16.0	17.5	24.2	25.7
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.4	15.2	14.1	14.2	15.5	22.3	24.3
Assets Quality							
Non-performing Loans Net of Provisions to Capital	-3.2	-2.5	-3.0	-2.4	0.3	-4.4	-1.2
Non-performing Loans to Total Gross Loans	1.7	1.8	1.8	3.1	5.7	3.9	4.3
Earnings and Profitability							
Return on Assets	4.1	3.6	2.7	4.1	5.4	2.4	1.1
Return on Equity	32.4	29.6	23.4	36.1	46.4	16.4	7.3
Liquidity							
Liquid Assets to Total Assets (Liquid Asset Ratio)	34.3	36.4	30.0	41.8	43.2	48.0	50.7
Liquid Assets to Short Term Liabilities	53.4	54.0	45.5	60.1	62.0	69.2	73.7
Net Open Position in Foreign Exchange Capital	21.9	19.5	12.1	9.3	8.6	13.1	10.0
Private Banks							
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	13.7	15.1	15.3	16.8	19.5	25.5	27.3
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.8	13.4	13.4	14.4	16.9	23.0	25.3
Assets Quality							
Non-performing Loans Net of Provisions to Capital	-3.5	-2.9	-2.4	-0.6	-2.1	-6.2	-2.6
Non-performing Loans to Total Gross Loans	1.5	1.6	1.8	3.1	4.4	2.2	2.9
Earnings and Profitability							
Return on Assets	4.1	3.7	3.2	4.2	7.5	2.7	1.4
Return on Equity	31.2	29.4	26.6	35.6	60.3	2.7	1.4
Public Banks							
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	12.3	19.5	16.2	14.7	13.6	21.9	23.2
Regulatory Tier 1 Capital to Risk-Weighted Assets	11.6	18.7	15.4	14.1	13.0	21.3	22.6
Assets Quality							
Non-performing Loans Net of Provisions to Capital	-2.9	-2.4	-4.7	-6.3	4.9	-0.7	1.3
Non-performing Loans to Total Gross Loans	2.0	2.2	1.6	2.7	7.8	6.6	6.5
Earnings and Profitability							
Return on Assets	4.0	3.5	2.0	4.0	2.0	2.1	0.9
Return on Equity	34.8	30.3	18.5	38.6	20.2	17.2	6.7

Sources: Banco Central de la República Argentina (BCRA) and IMF.

Table 12. Argentina: Indicators of Fund Credit, 2022-2032
(in millions of SDRs, unless otherwise specified)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total (2022-2032)
Existing and Prospective drawings (30-month EFF)	17,500.0	12,000.0	2,414.00	...	...	...	...	...	...	...	...	
(in percent of quota)	549.1	376.5	75.7									
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/												
Amortization 1/	12,031.9	13,303.4	3,412.5	0.0	833.3	3,500.0	5,050.0	5,319.0	5,319.0	5,319.0	4,485.7	58,573.8
GRA charges 1/	294.4	394.0	383.2	388.5	387.9	368.3	320.5	257.6	192.9	128.0	64.1	3,179.4
GRA surcharges 1/	558.0	791.0	764.5	777.8	776.2	727.9	610.0	455.3	295.9	136.0	11.3	5,903.8
of which level-based	395.7	527.4	509.7	518.5	517.5	485.2	406.7	303.6	197.3	90.7	7.5	3,959.5
time-based	162.4	263.7	254.8	259.3	258.7	242.6	203.3	151.8	98.6	45.3	3.8	1,944.3
GRA service charge 1/	87.5	60.0	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	159.6
SDR assessments and charges 1/	8.2	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	119.6
Total debt service 1/	12,979.9	14,559.5	4,583.4	1,177.4	2,008.6	4,607.3	5,991.6	6,043.1	5,818.9	5,594.1	4,572.2	67,936.1
(in percent of exports of G&S)	18.8	20.5	6.2	1.5	2.4	5.21	6.46	6.22	5.72	5.39	4.66	
(in percent of GDP)	3.2	3.5	1.1	0.3	0.5	0.99	1.24	1.20	1.11	1.03	0.81	
(in percent of GIR)	36.8	39.4	11.5	2.7	4.2	9.3	10.8	9.8	8.5	7.9	6.4	
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/												
Outstanding stock 1/	34,215.9	32,912.5	31,914.0	31,914.0	31,080.7	27,580.7	22,530.7	17,211.7	11,892.7	6,573.7	2,088.0	
(in percent of quota)	1,073.5	1,032.6	1,001.3	1,001.3	975.1	865.33	706.89	540.01	373.13	206.25	65.51	
(in percent of GDP)	8.4	8.0	7.7	7.5	7.0	5.9	4.7	3.4	2.3	1.2	0.4	
(in percent of GIR)	96.9	89.0	80.0	73.1	65.5	55.4	40.6	28.0	17.4	9.2	2.9	
Memorandum items:												
Exports of goods and services (US$ mn)	95,775	98,530	103,027	109,061	116,109	123,048	128,892	135,014	141,427	144,331	136,399	
Gross International Reserves (US$ mn)	49,112	51,451	55,464	60,714	65,964	69,215	77,189	85,506	94,780	99,091	98,845	
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	3,187.3	3,187.3	

Source: Fund staff estimates and projections.

1/ Assumes that all purchases will be made.

Table 13. Argentina: Proposed Schedule of Reviews and Purchases

Available on or after	Original Amounts		Conditions 1/
	SDR millions	% Quota	
March 18, 2022	7,000	220	Approval of Arrangement
June 10, 2022	3,000	94	First Review and end-March 2022 performance criteria
September 10, 2022	3,000	94	Second Review and end-June 2022 performance criteria
December 10, 2022	4,500	141	Third Review and end-September 2022 performance criteria
March 10, 2023	4,000	125	Fourth Review and end-December 2022 performance criteria
June 10, 2023	3,000	94	Fifth Review and end-March 2023 performance criteria
September 10, 2023	2,500	78	Sixth Review and end-June 2023 performance criteria
December 10, 2023	2,500	78	Seventh Review and end-September 2023 performance criteria
March 10, 2024	800	25	Eighth Review and end-December 2023 performance criteria
June 10, 2024	800	25	Ninth Review and end-March 2024 performance criteria
September 1, 2024	814	26	Tenth Review and end-June 2024 performance criteria
Total	31,914	1,001	

Sources: Fund staff calculations.

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

Annex I. Implementation Status of the 2017 Article IV Consultation Recommendations

	Main Staff Recommendation during the 2017 Article IV Consultation	Current Status and Key Actions Undertaken by the Authorities
Fiscal Policies	A frontloaded reduction in general government spending that targets an elimination of the primary deficit by 2019.	The COVID-19 pandemic interrupted the fiscal consolidation process. The federal government primary deficit narrowed from 3.8 percent of GDP in 2017 to 0.4 percent of GDP in 2019, before rising sharply in 2020 (to 6.4 percent of GDP) on account of pandemic-related spending. In 2021, the deficit narrowed to 3 percent of GDP, aided by the unwinding of COVID-19-related support.
	Mitigate the impact on the poorest from the needed fiscal adjustment	Social assistance programs have been strengthened since the last Article IV consultation. The 2018 SBA protected the most vulnerable, including through a program floor on federal government spending on social assistance, with a focus on programs covering children. Social assistance has been scaled up since end-2019, especially in the context of the COVID pandemic, when new programs were also introduced, such as the food stamp program *Tarjeta Alimentar*. Temporary support was provided via an emergency family income (*IFE*) program, targeting informal workers; and a Work and Production program (*ATP*) to help firms pay salaries.
Public Financial Management	Ensure compliance with the Fiscal Responsibility Law (FRL), including through a medium-term debt target, to deliver a sustainable fiscal path for the general government	Efforts to comply with the FRL faced significant challenges. Application of the FRL was suspended by Congress in 2020, and the role of the Federal Council of Fiscal Responsibility (FCFR)—tasked with monitoring compliance with the FRL—has been diminished. Efforts are underway to improve federal-provincial coordination and data sharing in the context of the new Fiscal Consensus.
	Strengthen the budgetary framework, including through three-year budget forecasts and an analysis of fiscal risks	The approved 2019 budget was the last that contained multi-year objectives with details on macroeconomic assumptions. The economic emergency, and pandemic have complicated the budget process and implementation of multi-year frameworks during the last three years. Multi-year forecasts and deeper analysis of fiscal risks are envisaged by the authorities in forthcoming budget cycles.
Monetary and FX Policies	The BCRA should prioritize its inflation objectives and doing so will require a continued restrictive monetary stance	Persistent high inflation remains a challenge. In the context of open capital accounts, a tight policy stance and strict zero limits on central bank financing did little to contain inflation during 2018-19. The crawling peg regime adopted in late 2019 had some initial success, yet sizeable monetary financing of the deficit and negative real policy rates fueled inflation and weakened money demand. Since end-2021, the central bank has raised the effective annual policy rate by 650 basis points, moving policy rates into positive territory.
Structural Reforms	Reduce distortions in the tax system through: (i) lowering the tax wedge on labor income; (ii) reducing the tax burden on investment; and (iii) reducing cascading taxes	Economic instability, compounded by COVID-19, hampered progress in reducing distortions in the tax system. The 2017 tax reform and the 2018 Fiscal Pact lowered corporate income tax, turnover taxes, and the effective tax on labor income for lower-income workers. Implementation of the reform was delayed and reliance on the financial transactions tax and export taxes continued given fiscal needs. Efforts during 2020-21 have focused on increasing the progressivity of taxes and improving compliance.

	Main Staff Recommendation during the 2017 Article IV Consultation	Current Status and Key Actions Undertaken by the Authorities
	Reform labor market institutions by introducing greater flexibility and improving active labor market policies	Labor markets remain relatively rigid. Reform efforts have focused on reorienting social support programs to promote formal employment and labor market inclusion, particularly for women and low-skilled young adults. The flagship program *Potenciar Trabajo* has been significantly scaled up to deepen labor market inclusion through job training programs and incentives to employers. New employment support programs have been established, aimed at supporting youth employment in SMEs and training skilled workers for the knowledge economy sector. Extraordinary measures introduced during the pandemic to protect employment were unwound at end-2021.
	Reduce barriers to trade and foreign investment	The crisis setback efforts to reduce barriers to trade and foreign investment. The free-trade agreement between Mercosur has yet to be ratified and export taxes and import tariffs remain in place due to fiscal constraints. Critically, the crisis led to the reestablishment of capital controls in August 2019 and their strengthening during 2020-21. These measures have generally slowed capital outflows but have introduced distortions that tend to discourage trade and foreign investment.
	Remove entry barriers and product market regulations that restrict competition and investment	Following congressional approval of a new Competition Law in 2018, progress has stalled. An independent National Competition Authority (ANC) has yet to be established and modifications to the Law are now being considered.
	Adopt policies to deepen the financial system and facilitate intermediation	Efforts are underway to strengthen the domestic government bond market, following the rescheduling in late 2019. Improvements in debt management practices include: (i)development of a market makers program; (ii) streamlining of the number of instruments; and (iii) enhancement in auction predictability.
	Strengthen the anti-corruption regime, focusing on its effective implementation and institutional framework	A new framework strengthening the company registry ("*Fortalecimiento delRegistro Publico de Sociedades*") has been established, providing basic information on corporate entities and legal arrangements operating in Argentina. On the AML/CFT front, the national risk assessment of terrorist financing has been completed and the assessment on money laundering is near completion with support from the IADB. Draft amendments to the AML/CFT legislation (Law 25.246) are expected to be presented to Congress by mid-2022.

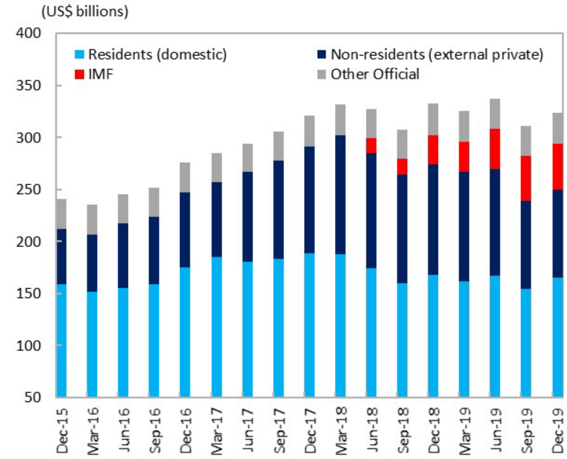
Annex II. Public Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) indicates that public debt is sustainable but not with high probability. Federal gross public debt is projected to decline from over 80 percent of GDP at end-2021 to around 63 percent by 2027 and 57 percent by 2030.[1] Despite the 2020 FX debt restructurings, FX debt service and GFNs remain relatively high over the medium to long term (and above the targets established in the March 2020 Technical Note on Debt Sustainability). However, this assessment is subject to significant uncertainty, notably from the rapidly evolving conflict in Ukraine, which is clouding the outlook for global growth, inflation, and capital flows. Risks to the baseline are, therefore, exceptionally high, reflecting Argentina's exposure to shocks, as well as policy implementation uncertainties. Sustained fiscal consolidation, including beyond the program period, along with efforts to deepen domestic capital markets and boost exports and productivity, remain essential to contain financing needs, mobilize domestic saving, strengthen export capacity and improve prospects of international market access, which in turn would improve debt-servicing capacity.

A. Background

1. **Argentina's gross federal public debt rose sharply between 2015-19.** Federal public debt in US$ terms rose by over US$90 billion between end-2015 and mid-2018 to US$340 billion and fell slightly thereafter to reach US$323 billion by end-2019. The increase in debt through mid-2018 reflected a combination of issuance of foreign-currency bonds in international capital markets (US$44 billion) and bonds in both pesos and foreign currency in the domestic capital market. During 2018-19, official sector debt rose significantly, mainly on account of Fund disbursements (US$45 billion) under the 2018 SBA, which were partly used to meet private sector debt service obligations. With the bulk of debt denominated in foreign currency, the peso depreciation along with the contraction in economic activity led to a steep rise in the debt-to-GDP level between 2017 and 2019.

Argentina: Federal Government Debt, 2015–19
(US$ billions)



Source: Official data.

[1] The DSA covers gross federal debt held by the private, official and public sectors. Federal government debt, net of intra-public sector debt, is projected to fall from almost 50 percent of GDP at end-2021 to below 40 percent by 2030 in the baseline. The DSA does not include undrawn central bank bilateral FX swaps. Under the risk-based approach, central bank liabilities shall not be included, as long as: (i) they represent normal central bank monetary or liquidity operations (as opposed to sovereign-to-sovereign medium-term balance of payments support), and (ii) the central bank is expected to be able to extinguish the swap position without actions detrimental to government debt levels (e.g., outright government foreign borrowing to pay off the swap). In the event that swaps are drawn and either of these conditions are not met, the drawn amount will be included in the DSA, unless deemed de minimis (see Review of the Debt Sustainability Framework for Market Access Countries).

2. Since 2019, Argentina's federal public debt has risen to US$365 billion (end-2021), the equivalent of 81 percent of GDP.

Argentina: Federal Government Debt by Creditor, 2019-21 1/

	2019	2021	2019	2021
	(in US$ billions)		(in % GDP)	
Gross Federal Government Debt	**323.4**	**364.5**	**88.8**	**80.6**
Official sector	73.4	72.8	20.2	16.1
IMF	44.1	41.0	12.1	9.1
Other IFIs	23.9	27.1	6.6	6.0
Bilateral	5.4	4.8	1.5	1.1
Paris Club	2.1	1.9	0.6	0.4
Non-Paris Club	3.3	2.9	0.9	0.6
Private sector	133.1	151.5	36.6	33.5
FX denominated	94.1	93.9	25.9	20.8
ARS denominated	36.5	55.0	10.0	12.2
Holdouts	2.4	2.6	0.7	0.6
Other public sector 2/	116.9	140.3	32.1	31.0
Memorandum items:				
FX-denominated	170.0	169.2	46.7	37.4
Nonresident private holdings	82.5	74.0	22.7	16.4

Source: Argentine authorities and Fund staff calculations.

1/ Debt based on data provided by the authorities and estimated using eop exchange rate. Debt to GDP ratio based on average period GDP.

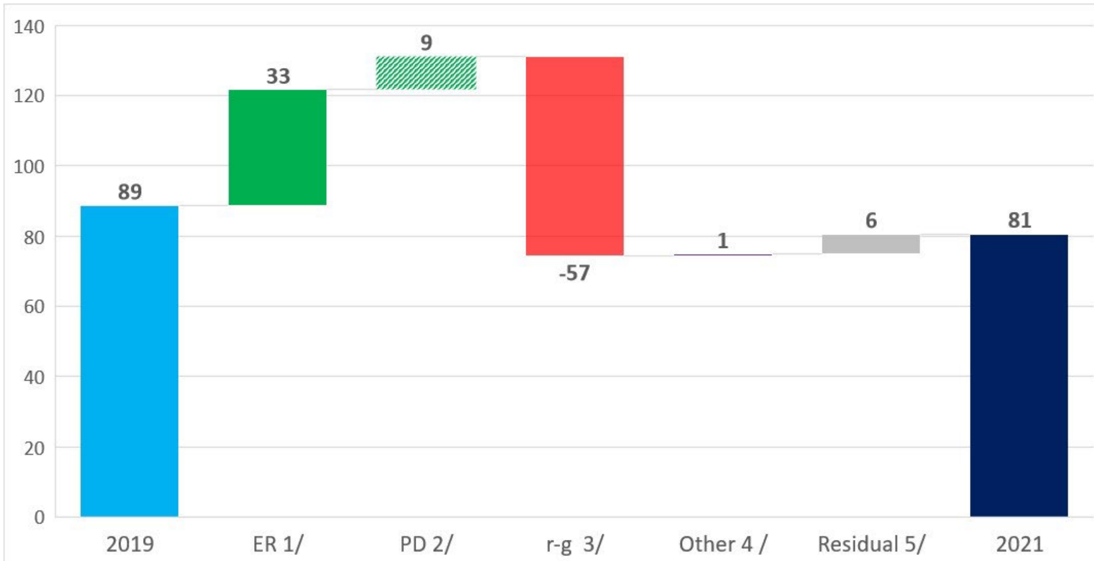
2/ Public sector includes the BCRA and FGS.

- **Dynamics 2019-21**. Public debt rose by about US$40 billion from 2019 to 2021, mainly on account of a rise in domestic debt (placed with the market and public entities) to finance the fiscal deficits, including as a result of the COVID-19 shock. As such, the decline in public debt as a share of GDP (from 89 percent in 2019 to 81 percent in 2021), was largely driven by the favorable interest rate/growth differential (Annex Figure 1).[2]
- **Composition at end-2021.** About 42 percent (US$152 billion) of this debt was held by the private sector in 2021, 20 percent (US$73 billion) by the official sector and the remaining 38 percent (US$140 billion) by public sector entities (BCRA and FGS). Of the debt held by the private sector, about 65 percent (US$94 billion) is in the form of FX-denominated debt issued under foreign and domestic law (the bulk of which was restructured in September 2020), with the remaining 35 percent (US$55 billion) in the form of peso-denominated domestic-law debt. Meanwhile, the bulk of the official sector debt is held by the IMF (US$41 billion) and other IFIs (US$27 billion), with bilateral creditors holding a small portion (US$4.8 billion). The share of public debt in foreign currency and held by nonresidents was around 70 percent and 40 percent of total debt at end-2021, respectively.

3. The comprehensive debt restructuring completed in September 2020 improved the country's medium-term FX debt service profile (see also Staff Report Box 4). The restructuring—which involved US$82 billion in FX-denominated debt held by the private sector—provided liquidity relief of about US$33 billion over 2020-30, mainly through maturity extensions and lower interest rates. After limited payments during 2020-23, debt service on the restructured FX debt is projected to increase from an average of around US$5 billion (0.9 percent of GDP) during 2024-25, to an average of US$7 billion (1.4 percent of GDP) during 2027-28.

[2] During 2020-21, a large share of the overall fiscal deficit was financed by the central bank: 7.4 percent of GDP in 2020 and 3.7 percent in 2021. While central bank financing mitigated the direct impact of the deficit on the federal gross public debt stock, it translated into a higher quasi fiscal cost and stock of central bank securities (which stood at 10.9 percent of GDP at end-2021, more than double the 2019 level).

Figure 1. Argentina: an e in P lic e t 21: Contributing Factors (in percent of GDP)



Sources: Fund staff estimates.

1/ Impact of exchange rate depreciation. Derived as ae(1+r)/(1+g)*d, where d is previous debt ratio, r the nominal interest rate, g the nominal GDP growth rate, a share of FX-denominated debt, and e the depreciation of the nominal exchange rate (measured by an increase in local currency per US$).

2/ Impact of the primary deficit.

3/ Impact of the differential between the nominal interest rate and nominal GDP growth. Derived as (r-g)/(1+g)*d, where d is the previous debt ratio, r the nominal interest rate, g the nominal GDP growth rate, and e the depreciation factor of the nominal exchange rate (measured by an increase in local currency value of the US$).

4/ Other flows include deposit accumulation (positive).

5/ Residual includes errors and omissions.

4. **Shut out from international capital markets, reliance on the local peso government debt market rose markedly since 2019.** Domestic peso debt held by the private sector has risen by US$17 billion, with average rollover rates rising to 130 percent during 2021. In addition, the average maturity of peso instruments was lengthened from less than 6 months in 2019 to about 10 months in 2021, and the instruments were expanded, with increased reliance on inflation-linked instruments. USD-linked bonds (net placement of 0.65 percent of GDP) in 2020-21 were only issued during periods of market volatility.

5. **Net financing from official creditors was modest during 2020-21.** Argentina received US$ 4.3 billion (1 percent of GDP) from the Fund's general SDR allocation in August 2021, which has been used to meet its Fund repurchase obligations from September 2021 to January 2022. Multilateral Development Banks (including the World Bank and InterAmerican Development Bank) provided net financing of around 0.3 percent of GDP per annum during 2020-21, including in the form of rapid-disbursing pandemic support and loans for vaccine procurement and implementation of the national vaccination plan. Meanwhile, small net payments were made to bilateral creditors.

6. Argentina is taking important steps to deal with significant official obligations falling due. The requested EFF would provide financing to help meet Argentina's significant balance of payments needs, including those arising from obligations to the Fund during 2022-24. The Paris Club announced at end-June 2021 that it would avoid declaring a default on principal and interest obligations worth US$2.4 billion at end-July 2021, on the basis of Argentina's commitment to reach agreement on a Fund-supported program by end-March 2022. In addition, it indicated that it would consider a rescheduling of Argentina's arrears in the context of a Fund-supported program, while respecting the principle of comparability of treatment.[3]

B. Baseline scenario

7. The program's macroeconomic baseline assumes a fiscal consolidation and reserve accumulation path, which would allow an eventual easing of capital controls and re-access to international capital markets. The key macroeconomic and financing assumptions include (see also Staff Report ¶15):

- *Real GDP growth*. Real GDP growth is projected to slow to around 4 percent in 2022 and settle at 2 percent over the medium term as the output gap closes. The assumed potential growth is consistent with Argentina's average real GDP growth over the past 20 years but achieving this would require entrenching stability and growth-enhancing reforms.
- *Inflation and exchange rate*. Inflation, which reached 51 percent in 2021 (eop), is projected to fall by 5 percentage points per annum and stabilize around 10-15 percent over the medium term. Inflation, along with capital controls, the near-term use of CER-linked instruments (see below), and low interest rates on external privately held debt as a result of the 2020 debt restructuring, contribute to an overall negative effective real interest rate over the medium to long term. Meanwhile, the real effective exchange rate is projected to stabilize around average 2021 levels, the level consistent with medium-term fundamentals (see Annex IV).
- *Primary balance*. The primary fiscal deficit is projected to decline from 3.0 percent in 2021, to a deficit of 0.9 percent of GDP by the end of the program in 2024. Further consolidation would be required to converge to the steady-state primary surplus of 1.3 percent of GDP by 2027. Achievement of this path will require a well-sequenced and balanced policy reform package.
- *Capital flow management measures*. Capital flow measures are assumed to remain in place (albeit with some potential streamlining) through the program period, limiting capital outflows and supporting the balance of payments in the near term. Over time, and as reserve coverage improves, capital flow measures would be gradually eased, consistent with a return to international capital markets beginning in 2025.
- *Domestic financing*. The program baseline assumes the successful delivery of the authorities' ambitious plans to deepen the domestic peso debt market. Net domestic financing is expected to average 1.7 percent of GDP during 2022-27, consistent with average annual rollover rates of

[3] Argentina paid US$227 million and US$190 million to the Paris Club in July 2021 and February 2022, respectively.

- around 130 percent.[4] In the near term, and while inflation is high and unanchored, the financing strategy assumes continued reliance on short-term fixed rate instruments and inflation (CER)-linkers. Over the medium term, an increase in longer-term issuance is envisaged, as disinflation takes hold and investors are more willing to hold longer-maturity, fixed-rate instruments. Domestic real interest rates are assumed to rise from around 2 percent in 2022, to 3 percent by 2025, and 4½ percent by 2028, consistent with Uncovered Interest Parity and the cost of accessing international markets.

Argentina: Key DSA Financing Assumptions

	2022	2023	2024	2025	2026	2027	2028
External Financing							
Official							
Disbursements (USD billions)	4.7	4.7	4.6	4.6	4.9	4.7	3.6
Net financing (USD billions)	2.4	2.3	2.0	2.1	2.5	2.7	0.7
Nominal Interest rate (percent)	3.0	3.0	3.0	3.0	3.0	3.0	3.0
International markets							
Issuance (USD billions)	…	…	…	2.0	4.0	6.0	10.0
Spread (basis points)	…	…	…	450	450	450	450
Maturity (years)	…	…	…	7	7	7	7
Grace period (years)	…	…	…	4	4	4	4
Peso Market Financing							
Instruments (share)							
Short-term (fixed rate)	50	50	40	20	15	10	10
CER-linked (2-year maturity)	45	40	30	15	15	0	0
Long-term (3/4-year maturity)	5	10	30	65	70	90	90
Real Interest Rate (percent)	2.0	2.3	2.5	3.0	3.5	4.0	4.5

Source: Fund staff assumptions and projections.

- *External financing and market access.* During 2022-24, the phasing under the EFF will provide some positive net financing for use in 2022 (0.8 percent of GDP), with zero net financing the following two years.[5] Meanwhile, net financing from MDBs is projected to increase to 0.4 percent of GDP, with net financing from official bilateral creditors dependent on the rescheduling agreement reached with the Paris Club.[6] Beyond 2024, net non-IMF official financing is projected to remain at 0.4 percent of GDP to cover interest obligations. Debt service on FX-denominated debt is assumed to follow the post-restructuring schedule, with modest new financing from international markets anticipated from 2025 onwards (US$2 billion in 2025, US$4 billion in 2026, and US$6 billion in 2027).

8. **Under the baseline, public debt and debt service are still projected to fall to manageable levels over the near to medium term, yet buffers are limited.** Indicative targets for debt and debt service, excluding intra-public sector debt obligations to BCRA and FGS, were established in the March 2020 Technical Note on Debt Sustainability. These targets were set conservatively, and consistent at the time with an assessment of sustainable debt with high probability.[7] With debt service now projected to be higher than these established targets, buffers have been depleted:

[4] These assumptions are also consistent with a reduction in monetary financing of the budget, which is assumed to fully unwind in 2024.

[5] An additional 0.4 percent of GDP in purchases in 2022 is reflected in deposit accumulation, to meet future repurchases in 2023 and 2024.

[6] Projections assume that net flows from non-Paris Club bilateral creditors (averaging US$0.6 billion per year), would offset the assumed repayment of outstanding debt to the Paris Club during 2023-26.

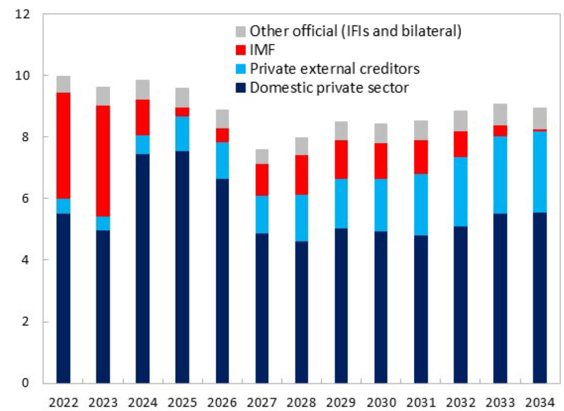
[7] The debt universe includes debt held by some public sector entities as well as MDBs, both of which are subject to significantly lower rollover risks. Fully performing publicly-guaranteed debts are also included.

- *Public debt*, excluding intra-public sector debt obligations, is projected to fall below 40 percent of GDP by 2030, the target established in the March 2020 Technical Note on Debt Sustainability. Including BCRA and FGS debt, gross public debt is projected to decline from 80 percent of GDP at end-2021 to around 63 percent of GDP by 2027.

- *FX debt service*, excluding intra-public sector debt obligations, is projected to decline and stabilize at around an average of 3.3 percent of GDP during 2025-30, consistent with the cashflow relief from the FX debt restructuring operation, as well as the assumed extension of maturities under the Fund-supported EFF. The average FX debt service over the medium term is marginally higher (0.3 percent of GDP) than the targets in the March Technical Note on Debt Sustainability.

- *Gross financing needs*, after excluding intra-public sector debt obligations, are projected to average around 7.5 percent of GDP during 2025-30, over 2 ppts higher than the targets established in the March 2020 Technical Note on Debt Sustainability.[8] Large and sustained domestic financing assumed in the program baseline, even if denominated in peso, implies a significant increase in debt service obligations, which could become challenging to meet in the context of the assumed gradual easing of capital flow measures. As such, the further strengthening of domestic debt management will be critical.

Federal Government Debt Service (excl. BCRA and FGS), 2022-34
(in % of GDP)



Source: Fund staff calculations and projections.

C. Risks and Vulnerabilities

9. The program baseline is subject to exceptional uncertainty on the macroeconomic and policy implementation front.

- The rapidly evolving conflict in Ukraine is clouding the global outlook for growth, commodity prices, and capital flows with highly uncertain implications for Argentina. Moreover, even beyond the highly uncertain current conjuncture, the DSA realism tools indicate a history of large growth and inflation projection errors in Argentina, given its past macroeconomic instability.

- Other risks relate to the intensification of the COVID-19 pandemic, a sudden tightening in global financing conditions, and worsening drought conditions, all of which would negatively impact activity and the fiscal and external balances, with adverse knock-on effects on inflation, social conditions, and debt service capacity.

[8] GFNs are projected to average around 11 percent of GDP during 2025-30, after including intra-public sector debt.

- Importantly, policy implementation slippages could also undermine confidence, lead to pressures on international reserves, the currency, the ability to rollover domestic peso debt, and eventually re-access international capital markets.
- Risks are amplified by the large share of FX-denominated debt and the presence of non-residents, especially given Argentina's low export base and thin domestic market. In addition, FX obligations arising from provincial debt and the high stock of central bank paper held by commercial banks adds to vulnerabilities.[9] Some of these risks are mitigated by the fact that a large share of FX debt (over 40 percent) is held by IFIs; and a large share of overall debt is held by the intra-public sector, reducing rollover risks.

D. Alternative Scenarios and Stress Tests

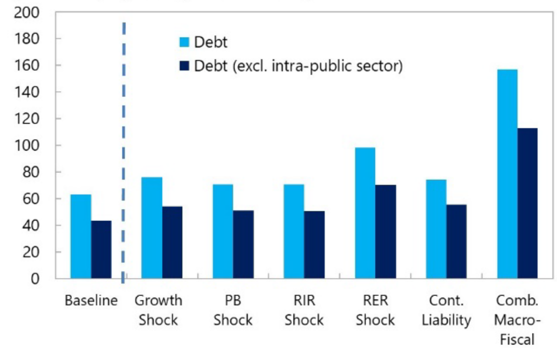
10. Despite the projected improvement in the debt dynamics, the declining debt and debt service paths are vulnerable to shocks, particularly on the exchange rate front.

- ***Alternative scenarios.*** Under the ***historical scenario***, the debt-to-GDP ratio would gradually rise from 81 percent of GDP (50 percent of GDP, excluding intra-public sector debt) in 2021 to around 90 percent of GDP by 2026 (70 percent of GDP, excluding intra-public sector debt). Under the ***constant primary balance scenario***, debt-to-GDP would fall initially but gradually rise back to 80 percent of GDP (60 percent of GDP, excluding intra-public sector debt). As such, both scenarios would see debt put on an unsustainable trajectory, while GFNs would remain elevated at around 20 percent of GDP (15-16 percent of GDP, excluding intra-public sector debt), in contrast to the sharp decline in the baseline.
- ***Shocks:***
  - A one standard deviation ***growth shock***, a sustained ***real interest rate shock*** of (200bps), or a ***primary balance* shock** in which only half the planned fiscal consolidation is implemented over the medium term (1.9 percent of GDP less cumulatively), would see debt rise to around 70 percent of GDP by 2027 (or 50 percent of GDP, excluding intra-public sector debt). GFNs would decline more slowly than in the baseline, rising to around 12 percent of GDP by 2027 (9 percent of GDP, excluding intra-public sector debt).

[9] As explained in greater detail in the External Sustainability Annex III, provincial government debt is estimated to have stood at around 6 percent of GDP at end-2021, with a large portion of the FX-denominated debt restructured during 2020-21. These could become contingent liabilities, if the federal government chooses to assume the debt of provincial governments.

- A ***real exchange rate shock*** (100 percent real depreciation – the maximum over a 10-year period), with 25 percent pass-through) would see debt-to-GDP rise to 120 percent of GDP in 2023 before declining gradually to around 100 percent of GDP by 2027 (70 percent of GDP, excluding intra-public sector debt). In this scenario, GFNs would peak at 21 percent of GDP and only decline to 16 percent of GDP by 2027 (12 percent of GDP, excluding intra-public sector debt).

Debt: Medium-term Projections under Stress Test Scenarios
(End-2027 projection; percent of GDP)

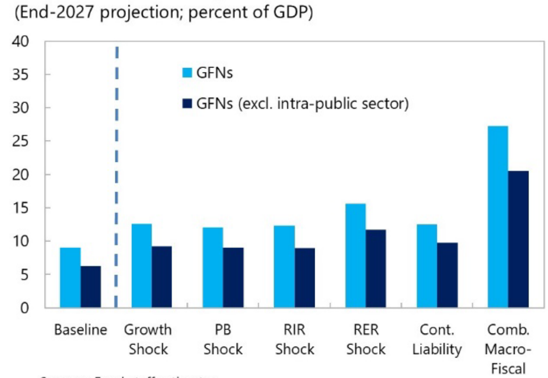


Sources: Fund staff estimates

- A ***combined macro-fiscal shock*** would weaken debt dynamics more significantly, pushing debt up to over 155 percent of GDP over the medium term (around 115 percent of GDP, excluding intra-public sector debt), while GFNs would rise to over 27 percent of GDP by 2027 (over 20 percent of GDP, excluding intra-public sector debt).

- Under a ***contingent liability*** *shock* tailored for Argentina's circumstances (an illustrative one-off materialization of 5 percent of GDP), the fiscal deficit would rise in 2023-24 to around 8 percent of GDP and, as a result, debt would fall to only 74 percent of GDP by 2027 (56 percent of GDP, excluding intra-public sector debt). GFNs would remain at around 13 percent of GDP by 2027 (around 10 percent of GDP, excluding intra-public sector debt). The central bank's weak balance sheet remains a key contingent liability, especially if reliance on monetary financing is not scaled back quickly enough and money demand wanes. In that regard, a strategy to gradually strengthen the finances and governance of the central bank will be necessary.

GFNs: Medium-term Projections under Stress Test Scenarios
(End-2027 projection; percent of GDP)



Sources: Fund staff estimates

E. Overall Assessment

11. Staff assesses debt to be sustainable but not with high probability. The 2020 FX debt restructuring provided significant liquidity relief for Argentina over the near to medium term. The new EFF program would help anchor the authorities' adjustment and reform program, while also meeting its significant balances of payments needs arising from the large bunching of Fund obligations in 2022-23. Nevertheless, under the current baseline, debt is projected to be placed on a sustainable downward trajectory, but not with high probability, as risks remain exceptionally high. With projected debt and debt service metrics now above the targets set out in the March 2020 Technical Note on Debt Sustainability, buffers are limited.

12. Risks to the baseline remain acute. Geopolitical risks have increased markedly in recent weeks, exacerbating already-high uncertainty around the baseline outlook for Argentina. Moreover, the pandemic and the ongoing drought, which could compromise the recovery, intensify balance of payments pressures, and undermine Argentina's medium-term repayment capacity. Importantly, anything less than steadfast implementation of policies to reduce fiscal imbalances, rebuild reserves, tackle high inflation, and encourage holdings of peso assets could weaken economic stability and repayment capacity. Moreover, latent structural vulnerabilities remain, including: (i) the low and undiversified export base; (ii) thin domestic capital markets; (iii) high shares of foreign currency and non-resident debt; and (ii) the contingent liabilities from provinces' FX debt and central bank balance sheet weaknesses, which will need to be addressed over the medium term.

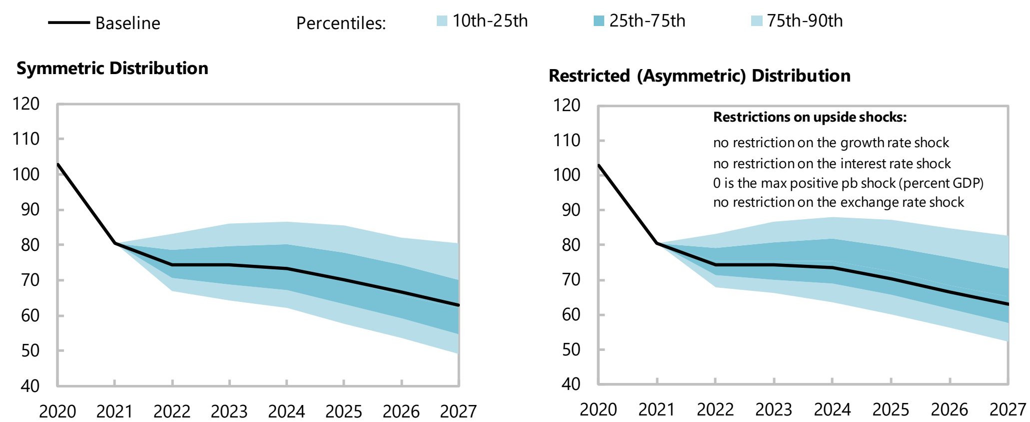
Figure 2. Argentina: Public DSA Risk Assessment

Heat Map (excluding Public Sector)

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

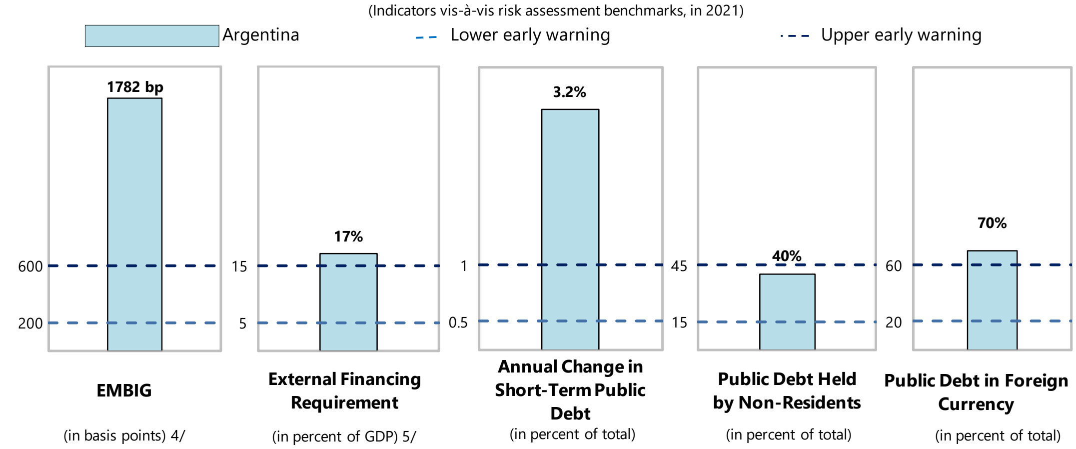
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



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.

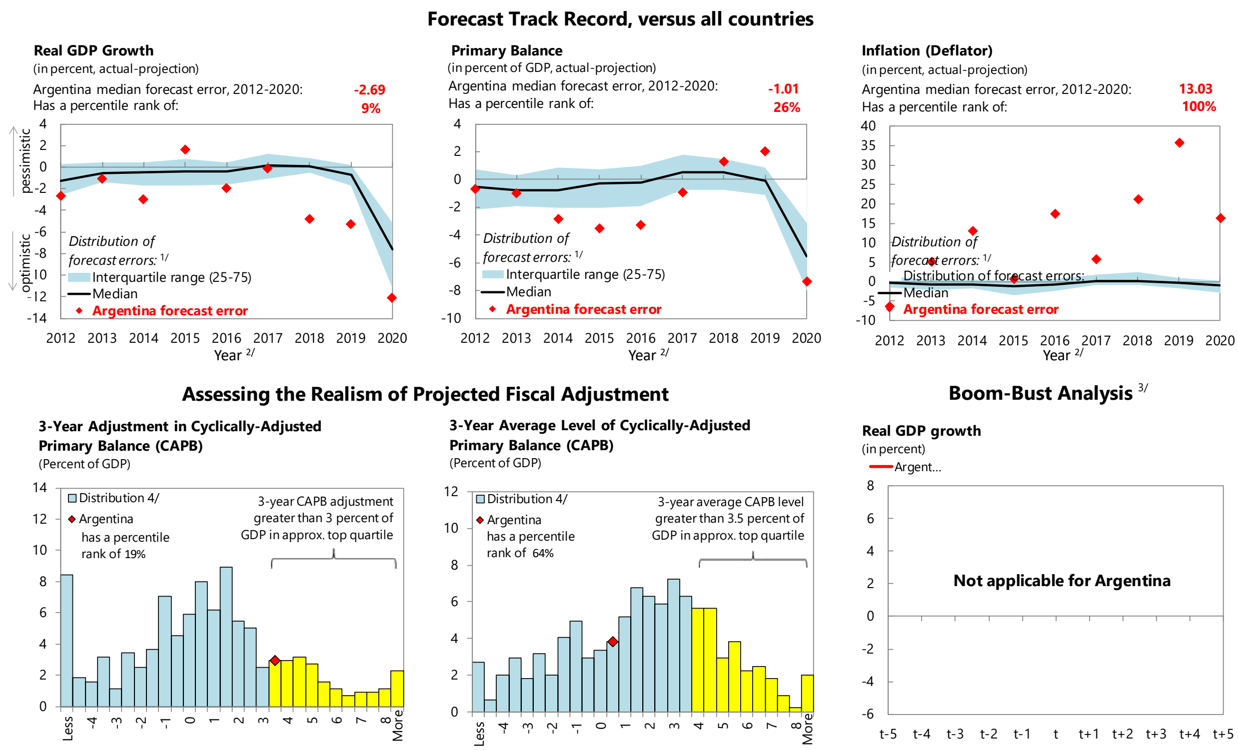
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 26-Nov-21 through 24-Feb-22.

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.

Figure 3. Argentina: Public DSA - Realism of Baseline Assumptions



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.

Figure 4. Argentina: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

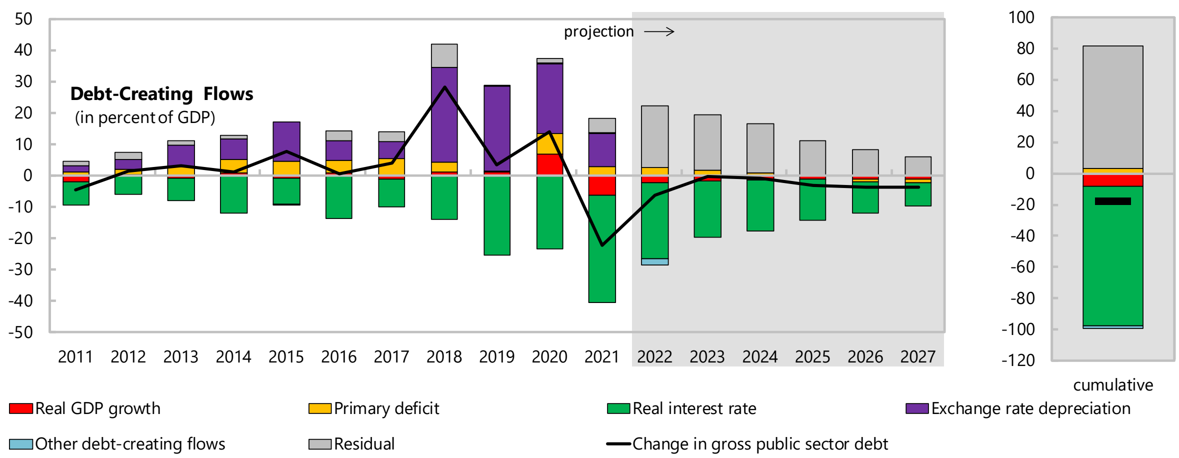
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	56.0	102.8	80.6	74.4	74.3	73.4	70.3	66.6	63.0
Public gross financing needs	12.5	18.5	17.0	18.4	17.2	16.3	14.7	11.1	9.0
Real GDP growth (in percent)	0.4	-9.9	10.2	4.0	3.0	2.8	2.0	2.0	2.0
Inflation (GDP deflator, in percent)	33.0	39.8	53.2	47.6	38.8	34.5	29.7	25.2	20.2
Nominal GDP growth (in percent)	33.3	26.0	69.1	51.8	42.0	37.4	32.3	27.7	22.6
Effective interest rate (in percent) [4/]	4.1	2.8	2.4	2.8	5.2	5.6	6.6	7.1	7.1

As of February 24, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		1760
5Y CDS (bp)		1142
Ratings	Foreign	Local
Moody's	Ca	Ca
S&Ps	CCC	CCC
Fitch	CCC	CCC

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	5.0	14.0	-22.2	-6.2	-0.1	-0.9	-3.2	-3.7	-3.6	-17.6	
Identified debt-creating flows	2.8	12.8	-26.6	-25.9	-17.8	-16.7	-14.3	-12.1	-9.7	-96.3	
Primary deficit	3.1	6.4	3.0	2.5	1.9	0.9	0.0	-0.8	-1.3	3.2	-2.4
Primary (noninterest) revenue and grants	26.0	25.8	25.8	26.5	27.1	27.9	28.6	29.1	29.3	168.4	
Primary (noninterest) expenditure	29.2	32.2	28.8	29.0	28.9	28.8	28.6	28.3	28.0	171.6	
Automatic debt dynamics [5/]	-0.3	6.1	-30.0	-26.6	-19.6	-17.5	-14.2	-11.3	-8.4	-97.7	
Interest rate/growth differential [6/]	-11.4	-16.3	-40.4	-26.6	-19.6	-17.5	-14.2	-11.3	-8.4	-97.7	
Of which: real interest rate	-11.3	-23.3	-34.2	-24.5	-18.1	-16.1	-13.1	-10.2	-7.3	-89.3	
Of which: real GDP growth	-0.1	7.0	-6.2	-2.1	-1.6	-1.5	-1.1	-1.1	-1.1	-8.4	
Exchange rate depreciation [7/]	11.0	22.5	10.4	…	…	…	…	…	…	0.0	
Other identified debt-creating flows	0.0	0.3	0.4	-1.8	0.0	0.0	0.0	0.0	0.0	-1.8	
Government and Public Sector Finance: (	0.0	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	-1.8	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Prefinancing	0.0	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	2.3	1.2	4.5	19.7	17.6	15.7	11.1	8.4	6.1	78.7	



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).

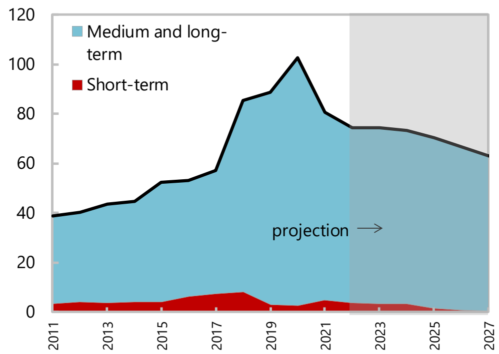
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

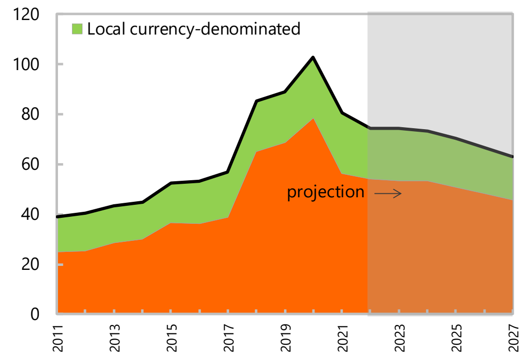
Figure 5. Argentina: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



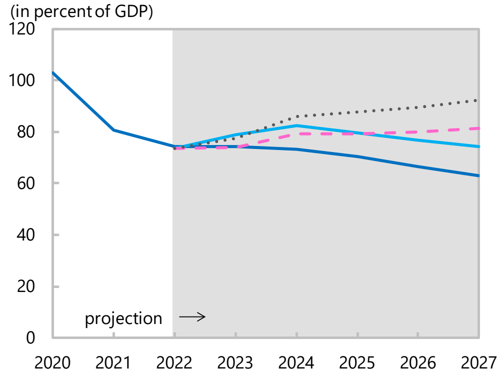
By Currency
(in percent of GDP)



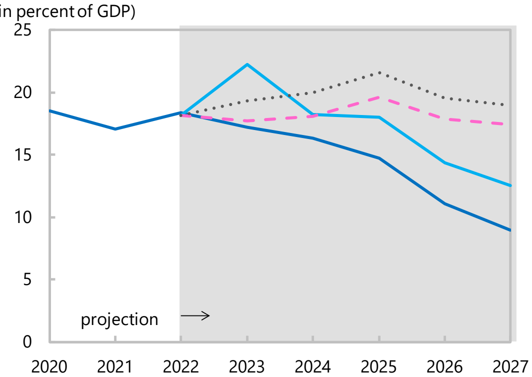
Alternative Scenarios

Baseline
Contingent Liability Shock
Historical
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

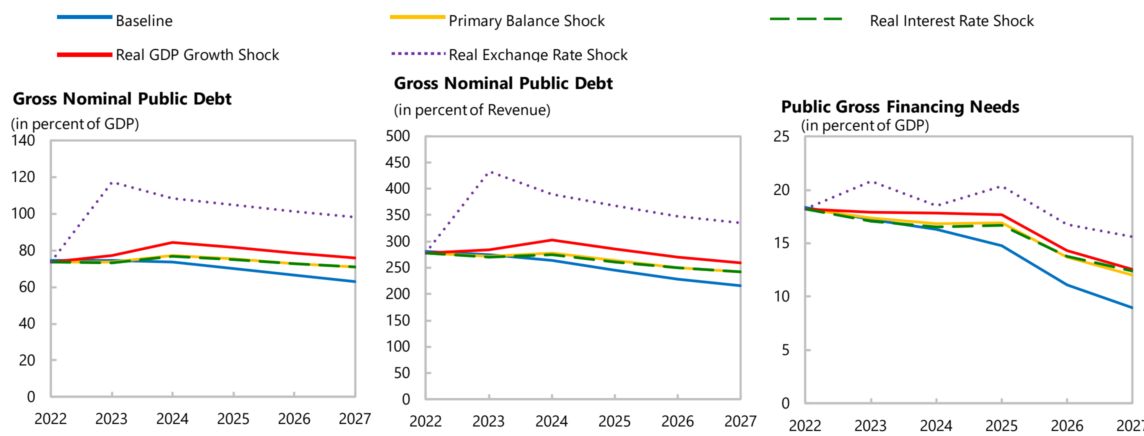
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	47.6	38.8	34.5	29.7	25.2	20.2
Primary Balance	-2.5	-1.9	-0.9	0.0	0.8	1.3
Effective interest rate	2.8	5.2	5.6	6.6	7.1	7.1
Constant Primary Balance Scenario						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	47.6	38.8	34.5	29.7	25.2	20.2
Primary Balance	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	2.8	5.5	6.0	9.2	10.1	10.7

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.0	-0.2	-0.2	-0.2	-0.2	-0.2
Inflation	47.6	38.8	34.5	29.7	25.2	20.2
Primary Balance	-2.5	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	2.8	5.5	5.0	7.5	8.0	8.4

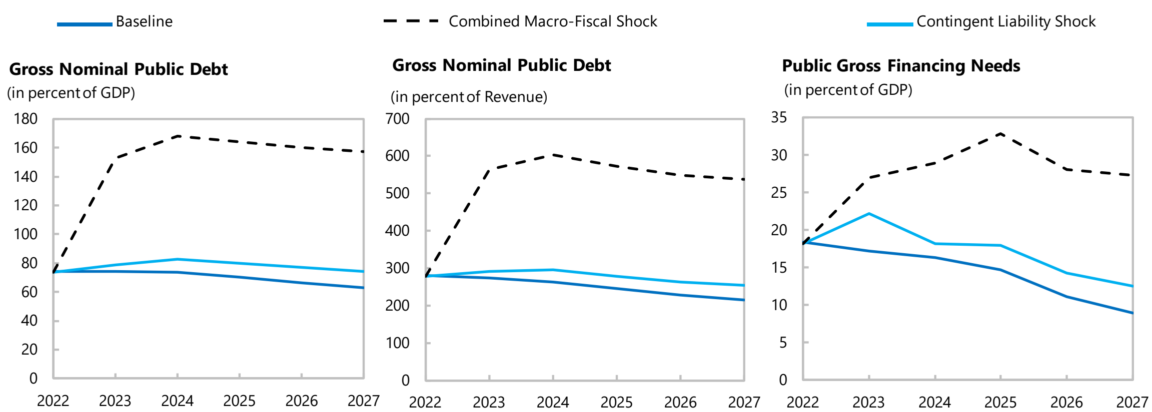
Source: IMF staff.

Figure 6. Argentina: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	47.6	38.8	34.5	29.7	25.2	20.2
Primary balance	-2.5	-2.2	-1.4	-0.4	0.4	1.0
Effective interest rate	2.8	5.5	6.0	9.0	9.8	10.2
Real Interest Rate Shock						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	47.6	38.8	34.5	29.7	25.2	20.2
Primary balance	-2.5	-1.9	-0.9	0.0	0.8	1.3
Effective interest rate	2.8	5.5	6.5	9.8	10.7	11.3
Combined Shock						
Real GDP growth	4.0	-2.2	-2.5	2.0	2.0	2.0
Inflation	47.6	38.8	34.5	29.7	25.2	20.2
Primary balance	-2.5	-2.2	-1.4	-0.4	0.4	1.0
Effective interest rate	2.8	7.4	5.3	8.2	9.5	10.2

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	4.0	-2.2	-2.5	2.0	2.0	2.0
Inflation	47.6	38.8	34.5	29.7	25.2	20.2
Primary balance	-2.5	-1.9	-0.9	0.0	0.8	1.3
Effective interest rate	2.8	5.5	5.9	8.8	9.5	10.0
Real Exchange Rate Shock						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	47.6	72.6	51.4	29.7	25.2	20.2
Primary balance	-2.5	-1.9	-0.9	0.0	0.8	1.3
Effective interest rate	2.8	7.4	4.9	7.5	8.5	9.0
Contingent Liability Shock						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	47.6	38.8	34.5	29.7	25.2	20.2
Primary balance	-2.5	-6.9	-0.9	0.0	0.8	1.3
Effective interest rate	2.8	5.7	6.4	9.1	9.9	10.3

Source: IMF staff.

Application of the New Sovereign Risk and Debt Sustainability Framework

Argentina: Sovereign Risk and Debt Sustainability Framework Summary				
Horizon		**Mechanical signal**	**Final assessment**	**Comments**
Sovereign risk assessment				
Overall		...	**High**	Despite the moderate risk signal at the medium-term horizon, the exceptional level of current uncertainty and risks around the necessary eventual re-entry to international markets indicate that overall risks of sovereign stress are high.
Near term		n.a.	n.a.	Not applicable as the country is in stress.
Medium term		**Moderate**	**Moderate**	Staff concurs with the mechanical signal. While there is substantial uncertainty around the baseline debt trajectory, the 2020 restructuring and implementation of the program should help contain financing risks.
	Fanchart	**High**	...	
	GFN	**Moderate**	...	
Long term		...	**High**	Given Argentina's susceptibility to adverse shocks, need to maintain tight fiscal policy, and re-enter international debt markets after the program, there are relevant risks of a renewed episode of sovereign stress over the longer term. Full implementation of the program will help contain these risks.
Debt sustainability assessment				
Sustainability assessment		...	Sustainable but not with high probability	There are good prospects for debt stabilization and acceptable rollover risks, consistent with debt sustainability. However, substantial uncertainty around the baseline indicate high risks to this assessment.
Debt stabilization in the baseline				Yes
DSA summary assessment				
The new Sovereign Risk and Debt Sustainability Framework (SRDSF) tools indicate that debt is sustainable but not with high probability, although overall risks of sovereign stress are high. At a medium-term horizon, risks are moderate, though the result is close to the high-risk zone and the mechanical signals from each of the two medium-term tools diverges: Risks from gross financing needs are contained somewhat by the 2020 restructuring and expectations that financing will mainly be forthcoming from less risky creditors. However, the debt fanchart signals higher risk, mainly from the width of the fanchart, which reflects Argentina's history of high volatility. Over the longer-term, as Argentina needs to re-enter international debt markets, there are high risks of a renewed round of sovereign stress.				
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.				

1. **Staff's assessment based on the new sovereign risk and debt sustainability tools is that overall risks of sovereign stress are high, and debt is sustainable but not with high probability.**[10] This assessment is based on both medium-term and long-term risk analyses. The mechanical signal from the medium-term tools indicates moderate (close to borderline high) risk, with the fanchart and GFN tools indicating high and moderate risk of debt distress respectively. A longer-term assessment of the probability of debt stabilization and consideration of the risks to market re-access support staff's assessment that risks to sovereign stress are high over the long

[10] For a description of the methodology underpinning the SRDSF tools, please refer to IMF, 2021, "Review of the Debt Sustainability Framework for Market Access Countries", Policy Paper No. 2021/003 (link).

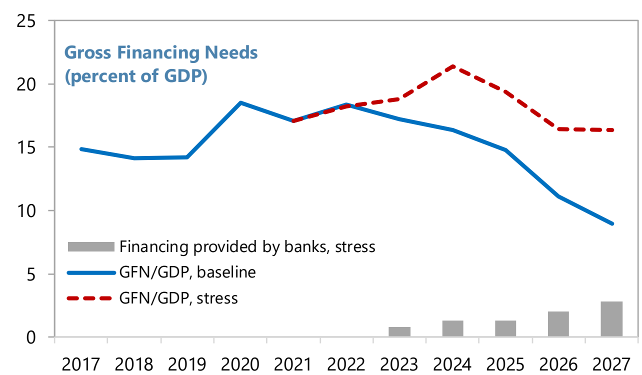
term. Despite high risk of sovereign stress, debt is still assessed to be sustainable (though not with high probability).

Medium-Term Risk Analysis

2. The GFN Financeability Module and Debt Fanchart are the core tools for assessing risks at a medium-term horizon. Each module generates a risk index based on key variables analyzed by that tool. Each index is then compared against upper and lower thresholds to determine a mechanical risk signal. If the index is below the lower (upper) threshold, the signal is low (high) risk; if it is between the upper and lower thresholds, the signal is moderate risk. The lower thresholds have been set such that they are associated with a 10 percent missed crisis rate, based on a cross-country sample of historical values of these indexes. This implies that, if this threshold is used to predict stress (when the risk index exceeds the threshold) versus non-stress (when the risk index is below the threshold) cases, only about 10 percent of sovereign stress events would be missed. Intuitively, this means that crises are relatively unlikely when the risk signal is low. Upper thresholds are the reverse—they are associated with a 10 percent false alarm rates. Consequently, if stress events are called whenever the risk index exceeds the upper threshold, only 10 percent of non-stress events would incorrectly be called. Thus, stress events are relatively more likely to occur when risk signals are high.

3. The first tool—the GFN Financeability Module—points to moderate risk. It reflects a GFN Financeability Index that is in the moderate risk zone, which is influenced by:

- *Baseline gross financing needs*: GFNs for Argentina average 14½ percent of GDP over the 2022-27 period and are relatively high.

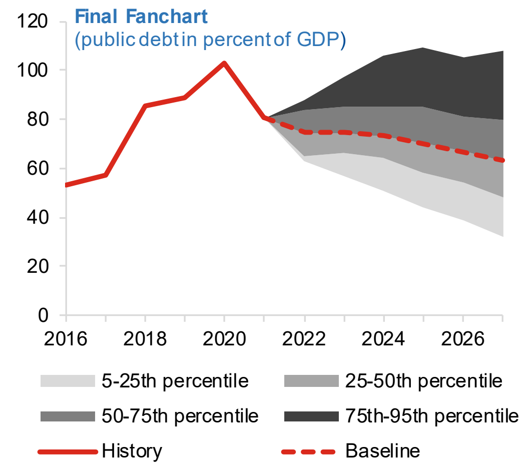


Source: Fund staff estimates

- *Initial bank claims on the government*: At 13.4 percent of the Argentine banking system's assets banks' exposures are at more moderate levels. It suggests some space for banks to provide financing to the government, including in stressed conditions. However, the banking sector is comparatively small in Argentina (total assets are 40 percent of GDP), which is a crucial vulnerability as regards absorbing additional gross financing needs.
- *Potential changes in bank claims on the government amid further stress*: Argentina's historical volatility, which translates into large macroeconomic shocks, is another important risk factor in this analysis. On the other hand, risks in the medium term are mitigated by lack of debt issuances to foreign private creditors and dependence on the domestic central bank and other domestic creditors in absorbing debt issuances. Thus, in a generalized stress scenario, which simulates a loss in foreign private investor appetite along with adverse macro-fiscal shocks, the domestic

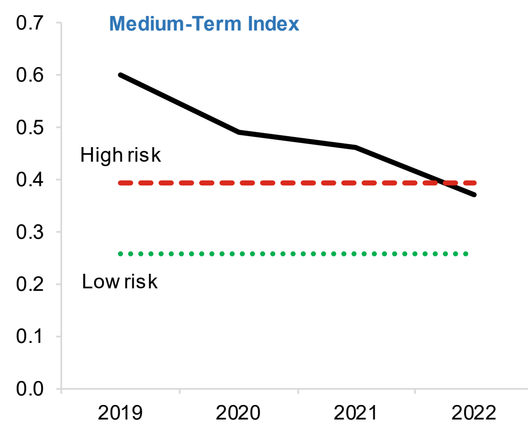
banking sector may have to devote an extra 13 percent of its assets—a moderate increase in exposure to the sovereign—to absorb residual issuance. This result would weaken, however, if the favorable structure of new debt issuances in the baseline scenario fails to materialize.

4. The second tool—the debt fanchart module—points to high risk, largely reflecting Argentina's past volatility. The module is based on three metrics: (1) The *probability of debt stabilization* at the end of the 5-year projection period; (2) the *median debt level in 2026, interacted with an institutions* index, as a proxy for debt carrying capacity beyond the projection period; (3) the *fanchart width*, a measure of uncertainty calculated as the upper bound of the fanchart less the lower bound. The probability of debt stabilization under the baseline is high (93 percent), while the projected institutions-adjusted median debt level in 2026 is 44 percent of GDP, making a relatively modest contribution to the overall risk index.[11] However, uncertainty as proxied by the fanchart width (76.6 percent of GDP), is very high, suggesting a strong possibility that the debt trajectory outcomes could diverge significantly from the baseline.



Source: Fund staff estimates.

5. A medium-term index (MTI), which aggregates the information from both the GFN and debt fanchart modules, indicates that risks are moderate. The MTI that is consistent with the GFN Financeability and Debt Fanchart Indexes for Argentina is 0.37, just below the high-risk threshold and well above the low-risk threshold. At this level, predictions of stress events would be false alarms with a 16 percent probability. Predictions of tranquility (no crisis) would be missed crises with 27 percent probability. Thus, the mechanical signal is moderate sovereign stress risk. The trend has been improving recently, and it reflects the beneficial effects of the 2020 debt restructuring, and the assumed implementation of the policies in the program. While this assessment appears intuitive, the uncertainty around the baseline and diverging signals from the two underlying modules constitute important risks to this assessment. Furthermore, the high probability of debt stabilization at the end of the 5-year projection period may be distorted by the fact that real interest rates are negative in Argentina and are projected to remain negative over the 5-year fanchart horizon, reflecting capital controls,



Source: Fund staff estimates.

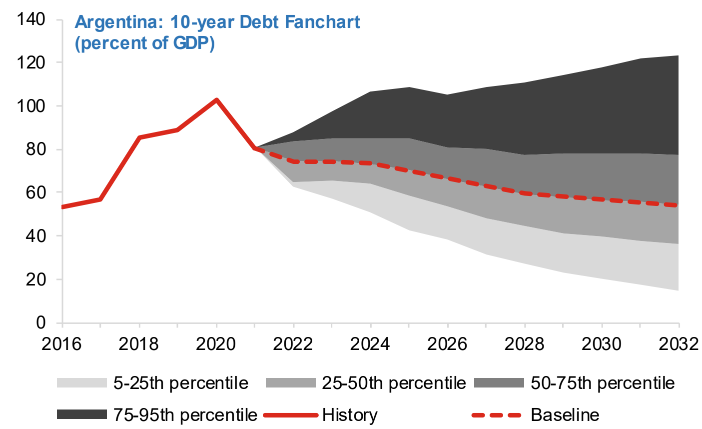
[11] An additional diagnostic to test for risks of baseline optimism indicated that the baseline represents an adequate balance of risks, and therefore the final fanchart is centered on the baseline.

inflation, and low interest rates on external privately held debt as a result of the 2020 debt restructuring.

Longer-Term Risk Analysis

6. **To account for the impact of refinancing at market rates after Argentina re-accesses external debt markets and the implications of shocks to real interest rates and other debt drivers,**[12] **debt risks were analyzed over a 10-year horizon.** In an extended period after the program, Argentina will need to refinance the maturing debt obligations from the 2020 debt restructuring as well as its Fund repurchases. Thus, over the longer-term, Argentina will likely face less favorable financing terms and its capacity to repay will depend critically on successful IMF program implementation and re-accessing international private credit markets.

7. **The 10-year debt fanchart suggests that debt would continue to decline under the baseline, but the probability of debt stabilization is lower than in the 5-year horizon.** Specifically, the probability of debt stabilization in a fanchart ending in 2032 is 70 percent. This is sufficiently high to be consistent with debt sustainability, although with substantial risks.



Source: Fund staff estimates.

Assessment of Debt Sustainability

8. **In addition to the risk analysis described above, the SRDSF underpins Argentina's debt sustainability assessment, which is "sustainable, but not with high probability".** This assessment is based on three tools: The Debt Fanchart described in the medium-term analysis provides information on the prospects for debt stabilization, while the GFN Financeability module indicates whether rollover risks are at acceptable levels. In addition to these two modules, a crisis prediction model gives a probability of unsustainable debt (e.g., events involving sovereign default and restructuring). Finally, staff's judgment brings in other important elements which, in this case, include the results from the 10-year Debt Fanchart analysis shown above, as well as risks underlying the baseline assumptions that this 10-year projection is based on. On this basis, staff concludes that Argentina's debt is sustainable but not with high probability.

[12] The other debt drivers are real GDP growth, primary balances, and real exchange rates.

Table 1. Argentina: Decomposition of Public Debt and Debt Service by Creditor, 2021-2023 1/

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$ bn)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ bn)*			*(Percent GDP)*		
Total	**361.99**	1.00	0.80	**71.46**	**99.53**	**56.23**	0.16	0.20	0.11
External	144.32	0.40	0.32	11.29	26.69	24.63	0.02	0.05	0.05
Multilateral creditors[2,3]	68.03	0.19	0.15	7.47	21.08	21.22	0.02	0.04	0.04
IMF	40.95	0.11	0.09	5.09	18.78	19.02	0.01	0.04	0.04
World Bank	8.50	0.02	0.02	0.51	0.42	0.40	0.00	0.00	0.00
ADB/AfDB/IADB	18.42	0.05	0.04	1.86	1.84	1.77	0.00	0.00	0.00
BID	14.04	0.04	0.03	1.18	1.14	1.14	0.00	0.00	0.00
CAF	3.78	0.01	0.01	0.64	0.64	0.56	0.00	0.00	0.00
FONPLATA	0.40	0.00	0.00	0.04	0.05	0.05	0.00	0.00	0.00
BEI	0.12	0.00	0.00	0.01	0.01	0.01	0.00	0.00	0.00
BCIE	0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Multilaterals	0.16	0.00	0.00	0.02	0.02	0.02	0.00	0.00	0.00
OFID	0.12	0.00	0.00	0.01	0.01	0.02	0.00	0.00	0.00
FIDA	0.03	0.00	0.00	0.01	0.01	0.01	0.00	0.00	0.00
Bilateral Creditors[2]	4.78	0.01	0.01	0.96	2.53	0.47	0.00	0.01	0.00
Paris Club	1.71	0.00	0.00	0.23	2.04	-	0.00	0.00	-
Non-Paris Club	3.07	0.01	0.01	0.73	0.49	0.47	0.00	0.00	0.00
T-Bills	1.02	0.00	0.00	1.89	1.02	-	0.00	0.00	-
Bonds	70.44	0.19	0.16	0.96	2.06	2.93	0.00	0.00	0.01
Commercial creditors	0.06	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.00
Domestic	217.67	0.60	0.48	60.17	72.84	31.60	0.13	0.15	0.06
T-Bills	87.32	0.24	0.19	33.27	30.79	10.24	0.07	0.06	0.02
Bonds	102.95	0.28	0.23	12.10	22.10	16.34	0.03	0.05	0.03
Loans	24.94	0.07	0.06	14.50	19.49	4.88	0.03	0.04	0.01
Memo items:	2.46	0.01	0.01	0.29	0.46	0.13			
Collateralized debt[4]	0.75	0.00	0.00	0.03	0.04	0.04			
o/w: Unrelated	0.75	0.00	0.00	0.03	0.04	0.04			
Contingent liabilities	1.71	0.00	0.00	0.26	0.42	0.10			
o/w: Public guarantees	1.71	0.00	0.00	0.26	0.42	0.10			
Nominal GDP			453.04	453.04	489.42	519.44			

1/As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA, except for holdouts, which is included in the DSA but not in this table. External versus domestic based on residency definition.

2/ Non-Paris Club Bilateral includes Paris Club member creditor performing obligations that were not reprofiled in 2014. Paris Club includes only those obligations that were subject to reprofiling in 2014.

3/Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/ Guaranteed debt includes public guarantees.

Annex III. External Debt Sustainability Analysis

Despite having restructured much of its FX-denominated debt (sovereign, provincial and private) during 2020-21, Argentina's external debt vulnerabilities remain elevated. As such, policies to strengthen external stability and set the basis for stronger and more export-oriented growth are essential. This will require a coherent set macroeconomic policies to support trade surpluses, FDI, and international reserve accumulation and pave the way for an eventual gradual re-access to international capital markets. In addition, broad support from the international community will be of the essence.

A. Background

1. At end 2021, Argentina's external debt is estimated to have reached 58 percent of GDP (US$261 billion), with the public sector owing the bulk (72 percent) of these obligations.

- **Dynamics 2019-21**. External debt is estimated to have fallen by USD15 billion since 2019, reflecting a reduction in public sector FX exposure (mainly to private bondholders), and continued deleveraging by the Argentine private firms.[1] Some of the movements also reflect currency valuation effects.

	2019	2020	2021 (est.)
Total External Debt (in billions of US dollars)			
Gross external debt (includes holdouts)	**278.5**	**271.4**	**263.8**
(in percent of GDP)	*76.5*	*83.1*	*58.3*
By debtor			
Public sector	197.4	193.8	191.4
Federal government	155.9	152.6	146.8
to IMF	44.1	46.0	41.0
to other official sector	29.3	30.6	31.8
to private non residents	82.5	76.1	74.0
BCRA	24.5	25.4	29.7
Provinces	17.0	15.8	15.0
Private sector	81.1	77.7	72.4
By maturity			
Long-term	207.1	222.6	212.4
Short-term	71.4	48.8	51.4
Memorandum item			
External bonds and loans (federal, provinces, and PS)	124.4	123.2	115.5

- **Composition**. Public sector obligations are estimated at US$191 billion, including debt owed by the Federal government (US$147 billion), the BCRA (US$30 billion), and provincial governments (US$15 billion).[2] External debt owed by the private sector reached US$72 billion, the bulk of which (US$63 billion) was debt incurred by nonfinancial corporates. Details on the holdings follow:
  - **Federal government**. Private sector nonresidents are estimated to hold US$69 billion in FX-denominated restructured bonds, predominately issued under foreign-law, and an additional US$5 billion in domestic-law peso-denominated bonds. On the official front, the IMF is the single largest creditor (US$41 billion), followed by other IFIs (US$27 billion) and official bilateral creditors (US$4.8 billion). Debt to Paris Club creditors stands at around US$2 billion, with the remaining official bilateral debt owed mainly to China (US$2.7 billion) on two infrastructure projects.

[1] Reduced IMF exposure reflects repurchases made during 2021, although these were largely offset by the SDR allocation (shown as BCRA debt).

[2] Figures include sovereign arrears to creditors that did not participate in the 2005/10 exchange (US$2.4 billion) and outstanding debt from the 2001 default that was not eligible for exchange (US$0.1bn).

- **Central bank**. The BCRA external liabilities mainly reflect bilateral swap agreements with the People's Bank of China (renewed for 3 years in July 2020) and the Bank of International Settlement, for the equivalent of about US$23 billion in total.
- **Provincial governments.** Total provincial external debt is estimated at US$15 billion, the bulk of which is held by bondholders (US$13 billion) and a smaller portion held by MDBs and official creditors (US$1.2 billion).[3] During the course of 2021, the restructurings of foreign-law FX debt (worth US$12.7 billion) were completed, with total cash-flow savings estimated at around US$4.2 billion for 2021–27 (see Staff Report Box 4).
- **Nonfinancial corporates.** External debt of Argentine nonfinancial sector firms reached around US$63 billion, reflecting intercompany loans related to FDI (US$29 billion), trade credits (US$12 billion), and loans/bonds (US$22 billion). Regulations were tightened starting in September 2020, requiring firms to refinance at least 60 percent of their external debt maturing. Excluding intercompany loans and trade credits, external debt of Argentine nonfinancial corporates is generally low, around 4-5 percent of GDP in 2021.
- **Financial entities.** Reflecting the small size of Argentina's financial sector, the external debt of financial entities is small (US$9 billion).

2. **Gross External Financing Needs (GEFN) in 2021 remained large (14 percent of GDP).** In 2021, GEFNs reached US$63 billion, with debt service obligations (76 billion) partially offset by the non-interest trade surplus (US$13 billion). Amortizations (US$70 billion) reflect repayments on both short-term credit (US$22 billion, mainly trade credits and intercompany loans) as well as medium-term instruments (US$48 billion). The bulk of the latter is split between intercompany lending (US$27 billion), public debt amortization (US$9 billion, including Fund repurchases for US$3.8 billion) and private sector amortization (US$11 billion) also related to longer-term trade credits.

Composition of Gross External Financing Needs, 2019-21
(In US$ billions)

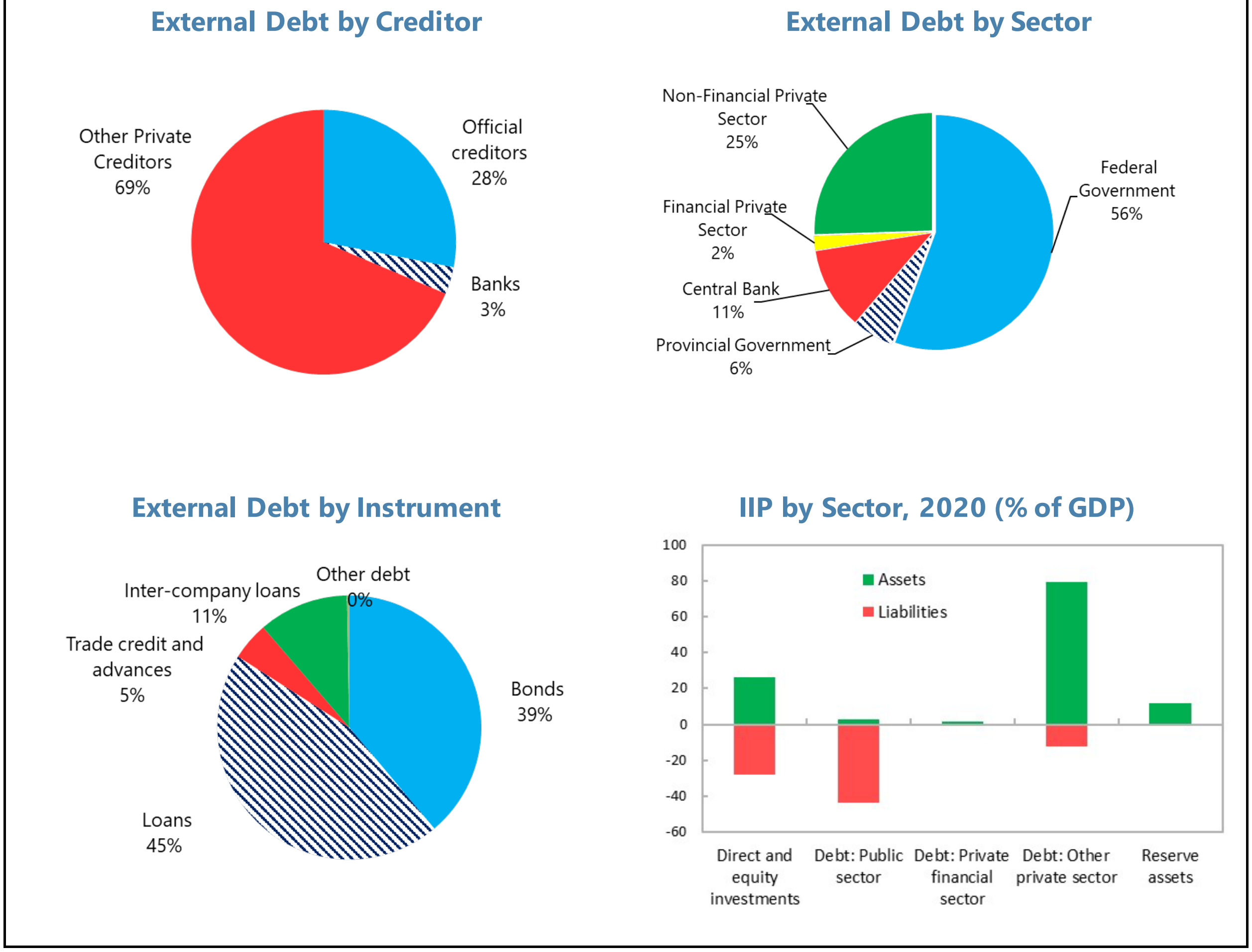
	2019	2020	2021 (est.)
GEFN	**65.6**	**62.1**	**63.3**
in percent of GDP	*18.0*	*19.0*	*14.0*
Non-interest current account	-13.4	-14.0	-12.9
Interest	17.1	10.7	6.6
Amortizations	61.9	65.5	69.6
Short term	46.8	19.5	21.8
Trade credits	26.4	9.9	9.9
Inter-company loans	3.8	-	8.5
Loans and bonds	14.9	8.7	2.6
Money and deposit, other	1.6	0.9	0.8
Medium term	15.1	46.0	47.8

Source: INDEC and Staff estimates.
Note: Excludes rollover of swaps by the BCRA.

[3] It is assumed that nonresidents hold 90 percent of the total outstanding provincial debt.

Figure 1. Composition of External Debt and International Investment Position

(Percent, as at end-2021, unless otherwise indicated)



B. Baseline scenario

3. The baseline external debt and debt service projections hinge on program implementation and assumed financing projections (see also DSA Annex 1).

- Trade balance (on goods and services) is projected to improve to around 3 percent of GDP at the end of the projection period, supported by fiscal consolidation, some expansion of export capacity, and policies that secure a relatively unchanged real exchange rate. Meanwhile, the current account would converge to a small surplus of around ¾ percent of GDP (near the current account norm), with external interest payments averaging about 3 percent of GDP and retained earnings stabilizing around ½ percent.
- On the financing side, assumptions on the respective economic sectors are as follows:
  - *Federal government*. Domestic-law debt held by nonresidents are assumed to fully rollover and interest payment reinvested supported by positive real rates and capital controls (consistent with rollover rates of 130 percent). Amortizations on foreign-law bonds are assumed to be repaid as they begin to come due in 2025, with resumption of international

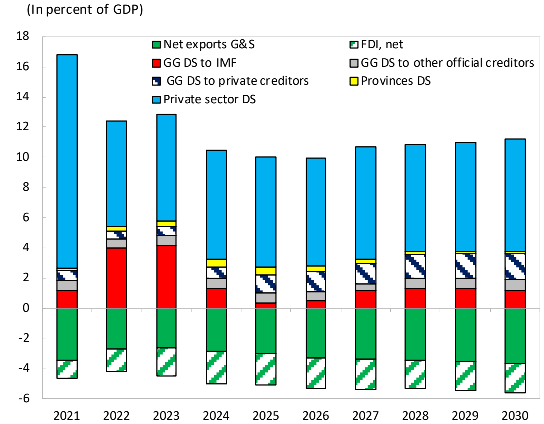
market access taking place gradually starting in 2025 (USD 2 billion or 0.4 percent of GDP). Meanwhile, financing from IFIs and other official bilateral creditors (i.e., Paris Club restructuring) are as discussed under the public DSA.

- *Central bank*. Undrawn central bank swap lines from PBOC and BIS are assumed to be rolled over every year.
- *Provincial governments*. Consistent with the Fiscal Compact approved by Congress, provincial governments are assumed to pay off existing (already restructured) debt as it comes due and not to tap international capital markets (minor net official concessional financing is assumed).
- *Private sector*. Consistent with existing regulations, nonfinancial corporates are assumed to pay off around 40 percent of maturing debt in 2022. As Argentina's external conditions improve, corporates are assumed to gradually begin to tap capital markets around 2023 to support the export expansion (stabilizing around ¼ percent of GDP yearly by 2026). Meanwhile, trade credit is assumed to increase in tandem with the recovery in trade and non-debt creating FDI to recover from around 1 percent of GDP in 2021 to around 2.0 percent of GDP by 2026.

4. **Under the baseline, external debt is projected to gradually decline from 58 percent of GDP in 2021 to around 50 percent of GDP by 2026**. This decline is supported by a cumulative trade surplus of 13 percent of GDP along with policies that support real GDP growth. Projections are also underpinned by continued efforts to encourage non debt creating FDI and obtain new official external financing at more concessional terms, which would support an accumulation of gross international reserves (US$26 billion over 2022-26).

5. **GEFNs are projected to decline and stabilize around 12 percent of GDP over the medium term.** After rising in 2022-23 on account of Fund repurchases, GEFNs as a share of GDP are projected to fall and stabilize over the medium-term. This reduction is driven by the (contractual and assumed) restructured terms, the more favorable terms of official sector financing (including the Fund-supported EFF program), along with a rise in real GDP. In the longer term, GEFNs increase slightly as repayments to official creditors (including the Fund) rise starting in 2026, which will require market access. Reflecting the strength of their balance sheets, nonfinancial corporates are assumed to re-access international capital markets somewhat earlier (2023) than the public sector (2025), under similar terms and conditions (average maturity of 7 years and at a spread of 450 basis points).

Gross External Financing Needs, 2021-2030
(In percent of GDP)



Source: Argentine authorities and staff extimates.
Note: Private sector DS includes debt service on intercompany loans and trade credits. BCRA debt service not included (swap rollover).

C. Risks and policy implications

6. Downside risks to external debt sustainability are significant.

- Rising geopolitical tensions is clouding the global outlook for growth, commodity prices, and capital flows with highly uncertain implications for Argentina.
- Moreover, other external or climate shocks as well as policy slippages could complicate external stability, especially given Argentina's low reserve coverage, low export base, and high exposure to FX debt. For example, a 30 percent real depreciation shock in 2022 would increase the external debt-to-GDP ratio to 167 percent. Without access to international markets and low levels of international reserves, debt would be unserviceable. Under this scenario, external debt-to-GDP would decline only to 152 percent and GEFNs-to-GDP to 65 percent by 2026.
- Near-term GEFNs are high (representing twice the level of gross external reserves in 2021) and represent a risk.[4] While the large repurchases to the IMF will be addressed through a Fund-supported EFF program, risks could arise from policy implementation. Importantly, even if GEFN are projected to fall over the medium term, they will remain large (averaging US$12 billion per annum during 2026-30) and subject to significant rollover risks if market access is not secured.

7. Addressing external imbalances and boosting Argentina's FX earning capacity will be critical to reduce external debt vulnerabilities and allow an eventual re-access to international capital markets. Policies are needed to rebuild reserves and set the basis for stronger and more export-oriented growth, which could pave the way for a gradual re-access to international markets and easing of capital flow measures, especially to encourage FDI. Deepening the domestic debt market and encouraging domestic savings would help reduce reliance on external sources to financing much needed investments. Importantly, as controls are gradually eased, it will be critical to ensure external capital is directed towards productive long-term investments, which will also contribute to reduce external debt vulnerabilities. A premature lifting of capital flow measures should be avoided until economic imbalances are properly addressed, and reserve coverage improves.

[4] A large portion (70 percent) of the GEFN reflect BCRA swap, trade credits (which co-move with trade), and inter-company loans, which are subject to lower rollover risks.

Table 1. Argentina: External Debt Sustainability Framework, 2018-2030
(in percent of GDP, unless otherwise indicated)

	2018	2019	2020	10-Year Average	10-Year Deviation	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Debt-stabilizing non-interest CA 6/
	Actual					Projections										
Baseline: External debt	71.2	76.5	83.1			**58.3**	**55.6**	**55.5**	**55.5**	**53.1**	**50.8**	**47.8**	**44.3**	**42.6**	**41.0**	**-3.0**
Change in external debt	29.9	5.3	6.6			-24.8	-2.8	-0.1	0.0	-2.4	-2.3	-2.9	-3.5	-1.7	-1.6	
Identified external debt-creating flows (4+8+9)	23.1	4.9	7.1			-8.7	-4.3	-3.9	-4.0	-3.6	-3.7	-3.6	-3.6	-3.7	-3.8	
Current account deficit, excluding interest payments	2.9	-3.7	-4.3			-2.9	-2.1	-2.0	-2.1	-2.1	-2.3	-2.3	-2.3	-2.5	-2.6	
Deficit in balance of goods and services	2.5	-3.7	-3.8			-3.4	-2.8	-2.7	-2.9	-3.1	-3.3	-3.4	-3.4	-3.5	-3.7	
Exports	19.8	22.0	19.7			19.2	19.5	19.8	20.5	20.5	20.4	20.4	19.8	20.0	20.1	
Imports	22.3	18.3	15.9			15.8	16.8	17.1	17.6	17.4	17.1	17.0	16.4	16.4	16.4	
Net non-debt creating capital inflows (negative)	-2.4	-1.4	-0.7			-1.2	-1.5	-1.8	-2.2	-2.1	-2.0	-2.0	-1.9	-1.9	-1.9	
Automatic debt dynamics 1/	22.6	10.0	12.1			-4.7	-0.7	0.0	0.3	0.7	0.7	0.7	0.7	0.7	0.8	
Contribution from nominal interest rate	4.0	4.7	3.3			1.5	1.5	1.6	1.8	1.7	1.7	1.6	1.6	1.6	1.6	
Contribution from real GDP growth	1.6	1.6	8.4			-6.1	-2.1	-1.6	-1.5	-1.0	-1.0	-1.0	-0.9	-0.9	-0.8	
Contribution from price and exchange rate changes 2/	17.0	3.7	0.4			...	...	...	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.8	0.4	-0.5			-16.0	1.5	3.8	4.0	1.2	1.3	0.7	0.1	2.0	2.1	
External debt-to-exports ratio (in percent)	360.1	348.5	421.9			303.4	284.8	280.0	270.5	259.5	248.5	233.9	223.4	213.3	203.8	
Gross external financing need (in billions of US dollars) 4/	101.4	87.8	83.0			86.2	73.4	76.9	65.0	64.8	66.3	73.9	78.6	81.0	84.3	
in percent of GDP	26.0	24.1	25.4			19.1	15.0	15.5	12.9	12.2	11.7	12.2	12.0	11.9	11.9	
Scenario with key variables at their historical averages 5/						**58.3**	**65.0**	**70.8**	**77.3**	**84.7**	**93.5**	**102.0**	**111.2**	**121.2**	**132.4**	**6.1**
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	-2.6	-2.0	-9.9	-0.6	4.4	10.2	4.0	3.0	2.8	2.0	2.0	2.0	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	-29.2	-5.0	-0.5	-0.7	14.1	25.5	4.5	-1.7	-1.6	4.0	4.6	4.7	5.8	2.0	2.0	
Nominal external interest rate (in percent)	6.7	6.1	3.8	4.5	1.2	2.4	2.8	2.9	3.2	3.3	3.3	3.4	3.5	3.7	3.9	
Growth of exports (US dollar terms, in percent)	4.0	3.6	-19.5	-1.7	11.2	35.2	10.1	2.9	4.6	5.9	6.5	6.9	4.7	4.7	4.7	
Growth of imports (US dollar terms, in percent)	-2.8	-23.3	-21.9	-1.6	16.3	37.9	14.8	3.6	3.6	4.9	5.0	6.4	4.1	4.0	4.0	
Current account balance, excluding interest payments	-2.9	3.7	4.3	-0.4	2.7	2.9	2.1	2.0	2.1	2.1	2.3	2.3	2.3	2.5	2.6	
Net non-debt creating capital inflows	2.4	1.4	0.7	1.7	0.8	1.2	1.5	1.8	2.2	2.1	2.0	2.0	1.9	1.9	1.9	

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.

External Debt Dynamics, 2016–2026
(In percent of GDP)

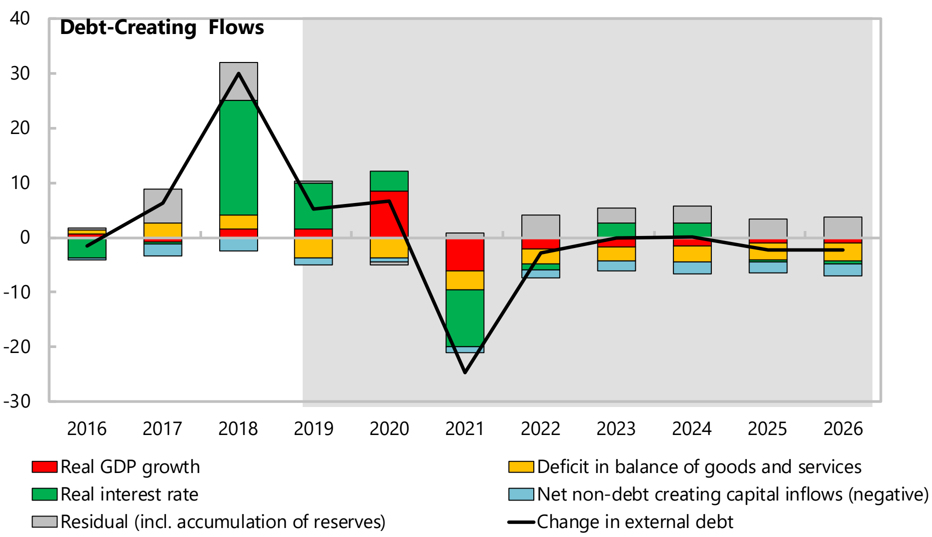
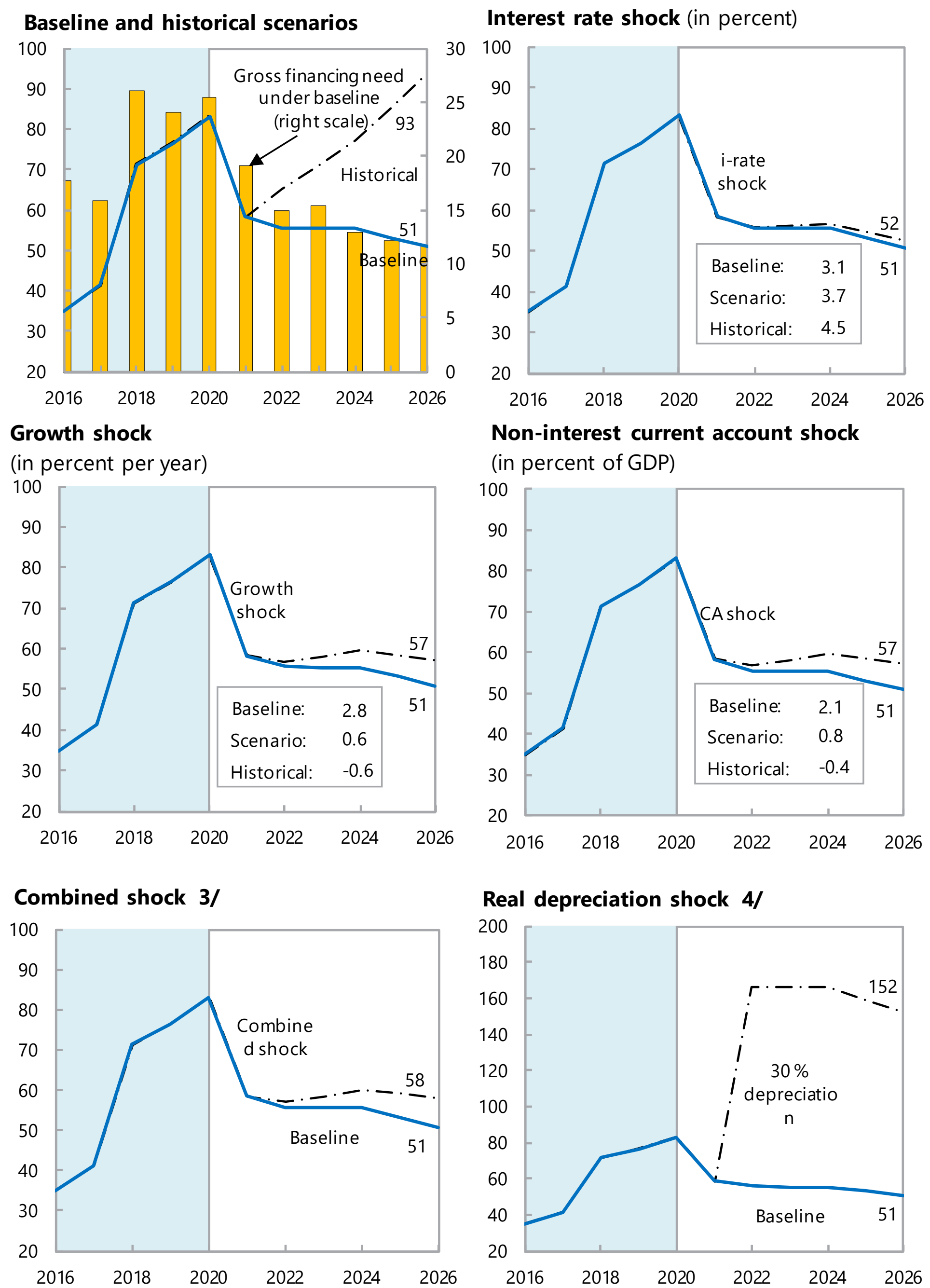


Figure 1. Argentina: External Debt Sustainability: Bound Tests 1/ 2/

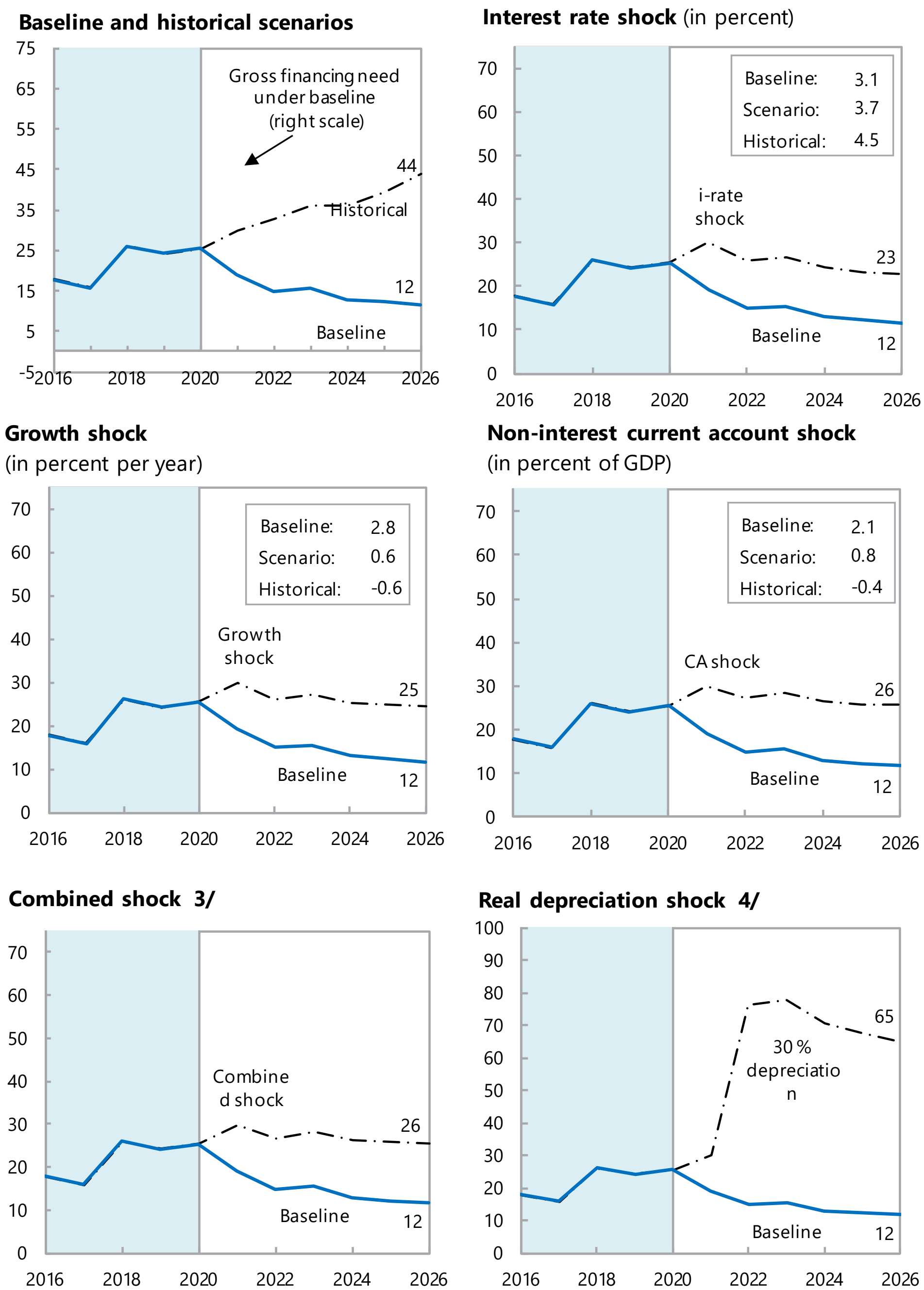
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff 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 2022.

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

(External Gross Financing Needs in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff 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 2022.

Annex IV. External Sector Assessment

Overall Assessment: *The external position in 2021 is estimated to be weaker than the level implied by medium-term fundamentals and desirable policies, an assessment based holistically on elevated external debt vulnerabilities, precariously low international reserves and lack of access to international capital markets.* The recent sovereign FX debt restructuring agreements with private creditors have provided important short-term cash flow relief, but a credible macroeconomic and structural plan that can be supported by the international community is still needed to reduce external debt, rebuild international reserves, and meet external debt service obligations over the medium term.

Potential Policy Responses: Policies should carefully balance the need to support the recovery and strengthen domestic and external stability. Growth-friendly fiscal consolidation, combined with prudent monetary policies, is essential to maintain a strong trade surplus, rebuild international reserves, regain market access, and ensure debt sustainability, although this path will depend on the evolution of the global pandemic. In addition, structural reforms to boost Argentina's export capacity and encourage FDI are required. As stability is established, and the pandemic wanes, a gradual conditions-based easing of capital flow measures will need to be considered.

Foreign Asset and Liability Position and Trajectory

Background. Argentina's external gross liabilities stand at 60.2 percent of GDP in Q3-2021, and well above the level at end-2015 (34 percent of GDP). That said, the NIIP remains positive reaching 25 percent of GDP in Q3-2021 (up 16 percentage points since end-2015), driven by continued private capital outflows and deleveraging by firms, despite strong capital controls.

Assessment. In 2020 Argentina restructured US$82 billion (21.4 percent of GDP) in domestic and foreign law sovereign FX debt held by the private sector, with cash flow relief of US$34 billion during 2020–30. Additional relief was achieved during 2021, as provincial governments restructured US$13 billion of foreign-law FX debt obligations, with total cash-flow savings estimated at around US$6.5 billion for 2021-27. Gross debt and debt service obligations remain substantial and meeting these obligations will depend on implementation of a strong macroeconomic and structural reform plan, that also restores market access.

2021 Q3 (% GDP)	NIIP: 25.4	Gross Assets: 85.5	Res. Assets: 8.9	Gross Liab.: 60.2	Debt Liab.: 45.9

Current Account

Background. The CA is estimated to reach a surplus of 1.3 percent of GDP in 2021, slightly higher than in 2020. This reflects an improvement in the income balance (largely on account of lower interest payments related to the debt restructuring operations), while the sharp rebound in imports broadly offsets stronger exports, including from record high export prices.

Assessment. The EBA CA cyclically adjusted balance reached a surplus of 0.8 percent of GDP, compared with an EBA CA norm equivalent to a deficit of 1.0 percent of GDP.[1] Factoring in the transitory impacts of the COVID-19 crisis in relation to the travel services sector (including tourism) and shift in consumption from services to consumer goods implies a +0.3 percent of GDP adjustment to the surplus. Furthermore, consistent with the need to bring down external debt service to more manageable levels and pave the way for market access, the IMF staff judges the near- to medium-term CA norm to be closer to 1.0 percent of GDP, implying an adjustment of 2.0 percent of GDP. As such, the IMF staff assesses the CA gap to be +0.1 ±1 percent of GDP.

2021 (% GDP)	CA: 1.3	Cycl. Adj. CA: 0.8	EBA Norm: −1.0	EBA Gap: 1.9	COVID-19 Adj.: 0.3	Other Adj.: −2.0	Staff Gap: +0.1

Real Exchange Rate

Background. After depreciating by near 30 percent between end-2017 to end-2019, the REER has been relatively stable, with some appreciation during the course of 2021 as the rate crawl has lagged headline inflation. The average 2021 REER appreciated by 4.3 percent compared to the 2020 average yet is up over 20 percent when comparing end of period levels.

Assessment. The IMF staff CA gap implies a small REER gap of around -1 percent in 2021 (applying an estimated elasticity of 0.17). The REER index model suggests a REER gap of 6.9 percent, however surrounded by significant uncertainty. Overall, the IMF staff assesses the 2021 REER gap to be in the range of −5 to 5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Various CFMs were introduced in 2019, with subsequent adjustments. The BCRA and the securities authority (CNV) introduced regulations to (i) restrict official FX market (MULC) access for financial account transactions; (ii) restrict participation in securities markets (MEP/CCL); (iii) subject FX purchases to two separate taxes of 30 and 35 percent ; (iv) apply tight repatriation and surrender requirements on export proceeds; (v) limit cash withdrawals and restrict selective capital flow-related credit card transactions abroad; and (vi) limit FX holdings of banks, mutual funds and exchange bureaus. These are all considered to be CFMs under the Institutional View on Capital Flows (IV). The BCRA has stopped intervening in the FX securities market and regulations issued to limit trading in this market has been eased.

Assessment. The CFM measures have slowed capital outflows but have introduced distortions that tend to discourage trade and foreign investment. Importantly, they are not a substitute for macroeconomic policies to address imbalances, and while they are needed in the near term, controls on trade flows should be avoided and a conditions-based easing will be necessary, especially to encourage FDI.

FX Intervention and Reserves Level

Background. Gross international reserves stood at US39.7 billion at end-2021, generally unchanged relative to 2020, yet US$5 billion below end-2019 levels. Meanwhile, net international reserves, after excluding swap lines with other central banks, reserve requirements on domestic US dollar deposits, and deposit insurance, fell to US$2.3 billion at end-2021, and have fallen to near zero by end-February 2022, on account of external debt service payments. Despite current account surpluses, debt restructuring efforts and capital controls, reserve accumulation has been challenged by continued outflows, including from net private debt amortization payments.

Assessment. Gross international reserves are estimated around 64 percent of the IMF's composite metric as of end-2021 after smoothing of temporary effects, and around 69 percent without the adjustment.[2] In the context of the projected trade surpluses and lower debt service payments (following the restructuring agreements) over the near to medium term, improving reserve coverage is necessary to pave the way for market access and the easing of CFM measures over the medium term. Given reserve scarcity, FX sales (in the official or parallel market) should be consistent with quarterly reserve accumulation goals, while taking into account variability coming from seasonal factors and temporary bouts of excessive volatility.

[1] EBA results are preliminary, and the final assessment will be presented in the External Sector Report published in 2022. The large strengthening of the cyclically adjusted CA relative in 2021 is due almost entirely to a large swing in the output gap, about which there is high uncertainty.

[2] To smooth the temporary effect of the sharp reductions in short-term debt, and a collapse in the valuation of debt portfolio investments in the wake of the sovereign debt restructuring, the adjusted measure uses a four-year average.

Annex V. Risk Assessment Matrix (RAM)[1]

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
External Risks			
Intensification of geopolitical tensions and security risks, including the rapidly evolving conflict in Ukraine	**High** Intensification of these risks can cause global socio-economic and political disruptions, leading to bouts of global risk aversion and a decline in global trade and capital flows. Associated supply chain disruptions and commodity price shocks can give rise to global inflationary pressures.	**High** Lower confidence weakens domestic demand and growth. Exports adversely impacted by decline in global trade. Sharp rise in commodity prices feed into domestic inflation, and higher energy imports and subsidy bill. Conversely, higher grain prices boost exports and fiscal revenues. Financial volatility raises risk aversion and capital outflows, impact mitigated by limited market access. Deterioration in social conditions and erosion of support for the government's policies.	• Foster more inclusive growth by scaling up targeted social assistance. • Given limited fiscal space, preserve fiscal sustainability through expenditure prioritization; expedite revenue mobilization plans. Use revenue windfall from higher agricultural prices to offset subsidy bill. • Remain vigilant about inflationary second round effects and be prepared to adjust policy swiftly. • Stand ready to adjust CFMs should pressures on FX flows and reserves intensify. • Accelerate reforms that encourage investment and job creation, including in energy sector.
Outbreaks of lethal and highly contagious Covid-19 variants	**Medium** New vaccine-resistant variants lead to rapidly increasing hospitalizations and deaths, forcing lockdowns, heightened global uncertainty, and social discontent. Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. Financial markets reassess real economy risks. Pandemic-prompted protectionist actions (e.g., export controls) reemerge.	**Medium** Reinstatement of strict containment measures would undermine the economic recovery, widen the fiscal financing deficit, and increase reliance on monetary financing. Debt sustainability would be questioned, affecting the ability to tap domestic markets. Rise in NPLs could weaken balance sheets, especially of smaller banks. Deterioration in social conditions and erosion of support for the government's policies.	• Ensure adequate vaccine procurement in close coordination with global suppliers, anticipating potential boosters and new variants. Ensure widespread testing availability. • Reinstate targeted emergency support to households and firms, including credit guarantee schemes for SMEs. Further prioritize non-essential expenditures and revenue mobilization plans to mitigate the budgetary impact. • Strengthen bank oversight and facilitate the deepening of the government peso debt market.

[1/] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Rising and volatile energy prices	**High** Commodity prices remain volatile and energy prices trend up amid pent-up demand and supply disruptions and geopolitical tensions.	**High** High energy prices would feed into domestic inflation, impacting real incomes especially of the poor. Higher energy imports would erode reserve buffers and reduce FX availability. Higher subsidy spending could challenge fiscal deficit targets.	• Scale up targeted social assistance to protect most affected sectors. • Explore targeted reduction in energy subsidies to safeguard public finances. • Remain vigilant about inflationary second round effects and be prepared to adjust policy swiftly. • Accelerate implementation of medium-term energy plan to reduce energy costs and increase sector's overall efficiency. • Boost investment in energy production and transport in vast shale oil and gas reserves.
Domestic Risks			
Political instability and lack of consensus	**High** Reforms could face serious political challenges, which could jeopardize implementation of fiscal consolidation and disinflation strategy.	**High** Policy implementation slippages could undermine confidence, put pressure on international reserves, the ability to rollover domestic peso debt, and eventually re-access international capital markets. Weaker fiscal discipline could compromise debt sustainability risks. Uncertainties could lead to declines in domestic demand and social discontent.	• Develop an inclusive and participatory economic plan and garner support. • Proactive outreach to main stakeholders to explain policy trade-offs. • Maintain gradual fiscal consolidation, with strengthened measures to protect the vulnerable. • Resist pressures to weaken fiscal discipline and restore sustainability. •Adopt reforms (reduce red tape) with quick employment and investment gains. • Strengthen communication of policy plans and support measures.
Climate-induced commodity export shock	**Medium** Argentina is subject to frequent volatility in its terms of trade resulting from climate shocks that impact agricultural production and exports. These have become increasingly frequent and more severe, as experienced during the severe drought of 2018.	**High** Decline in exports, from drought-induced lower agricultural output, would reduce trade surplus, in turn leading to FX outflows and currency devaluation pressures. Lower growth would complicate fiscal consolidation efforts on account of lower trade-related revenues and additional spending on subsidies (due to lower hydropower generation and higher energy imports).	• Targeted increases in transfers to the most vulnerable and those most impacted by the shock. • Preserve fiscal discipline through new revenue measures, non-priority spending adjustments, and additional external financing sources. • Ensure monetary and FX policies protect low reserves. Further adjustments to CFMs may be required. • Advance mitigation and adaptation policies to increase resilience to climate shocks, recognizing limited fiscal space and capacity constraints.

Letter of Intent

Buenos Aires, Argentina
March 3, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Georgieva,

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic and social objectives and policies of the Government of Argentina from 2022–2024. Also attached is a Technical Memorandum of Understanding (TMU) that elaborates the specific objectives that we are committed to achieving under the IMF arrangement in support of our own economic plan.

The Argentine government requests—subject to Congressional approval of *Proyecto de Ley para la Aprobación del Refinanciamiento de la Deuda entre la Républica Argentina y el FMI*—the IMF's support for this policy program, which aims to address Argentina's large balance of payments needs—which mostly reflect the schedule of payments to the IMF resulting from Stand-By Arrangement (SBA) agreed in 2018. Our plan is carefully calibrated to Argentina's specific circumstances, notably the challenging economic and social situation which were exacerbated by the global pandemic.

As part of this support, we are formally requesting an extended arrangement under the Extended-Fund Facility (EFF) for a period of 30 months, in the amount of SDR 31,914 million (equivalent to around US$45 billion, or 1,000 percent of Argentina's quota). We intend to treat the IMF financing as budget support, specifically (i) to meet the outstanding obligations to the IMF arising from the 2018 SBA as they fall due; and (ii) to finance the primary fiscal deficit using the amount that exceeds the payments described in (i), helping us at the same time to rebuild our international reserve position. We also will seek to secure additional support from our multilateral development partners and other bilateral partners.

We consider that implementation of our economic plan will help strengthen Argentina's economic and social prospects to the benefit of every citizen. Crucially, our plan aims to sustain the ongoing economic recovery, strengthen our public infrastructure, and deepen improvements in our social and employment conditions. Achieving these will require implementation of tailor-made initiatives and policies that are designed to:

- gradually and sustainably improve public finances to secure debt sustainability without compromising the recovery, while also addressing deep social and infrastructure gaps;
- durably reduce persistent high inflation through a multi-pronged strategy involving a combination of fiscal, monetary, and price-incomes policies;

- strengthen external resilience and reserve buffers through policies that support trade surpluses, encourage net exports and long-term capital inflows, and pave the way to an eventual re-entry into international capital markets; and
- enhance the sustainability of growth through policies aimed at mobilizing domestic savings, strengthening the effectiveness of public investment in infrastructure and innovation, and encouraging the development of strategic tradable sectors.

To begin the implementation of our program, we have taken several up-front actions, as described in the MEFP. In line with our domestic law, we are submitting our economic plan—elaborated in our MEFP and TMU—to the Congreso de la Nación Argentina for approval and are working to ensure it garners wide political and social support.

We believe that these early decisive steps, along with the policies elaborated in the MEFP, are adequate to achieve the economic, financial, and social objectives of the program. Furthermore, we stand ready to take any additional measures that may be appropriate for this purpose. In addition, we will consult with the IMF according to our commitment in the MEFP (¶33).

We will adhere to the commitments laid out in the TMU and MEFP, including on data provision (TMU ¶40). In addition, and in line with Fund policies, we are committed to undertaking a safeguards assessment of the central bank and fiscal safeguards review by the time of the first review of the arrangement.

Finally, we request that you confirm that, if at any time during the duration of the extended arrangement, the Fund were to create a new facility with better financial terms and for which Argentina were to be eligible, Argentina would have the opportunity to make use of the new facility, in accordance with IMF policies and procedures.

Underscoring our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the related Executive Board documents.

Yours sincerely,

/s/

Martin Guzman

Minister of Economy of the Republic of Argentina

/s/

Miguel Pesce

President, Central Bank of the Republic of Argentina

Attachment I. Argentina: Memorandum of Economic and Financial Policies

March 3, 2022

I. Macroeconomic Backdrop and Developments

1. Argentina was in the midst of a full-blown economic and social crisis by the time the new administration assumed office in late 2019. By end-2019, our economy had contracted by about 5 percent since 2017 and inflation had reached 53.8 percent. We also faced an unsustainable public debt burden, low external buffers, and limited access to capital markets. Importantly, social conditions had deteriorated sharply—poverty exceeded 35 percent, unemployment neared 10 percent, and real wages had fallen by over 15 percent relative to 2017 levels.

2. Argentina's previous Fund-supported program was in the context of a Stand-by Arrangement (SBA) for an initial amount of SDR 35.38 billion (equivalent to US$50 billion and about 1,110 percent of quota). The SBA, which was later augmented to SDR 40.71 billion (equivalent to US$56.3 billion and 1,277 percent of Argentina's quota), represented the largest lending arrangement granted by the Fund to a single country in its history. Under the SBA, five disbursements were made, and only four reviews (out of twelve expected) were completed. The fourth and final review was completed in July 2019, prior to Argentina's primary presidential elections, even in a context in which the economic crisis was clearly worsening (in Q1:2019 GDP contracted by 5.9 percent, and private consumption and investment declined by 10.7 percent and 25 percent, respectively, while inflation reached 56 percent y/y in June 2019). The fourth review brought total disbursements from June 2018 to July 2019 to SDR 31.91 billion (equivalent to US$44.1 billion and about 1,000 percent of Argentina's quota).

3. The program was intended to help Argentina overcome its crisis on the basis of four pillars: restoring market confidence; protecting society's most vulnerable; strengthening the credibility of the Central Bank's inflation targeting framework; and progressively lessening the strains on the balance of payments. None of the objectives of the program were achieved: confidence and market access were never restored; output contracted sharply and inflation increased; employment fell and poverty increased; the currency depreciated sharply; in the absence of capital flow management measures, the disbursements effectively financed capital flight of an historic size; public debt rose substantially as a share of GDP; and—due to the decision of the then-authorities to not undertake a restructuring of the foreign-currency denominated debt—pubic debt sustainability worsened. These outcomes have long-lasting consequences for the country.[1]

[1] A more extensive description of the views of the Argentine authorities is contained in the Authorities' View Section (Appendix IV) of *Argentina: Ex-Post Evaluation of Exceptional Access Under the 2018 Stand-By Arrangement* (https://www.imf.org/en/Publications/CR/Issues/2021/12/22/Argentina-Ex-Post-Evaluation-of-Exceptional-Access-Under-the-2018-Stand-By-Arrangement-511289).

4. Less than 100 days into our administration, the COVID-19 pandemic exacerbated Argentina's challenges, although important efforts were made to safeguard health and employment. The economy contracted by 9.9 percent in 2020 as global trade collapsed, and mobility restrictions weighed on activity and demand. Social indicators deteriorated further, with the pandemic especially affecting women, children, and unskilled informal workers. In response—and building on the Social Solidarity legislation of December 2019 aimed at supporting consumption and incomes, especially of people living below the poverty line—substantial fiscal resources were mobilized in 2020 to protect households and firms from the adverse effects of the pandemic. COVID -related support was channeled through extraordinary allowances and bonuses, a new emergency family income scheme for informal workers, and salary support and reduced employer payroll tax contributions for firms. Regulations were also issued to safeguard employment.

5. In parallel, we took decisive steps to strengthen debt sustainability. In September 2020, we restructured over US$82 billion in FX-debt owed to private bondholders, with the participation rate exceeding 99 percent, and securing cash flow relief of over US$35 billion during 2020–30. In addition, we supported efforts by provincial governments to restructure US$13 billion in FX debt, resulting in additional cash flow relief to the provinces of US$6.5 billion during 2020–27. Importantly, we made strengthening of the peso sovereign debt market a key priority and efforts have also been made to encourage the restructuring of FX debts held by the private sector.

6. Our efforts are starting to bear fruit—the economy grew by over 10 percent in 2021, with improvements in key macroeconomic and social indicators.

- **On the COVID front**, a very successful vaccination rollout has safeguarded our people and helped limit the impact of new variants on hospitalizations and mortality. As of early-March 2022, close to 90 percent of the population had received at least one vaccine dose, and nearly 80 percent of the population had received both doses. The expansion in health spending has been critical to safeguard the well-being of our population.
- **The economy expanded by over 10 percent in 2021, more than recovering the lost ground from 2020**. Our supportive policies, including on the health front, coupled with favorable external conditions contributed to the economic expansion. Noteworthy have been the positive dynamics of investment (up 42 percent y/y through Q3:2021) and exports (up by 13 percent through December 2021).
- **Fiscal imbalances narrowed, while priority social and infrastructure spending was expanded.** The federal primary fiscal balance fell from 6.4 percent of GDP in 2020 to 3 percent of GDP in 2021, compared to an original budget target of 4.5 percent of GDP. This was driven mostly by strong revenue performance, that included the one-off Solidarity Levy, and the unwinding of COVID support. Importantly, real spending (net of COVID) rose by over 10 percent to support the economic recovery, protect the most vulnerable, encourage research and development, and start addressing critical infrastructure gaps.
- **The domestic government bond market is being strengthened.** Net domestic (peso) market financing rose from 1.3 percent of GDP in 2020 to over 2 percent of GDP in 2021, supported by further improvements in our debt management practices, including the development of a

market makers program. This has allowed monetary financing of the deficit to fall sharply—from 7.4 percent of GDP in 2020 to 3.7 percent of GDP in 2021.

- **The trade surplus reached a near-historic high of US$15 billion**. Strong export volume growth, especially in the industrial manufacturing sector, coupled with favorable terms of trade, more than offset import dynamism coming from the recovery in private investment and consumption, resulting in an important improvement in the trade balance of goods. Nonetheless, sizeable outflows in the financial account limited reserve accumulation.
- **Social conditions are gradually improving.** The labor market is recovering—the unemployment rate fell to 8.2 percent in Q3:2021, well below the 13 percent peak of Q2:2020, labor force participation is on the rise, formal employment is above pre-pandemic levels, and real wages are beginning to recover. During the first half of 2021, the poverty rate fell to 40 percent, down 5 percentage points relative to pandemic peaks.

7. Notwithstanding this progress, important economic and social challenges persist.

- **Macroeconomic stability requires strengthening.** Persistent high inflation remains a problem, and external buffers are low. Headline inflation rose to 50.9 percent y/y at end-2021, up from 36 percent y/y at end-2020, reflecting a combination of higher world commodity prices, rising domestic demand, and difficulties in anchoring inflation expectations. Further steps are needed to improve public finances, reduce reliance on monetary financing, and strengthen reserve coverage, while also ensuring the competitiveness of the real exchange rate.
- **Deep social and infrastructure gaps remain**. Poverty rates remain high, especially among the young, with 55 percent of all children living below the poverty line. Labor market gains have not been evenly distributed as women and young adults with low skills or insufficient qualifications have been more significantly affected by the pandemic, and the share of informal and underemployed workers remains high. Importantly, public infrastructure (physical and digital) remains insufficient to support growth.
- **Challenges to sustained and inclusive growth persist**. Exports shares remain relatively low, and the export base is insufficiently diversified. Dollarization remains high and domestic capital markets underdeveloped, limiting Argentina's capacity to sustainably finance investment and growth over the medium term.
- **Balance of payment problems remain**. Argentina's balance of payment needs are mostly due to the schedule of repayments to the IMF.

II. Policy Framework and Economic Program 2022–24

8. Our primary goals are to maintain the ongoing economic and social recovery, while strengthening stability and continuing to address challenges to sustaining growth in the long-term. Achieving this will require implementation of tailor-made initiatives and policies that reflect the particularities of our social and economic structure, notably:

- **gradually and sustainably—and as such, credibly—improve public finances to secure debt sustainability without compromising the recovery**, while implementing at the same time public policies to reduce deep social and infrastructure gaps.
- **durably reduce persistent high inflation through a multi-pronged strategy** involving a combination of fiscal, monetary, and price-incomes policies.
- **strengthen our balance of payments** through policies that support reserve accumulation, trade surpluses, encourage net exports, and long-term capital inflows and pave the way to an eventual re-entry into international capital markets.
- **enhance the sustainability and resilience of growth** through reforms aimed at mobilizing domestic savings, strengthening the effectiveness of public investment in infrastructure and innovation, and encouraging the development of strategic tradable sectors.

9. To support these goals, we formally request an extended arrangement under the Extended-Fund Facility (EFF) for a period of 30 months, in the amount of SDR 31,914 million (equivalent to around US$45 billion, or 1,000 percent of Argentina's quota). We further request that the purchases under the EFF be made according to the following schedule: (i) SDR 7000 million upon approval of the arrangement by the IMF's Executive Board; (ii) SDR 3000 million at the time of the first review; (iii) SDR 3000 million at the time of the second review; (iv) SDR 4500 million at the time of the third review; (v) SDR 4000 million at the time of the fourth review; (vi) SDR 3000 million at the time of the fifth review; (vii) SDR 2500 million at the time of the sixth review; (viii) SDR 2500 million at the time of the seventh review; (ix) SDR 800 million at the time of the eight review; (x) SDR 800 million at the time of the ninth review; and (xi) SDR 814 million at the time of the tenth review.

10. Our baseline macroeconomic program envisages a steady and sustained economic expansion and disinflation process. Real GDP is expected to expand by 3½–4½ percent in 2022 and converge to a potential growth rate of around 1¾ to 2¼ percent over the medium term. This expansion will be underpinned by private consumption and investment, with public policies continuing to play an important role to support employment, real incomes, and improvements in social indicators. The external current account is projected to remain in surplus, supported by a competitive real effective exchange rate (REER) and reforms aimed at boosting exports in key sectors. This, together with higher FDI and net official inflows, will support a buildup of reserves (NIR is envisaged to increase by US$15 billion over the course of the program) and strengthening of our crawling peg regime. Meanwhile, we will strive to reduce inflation to the range of 38–48 percent by end-2022 and by an additional 5 percentage points per annum through end-2024. The disinflation strategy will be underpinned by a multipronged approach involving adequately-calibrated fiscal, monetary, and price-incomes policies. These policies are expected to support money demand, which after falling in 2021, is assumed generally unchanged as a share of GDP.

Argentina: Macroeconomic Projections

		Preliminary/Tentative Proj.		
	2021	2022	2023	2024
GDP growth (avg, %)	10.2	[3.5 - 4.5]	[2.5 - 3.5]	[2.5 - 3.0]
Inflation (eop, %)	50.9	[38.0 - 48.0]	[34.0 - 42.0]	[29.0 - 37.0]
Primary fiscal balance (% of GDP)	-3.0	-2.5	-1.9	-0.9
Current account (% GDP)	1.3	0.5	0.4	0.3
Change in net int'l reserves (US$bn)[1]	-1.5	5.8	4.0	5.2

1/ Net International Reserves (NIR) are gross reserves net of swap lines, deposit insurance, reserve requirements on FX deposits, and other reserves liabilities.

11. Our baseline is subject to important uncertainties, implying that policies may need to be recalibrated accordingly. A re-intensification of the pandemic cannot be discarded, with the potential for the emergence of new variants, new mobility restrictions and trade disruptions. Importantly, the intensification of geopolitical risks—including those related to war—has significantly increased uncertainties around our baseline, especially for energy subsidies. In addition, global and regional conditions could weaken, complicating Argentina's outlook. Growth in our trading partners could falter, and our terms of trade could deteriorate from markedly lower world agricultural prices and even higher world energy prices. Climate-related shocks could affect our exports, with negative implications for FX inflows and fiscal revenues. Upside risks, however, cannot be discarded. External conditions could be more favorable, and the recovery could prove stronger than anticipated, especially for sectors, like services, hardest hit by the pandemic.

A. Fiscal and Financing Policy

12. We will continue to pursue a growth-friendly improvement in public finances consistent with debt sustainability. We have developed a multi-year fiscal consolidation strategy targeting a primary deficit of 2.5 percent of GDP in 2022 **(*quantitative performance criteria*)**, falling to 1.9 percent of GDP in 2023, and to 0.9 percent of GDP by 2024. In line with our domestic law, our financing program to meet our obligations to the IMF, including key parameters of our economic and financial policy plans, is being presented to Congress for approval prior to consideration of our Fund-supported program by the IMF's Executive Board. After the EFF arrangement request is approved by Congress, the current Budget Law will be modified by April 15 to be in line with the 2022 primary fiscal deficit target agreed under the program **(*structural benchmark*)**. Improvements in public finances will be delivered through a balanced package of revenue and expenditure measures, while ensuring real spending growth (after excluding extraordinary Covid spending) remains positive in real terms, and current spending is targeted to allow for an expansion in infrastructure and science and technology investments. The envisaged fiscal path will be financed mainly through a steady expansion of peso-denominated government securities and support from the international community, enabling zero monetary financing of the deficit by end-2024 (see ¶18). Our fiscal path, which envisages reaching primary balance by 2025 and a primary surplus of around 1¼ percent of GDP over the medium term, will help place public debt on a firm downward trajectory and support the gradual resumption of international market access starting in 2025.

13. Additional external project financing will be used to scale up capital spending and thereby help bolster economic growth and long-term development goals. The capital spending and the fiscal targets will be adjusted to reflect deviations in the disbursements of external loans for project financing from the program baseline—up to 0.2 percent of GDP in 2022 (see TMU ¶12) and comparable levels in 2023-24.

14. On the revenue front, our efforts will continue to mobilize and enhance the progressivity of taxes. In the near term, employment and wage recovery are expected to support tax collection, while tax policy measures and ongoing tax and customs administration efforts should help mobilize additional revenues over the medium term and support fiscal consolidation. In this regard, should real federal government revenues (net of related, legally-mandated, spending) prove higher-than-programmed, we commit to use this opportunity to virtuously reduce the fiscal deficit accordingly or to help secure the baseline fiscal deficit in the event of an adverse external shock, reflecting a commitment to stabilizing macroeconomic policies.

- In the area of ***tax policy***, building on earlier efforts, legislation was recently approved to increase the progressivity of the personal wealth tax regime (with an annual expected yield of 0.1 percent of GDP), and a bill was presented to congress to shift excises on petroleum products to an ad valorem basis to protect tax yields. Further enhancements are expected to ensure that property valuations better reflect actual values. To this end, and in close coordination with provincial governments, we will complete the process of updating property valuations at the federal level by end-September (***structural benchmark***), so that they can begin to go into effect for fiscal year 2022. Yields, net of co-participation, from this initiative could reach 0.1 percent of GDP for fiscal year 2022 and an additional 0.2 percent of GDP over the next few years. We expect this process to reach around 400,000 taxpayers, or around 597,000 urban properties that are subject to the annual personal property tax. Finally, and as conditions allow, we will continue to build on our ongoing efforts to improve the efficiency of the tax system, including by further reducing taxes on certain value-added exports and, also, by avoiding additional taxes on financial transactions that affect domestic savings or productive investments ***(continuous structural benchmark)***. While tax payment schemes will remain necessary, tax amnesties that undermine compliance will be avoided.
- In the area of ***tax administration,*** our tax agency AFIP has developed a Strategic Plan for 2021-25, to tackle high levels of non-compliance, improve AFIP's service delivery, and strengthen information technology capabilities. We will publish this plan by end-March 2022. In this context, and in consultation with Fund staff, we will develop a detailed and time-bound action plan focused on identifying compliance gaps and improving compliance risk management of key domestic taxes and customs duties (**end-August 2022, *structural benchmark***). Yields from these administrative reforms could reach 1 percent of GDP over the

medium term and begin to bear fruit starting next year (0.3 percent of GDP net of co-participation).

15. On the expenditure front, our efforts will focus on further reorienting spending towards public investment, notably by improving the targeting of energy subsidies. Within our balanced approach to fiscal policy, we are committed to maintaining real positive expenditure growth and improving the efficiency and progressivity of spending, particularly in the areas of social assistance, science and technology, and public investment. The key pillars of our spending policies are as follows:

- ***Energy subsidies***. To free-up resources for higher priority areas, the baseline assumes a reduction in energy subsidies of 0.6 percent of GDP in 2022, although important uncertainties and risks exist around this baseline given rising geopolitical tensions and evolving global energy prices. This baseline is underpinned by a multipronged approach of reducing energy costs and increasing the pass-through of generation costs, while ensuring adequate protection for people in the most vulnerable situations. As a key pillar of this strategy, we will eliminate subsidies for high-income residential consumers. (see ¶29, for details of our near- and medium-term plan to strengthen the energy sector).
- ***Social assistance***. We will further strengthen our social assistance schemes to best serve those most in need, focusing on addressing child poverty and reorienting support to promote labor market inclusion, particularly for women and individuals with low skills or insufficient qualifications. To this end, the program will establish a floor on spending on our flagship support programs—*Asignación Universal para Protección Social, Tarjeta Alimentar, and Progresar*—with coverage increases if social conditions deteriorate. In addition, efforts will be made to reorient social spending towards training and employment programs, and to further strengthen budget systems to ensure that spending addresses gender inequities. To further strengthen the efficiency and targeting of our social support with respect to defined outcomes, we will work with development partners to conduct and publish a comprehensive evaluation of our social support programs and strategy to identify options for policy improvements **(end-December 2022, *structural benchmark*).**
- ***Capital and innovation spending***. We plan to continue to raise infrastructure investment to over 2 percent of GDP in 2022 (from an average of 1 percent of GDP during 2018–20) and maintain this level over the course of the program. This investment will be focused mainly on improving housing and sanitation conditions in poorer urban areas, and improving the country's road, energy, digital and logistics infrastructure. In addition, spending on science and technology will be protected and enhanced to encourage innovation.
- ***Other current spending***. To free-up resources for our key priorities, we will seek to rationalize other spending while protecting real incomes of pensioners and public sector workers. Actions will be taken to (i) limit discretionary transfers to provinces and state-owned enterprises; and (ii) manage the wage bill of the public sector, to ensure it grows consistently with the growth of the economy. Meanwhile, pension spending will be determined by the new pension update mechanism adopted in late 2020. Building on this, we will conduct and publish a study outlining

options and recommendations to strengthen the equity and long-term sustainability of our pension system, focused on the special pension regimes set forth by Law 27.546 and on mechanisms to encourage voluntarily prolonging working lives **(end-December 2022, *structural benchmark*)**.

16. Efforts are being made to improve the efficiency of public spending, cash management, and our coordination with provincial governments.

- ***Public investment management***. Building on recommendations of the IMF Public Investment Management Assessment (PIMA), prepared jointly with World Bank and IADB, we will—in consultation with IMF staff—improve the accountability of capital spending, and will seek to reinforce its governance by further centralizing the review of major public investment projects and shifting the capital investment composition towards direct investment by the national administration. In the near-term, particular emphasis will be given to the following:
    - **Reinforcing monitoring and availability of information over the use of public resources in capital projects.** To achieve these objectives, we commit to:
        a) Prepare a proposal with an action plan by the Secretary of Treasury to enhance financial and budget reporting of the entities of the national public sector other than the National Administration according to Law 25.917, Art 3 **(end-June 2022, *structural benchmark*)**. The proposal will specify the contents of the detailed monthly information to be provided to the Ministry of Economy (MECON) on: (i) the financial and physical execution of individual major investment projects financed by APN *(Administración Publica Nacional)* capital transfers; (ii) the allocation and use of earmarked taxes for individual major investment projects; and (iii) a breakdown of financial assets and liabilities held by other entities of the public sector. The proposal will identify the necessary adjustment to the current regulations.
        b) Enhance the information published in the quarterly *financial and budget execution* report by MECON on other entities of the national public sector based on the above action plan. To support the preparation of this report, relevant information systems, and processes will be enhanced. We will publish the enhanced report by the third quarter of 2022 and in parallel work towards increasing the frequency of publication in line with international standards.
    - **Improving the selection of investment projects**. We will modify the SEPIPyPPP 1/2021 Resolution enabling an annual regulation to set prioritization and selection criteria. These criteria will prioritize ongoing projects and, among major projects, those with pre-feasibility or feasibility studies. On the basis of these criteria, a regulation will be adopted to determine prioritization and selection criteria for projects to be included in the 2023 Budget **(end-June 2022, *structural benchmark*)**. In addition, in the 2023 budget formulation process, DNIP will issue Technical Qualification Reports on the projects prior to sending the budget proposal to Congress.
    - **Strengthening procurement processes**. We will update the legal framework for procurement in the Public Works Law (13,064/1947), including aspects related to selection,

awarding, and execution and sanction processes, as well as complaints, submissions and independent resolution procedures. We intend to issue this regulation by end-September 2022.

- ***Cash management.*** We will strengthen the Treasury Single Account (TSA) and develop a plan to improve the management of excess liquidity held by other entities of the national public sector, including to limit unintended reliance on monetary financing of the budget. To this end, we will define by end-June specific actions to phase in the recommendations included in the Fund's Fiscal Safeguards Review.
- ***Budgetary process.*** To enhance the transparency and credibility of the budget process, the pre-budget statement (*Informe de Avance del Proyecto de Presupuesto*) for 2023 will include a description of the outlook, as well as a qualitative assessment of risks and measures supporting the achievement of the fiscal framework. Importantly, this outlook will be updated when we submit by mid-September a Draft 2023 Budget, which will be consistent with the agreed primary deficit of 1.9 percent of GDP and include an elaboration of the underlying policies to meet the program target.
- ***Federal-Provincial Fiscal Coordination.*** We have reached agreement with 21 provincial governments on a new Fiscal Consensus which aims to: (i) enhance fiscal coordination and information exchange between the federal government and provinces; (ii) modernize and simplify the tax systems, while providing provinces greater revenue-raising incentives; and (iii) reduce fiscal imbalances and provincial debt levels. Going forward, we will explore options to revamp the Fiscal Responsibility Legislation, to review the role of the Fiscal Council, and to limit future FX borrowing by provincial governments. In this context, we will strengthen data-sharing agreements between the federal government and the provinces to ensure timely sharing of quarterly fiscal reports by all provinces.

17. Our domestic financing strategy remains focused on strengthening the peso government securities market. Our plan targets net peso financing from the private sector to the Treasury of around 2 percent of GDP per annum during 2022-24, underpinned by our appropriately-balanced fiscal consolidation plan. In this regard, and in line with the projected disinflation process, we expect to gradually reduce reliance on inflation-linked instruments, widen the portfolio of benchmark domestic securities, and lengthen the maturity profile. Building on our efforts that began two years ago, we will continue to strengthen debt management practices to establish a deep sovereign debt market and build a benchmark yield curve. To guide the implementation of these long-term objectives, we will prepare a medium-term debt management strategy (MTDS) (**end-December 2022, *structural benchmark***) with a view to publication and implementation by March 2023. In the meantime, we plan to develop an annual borrowing plan along with measures aimed at (i) streamlining the number of current instruments; (ii) enhancing the predictability of auctions; (iii) limiting the use of minimum auction pricing only to provide guidance for new instruments and for periods of market stress; and (iv) building benchmark bonds to support secondary market liquidity and price discovery. We also plan to expand the market makers program that was established a year ago by widening the eligible pool of securities, and advance our investor relations program, through the publication of semi-annual investor relations presentations (**end-July 2022, *structural benchmark***) as well as regular meetings that will provide macroeconomic developments and outlook and details of public debt performance and financing.

18. This strategy, coupled with efforts to mobilize external support, will enable an unwinding of monetary financing of the deficit. Net financing from multilateral development banks and bilateral official creditors is expected to reach 0.4 percent of GDP per annum during 2022-24, a portion of which will help finance infrastructure projects as well as programs to strengthen social protection and energy efficiency. In this context, we will work toward an agreement with Paris Club creditors on a repayment schedule for our obligations that remains consistent with our repayment capacity and debt sustainability. This official support, combined with upfront net IMF financing in 2022 (0.7 percent of GDP), will help to reduce central bank financing of the Treasury to 1 percent of GDP in 2022 ***(quantitative performance criteria)***, 0.6 percent of GDP in 2023, and zero by 2024. Besides, if budget financing conditions improve, we will aim to further reduce central bank financing to the Treasury to accelerate the rebuilding of confidence in the currency.

B. Monetary and Exchange Rate Policies

19. Persistent high inflation in Argentina is a multi-causal problem and addressing it will require a multi-pronged strategy. Durably lowering inflation will require a comprehensive package of economic policies. An important pillar will be a sustainable fiscal and financing path that helps to deliver a prompt reduction of central bank financing of the budget. Critically, this will need to be complemented by prudent and pro-active monetary policy to support the demand for peso assets and voluntary price and incomes policies to tackle challenges from strong inflation inertia and unanchored views on inflation dynamics. Meanwhile, the rate of crawl of the official exchange rate should also support external competitiveness, with a well-designed and calibrated capital flow management regime further supporting reserve accumulation.

20. Mindful of the deep economic and social costs of inflation, we have taken steps to bring down inflation and anchor views on inflation dynamics. Apart from commitments to continue to reduce the fiscal deficit and monetary financing of the budget, measures were recently taken on the monetary policy front. Specifically, in early January, the BCRA raised the effective annual policy rate (applying to 28-day *leliqs*) by 285 basis points and streamlined sterilization instruments to improve monetary policy transmission and signaling. We also raised regulated deposit rate floors and credit rate ceilings to amplify the transmission of policy rates to deposit rates (see ¶24). Moreover, in mid-February, the BCRA raised the effective annual policy rate by an additional 365 basis points to further support demand for peso assets (***prior action***).

21. This has been complemented by our voluntary price-incomes policies. A new *voluntary* price agreement (*Precios Cuidados*) was signed in mid-January with over 150 private sector participants, guarantying a maximum price increase of 2 percent per month on 1,300 key consumer staples. These price agreements will serve as an important complement to ongoing wage agreements to support real wage growth. Our incomes and price policies will be adjusted depending on evolving circumstances to tackle inertia and guide views on future inflation dynamics.

22. We will continue to pursue a prudent and proactive monetary policy. To this end, the BCRA will aim to maintain a positive real effective policy rate also consistent with a sustainable path for BCRA securities. Determination of the real interest rate will take into account coincident and forward-looking inflation measures that will be updated on a monthly basis, while taking into consideration other factors, such as the evolution of reserves. This will help ensure that, going forward, interest rates on bank term deposits remain positive in real terms to support demand for peso deposits, and the development of the domestic market for government securities.

23. In tandem, we will calibrate our exchange rate management to ensure the medium-term competitiveness of the real effective exchange rate, and support reserve accumulation. To this end and to help secure the reserve accumulation goals under the program (***quantitative performance criterion***), the rate of crawl of the official exchange rate will preserve competitiveness by keeping the real effective exchange rate in 2022 generally unchanged relative to end-2021 levels. Critically, and given Argentina's balance of payments exposure to volatile commodity prices (see ¶11), adjustments to our reserve accumulation objectives may need to be considered, in consultation with IMF staff. Meanwhile, our interventions in the official market (*Mercado Unico y Libre de Cambio, MULC*) will be consistent with our reserve accumulation objective, taking into account the variability coming from seasonal factors and temporary bouts of excessive volatility. Similarly, we will limit our intervention in the non-deliverable forward market to circumstances when forward guidance is required as implementation of the monetary policy framework evolves **(*indicative target*)**.

Monetary Operations

24. Further actions will be taken to strengthen the monetary policy implementation framework. In January 2022, to improve monetary policy operations and the transmission mechanism, the BCRA (i) raised the cap of 28-day LELIQs, thereby reducing recourse to short-term securities and increasing the average tenor of our sterilization operations; (ii) launched new 180-day LELIQs to facilitate structural liquidity management operations, support commercial banks' provision of longer duration facilities, and foster the growth of peso deposit demand; and (iii) raised bank interest rate ceilings on certain regulated lending instruments and floors on certain regulated bank deposits. To further improve the transmission mechanism, the BCRA will explore options to enhance sterilization policies and instruments.

25. The BCRA will seek to simplify the existing reserve requirements regime. In an effort to improve the transmission of monetary policy, the BCRA will publish a time-bound plan to streamline the reserve requirement regime (**end-June 2022, *structural benchmark***). The plan would seek to gradually phase out unremunerated reserve requirements for small banks and many special regimes so that reserve requirements differ mainly depending on deposit duration. As conditions normalize, the transmission of monetary policy improves and financial inclusion deepens, we will consider gradually easing the floor on commercial banks' deposit rates and lending ceiling rates. Finally, we will assess regulations allowing commercial banks to meet reserve requirements with holdings of government securities.

Capital Flow Management Policy

26. We will continue to enhance the effectiveness and fairness of our capital flow management regime. While not a substitute for warranted macroeconomic policies, measures to manage capital flows will remain a key element of our toolkit and will require recalibration as circumstances evolve. In this regard, in consultation with IMF staff, we eased certain regulations limiting securities trading in foreign exchange **(*prior action*)**. Importantly, as conditions normalize, we will seek to ease import payments regulations to support the economic recovery. Going forward, we plan to:

- Strengthen **transparency** and reduce **compliance costs**, by streamlining the FX regulatory framework and consolidating the number of regulatory documents.
- Boost our **surveillance and enforcement** of exchange control measures through (i) better data collection and upstream monitoring of operations; and (ii) improved coordination among relevant agencies (BCRA, AFIP, Customs) to enhance fraud detection.
- Improve the **penalty framework**, including by introducing authorization of administrative fines, to make the sanctioning framework more efficient and enhance the timeliness of enforcement. Relevant legislation—Foreign Exchange Criminal Law—will be submitted to congress by end-December 2022 (***structural benchmark***). Moreover, consideration will be given to expanding the BCRA's powers to regulate and monitor a wider set of transactions affecting Argentina's balance of payments.

27. A conditions-based strategy to gradually ease measures to manage capital flows will be developed. We plan to design a strategic roadmap for the gradual easing of FX controls, outlining the necessary conditions for its implementation and its objectives, also with a view to supporting the gradual resumption of international market access starting in 2025. This roadmap, which will be prepared in consultation with Fund staff, will draw on relevant international experiences while taking into consideration Argentina-specific factors, including its public debt profile, reserve coverage, and high degree of dollarization. The strategy will involve converging to a system of macro-prudential regulations that supports stable and sustainable capital flows. Our strategic roadmap will be published end-December 2022 **(*structural benchmark*).**

Central Bank Balance Sheet

28. Our macroeconomic program is consistent with a steady strengthening of the BCRA balance sheet. The projected reduction in the stock of central bank paper and the quasi-fiscal deficit (as a share of GDP) will be underpinned by the gradual unwinding of monetary financing of the budget and policies that help sustain money demand. Importantly, we plan to undertake a comprehensive analysis of BCRA's balance sheet and will draw on recommendations from the Fund's Safeguard Assessment (by the First Program Review) to develop and publish, in consultation with Fund staff, a medium-term strategy for durably improving its financial position **(end-December 2022, *structural benchmark*)**. Importantly, and in line with previous recommendations, last year the Board of the BCRA approved the first inflation-adjusted financial statements corresponding to the year 2020. Going forward, and in the context of the planned assessment, we will consider options for (i) strengthening the financial relationship with the treasury; (ii) further enhancing the BCRA's governance framework; (iii) ensuring the gradual adoption of IFRS accounting standards; and (iv) conducting monetary operations via government securities as well as other alternatives to reduce the quasi-fiscal cost of monetary policy.

C. Growth-and Resilience Policies

29. Growth-enhancing reforms will be critical to begin to address long-standing bottlenecks and lay the foundation for more sustainable and inclusive growth. Growth- and resilience-enhancing policies will seek to encourage (i) expansion and diversification of the tradable sector; (ii) investment and productivity; (iii) local and regional economic development; (iv) formal employment and labor inclusion; (v) improvements in the efficiency and sustainability of the energy sector; (vi) climate mitigation and adaptation policies; and (vii) the broader development of capital markets.

- ***Export expansion through incentives for strategic sectors.*** We are advancing legislation and regulations to encourage investment and exports in strategic sectors—including in the knowledge economy (already approved in 2020), hydrocarbons, mining, agro-industry, and automotive industry—in close consultation with relevant stakeholders. The envisaged reforms aim to strengthen regulatory predictability and incentives for investment, while seeking to minimize their fiscal and regulatory costs. Preliminary estimates suggest that these measures could increase exports by around over US$25 billion by 2030. We expect relevant legislative initiatives to be considered by congress during the course of 2022.

- ***Formal employment and inclusion.*** We are advancing various labor market initiatives to encourage formal employment and labor inclusion, especially of women and young adults with low skills or insufficient qualifications. We have significantly scaled up our flagship program *Potenciar Trabajo*, which now reaches over one million beneficiaries, to deepen labor market inclusion among the most vulnerable through jobs training programs and direct cash transfers to beneficiaries and incentives to employers. We have also established new employment support programs, including (i) "*Te Sumo*," aimed at supporting youth employment—with an initial target of 50,000 new hires—through job training programs and incentives to SMEs; (ii) "*Argentina Programa*," aimed at developing a deep pool of skilled workers—over 10,000 new graduates by end-2022—to meet the employment demands of the knowledge economy sector; and (iii) a program of incentives to encourage formal employment creation in Norte Grande. Importantly, with the strong recovery in economic activity and employment, we have been gradually unwinding the extraordinary measures introduced during the pandemic—the ban on layoffs on the basis of unexpected circumstances or lack of work has been lifted and the double severance pay for layoffs without fair cause is being phased out and will fully expire by end-June 2022.

- **Energy sector policies.** We will seek to implement a series of measures to improve the efficiency, fairness, and sustainability of the energy sector, through policies aimed at reducing energy costs and improving the targeting of government subsidies. On the basis of the near-and medium-term actions described below, we expect that, over time, energy tariffs will better reflect cost recovery while continuing to ensure that lower-income households are protected.

- **Near term actions** focus on achieving our baseline reduction in energy subsidies in 2022, based on criteria of distributional fairness and equity. Specific actions are being taken in the following areas:

  i. *Energy costs*. Steps have been taken to expand energy production and reduce the cost of electricity generation, including through the latest Plan Gas, which roughly halved the guaranteed gas price offered at new auctions (from US$7.5 to US$3.5 per MMBTU). In addition, efforts are underway to increase investment in energy production and transportation over the coming years to meet domestic demand and reduce reliance on costly energy imports.

  ii. *Subsidy segmentation for households with greater payment capacity*. A new residential subsidy segmentation scheme has been designed to focus revisions in wholesale energy prices on consumers with the greatest ability to pay based on objective criteria. Following our institutional mechanisms, we will call a public hearing by end-April on a proposal to eliminate electricity and gas subsidies, effective June 1, from the top 10 percent of residential consumers with the greatest payment capacity. Savings from the segmentation plan could reach 0.06 percent of GDP during 2022 with additional savings in 2023 as the scheme is expanded.

  iii. *Wholesale gas and electricity tariffs*. Effective March 1, the wholesale electricity prices—PEST (*precio estacional de energia*) for all residential, and non-residential users (excluding GUDIs),[2] were updated by 28 percent and 42 percent respectively.

  Recognizing significant global energy market uncertainties and recent energy price developments, the government is committed to adapt its energy strategy to meet its broader fiscal and economic goals. As part of this commitment, we are determined to achieve reasonable energy (gas and electricity) tariff levels that are updated in an equitable and fair manner. To this effect, and following our institutional mechanisms, we will call a public hearing by end-April on a proposal to update wholesale energy tariffs effective June 1, 2022, using the following criteria **(end-April 2022, *structural benchmark*)**:

  - For *residential users*, the updates will be anchored on the average wage growth of (*coeficiente de variación salarial*)[3] as was established by Law 27.443 (which was vetoed on May 31, 2018). Specifically, (i) residential consumers who receive the *tarifa social,* will observe an energy tariff revision equivalent to 40 percent of the prior year average *coeficiente de variación salarial*; and (ii) remaining residential consumers—excluding those subject to the subsidy segmentation scheme noted above—will observe an energy tariff revision equivalent to 80 percent of the prior year *coeficiente de variación*

[2] GUDIs are non-residential large consumers of electricity, supplied by distribution companies.

[3] See TMU (¶36) for definition.

salarial. In both cases, the respective percentage increases in 2022 will include the increases applied for the whole calendar year.

- For GUDIs, energy tariffs will reflect full cost recovery, while the rest of non-residential users will have their tariff revised according to the proposal defined in the public hearing.

Reflecting the above approach that concentrates the burden on users with higher payment capacity and decisively protects users in situation of vulnerability, for 2022 we expect that the weighted average wholesale energy price will remain unchanged in real terms.[4] Similarly, additional tariff revisions for subsidized residential users will not be envisaged during 2022 and 2023, provided that the government successfully implements the segmentation scheme as defined in (ii).

- We will develop a **medium-term plan** to further reduce energy subsidies and improve the efficiency of our energy matrix, while ensuring the quality of energy services and the affordability of access for more vulnerable households. The plan would seek to decisively increase electricity and gas costs recovery over the medium term through actions to: (i) encourage private and public investments to boost energy generation and transmission, including the construction of pipelines and the expansion of LNG and renewable energy production capacity; (ii) reduce distribution losses through improvements in the efficiency of metering, billing, and collections; (iii) improve energy consumption efficiency and conservation; (iv) strengthen the targeting and progressivity of energy subsidies; and (v) ensure that over time end-user non-residential and residential energy tariffs better and more predictably reflect wholesale gas and electricity costs. These actions are consistent with our goals of gradually and fairly transitioning to a greener and more sustainable recovery and will need to be supported by enhancements in our information systems and databases. The development of this plan, which will count on the technical and financial support of our international development partners and include specific cost recovery targets, will be published for consultation by end-September 2022 (***structural benchmark***), with the final version published by end-December 2022.

- **Promoting gender equity and inclusion.** A key pillar of our growth strategy is the reduction of Argentina's large gender gaps, which were further exacerbated during the pandemic. Currently, formal sector wages for men are, on average, 30 percent higher than for women, the activity rate for women is around 50 percent, against 70 percent for men, and unremunerated household tasks are largely carried out by women (76 per cent). Our multipronged approach emphasizes the strengthening of care support systems, including through expansion of key social protection programs that target women; increasing access to child-care facilities, housing and other social infrastructure for mothers; and promoting labor market inclusion through programs such as *Registradas*, that help to formalize domestic workers (thus far 33,000 domestic workers have been registered). Also, we will promote the presence of women in strategic male dominated jobs, such as industry, construction, technology, and others. We will also ensure that adequate

[4] See TMU (¶38) for the calculation of real variables for this purpose.

fiscal resources are oriented to addressing gender inequities by building on and enhancing our gender budgeting approach. This approach was first introduced for fiscal year 2021 and identified that 15 percent of national expenditure was allocated to policies that contribute to closing gender gaps.

- ***Climate mitigation and adaptation policies.*** We are developing environmental policies to strengthen preparedness and better address the challenges of climate change and ensure progress in achieving our commitments under the Paris Agreement. Key actions include:
  - Preparation of a new Electro-Mobility Law (*Ley de Promocion de Electromovilidad*) to incentivize the production and use of renewable energy-powered vehicles (estimated to lead to the over 20,000 new jobs and over US$5 billion in new investments over the medium term). We expect this law to be considered by congress during the course of 2022.
  - Implementation of a *Green Productive Development Plan* aimed at promoting, *inter alia*, (i) investment in the knowledge economy; (ii) integration of circular economy processes; and (iii) environmental adaptation and efficiency in the use of resources. In addition, we will develop during the course of 2022 new legislation and regulatory framework governing the activity and support investment in the *hydrogen sector*.
  - Building on our experience with tagging cross-cutting policies like gender, we will include a full-fledged climate tagging system in the 2023 Budget Preparation Manual. This initiative will strengthen our project investment prioritization and selection process as well as our capacity to assess the climate impact of projects and the implications for investment of climate change. Budget documentation will include a report on climate initiatives (according to economic classification) and the list of tagged public investment projects.
- **Competition policies**. We hold the view that investment activity and private-sector job creation are critical for a dynamic economic and social environment. On this basis, we will work to strengthen the competition framework with the purpose of developing concrete proposals in the period ahead. These efforts will support our broader objectives of tackling excessive concentration, barriers to entry, and market power, thus ensuring a level playing field.
- **Encouraging financial inclusion and promoting sustainable finance.** We have relaunched the National Strategy for Financial Inclusion for 2020-2023 through the Financial Inclusion Coordination Council which is considered as a State policy. Key objectives of our strategy include: (i) expanding and improving access to financial services; (ii) promoting the use of digital means of payment, savings accounts, credit and other services, including banking sector and microfinance; (iii) enhancing financial literacy, and the protection of financial consumer rights; (iv) consolidating interoperability on digital payments; (v) contributing to reducing social gaps, expanding territoriality and federalization, and incorporating a gender perspective; and (vi) prioritizing the financial inclusion of vulnerable and excluded groups; financing SMEs and promoting the use of new technology. We are also taking important steps to promote sustainable finance as a way of increasing our investor base, considering not only financial profitability but especially social impact and positive externalities.

- **Strengthening financial resilience**. While commercial banks remain liquid and well-capitalized, strong bank oversight will continue, especially following the unwinding of pandemic-related regulatory forbearance. To further safeguard financial stability, we are taking important steps to (i) discourage the use of crypto-currencies with a view to preventing money laundering, informality and disintermediation; (ii) further support the current process of digitization of payments to improve the efficiency and costs of payments systems and cash management; and (iii) safeguard financial consumer protection.

Transparency and Governance Policies

30. To further strengthen governance, we will ensure the transparency of our COVID-related spending. To this end, and consistent with our current legal regime, we will publish information on the ultimate beneficial owner(s) of companies awarded COVID contracts by the national public administration (by end-December 2022). In parallel, we will work to reach an agreement with the provinces to establish a system for the consolidation of information on the ultimate beneficial owner(s) for all provinces, with a view to publishing the information of companies awarded COVID contracts by all provinces by end-March 2023. In this context, we plan to complete and publish the ex-post internal audit for COVID-19 spending during 2021 by the end-2022. Finally, consistent with the plans of the *Auditoría General de la Nación* (AGN), the ex-post external audits on COVID-19 spending that took place at least during 2020 will be published, once approved, by end-June 2023 ***(structural benchmark)***.

31. We will continue strengthening our AML/CFT frameworks to ensure compliance with international standards and support our anti-corruption efforts. Ahead of the AML/CFT evaluation by the Financial Action Task Force (FATF) in 2023, and with IMF support, we have developed an action plan to:

i. Finalize and adopt the national risk assessment of money laundering (ML) by end-June 2022 and consolidate the results with the already-finalized terrorist financing (TF) assessments and disseminate them with all AML/CFT stakeholders to develop mitigations strategies. Publication of a National AML/CFT Strategy is expected by end-September 2022 (***structural benchmark***), with recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.

ii. Modify, in accordance with the international standard, and considering inputs from experts, academics, relevant civil society institutions, and Fund staff, the AML/CFT legislation (Law 25.246), including to strengthen the sanctioning regime, the inventory of reporting entities subject to AML/CFT obligations, the preventive measures applicable to reporting entities, and the requirements for legal entities and legal arrangements to obtain, maintain, and update the ultimate beneficial owner information identity within the company registry(ies). We will submit the amended legislation to congress by end-May 2022 (***structural benchmark***), for its consideration by congress during the course of 2022. In parallel, the FIU will advance the preparation of the necessary implementing resolutions—including as regards non-profit reporting institutions—to facilitate prompt and full implementation of the amended legislation.

III. Program Monitoring and Safeguards

32. Monitoring. The program will be monitored through quarterly reviews, prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. The quantitative and continuous performance criteria and indicative targets are set out in Table 1, and further specified in the Technical Memorandum of Understanding (TMU). The prior actions, along with proposed structural benchmarks, are set out in Table 2.

33. Standard IMF consultation clause. We are confident that our policies are adequate to achieve the objectives of the program and will take any additional measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of any revision contained in this Memorandum, in accordance with the Fund's policies on such consultation and will refrain from any policy that would not be consistent with the program's objectives and our commitments herein.

34. Financing assurances. We have secured firm net financing for the first 12 months of the arrangement. In particular, we have secured firm net financing commitments (US$2.6 billion) from our official partners during the first year of the arrangement. The includes multilateral support from the World Bank (US$0.792 billion), the Inter-American Development Bank (US$0.959 billion), the Andean Development Fund (CAF, US$0.055 billion), FONPLATA (US$0.074 billion), BCIE (US$0.058 billion). On the official bilateral front, net financing is expected from China (US$0.455 billion), and other bilateral banks (US$0.207 billion). In parallel, we have also entered into negotiations with the Paris Club toward an agreement on a repayment schedule for our obligations. We consider that there are good prospects of financing for the remainder of the program.

35. Safeguards and budget support. We understand that, in line with Fund's policy, a Safeguards Assessment and a Fiscal Safeguards Review will be completed by the time of the first program review. We will provide Fund staff with access to the BCRA's most recently completed external audit reports. We request the use of IMF financing for budget support and, in this respect, the respective roles and responsibilities for servicing the financial obligations to the Fund will be governed by a memorandum of understanding between the BCRA and the government. Furthermore, we have requested that all Fund purchases be disbursed into our SDR account to support our firm commitment to meet our obligations to the Fund as they fall due and rebuild our international reserve buffers.

36. We are continuing our efforts to resolve outstanding external arrears. In particular, we are seeking to resolve outstanding arrears to holdout creditors that did not participate in the 2005/10 debt exchange or settle under the terms provided in 2016 to resolve holdout claims. Moreover, we are gradually repaying the debt owed to the binational (Paraguayan and Argentine) entity, *Yacyreta*, as compensation for energy serviced to Argentina. The arrears to the entity that are undisputed are expected to be settled by the end of 2022, supported by an allocation made in the 2022 budget, and we are in discussions to resolve the disputed claims (resulting from a difference in views on the applicable exchange rate). Claims by the French export credit agency (US$30 million) are currently in litigation in the Argentine Supreme Court (after previous lower court rulings in favor of the Argentine government). Finally, we are also continuing our efforts to meet the other remaining outstanding sovereign arrears to private firms (totaling about US$500 million).

Table 1. Argentina: Proposed Baseline Quantitative Performance Criteria and Indicative Targets 1/ 2/

(In billions of Argentine pesos unless otherwise stated)

	Proposed Performance Criteria 2022		Indicative Targets 2022	
	end-Mar	end-June	end-Sept	end-Dec
Fiscal targets				
Performance Criteria				
1. Cumulative floor on the federal government primary balance 3/ 8/	-222.3	-566.8	-912.3	-1758.6
2. Ceiling on the federal government stock of domestic arrears 4/	535.9	535.9	535.9	535.9
Continuous Performance Criterion				
3. Non-accumulation of external debt payments arrears by the federal government	0.0	0.0	0.0	0.0
Indicative Targets				
4. Cumulative floor on real federal government revenues 3/ 5/	2417.3	4759.4	6929.2	8900.0
5. Cumulative floor on federal government spending on social assistance programs 3/	151.9	318.0	494.4	707.8
Monetary targets				
Performance Criteria				
6. Cumulative floor on the change in net international reserves of BCRA 6/ 8/	1.2	4.1	4.4	5.8
7. Cumulative ceiling on central bank financing of the federal government 3/	236.8	438.5	613.3	705.2
Indicative Target				
8) Ceiling on the central bank stock of non-deliverable forwards 7/	6.0	7.0	9.0	9.0

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Flows from January 1 through December 31.
4/ The average stock of domestic arrears during Q4 2021 stood at 535.9 billion pesos.
5/ Rebased assuming CPI=100 at end-2021.
6/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021, which stood at US$2.325 billion.
7/ In billions of U.S. dollars. The stock of non-deliverable forwards on December 31, 2021 stood at US$ 4.185 billion, as defined in the TMU.
8/ Targets subject to adjustors as defined in the TMU.

Table 2. Argentina: Proposed Prior Actions and Structural Benchmarks under the EFF Arrangement

Prior Actions	Sector	Timing
Raise the effective annual policy rate by 365 basis points	Monetary/FX Policy	Met
Ease certain regulations, in consultation with Fund staff, limiting securities trading in foreign exchange	Monetary/FX Policy	Met
Structural Benchmark		
Avoid additional taxes on financial transactions	Fiscal Structural	Continuous
Modify the current Budget Law to be in line with the 2022 primary fiscal deficit target agreed under the program	Fiscal Structural	April 15, 2022
Call a public hearing on a proposal to update wholesale energy tariffs effective June 1, 2022. For residential users, the updates will be anchored on the average wage growth of (coeficiente de variación salarial) as established by Law 27.443. For GUDIs, energy tariffs will reflect full cost recovery; the rest of non-residential users will have their tariff revised according to the proposal defined in the hearing	Structural	April-2022
Submit to congress amended AML/CFT Legislation (Law 25.246), in accordance with the international standard, and considering inputs from experts, academics, relevant civil society institutions, and Fund staff, for its consideration by congress in the course of 2022	Financial Integrity	May-2022
Prepare a proposal with an action plan by the Secretary of Treasury, in consultation with Fund staff, to enhance financial and budget reporting of the entities of the national public sector other than the National Administration according to Law 25.917, Art 3	Fiscal Structural	Jun-2022
Modify the SEPIPyPPP 1/2021 Resolution to enable an annual regulation that sets investment projects prioritization and selection criteria. Criteria will prioritize ongoing projects and, among major projects, those with pre-feasibility or feasibility studies. On this basis, a regulation will be adopted to determine prioritization and selection criteria for projects to be included in the 2023 Budget	Fiscal Structural	Jun-2022
Publish a time-bound plan to streamline the reserve requirement system and improve the transmission of monetary policy	Monetary/FX Policy	Jun-2022
Publication of semi-annual investor relations presentation to advance the investors relation program	Financing	Jul-2022
Develop, in consultation with Fund staff, a detailed and time-bound action plan focused on identifying compliance gaps and improving compliance risk management of key domestic taxes and customs duties	Fiscal Structural	Aug-2022
Complete, in close coordination with provincial governments, the process of updating property valuations at the federal level so that they can begin to go into effect for fiscal year 2022	Fiscal Structural	Sept-2022
Publish a National AML/CFT Strategy with recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments	Financial Integrity	Sept-2022
Develop and publish a medium-term plan, with technical and financial support of international development partners, to further reduce energy subsidies, with specific cost recovery targets, and improve the efficiency of the energy matrix, while ensuring the quality of energy services and the affordability of access for more vulnerable households	Structural	Sept-2022
Conduct and publish, working with development partners, a comprehensive evaluation of social support programs and strategy to identify options for policy improvements	Fiscal Structural	Dec-2022
Conduct and publish a study outlining options and recommendations to strengthen the equity and long-term sustainability of the pension system, focused on the special pensions regime (set forth by Law 27.546), and on mechanisms to encourage voluntarily prolonging working lives	Fiscal Structural	Dec-2022
Develop and publish a roadmap, in consultation with Fund staff, for the gradual easing of FX controls outlining the necessary conditions and objectives	Monetary/FX Policy	Dec-2022
Develop and publish, in consultation with Fund staff, a strategy to durably improve the BCRA financial position, drawing on recommendations from the Fund's Safeguard Assessment	Monetary/FX Policy	Dec-2022
Amend and submit to congress legislation—Foreign Exchange Criminal Law—to improve the penalty framework, including by introducing authorization of administrative fines, to make the sanctioning framework more efficient and enhance the timeliness of enforcement	Monetary/FX Policy	Dec-2022
Prepare, in consultation with Fund staff, a medium-term debt management strategy (MTDS)	Financing	Dec-2022
Publication of an external ex-post audit on COVID spending that took place of at least during 2020	Governance/Structural	June-2023

Attachment II. Argentina: Technical Memorandum of Understanding

March 3, 2022

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the performance criteria (PCs) and indicative targets (ITs), that will be applied under the Extended Arrangement under the Extended Fund Facility, 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 March 2, 2022. Accordingly, the exchange rates for the purposes of the program are shown in Table 1. For the purpose of setting program PCs and ITs, inflation in 2022 is based on a point estimate of 43 percent (end of period), within the program inflation range.

Table 1. Program Exchange Rates

Argentine Pesos to the US dollar 1/	107.93
Argentine Pesos to the SDR 1/	150.08
Argentine Pesos to the Euro 1/	119.83
Argentine Pesos to the Canadian dollar 1/	85.21
Argentine Pesos to the British pound 1/	144.22
Argentine Pesos to the Renminbi 1/	17.07
Gold price (US$/ounce) 2/	1,928.72

1/ Rate published by the BCRA as of March 2, 2022.
2/ Spot price published by Bloomberg as of March 2, 2022.

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.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Cumulative Floor on the Federal Government Primary Balance

4. **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.

5. Definitions: The primary balance of the Federal government is measured above-the-line and 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*), and capital revenues (*ingresos de capital*). Revenues exclude any type of financial transfers from the Central Bank (including *Utilidades* and *Adelantos Transitorios*), interest income from intra-public sector holding of securities and debt obligations, proceeds from the sale of financial assets, and special drawing rights (SDRs) allocated by the Fund or received bilaterally from other IMF members.

6. Federal government primary expenditure is recorded on a cash basis and includes spending on social protection (*prestaciones sociales*), economic subsidies (*subsidies 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.

7. 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).

8. 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.

9. 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 liabilities related to pensions, revenue sharing and expenditure allocation, with the provinces and the Autonomous City of Buenos Aires, associated with court proceedings that are either finalized or pending as of March 3, 2022, and payments of arrears as per ICSID or similar arbitration rulings.

10. Measurement: 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.

11. 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.

12. Adjustor for external project financing disbursements: The target for the primary balance of the federal government will be adjusted up (down) by the shortfall (excess) in the expenditure financed by disbursements of project loans from multilateral and bilateral partners, compared to the project loans in the program baseline (Table 2). The value of the adjustor would be capped at cumulative 141,000 million pesos in 2022 (equivalent to US$1.1 billion / 0.2 percent of GDP).

Table 2. Multilateral and Bilateral Project
(baseline projections)

	AR$ millions 1/
end-March 2022	38,474
end-June 2022	127,005
end-September 2022	218,952
end-December 2022	360,456

1/ Cumulative from January 1 of each year.

Ceiling on Federal Government Accumulation of Domestic Arrears

13. 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*), nonprofessional services (*servicios no profesionales*), capital expenditures (*bienes de uso*), and transfers (*transferencias*).

14. Measurement: The arrears are measured on a daily basis. The program will cap the quarterly average stock of arrears for 2022 at the Q4 2021 level of 535,881 million pesos, consistent with reducing the stock from 1.2 percent of GDP in Q4 2021 to 0.8 percent of GDP in Q4 2022.

15. 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

16. Definitions:

- **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 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:

[1]As defined in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements, attached to Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.

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.

Under the definition of debt set out in this paragraph, 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.

- Only for the purposes of this program, and consistent with the definition set out in the IMF's Balance of Payments Manual, **external debt** is determined according to the residency criterion, (and, as such, would encompass nonresident holdings of Argentine law peso and foreign currency debt).
- **External arrears**: External debt payment arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after March 3, 2022 that have not been paid, considering the grace periods specified in contractual agreements.

17. **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 March 3, 2022.

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

Cumulative Floor on the Change in Net International Reserves of BCRA

19. **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. Gross liabilities include disbursements from the

Fund, except for the net financing component of the program (SDR 3.166 billion), also considered to be budget support, which would increase NIR. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the program exchange rates.

- **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, including all Fund disbursements (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, and options), precious metals other than gold, assets in nonconvertible currencies and illiquid assets.

- **Gross official liabilities** in foreign currencies include (i) foreign currency liabilities with original maturity of one year or less, (ii) Fund disbursements deposited in the SDR account, except for the net financing component of the program (SDR 3.166 billion), (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. Neither the Federal government's foreign liabilities, nor its FX deposits at the BCRA are considered as gross foreign liabilities of the BCRA. The foreign currency swap with the People's Bank of China and with the BIS, the foreign exchange bank reserve requirements, SEDESA, ALADI and other non-resident deposits would be considered, for program purposes, as a foreign exchange liability of the BCRA with a maturity of one year or less.

20. **Measurement**: The change in net international reserves will be measured as the cumulative change in the stock of NIR at each test date relative to the stock on December 31, 2021.

21. **Monitoring**: Foreign exchange asset and liability data at the BCRA will be provided to the Fund at daily frequency within two days.

22. **Adjustors**:

- **Official non-project loans and grants**: The NIR targets will be adjusted upward (downward) by the surplus (shortfall) in program loan disbursements and grants from multilateral institutions (including the IBRD, IDB and CAF) and bilateral partners, relative to the baseline projection reported in Table 3. The value of the downward adjustor, i.e., in the event of a shortfall of loans and grants, would be capped at a cumulative of US$500 million in each calendar year. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements and IMF budget support) from official creditors that are usable for the financing of the general government.

Table 3. Program Loan Disbursements from Multilateral and Bilateral Sources
(baseline projection)

	(In millions of US$) 1/
end-March 2022	10
end-June 2022	700
end-September 2022	1,349
end-December 2022	1,389

1/ Cumulative from January 1 of each year.

- **Paris Club payments**: The NIR targets will be adjusted downward (upward) by the surplus (shortfall) in interest and principal payments to the Paris Club relating to the outstanding debt that was reprofiled in 2014, compared to the baseline assumptions reported in Table 4.

Table 4. Paris Club Payments (Amortization and Interest)
(baseline assumptions)

	(In millions of US$) 1/
end-March 2022	190
end-June 2022	190
end-September 2022	190
end-December 2022	190

1/ Cumulative from January 1 of each year.

Cumulative ceiling on the BCRA's Financing of the Federal Government

23. Definitions. Central bank (BCRA) financing to the government includes (i) overdraft transfers from the BCRA to the Federal Government (line *Adelantos Transitorios* in the summary account of the BCRA, as published on its website), (ii) distribution of profits (*Utilidades*), and (iii) the acquisition of government debt in the primary market or by direct purchases from public institutions.

24. Measurement: The program will cap such financing at 705,228 million pesos (1 percent of GDP in 2022) by the end of December 2022, with cumulative flows from end-December 2021 in millions of pesos. The cap for 2023 will be 0.6 percent of GDP, with zero net financing in 2024.

25. Clarification. Any decrease in the stock of *Adelantos* shall only reflect cash payments of this amount in pesos by the Treasury to the BCRA. Transfer of *Letras Intransferible*s to the BCRA will not reduce the stock of *Adelantos*.

26. Monitoring. Daily data will be provided to the Fund within two days. The flow of BCRA financing to the government will be measured at each test date as the cumulative value starting from the beginning of the calendar year.

Continuous Performance Criteria

27. Consistent with commitments in IMF arrangements, we will seek not to: (i) impose or intensify any exchange restrictions, (ii) introduce or modify Multiple Currency Practices (MCPs), (iii) conclude bilateral payment agreements that are inconsistent with Article VIII; and (iv) impose or intensify import restrictions for balance of payment reasons (continuous performance criteria).

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

Cumulative Floor on Real Federal Government Revenues

28. Definition: Federal government revenues are defined as *ingresos totals* (according to "Esquema IMIG" and as defined above).

29. Measurement: "Real" federal government revenues will be measured as nominal monthly revenues deflated by the corresponding monthly headline consumer price index published by INDEC (*nivel general del Índice de precios al consumidor (IPC)*). Real federal government revenues at each quarterly test date, will be measured on a cumulative basis starting from the beginning of the calendar year, and compared with the program baseline projection.

30. Monitoring: As with all fiscal data, federal government revenue data will be provided to the Fund with a lag of no more than 25 calendar days after the end of each month.

Cumulative Floor on Federal Government Spending on Social Assistance Programs

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

- *Asignación Universal para Protección Social, which includes the following sub-programs: Asignación Universal por Hijo, Asignación por Embarazo, and Ayuda Escolar Anual*
- *Tarjeta Alimentar*
- *Progresar*

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

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

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

34. **Measurement**: The stock of NDF in billions of US$ will be measured at each test date and will be capped at US$9 billion by end-2022. The stock of NDF stood at US$4.185 billion on December 31, 2021.

35. **Monitoring**: This indicative target will be monitored on a quarterly basis. Daily data will be provided to the Fund within two working days.

OTHER DEFINITIONS RELEVANT FOR PROGRAM CONDITIONALITY

Revisions to energy bills for residential consumers

36. In the context of the authorities' energy subsidy reduction plan, revisions to energy bills for residential consumers (excluding those subject to the subsidy segmentation scheme) will be anchored on average wage growth as defined by the Salary Variation Coefficient (*Coeficiente de Variacion Salarial (CVS)*), as established by the vetoed Law 27.443. This coefficient index is published by INDEC and estimates the evolution of salaries paid, covering the registered private sector, the unregistered private sector and the public sector. The CVS increased by 53.4 percent from end-December 2020 to end-December 2021.

Calculation of the real change in wholesale energy prices

37. **Definition**: Energy wholesale prices are defined as the pass-through prices paid by distributors for electricity and gas: the precio estacional (PEST) and the precio del gas natural en punto de ingreso al sistema de transporte (PIST), respectively. These prices can vary depending on user category:

- For electricity (PEST), the universe of users will comprise all users supplied by distributors separated into the following categories: (i) residential users from whom subsidies are eliminated; (ii) residential users who receive the social tariff (*Tarifa Social*); (iii) other residential users, not in categories (i) or (ii); (iv) large non-residential users (GUDIs), and (v) other non-residential users not in category (iv).

- For natural gas (PIST), the universe of users will cover all users that are supplied with natural gas at the regulated PIST price with categories including the following: (i) residential users from whom subsidies are removed; (ii) residential users who receive the *Tarifa Social*; (iii) other residential users, not in categories (i) or (ii); and (iv) non-residential users.

38. **Measurement:**

- For program purposes, the PEST and the PIST will be measured as weighted averages of the actual PESTs/PISTs charged to different categories of subsidized users, with the weights based on estimates of the number of users in each category.

- The weighted average energy wholesale price will be calculated as an average of the PEST and the PIST, as defined above for program purposes, using weights of 0.7 and 0.3, respectively.

- For 2022, the annual real change in the weighted average wholesale energy price will be calculated as the average annual projected change in the nominal price (based on implemented values of the PEST and PIST), deflated by projected average annual inflation of 48 percent[2] for 2022, under the program.

39. **Monitoring**: For each category of user described above, data will be provided to the Fund on the estimated number of users in each category and the actual values of the PEST and the PIST.

OTHER INFORMATION REQUIREMENTS

40. In addition to providing any data and information staff request to monitor program implementation, the authorities will also provide the following data so as to ensure adequate monitoring of economic variables:

A. Daily

- Nominal exchange rates; total currency issued by the BCRA; deposits held by financial institutions at the BCRA; 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.
- Aggregated data on banks' foreign exchange positions by currencies and foreign currency accounts with the BCRA, provided in the following categories: public national; public provincial; private domestic; private foreign; and small banks.
- Daily data on BCRA sales and purchases of securities settled in different currencies will be provided to the Fund with a weekly frequency, no more than two business days following the end of the considered week.
- BCRA activity in the NDF market.

B. Weekly

- BCRA balance sheet
- Daily data on sales and purchases of securities settled in different currencies, recorded and provided by the *Comision Nacional de Valores*, including trading by the BCRA. This information will be transmitted by the BCRA and will include a report of the daily estimation of total stocks and implicit exchange rate of the most representative securities transacted in the CCL and MEP modalities and operations.

C. Fortnightly

- Interest rates on domestic debt instruments including LELITE, LEDES, LECER, LEPAS, BONAR, BONTE, BONAD and BONCER (at different maturities).

[2] Projected end-of-period inflation in 2022 is 43 percent (see ¶2).

D. 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). Specific reporting will include:

  - Revenues from sales of physical assets, and 12-month projections for future sales of such assets.

- Fiscal financing sources (below-the-line), including BCRA transfers, issuance of domestic public securities, financing from within the non-financial public sector, external financing, and other financing schemes. Data to be provided with a lag of no more than 25 days after the closing of each month. Detailed quarterly financing plan for the coming twelve months, including the aforementioned sources, to be provided one month in advance.

- External financing received and projections for the coming four quarters, with loans and grants categorized by program and project. Data to be provided with a lag of no more than 25 days after the closing of each month.

- On federal debt:

  - Domestic and external debt service (amortization and interest payments) of the federal government, with a lag of no more than 25 days after the closing of each month. Projected monthly federal government debt amortization/repayments and interest payments (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, the name of the guaranteed individual/institution shall be included.

  - Information on the stock of external arrears will be reported on a continuous basis.

  - Federal 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.

- Required and excess reserves of the banking sector in local and foreign currency.

- 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.

E. Semi-annual

- Federal government expenditures to the provinces and the Autonomous City of Buenos Aires related to the settlement of liabilities associated with pensions, revenue sharing and expenditure allocation, as well as payments of arrears as per ICSID or similar arbitration rulings.

- On provincial debt:

  - Quarterly data on the provincial government debt stock by currency, provided within six months of the closing of each semester (i.e., end-June and end-December), 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.

  - Quarterly domestic and external debt service (amortization and interest payments) of the provincial governments, provided within six months of the closing of the previous semester (i.e., end-June and end-December).

  - Quarterly projections for the following semester for provincial government debt amortization/repayments and interest payments, at least 30 days before the end of each semester (i.e., end-June and end-December). This would include local currency and FX bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans), and both direct and guaranteed debt. In the case of issuance of government guaranteed debt, the name of the guaranteed individual/institution shall be included.

INTERNATIONAL MONETARY FUND

ARGENTINA

March 15, 2022

ASSESSMENT OF THE FUND'S FINANCIAL EXPOSURES AND LIQUIDITY POSITION

Approved By
Andreas Bauer and Andrea Schaechter

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

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INTRODUCTION

1. **Argentina is requesting a 30-month extended arrangement under the Extended Fund Facility (EFF) with access equivalent to SDR 31.9 billion (1,001 percent of quota).** Under the proposed phasing, access is frontloaded, with a first purchase equivalent to SDR 7 billion (219.6 percent of quota) available upon approval. By March 2023, about a year into the arrangement, cumulative purchases would amount to SDR 21.5 billion (674.6 percent of quota or 67.4 percent of the proposed access). The final purchase would become available in September 2024, following the completion of the tenth review (Table 1).

Table 1. Argentina: Proposed EFF — Access and Phasing

			Percent of quota	
Availability	Date 1/	SDR millions	Purchase	Cumulative
2022	March	7,000.00	219.6	219.6
	June	3,000.00	94.1	313.7
	September	3,000.00	94.1	407.9
	December	4,500.00	141.2	549.1
2023	March	4,000.00	125.5	674.6
	June	3,000.00	94.1	768.7
	September	2,500.00	78.4	847.1
	December	2,500.00	78.4	925.5
2024	March	800.00	25.1	950.6
	June	800.00	25.1	975.7
	September	814.00	25.5	1001.3
	Total	31,914.0	1,001.3	

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.

2. **This note assesses the risks to the Fund's exposure and its liquidity position arising from the proposed EFF arrangement for Argentina.** The assessment is provided in accordance with the policy on exceptional access (EA).[1] and based on the assumption that all the four exceptional access criteria are met.

[1] 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).

PAST FUND ARRANGEMENTS AND RECENT DEVELOPMENTS

3. **Argentina was 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 Stand-By arrangements (SBAs) and two extended arrangements under the EFF were approved in 1991 and 1996, and in 1992 and 1998, respectively. The 1998 EFF arrangement was treated as precautionary, and no drawing was made under it. A successor three-year SBA was approved in March 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). Ultimately, only SDR 9.8 billion of the approved SDR 16.9 billion was disbursed before the program went off track in December 2001. A short transitional SBA was approved in January 2003, which was followed by a three-year SBA with access equivalent to SDR 9.0 billion in September of the same year.[2] On January 4, 2006, Argentina repaid all its obligations to the Fund and cancelled the 2003 SBA the following day.

4. **In June 2018, the Executive Board approved a three-year SBA with access of SDR 35.4 billion, but the supported economic program did not achieve its objectives and the arrangement was cancelled early**. The authorities initially intended to treat the SBA as precautionary after the first disbursement. Subsequently, however, they made purchases under the arrangement, which was augmented in October 2018 in response to heightened balance of payments pressure. With the augmentation, access to Fund financing rose to SDR 41 billion (equivalent to US$57 billion, or 1,277 percent of quota), the largest disbursing arrangement in Fund history. The SBA program went off track in August 2019, after four out of the twelve planned reviews had been completed, and with SDR 31.9 billion disbursed. The authorities cancelled the arrangement in July 2020.

5. **Following the cancellation of the SBA, Argentina conducted a range of operations in 2020-21 to restructure its foreign currency (FX)-denominated debt.** The debt operations provided significant cashflow relief. At the federal government level, the restructuring in September 2020 of US$82 billion of private sector held FX-denominated debt (US$65.5 billion of which corresponded to a foreign-law debt exchange), provided liquidity relief of roughly US$36 billion over 2020-30, mainly through maturity extensions and lower interest rates. In addition, twelve Argentine provinces restructured their foreign-law debts worth in total US$13 billion, more than half of which (US$7 billion) belonged to the Province of Buenos Aires (PBA). Since October 2020, the Central Bank of Argentina (BCRA) required private sector firms to refinance at least 60 percent of FX debt maturing through end-2021. Provincial FX debt restructuring generated about US$ 6.5 billion of cashflow relief between 2020- 2027, while refinancing of FX debt by the private sector and the state-owned oil and gas company also delivered a combined US$ 4.5 billion of relief in 2021-22.

[2] In the run-up to the approval of the arrangement, 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. The overdue obligation was cleared on September 11, 2003. Argentina had other incidents of short-term overdue obligations to the Fund, mostly in the late 1980s.

Table 2. Argentina: IMF Financial Arrangements and Fund Exposure, 1984–2034 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	24-Jan-2003	31-Aug-2003	2,174.50	2,174.5	10,446.2
	SBA	20-Sep-2003	5-Jan-2006	8,981.00	4,171.0	
2004						9,073.0
2005						6,655.7
2006						0.0
:						:
:						:
2017						0.0
2018	SBA	20-Jun-2018	24-Jul-2020	40,714.0	31,913.7	20,213.7
2019						31,913.7
2020						31,913.7
2021						29,260.3
2022	EFF	*March 2022*	*September 2024*			*34,215.9* 3/
2023						*32,912.5* 3/
2024						*31,914.0* 3/
2025						*31,914.0* 3/
2026						*31,080.7* 3/
2027						*27,580.7* 3/
2028						*22,530.7* 3/
2029						*17,211.7* 3/
2030						*11,892.7* 3/
2031						*6,573.7* 3/
2032						*2,088.0* 3/
2033						*269.0* 3/
2034						*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.

DEBT SITUATION AND OUTLOOK

6. **Despite the various debt operations, Argentina's total external debt-to-GDP remains elevated (Table 3).** External debt rose rapidly from 36.9 percent of GDP at end-2017 to 70.8 percent of GDP at end-2019 and has declined to 55.6percent of GDP at end-September 2021 mainly on account of higher USD GDP. While the total external debt-to-GDP ratio is close to the median of recent exceptional access (EA) cases (Figure 1, Panel A), the public external debt-to-GDP ratio exceeds the median of recent EA cases (Figure 1, Panel B). In fact, public sector debt[3] accounts for about 71 percent of Argentina's external debt, broadly unchanged since the 2018 SBA. About 38 percent of the public external debt is owed to the official sector, with the IMF being the single largest creditor. Short-term debt represents about one-fifth of total external debt (see Annex III in the staff report of the request for the EFF arrangement).

7. **Argentina's external debt service burden is sizable (Table 4).** Total external debt service averaged about 21 percent of GDP in 2018-21. The ratio of external debt service to exports of goods and services was somewhat higher in 2021 than at the inception of the 2018 SBA, and the second highest among recent EA cases, behind Iceland (Figure 1, Panel C). Under the baseline of the proposed EFF, external debt service would remain elevated in 2022-23, at about 15 percent of GDP on average, of which 3.4 percent of GDP per year are obligations to the Fund, mainly reflecting repurchases under the 2018 SBA (Table 5).

8. **The public debt is also high.** The public debt-to-GDP ratio averaged about 46½ percent over 2015-17. Debt increased significantly in subsequent years reflecting the impact of FX depreciation, economic recession, reaching 88.8 percent of GDP by end-2019. In 2021, the public debt-to-GDP ratio is estimated to have declined to 80.6 percent, reflecting the economic rebound from the COVID shock, and despite the rise in fiscal deficit in 2020. Under the baseline of the proposed EFF, public debt is projected to decline further to about 61½ percent by 2026, and 55.3 percent by 2030. Currently, Argentina's debt is about 28 percentage points of GDP above the median public debt at the time of approval of recent EA cases (Figure 1, Panel D).

9. **Public debt is assessed to be sustainable but not with high probability; risks to external and public debt sustainability are judged to be significant, and subject to program implementation uncertainties**[4] . External shocks and policy slippages could jeopardize macroeconomic stability, delay the return to international capital markets, and limit prospects for improving external debt servicing capacity over the medium term. Overall, program risks are assessed to be exceptionally high (see staff report).

[3] Comprises federal government, the BCRA and provincial governments.

[4] See the debt sustainability analysis (DSA) provided in the staff report for the 2022 Article IV Consultation and and the Request for the Extended Arrangement under the Extended Fund Facility for the detailed staff assessment.

Table 3. Argentina: External Debt Structure, 2015–2021 1/

	2015	2016	2017	2018	2019	2020	2021Q3
	(In Millions of U.S. Dollars)						
Total External Debt	167,412	181,432	234,549	277,827	278,489	271,443	268,416
of which:							
Public	101,659	122,022	161,289	197,330	197,401	193,756	190,134
Loans	43,007	40,760	47,358	84,788	98,521	102,819	103,439
General government	29,048	28,412	34,197	61,042	74,018	77,460	73,586
Multilateral	19,768	20,230	21,327	51,037	68,001	71,268	68,760
Of which IMF	0	0	0	28,032	44,128	45,965	43,092
IBRD/IDA	5,852	6,048	6,328	6,879	7,128	7,721	8,502
IDB	11,207	11,422	11,778	12,332	12,647	13,368	13,247
Other	2,710	2,761	3,221	3,794	4,097	4,214	3,920
Bilateral	9,183	7,845	8,280	6,912	5,396	5,488	4,647
Other	97	337	4,590	3,092	621	704	178
BCRA	13,958	12,348	13,161	23,746	24,503	25,359	29,853
Bonds	58,652	81,262	113,931	112,541	98,880	90,938	86,695
Of which Holdouts	11,521	8,468	2,788	2,805	2,435	2,435	2,543
Private	65,753	59,410	73,260	80,497	81,088	77,686	78,283
Loans	29,105	24,912	31,746	40,011	42,650	31,051	31,791
Short-term	23,011	18,683	25,046	31,639	34,630	12,790	14,381
Long-term	6,094	6,229	6,700	8,371	8,020	18,261	17,410
Bonds	9,716	12,953	17,720	16,752	15,505	15,802	15,386
Inter-company lending	26,932	21,545	23,794	23,735	22,933	30,833	31,106
	(In Percent of GDP)						
Total External Debt 2/	26.5	33.0	36.9	53.2	62.5	70.8	55.6
of which:							
Public	16.1	22.2	25.4	37.8	44.3	50.5	39.4
Loans	6.8	7.4	7.5	16.2	22.1	26.8	21.4
General government	4.6	5.2	5.4	11.7	16.6	20.2	15.2
Multilateral	3.1	3.7	3.4	9.8	15.3	18.6	14.2
Of which IMF	0.0	0.0	0.0	5.4	9.9	12.0	8.9
IBRD/IDA	0.9	1.1	1.0	1.3	1.6	2.0	1.8
IDB	1.8	2.1	1.9	2.4	2.8	3.5	2.7
Other	0.4	0.5	0.5	0.7	0.9	1.1	0.8
Bilateral	1.5	1.4	1.3	1.3	1.2	1.4	1.0
Other	0.0	0.1	0.7	0.6	0.1	0.2	0.0
BCRA	2.2	2.2	2.1	4.5	5.5	6.6	6.2
Bonds	9.3	14.8	17.9	21.5	22.2	23.7	17.9
Of which Holdouts	1.8	1.5	0.4	0.5	0.5	0.6	0.5
Private	10.4	10.8	11.5	15.4	18.2	20.3	16.2
Loans	4.6	4.5	5.0	7.7	9.6	8.1	6.6
Short term	3.6	3.4	3.9	6.1	7.8	3.3	3.0
Long-term	1.0	1.1	1.1	1.6	1.8	4.8	3.6
Bonds	1.5	2.4	2.8	3.2	3.5	4.1	3.2
Inter-company lending	4.3	3.9	3.7	4.5	5.1	8.0	6.4

Source: National authorities and IMF staff estimates.

1/ End of year unless otherwise indicated.

2/ Ratios are calculated using nominal GDP based on average exchange rates to facilitate consistent comparison across countries (DSA Annexes II and III in the Staff Report are based on end-of-period exchange rates).

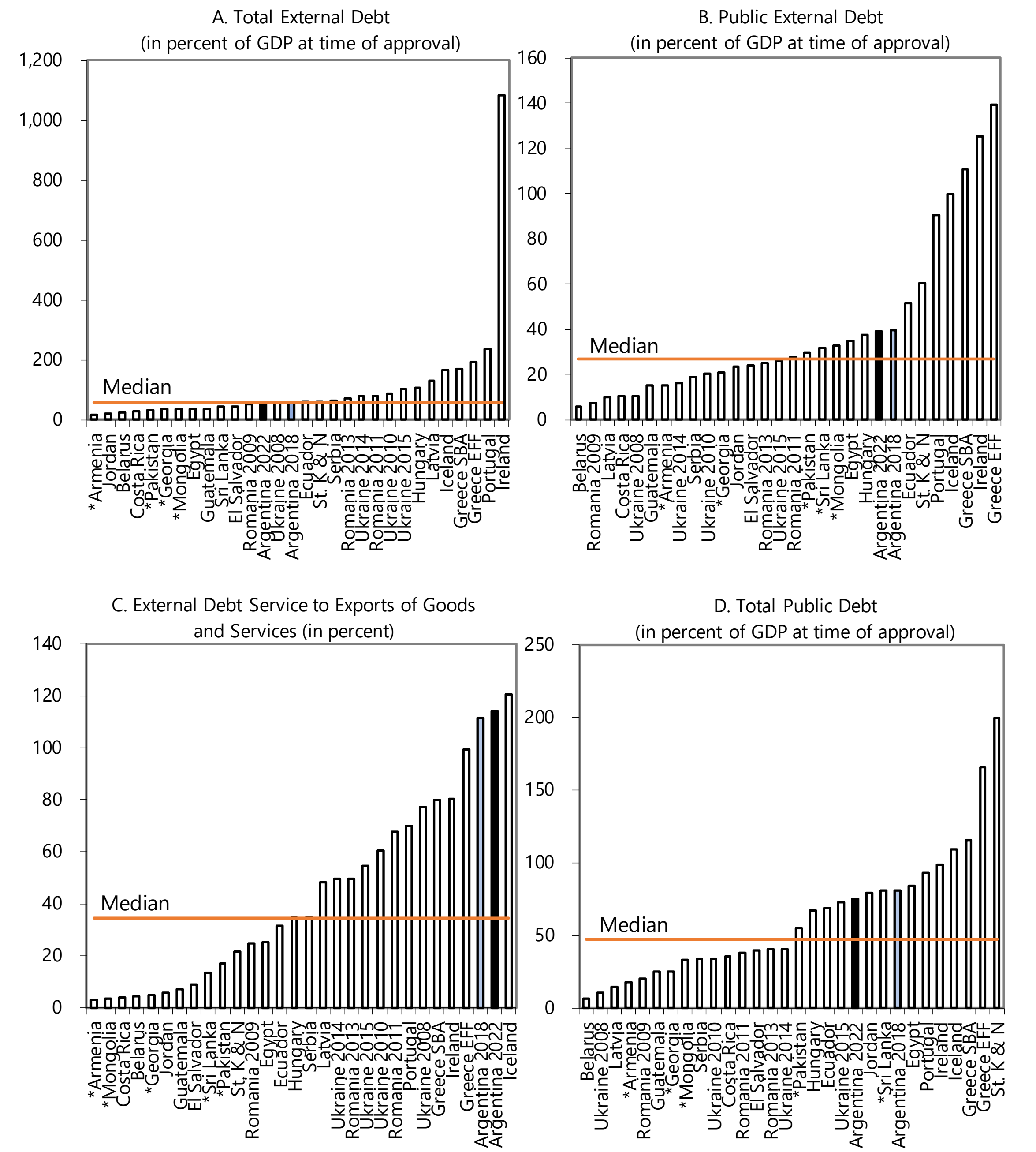
Table 4. Argentina: External Debt Service, 2017-2021

(In Millions of U.S. dollars)	2017	2018	2019	2020	2021
Total external debt service	68,932	90,158	101,140	97,020	99,098
of which:					
Federal	35,116	32,235	39,702	9,662	11,920
Multilateral	2,462	2,772	4,059	3,851	7,476
Of which IMF	0	154	1,411	1,471	5,096
Other IFIs	2,462	2,618	2,649	2,380	2,381
Bilateral	1,375	2,175	689	676	758
Private (non-resident bondholders)	31,279	27,289	34,954	5,136	3,686
BCRA	10,758	21,399	22,170	22,929	23,171
Private 1/	23,059	36,523	39,268	64,430	64,006
(In Percent of GDP)					
Total external debt service	10.9	17.3	22.7	25.3	20.5
of which:					
Federal	5.5	6.2	8.9	2.5	2.5
Multilateral	0.4	0.5	0.9	1.0	1.5
Of which IMF	0.0	0.0	0.3	0.4	1.1
Other IFIs	0.4	0.5	0.6	0.6	0.5
Bilateral	0.2	0.4	0.2	0.2	0.2
Private (non-resident bondholders)	4.9	5.2	7.8	1.3	0.8
BCRA	1.7	4.1	5.0	6.0	4.8
Private 1/	3.6	7.0	8.8	16.8	13.2

Source: National authorities and IMF staff estimates.

1/ Includes external debt service of provinces and other small portfolio and investment flows

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



Source: National 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-2021 data.

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

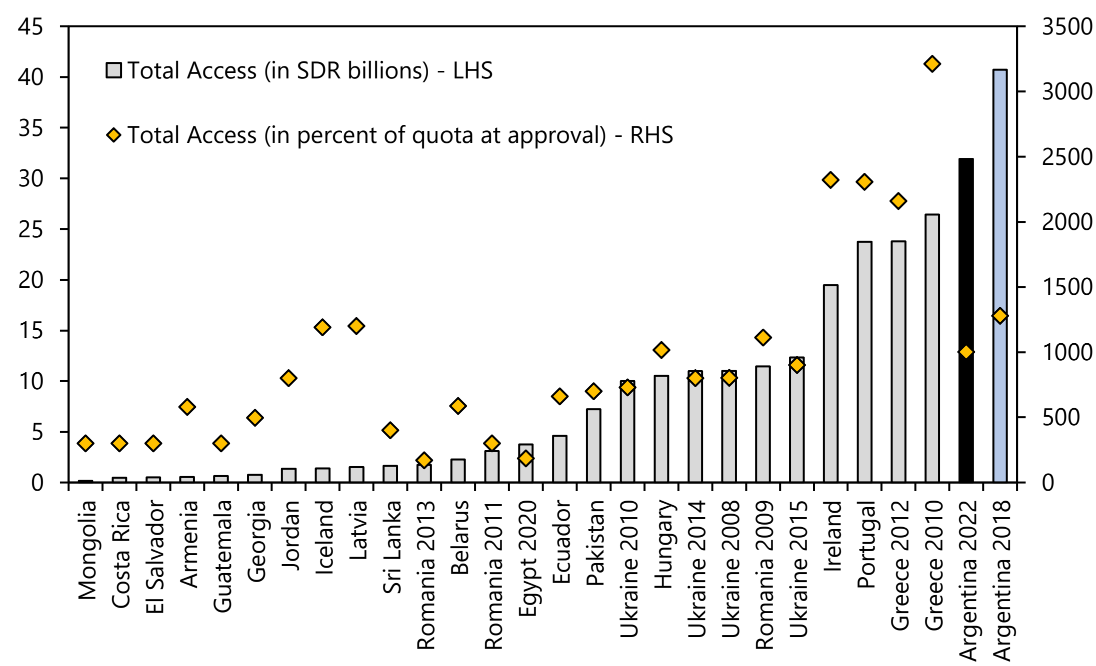
FINANCIAL IMPLICATIONS OF THE PROPOSED EXTENDED ARRANGEMENT

10. The IMF's current credit exposure to Argentina is SDR 28.7 billion. Purchases under the 2018 SBA totaled SDR 31.9 billion. Since September 2021, the authorities have made scheduled repurchases of SDR 3.2 billion. Remaining scheduled repurchases amount to SDR 12 billion in the remainder of 2022 (March-December), SDR 13.3 billion in 2023, and SDR 3.4 billion in 2024. Projected debt service to the Fund in 2022 (based on the obligations incurred under the 2018 SBA) represents 21 percent of Argentina's total annual projected external debt service.

11. The proposed access of SDR 31.9 billion under the EFF arrangement would exceed both annual and cumulative limits under regular access and would be among the highest historically, both in absolute and relative terms.

- The proposed EFF arrangement would be the second largest arrangement in absolute terms in the Fund's history, after Argentina's 2018 SBA, excluding arrangements under the Flexible Credit Line (FCL) (Figure 2). Access as a share of quota would be 31 percent above the median of other EA cases since 2008.

Figure 2. Total Access of Exceptional Access Arrangements since 2008

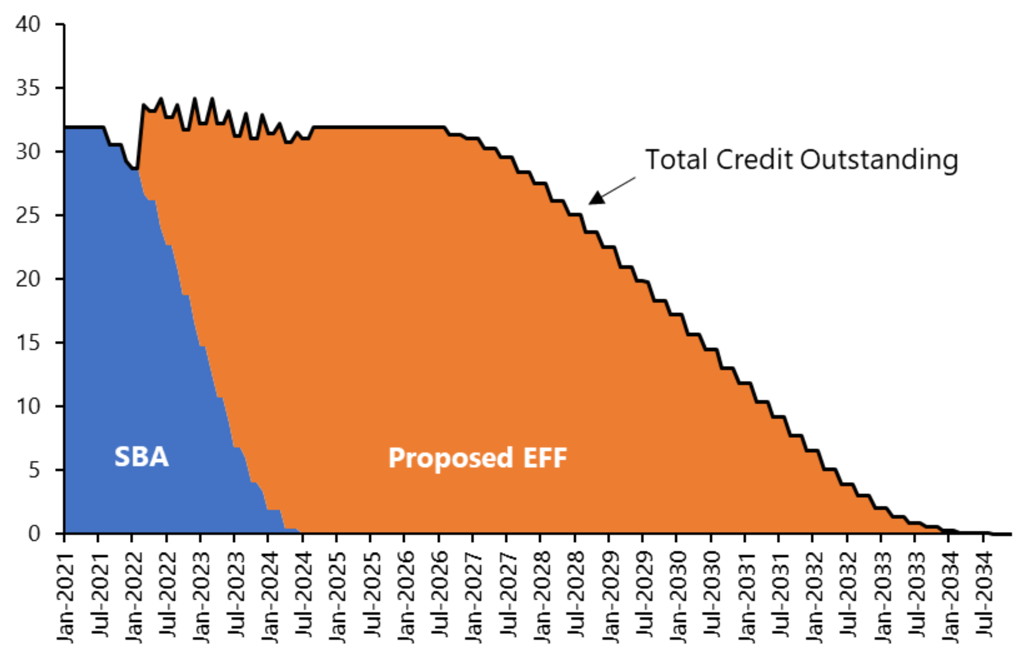


Source: Finance Department and IMF staff estimates

12. The Fund's exposure to Argentina would rise somewhat from its current level and would remain elevated for an extended period.

- If all proposed purchases under the EFF arrangement and repurchases under the 2018 SBA are made according to schedule, Argentina's outstanding use of GRA resources would increase slightly compared to the situation prior to the EFF and peak at SDR 34.2 billion (1,074 percent of quota) in December 2022 and March 2023, reflecting frontloaded access to help build reserves early in the program (Figure 3). Credit outstanding would settle at SDR 31.9 billion (1,001 percent of quota) by the end of the arrangement, equal to the peak credit outstanding under the 2018 SBA. Credit outstanding would remain at that level through August 2026 and would only fall below the EA threshold in September 2030.

Figure 3. Projected Credit Outstanding to the Fund Under the 2018 SBA and Proposed EFF
(in SDR billion)



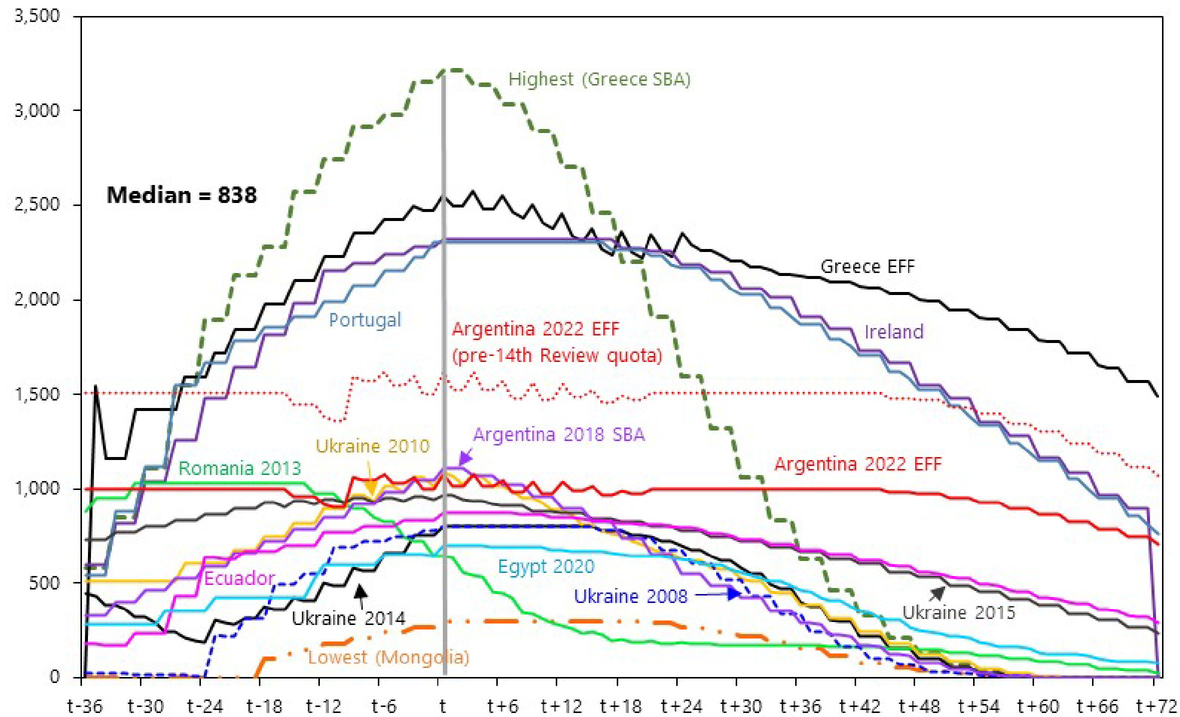
Source: Finance Department and IMF staff estimates

- The peak ratio of outstanding credit to quota would be about 28 percentage points above the median of peaks in recent EA cases. It would however be below the peaks expected at program approval in recent arrangements with euro area members— Greece, Ireland, Portugal—even if Argentina's access is scaled by its pre-14th review quota (Figure 4).

Figure 4. Credit Outstanding in the GRA around Peak Borrowing as Expected at Time of Program Approval 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.

- Peak exposure in percent of gross international reserves and total external debt would exceed corresponding medians in recent EA cases. The Fund's exposure, assuming all purchases under the EFF arrangement and 2018 SBA repurchases are made on schedule, would peak at about 98 percent of projected gross international reserves, which is more than two and a half times as high as the 39 percent median peak of recent EA cases.[5] Fund exposure would reach nearly 592 percent of net international reserves.[6] As a share of total external debt, peak Fund exposure would be at about 18 percent, compared with median peak of recent EA cases of about 12 percent. As a share of

[5] 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.

[6] Net international reserves are defined as the U.S. dollar value of gross official reserves of the BCRA minus gross official liabilities as defined in the program's Technical Memorandum of Understanding. Gross liabilities include disbursements from the Fund, except for the net financing component of the program.

GDP, peak Fund exposure would be 8.5 percent, slightly below the median peak of recent EA cases (Table 5 and Figure 5).

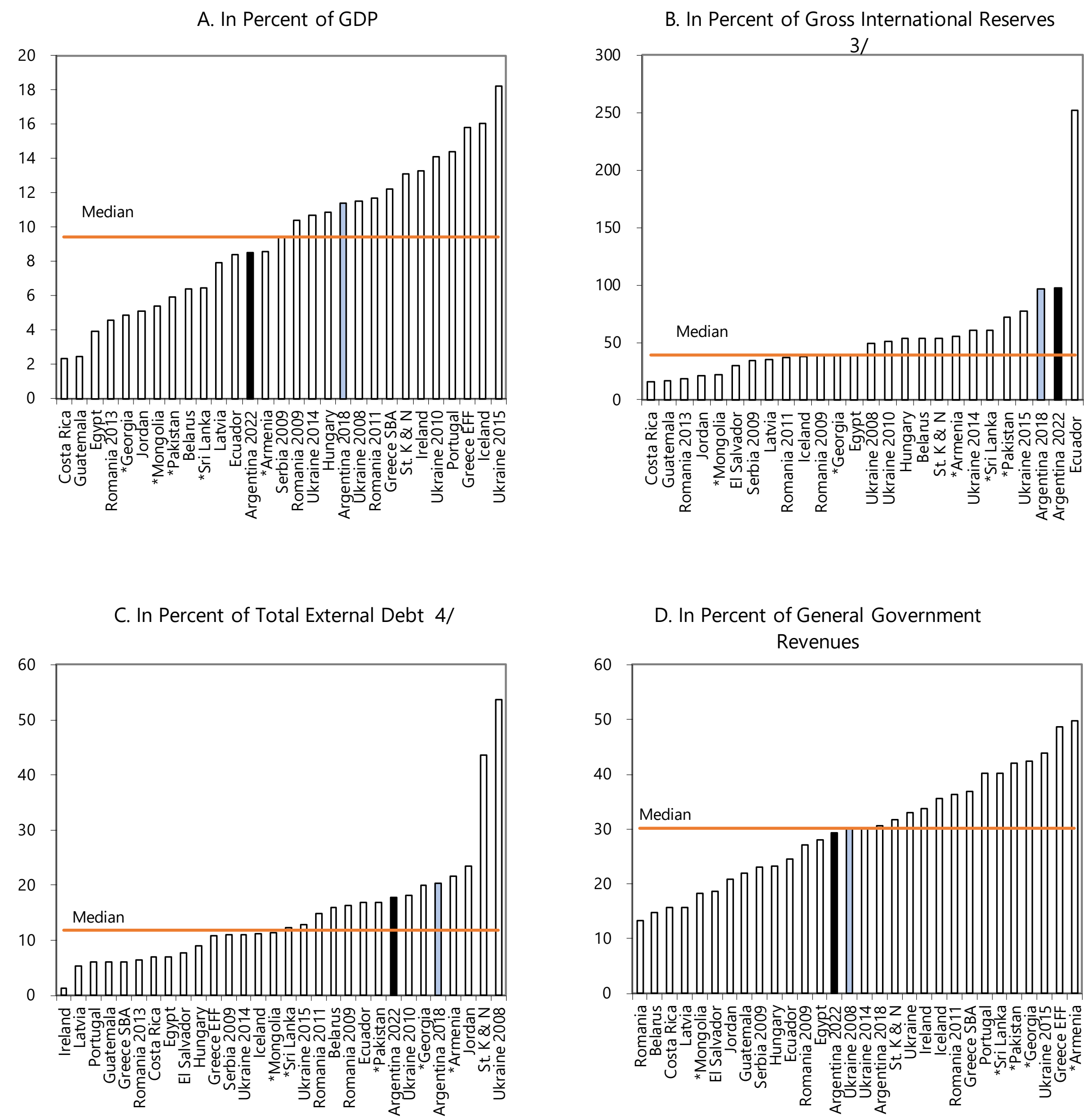
- Exposure to Argentina at time of approval of the EFF arrangement would be nearly 172 percent the Fund's current level of precautionary balances (Table 6). If all purchases under the EFF arrangement and 2018 SBA repurchases are made as scheduled, the Fund's exposure to Argentina as a share of the current level of precautionary balances would increase slightly to about 175 percent by end-2022, and moderate subsequently to about 163 percent by end-2024 (assuming that the current level of precautionary balances remains constant).

13. Argentina's peak payment obligations would be high relative to recent EA arrangements but would be less burdensome than under the 2018 SBA.

- If all purchases are made in accordance with the proposed schedule under the EFF arrangement, projected payment obligations to the Fund would peak in 2023 at SDR 14.6 billion, mainly reflecting repurchases under 2018 SBA and representing 39.7 percent of projected gross international reserves and 168.7 percent of net international reserves. Debt service to the Fund as a share of exports of goods and services would peak at 20.6 percent, the second highest for any arrangement after the 2018 Argentina SBA, and almost three times the median peak level for recent EA cases. Total external debt service as a share of projected exports of goods and services is projected to peak at 87.6 percent, more than double the median of recent EA cases (Table 5 and Figure 5). Total public external debt service as a share of exports of goods and services is projected to peak at more than twice the debt service to the Fund. Obligations to the Fund are projected to stay at around 1 percent of GDP over 2027-31 when repayments for the EFF arrangements are due.

- While peak debt services metrics would be elevated on a gross basis, as discussed above, the schedule of repurchases under the proposed EFF arrangement would be less concentrated than under Argentina's 2018 SBA, allowing more time for addressing balance of payments needs (Figure 6). Once purchases under the EFF arrangement are taken into account, net debt service to the Fund would peak at SDR 6.0 billion in 2029, equivalent to 9.9 percent of projected gross international reserves. As a percentage of exports of goods and services, the peak would represent 6.2 percent, lower than the median of recent EA cases.

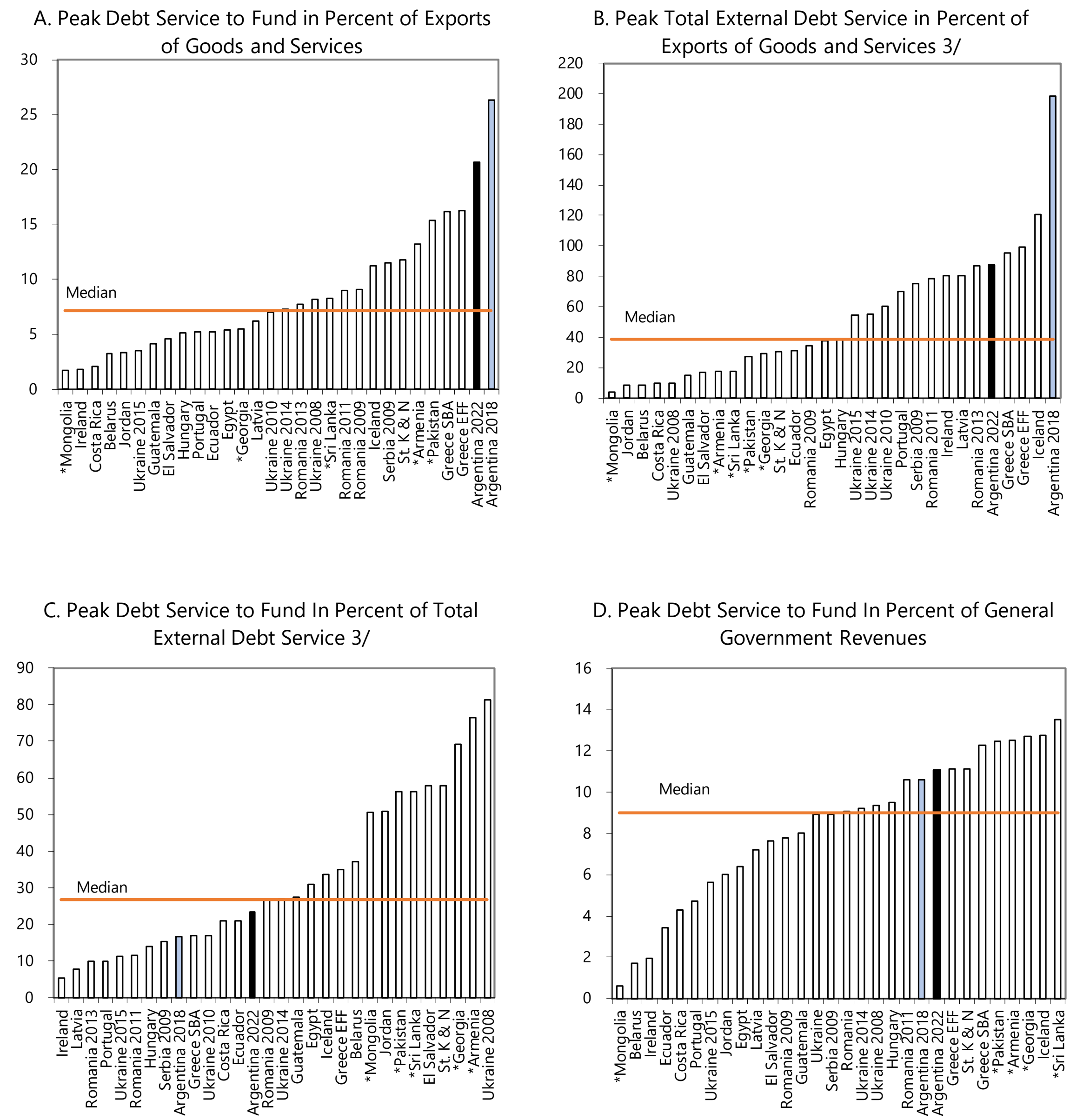
Figure 5a. Peak Fund Exposure Ratios for Recent Exceptional Access Cases 1/ 2/



Source: National 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.
3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal
4/ For arrangements of which total external debt (or debt service) ratio is not available, public external debt ratio is shown instead.

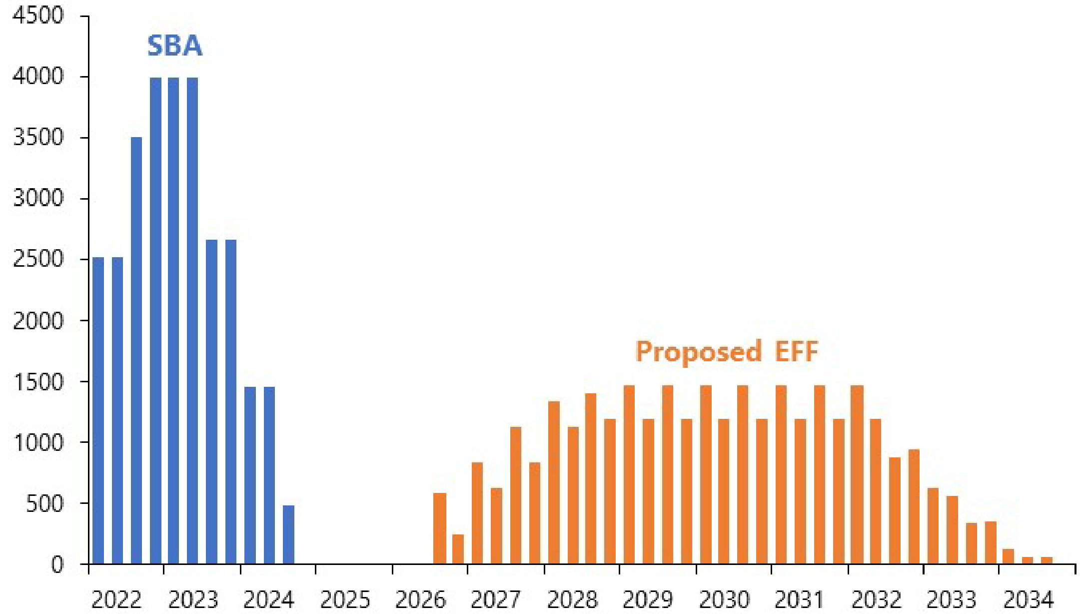
Figure 5b. Peak Debt Service Ratios for Recent Exceptional Access Cases 1/ 2/



Source: National 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.
3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal

Figure 6. Quarterly Scheduled Repurchases Under 2018 SBA and Proposed EFF
(In millions of SDR)



Source: Finance Department and IMF staff estimates.

Table 5. Argentina: Capacity to Repay Indicators 1/
(in millions of SDR, unless otherwise specified)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Exposure and Repayments (In SDR millions)													
GRA credit to Argentina	34,215.9	32,912.5	31,914.0	31,914.0	31,080.7	27,580.7	22,530.7	17,211.7	11,892.7	6,573.7	2,088.0	269.0	0.0
(In percent of quota)	(1,073.5)	(1,032.6)	(1,001.3)	(1,001.3)	(975.1)	(865.3)	(706.9)	(540.0)	(373.1)	(206.2)	(65.5)	(8.4)	(0.0)
Charges due on GRA credit 2/	948.1	1,256.1	1,170.9	1,177.4	1,175.2	1,107.3	941.6	724.1	499.9	275.1	86.5	30.1	13.4
Debt service due on GRA credit 3/	12,979.9	14,559.5	4,583.4	1,177.4	2,008.6	4,607.3	5,991.6	6,043.1	5,818.9	5,594.1	4,572.2	1,849.1	282.4
Debt and Debt Service Ratios 4/													
In percent of GDP													
Total external debt	48.3	48.1	48.5	48.2	46.8	44.9	43.2	41.5	39.9	38.4	36.9	35.5	34.2
External debt, public	35.6	35.0	34.8	34.1	32.7	31.0	29.5	28.0	26.6	25.2	24.0	22.8	21.6
GRA credit to Argentina	8.5	8.1	7.8	7.6	7.1	6.0	4.7	3.5	2.3	1.2	0.4	0.0	0.0
Total external debt service	14.9	15.2	13.2	13.0	12.9	13.6	12.4	12.5	12.6	12.6	12.7	12.8	12.8
Public external debt service	8.8	9.0	6.8	6.3	6.3	6.6	7.1	7.0	6.9	6.8	6.8	6.7	6.6
Debt service due on GRA credit	3.2	3.6	1.1	0.3	0.5	1.0	1.3	1.2	1.1	1.0	0.8	0.3	0.0
In percent of Gross International Reserves													
Total external debt	555.4	536.2	502.5	466.1	437.5	419.5	376.2	339.7	306.6	293.4	294.3	312.4	352.0
External debt, public	409.2	390.6	360.6	329.6	305.3	289.7	256.8	229.0	204.1	192.9	191.0	200.2	222.8
GRA credit to Argentina	97.9	89.9	80.8	73.8	66.2	56.0	41.0	28.3	17.6	9.3	3.0	0.4	0.0
Debt service due on GRA credit	37.1	39.7	11.6	2.7	4.3	9.3	10.9	9.9	8.6	7.9	6.5	2.8	0.5
In percent of Exports of Goods and Services													
Total external debt service	87.6	87.6	72.7	69.3	67.8	70.6	64.9	64.5	64.6	66.2	73.3	72.4	71.6
Public external debt service	51.7	52.2	37.8	33.9	33.2	34.5	36.9	36.2	35.6	35.9	39.1	38.0	37.0
Debt service due on GRA credit	19.1	20.6	6.2	1.5	2.4	5.2	6.5	6.3	5.8	5.4	4.7	1.8	0.3
In percent of Total External Debt													
GRA credit to Argentina	17.6	16.8	16.1	15.8	15.1	13.3	10.9	8.3	5.7	3.2	1.0	0.1	0.0
In percent of Total External Debt Service													
Debt service due on GRA credit	21.8	23.5	8.5	2.2	3.6	7.4	10.1	9.7	8.9	8.2	6.4	2.5	0.4
In percent of Total Public External Debt													
GRA credit to Argentina	23.9	23.0	22.4	22.4	21.7	19.3	16.0	12.3	8.6	4.8	1.6	0.2	0.0
In percent of Total Public External Debt Service													
Debt service due on GRA credit	36.9	39.5	16.4	4.4	7.3	15.1	17.7	17.4	16.2	15.2	12.0	4.7	0.7
Memorandum items:													
In percent of Net International Reserves													
GRA credit to Argentina	591.6	381.3	258.8	200.8	159.8	127.8	84.4	52.8	30.3	15.5	5.0	0.7	0.0
Debt service due on GRA credit	224.4	168.7	37.2	7.4	10.3	21.3	22.4	18.5	14.8	13.2	10.9	4.9	0.9

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

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

2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.

3/ Includes charges due on GRA credit and repurchases.

4/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, are based on the baseline scenario in the staff report for the request of the proposed EFF up to 2026 and extended to 2034.

14. Credit concentration would rise somewhat with the proposed EFF arrangement (Table 6, Figure 7). After the scheduled first purchase under the proposed arrangement, Argentina's share of outstanding GRA credit would rise to 35.7 percent from 32.1 percent at end February 2022 (Figure 7) and the share of the top five borrowers would rise to 69 percent from 67.2 percent (Table 6). Argentina would remain the Fund's largest borrower).

15. The Fund's liquidity position would decline significantly at the inception of the arrangement, but part of this impact would reverse subsequently. Following approval of the EFF arrangement, the one-year Forward Commitment Capacity (FCC) would fall by about 18 percent from SDR 175 billion as of February 28, 2022 to SDR 143 billion.[7] This decline would be partially reversed over the life of the EFF as Argentina makes the remaining scheduled repurchases under the 2018 SBA.[8]

16. Income risks under the proposed EFF arrangement would remain high. Fund income from Argentina is projected to account for about 41 percent of the Fund's projected total lending income through FY 2024, based on a desk survey scenario for projected program demand as of December 2021.[9] If Argentina was to accrue arrears on charges or surcharges after drawing under the proposed arrangement, the Fund's current burden-sharing capacity would be insufficient to cover them—GRA charges and surcharges for Argentina are projected at about SDR 948 million for the remainder of 2022, which compares to a current burden sharing capacity of only about SDR 70 million.[10]

[7] 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.

[8] The FCC as of March 21, 2022, already includes about SDR 14 billion in scheduled repurchases under the 2018 SBA coming due in the next 12 months. Between April 2022 and July 2023, the FCC would gradually rise by the remaining scheduled repurchases under the 2018 SBA, which amount to SDR 14.7 billion.

[9] See *Interim Review of the Adequacy of the Fund's Precautionary Balances* for details.

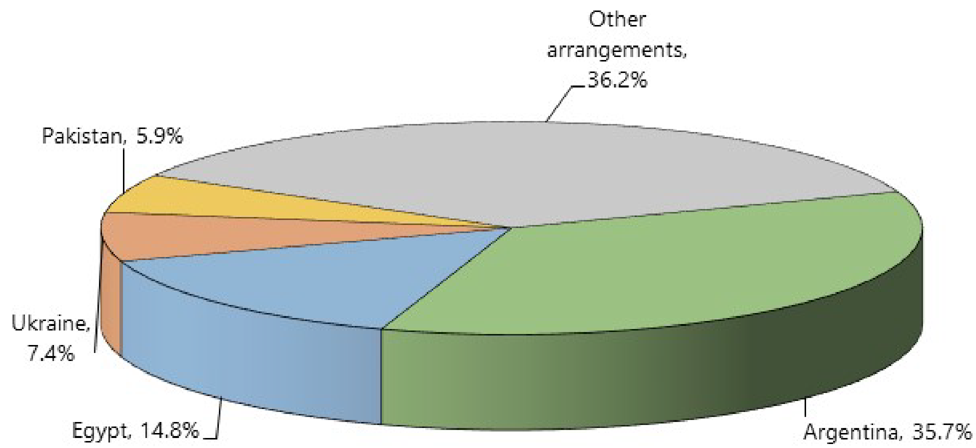
[10] Under current decisions, the rate of remuneration under symmetric burden-sharing may be reduced to 85 percent of the SDR interest rate (the maximum reduction allowed under the Articles is to 80 percent of the SDR rate). When this threshold is reached, the Board would be required to review the BSM. By default, if no decision is taken, the mechanism would become asymmetric with a further upward adjustment to the rate of charge to cover the income shortfall. This could imply significantly higher rates for borrowing members. However, the Board could decide (by a 70 per cent majority) to maintain the symmetric BSM, in which case the Fund would face an income shortfall. See *Interim Review of the Adequacy of the Fund's Precautionary Balances*.

Table 6. Argentina: Impact on GRA Finances
(In millions of SDR unless otherwise noted)

	As of 2/28/2022
Liquidity measures	
Current one-year Forward Commitment Capacity (FCC) 1/	175,320.9
Impact on FCC on approval 2/	-31,914.0
(in percent of current one-year FCC)	-18.2
Prudential measures	
Fund GRA credit outstanding to Argentina at time of approval 3/	33,733.6
In percent of current precautionary balances	172.5
In percent of total GRA credit outstanding	35.7
Fund GRA credit outstanding to top five borrowers	
In percent of total GRA credit outstanding	67.2
In percent of total GRA credit outstanding at time of approval 3/	69.0
Argentina's GRA charges/surcharges remaining in 2022 in percent of residual burden sharing capacity	1,362.0
Memorandum items	
Fund's precautionary balances (as of end-October 2021)	19,561
Fund's residual burden-sharing capacity 4/	69.6

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 7. Credit Concentration 1/



Source: Finance Department.

1/ Shares refer to credit outstanding as of February 28, 2022 plus Argentina's first purchase under the proposed arrangement.

ASSESSMENT

17. **The proposed EFF arrangement for Argentina will provide financial support for the authorities' economic program to help address the country's balance of payments needs.** The program aims to underpin stability by gradually rebuilding international reserves and starting to reduce persistent high inflation, and also make some progress in addressing Argentina's deep-seated challenges. Purchases under the proposed arrangement would allow Argentina to meet its very large balance of payment needs in 2022-23, including from the concentration of scheduled Fund repurchases from the 2018 SBA.

18. **The proposed arrangement will maintain an elevated exposure to Argentina over a prolonged period of time.** If all proposed purchases under the EFF arrangement and repurchases due under the 2018 SBA are made according to schedule, credit outstanding would rise somewhat during the program from SDR 28.7 billion (902 percent of quota) in February 2022 to SDR 31.9 billion (1001.1 percent of quota) in September 2024. Because of the frontloaded nature of disbursements, peak exposures during the life of the program would reach SDR 34.2 billion (in December 2022 and March 2023). Credit outstanding will remain above 1000 percent of quota until August 2026.

19. Credit risks associated with the new program are exceptionally high, although the EFF arrangement will help extend Argentina's very high near-term obligations. Argentina's capacity to repay its obligations to the Fund is subject to very high risks and hinges on successful program implementation and outcomes. This is the case despite the debt operations undertaken by Argentina with private creditors during 2020-21. As Argentina's largest single debt exposure, Fund credit outstanding would remain elevated compared to other recent EA cases, peaking at 8.5 percent of GDP or nearly 98 percent of gross reserves in 2022, and exceeding the Fund's precautionary balances by a large margin for many years to come. Fund payment obligations would peak in 2023 at nearly 21 percent of exports of goods and services and almost 40 percent of gross international reserves. However, timely disbursements under the proposed arrangement would provide for a much more gradual net repayment schedule compared to the 2018 SBA, although obligations to the Fund would remain relatively high in the medium term. Income risks will also remain very high, with Fund income from Argentina projected to account for about 41 percent of the Fund's projected total lending income through FY 2024.

20. The proposed arrangement will have a significant, though manageable, upfront impact on the Fund's liquidity. On approval of the arrangement, the Fund's FCC would be reduced by SDR 31.9 billion (about 18 percent), with part of this impact reversing subsequently as repurchases on the 2018 SBA are made. The Fund's liquidity position would remain broadly adequate, with the FCC staying well above the SDR 100 billion threshold for activation of the NAB.[11] However, ongoing geopolitical developments could have a severe impact on the global economy and result in additional demand for Fund resources from other members. Therefore, close monitoring of the Fund's liquidity position will be warranted.

21. Steadfast delivery of program commitments will be essential to mitigate financial risks to the Fund, yet even with full program implementation residual risks will remain high. The authorities have requested that all purchases under the EFF arrangement be disbursed into Argentina's SDR account to support their firm commitment to meet all financial obligations to the Fund as they fall due and to rebuild international reserve buffers. The authorities' request signals an important mitigation of credit and liquidity risks to the Fund. However, adequate capacity to repay will ultimately depend on the adoption of sound policies enabling a rise in international reserves and the eventual resumption of market access by the time repayments to the Fund begin falling due. Timely completion of scheduled program reviews will be essential to unlock disbursements needed to cover near-term balance of payments financing needs and support confidence. However, policy implementation risks are high, and slippages could occur, including if political support for the measures underpinning the program cannot be sustained, especially in the run-up to the 2023 presidential elections. Given large Argentina's repurchases due in 2022-23, the risks of arrears to the

[11] As NAB activation requires the approval of participants eligible to vote representing at least 85 percent of credit arrangements, it requires, among others, consent of the United States (which represent over 15 percent of NAB credit arrangements). In this regard, the U.S. Bretton Woods Agreements Act requires that a NAB activation may only be supported by the United States where the U.S. Secretary of the Treasury certifies to Congress that, among other requirements, "the one-year forward commitment capacity of the IMF (excluding borrowed resources) is expected to fall below 100,000,000,000 Special Drawing Rights during the period of the NAB activation."

Fund are not insignificant. Even with full program implementation, external shocks—including those related to the war in Ukraine—could jeopardize the attainment of the program's stabilization objectives, especially given Argentina's fragile economic and social situation, deep rooted structural imbalances, tight financing constraints, and complex political environment. In addition, there is no guarantee that the proposed program will engender a sustained recovery in confidence, which is critical for its success. If these program risks materialize, risks to the Fund's exposure and liquidity would be significant.

ARGENTINA

March 23, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—SUPPLEMENTARY INFORMATION

Approved By
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Prepared by the Argentina team of the Western Hemisphere Department

This supplement provides additional information to the Staff Report circulated to the Executive Board on March 10, 2022. Specifically, it includes a discussion of recent economic developments, the implications of the evolving war in Ukraine on the outlook, and policy actions that could be taken to deal with the shock. In addition, the supplement includes staff's final assessment of (i) a fully-financed program; (ii) Exceptional Access Criterion 4; and (iii) Argentina's foreign exchange system. Technical analysis on staff's judgement on Exceptional Access Criterion 2 is also included.

This supplement includes proposed draft decisions approving the extended arrangement and the temporary retention of exchange restrictions and multiple currency practices, which are proposed for adoption by the Executive Board.

RECENT DEVELOPMENTS AND PRELIMINARY IMPLICATIONS OF THE WAR IN UKRAINE

1. **The fiscal deficit and financing strategy remain broadly on track.** The cumulative primary fiscal deficit was limited to 0.13 percent of GDP (AR$ 93 billion) through end-February 2022, well below the end-March program target (0.3 percent of GDP, AR$ 220 billion). This was underpinned by moderate real growth in both revenues and expenditures, yet with larger increases in energy subsidies. Meanwhile, the overall deficit reached 0.4 percent of GDP, with central bank financing of the budget at 0.17 percent of GDP (AR$122 billion) through mid-March (compared to an end-March program target of AR$237 billion). Net peso financing in the domestic market remained strong with rollover rates of 155 percent, albeit with continued reliance on short-term inflation-linked instruments. Net official external financing was slightly negative.

2. **Inflation has risen sharply.** In February, monthly headline inflation rose to 4.7 percent (up 0.8pp from January), taking annual inflation to 52.3 percent. The increase was mainly attributed to higher prices on food and beverage (7.5 percent m/m), transport and certain hospitality services. That said, inflation pressures were broad-based—core inflation rose by 4.5 percent (m/m) in February, and more than 60 percent of product categories registered monthly prices increases above 3 percent. Preliminary surveys point to higher inflation in March.

3. **Like other countries in the region, Argentina is being materially impacted by the war in Ukraine.** The overall outlook, however, remains extremely fluid and could change, including depending on the evolution of commodity prices and the authorities' policy response to the shock, which will all have a bearing on developments going forward. A preliminary assessment of the implications follow (see also Staff Report Box 5), although these will be reassessed at the time of the first review of the program.

- *Growth*. Limited direct linkages to Russia and Eastern Europe suggest that the first-round impact will be modest, although overall impact will be somewhat larger given increased global uncertainties and the needed domestic policy tightening.
- *External balance*. The impact on the trade balance will likely be muted in 2022, reflecting offsetting effects between higher grain and crude oil exports and higher fertilizer and LNG imports. [1]
- *Inflation*. Higher global commodity prices will result in higher projected domestic inflation, and especially

Argentina: Terms of Trade Projections, 2022

Sources: IMF staff projections.
*/ Preliminary and subject to change.

[1] The impact on Argentina of higher energy prices could be more muted in 2023, should efforts to expand production and transport capacity in the vast shale oil and gas reserves of *Vaca Muerta* materialize.

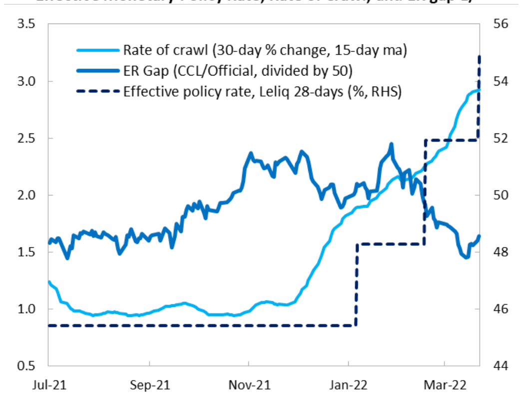
food inflation which will disproportionally impact the poor. High passthrough from international to domestic prices is expected, although the precise impact will much depend on efforts to contain second-round effects.

- *Fiscal balance.* Preliminary estimates put the direct fiscal cost of the commodity price shock at around ½ percent of GDP, as overruns in the energy subsidy bill from higher LNG prices are expected to only be partially offset by higher-than-programmed revenues, particularly those coming from agricultural export duties.

4. On this basis, the program will likely need to be recalibrated to take into account the evolving implications of the war in Ukraine shock. Given rising inflationary pressures, the authorities emphasized that tackling inflation was their top priority and committed to taking the necessary actions to lower it, including by supporting demand for peso assets with positive real interest rates and ensuring that monetary financing of the fiscal deficit remains strictly limited. To this end, the authorities agreed to bring forward the first review of the program to May 2022 (see **Table 1**) and, consistent with their commitments (see MEFP ¶33), to take any additional actions necessary to meet the economic and social objectives of the program. Staff is working closely with the authorities to assess the full and precise impact of the war in Ukraine on Argentina and is starting to discuss ways to recalibrate policies, as needed, to ensure that program objectives are met.

- **Monetary and FX policies**. The authorities will continue to rely on the new monetary policy framework to secure positive real policy interest rates to support the demand for peso assets and limit second-round effects from the global commodity shock. On March 22, the central bank raised its *effective* annual policy rate by an additional 300 basis points (to about 55 percent), bringing the increase in the effective rate to around 950 basis points since the start of the year. These rate hikes, coupled with an acceleration in the rate of crawl and news on the prospects of a Fund-supported program, are starting to support reserve accumulation and a decline in the gap between the parallel and official exchange rate—which fell from over 100 percent in early January to around 80 percent currently.[2] *Staff underscored that policy interest rates would need to be adjusted further depending on the evolution of core inflation and in line with the monetary policy framework. Staff also stressed that it remained essential to continue to improve monetary policy transmission and ensure that the rate of crawl is adjusted, as needed, to maintain competitiveness.*

Effective Monetary Policy Rate, Rate of Crawl, and ER gap 1/



Sources: BCRA and Fund staff calculations.
1/ ER Gap is defined as the percent above which parallel rate exceeeds the official rate. For presentation purposes this percentage is divded by 50.

[2] Since end-February, net international reserves have stabilized and the BCRA has purchased over US$550 million from the official market, while significantly unwind its position in the non-deliverable forward market.

- **Fiscal policies**. The authorities emphasized their commitment to the program's fiscal and financing objectives. While highlighting that the global situation remains fast moving and very uncertain, they perceive that further recalibrations are likely to be needed. They underscored that a comprehensive assessment will be undertaken in the context of the first review. This assessment will take into account the latest developments and the impact on the shock on the fiscal balance. To the extent that additional policies to meet the economic and social objectives defined the program are deemed to be necessary, a range of actions will be considered, including reprioritizing spending as well as its targeting and deepening the efforts to improve tax compliance (including by addressing evasion that occurs through tax havens) and broaden the tax base. To this end, the authorities reiterated their commitment to use higher-than-programmed real fiscal revenues and spending reallocation to secure the baseline fiscal deficit. They also emphasized that some expansion of targeted food security support could be needed.[3] *Staff underscored the need for an early and balanced approach (through a series of revenue and expenditure measures, including a recalibration of the capital budget) to ensure that the program's fiscal and financing objectives are met, while also protecting the most vulnerable from food price increases.*

- **Incomes and food security policies**. The authorities remain of the view that incomes and targeted food security policies would continue to play a supportive role. In this regard, they temporarily increased export duties on processed soy products (from 31 to 33 percent and yielding less than 0.1 percent of GDP) to finance the creation of a trust fund to subsidize wholesale wheat flour consumption at pre-war in Ukraine prices. Importantly, in a recent statement, the Minister of Agriculture ruled out any additional export duties on agricultural products. He also announced an increase in wheat export quotas (to provide greater certainty to producers ahead of the upcoming planting season) and underscored that these measures supported the government's commitment to contributing to global food security. *Staff welcomed decisions to rule out of further export duties and increase export quotas. Staff also stressed that incomes policies could play a complementary role, if accompanied by strong macroeconomic policies, yet underscored that involuntary and coercive schemes need to be avoided as they would be counterproductive.*

FINANCING ASSURANCES AND BUDGET SUPPORT

5. Financing assurances. The baseline program is fully financed. Staff judges that there are firm commitments for financing for the first year and good prospects for financing for the remainder of the program. The Paris Club provided financing assurances to the Fund by committing to engage with Argentine authorities with a view to restructuring the country's legacy debt (US$2.4 billion at end-July 2021), in the context of the Fund-supported program. Other key bilateral creditors agreed to provide positive net project financing over the course of

[3] The government recently raised the minimum wage that mainly impact the real incomes of the poor and the value of social assistance transfers. Before the announcement, the real minimum wage had fallen by 10 percent relative to January 2020 levels. The minimum wage is projected to rise by a cumulative 49.5 percent during 2022, with phased adjustments over the course of the year.

the program (an average of US$0.6 billion per annum), allowing for higher infrastructure spending and contributing to the build-up in reserves.

6. **Budget support.** As highlighted in the Staff Report (¶48), the BCRA and the government recently signed a framework agreement (memorandum of understanding) defining the respective roles and responsibilities for servicing the financial obligations to the Fund. This agreement made clear that Fund disbursements would be used to meet Argentina's balance of payment needs, including with respect to repayment of Fund obligations and bolstering international reserves, with the net financing component in local currency available to finance the primary fiscal deficit in 2022.

EXCEPTIONAL ACCESS ASSESSMENT

7. **Staff judges Exceptional Access Criterion 4 as met.** On March 17, and as required under Argentine law, the Argentine National Congress approved, with roughly an 80 percent majority in both chambers, the agreement reached with Fund staff to be supported by financing to be provided by the Extended Fund Facility (EFF) arrangement and authorized the government to use all its instruments to fulfill the commitments under the program. Congressional backing for the Fund-supported program was broad based, including from opposition parties. Key provincial governors and over 50 representatives of civil society—including business leaders, trade unions, and NGOs—issued public statements in support of the program.[4] That said, about one-third of the ruling coalition either abstained or voted against the agreement in Congress. As such, political and implementation challenges remain high, and support for the program could be strained further ahead of the October 2023 Presidential elections or earlier, especially if confidence is not quickly rebuilt or shocks derail implementation and achievement of broader macroeconomic goals.

Argentina: Congressional Vote on IMF Program

	Yes	No	Abstain	Total
Lower house	202	37	13	252
FdT 1/	76	28	13	117
JxC 2/	111	1	0	112
Other	15	8	0	23
Senate */	56	13	3	72
FdT 1/	20	13	2	35
JxC 2/	32	0	1	33
Other	4	0	0	4

Source: Argentine National Congress.
1/ Government coalition *(Frente de Todos)*
2/ Main opposition coalition *(Juntos port el Cambio)*

8. **The supplement also presents technical analysis underpinning Staff's judgment on Exceptional Access Criterion 2.** As discussed in the Staff Report (¶55), staff judges debt to be sustainable but not with high probability, and that adequate safeguards are in place to meet EA2. This judgement is based on a technical assessment, with additional details provided in **Supplement Annex 1**, that there would be sufficient restructurable FX debt available after the program to improve debt sustainability and enhance safeguards for Fund resources.

[4] Recent public opinion polls also suggest that over 70 percent of the public favors an agreement between Argentina and the Fund on a new Fund-supported program.

FUND JURISDICTIONAL ISSUES

9. Staff has concluded its assessment of Argentina's foreign exchange regime as it applies to current international transactions (see Supplement Annex II). Based on this assessment, Argentina maintains exchange restrictions and multiple currency practices subject to Fund approval under Article VIII, Sections 2(a) and 3 (see also Informational Annex). These include (i) exchange restrictions arising from limitations on payments for imports, invisible transactions (dividends/profits and FX for individuals), and payments of interest and amortization on external loans; (ii) an exchange restriction and multiple currency practices arising from taxes on the purchase of foreign exchange by individuals and payments for consumption abroad; and (iii) a multiple currency practice caused by the limitations on the availability of foreign exchange in the official market which channels current international transactions to the parallel market, and the large spread between the official exchange rate and the parallel market rate.

10. Argentina has requested the Executive Board's approval of certain of these measures and staff supports this request. Staff supports the approval of certain exchange restrictions and the MCPs, which are all maintained for balance of payments (BoP) reasons.[5] The measures are temporary, given that they are expected to be gradually lifted over the program period as conditions allow, and do not give the member an unfair competitive advantage over members or discriminate among members.

STAFF APPRAISAL

11. The broad thrust of the staff appraisal contained in the staff report remains appropriate, and staff now judges that the program is fully financed and EA4 is met. On this basis, staff recommends approval of the extended arrangement set forth in the Supplement's Attachment and the approval of certain exchange restrictions and MCPs for a period of 12 months. Proposed decisions to this effect are included in this Supplement.

[5] Argentina has requested approval for all its foreign exchange control measures that give rise to exchange restriction and MCPs (see Informational Annex), except for an exchange restriction relating to the limitation on access to foreign exchange if the requester is on the tax authorities' list of apocryphal invoices or documents, as staff assesses that this measure is not temporary and has not been imposed for BoP reasons.

Table 1. Argentina: Revised Proposed Schedule of Reviews and Purchases

Available on or after	Original Amounts		Conditions 1/
	SDR millions	% Quota	
March 25, 2022	7,000	220	Approval of Arrangement
May 10, 2022	3,000	94	First Review and end-March 2022 performance criteria
September 10, 2022	3,000	94	Second Review and end-June 2022 performance criteria
December 10, 2022	4,500	141	Third Review and end-September 2022 performance criteria
March 10, 2023	4,000	125	Fourth Review and end-December 2022 performance criteria
June 10, 2023	3,000	94	Fifth Review and end-March 2023 performance criteria
September 10, 2023	2,500	78	Sixth Review and end-June 2023 performance criteria
December 10, 2023	2,500	78	Seventh Review and end-September 2023 performance criteria
March 10, 2024	800	25	Eighth Review and end-December 2023 performance criteria
June 10, 2024	800	25	Ninth Review and end-March 2024 performance criteria
September 1, 2024	814	26	Tenth Review and end-June 2024 performance criteria
Total	31,914	1,001	

Sources: Fund staff calculations.

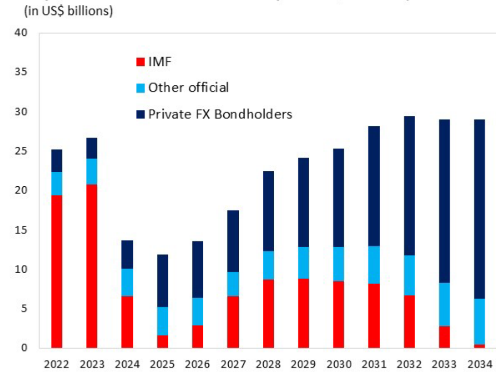
1/ Apart from periodic performance criteria, conditions also include continuous performance criteria.

Annex I. Analysis of Exceptional Access Criterion 2

1. Background. When a member's sovereign debt is assessed to be sustainable but not with high probability, as is currently the case for Argentina, the Fund can approve an arrangement with exceptional access "*so long as the member also receives financing from sources other than the Fund during the program on a scale and terms such that the policies implemented with program support and associated financing … improve debt sustainability and sufficiently enhance the safeguards for Fund resources.*" [1]

- *Fund policy offers several options to meet this requirement*. One of them is a "reprofiling" of existing claims (a short extension of maturities falling due during the program). This option applies "if the member has lost market access and significant private claims fall due during the program." An alternative option applies when "*the member retains market access, or where the volume of private claims falling due during the program is small.*" In this case, no reprofiling is needed, so long as even without such a reprofiling, "sufficient private sector exposure could be maintained".
- *The case of Argentina*. Argentina remains locked out of international capital markets**.** At the same time, only limited FX claims to the private sector fall due during the program period, following the extensive FX debt restructuring with private bondholders in September 2020 (see text figure). Hence, provided that private sector exposure by the end of the program period is "sufficient", a reprofiling is not needed to meet the requirements under Fund policy. As the staff paper accompanying the policy makes clear, private sector exposure must be "sufficient" in the sense that it maintains "*the option to implement a more definitive debt restructuring later if needed, such as, in the event downside risks materialize*" (see The Fund's Lending Framework and Sovereign Debt—Further Considerations). To investigate whether this is the case, staff carried out two tests, which both utilize the tools of the Fund's new Debt Sustainability Framework for Market Access Countries (see Review of the Debt Sustainability Framework for Market Access Countries).

Projected Gross External Debt Service by Creditor, 2022-34 1/
(in US$ billions)



Source: Fund staff calculations and projections.
1/ Federal government. For IMF assumes a requested 30-month EFF.

2. *Debt sustainability test*. This test aims to establish whether the existing private claims are sufficient to maintain debt sustainability after an adverse shock, thereby enhancing safeguards to Fund resources. Specifically, the analysis examined whether Argentina's projected debt structure in 2025 would allow for a sufficiently deep restructuring to maintain debt sustainability in the face of a "large shock" at the end of the envisaged 2022-24 program period.[2]

[1] Quotes are taken from The Acting Chair's Summing Up—The Fund's Lending Framework and Sovereign Debt—Further Considerations.

[2] A "large shock" was defined as one which in the absence of fiscal adjustment or debt restructuring would propel debt to the 80th percentile of the debt fanchart under the preliminary program baseline by 2030.

The results indicate that debt sustainability could indeed be maintained in the face of such a shock, through a debt rescheduling in 2025 together with a fiscal adjustment of about the same order of magnitude as envisaged in staff's preliminary baseline for the 2022-24 program.

3. ***FX availability test***. A "large shock" would likely imply that Argentina could not re-access international capital markets after program ends. Hence, even if it implements a restructuring that maintains public debt sustainability, it may not have access to sufficient FX to repay the Fund, except through domestic markets and the financing provided by the restructuring itself. To assess whether these sources of FX would be sufficient, the analysis focused on the size of the rescheduling of privately held external debt that would be needed to both repay the Fund and keep the FX exposure of domestic bank and non-bank creditors to the government near historically observed levels, on the assumption that no new external borrowing takes place. The main result is that this rescheduling would need to be large, but below the volume of debt service to private external creditors coming due during the repayment period.

Annex II. Foreign Exchange Regime as it Applies to Current International Transactions

1. General Assessment. Argentina maintains extensive restrictions on access to the official foreign exchange market (*Mercado Unico y Libre de Cambios or "MULC")* for payments and transfers for current international transactions. On September 1, 2019, the Argentine Government issued Decree No. 609/19 (as later amended by Decree No. 91/19), which sets forth controls and restrictions on the acquisition, sale, and transfer of foreign currency by physical persons and legal entities and enabled the Central Bank of Argentina (BCRA) to establish, through regulations, the exemptions to the Decree. This Decree, and all subsequent BCRA regulations, make up the current Argentine FX Regulatory Regime.[1]

2. Detailed Assessment. More specifically, the restrictions fall within the following broad categories:

General Requirements: The framework sets forth general requirements to access the FX market for making any payments or transfers abroad. These include that a resident must certify, amongst other things, that it has not undertaken certain transactions in the parallel securities markets (MEP/CCL) in the past 90 days, and it will not access this market during the following 90 days. The resident must also not be registered in the tax authority's database of apocryphal invoices or documents.

Imports of Goods and Services: Resident firms may access the FX market to make payments for imports of goods, subject to the general requirements set out above and the following limitations (i) until December 31, 2022, importers can only access the FX market up to an amount equivalent to an "Import Ratio"; (ii) prior approval from the BCRA is required to access the FX market for payment of certain luxury goods unless paid after certain delayed time periods (180 or 365 days, depending on the good); and (iii) for firms incorporated within the last year, the BCRA's prior approval is required for imports of goods with pending customs entry registration (e.g., advance payments) if the amount is greater than USD 5 million. Prior approval of the BCRA is also required for payments for service imports from related parties and there are limitations on advance payments of credit facilities for imports of goods and services.

Debt Payments Abroad: Resident firms may access the MULC to make payments for debt service owed abroad, subject to the general requirements set out above and if they certify that all external debt proceeds as of September 1, 2019 have been repatriated and surrendered into the local exchange market.[2] However, a special regime in effect through end-December 2022 requires the mandatory refinancing of certain foreign debt payments falling due between

[1] The BCRA regulations until mid-December 2021 are consolidated in the Amended and Restated Text on Foreign Exchange ("FX Regulations"). The measures set forth in this Annex are elaborated as well in Communications "A" 6815, 7030, 6770, 7201, 7466, 7106, 7416, 6664, et al.

[2] Other requirements for accessing the MULC to pay external debt service include that the debt is reported in the "External Assets and Liabilities Survey" (Communication A 6401), which sets forth various reporting requirements, including about external liabilities.

October 15, 2020 and end-2022.[3] Until June 30, 2022, the BCRA's prior approval is also required (with some exceptions) to access the FX Market for amortization payments on external indebtedness, when the creditor is a related party. Prior approval by the BCRA is required for advance payment of financial indebtedness (interest and principal).

Invisible Transactions

- *Dividends/Profits*: Subject to the general requirements set out above, access to the FX market to transfer profits and dividends to non-resident shareholders is allowed without prior BCRA approval if (i) the total amount does not exceed their amount determined by the shareholders' meeting and (ii) the total amount of these transfers made since January 17, 2020 does not exceed 30 percent of the total value of foreign direct investment in the relevant resident company entered and settled through the MULC since that date. Payments and dividends that do not meet these requirements require BCRA approval.
- *Access to FX by Individuals*: Resident individuals (except those receiving social transfers) are limited to $200/month (if debited to local account) or $100/month (if not debited to a local account) for purposes of saving or remittance abroad for family assistance. As of September 1, 2020, purchases made abroad with a debit card debited from local accounts or payments for credit card purchases in foreign currency are deducted from the $200/month quota above. Non-resident individuals require BCRA authorization for purchases of FX for transfer abroad, with limited exceptions (e.g., purchase of tickets in FX for tourism and travel up to $100).

Exchange Taxes: Purchases of foreign currency by Argentine residents are also subject to a 30 percent "PAIS" tax and a 35% tax withholding tax, which is considered an advance on income tax and may be refunded at the end of the tax year.

[3] For those residents who have foreign debt payments exceeding $2 million/month during this time period (excluding debt that was already refinanced), the BCRA will only grant access to 40 percent of the principal amount due. For the remainder, a detailed refinancing plan must be submitted to the BCRA (30 days prior to maturity date of principal to be refinanced) which sets forth the refinancing of the remaining 60 percent (with an average life of at least two years).

ARGENTINA

March 23, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—INFORMATIONAL ANNEX

Prepared By

The Argentina Team of the Western Hemisphere Department (in consultation with other departments)

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FUND RELATIONS

The 2022 Article IV discussions were held during November 2021 and February 2022. The staff team comprised J. Kozack and L. Cubeddu (heads), A. Chailloux, R. Llaudes, F. Arizala, M. Perks, V. Bonifacio (all WHD), J. Hooley (FAD), A.C. Paret (SPR), M. Tamene (MCM), C. DeLong (LEG), M. Szafowal (Local office), and B. Kelmanson (Resident Representative). The mission met with senior government officials, representatives of civil society, labor unions, social organizations, and the private sector, as well as academics and policy experts. Mr. Chodos (OED) participated in the meetings.

Membership Status: Joined September 20, 1956; Article VIII

(As of February 28, 2022)

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	3,187.30	100.00
IMF Holdings of Currency	31,937.82	1,002.03
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	5,074.92	100.00
Holdings	7.83	0.15

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Stand-by Arrangements	28,747.78	901.95

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jun 20,2018	Jul 24, 2020	40,714.00	31,913.71
Stand-By	Sep 20, 2003	Jan 05, 2006	8,981.00	4,171.00
Stand-By	Jan 24, 2003	Aug 31, 2003	2,174.50	2,174.50
Stand-By	Mar 10, 2000	Jan 23, 2003	16,936.80	9,756.31
of which SRF	Jan 12, 2001	Jan 11, 2002	6,086.66	5,874.95

Overdue Obligations and Projected Payments to Fund 1/
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2022	2023	2024	2025	2026
Principal	12,031.86	13,303.43	3,412.50		
Charges/Interest	653.67	324.39	27.86	11.13	11.13
Total	12,685.53	13,627.81	3,440.36	11.13	11.13

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable.

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable.

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangements: Argentina's currency is the Argentine peso. The *de jure* exchange rate arrangement is "*crawling peg*". The *de facto* exchange rate arrangement was reclassified to "*crawl-like*" from "*other managed*", effective January 27, 2020. Argentina has accepted the obligations of Article VIII, Sections 2, 3, and 4. Argentina maintains exchange restrictions and multiple currency practices subject to IMF jurisdiction under Article VIII. These include:

General Restrictions: Argentina maintains exchange restrictions arising from limitations on access to the foreign exchange market for making any payments or transfers for current international transactions, which prevent access to the foreign exchange market unless the requester: (i) has not in the previous and subsequent 90 days undertaken certain transactions in the securities market; and (ii) is not included in the tax authorities' database of apocryphal invoices or documents.

Restrictions on Payments for Imports: Argentina maintains exchange restrictions arising from restrictions on payments for imports of goods and services, as follows: (i) limitations on the amounts of FX that can be accessed for import payments; (ii) limitations on advance payments for imports; (iii) limitations on payments for imports of luxury goods; and (iv) a preauthorization requirement for payments of services to related parties.

Invisible Transactions: Argentina maintains exchange restrictions on payments for invisible transactions, as follows: (i) limitations on accessing the FX market to make transfers of foreign currency abroad as profits and dividends to non-resident shareholders; and (ii) limitations on access to FX by resident individuals for invisible transactions (e.g., wages, salaries, family remittances, medical expenses, educational expenses) and other current account transfers and for non-residents for transferring abroad proceeds from current international transactions.

Restrictions on payments of interest and amortization on external loans: Argentina maintains exchange restrictions on payment of interest on and moderate amounts of amortization of external loans, as follows: (i) limitations on access to foreign exchange for payment of external indebtedness which require that all external debt proceeds have been surrendered into the local exchange market prior to accessing foreign exchange to service external debt; (ii) mandatory refinancing requirements; (iii) limitations on advance payments of debt; and (iv) prior BCRA consent for payments of principal (including amortization) to related parties.

Exchange Taxes: Argentina maintains (i) an exchange restriction and an MCP arising from a 30 percent tax on the purchase of foreign exchange by individuals and on payments for consumption abroad and (ii) an MCP arising from the 35 percent tax based on the potential spread exceeding 2 percent between the market exchange rate and the effective exchange rate of the transaction, considering that the tax can be credited towards other tax obligations at the end of the tax year.

Parallel Market Rate: Argentina maintains an MCP, caused by the limitations on the availability of foreign exchange which channels current international transactions to the parallel market, and the large spread between the official exchange rate and such market.

Last Article IV Consultation: The Staff Report for the 2017 Article IV Consultation with Argentina was considered by the Executive Board on December 18, 2017.

STATISTICAL ISSUES

(As of March 1, 2022)

I. Assessment of Data Adequacy for Surveillance

General: Data provision is adequate for surveillance.

National Accounts: The National Accounts published by the National Institute of Statistics and Census (INDEC) are compiled using the 1993 System of National Accounts (SNA) with some recommendations from the 2008 SNA. INDEC disseminates annual GDP series by the production approach and quarterly GDP series by the production and expenditure approach in current and constant (2004) prices. The data on the national income and saving are published annually in the current and accumulation accounts for the total economy and the rest of world.

Price statistics: INDEC introduced the new national CPI in January 2017, with weights based on the 2004-05 expenditure survey (*Encuesta de Gastos de los Hogares*). The current CPI weights are outdated and should be updated, using 2017-18 new expenditure survey in line with international best practices (Consumer Price Index Manual: Concepts and Methods, 2020) which recommends that index weights be updated at least every five years with the index reference period not older than five years.

Government Finance Statistics: Argentina disseminates fiscal data under the Special Data Dissemination Standard. Data also has been reported to the Statistics Department since 2014 for dissemination in the *Government Finance Statistics Yearbook*.

Monetary and Financial Statistics: Argentina reports monetary statistics according to a national format and is yet to adopt the standard reporting forms that reflects the latest international MFS methodology. However, new detailed data for the central bank and other depository corporations have been reported to STA, which are under review. Data for the other financial corporation sector, such as insurance companies, pension funds, and investment funds, are not reported to STA. Argentina reports data on several indicators of the Financial Access Survey including two to monitor progress towards achieving the United Nations Sustainable Development Goals.

Financial sector surveillance: Argentina reports 13 (out of 18) core Financial Soundness Indicators (FSIs) and three (out of nine) encouraged quarterly FSIs and is preparing for reporting additional FSIs based on the IMF's updated 2019 FSIs Compilation Guide.

External sector statistics: Argentina compiles and disseminates detailed annual balance of payments and international investment position data from 2006 in accordance with the methodology of the *BPM6*, with enhancements made recently in the estimation of digital trade on goods and services. Further improvements in reconciling items in the financial accounts such as Portfolio Investment positions reported both by INDEC and the Central Bank would further enhance the compilation of the Coordinated Portfolio Investment Survey. Argentina disseminates the Reserves Data Template on International Reserves and Foreign Currency Liquidity under the Special Data Dissemination Standard.

II. Data Standards and Quality

Argentina is a subscriber to the Fund's Special Data Dissemination Standard since 1996.

The data module of the Report on the Observance of Standards and Codes has not been prepared.

RELATIONS WITH THE WORLD BANK[1]

The FY19-FY22 Country Partnership Framework (CPF) was presented to the World Bank's Board of Executive Directors in April 2019 and is currently being reviewed and adjusted through a Performance and Learning Review (PLR) process. The PLR will adjust the CPF focus areas and objectives, drawing lessons from the implementation of the current CPF, and taking into consideration changes in country context due to the prolonged financial and macroeconomic crisis that began in mid-2018, the COVID-19 pandemic, and the policy responses to these financial, economic and health stresses. Through the first two and a half years of the crises, the Bank has implemented a program of support focused on assistance to vulnerable populations, improvements in basic services and urban infrastructure, and COVID-19 emergency response. The PLR will propose to adjust the CPF in accordance with this renewed focus of engagement while supporting programs that address long-term environmental, social, and economic sustainability. The PLR is in consultations with the Government and will be submitted to the World Bank Board in May 2022.

As of February 25, 2022, the IBRD portfolio in Argentina consists of 25 projects, including 24 investment loans and one guarantee for a total commitment of US$8.2 billion. The overall indicative lending envelope for the final two years of CPF implementation will be around US$1.8 billion a year and will combine investment project finance and a few critical program-for-results financing. The pipeline for calendar year 2022 includes nine new operations, of which two have been approved on February 24, for a total of US$2.0 billion in new commitments. The orientation toward the sustainability of basic services and urban infrastructure resulted in climate co-benefits of over 60 percent in FY2021, and the parallel focus on COVID-response was met through both urgent financing of protective equipment and, in FY21, a $500m financing of vaccines that helped Argentina achieve one of the hemisphere’s highest vaccination rates. A program of technical assistance, under design in close consultations with government counterparts and the IMF, in areas such as energy subsidy reduction, public investment management and prioritization, and tax administration will support the Government’s commitments to fiscal consolidation and efficiency in macroeconomic management.

Since April 2019, IFC has made close to US$1.3 billion long-term investments, including US$676 million mobilized from other commercial and institutional investors. These investments include, among others: (i) a US$500 million loan to Pan American Energy, including US$365 million mobilized from third parties, to expand and upgrade its refinery to produce lower-emission diesel fuels in compliance with stricter environmental fuel standards; (ii) a US$76.1 million loan for the 88MW La Genoveva windfarm, including US$46.1 million mobilized from MCPP; (iii) a US$310 million loan to Telecom Argentina (including US$200m mobilized) to expand broadband coverage especially in underserved regions; (iv) a US$80 million loan, followed by a second US$40 million loan during the pandemic, to help build and operate a greenfield float-glass manufacturing plant by Vasa, a subsidiary of NSG UK, to boost local production and increase exports; and (v) a US$100 million financing (including US$42.8 million in mobilization) to AdecoAgro to expand milk

[1] Prepared by World Bank staff.

production in Argentina and purchase and revamp two raw milk processing facilities of the local dairy cooperative SanCor. During the CPF period, US$194 million of IFC's commitments have been tagged to climate-related investments, and IFC delivered its first advisory project on Banking on Women to HSBC Argentina. Most of IFC's long-term investments and mobilization of capital, aligned with CPF Focus Area 1, occurred in FY19. In FY20 and FY21, IFC investment activity diminished given Argentina's macroeconomic conditions and the dearth of private sector investment in the wake of the economic crisis and the pandemic.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK[1]

Argentina's current Country Strategy covers the period 2021–23 and focuses on four strategic pillars to guide the Bank's operational activities consisting of sovereign- and non-sovereign guaranteed loans, technical cooperation operations, and knowledge products: (i) poverty reduction and social protection for the most vulnerable; (ii) economic recovery and productive development 4.0; (iii) macroeconomic stability and public policy effectiveness; and (iv) digital transformation as a crosscutting facet of development. Each pillar also focuses on issues of diversity and gender and environmental sustainability, including investments in resilience and low-emission investments. To achieve a sustained reduction in poverty, it is necessary to provide access to improved services and to create more productive jobs in a context of limited fiscal space in which more efficient and sustainable public policies are deployed.

According to the 2021–23 Country Strategy, approvals of sovereign guaranteed loans for the period are projected to range between US$4.4 and US$5.5 billion depending on underlying scenarios. Under the current Country Strategy, the following initiatives had been approved as of February 2022: 10 sovereign guaranteed operations totaling US$1.6 billion and 4 non-reimbursable technical cooperation operations for US$1.3 million.

The IDB is a leading multilateral creditor of Argentina with a total debt of US$14 billion in 2022. As of February 2022, Argentina's sovereign loan portfolio is composed of 66 operations, totaling US$11.8 billion with a disbursed percentage of 50 percent. The portfolio is distributed as follows: 33 percent in the areas of infrastructure and energy, 17 percent in climate change and sustainable development, 35 percent in institutions for development, 14 percent in the social sector, and 1 percent in integration and trade. Additionally, the private sector loans portfolio comprises 18 operations for US$703 million, and the non-reimbursable technical cooperation portfolio includes 39 operations for US$37 million.

Text table. Argentina: Approved Operations Under the 2021–23 Strategy*

	Number of operations	Amount (US$ million)
Sovereign guarantee	10	1,600
Technical cooperation	4	1,300

*Under the current Country Strategy approved as of February 2022

[1] Prepared by Inter-American Development Bank staff.

Argentina—Table of Common Indicators Required for Surveillance

(As of March 1, 2022)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	February 22, 2022	February 22, 2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	February 22, 2022	February 22, 2022	D	D	D
Reserve/Base Money	February 22, 2022	February 22, 2022	D	D	D
Broad Money	February 22, 2022	February 22, 2022	D	D	D
Central Bank Balance Sheet	February 15, 2022	February 22, 2022	W	W	W
Consolidated Balance Sheet of the Banking System	December 2021	February 2022	M	M	M
Interest Rates[2]	February 22, 2022	February 22, 2022	D	D	D
Consumer Price Index	January 2022	February 15, 2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	September 2021	February 2022	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	January 2022	February 2022	M	M	M
Stocks of Central Government and Central Government –Guaranteed Debt[5]	Q4 2021	January 2022	M	M	M
External Current Account Balance	Q3 2021	December 2021	Q	Q	Q
Exports and Imports of Goods	January 2022	February, 2022	M	M	M
GDP/GNP	Q3 2021	December, 2021	Q	Q	Q
Gross External Debt	Q3 2021	December 2021	Q	Q	Q
International Investment Position[7]	Q3 2021	December 2021	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and provincial governments, numbers can be compiled using provincial governments quarterly financial statistics.

[5] Including currency and maturity composition.

[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.