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SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF APPLICABILITY AND NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ARGENTINA

In the context of the Second Review Under the Extended Arrangement Under the Extended Fund Facility, Requests for Waivers of Applicability and Nonobservance of Performance Criteria, Modification of Performance Criteria, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 7, 2022, following discussions that ended on September 2022 with the officials of Argentina on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on September 26, 2022.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Argentina.

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

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

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

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IMF Executive Board Completes Second Review of the Extended Arrangement Under the Extended Fund Facility for Argentina

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund completed today the second review of Argentina's 30-month EFF arrangement, allowing for an immediate disbursement of about US$ 3.8 billion.
- Decisive actions by the new economic team have been critical to stabilizing markets and to begin rebuilding confidence.
- Relevant end-September quantitative program targets were met, including for net international reserves and monetary financing of the fiscal deficit.
- In the context of a more challenging global backdrop and ongoing domestic risks, steadfast and continued program policy implementation going forward will be critical to achieve program objectives, entrench stability, and secure sustained and inclusive growth.

Washington, DC – October 7, 2022: The Executive Board of the International Monetary Fund (IMF) completed today the second review of the extended arrangement under the Extended Fund Facility (EFF) for Argentina. The Board's decision enables an immediate disbursement of SDR 3 billion (about US$3.8 billion), bringing total disbursements under the arrangement to about US$17.5 billion.

In completing the review, the Executive Board assessed that recent decisive actions were critical to stabilizing markets, rebuilding confidence, and to secure key quantitative targets, including the end-September floor for net international reserves and ceiling on monetary financing of the fiscal deficit. The Board also approved waivers of non-observance for the continuous performance criteria relating to exchange restrictions and multiple currency practices. [1]

Argentina's 30-month EFF arrangement, with access of SDR 31.914 billion (equivalent to US$44 billion, or about 1000 percent of quota), was approved on March 25, 2022 (see Press Release No. 22/89). The authorities' IMF-supported program provides Argentina with balance of payments and budget support that is linked to the steadfast continued implementation of program polices aimed at strengthening public finances, tackling persistent high inflation, boosting reserve accumulation, and setting the basis for sustained and inclusive economic growth.

Following the Executive Board discussion on Argentina, Ms. Kristalina Georgieva, Managing Director, issued the following statement:

"In response to the market disruptions of mid-2022, Argentina's new economic team adopted

[1] Given that the Board meeting occurred after end-September, waivers of applicability were also approved for two end-September targets—where data were not yet available—including the primary fiscal balance.

decisive corrective measures that are starting to restore confidence and policy credibility. Prudent macroeconomic policies and steadfast program implementation will be needed to address the still fragile situation, strengthen stability, and deliver the objectives of the authorities' Fund-supported program, which remains a key macroeconomic anchor.

"Achieving the fiscal primary deficit targets of 2.5 percent of GDP in 2022 and 1.9 percent of GDP in 2023 is critical to moderate import growth, accumulate reserves, strengthen debt sustainability, and further reduce reliance on central bank financing of the deficit. This will require further strengthened expenditure controls and increased efficiency of subsidies and social spending, which in turn would create space for critical energy infrastructure projects and targeted assistance to the vulnerable.

"Continued resolute implementation of the monetary policy framework is essential to sustain positive real interest rates and tackle the persistent high inflation. Doing so will also encourage demand for peso assets, increase external competitiveness, and boost reserves. While targeted FX measures can temporarily support the balance of payments, they are not a substitute for sound macroeconomic policy. As such, exchange restrictions and multiple currency practices should be unwound as conditions permit and reserve coverage strengthens.

"A proactive debt management approach, coupled with prudent macroeconomic policies, remains necessary to mobilize domestic peso financing while mitigating rollover risks. Continued good faith efforts, on all sides, are also needed to secure a successful restructuring of Paris Club debt. Ensuring that international partners deliver on financing commitments is also critical to support key program objectives.

"The structural reform agenda remains critical to address deep-seated economic challenges. Continued progress is needed to strengthen public financial management, monetary transmission and central bank finances, as well as the frameworks to combat tax evasion and money laundering. Similarly, strong and stable regulatory frameworks can help boost Argentina's export potential in key sectors, including energy.

"Amid the challenging global environment and ongoing domestic risks, resolute implementation of the program and agile policy making are critical to meet objectives and secure stability. Broad political support for the program's policies remains essential in the period ahead."

INTERNATIONAL MONETARY FUND

ARGENTINA

September 26, 2022

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF APPLICABILITY AND NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Episodes of domestic policy uncertainty and acute market pressures in mid-2022, coupled with a more challenging global environment, necessitated firmer program implementation and stronger policy reaction to ensure macroeconomic stability, rebuild policy credibility, and safeguard program objectives. Initial decisive actions and strengthened commitments by the new economic team since early-August have started to stabilized markets, although the situation is fragile as reserve coverage remains low while inflation is unanchored and stands at multi-year highs. The review discussions focused on assessing recent progress, updating the macroeconomic framework, and reaching understandings on a solid policy package to durably restore stability and achieve the program objectives.

Program performance. Most end-June quantitative program targets were met, with the exception of the floor on net international reserves, which was missed on account of higher-than-programmed import volume growth and delays in external official support. However, inflation has been substantially higher than projected and policy setbacks and uncertainties resulted in a period of market stress, which in turn contributed to a non-observance in the continuous performance criteria related to exchange restrictions and multiple currency practices. That said, corrective actions are underway to ensure that program objectives can be durably met, and progress continues to be made in meeting structural benchmarks; although revisions to the timeline will be required given recent cabinet changes, and the need to incorporate technical assistance recommendations in key areas, including revenue compliance and energy policy. Updates of the end-September performance criteria, which govern this review, will be reported on in a Staff Supplement.

Program risks. Program risks remain very elevated. The global outlook is subject to significant downside risks, including from a protracted war in Ukraine, stronger-than-anticipated tightening in global financial conditions, and a sudden reversal in the terms

of trade. In addition, while renewed commitments and recent policy actions are positive, implementation risks remain elevated given the very complex economic, social and political situation, especially as the October 2023 Presidential Elections draw closer. Rebuilding policy credibility will take time, consistent effort, and strong political support. Contingency planning and the agile adjustment of policies will be essential to safeguard macroeconomic stability and to ensure that program objectives are met. The Fund continues to face significant enterprise risks.

Policy recommendations. More decisive program implementation remains essential to reduce uncertainties, rebuild policy credibility and maintain the program as an anchor. Tight macroeconomic policies are not only necessary to secure key program targets, but also to gradually moderate domestic demand, tackle high persistent inflation, and avoid a disorderly adjustment. Fiscal consolidation will require improved budget management, along with policies to improve the targeting of subsidies (energy, transport, and water) and social assistance, while protecting key infrastructure investments. More consistent and resolute application of the enhanced monetary and FX policy framework is needed to deliver sustained positive real interest rates, supporting a gradual moderation in inflation, increasing demand for peso assets, and reducing reliance on central bank financing. In parallel, efforts should continue to mobilize support from multilateral and bilateral partners and to reach agreement with Paris Club creditors. Stronger efforts are also needed on the structural agenda to strengthen public financial management, frameworks to combat tax evasion and money laundering (supported by international exchange of information agreements), and the net export potential of strategic sectors. Since exchange restrictions and multiple currency practices are no substitute for addressing underlying macroeconomic imbalances, a gradual easing of these restrictions should be sought as conditions permit.

Program requests/commitments. The program's key objectives—related to the primary fiscal deficit, monetary financing of the deficit, and net international reserves—remain unchanged over the period 2022 to 2023. Modification of near-term quarterly targets is being proposed, reflecting higher than programmed inflation (in the case of the primary fiscal balance, monetary financing of the fiscal deficit, and the stock of domestic arrears), and earlier setbacks (in the case of net international reserves). The authorities also request completion of the financing assurances review and approval of the exchange restrictions and multiple currency practices under Article VIII sections 2 and 3. The program also proposes new and modified structural benchmarks.

Approved By
Ilan Goldfajn, Luis Cubeddu (both WHD), Ceyla Pazarbasioglu, Andrea Schaechter (both SPR)

Discussions took place virtually and in Washington, D.C. during August–September 2022. The team included J. Kozack and L. Cubeddu (heads), F. Arizala, A. Chailloux, R. Llaudes, M. Perks, J. Schauer (all WHD), J. Hooley (FAD), C. DeLong and F. Figueroa (LEG), C. de Barros Serrao (MCM), K Elfayoumi (SPR), M. Szafowal (Local Economist), and B. Kelmanson (Resident Representative). F. de Paula Machado (FAD), I. Gudbjartsdottir (MCM) joined part of the discussions. V. Bonifacio (WHD) provided research assistance and A. Veras and G. Ramos (WHD) provided document management. The team met with S. Massa (Economy Minister), M. Pesce (BCRA President) and their teams. Mr. Chodos (OED) participated in the discussions.

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CONTEXT

1. **A period of market disruption began in late-June, against a backdrop of tightening global financial conditions and domestic policy uncertainties.** In the context of spillovers from Russia's invasion of Ukraine and earlier policy setbacks, the authorities committed to tighten macroeconomic policies to contain emerging market pressures and adhere to annual program targets. However, uncertainties over the direction of policies, following the resignation of Minister Guzman in early July, resulted in a sharp sell-off in the domestic bond and foreign exchange markets. Against the backdrop of rapidly falling reserves and sharply higher inflation, and following a brief period with Silvina Batakis as Minister, Sergio Massa, head of the lower house and member of the governing coalition, was appointed Economy Minister with an expanded portfolio and mandate in early August.

2. **In the face of a deepening crisis, the new economic team began adopting bold measures to stabilize the economy and rebuild policy credibility**. Over the past weeks, Minister Massa strengthened commitments to implement the Fund-supported program and to meet program targets through decisive actions aimed at: (i) restoring fiscal order, with an emphasis on improved targeting of subsidies, along with better prioritization of spending and strict budget management; (ii) ensuring sufficiently positive real policy interest rates to mobilize domestic financing and limit monetary financing of the fiscal deficit; and (iii) boosting international reserves, including through targeted actions aimed at improving the trade balance and renewed efforts to mobilize external support. These actions are starting to bear fruit—the gap between the official and parallel rates has declined, reserves are being rebuilt, and central bank intervention in the futures and government securities markets has diminished markedly.

3. **Nonetheless, the situation remains fragile and program risks remain very elevated.** In particular, relative to program approval in March, international reserves levels are more precarious, inflation has risen to worryingly high levels, the domestic debt market is now partially dependent on central bank support, and the economy is subject to an increasing range of FX controls, adding to distortions. Moreover, the global outlook is subject to significant downside risks, not only from a protracted war in Ukraine but also from a stronger-than-anticipated tightening in global financial conditions and a sudden reversal in terms of trade. Such scenarios would have important negative knock-on effects on Argentina and could lead to a reemergence of market pressures. Furthermore, and despite the recent decisive actions by the new economic team, policy implementation risks remain elevated, and are likely to rise further as the October 2023 Presidential Elections draw closer. Even with a tightening of macroeconomic policies, rebuilding policy credibility and bringing down inflation will prove challenging, especially given persistent questions about lingering differences over the direction of economic policies within the governing coalition. Contingency planning, while essential to help meet program objectives, cannot fully mitigate these risks. As such, the Fund continues to face significant enterprise risks.

RECENT DEVELOPMENTS

4. Against a backdrop of tightening global financial conditions and domestic policy setbacks and uncertainties, domestic market pressures rose sharply in mid-2022 (Figure 1). The gap between the parallel and official rate rose to a record high of over 150 percent in July, as the initial FX restrictions proved counterproductive, prompting the BCRA to intervene heavily in the futures markets to stem depreciation concerns. In parallel, domestic bond markets experienced a sharp sell-off as rumors grew about a possible future debt restructuring. Real yields on the two-year inflation indexed bond jumped to 20 percent, also triggering the BCRA to intervene in the secondary bond market (in the amount of 1½ percent of GDP) to contain disorderly market conditions, while sterilizing the liquidity injections through the issuance of its own securities. During this period, reserves fell by over US$2 billion, in tandem with resident withdrawals of FX bank deposits.

5. These market pressures took place in the context of robust domestic demand and narrowing trade surpluses, supported by overly accommodative policies (Figure 2).

- **Activity and demand**. Following an expansion of 10.4 percent in 2021, real GDP grew by 6.5 percent y/y in S1:2022, on the back of strong private consumption and investment (up 10.8 percent and 14.8 percent y/y cumulative through June, respectively). This was supported by a rapid expansion of public expenditure (up 11 percent y/y, through end-June) and private sector employment, in the context of relatively unchanged real wages. High and rising inflation and devaluation expectations likely played a role as households/firms purchased durables, machinery, and equipment for stock building purposes. Output gaps are virtually closed—unemployment and manufacturing idle capacity levels stand at multi-year lows—with output levels already over 10 percent above pre-pandemic levels.

- **External balance and reserves**. The trade surplus shrank in the first eight months of 2022 largely on account of robust import growth and a mild deterioration in the terms of trade (**see Box 1**). Specifically, higher goods exports, were more than offset by sharply higher goods imports (especially energy) as well as an increase in the services deficit, the latter largely on account of higher tourism outflows. Overall import volume growth reached 18.7 percent y/y, consistent with robust domestic demand and the continued appreciation of the real exchange rate (up an additional 12 percent since end-2021 as inflation has continued to outpace the rate of crawl). Regulations requiring importers to finance a greater share of their imports lessened the immediate impact on reserves,[1] although the high and rising FX gap encouraged exporters to hoard (export volumes fell 1.6 percent) and importers to accumulate stock and over invoice.

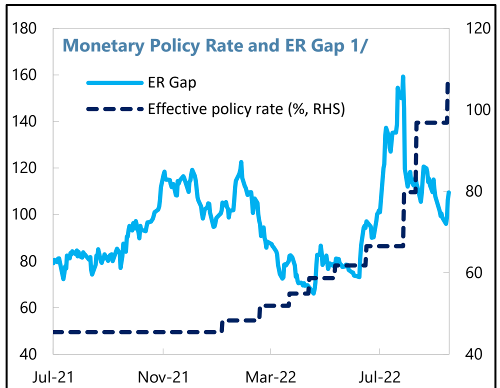
6. In this context, the new economic team took initial decisive steps to begin to restore macroeconomic stability. Their package of policy measures focused on establishing fiscal order,

[1] Since June, importers are required to seek 180-days trade financing in USD for any imports 5 percent above their 2021 imports levels. For the agriculture sector, the financing horizon is shorter (90 days) when importing intermediate goods.

encouraging peso demand, normalizing the government debt market, and encouraging reserve accumulation.

- Strong announcements and measures have been taken on the **fiscal front** to (i) strengthen expenditure controls and reduce arrears; (ii) improve the targeting of subsidies (**see Box 2**) and social assistance; and (iii) contain the wage bill, by extending the hiring freeze to public companies. These actions are supporting a slowdown in real public spending, which is already in train—cumulative real spending growth moderated to 7 percent y/y in August, down from 14 percent y/y in May) **(Figure 3)**.

- A more decisive implementation of the **monetary policy** framework is now underway that delivers positive real interest rates. Since end-July, the BCRA has raised policy interest rates by 2,300 basis points in annual nominal terms, bringing the monthly equivalent policy rate to 6.3 percent m/m (107 percent in annual effective terms), above the end-year inflation expectations and the program's model-based reference rate (see also ¶20).[2] In tandem, the rate of crawl has been raised to about 6.0 percent m/m, to limit a further appreciation of the exchange rate. These various policy actions have supported a reduction in the FX gap and a significant unwinding of BCRA intervention in the futures market.



Sources: BCRA and Fund staff calculations.
1/ ER Gap is defined as the percent above which parallel (CCL) rate exceeeds the official rate.

- A more proactive **domestic debt management** strategy is now in place (**see Box 3**) to meet net market financing goals, while discontinuing BCRA financing of the fiscal deficit for the remainder of the year. These actions—including a more proactive pricing of short-term government securities consistently above monetary policy (*LELIQ*) rates—have led to a sharp fall in bond yields and restricted additional BCRA intervention in the secondary domestic debt market.

- Meanwhile, efforts are underway to **rebuild reserves**. A temporary one-month scheme (ending September 30) to incentivize the liquidation of soy stocks was introduced, allowing the BCRA to purchase thus far US$3.3 billion in FX reserves since early September.[3] Efforts are also ongoing to contain the deterioration in the services balance, mobilize financing from MDBs and bilateral creditors (¶19), strengthen customs enforcement, and encourage foreign direct investment in key sectors (¶24).

[2] The program's model-based approach combines past core inflation measures with forward looking measures from the non-deliverable forward markets.

[3] Under the scheme, soybeans and derivates sold for exports benefits from a preferential rate of ARS 200 per USD, which is roughly 40 percent above the official rate. To compensate the BCRA for the purchase of USD at the agreed preferential rate, the Treasury will issue a dollar-linked bond to the BCRA. This measure gives rise to a multiple currency practice under the Fund's jurisdiction.

7. However, the external position remains fragile and inflation pressures remain strong.

International Reserves (US$bn) 1/			
		2022	
	End-2021	End-Mar	Latest
Gross Reserves	39.7	43.2	38.7
Swap lines	23.4	23.6	23.6
Res. Req. on FX Deposits	12.1	11.5	11.3
Other 2/	1.8	1.8	1.8
Net reserves	**2.3**	**6.3**	**2.0**
Gold	3.2	3.8	3.9
SDRs	1.1	6.8	1.8
Liquid reserves	**-1.9**	**-4.4**	**-3.6**

Source: BCRA and IMF Staff calculations.
1/ At program rates. Estimates as of September 23, 2022.
2/ Includes deposit insurance fund.

- **External.** The gap between the parallel and official rate remains high and in the range of 90-110 percent, with recent peso injections from the liquidation of soy stocks resulting in some added pressures on the gap. Net international reserves (NIR) after excluding swap lines and reserve requirements on FX deposits, stand at around US$2 billion (equivalent to somewhat less than one month of imports), with liquid reserves in negative territory.
- **Inflation (Figure 4).** After averaging over 5 percent m/m during Q2:2022, headline inflation jumped to 7.4 percent m/m in July, as heightened policy uncertainties and depreciation expectations impacted the price formation process. Headline inflation fell to 7.0 percent m/m in August, although underlying pressures remain strong (core inflation stood at 6.8 percent m/m), and inflation expectations remain unanchored. Meanwhile, real money demand has contracted further, with base money reaching 5 percent of GDP, its lowest levels since 2023.[4]

8. Nonetheless, financial sector balance sheet risks remain contained (Figure 5). As of end-June, banks continued to maintain strong capital buffers (27.8 percent), with low and declining system-wide NPLs (3.2 percent). Bank exposure to the public sector has grown to 50 percent of banking system assets (still well within the regulatory limit), reflecting mainly an increase in bank holdings of *LELIQs* and longer-term BCRA securities. Meanwhile, private sector loans, which stand at only 6.8 percent of GDP, continue to show little dynamism (down 0.4 percent y/y in real terms in August) in the context of falling private sector peso deposits (down 2.0 percent y/y in real terms).

PROGRAM PERFORMANCE

9. Compliance with key revised program commitments through end-June was not durable, and corrective actions are being taken to address earlier setbacks (Figure 6 and MEFP Tables 1-2).

- ***Fiscal***. The revised end-June performance criteria (PC) on the primary fiscal balance and stock of domestic arrears were met. The primary fiscal deficit through end-June reached ARS 800 billion (1 percent of GDP), about ARS 50 billion below the adjusted target, while the stock of domestic arrears reached ARS 485 billion, roughly ARS 127 billion below the established ceiling. That said, compliance with fiscal targets (defined on a cash basis) took place against a backdrop of rising domestic arrears (especially to the energy sector) in the final weeks of June.[5] Recent efforts to tighten budget controls and reduce expenditure arrears are having an effect, with arrears levels

[4] Real base money balance through August 2022 fell by 18.3 percent (y/y).

[5] The end-June 2022 indicative target on social spending was met, although the one on real federal government revenues was missed, mainly on account of lower-than-anticipated export duties.

falling through mid-September, pointing towards compliance with the end-September primary fiscal cash deficit target and the domestic arrears ceiling.[6]

- **Monetary and reserves.** The end-June PC on central bank financing of the federal government—ARS 435 billion versus the program ceiling of ARS 476 billion (0.6 percent of GDP)—and the indicative target (IT) on the stock of central bank non-deliverable futures were both met. Meanwhile, the PC on the floor on NIR was missed (by US$296 million) reflecting the weaker-than-expected trade balance and delays in official budget support (exceeding the program adjustor of US$500 million). In addition, the buildup in reserves in the final days of June was reversed during July/August as pressures in the FX market intensified, prompting the imposition of measures which gave rise to the non-observance of the continuous PCs on the non-intensification of exchange restrictions. Efforts are currently underway to boost FX purchases, mobilize additional official support, and achieve the end-September target, although the temporary FX incentive to encourage the liquidation of soy exports contravenes the Fund's policy on Multiple Currency Practices (MCPs) (see ¶33).

- **Structural benchmarks**. Some progress was made in the structural agenda, with all three end-June structural benchmarks (SBs) being met, including: (i) preparation of an action plan to enhance financial and budget reporting of national public sector entities; (ii) modification of resolutions to set prioritization and selection criteria for investment projects ahead of the 2023 Budget; and (iii) publication of a plan to streamline the reserve requirements system. However, revisions to the scope and timeline for completion of SBs were considered necessary in light of cabinet changes and to incorporate technical assistance recommendations (see ¶27) . Benchmarks initially established to be completed by end-September 2022 are proposed to be reset , including: (i) developing a plan to strengthen revenue compliance (from *end-August to end-2022)*; (ii) publishing a strategy to improve the sustainability and efficiency of the energy sector (*from end-September to end-2022)*; and (iii) updating property tax valuations (*from end-September to end-March 2023*). Meanwhile, end-December benchmarks on the evaluation of social support programs and the roadmap to gradually unwind FX controls are proposed to be reset to end-March and end-June 2023, respectively.

MACROECONOMIC OUTLOOK AND RISKS

10. The baseline framework has been revised to reflect a more challenging global environment as well as new domestic developments and policy measures.

- **Real GDP growth**. The economy is projected to expand by 4 percent in 2022, unchanged from the first review, as stronger-than-anticipated domestic demand (see ¶5) in the first half of the year is expected to be offset by lower global growth and the impact of the assumed policy tightening in the second half of the year. Real GDP growth is projected to moderate to 2 percent

[6] Domestic expenditure arrears have fallen from around ARS 800 billion at end-June, to around ARS 530 billion in mid-September, with average quarterly arrears already well below the first review program end-September target of ARS 612 billion.

in 2023, reflecting the weaker global outlook, lower carry-over effects, the impact of continued policy tightening, and other domestic factors, including election related uncertainties. Over the medium-term, the economy is projected to continue to grow by 2 percent per year, consistent with Argentina's average real GDP growth over the past 20 years.

- **Inflation.** End of period annual inflation for 2022 has been revised up to 90-100 percent, about 30 percentage points higher relative to the first review, reflecting not only the spike in global food and energy prices in the first half of the year, but also stronger domestic demand and heightened policy uncertainties, which contributed to further de-anchor inflation expectations. Inflation is projected to fall very gradually during the remainder of this year and into next year—from around 5 percent m/m by end-2022 to around 3½ percent m/m by end-2023 (equivalent to an annual end of period inflation of 60 percent)—reflecting a combination of tighter macroeconomic policies, reduced policy uncertainties, and lower global commodity prices. That said, significant upside risks remain, reflecting the unusual challenges from high inertia and unanchored inflation expectations, as well as the impact of policies aimed at correcting relative price misalignments (e.g., energy) and shoring up real exchange rate competitiveness. A gradual disinflation process continues to be assumed beyond 2023, in the context of continued weaknesses of base money demand.[7]

- **External balance**. The external current account in 2022 is estimated to weaken and reach a deficit of 0.3 percent of GDP, compared to a surplus of 0.5 percent of GDP projected at the time of the first review. Downward revisions are consistent with the weaker trade balance through August (see Box 1) and reflect mainly a stronger-than-anticipated import expansion, supported by accommodative policies, an appreciation of the real exchange rate, and high FX gap. The current account is projected to improve to a surplus of 0.6 percent of GDP in 2023, consistent with a policy-induced deceleration in domestic demand in the context of relatively unchanged terms of trade (consistent with an expansion of domestic energy production), and some improvements in external competitiveness. The stronger current account, along with net official support and limited capital outflows (supported by existing CFMs), are expected to support reserve accumulation going forward. In fact, cumulative NIR is expected to remain unchanged at US$9.8 billion during 2022-23, with US$5 billion projected by end-2022. Nonetheless, projections remain subject to a high degree of uncertainty, and will depend on the evolution of commodity prices, growth in key trading partners, and the steadfast implementation of the assumed policy tightening.

- **Fiscal.** The primary fiscal deficit for 2022 is still assumed to reach 2.5 percent of GDP, supported by strong management of spending in the second half of the year. In 2023, the deficit is assumed to narrow further to 1.9 percent of GDP, with an underlying adjustment of 0.9 percent of GDP achieved primarily through measures to strengthen the targeting of subsidies and social assistance (see ¶14), which also creates space to execute critical investment projects. The annual

[7] Base money projections for 2022 have been revised down (from 6½ percent of GDP to 6 percent of GDP) on account of higher-than-projected inflation and structural factors dampening the demand for cash balances.

financing mix for 2022-23 is assumed generally unchanged, underpinned by a pickup in official financing and a somewhat higher rollover rate on domestic debt of 130 percent (vs.125 percent at the first review) to support a reduction in monetary financing of the fiscal deficit (from 0.8 percent of GDP in 2022 to no more than 0.6 percent of GDP in 2023). The medium-term fiscal and financing paths remains generally unchanged, with some delays in the extension of maturities and transition away from inflation-indexed domestic government securities.

Text Table. Argentina: Revised Macroeconomic Baseline, 2021–2024

	SR (June) 2021	2021	SR (June) 2022	Proj. 2022	SR (June) 2023	Proj. 2023	SR (June) 2024	Proj. 2024
GDP growth (avg, %)	10.3	10.4	[3.5 - 4.5]	[3.5 - 4.5]	[2.5 - 3.5]	[1.5 - 2.5]	[2.25 - 3.25]	[1.5 - 2.5]
Inflation (eop, %)	50.9	50.9	[52.0 - 62.0]	[90.0 - 100.0]	[46.0 - 54.0]	[55.0 - 65.0]	[40.0 - 48.0]	[40.0 - 48.0]
Primary fiscal balance (% of GDP)	-3.0	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	-0.9
Current account balance (% GDP)	1.4	1.4	0.5	-0.3	0.4	0.6	0.2	0.4
Change in net int'l reserves (US$bn)[1]	-1.5	-1.5	5.8	5.0	4.0	4.8	5.2	5.2
Monetary base (% of GDP)	7.8	7.9	6.5	6.1	6.5	6.4	6.5	6.5
Monetary financing (% GDP)	3.6	3.7	1.0	0.8	0.6	0.6	0.0	0.0
Terms of trade (percent change)	10.1	9.6	-0.8	-0.2	-3.8	1.8	-3.2	-2.7

Sources: National authorities and Fund staff estimates and projections.
1/ Net International Reserves (NIR) are gross reserves net of swap lines, deposit insurance, reserve requirements on FX deposits, and other reserves

11. Program risks remain very elevated and agile policy adjustment to achieve program objectives will be paramount.

- The global outlook is subject to significant downside risks mainly related to (i) a protracted war in Ukraine; (ii) a stronger-than-anticipated tightening in global financial conditions; and (iii) a sudden worsening in terms of trade (shifts in world energy and agricultural prices). Such scenarios would have important negative knock-on effects on Argentina, especially given limited external buffers and weak policy credibility.

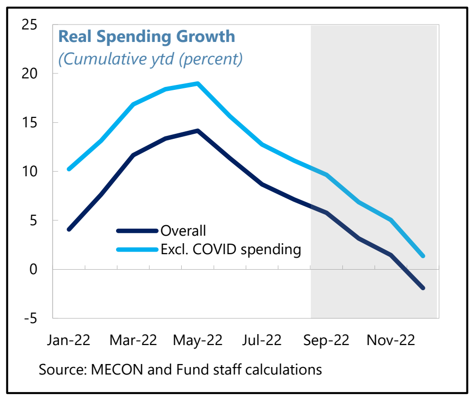
- The economic situation is extremely fragile and implementation risks remain high. Despite efforts to tighten macroeconomic policies, new bouts of acute market volatility cannot be ruled out, especially if international reserves are not decisively rebuilt or confidence in the domestic government bond market is undermined. In addition, persistent high inflation and lower growth could exacerbate social discontent and weaken the political support for the program. These risks could rise ahead of the October 2023 Presidential Elections, should spending and wage pressures intensify, and difficulties arise in implementing the planned subsidy and social assistance reforms and in securing domestic debt rollover rates.

- In this context, and recognizing the very limited policy space, contingency planning and the agile adjustment of policies will be essential to ensure program objectives are met. It will be critical to sustain the reinvigorated commitment to the program and to adapt policies to changing circumstances or setbacks in meeting key policy objectives, especially on the fiscal and reserve accumulation front. Delays in implementing energy subsidy reforms or shortfalls in net domestic financing will require finding compensatory revenue and expenditure measures to avoid penalizing capital spending or relying too heavily on the inflation tax. That said, as noted at the time of the first review, contingency planning cannot fully mitigate program risks.

POLICY DISCUSSION

12. **A further tightening of macroeconomic policies is essential to durably strengthen stability and avoid disorderly adjustments.** Steadfast implementation of tight macroeconomic policies is necessary to moderate fast-growing domestic demand and imports, support a gradual reduction in inflation, a stronger trade surplus, and improvements in reserve coverage, which are critical over the medium-term for international market access and unwinding of FX controls. Fiscal consolidation is also necessary to safeguard debt sustainability, help restore confidence in the domestic debt market. Continued implementation of the enhanced monetary and FX policy framework can complement efforts to tackle inflation, improve competitiveness, and rebuild reserve coverage. Importantly, measures to improve the targeting of subsidy are critical to reduce distortions caused by relative price misalignments and improve the structure of the budget. Meanwhile, recent market interventions and FX controls, which were adopted to arrest disorderly market conditions, will need to be unwound as conditions permit and the benefit of tighter macroeconomic policies materializes.

A. Fiscal Policies



13. **A tighter fiscal stance and strong expenditure management are necessary to restore fiscal order and achieve the 2.5 percent of GDP primary deficit target for 2022.** After an accommodative first semester of high real spending growth and growing domestic arrears, efforts should continue to restore fiscal order through improvements in cash and budget management and the reprioritization of spending, while maintaining the existing nominal budgetary spending ceilings (modified in the June Emergency Decree).[8] These efforts are being supported by ongoing actions to (i) improve the targeting of subsidies (energy, water and transport); (ii) rationalize social assistance and the public sector wage bill (see ¶15); and (iii) bring forward a portion of next year's corporate tax income, although this comes at the expense of revenues in 2023. Yields from these additional measures are projected to be small this year (0.1 percent of GDP), although of growing importance in the year ahead.

14. **Continued efforts will be needed to meet next year's primary deficit target of 1.9 percent of GDP.** The draft 2023 budget, which was recently submitted to congress ***(prior action;*** *previously mid-September SB),* incorporates conservative revenue assumptions and an

[8] This involves identifying actual and future sources of under-execution (including capital projects, goods and services, and transfers to SOEs) and using administrative decisions to reprioritize and reallocate resources.

appropriate set of policies that lend credibility to the fiscal effort, which is largely expenditure based. The underlying adjustment is estimated at 0.9 percent of GDP, as income associated with inflation-linked debt operations (worth 0.3 percent of GDP in 2022) will be excluded in 2023.[9] Policies underpinning the fiscal adjustment in 2023 include: (i) reductions in *subsidies* (0.5 percent of GDP), largely in the energy sector (see ¶14), and also with some savings in the water and transport sectors; (ii) rationalization of social assistance (0.7 percent of GDP), reflecting an unwinding of emergency bonuses, and efforts to reduce overlaps in benefits and to incentivize labor market entry; and (iii) continued restraint on public sector wages (including through a freeze in public sector hiring), transfers to provinces and SOEs, and adherence to the pension indexation formula. These adjustments are necessary to create space for spending on priority capital infrastructure projects, as well as the non-recurrent costs associated with running the 2023 Presidential Election (0.15 percent of GDP). Given that spending on infrastructure is frontloaded in the first half of 2023, special care will need to be taken to manage current spending to contain the aggregate demand impact.[10]

Federal Government: Fiscal 2022-2023
Percent of GDP

	2022		2023	
	First Review	*Rev.*	*First Review*	*Rev.*
Revenues	**18.0**	**17.6**	**18.2**	**16.8**
Tax revenues	11.4	11.0	11.5	10.8
Social security contributions	5.3	5.1	5.7	5.2
Nontax revenues 1/	1.2	1.5	1.1	0.8
Primary expenditures	**20.6**	**20.0**	**20.1**	**18.7**
Wages	2.9	2.9	2.9	2.9
Goods and services	0.6	0.6	0.6	0.7
Pensions	8.1	7.7	8.3	7.5
Social assistance	3.5	3.6	3.1	2.9
Subsidies	2.6	2.6	2.3	2.1
Current transfers to provinces	0.6	0.6	0.5	0.5
Capital spending	1.8	1.5	2.1	1.6
Other current	0.3	0.4	0.3	0.5
Primary balance	**-2.5**	**-2.5**	**-1.9**	**-1.9**

Sources: MECON and Fund staff calculations.

1/ Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues in 2023.

15. Enhanced expenditure policies are essential to underpin consolidation and improve the quality and targeting of spending.

- **Energy subsidies**. Enhancing the targeting and progressivity of energy subsidies is a key priority. The recently introduced tariff segmentation scheme (see Box 2)—significantly more comprehensive than initially announced—aims at eliminating electricity and gas subsidies for residential users with the greatest payment capacity in three stages (September and November 2022, and January 2023), with the issuance of final resolutions to reach cost recovery for relevant consumers of both electricity and gas expected in January 2023 (***proposed end-January 2023, SB***). In addition, middle-income consumers will pay full cost for electricity and gas consumption

[9] Based on the authorities' long-standing accounting practices, nontax revenues include income from the issuance of Treasury securities, reflecting the difference between the face value of inflation-linked securities and their issue price when reopening auctions. International standards suggest that such gains be recorded below the line as a financing operation. For the purposes of calculating the program primary deficit, this income was capped at 0.3 percent of GDP in 2022 and will no longer be included as a revenue item going forward.

[10] The cost of key energy infrastructure projects—gas pipelines and the Santa Cruz hydroelectric power plant—are estimated at around 0.4 percent of GDP and frontloaded, as reflected in the quarterly performance criteria target of the primary balance for the first and second quarter in 2023. Completion of these project would permit reduced reliance on more costly energy imports in the second half of 2023.

above certain thresholds. Finally, subsidies for commercial users will be significantly reduced in 2023 and fully eliminated by 2024.

- **Social assistance.** Improvement in the provision of social assistance is being underpinned by efforts to reduce the indexation of benefits, encourage labor market insertion and address program overlaps and redundancy. To this end, a comprehensive evaluation of income-support programs is being conducted (in collaboration with various universities) to identify options for strengthening the efficiency and targeting of assistance, including by reducing the duplication of benefits across programs, which likely increased during the pandemic (*end-December 2022, SB; reset to* ***end-March 2023, SB***).

- **Pensions.** While pension spending is projected to decline as a share of GDP in 2023, consistent with the indexation formula linked to past wage and payroll tax growth, spending is expected to rebound over the medium-term and continues to represent 35-40 percent of all federal government spending. In this context, a study led by the Ministry of Labor is being conducted to identify reform options to begin to strengthen the equity and financial sustainability of the system (***end-December 2022, SB***).

16. Continued efforts to improve expenditure and budget controls will also support fiscal management and program objectives. In line with IMF Public Investment Management Assessment (PIMA) recommendations, an action plan was recently developed to enhance financial and budget reporting of national public sector entities (beyond the National Administration) and strengthen the monitoring, governance, and prioritization[11] of investment projects (both **end-June 2022, SBs**). As a next step, a framework will be established to strengthen controls over Treasury transfers to public corporations/trusts, and to modernize the oversight of these entities, through enhanced information requirements. Improved information exchange will enable publication of enhanced quarterly reports for public corporations and trust funds, including a breakdown of assets and liabilities, and execution of public investment funded by transfers and earmarked taxes (**proposed end-March 2023, SB**). Efforts are also needed to strengthen procurement practices, including through updating the regulatory framework and improving monitoring mechanisms.

17. While near-term consolidation efforts are expenditure based, revenue mobilization remains a priority for the medium-term fiscal consolidation strategy.

- **Revenue administration.** Combating tax and customs evasion not only requires strengthened information exchange and international cooperation, but also important improvements in revenue administration capacity and efficiency. In this regard, it remains critical to finalize a comprehensive compliance gap analysis for key taxes and to develop an action plan for the segmentation of the taxpayer base (so that taxpayers can be better managed according to risk) (missed end-August 2022 SB; reset to ***end-December 2022*****, SB** to reflect Fund technical assistance recommendations). To facilitate the implementation of this plan, a new Compliance

[11] Starting with the 2023 budget, investment project selection criteria will prioritize ongoing projects and, among the major projects, those with pre-feasibility or feasibility studies.

Risk Management committee (CRM) in the tax administration was established in August, and the creation of a new risk management unit is expected before end-2022.

- **Revenue policy**. Efforts are also underway to (i) review costly corporate tax incentives; and (ii) strengthen property tax collection, including by conducting preparatory work to improve personal wealth taxation (bienes personales), also through enhancements of the tax administration's database by connecting provincial cadasters and property tax registers with federal tax-payers' identification numbers, initially for the Greater Buenos Aires Metropolitan Area (end-September 2022, SB; modified and reset ***to end-March-2023, SB***). Additional conditionality in these areas will be considered in the context of future reviews.

B. Financing Strategy

18. Continued implementation of the enhanced domestic debt market strategy will be needed to mobilize net financing and mitigate rollover risks (see Box 3). A proactive debt management strategy has been successful in addressing large immediate rollover needs and raising net peso financing. While the strategy was necessary to deal with near-term pressures, it has increased maturity and currency risks and resulted in a notable build-up of amortizations falling due ahead of the Presidential Elections (June-August 2023). As such, it will be critical to use the period ahead to build cash buffers (including by increasing the frequency of short-term issuances), and to resume the issuance of longer-term securities as conditions allow to push rollovers into 2024. This needs to be complemented by efforts to (i) expand the investor universe (through the recently created Committee for the Development of the Capital Markets); (ii) implement a well-coordinated annual borrowing plan; and (iii) develop a medium-term debt strategy (MTDS) (***end-December 2022, SB***). That said, the achievement of the net peso financing goals (of about 2½ percent of GDP in 2023), will ultimately depend on the steadfast implementation of the fiscal consolidation plan and the continued decisive application of the enhanced monetary and FX policy framework.

19. Securing external financing remains critical to reduce reliance on monetary financing and boost reserve accumulation. Shortfalls in external official financing through the first half of the year reached US$0.9 billion, largely reflecting delays in budget support from multilateral development banks (MDBs), and lower-than-expected financing from other bilateral creditors on account of technical delays in project execution. In this context, efforts are underway to mobilize budget support and project financing commitments, which are now expected on a net basis to reach US$2.3 billion in 2022 and US$1.8 billion in 2023. Furthermore, good faith efforts should be maintained to reach agreement with Paris Club creditors on a repayment schedule for legacy obligations that respects comparability of treatment and is consistent with debt sustainability, repayment capacity, and reserve accumulation goals.[12] Steadfast program implementation enabling improvements in reserve coverage is needed to re-access to international capital markets, which is assumed to start gradually in 2025.

[12] Scheduled negotiations to restructure Paris Club legacy debt were postponed in July due to changes in the economic team.

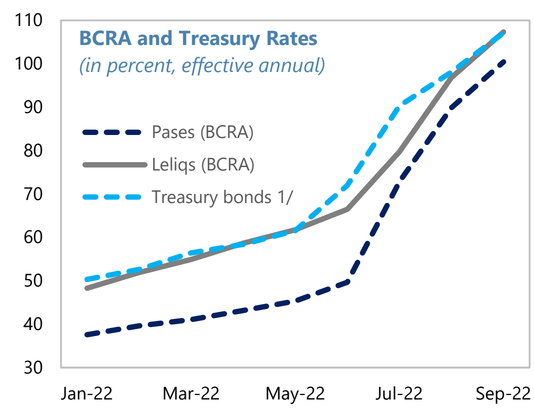
C. Monetary and Exchange Rate Policies

20. A more consistent and resolute implementation of the enhanced monetary policy framework is essential to address high and unanchored inflation. Following decisive actions to bring policy interest rates in positive territory, monetary policy will need to maintain a tightening bias guided by the enhanced monetary policy framework based on actual core inflation and forward- looking measures, as well as by broader market and reserves dynamics. Efforts to sustain positive real policy rates must be accompanied by actions to continue pricing Treasury securities above policy rates and maintaining a narrow corridor on monetary policy instruments.[13] In addition, strengthening the transmission of monetary policy rates to deposit rates would benefit not only from the ongoing unwinding of regulated bank deposit and lending rates, but also from the gradual reduction in the number of special reserve requirements, with due regard to the capital and liquidity positions of commercial banks.

Inflation, Monetary and FX Policy Rates (m/m)

	Sep-22
Monetary policy rate	6.3
Inflation reference rate 1/	6.0
Core inflation (3-mo-ma)	6.4
Inflation expectations (avg, 3-mo ahead) 2/	5.7
Official rate of crawl	6.0
Devalutation expectations (avg, 3-mo ahead)	
NDF market	8.8
Market expectation 2/	5.2

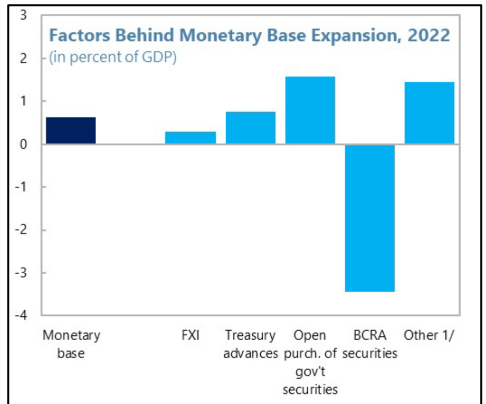
Sources: BCRA and Fund staff calculations.
1/ Combines backward-looking core inflation measures along with a model-based forecast of inflation.
2/ Based on BCRA survey of end-August 2022.



Source: MECON, BCRA and Fund staff calculations.
1/ LEDES

21. Such a framework will also support reserve accumulation, especially when complemented by well-calibrated FX policies. Sustained positive real interest rates will not only encourage the demand for peso assets, but also permit the rate of crawl to move in line with or above inflation, thereby improving external competitiveness and supporting reserve accumulation. Given the direct effects a higher rate of crawl may have on inflation, the strategy will need to be supported by tight fiscal policy—in line with program plans—to moderate demand, and anchor devaluation and inflation expectations. Meanwhile, with monetary policy playing a more active role, intervention in the parallel markets should continue to be avoided, while intervention in the non-deliverable futures markets (indicative target) should remain focused on addressing disorderly FX market conditions, given potential risks to the central bank balance sheet.

[13] The interest rate corridor narrowed by 1000 basis points between June and September. Meanwhile, after rising sharply during June-August, the premium offered on Treasury short term paper over LELIQs shrunk more recently amid a normalization in market conditions.



Sources: BCRA, IMF staff calculations. Data through September 13, 2022.
1/ Includes other treasury operations, interest on BCRA securities, valuation effects and general expenses.

22. While recent central bank interventions were necessary to safeguard financial stability, steps will be needed to gradually reinforce the BCRA's balance sheet. Monetary financing of the budget (especially during the pandemic), recent interventions in the securities markets, and subsidized FX sales, have increased the BCRA's sterilization needs (see text chart). The stock of central bank securities stands near historic highs at close to 10 percent of GDP, while the carrying cost of these securities is expected to rise to around 4 percent of GDP in 2022. Strengthening the central bank's balance sheet is essential to bolster the credibility of monetary policy, particularly its ability to sustain positive real interest rates. To this end, the BCRA will be conducting (with the support of IMF technical assistance) an assessment of the underlying condition of its balance sheet. Based on this work the BCRA will develop a strategy to gradually strengthen its balance sheet and financial soundness based on internationally recognized accounting standards (***end-December 2022, SB***). While a gradual reduction in monetary financing will support a strengthening of the balance sheet, a conditions-based strategy for the unwinding of government securities recently purchased by the BCRA will necessarily form a core part of the strategy.

23. FX restrictions and incentives can potentially play a complementary role in the short run but are no substitute for addressing the underlying macroeconomic imbalances. In the context of rising FX pressures and low and falling reserves, a series of FX measure were adopted since end-June resulting in non-observance of the continuous performance criteria related to exchange restrictions and multiple currency practices (see ¶33). These include, (i) financing requirement on imports (introduced in March) were extended to a broader set of goods and some imports of services, (ii) expansion of the general requirements to access the FX market; and (iii) favorable FX rates were offered on soy exports (see ¶6) as well as tourists visiting Argentina (Annex II).[14] Meanwhile, additional measures are currently being considered to limit services imports and increase FX debt flows. While these measures may provide some FX cash flow relief, they effectively create multiple currency practices, add to distortions, and can prove counterproductive.[15] More generally, a gradual easing of FX restrictions should be sought as conditions permit and reserve coverage strengthens. To this end, a working group has been established to develop a roadmap for a conditions-based easing of CFMs (*end-December 2022, SB****; reset to end-June 2023***, ***SB*** *to benefit from Fund technical assistance*).

[14] Advance income tax withholdings on credit card payment overseas were also raised from 35 to 45 percent.

[15] "Fiscal devaluations" can play a role if they are properly designed and balanced between reducing export taxes and increasing import duties. Meanwhile, swap or repo lines provide temporary FX inflows but come at the costs of FX liabilities down the road.

D. Other Structural Policies

24. Well-designed regulatory frameworks could help boost the net export capacity of key strategic sectors. After some delays, including to enable discussions with relevant stakeholders and international investors, work has intensified to advance legislation and regulations to encourage investment and net exports in strategic sectors—hydrocarbon, mining, agro-industry, automotive, hydrogen and biotechnology industries. These initiatives may serve as a useful complement to prudent macroeconomic policies and broader regulatory certainty, provided they also secure a level playing field and minimize fiscal/regulatory burdens.

25. Efforts to boost energy production and efficiency could be instrumental in strengthening external resilience over the medium term. The construction of the Nestor Kirchner gas pipeline—connecting the vast shale oil and gas reserves of "*Vaca Muerta*" with large urban areas—remains the cornerstone of the authorities' strategy to boost domestic energy production and reduce costly energy imports starting in mid-2023.[16] In addition, a national strategy focused on the electricity sector is being developed with World Bank support, including to: (i) improve energy efficiency by tackling consumption inefficiencies and reducing losses in the electricity distribution sector; (ii) expand generation capacity for hydroelectricity and other renewables; (iii) enhance the electricity distribution and transmission segment; and (iv) strengthen the overall financial sustainability of the sector. Given recent cabinet changes, a published draft strategy for consultation with key stakeholders is expected by end-year, together with a detailed plan to improve the implementation of the tariff segmentation scheme (*end-September 2022, SB*; ***modified and reset to end-December 2022, SB***). These efforts could help ease international supply constraints and support global energy security.

26. Strengthening the overall AML/CFT regime remains critical. The national risk assessment of money laundering has been adopted and consolidated with an updated terrorist financing assessment. In addition, amendments to Law 25.246, Argentina's AML/CFT legislation have been submitted to Congress and a gap analysis of the entire AML/CFT regime against FATF's 40 Recommendations has been completed. Going forward, efforts will be needed to ensure that (i) key results of the gap analysis are incorporated, in consultation with IMF staff, into the amended AML/CFT legislation and relevant regulations; and (ii) the Financial Intelligence Unit (FIU) prepares the necessary resolutions to facilitate prompt and full implementation of the amended legislation once approved. Meanwhile, work is being advanced to ensure prompt publication of the National AML/CFT Strategy (***end-September 2022, SB***), including recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.

[16] The first phase of the pipeline is expected to be completed by end-June 2023, supporting an increase in the daily supply of domestically-produced gas of 11 million cubic meters. This will be complemented by a new "Plan Gas" to encourage domestic gas production and arrangements with Bolivia and Brazil to secure energy supplies at favorable rates during winter.

PROGRAM ISSUES

27. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and set out their commitments. Updates of the end-September performance criteria, which govern this review, will be reported on in a Staff Supplement.

28. Quantitative targets: The authorities are requesting,

- *waivers of nonobservance* for the continuous PCs related to the imposition or intensification of exchange restrictions and the introduction or modification of MCPs on the basis of corrective action, as staff is recommending their approval under Article VIII, and, for one measure, on the basis of temporariness, given that it will be removed as of the date of the Board meeting (see ¶6).

- *waivers of applicability* for the end-September PCs on fiscal data for which data are not available.

- *modification* of the end-September and end-December 2022 PCs (expressed in nominal terms) on the primary fiscal balance, and the stock of domestic arrears mainly to accommodate the impact of higher-than-expected inflation, and the end-December 2022 PC on monetary financing of the fiscal deficit. These modifications are consistent with keeping program objectives unchanged over the period 2022 to 2023.

- *modification* of the end-December 2022 PC on the accumulation of NIR to take into account the more challenging external environment and the additional time needed to correct earlier policy setbacks, while preserving the cumulative reserve accumulation targets through end-2023 (defined in US$).

- *new PCs are also being proposed* for all relevant indicators for March/June 2023 (previously ITs), and new ITs are being proposed for September/December 2023.[17]

29. Definitions: Revisions to the definition of the primary fiscal deficit target are being proposed (see TMU ¶5) to exclude non-tax revenues related to gains from reopening inflation-linked securities from the calculation of revenues in 2023. Moreover, the NIR adjustor on the cumulative cap on official non-project loans and grants has been raised to $750 from $500 to reflect the lumpy nature of these disbursements, while, starting with the end-December 2022 target, the NIR accumulation target will be reduced downward by the payments to the Paris Club creditors relating to the outstanding debt that was reprofiled in 2014.

30. Structural Benchmarks: Four new structural benchmarks are being proposed to support the authorities' fiscal consolidation efforts and strengthen budget transparency, including by

[17] The indicative floor on real government revenue was dropped to reflect the new focus on expenditure policies to achieve fiscal consolidation goals.

(i) publishing a strategy for improving the sustainability and efficiency of the energy sector (*not met end-September 2022, SB; modified and reset to* ***end-December 2022, SB***); (ii) issuing resolutions to reach full cost recovery for both electricity and gas for consumers with greatest capacity to pay (***end-January, 2023 SB)***; (iii) conducting preparatory work to improve personal wealth taxation, including through the establishment of a database (*not met end-September 2022, SB; modified and reset* to ***end-March 2023, SB***); and (iii) publishing enhanced quarterly reports for public corporations and trust funds (***end-March, 2023 SB***). Three additional SBs are proposed for resetting in light of recent cabinet changes, and also to incorporate technical assistance recommendations, including the preparation of plans to (i) strengthen revenue compliance (*not met end-August 2022 SB; reset to* ***end-December 2022, SB***; (ii) improve the efficiency and targeting of social spending (*end-December 2022, SB; reset to* ***end-March 2023, SB***); and (iii) a roadmap to streamline and gradually ease CFMs (*end-December 2022, SB; reset to* ***end-June 2023, SB***).

31. Financing assurances. Firm financing commitments have been secured from official creditors over the next 12 months, with good prospects for the remainder of the program. 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 billion from September 2022 to September 2023, through a combination of budget support and project loans. Meanwhile, negotiations with the Paris Club to restructure the country's legacy debt (US$2.4 billion at end-July 2021) have resumed after postponement in July, with a view to reaching a deal in the coming months consistent with debt sustainability, improvements in reserve coverage, and comparability of treatment. The baseline assumes financing commitments from other bilateral creditors of roughly US$0.4 billion per annum during 2022-24 (compared to US$0.6 billion per annum at the time of the first review), although efforts are underway to mobilize additional support from new projects, while also addressing the technical factors (engineering and environmental assessments) behind the delays in the construction of a hydroelectric powerplant project. For the program period, projected cumulative trade surpluses (US$39 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 (program definition) of roughly US$15 billion, with CFMs playing a supportive role in limiting capital outflows.

32. Capacity to repay. Argentina's capacity to repay its Fund obligations remains subject to very high risks and continues to hinge on strong policy implementation to enable a rise in international reserves and eventual resumption of market access by the time repayments to the Fund come due (Table 12). The proposed revisions to the baseline do not alter staff's assessment of Argentina's capacity to repay. Full implementation of the EFF would help address the balance of payments need arising from the large obligations due to the Fund related to the 2018 SBA in 2022-23 and the current EFF. Fund debt service obligations would remain very large over the medium term, around 6.2 percent of exports, or 11 percent of gross reserves, with Fund credit outstanding declining only gradually below 6 percent of GDP by 2027.

33. Jurisdictional issues. Argentina has introduced additional measures that give rise to new exchange restrictions/MCPs or the intensification/modification of currently existing measures subject to Fund approval under Article VIII, Section 2(a), and 3 (see Annex II). The intensification of exchange restrictions implemented since program approval arises from the mandatory financing requirement of imports that, which was initially imposed on some specific goods, and was subsequently extended to all goods and service imports, as well as the expansion of the general requirements for access to the FX market. New MCPs arise from: (i) the authorization granted to tourists visiting Argentina to sell USD at the parallel exchange rate up to a certain threshold and (ii) the decree creating a temporary facility to liquidate during September 2022 the FX proceeds from the exportation of soybean products at a favorable exchange. The aforementioned measures also resulted in the nonobservance of the performance criteria on the non-imposition/intensification of restrictions on the making of payments and transfers for current international transactions and on non-introduction/modification of MCPs.

34. Arrears Policy. Staff assesses that the authorities are continuing to make good faith efforts, as required under the Fund's Lending into Arrears policy, to resolve its arrears 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 and those to which there is debt outstanding from the 2001 default (US$2.5 billion total); and (ii) Mobil Exploration, where negotiations, challenged by the difficult global environment, remain underway on a repayment plan on principal claims (US$196 million). Arrears not related to official-sector involvement are also owed to: (i) the binational (Paraguayan and Argentine) entity *Yacyreta*, where the amount of undisputed claims for energy provided has been reduced to US$9.7, and full payment is expected before end-2022; and (ii) the French export credit agency (US$30 million), where the Courts of appeals is currently considering an appeal to the Argentine Supreme Court.

35. Safeguards Assessment. The 2022 Update Safeguards Assessment included recommendations to strengthen the governance arrangements and operational independence through legal reform, and to transition to International Financial Reporting Standards (IFRS). Following an assessment of the BCRA's balance sheet, staff will engage with the authorities to develop a roadmap for implementing the recommendations, which could be integrated as conditionality in future reviews. Owing to the electoral calendar, legal reform is unlikely to be feasible before 2024.

EXCEPTIONAL ACCESS

36. Staff assesses that Argentina continues to satisfy the four criteria for exceptional access. This assessment is premised on the decisive and full implementation of the agreed baseline policies to ensure adherence to the program's objectives. Risks remain exceptionally high, in the context of rising global uncertainties and domestic implementation risks, implying a similar degree of risk and uncertainty around 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 net international reserves, despite tight CFMs and trade surpluses, although these have been narrowing more recently. In addition to a decisive implementation of tight macroeconomic policies, meeting the very large external debt service 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 revised baseline and policy framework, staff continues to assess that Argentina's public debt is sustainable but not with high probability (see **Annex I**). Consistent with the Fund's EA framework, staff also 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. However, this assessment continues to be subject to exceptionally high risks and hinges critically on the steadfast implementation of the proposed fiscal consolidation path, the enhanced monetary and FX policy framework, as well as broader efforts to strengthen the domestic peso debt market and to encourage net exports and foreign direct investment. Importantly, since projected debt and debt service metrics remain 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 remain extremely limited and have further shrunk since the first review.

- ***Criterion 3.*** *Staff judges that the member has prospects of gaining or regaining access to private international 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.** Despite recent shortfalls in reserve accumulation and external bond prices trading at near-distressed level, decisive policy implementation going forward should help restore confidence and allow Argentina to gradually regain access to international private capital markets starting 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 continued domestic peso financing and some net support from other official creditors, would allow an improvement in reserve coverage, underpinned by sustained trade surpluses, increased foreign direct investment, and limited financial outflows. This, in turn, would instill greater confidence on the authorities' policies and improve market conditions, paving the way for a gradual lifting of CFMs and re-access to private international capital markets over the medium term. Importantly, strict adherence to the program will be essential ahead of the 2023 election period and thereafter. This assessment, however, continues to be subject to a high degree of uncertainty as shocks and policy setbacks 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 met.** The authorities have reinforced their commitment to the policies and objectives of the program, which they view as the key anchor for policy making. The appointment of Minister Massa with an expanded portfolio raises the possibility of improved policy coordination and more decisive policy implementation. This is evidenced by the recent strong actions taken on the fiscal, monetary, and subsidy policy fronts, as well as submission to Congress of a draft 2023 budget consistent with the Fund program (prior action). That said, a faction within the ruling coalition continues to oppose the program as differences persist over the direction of economic policies. Importantly, delivering the agreed policy tightening will be especially challenging ahead of the October 2023 Presidential elections, as social and political support for the program may come under stress, particularly if inflation remains high, the economy slows sharply, and external conditions turn much less favorable.

STAFF APPRAISAL

37. Following a period of heightened market pressures, important progress toward restoring macroeconomic stability has been made. Against the backdrop of challenging global landscape, policy setbacks and uncertainties over the direction of policies led to an episode of serious market stress and reserve loss during July and August. Initial decisive actions and strengthened commitments by Minister Massa and his team have begun to restore confidence and market stability, although the situation remains extremely fragile given low reserves and inflation at troubling levels.

38. With the program as a key policy anchor, a continued tightening of macroeconomic policies will be essential to durably entrench stability and meet program objectives. Steadfast policy implementation is necessary to moderate fast-growing domestic demand and support reserve accumulation and a gradual reduction of high inflation, which has an especially negative impact on the poor. All of these are important for short-term stability and are also critical, over the medium term, for international market access, a gradual conditions-based unwinding of FX controls, and more sustainable and inclusive growth.

39. The envisaged fiscal consolidation, if decisively implemented, will help secure debt sustainability and begin to improve the quality and targeting of expenditures. Adherence to the primary fiscal deficit targets of 2.5 percent in 2022 and 1.9 percent of GDP in 2023 is necessary to restore confidence in the domestic debt market and reduce reliance on central bank financing. Building credibility will require frontloading fiscal efforts, while containing election-related spending pressures. In this regard, early adoption of policies aimed at improving the targeting of subsidies and social assistance are essential to make way for priority infrastructure spending and to improve the overall quality of the budget, while correcting distortions caused by relative price misalignments. Efforts must be stepped up to mobilize external support, including through good faith and constructive engagements with the Paris Club to reach a successful restructuring of legacy obligations.

40. The continued resolute implementation of the enhanced monetary and FX policy framework is essential to support disinflation and reserve accumulation. Tight fiscal policies combined with efforts to sustain policy interest rates in positive territory will be critical to mobilize domestic financing, improve external competitiveness, and strengthen reserve coverage. FX restrictions can support stability in the near term but should not serve as a substitute for appropriate macroeconomic policies. Indeed, recent market interventions and intensification of FX controls, which resulted in multiple currency practices and other distortions, should be gradually unwound as conditions permit and the impact of tighter macroeconomic policies materializes.

41. Continued efforts are needed to make lasting progress on the structural agenda. To support fiscal consolidation, it will also be critical to advance in reforms to strengthen revenue mobilization, public financial management and the targeting of spending. Plans need to be implemented to strengthen the domestic debt market, monetary transmission, and the central bank balance sheet, especially in light of the supporting role played during the pandemic and recent bond market turmoil. Exploiting Argentina's vast potential in strategic sectors, including energy, mining, and the knowledge economy, requires strengthening the predictability and design of investment and governance frameworks.

42. Program risks remain very elevated, and agile policy-making and contingency planning continue to be essential. The global outlook is subject to significant downside risks, including from a protracted war in Ukraine, faster-than-anticipated tightening in global financial conditions, and a sudden reversal in the terms of trade. In addition, while renewed commitments and recent policy actions are positive, implementation risks remain elevated given the very complex economic, social, and political situation, especially as elections draw closer. Rebuilding policy credibility and tackling inflation will take time, consistent effort, and strong political support. Contingency planning and the agile adjustment of policies will be essential to safeguard macroeconomic stability and to ensure that program objectives are met. The Fund continues to face significant enterprise risks.

43. Staff supports the approval of the new and revised exchange restrictions and the new and modified MCPs, which are all maintained for balance of payment reasons. The authorities have requested approval of these restrictions on the basis that they are temporary, expected to be gradually lifted over the program period, and do not give rise to an unfair competitive advantage over other members or discriminate among members. While the one-month FX incentive for soy exports results in a multiple currency practice, the measure is expected to expire by end-September, ahead of the Board meeting. On the basis of their temporary nature and planned corrective actions, staff support the waivers of nonobservance of the PCs on the non-imposition/intensification of restrictions on the making of payments and transfers for current international transactions and on non-introduction/modification of MCPs.

44. Staff supports the authorities' request for the completion of the Second Review under the Extended Arrangement. Staff also supports the requests for waivers of applicability and non-observance, and for modification of performance criteria, given the program performance so far and the new policy commitments going forward. Staff also recommends completion of the financing assurances review, given Argentina's ongoing good faith efforts to resolve its external arrears.

Box 1. Trade Balance Developments, January–August 2022

This box documents the factors behind the recent deterioration in Argentina's trade balance. Findings suggest that moderating domestic demand and devaluation expectations, through tighter macro policies will be critical to reverse these trends and boost reserves. Supply-side policies can support improvements over the medium term.

Argentina's cumulative trade balance through August 2022 fell sharply, reflecting mainly a sharp expansion in overall import volumes (up 18.2 percent for goods) along with a very mild deterioration in terms of trade, associated with the commodity price spillovers from Russia's invasion in Ukraine. The positive impact of higher grain prices is being more than offset by higher energy prices, especially of LNG, as well as climate-related factors that have reduced hydroelectricity production and led to higher-than-usual energy imports in 2022.

Trade Balance (in USD billions)

	Jan-Aug		% change (y/y)		
	2021	2022	Overall	Price	Volume
Trade balance	**8.7**	**-4.7**	...	...	...
Goods trade balance	**10.7**	**2.2**	...	...	...
Nonenergy balance	11.5	7.4	...	...	...
Exports	47.8	54.5	14.1	17.1	-2.9
Imports	36.3	47.1	29.8	16.6	16.3
Energy balance	-0.9	-5.2	...	...	..
Exports	2.9	5.2	76.8	66.6	4.8
Imports	3.8	10.4	174.9	85.4	45.1
Services balance 1/	**-2.0**	**-6.9**	...	...	...
Exports	4.6	5.1	11.8	...	...
Imports	6.6	12.0	83.9	...	...

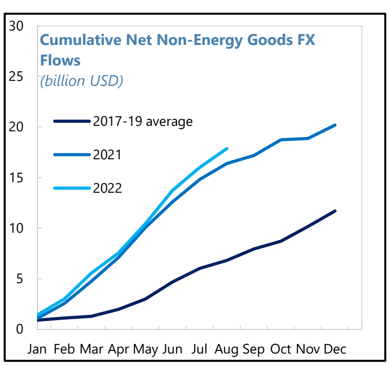
Sources. INDEC and Fund Staff calculations.
1/ Defined on a cash basis.

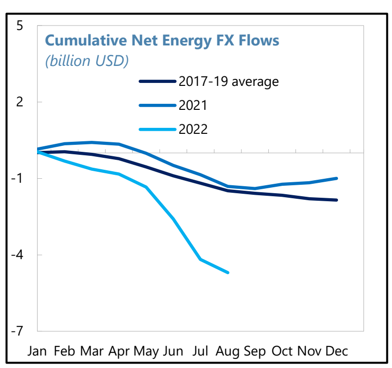
Non-energy good exports values reached historic highs, driven mainly by a sharp rise in world grain prices. Nonenergy export prices rose by 17.1 percent, while volumes declined by 2.9 percent, as drought conditions constrained agricultural production, and rising devaluation expectations reduced export liquidation during June-August. Industrial/manufacturing exports grew by around 4.6 percent, in line with trading partners' import demand.

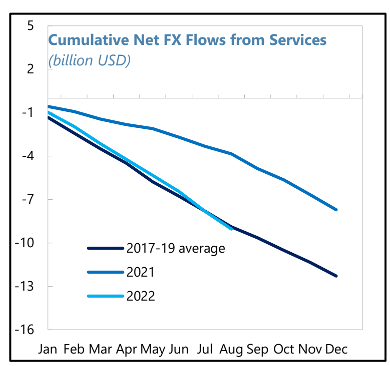
Non-energy goods imports rose sharply, reflecting in part robust import volume growth (16.6 percent, y/y), well above real GDP growth, as a stronger real exchange rate along with high and rising FX gap added to the unusually strong import-growth elasticity.

The energy deficit widened acutely, driven by rising world energy prices (84 percent) and unusually strong energy import volumes (45.1 percent) which more than offset a strong rise in energy exports (up 4.8 percent in volume terms). The unusual rise in energy imports reflects a combination of factors, including the need to import more expensive LNG on account of reduced domestic hydroelectricity production and robust electricity and gas consumption (which reached its highest levels since 2017). The latter likely supported by declining cost-recovery levels.

Meanwhile the (cash) services deficit widened substantially, mainly on account of a post-pandemic rebound in Argentines traveling abroad and continued difficulties in capturing tourism related FX inflows in the official market (due to the high FX gap). Net tourism deficit through August jumped to US$2.7 billion (compared to US$0.9 billion in 2021), while the non-tourism services deficit widened to US$5.9 billion (130 percent higher than in 2021), driven mainly by services imports connected to goods imports. While the accrual-based services deficit is bound to be more moderate, the significantly negative cash services balance exerts a strong draining pressure on international reserves.







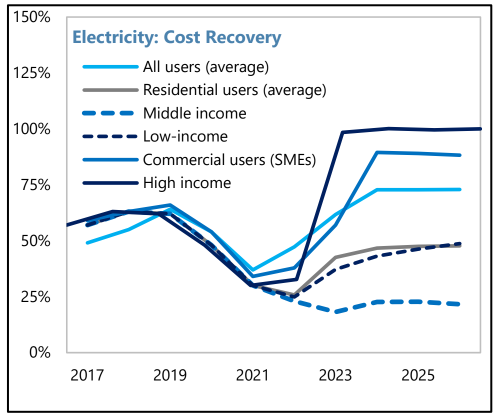
Source: Argentine authorities and IMF staff calculations.

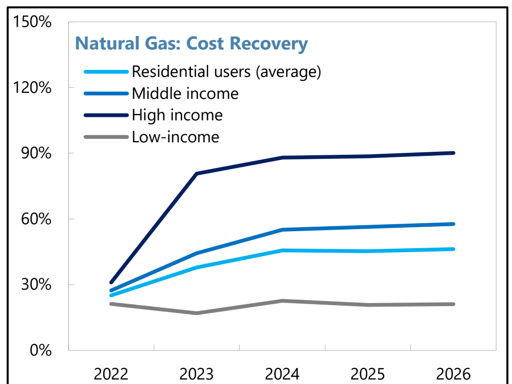
Box 2. The Energy Subsidy Segmentation Scheme

This box outlines the government's new subsidy segmentation scheme; a flagship policy that aims to secure large savings in the energy subsidy bill in 2023 and underpin the programmed fiscal consolidation.

Energy subsidies are expected to fall by 0.6 percent of GDP in 2023 thanks to an ambitious new scheme that introduces targeting in energy pricing. Most of these savings will result from the new prices that are differentiated by payment capacity and consumption levels, replacing the single regulated prices for electricity (PEST) and natural gas (PIST). The new 'segmented' groups are described below:

- **High income residential consumers** (around 20 percent of residential consumers). The regulated energy price for both electricity and natural gas will increase in 3 phases starting in September 2022, to reach cost recovery by January 2023.
- **Middle-income residential consumers** (around 30 percent). Energy prices will remain subsidized for consumption below a fixed consumption threshold (400kw/month for electricity and 70 percent of average past consumption for natural gas), growing at 80 percent of previous year formal sector wages. Above the consumption thresholds, the energy price will be set at cost.
- **Low-income residential consumers** (around 50 percent). Energy prices will remain subsidized, growing at 40 percent of previous year formal sector wages. The price will not be subject to a consumption cap.
- **Commercial consumers.** For electricity, subsidized commercial users will have subsidies fully removed during the course of 2023-24, with the price set at cost. Most commercial users of gas are already unsubsidized.





Source: MECON

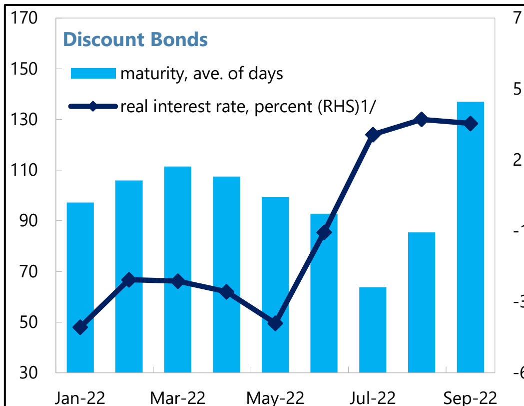
While the segmentation scheme represents an important step forward in better targeting energy subsidies and could be strengthened further going forward:

- **Database improvement.** The policy is supported by a new database (RASE) of energy consumers that self-declare their income and assets. Strengthening the database is critical to reduce implementation risks, including through cross-checking its information against other administrative databases and reducing the number of non-registered consumers. To improve self-compliance, the authorities' recently limited FX access for individuals receiving subsidized energy.
- **Linking prices to costs.** For users that remain subsidized, energy price increases could be linked to costs instead of wages, which could lead to more ambitious cost recovery improvements.
- **Less generous consumption ceilings.** The consumption ceiling for middle income consumers is fairly generous and could be reduced in the future, while a ceiling could also be introduced for low-income consumers to encourage energy efficiency.
- **Enhanced targeting.** Composition of the three groups could also be reconsidered (i.e., the share of users in the low-income category remains relatively large).

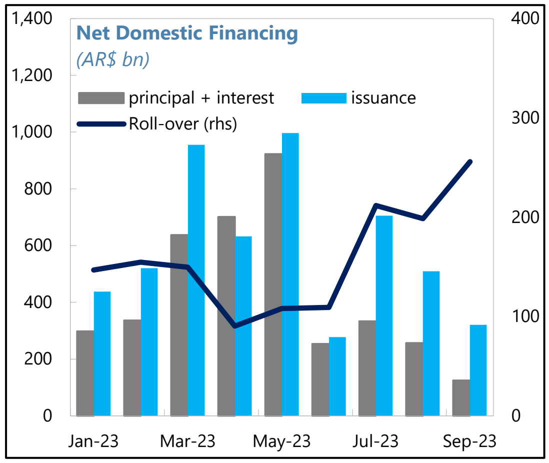
Box 3. Domestic Bond Market Developments and Challenges

This box provides insight into recent developments in the peso debt market and draws some implications and lessons ahead in the context of the authorities' ongoing efforts to strengthen the peso debt market.

Against the backdrop of tightening global financial conditions, fiscal setbacks and domestic policy uncertainties, the local peso debt market experienced heightened pressures during June-July 2022. The sell-off was associated with large redemptions in fixed income funds and migration to money market funds and bank demand deposits as investors also sought protection against rumors of a domestic debt restructuring. Two-year CER-linked bond yields rose from around 1 percent in early-June to over 20 percent in mid-July. Significant BCRA intervention in the secondary market was necessary to stabilize markets in June and July, along with the introduction of sales of put options by the BCRA to support the primary issuance of government securities.



1/ as the cut-off rate deflated by 3 m.a. inflation

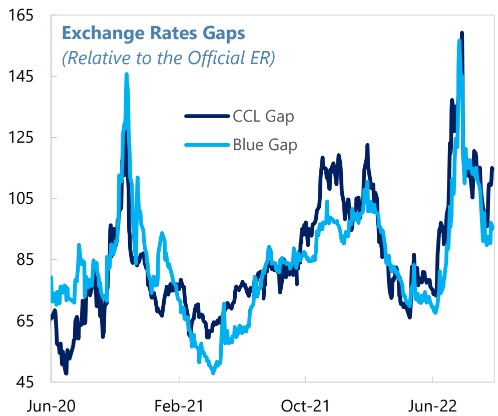


Market pressures have abated with the application of a more proactive debt management strategy. The duration of new issuances was shortened, and a more consistent alignment of the cut-off rates to the BCRA policy rate was applied. Important efforts were made to extend maturities through a voluntary debt exchange operation that managed to convert large maturities falling due during August-October 2022 into new "Bono Dual" instruments maturing in June-August 2023. The new "Bono Dual" provides exchange rate and inflation protection, by allowing the owner to obtain the maximum rate between the inflation rate and exchange rate variation during the period. The new approach has enabled higher rollover rates and moved domestic bond yields away from distressed levels. Since July, net financing for ARS 820 billion (about 1 percent of GDP) was raised with rollover ratios above 200 percent. Meanwhile, inflation-indexed instruments yields decreased by 600 bps on average.

Going forward, the scenario for domestic financing remains challenging. The financing program for 2023 assumes new net debt placements of around 2½ percent of GDP, and the rollover of maturities falling due, which are especially lumpy in the run-up of next year's August primary and October presidential elections. In addition, the voluntary exchange (involving the "Bono Dual") increased markedly exposure to FX risks, and the yield curve continues to suggest persistent dislocation with significant premium required by investors, especially at the longer end. Given these challenges, it remains critical to build cash buffers through the issuance of short-term securities and to resume the issuance of long-term securities once conditions permit. The planned creation of a Committee for Capital Markets Development should help in the development of a near- and medium-term strategy, as well as strengthen ongoing efforts to strengthen investor relations to expand investor base.

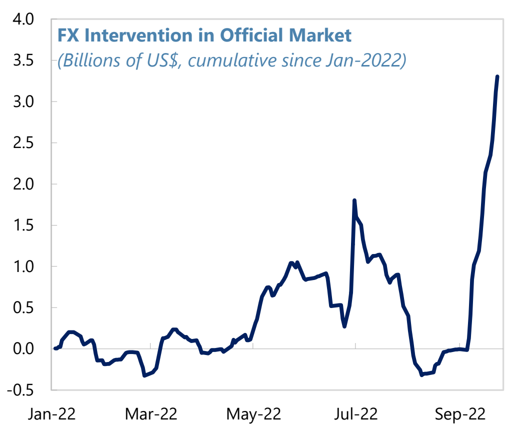
Figure 1. Argentina: Recent Financial Market Developments

After peaking at record levels in July, the FX gap has narrowed sharply, yet remains at high levels …

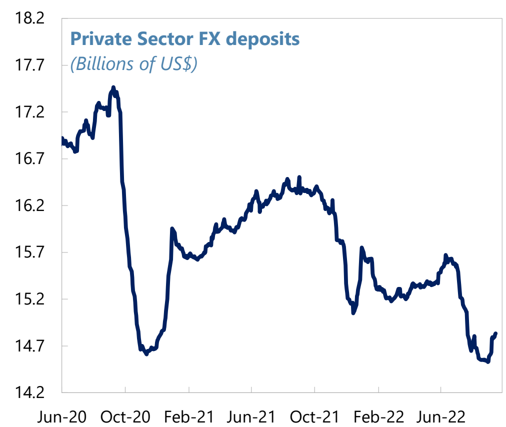


… with similar patterns for external bond prices, which are now trading at around 25 cents on the USD.

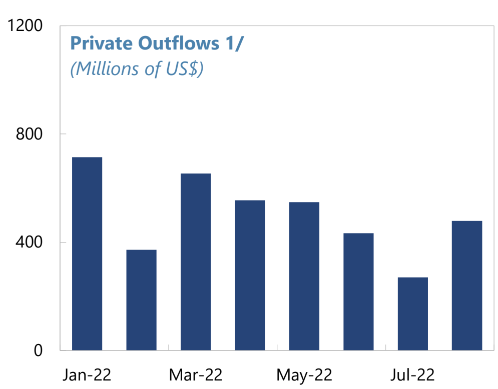
Acute FX sales during July-August are being unwound, in part due to the introduction of FX incentives…



… and an incipient recovery in FX deposits

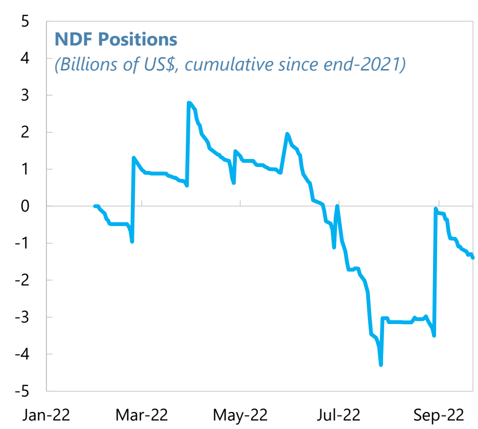


… while a tightening in FX restrictions have contained FX outflows.



1/ USD banknotes, Net Foreign Assets, Foreign Investment, Debt and rest of transactions

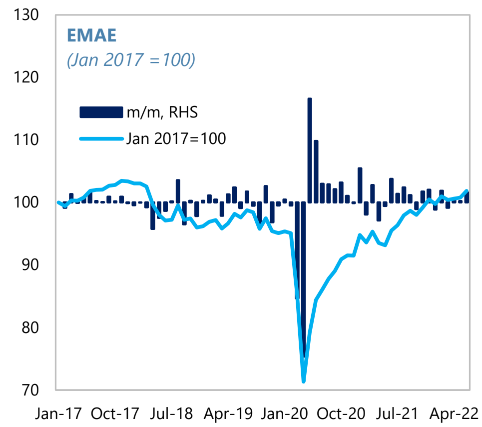
Meanwhile, BCRA intervention in the futures markets have also unwound consistent with reduced FX pressures.



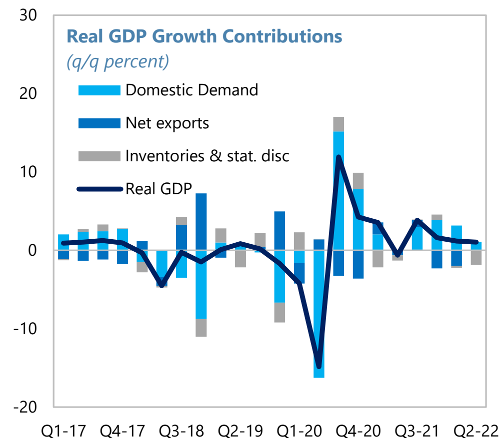
Source: Argentine authorities, IMF WEO Database, BCRA, IMF staff calculations.

Figure 2. Argentina: Economic Activity and the Trade Balance Developments

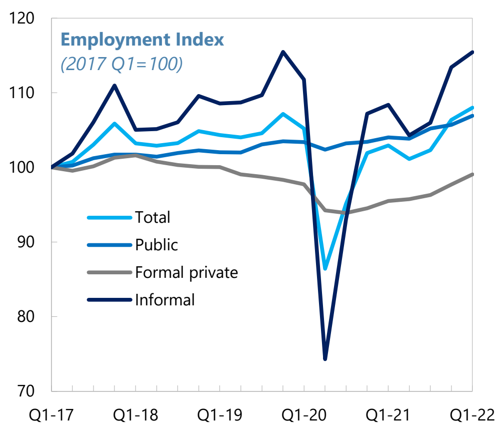
The post-COVID economic expansion continues …



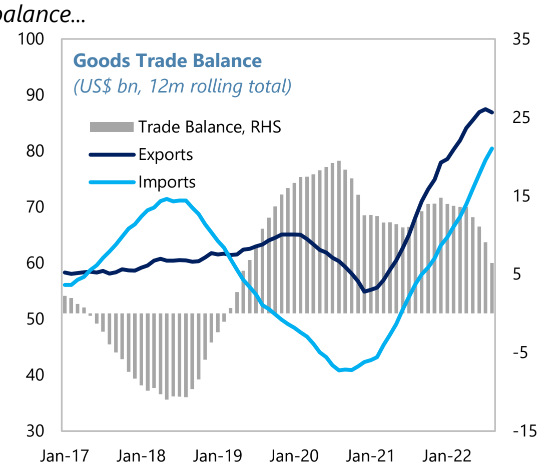
… driven by strong domestic demand…



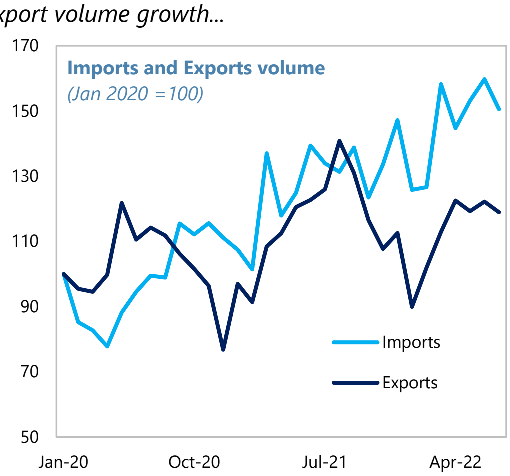
… supported by a continued expansion of employment.



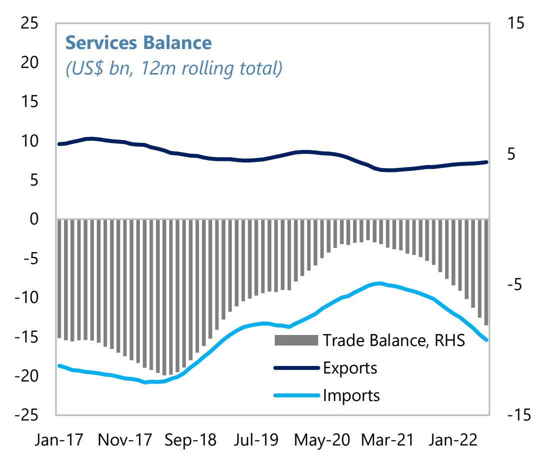
This has led to a deterioration in the goods trade balance…



… with the expansion of import volumes outpacing export volume growth…



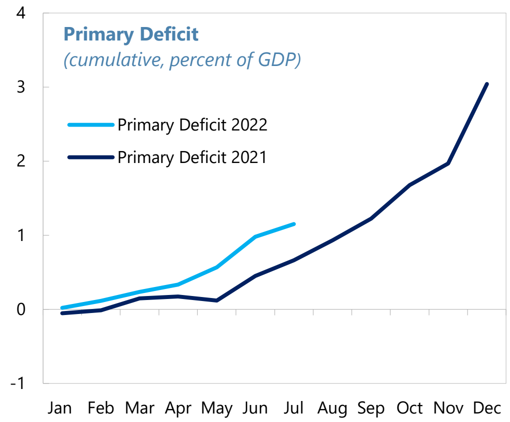
… as well as a further widening in the services deficit



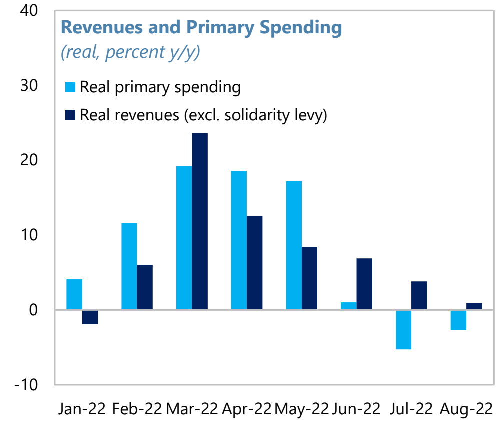
Source: Argentine authorities, Haver, BCRA, IMF staff calculations.

Figure 3. Argentina: Fiscal and Financing Developments

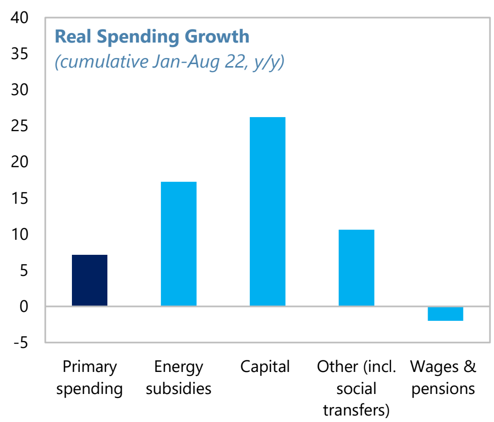
After rising sharply through H1:2022, the primary deficit is starting to moderate …



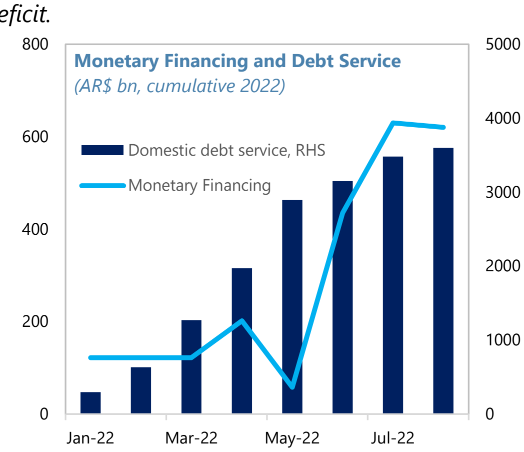
… mainly on account of a contraction in real spending (y/y) starting in July…



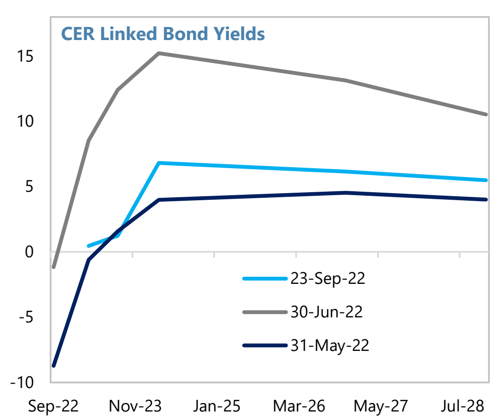
… although cumulative (ytd) real spending is still up sharply across most categories.



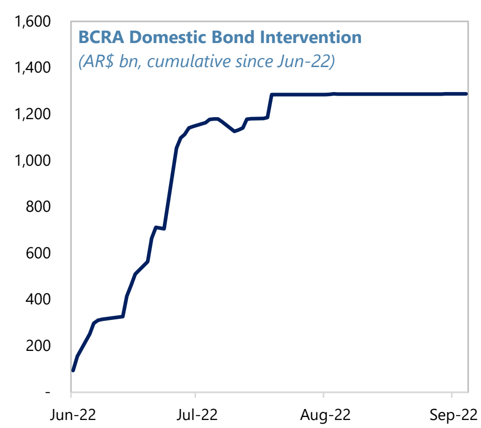
Meanwhile, recent difficulties in tapping domestic markets, led to a sharp rise in BCRA financing of the deficit.



Although the situation has normalized in recent months, with bond yields narrowing…



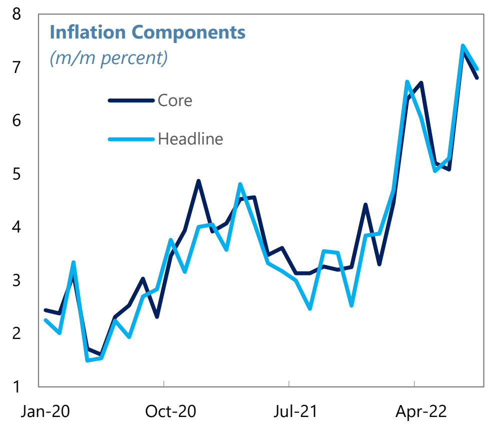
… and limited additional BCRA support (bond purchases from secondary market) since August.



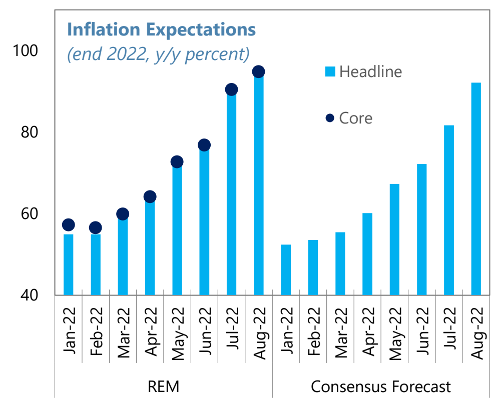
Source: Argentine authorities, IMF WEO Database, Bloomberg, BCRA, IMF staff calculations.

Figure 4. Argentina: Inflation and Monetary Developments

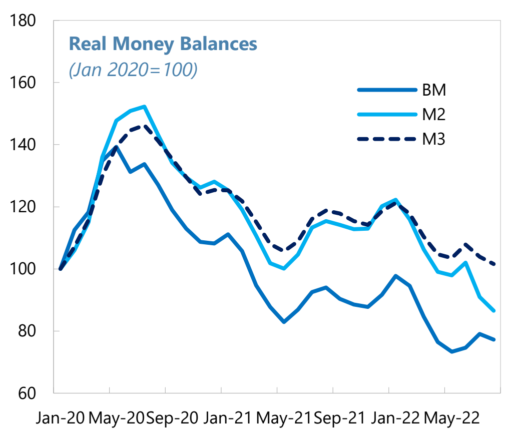
Increased policy uncertainties led to a further rise in inflation in July, which is only now moderating.



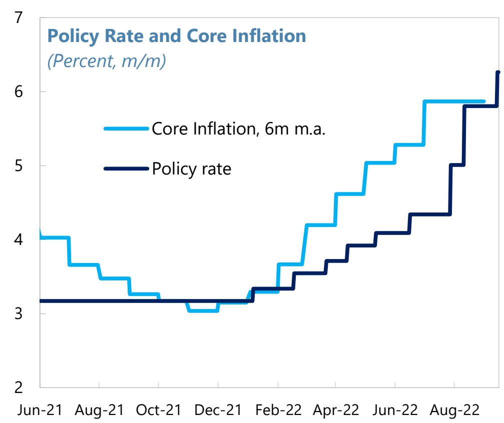
In the context of rising inflation and inflation expectations...



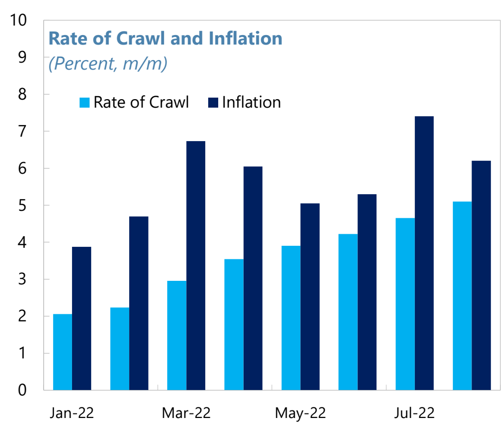
... as well as falling money demand ...



... more decisive steps have been taken to move real policy rates into positive territory.



Meanwhile, the rate of crawl has continued to rise...

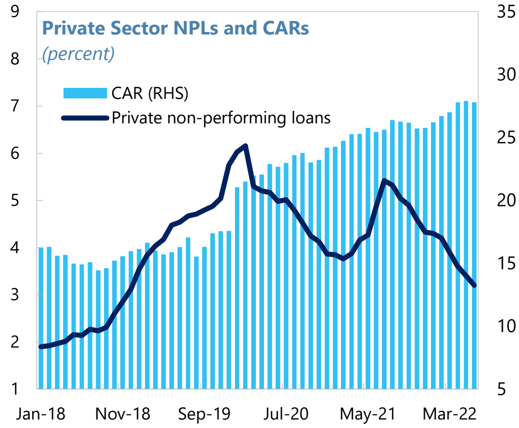


... but remains below inflation leading to a further appreciation of the real exchange rate.

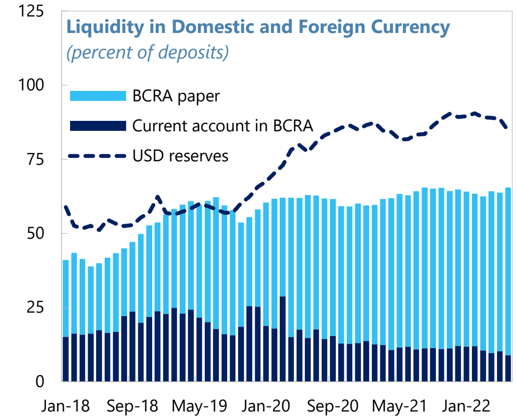
Source: Argentine authorities, BCRA's REM, Haver, IMF WEO database, IMF staff calculations.

Figure 5. Argentina: Banking Sector Developments

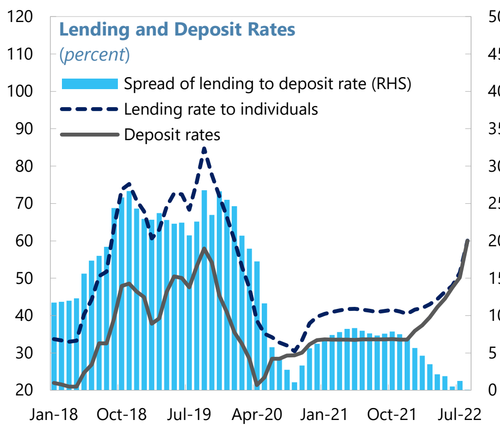
The banking sector is currently well capitalized, with sound credit quality …



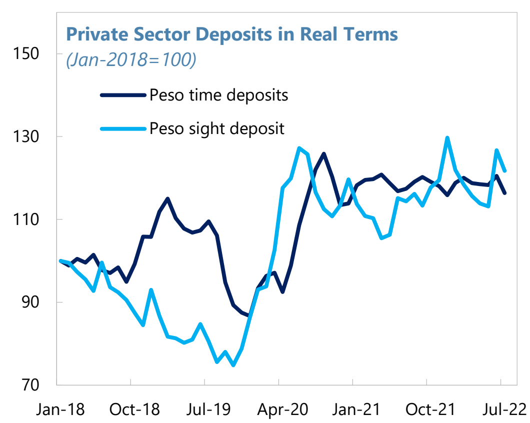
… sufficiently liquid buffers …



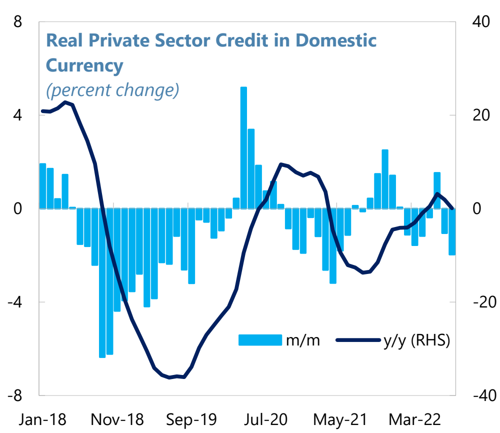
… but low net interest margins, the latter reflecting regulations on lending/deposits rates.



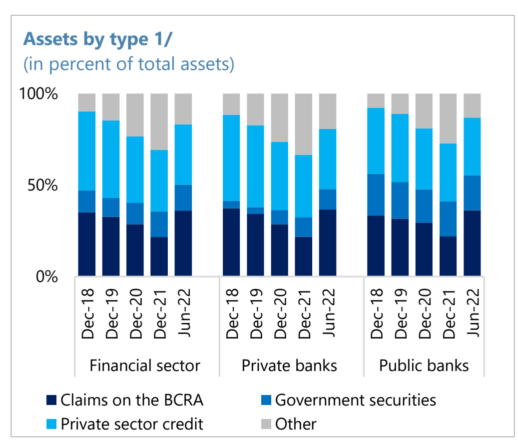
Real growth in peso deposits has been limited…



…real credit to the private sector remains weak (following a COVID-related expansion) …

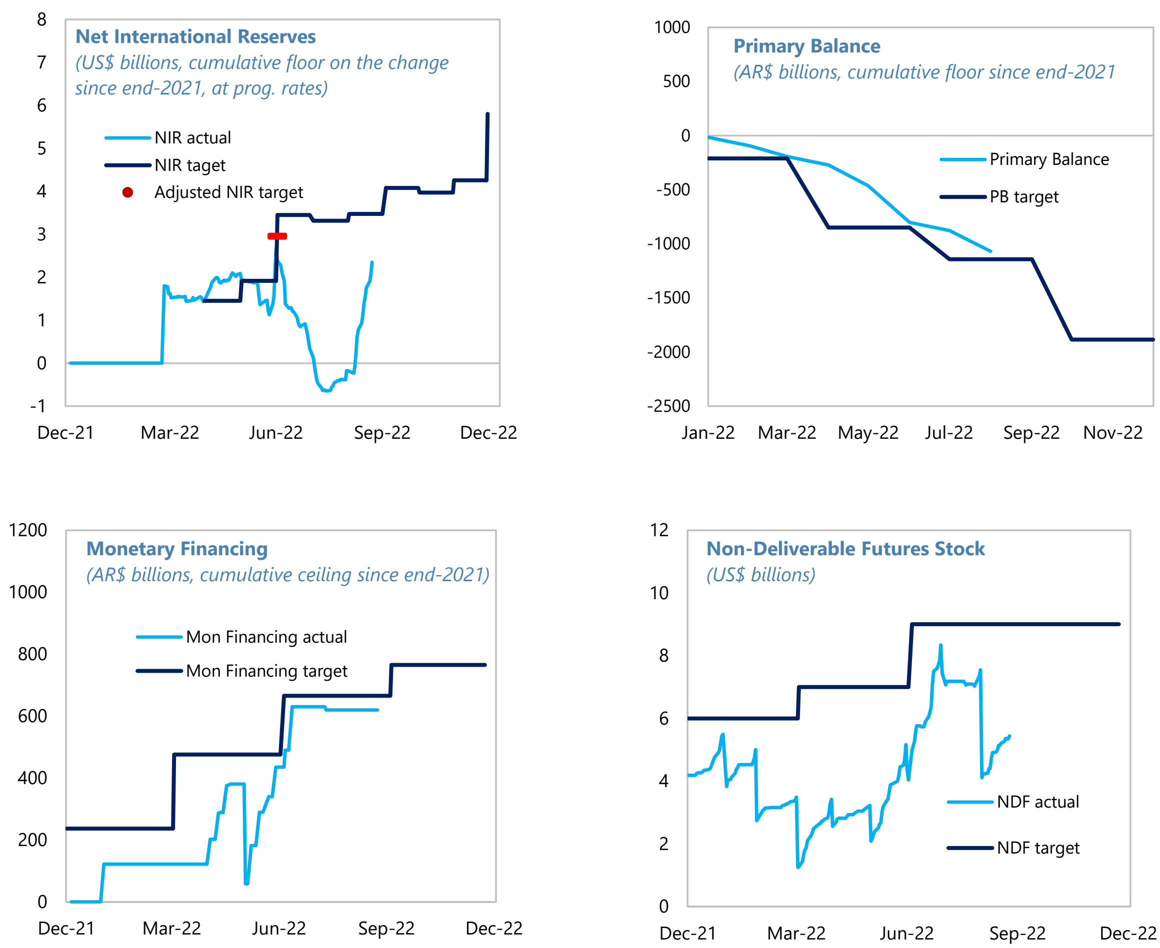


… with bank exposure to the public sector growing, and now represents 50 percent of total assets.



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

Figure 6. Argentina: Performance Relative Key Program Targets[1]



Sources: National authorities and Fund staff calculations.
1/ Targets apply only to the end-quarter. Data as of September 23, 2022.

Table 1. Argentina: Selected Economic and Financial Indicators, 2020–2027

		SR (June)	Act.	SR (June)	Proj.	SR (June)	Proj.				
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
	(Annual percentage changes unless otherwise indicated)										
National income and prices											
GDP at constant prices	-9.9	10.3	10.4	4.0	4.0	3.0	2.0	2.0	2.0	2.0	2.0
Domestic demand	-10.2	13.0	13.2	5.2	7.0	2.3	0.3	1.3	1.1	1.4	1.6
Consumption	-11.9	9.7	9.5	5.1	5.4	2.0	-0.3	0.9	1.3	1.7	1.3
Investment	-13.0	32.9	33.4	5.0	14.0	3.8	2.7	3.0	0.5	0.6	2.7
Exports	-17.7	9.0	9.2	3.5	1.1	4.6	3.0	4.9	5.0	4.9	4.9
Imports	-18.5	21.5	22.0	8.7	14.2	1.3	-4.2	1.4	0.9	2.2	3.1
Net exports (percent contribution to real GDP)	0.3	-2.8	-2.9	-1.4	-3.2	0.6	1.7	0.7	0.8	0.5	0.3
Output gap (percent of potential GDP)	-8.5	-3.5	-2.0	-1.7	0.0	-0.7	0.0	0.0	0.0	0.0	0.0
Inflation (eop)	36.1	50.9	50.9	57.0	95.0	50.0	60.0	44.0	40.0	35.0	30.0
Inflation (avg)	42.0	48.4	48.4	57.7	72.4	48.6	76.1	51.2	40.8	37.1	32.2
GDP deflator	39.6	54.1	54.0	57.6	70.5	47.1	75.9	50.3	40.8	37.1	32.1
	(Percent of GDP unless otherwise indicated)										
Savings-Investment balance											
Gross national savings	14.7	18.4	18.5	17.6	17.8	17.7	18.2	18.2	18.7	18.8	18.9
Private	23.3	22.7	22.9	21.3	21.3	21.1	21.6	21.6	21.1	20.8	20.4
Public	-8.6	-4.3	-4.3	-3.8	-3.5	-3.5	-3.3	-3.4	-2.5	-2.0	-1.4
Gross domestic investment	13.9	17.0	17.1	17.1	18.1	17.3	17.7	17.8	18.1	18.3	18.4
Private	11.5	14.3	14.5	13.6	15.0	13.5	14.4	14.5	14.8	15.0	15.0
Public	2.3	2.6	2.7	3.5	3.1	3.8	3.3	3.3	3.4	3.3	3.4
External sector											
Current account balance	0.8	1.4	1.4	0.5	-0.3	0.4	0.6	0.4	0.5	0.5	0.5
Trade balance	3.2	3.1	3.1	2.1	1.3	2.2	2.3	2.3	2.9	3.0	3.1
Foreign direct Investment (net)	0.7	1.1	1.1	1.2	1.2	1.5	1.5	1.9	1.9	1.9	1.9
Total external debt	83.1	58.7	59.2	55.0	56.4	55.9	52.3	52.2	54.5	52.5	50.0
Gross international reserves (US$ billions)	39.4	39.7	39.7	48.9	46.0	51.3	48.6	52.1	56.6	61.2	64.2
Terms of trade (percent change)	0.6	10.1	9.6	-0.8	-0.2	-3.8	1.8	-2.7	0.2	-0.3	0.3
Federal government operations											
Revenues 1/	17.6	18.1	18.3	18.0	17.6	18.2	16.8	17.6	18.2	18.7	19.0
Primary expenditure 2/	24.0	21.1	21.3	20.4	20.0	20.1	18.7	18.5	18.2	17.9	17.7
Primary balance 3/	-6.4	-3.0	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	0.0	0.8	1.3
Overall balance	-8.3	-4.5	-4.5	-4.0	-3.8	-3.7	-3.7	-3.7	-2.9	-2.5	-2.1
Federal government debt	102.8	80.2	80.9	73.2	76.0	73.2	69.5	69.6	70.0	67.1	63.8
Official creditors	23.4	16.0	16.5	16.1	16.5	16.2	15.1	14.9	15.7	14.9	13.2
Private creditors	43.6	33.3	33.6	30.0	29.8	31.9	30.1	31.5	30.6	29.1	27.5
of which: FX-denominated debt	28.9	21.2	21.4	18.9	19.3	18.7	17.6	17.1	17.0	15.9	15.0
Public entities	35.8	30.9	30.8	27.1	29.7	25.1	24.3	23.2	23.7	23.1	23.1
Money and credit											
Monetary base	9.0	7.8	7.9	6.5	6.1	6.5	6.4	6.5	6.5	6.5	6.5
BCRA transfers to the government	7.4	3.6	3.7	1.0	0.8	0.6	0.6	0.0	0.0	0.0	0.0
BCRA securities	10.7	10.8	10.9	10.1	11.9	9.9	9.5	8.8	8.6	8.2	8.1
BCRA quasi-fiscal cost	3.2	3.3	3.3	3.5	4.2	3.0	3.3	2.8	2.5	2.3	1.8
Memorandum items											
GIR (adjusted, US$ billions) 4/	39.4	39.7	39.7	45.8	44.5	50.1	48.9	53.6	58.2	62.8	65.8
GIR change (adjusted, US$ billions) 4/	-7.7	-0.1	-0.1	6.2	4.8	4.2	4.4	4.8	4.6	4.6	3.0
NIR (TMU definition) (US$ billions)	3.8	2.3	2.3	8.1	7.3	12.1	12.1	17.3	22.3	27.3	30.3
Consolidated public sector balance (percent of GDP) 5/	-11.7	-7.6	-7.6	-7.3	-7.7	-6.5	-6.7	-6.2	-5.0	-4.3	-3.3
Poverty rate (percent)	42.0	37.3	37.3	…	…	…	…	…	…	…	…
Unemployment rate (percent)	11.6	8.8	8.7	7.0	6.9	7.0	6.9	6.9	6.9	6.9	6.9
GDP per capita (in US$, nominal)	8,364	10,588	10,498	…	…	…	…	…	…	…	…

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues in 2023.

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

3/ Primary balance excludes BCRA profit transfers.

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

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

Table 2. Argentina: External Balance of Payments, 2020–2027

		SR (June)	Act.	SR (June)	Proj.	SR (June)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
						(in billions of U.S. dollars)					
Current account	**3.1**	**6.8**	**6.7**	**2.8**	**-2.0**	**2.4**	**3.7**	**2.4**	**3.3**	**3.3**	**3.3**
Trade balance in goods	14.6	18.7	18.7	15.5	12.5	14.7	17.0	15.6	17.6	18.4	19.7
Exports f.o.b.	54.9	78.0	78.0	89.5	89.7	88.9	92.2	90.3	92.3	94.7	98.3
Imports f.o.b.	40.3	59.3	59.3	74.0	77.2	74.2	75.2	74.7	74.7	76.3	78.6
Trade balance in services	-2.5	-3.5	-3.6	-3.0	-4.6	-1.3	-1.9	-1.1	-0.1	0.4	0.4
Primary income, net 1/	-10.1	-9.9	-9.8	-11.5	-11.7	-12.9	-13.3	-13.9	-15.9	-17.3	-18.8
of which: public interest payments, net	-5.6	-2.9	-2.9	-4.3	-4.6	-5.2	-5.9	-6.5	-6.7	-6.8	-7.1
Secondary income, net	1.1	1.5	1.5	1.8	1.8	1.9	1.9	1.8	1.8	1.8	2.0
Capital Account	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account	**-14.7**	**-8.7**	**-8.7**	**-22.7**	**-18.3**	**-21.5**	**-21.0**	**-6.7**	**-3.5**	**-3.2**	**-4.8**
Foreign direct investment, net	2.7	5.2	5.2	7.2	7.5	8.7	9.7	12.0	11.6	11.8	12.3
Portfolio investment, net	-2.8	-4.9	-4.9	-1.7	-1.8	-0.7	-0.6	-1.4	-2.2	-0.1	1.5
of which: public, gross	7.8	-0.9	-0.9	-0.1	-0.4	0.0	0.0	-1.1	-1.9	0.4	2.5
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/ 3/	-14.7	-8.9	-8.9	-28.2	-24.1	-29.6	-30.1	-17.3	-13.0	-14.8	-18.6
IMF repurchases	0.0	-3.8	-3.8	-17.5	-16.9	-18.8	-17.7	-4.6	0.0	-1.1	-4.7
Other official repayments	-2.2	-2.4	-2.4	-2.3	-2.7	-2.5	-2.4	-2.6	-2.5	-2.4	-2.1
Other items net	-12.5	-2.7	-2.7	-8.4	-4.5	-8.3	-10.0	-10.1	-10.5	-11.3	-11.7
Errors and Omissions	**0.2**	**-2.0**	**-2.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-11.3**	**-3.6**	**-3.7**	**-19.7**	**-20.1**	**-18.9**	**-17.1**	**-4.0**	**0.0**	**0.3**	**-1.2**
Financing	**11.1**	**3.6**	**3.6**	**19.7**	**20.1**	**18.9**	**17.1**	**4.0**	**0.0**	**-0.3**	**1.2**
IMF Financing	0.0	0.0	0.0	24.4	23.8	16.9	16.0	3.2	0.0	0.0	0.0
Other official financing 4/	3.3	3.5	3.5	4.6	4.3	4.4	3.8	4.2	4.6	4.2	4.2
Gross official reserves (increase: -)	7.7	0.1	0.1	-9.3	-8.0	-2.4	-2.7	-3.5	-4.6	-4.6	-3.0
GIR adjusted change (increase: -)	7.7	0.1	0.1	-6.2	-4.8	-4.2	-4.4	-4.8	-4.6	-4.6	-3.0
						(Percent of GDP unless otherwise indicated)					
Current account	**0.8**	**1.4**	**1.4**	**0.5**	**-0.3**	**0.4**	**0.6**	**0.4**	**0.5**	**0.5**	**0.5**
Trade balance in goods	3.9	3.9	3.9	2.6	2.0	2.5	2.6	2.5	2.9	3.0	3.0
Exports, f.o.b.	14.5	16.1	16.2	15.2	14.3	14.8	14.3	14.3	15.1	15.3	15.2
Imports f.o.b.	10.6	12.2	12.3	12.5	12.3	12.4	11.7	11.9	12.2	12.3	12.1
Trade balance in services	-0.7	-0.7	-0.8	-0.5	-0.7	-0.2	-0.3	-0.2	0.0	0.1	0.1
Primary income, net	-2.7	-2.0	-2.0	-2.0	-1.9	-2.2	-2.1	-2.2	-2.6	-2.8	-2.9
Secondary income, net	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital Account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-3.8**	**-1.8**	**-1.8**	**-3.8**	**-2.9**	**-3.6**	**-3.2**	**-1.0**	**-0.6**	**-0.5**	**-0.7**
Foreign direct investment, net	0.7	1.1	1.1	1.2	1.2	1.5	1.5	1.9	1.9	1.9	1.9
Portfolio investment, net	-0.7	-1.0	-1.0	-0.3	-0.3	-0.1	-0.1	-0.2	-0.4	0.0	0.2
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/	-3.8	-1.8	-1.8	-4.8	-3.8	-4.9	-4.6	-2.7	-2.1	-2.3	-2.8
Errors and Omissions	**0.0**	**-0.4**	**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.9**	**-0.7**	**-0.8**	**-3.3**	**-3.2**	**-3.1**	**-2.6**	**-0.6**	**0.0**	**0.1**	**-0.2**
Financing	**2.8**	**0.7**	**0.7**	**3.3**	**3.2**	**3.1**	**2.6**	**0.6**	**0.0**	**-0.1**	**0.2**
IMF Financing	0.0	0.0	0.0	4.1	3.8	2.8	2.4	0.5	0.0	0.0	0.0
Other official financing 4/	0.9	0.7	0.7	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.6
Gross official reserves (increase: -)	2.0	0.0	0.0	-1.6	-1.3	-0.4	-0.4	-0.5	-0.7	-0.7	-0.5
Memorandum items:											
Exports volumes (percent change)	-12.9	12.9	12.7	1.0	1.2	4.4	2.6	3.2	3.5	3.4	3.4
Imports volumes (percent change)	-10.4	29.9	29.8	9.5	11.3	1.2	-1.5	1.5	1.8	2.5	3.0
Trading partners imports growth (percent change)	-6.5	14.9	15.1	2.8	1.5	3.3	1.4	3.1	3.5	3.4	3.4
GIR (adjusted, US$ billions) 5/	39.4	39.7	39.7	45.8	44.5	50.1	48.9	53.6	58.2	62.8	65.8
in months of imports of goods and services	9.0	6.6	6.6	6.2	5.7	6.8	6.5	7.1	7.7	8.2	8.3
in percent of ARA	64.1	62.8	62.9	73.8	71.7	82.6	80.0	89.6	100.2	111.3	119.6
GIR change (adjusted, US$ billions) 5/	-7.7	-0.1	-0.1	6.2	4.8	4.2	4.4	4.8	4.6	4.6	3.0
NIR change (program definition, US$ billions) 6/	-8.6	-1.5	-1.5	5.8	5.0	4.0	4.8	5.2	5.0	5.0	3.0
excluding IMF contribution in 2022	-8.6	-1.5	-1.5	2.0	1.2	4.0	4.8	5.2	5.0	5.0	3.0
Terms of Trade (percent change)	0.6	10.1	9.6	-0.8	-0.2	-3.8	1.8	-2.7	0.2	-0.3	0.3

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/ Adjusted GIR correspond to GIR excluding IMF disbursements for future principal repayments as well as valuation effects.

6/ 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). For the purpose of the program, NIR accumulation is assessed at program exchange rates.

Table 3a. Argentina: Federal Government Operations, 2020–2027
(In Billions of Argentine Pesos)

		SR (June)	Act.	SR (June)	Proj.	SR (June)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
					(in billions of Argentine pesos)						
Revenues	**4,841**	**8,453**	**8,453**	**13,754**	**14,350**	**21,151**	**24,781**	**39,603**	**59,005**	**84,562**	**115,923**
Tax revenues	2,868	5,129	5,129	8,752	9,018	13,311	15,936	25,099	37,467	53,855	73,159
Social security contributions	1,533	2,382	2,382	4,051	4,141	6,588	7,600	12,143	17,672	25,209	35,204
Nontax revenues 1/	440	942	942	951	1,191	1,251	1,244	2,361	3,865	5,498	7,560
Primary expenditures	**6,591**	**9,860**	**9,860**	**15,639**	**16,366**	**23,352**	**27,580**	**41,733**	**59,114**	**81,124**	**108,287**
Wages	881	1,341	1,341	2,205	2,409	3,409	4,272	6,602	9,290	12,960	17,548
Goods and services	231	480	480	496	511	670	1,049	1,441	1,936	2,522	2,972
Pensions	2,614	3,710	3,710	6,208	6,300	9,678	11,108	18,141	26,916	38,308	53,663
Current transfers to private sector	2,181	3,104	3,104	4,660	5,082	6,248	7,376	9,969	13,179	16,693	19,976
Social assistance	1,484	1,723	1,723	2,648	2,921	3,617	4,325	6,315	8,493	11,246	14,380
Subsidies	697	1,382	1,382	2,012	2,161	2,631	3,085	3,654	4,686	5,446	5,596
Other current	81	214	214	232	297	348	673	811	1,134	1,359	1,527
Discretionary current transfers to provinces	324	360	360	439	517	580	758	1,127	1,458	2,039	2,749
Capital spending 2/	280	651	651	1,399	1,251	2,420	2,344	3,641	5,201	7,243	9,853
Primary balance	**-1,750**	**-1,408**	**-1,408**	**-1,885**	**-2,016**	**-2,201**	**-2,798**	**-2,129**	**-109**	**3,438**	**7,636**
Interest payments	**543**	**684**	**684**	**1,142**	**1,126**	**2,058**	**2,606**	**6,140**	**9,169**	**14,864**	**20,271**
Overall Balance	**-2,293**	**-2,092**	**-2,092**	**-3,026**	**-3,141**	**-4,259**	**-5,404**	**-8,269**	**-9,279**	**-11,426**	**-12,635**
Financing	**2,293**	**2,092**	**2,092**	**3,026**	**3,141**	**4,259**	**5,404**	**8,269**	**9,279**	**11,426**	**12,635**
Treasury deposits (+, drawdown) 3/	**-62**	**-157**	**-157**	**-343**	**-515**	**322**	**46**	**438**	**0**	**0**	**0**
External	**67**	**113**	**113**	**1,137**	**1,043**	**-151**	**-254**	**-35**	**688**	**1,399**	**137**
IMF (net)	0	53	53	894	891	-355	-386	-468	0	-807	-4,392
Other official (net) 4/	83	102	102	290	214	372	305	585	1,073	1,313	2,002
Private (net)	-16	-42	-42	-48	-62	-168	-173	-152	-384	892	2,527
Issuances	0	191	191	224	219	16	17	174	1,374	3,391	6,122
Amortization	16	233	233	271	281	184	190	326	1,759	2,499	3,594
Domestic	**2,288**	**2,136**	**2,136**	**2,233**	**2,614**	**4,088**	**5,612**	**7,866**	**8,590**	**10,028**	**12,499**
Private (net) 5/	355	1,060	1,060	1,559	2,539	2,577	3,900	5,196	4,112	2,525	1,129
Issuance	2,017	3,787	3,787	9,053	8,053	10,310	15,475	12,105	23,175	13,848	10,487
Amortization	1,662	2,727	2,727	7,494	5,515	7,733	11,575	6,909	19,063	11,323	9,358
Public entities (net) 6/	2,398	2,088	2,088	934	903	1,511	1,712	2,670	4,478	7,503	11,369
of which: BCRA transfers	2,038	1,701	1,701	763	658	685	884	0	0	0	0
Other 7/	-465	-1,011	-1,011	-260	-827	0	0	0	0	0	0
Memorandum items:											
One-off support (COVID-19 & Solidarity Levy)	1,024	518	518	277	200	0	0	0	0	0	0
Nominal GDP (ARS billions)	27,481	46,463	46,282	76,521	81,756	115,933	147,172	225,404	324,071	453,096	610,825

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. Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues from 2023 onwards.

2/ Includes federal capital transfers to provinces.

3/ Deposit accumulation in 2022 largely 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 by 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).

Table 3b. Argentina: Federal Government Operations, 2020–2027

(In Percent of GDP)

		SR (June)	Act.	SR (June)	Proj.	SR (June)	Proj.				
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
					(Percent of GDP)						
Revenues	**17.6**	**18.1**	**18.3**	**18.0**	**17.6**	**18.2**	**16.8**	**17.6**	**18.2**	**18.7**	**19.0**
Tax revenues	10.4	11.0	11.1	11.4	11.0	11.5	10.8	11.1	11.6	11.9	12.0
Social security contributions	5.6	5.1	5.1	5.3	5.1	5.7	5.2	5.4	5.5	5.6	5.8
Nontax revenues 1/	1.6	2.0	2.0	1.2	1.5	1.1	0.8	1.0	1.2	1.2	1.2
Primary expenditures	**24.0**	**21.1**	**21.3**	**20.4**	**20.0**	**20.1**	**18.7**	**18.5**	**18.2**	**17.9**	**17.7**
Wages	3.2	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Goods and services	0.8	1.0	1.0	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.5
Pensions	9.5	7.9	8.0	8.1	7.7	8.3	7.5	8.0	8.3	8.5	8.8
Current transfers to private sector	7.9	6.6	6.7	6.1	6.2	5.4	5.0	4.4	4.1	3.7	3.3
Social assistance	5.4	3.7	3.7	3.5	3.6	3.1	2.9	2.8	2.6	2.5	2.4
Subsidies	2.5	3.0	3.0	2.6	2.6	2.3	2.1	1.6	1.4	1.2	0.9
Discretionary current transfers to provinces	1.2	0.8	0.8	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.5
Other current	0.3	0.5	0.5	0.3	0.4	0.3	0.5	0.4	0.3	0.3	0.3
Capital spending 2/	1.0	1.4	1.4	1.8	1.5	2.1	1.6	1.6	1.6	1.6	1.6
Primary balance	**-6.4**	**-3.0**	**-3.0**	**-2.5**	**-2.5**	**-1.9**	**-1.9**	**-0.9**	**0.0**	**0.8**	**1.3**
Interest cash	**2.0**	**1.5**	**1.5**	**1.5**	**1.4**	**1.8**	**1.8**	**2.7**	**2.8**	**3.3**	**3.3**
Overall Balance	**-8.3**	**-4.5**	**-4.5**	**-4.0**	**-3.8**	**-3.7**	**-3.7**	**-3.7**	**-2.9**	**-2.5**	**-2.1**
Financing	**8.3**	**4.5**	**4.5**	**4.0**	**3.8**	**3.7**	**3.7**	**3.7**	**2.9**	**2.5**	**2.1**
Treasury deposits (+, drawdown) 3/	**-0.3**	**-0.4**	**-0.4**	**-0.5**	**-0.6**	**0.3**	**0.0**	**0.2**	**0.0**	**0.0**	**0.0**
External	**0.2**	**0.2**	**0.2**	**1.5**	**1.3**	**-0.1**	**-0.2**	**0.0**	**0.2**	**0.3**	**0.0**
IMF (net)	0.0	0.1	0.1	1.2	1.1	-0.3	-0.3	-0.2	0.0	-0.2	-0.7
Other official (net) 4/	0.3	0.2	0.2	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Private (net)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.2	0.4
Issuances	0.0	0.4	0.4	0.3	0.3	0.0	0.0	0.1	0.4	0.7	1.0
Amortization	0.1	0.5	0.5	0.4	0.3	0.2	0.1	0.1	0.5	0.6	0.6
Domestic	**8.3**	**4.6**	**4.6**	**2.9**	**3.2**	**3.5**	**3.8**	**3.5**	**2.7**	**2.2**	**2.0**
Private (net) 5/	1.3	2.3	2.3	2.0	3.1	2.2	2.7	2.3	1.3	0.6	0.2
Issuance	7.3	8.1	8.2	11.8	9.9	8.9	10.5	5.4	7.2	3.1	1.7
Amortization	6.0	5.8	5.9	9.8	6.7	6.7	7.9	3.1	5.9	2.5	1.5
Public entities (net) 6/	8.7	4.5	4.5	1.2	1.1	1.3	1.2	1.2	1.4	1.7	1.9
of which: BCRA transfers	7.4	3.6	3.7	1.0	0.8	0.6	0.6	0.0	0.0	0.0	0.0
Other 7/	-1.7	-2.2	-2.2	-0.3	-1.0	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	1.1	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance without COVID support	-2.6	-1.9	-1.9	-2.1	-2.2	-1.9	-1.9	-0.9	0.0	0.8	1.3
Structural primary balance 8/ 9/	-0.7	-1.9	-2.1	-2.2	-2.5	-1.9	-2.0	-1.0	0.0	0.8	1.3
Federal government debt 6/	102.8	80.2	80.9	73.2	76.0	73.2	69.5	69.6	70.0	67.1	63.8

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. Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues from 2023 onwards.

2/ Includes federal capital transfers to provinces.

3/ Deposit accumulation in 2022 largely 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 by 2026.

5/ Includes Banco Nacion and public entities other than BCRA and FGS.

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, 2020–2027 1/

		SR (June)	Est.	SR (June)	Proj.	SR (June)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
	(Percent of GDP unless otherwise indicated)										
Revenues	**33.5**	**33.2**	**33.5**	**33.6**	**33.0**	**34.1**	**32.3**	**33.2**	**34.0**	**34.7**	**35.2**
Tax revenues	23.6	23.5	23.8	24.5	24.0	24.8	23.8	24.4	24.9	25.4	25.7
Federal	10.4	11.0	11.1	11.4	11.0	11.5	10.8	11.1	11.6	11.9	12.0
Provincial co-participated	8.2	7.6	7.7	8.1	8.1	8.3	8.0	8.2	8.3	8.5	8.5
Provincial own	5.0	5.0	5.0	5.0	4.9	5.0	5.0	5.1	5.1	5.1	5.2
Social security contributions	7.3	6.6	6.6	6.8	6.4	7.2	6.5	6.7	6.8	6.9	7.1
Federal	5.6	5.1	5.1	5.3	5.1	5.7	5.2	5.4	5.5	5.6	5.8
Provincial	1.7	1.5	1.5	1.5	1.3	1.5	1.3	1.3	1.3	1.3	1.3
Other revenues	2.6	3.1	3.1	2.3	2.6	2.2	2.0	2.2	2.3	2.3	2.4
Federal	1.6	2.0	2.0	1.2	1.5	1.1	0.8	1.0	1.2	1.2	1.2
Provincial	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Primary expenditures 2/	**39.6**	**35.7**	**36.0**	**35.6**	**34.9**	**35.7**	**33.7**	**33.7**	**33.5**	**33.3**	**33.2**
Wages	11.1	9.8	9.9	9.9	10.1	10.1	9.9	10.1	9.9	9.9	10.0
Federal	3.2	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Provincial	7.9	6.9	7.0	7.0	7.1	7.2	7.0	7.1	7.0	7.1	7.1
Goods and services	2.4	2.6	2.6	2.2	2.2	2.1	2.2	2.1	2.1	2.0	1.9
Federal	0.8	1.0	1.0	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.5
Provincial	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.4
Pensions	11.8	9.9	10.0	10.1	9.5	10.4	9.3	9.9	10.3	10.4	10.9
Federal	9.5	7.9	8.0	8.1	7.7	8.3	7.5	8.0	8.3	8.5	8.8
Provincial	2.3	2.0	2.0	2.0	1.7	2.1	1.8	1.9	2.0	2.0	2.1
Transfers to the private sector	9.3	8.0	8.1	7.5	7.5	6.7	6.4	5.8	5.5	5.1	4.6
Federal	7.9	6.6	6.7	6.1	6.2	5.4	5.0	4.4	4.1	3.7	3.3
Provincial	1.4	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Capital spending	2.3	2.6	2.7	3.5	3.1	3.8	3.3	3.3	3.4	3.3	3.4
Federal 3/	0.8	1.0	1.0	1.5	1.3	1.6	1.4	1.4	1.5	1.5	1.5
Provincial	1.5	1.7	1.7	2.0	1.8	2.2	1.9	1.9	1.9	1.9	1.9
Other	2.7	2.8	2.8	2.5	2.6	2.5	2.6	2.5	2.6	2.5	2.4
Federal	0.3	0.5	0.5	0.3	0.4	0.3	0.5	0.4	0.4	0.3	0.3
Provincial	2.4	2.3	2.3	2.2	2.2	2.2	2.1	2.1	2.2	2.2	2.2
Primary Balance	**-6.2**	**-2.5**	**-2.5**	**-2.1**	**-1.9**	**-1.5**	**-1.4**	**-0.5**	**0.5**	**1.4**	**2.0**
Federal government	-6.4	-3.0	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	0.0	0.8	1.3
Provincial government	0.2	0.5	0.5	0.4	0.6	0.4	0.5	0.4	0.5	0.6	0.7
Interest (cash)	**2.4**	**1.8**	**1.8**	**1.7**	**1.6**	**2.0**	**1.9**	**2.9**	**3.0**	**3.4**	**3.4**
Overall balance	**-8.6**	**-4.3**	**-4.3**	**-3.8**	**-3.5**	**-3.5**	**-3.3**	**-3.4**	**-2.5**	**-2.0**	**-1.4**
Memorandum items											
General Gov't structural primary balance 4/	-3.1	-1.6	-1.9	-1.9	-2.2	-1.4	-1.5	-0.5	0.5	1.4	2.0
Federal structural primary balance	-4.1	-2.4	-2.7	-2.5	-2.8	-1.9	-2.0	-1.0	0.0	0.8	1.3
Provincial structural primary balance	1.0	0.8	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.7	0.7
Consolidated public sector balance 5/	-11.7	-7.6	-7.6	-7.3	-7.7	-6.5	-6.7	-6.2	-5.0	-4.3	-3.3
Federal government debt	102.8	80.2	80.9	73.2	76.0	73.2	69.5	69.6	70.0	67.1	63.8
of which: net of debt held by public entities 6/	67.0	49.4	50.1	46.2	46.8	48.1	47.2	48.7	48.2	45.0	40.9
Provincial government debt	8.1	5.5	6.0	4.2	4.4	3.6	3.2	2.5	1.9	1.7	1.6
BCRA securities	10.7	10.8	10.9	10.1	11.9	9.9	9.5	8.8	8.6	8.2	8.1

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 BCRA and FGS.

Table 5a. Argentina: Summary Operations of Central Bank, 2020–2027

(End of Period, Unless Otherwise Indicated)

		SR (June)	Act.	SR (June)	Proj.	SR (June)	Proj.				
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
	(In billions of Argentine pesos)										
Net foreign assets	**1,390**	**1,670**	**1,670**	**3,889**	**4,008**	**6,467**	**7,359**	**12,509**	**21,239**	**31,701**	**43,249**
Gross foreign assets	3,314	4,075	4,075	7,455	7,933	11,886	13,850	22,281	35,644	50,699	67,331
Gross foreign liabilities	1,925	2,405	2,405	3,565	3,925	5,419	6,492	9,772	14,406	18,998	24,082
Net domestic assets	**1,081**	**1,984**	**1,984**	**1,085**	**983**	**1,068**	**2,039**	**2,056**	**-302**	**-2,431**	**-3,788**
Credit to the public sector (net)	6,351	9,272	8,783	12,198	14,060	18,141	21,896	31,019	43,382	55,917	69,011
of which: Temporary advances to federal government	1,260	2,173	2,173	2,936	2,827	3,634	3,710	3,710	3,710	3,710	3,710
of which: Non-marketable government bonds 1/	4,491	5,909	5,909	8,834	9,619	13,426	15,907	23,945	35,299	46,551	59,008
of which: Other credit and gvt. deposits (net)	599	1,190	701	429	1,614	1,081	2,279	3,363	4,373	5,656	6,293
Credit to the financial sector, excl. securities	-917	-1,243	-1,243	-1,764	-1,862	-2,740	-3,301	-4,802	-6,642	-8,452	-5,383
BCRA securities	-2,942	-5,045	-5,045	-7,729	-9,729	-11,435	-13,943	-19,836	-27,870	-37,208	-49,620
Official capital and other items	-1,412	-1,001	-511	-1,621	-1,487	-2,898	-2,613	-4,325	-9,171	-12,688	-17,796
Monetary base	**2,470**	**3,654**	**3,654**	**4,974**	**4,990**	**7,535**	**9,398**	**14,564**	**20,937**	**29,270**	**39,461**
Currency issued	1,898	2,691	2,691	3,520	3,761	5,278	6,770	10,143	14,259	19,319	25,655
Bank deposits at the BCRA (peso-denominated)	572	963	963	1,454	1,230	2,257	2,628	4,421	6,678	9,952	13,807
	(Percent of GDP)										
Net foreign assets	**5.1**	**3.6**	**3.6**	**5.1**	**4.9**	**5.6**	**5.0**	**5.5**	**6.6**	**7.0**	**7.1**
Gross foreign assets	12.1	8.7	8.8	9.7	9.7	10.3	9.4	9.9	11.0	11.2	11.0
Gross foreign liabilities	7.0	5.2	5.2	4.7	4.8	4.7	4.4	4.3	4.4	4.2	3.9
Net domestic assets	**3.9**	**4.2**	**4.3**	**1.4**	**1.2**	**0.9**	**1.4**	**0.9**	**-0.1**	**-0.5**	**-0.6**
Credit to the public sector	23.1	19.9	19.0	15.9	17.2	15.6	14.9	13.8	13.4	12.3	11.3
of which: Temporary advances to federal government	4.6	4.7	4.7	3.8	3.5	3.1	2.5	1.6	1.1	0.8	0.6
of which: Non-marketable government bonds	16.3	12.7	12.8	11.5	11.8	11.6	10.8	10.6	10.9	10.3	9.7
of which: Other credit and gvt. deposits (net)	2.2	2.5	1.5	0.6	2.0	0.9	1.5	1.5	1.3	1.2	1.0
Credit to the financial sector, excl. securities	-3.3	-2.7	-2.7	-2.3	-2.3	-2.4	-2.2	-2.1	-2.0	-1.9	-0.9
BCRA securities	-10.7	-10.8	-10.9	-10.1	-11.9	-9.9	-9.5	-8.8	-8.6	-8.2	-8.1
Official capital and other items	-5.1	-2.1	-1.1	-2.1	-1.8	-2.5	-1.8	-1.9	-2.8	-2.8	-2.9
Monetary base	**9.0**	**7.8**	**7.9**	**6.5**	**6.1**	**6.5**	**6.4**	**6.5**	**6.5**	**6.5**	**6.5**
Currency issued	6.9	5.8	5.8	4.6	4.6	4.6	4.6	4.5	4.4	4.3	4.2
Bank deposits at the BCRA (peso-denominated)	2.1	2.1	2.1	1.9	1.5	1.9	1.8	2.0	2.1	2.2	2.3
Memorandum items:											
NFA (billions of USD)	16.5	16.3	16.3	25.5	24.1	27.9	26.7	30.2	34.8	39.3	42.3
Quasi-fiscal deficit (percent of GDP)	3.2	3.3	3.3	3.5	4.2	3.0	3.3	2.8	2.5	2.3	1.8

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

Table 5b. Argentina: Summary Operations of the Banking Sector, 2020–2027

(End of Period, Unless Otherwise Indicated)

		SR (June)	Act.	SR (June)	Proj.	SR (June)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
	(In billions of Argentine pesos)										
Net foreign assets	**240**	**283**	**314**	**346**	**380**	**522**	**822**	**1,307**	**1,837**	**2,704**	**3,826**
Net domestic assets	**6,273**	**9,579**	**9,551**	**14,738**	**15,524**	**22,564**	**27,876**	**42,380**	**61,032**	**83,839**	**107,346**
Credit to the public sector	152	462	462	527	422	640	600	851	1,032	1,156	1,307
Gross credit to public sector	1,594	2,821	2,821	4,121	4,208	6,376	7,767	12,792	16,412	18,893	21,924
Deposits from the public sector	-1,442	-2,359	-2,359	-3,594	-3,786	-5,736	-7,168	-11,941	-15,380	-17,737	-20,616
Claims on the central bank	4,686	7,520	7,521	11,306	13,192	16,972	20,541	30,061	42,600	57,520	71,345
Holdings of central bank securities	2,942	5,045	5,045	7,729	9,729	11,435	13,943	19,836	27,870	37,208	49,620
Reserves at central bank	1,488	2,202	2,202	3,220	3,093	4,999	5,931	9,225	13,323	18,405	19,191
Other	256	273	274	358	370	538	667	1,000	1,407	1,907	2,533
Claims on the private sector	3,762	5,356	5,357	8,644	9,482	13,615	17,773	28,270	41,547	59,145	80,505
US$ denominated	478	479	441	753	748	1,216	1,314	2,100	3,287	4,602	6,193
AR$ denominated	3,284	4,878	4,917	7,891	8,734	12,400	16,459	26,170	38,260	54,544	74,312
Net capital, reserves, and other assets	-2,327	-3,759	-3,789	-5,739	-7,573	-8,663	-11,038	-16,801	-24,146	-33,982	-45,811
Liabilities with the private sector	**6,513**	**9,862**	**9,865**	**15,084**	**15,903**	**23,086**	**28,697**	**43,688**	**62,869**	**86,543**	**111,172**
Local currency deposits	5,170	8,241	8,245	12,626	13,490	19,245	24,282	37,302	55,091	77,481	105,064
Foreign currency deposits	1,343	1,621	1,621	2,459	2,413	3,841	4,415	6,386	7,778	9,061	6,108
in US$ billions	16.0	15.5	15.5	16.1	14.5	16.6	16.0	15.4	12.7	11.2	6.0
	(Percent GDP)										
Net foreign assets	**0.9**	**0.6**	**0.7**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**
Net domestic assets	**22.8**	**20.5**	**20.6**	**19.3**	**19.0**	**19.5**	**18.9**	**18.8**	**18.8**	**18.5**	**17.6**
Credit to the public sector (net)	0.6	1.0	1.0	0.7	0.5	0.6	0.4	0.4	0.3	0.3	0.2
Gross credit to public sector	5.8	6.0	6.1	5.4	5.1	5.5	5.3	5.7	5.1	4.2	3.6
Deposits of the public sector	-5.2	-5.1	-5.1	-4.7	-4.6	-4.9	-4.9	-5.3	-4.7	-3.9	-3.4
Claims on the central bank	17.1	16.1	16.3	14.8	16.1	14.6	14.0	13.3	13.1	12.7	11.7
Holdings of central bank securities	10.7	10.8	10.9	10.1	11.9	9.9	9.5	8.8	8.6	8.2	8.1
Reserves at central bank	5.4	4.7	4.8	4.2	3.8	4.3	4.0	4.1	4.1	4.1	3.1
Other	0.9	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Credit to the private sector	13.7	11.5	11.6	11.3	11.6	11.7	12.1	12.5	12.8	13.1	13.2
of which: Dollar denominated	1.7	1.0	1.0	1.0	0.9	1.0	0.9	0.9	1.0	1.0	1.0
of which: Peso denominated	12.0	10.4	10.6	10.3	10.7	10.7	11.2	11.6	11.8	12.0	12.2
Net capital, reserves, and other assets	-8.5	-8.1	-8.2	-7.5	-9.3	-7.5	-7.5	-7.5	-7.5	-7.5	-7.5
Liabilities with the private sector	**23.7**	**21.1**	**21.3**	**19.7**	**19.5**	**19.9**	**19.5**	**19.4**	**19.4**	**19.1**	**18.2**
Local currency deposits	18.8	17.7	17.8	16.5	16.5	16.6	16.5	16.5	17.0	17.1	17.2
Foreign currency deposits	4.9	3.5	3.5	3.2	3.0	3.3	3.0	2.8	2.4	2.0	1.0
Memorandum items:											
M3 (AR$ billions)	7,668	11,529	11,510	16,578	17,580	25,135	31,954	49,519	70,345	99,519	134,169
M3 (percent of GDP)	27.9	24.7	24.9	21.7	21.5	21.7	21.7	22.0	21.7	22.0	22.0
M3 (as a ratio of monetary base)	3.1	3.2	3.2	3.3	3.5	3.3	3.4	3.4	3.4	3.4	3.4
Credit to the private sector, real (eop, y/y percent change)	-2.2	-5.7	-5.6	2.8	-9.2	5.0	17.1	10.5	5.0	5.4	4.7

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

Table 6. Argentina: Summary Public and External Debt, 2020–2027 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**	**373.3**	**371.5**	**378.6**	**371.4**	**377.5**	**381.8**
(in percent of GDP)	*102.8*	*80.9*	*76.0*	*69.5*	*69.6*	*70.0*	*67.1*	*63.8*
By creditor:								
Official sector	76.6	74.4	81.1	80.7	81.1	83.2	83.9	79.0
IMF	46.0	42.6	46.0	44.2	42.9	42.9	41.8	35.1
Other IFIs	25.1	27.1	30.7	32.1	33.8	35.9	37.8	39.6
Other official	5.5	4.8	4.5	4.4	4.4	4.4	4.4	4.3
Private sector 2/	142.3	151.5	146.5	160.6	171.3	162.5	163.7	164.4
of which: Holdouts 3/	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Other public entities	116.9	138.7	145.7	130.1	126.3	125.8	129.9	138.3
of which: BCRA 4/	81.9	97.0	104.1	98.0	96.3	95.8	97.9	100.9
By currency:								
Domestic currency	125.7	109.3	109.8	106.5	111.0	99.7	100.7	101.0
Foreign currency	210.0	255.3	263.5	265.0	267.7	271.7	276.8	280.8
of which: held by private sector	94.3	96.5	94.8	93.9	92.7	90.1	89.4	89.6
By residency:								
Non residents	152.6	148.4	154.3	152.7	151.6	148.4	143.9	132.5
of which: private non residents	76.1	74.0	73.1	72.0	70.5	65.3	60.0	53.5
Residents	183.1	216.1	219.0	218.8	227.1	223.0	233.6	249.2
Memorandum items								
Federal Gov't, excl. debt held by public entities	**218.8**	**225.9**	**227.6**	**241.4**	**252.4**	**245.6**	**247.6**	**243.5**
(in percent of GDP)	*67.0*	*50.1*	*46.4*	*45.2*	*46.4*	*46.3*	*44.0*	*40.7*
BCRA Debt (Leliqs and Pases)	**35.0**	**49.1**	**58.4**	**50.6**	**47.9**	**45.6**	**46.2**	**48.6**
(in percent of GDP)	*10.7*	*10.9*	*11.9*	*9.5*	*8.8*	*8.6*	*8.2*	*8.1*
Combined Federal Gov't and BCRA	**253.8**	**275.0**	**286.1**	**292.0**	**300.2**	**291.2**	**293.8**	**292.1**
(in percent of GDP)	*77.7*	*61.0*	*58.3*	*54.6*	*55.2*	*54.9*	*52.2*	*48.8*
Overall External Debt								
Gross external debt (includes holdouts)	**271.4**	**266.7**	**277.0**	**279.8**	**283.9**	**288.8**	**295.3**	**298.8**
(in percent of GDP)	*83.1*	*59.2*	*56.4*	*52.3*	*52.2*	*54.5*	*52.5*	*50.0*
By debtor								
Public sector	193.8	190.5	198.7	198.3	197.5	197.4	198.9	199.0
Federal government	152.6	148.4	154.3	152.7	151.6	148.4	143.9	132.5
Other public sector 5/	41.1	42.1	44.4	45.6	45.9	49.0	55.0	66.5
Private sector	77.7	76.2	78.3	81.5	86.5	91.4	96.3	99.8
Financial	6.5	5.7	5.3	5.5	6.8	8.0	9.3	10.5
Non-financial	71.2	70.5	73.0	76.0	79.7	83.4	87.0	89.3
By creditor								
Debt to official creditors	76.6	72.8	81.3	81.0	81.3	83.2	84.3	81.8
Debt to banks	13.9	7.8	7.4	7.6	8.9	10.2	11.4	12.6
Debt to other private creditors	181.0	186.1	188.2	191.2	193.7	195.5	199.6	204.3
By maturity								
Long-term	222.6	216.3	224.2	225.5	228.3	231.7	236.6	239.1
Of which: Public sector	27.1	28.3	30.0	30.0	30.0	30.0	30.0	30.0

Sources: National authorities and Fund staff estimates and projections.

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

2/ Includes Banco Nacion and public entities other than BCRA and FGS.

3/ 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.

4/ Includes purchases of 1.6 % of GDP of government securities in the secondary bond market in 2022.

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

Table 7. Argentina: Federal Government Gross Financing Needs and Sources, 2020–2027

(In Millions of U.S. Dollars)

		Est.	2022					2023								
	2020	2021	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3	Q4	Full Year	2024	2025	2026	2027
Primary fiscal deficit	**24,455**	**14,636**	**1,477**	**4,658**	**3,715**	**5,593**	**15,442**	**1,931**	**3,238**	**3,868**	**3,212**	**12,248**	**6,071**	**211**	**-4,805**	**-8,281**
Interest	**6,422**	**5,848**	**1,895**	**826**	**1,358**	**2,732**	**6,811**	**2,956**	**1,488**	**2,567**	**2,253**	**9,264**	**15,212**	**15,388**	**18,450**	**19,644**
External	1,840	1,201	574	220	625	296	1,715	906	323	1,014	305	2,548	3,099	3,353	3,406	3,360
Official (non-IMF)	671	624	123	114	185	226	648	278	273	389	266	1,207	1,281	1,369	1,458	1,457
Private	1,169	577	451	106	440	70	1,067	629	49	624	39	1,341	1,818	1,984	1,948	1,903
Domestic	4,583	4,647	1,321	605	733	2,436	5,096	2,050	1,166	1,553	1,948	6,717	12,113	12,035	15,044	16,285
Public entities 1/	445	246	81	66	91	202	440	477	484	713	586	2,260	4,122	4,893	5,754	6,442
Private 2/	4,138	4,401	1,240	539	643	2,234	4,656	1,573	681	840	1,362	4,457	7,991	7,142	9,289	9,843
Amortizations	**42,190**	**61,835**	**15,006**	**27,488**	**7,454**	**20,557**	**70,506**	**31,394**	**15,059**	**32,768**	**13,448**	**92,669**	**48,768**	**68,315**	**34,836**	**27,786**
External	2,388	4,883	1,623	886	1,564	798	4,871	1,107	445	1,158	562	3,273	3,480	5,915	5,898	5,968
Official (non-IMF)	2,163	2,434	970	438	660	633	2,700	656	404	933	423	2,417	2,550	2,520	2,405	2,070
Private	225	2,449	654	448	904	165	2,171	451	40	225	139	855	930	3,395	3,492	3,898
Domestic	39,802	56,953	13,383	26,602	5,890	19,760	65,635	30,286	14,615	31,610	12,886	89,396	45,287	62,400	28,938	21,818
Public entities 3/	16,267	28,271	1,807	11,973	168	9,142	23,092	16,355	8,327	10,952	1,785	37,419	25,588	25,594	13,112	11,670
Private 2/	23,535	28,682	11,575	14,629	5,721	10,617	42,543	13,931	6,287	20,658	11,101	51,977	19,699	36,806	15,826	10,148
IMF Debt Service	**1,471**	**5,128**	**3,802**	**3,801**	**5,175**	**5,974**	**18,752**	**5,932**	**5,910**	**4,150**	**4,137**	**20,128**	**6,858**	**2,315**	**3,453**	**7,102**
of which: Amortization	0	3,780	3,400	3,400	4,712	5,368	16,880	5,305	5,305	3,541	3,541	17,692	4,564	0	1,128	4,763
Total Needs	**74,538**	**87,448**	**22,180**	**36,773**	**17,703**	**34,855**	**111,511**	**42,213**	**25,696**	**43,352**	**23,049**	**134,310**	**76,909**	**86,229**	**51,934**	**46,252**
Treasury deposits (+, drawdown) 4/	-989	-1,820	-8,286	5,206	1,981	-2,983	-4,083	-3,632	-3,204	5,269	1,456	-111	1,250	0	0	0
IMF 5/	0	4,335	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Official (not IMF)	3,335	3,506	305	483	1,666	1,893	4,347	292	1,102	1,333	1,062	3,789	4,218	4,591	4,241	4,241
Public entities 6/	50,220	50,226	3,343	15,819	1,214	9,679	30,054	17,868	10,173	13,270	3,794	45,105	33,200	34,239	23,599	23,999
of which: BCRA monetary financing	37,465	32,295	2,871	6,993	838	6,343	17,045	3,656	6,575	3,600	2,901	16,732	10,705	7,249	5,248	4,072
Private sector issuances 2/	28,559	41,837	19,067	15,734	12,843	16,174	63,818	22,366	13,635	20,155	13,412	69,568	35,012	47,399	24,094	18,012
of which: international market issuance	0	0	0	0	0	0	0	0	0	0	0	0	0	2,000	4,000	6,000
Other 7/	-6,588	-10,636	-1,905	-4,479	0	0	-6,384	0	0	0	0	0	0	0	0	0
Total Sources	**74,538**	**87,448**	**12,523**	**32,764**	**17,703**	**24,763**	**87,754**	**36,894**	**21,706**	**40,027**	**19,724**	**118,351**	**73,681**	**86,229**	**51,934**	**46,252**
Total Gap	**0**	**0**	**9,656**	**4,009**	**0**	**10,092**	**23,757**	**5,319**	**3,990**	**3,325**	**3,325**	**15,958**	**3,229**	**0**	**0**	**0**
IMF Disbursements	0	0	9,656	4,009	0	10,092	23,757	5,319	3,990	3,325	3,325	15,958	3,229	0	0	0
Memorandum Items																
Deposit Stock	2,117	3,937	11,557	5,852	3,117	4,122	5,713	2,960	5,713	4,129	5,149	3,338	1,824	1,271	951	762
Private Rollover Rates (percent)	120	134	145	104	195	171	143	155	225	97	124	132	170	118	125	128
Primary Fiscal Deficit (percent of GDP)	6.4	3.0	0.2	0.7	0.6	0.9	2.5	0.3	0.5	0.6	0.5	1.9	0.9	0.0	-0.8	-1.3
BCRA monetary financing (net)	28,855	17,886	1,174	3,141	760	0	5,075	610	1,023	1,221	1,116	3,970	0	0	0	0

Sources: National authorities and Fund staff estimates and projections.

1/ Includes BCRA.

2/ Includes Banco Nacion and public entities other than BCRA and FGS. Financing needs and issuances are significantly lower in 2026-2027 relative to the first review, reflecting use of longer-maturity CER-linked bonds from 2024, which extend maturities beyond the projection period and reduce the interest bill (as the inflation uplift is captured in amortization).

3/ Includes BCRA and FGS.

4/ Deposit accumulation in 2022 largely 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, 2021–2027

(In Millions of U.S. Dollars)

	2021	2022					2023	2024	2025	2026	2027
		Q1	Q2	Q3	Q4	Year					
Imports G&S	72,362	21,842	26,684	26,062	19,908	94,497	90,407	90,419	90,339	92,133	95,166
FDI payments	1,363	421	751	803	858	2,832	1,534	1,513	1,513	1,513	1,513
Interest federal government	1,201	574	242	625	296	1,737	2,556	3,155	3,425	3,663	3,983
to IFIs (excl IMF)	624	123	114	185	226	648	1,207	1,281	1,369	1,458	1,457
to private creditors FX	122	435	2	428	7	872	1,246	1,791	1,986	2,137	2,455
to private creditors AR$	455	16	126	12	62	218	103	83	71	68	71
Interest provincial government	381	245	175	421	197	1,039	951	1,008	943	834	764
Amortization federal government	4,883	1,847	1,095	1,593	798	5,332	3,496	4,022	6,652	6,828	6,853
to IFIs (excl IMF)	2,434	970	438	660	633	2,700	2,417	2,550	2,520	2,405	2,070
to private creditors FX	10	0	0	0	12	12	8	695	3,480	3,676	4,162
to private creditors AR$	2,439	877	657	933	153	2,621	1,071	777	652	746	620
Amortization provincial government	467	170	76	49	157	452	1,074	1,558	2,225	2,193	2,165
Debt service to IMF	5,128	3,802	3,801	5,175	5,974	18,752	20,128	6,858	2,315	3,453	7,080
Other outflows (net)	13,867	3,956	573	474	5,856	10,860	15,768	15,724	18,035	20,271	22,194
of which NFA formation (incl. tourism outflows)	6,461	3,094	1,412	2,198	5,907	12,611	16,457	15,603	13,709	15,387	16,197
of which private sector net debt payments	2,888	376	-1,703	-2,703	-1,103	-5,134	-4,957	-4,691	-2,515	-2,448	-2,478
of which trade credits	-1,342	-1,031	-200	-200	-200	-1,633	-1,439	-1,435	-1,470	-1,492	-1,545
Total Needs	**99,651**	**32,857**	**33,398**	**35,202**	**34,044**	**135,501**	**135,912**	**124,257**	**125,448**	**130,889**	**139,718**
Exports G&S	87,415	22,453	28,060	25,835	26,013	102,361	105,507	104,917	107,821	110,931	115,264
FDI Inflows	6,534	3,563	2,274	2,002	2,509	10,349	11,196	13,467	13,142	13,269	13,810
Borrowing of federal government	5,516	824	1,002	2,184	2,411	6,420	5,041	5,313	8,054	10,007	11,883
from IFIs (excl IMF)	3,506	305	483	1,666	1,893	4,347	3,789	4,218	4,591	4,241	4,241
from private creditors FX	0	17	17	17	17	67	78	234	2,740	4,952	6,951
from private creditors AR$	2,010	502	502	502	502	2,006	1,174	860	723	814	692
Borrowing of provincial government	0	71	174	213	144	602	867	786	1,012	1,265	1,761
Reserve Drawdown (- = accumulation)	105	-3,709	-2,121	4,969	-7,125	-7,986	-2,656	-3,454	-4,581	-4,583	-3,000
Memo item: adjusted reserve drawdown (- = accumulation) 1/	105	-1,234	-1,512	257	-2,401	-4,889	-4,390	-4,790	-4,581	-4,583	-3,000
Total Sources	**99,651**	**23,202**	**29,389**	**35,202**	**23,952**	**111,745**	**119,954**	**121,029**	**125,448**	**130,889**	**139,718**
Total Gap	**0**	**9,655**	**4,009**	**0**	**10,092**	**23,757**	**15,958**	**3,229**	**0**	**0**	**0**
IMF Disbursements	0	9,656	4,009	0	10,092	23,757	15,958	3,229	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 considered for program monitoring purposes (NIR per the program definition, in FX cash, at program exchange rates) differs from reserve accumulation in accrual (as show n in the BoP tables), as the BoP tables are on a residency basis, in accrual terms and current exchange rates.

1/ Adjusted gross reserves correspond to gross reserves excluding IMF disbursements for future principal repayments.

Table 9. Argentina: Federal Government Debt by Creditor, 2015–2022 1/

	2015	2016	2017	2018	2019	2020	2021	End-Aug 2022
				(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**	**381.0**
Debt held by Official and Private Creditors	**102.9**	**129.3**	**165.1**	**206.0**	**206.5**	**218.8**	**224.3**	**226.6**
Official Sector	*29.0*	*28.1*	*29.6*	*57.9*	*73.4*	*76.6*	*72.8*	*73.7*
Multilateral	19.8	20.2	21.3	51.0	68.0	71.1	68.0	69.5
IMF	-	-	-	28.3	44.1	46.0	41.0	42.6
Other IFIs	19.8	20.2	21.3	22.8	23.9	25.1	27.1	27.0
Bilateral	9.3	7.9	8.3	6.9	5.4	5.5	4.8	4.1
Paris Club	7.5	6.0	5.5	3.7	2.1	2.4	1.9	1.5
Non-Paris Club	1.7	1.8	2.8	3.2	3.3	3.1	2.9	2.6
Private Sector 2/	*74.0*	*101.3*	*135.5*	*148.0*	*133.1*	*142.3*	*151.5*	*152.9*
Foreign Law	25.0	46.5	67.2	64.9	66.6	68.5	67.7	67.2
Bonds with new contractual clauses	-	21.9	41.3	40.4	41.2	43.5	42.8	42.4
Bonds with old contractual clauses	25.0	24.6	25.8	24.6	24.3	25.0	24.8	24.4
Other	0.0	0.0	0.0	0.0	1.1	0.1	0.1	0.4
Domestic Law	31.0	46.3	65.5	80.3	64.1	71.3	81.2	83.2
FX denominated	19.3	25.6	41.1	45.4	27.6	23.3	26.2	25.5
ARS denominated	11.7	20.7	24.4	34.8	36.5	48.0	55.0	57.7
Pending Restructuring from 2005/10 3/	18.0	8.5	2.9	2.8	2.4	2.5	2.6	2.6
Debt Held by the Public Sector 4/	**137.7**	**146.1**	**155.8**	**126.2**	**116.9**	**116.9**	**140.3**	**154.4**
				(Percent of GDP)				
Total Gross Federal Government Debt	**52.6**	**53.1**	**56.5**	**85.2**	**88.8**	**102.8**	**80.9**	**77.6**
Debt held by Official and Private Creditors	**22.5**	**24.9**	**29.1**	**52.8**	**56.7**	**67.0**	**49.8**	**46.1**
Official Sector	*6.3*	*5.4*	*5.2*	*14.9*	*20.2*	*23.4*	*16.2*	*15.0*
Multilateral	4.3	3.9	3.8	13.1	18.7	21.8	15.1	14.2
IMF	-	-	-	7.2	12.1	14.1	9.1	8.7
Other IFIs	4.3	3.9	3.8	5.8	6.6	7.7	6.0	5.5
Bilateral	2.0	1.5	1.5	1.8	1.5	1.7	1.1	0.8
Paris Club	1.6	1.2	1.0	1.0	0.6	0.7	0.4	0.3
Non-Paris Club	0.4	0.3	0.5	0.8	0.9	0.9	0.6	0.5
Private Sector 2/	*16.2*	*19.5*	*23.9*	*38.0*	*36.6*	*43.6*	*33.6*	*31.1*
Foreign Law	5.5	9.0	11.8	16.7	18.3	21.0	15.0	13.7
Bonds with new contractual clauses	-	4.2	7.3	10.4	11.3	13.3	9.5	8.6
Bonds with old contractual clauses	5.5	4.7	4.6	6.3	6.7	7.6	5.5	5.0
Other	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.1
Domestic Law	6.8	8.9	11.5	20.6	17.6	21.8	18.0	16.9
FX denominated	4.2	4.9	7.2	11.7	7.6	7.1	5.8	5.2
ARS denominated	2.6	4.0	4.3	8.9	10.0	14.7	12.2	11.7
Pending Restructuring from 2005/10 3/	3.9	1.6	0.5	0.7	0.7	0.8	0.6	0.5
Debt Held by the Public Sector 4/	**30.1**	**28.1**	**27.4**	**32.4**	**32.1**	**35.8**	**31.1**	**31.4**
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	168.9
(percent of GDP)	19.9	20.9	24.8	43.9	46.7	52.3	37.6	34.4
Debt held by private sector nonresidents	34.6	63.9	100.0	103.2	82.5	76.1	74.0	70.0
(percent of GDP)	7.6	12.3	17.6	26.5	22.7	23.3	16.4	14.3
Provincial Debt	20.7	28.4	35.6	29.1	26.6	26.6	26.9	...
(percent of GDP)	4.5	5.5	6.3	7.5	7.3	8.1	6.0	...

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 (estimated for 2021 and staff's projection for 2022).

2/ Private sector includes Banco Nacion and other public entities.

3/ 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.

4/ Public sector include BCRA and FGS.

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

	In millions of US dollars					In percent of GDP				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Net IIP	**17,332**	**65,630**	**115,268**	**121,514**	**122,117**	**2.7**	**12.6**	**26.2**	**32.0**	**25.4**
Direct Investment	-39,770	-30,362	-27,629	-43,334	-56,476	-6.3	-5.8	-6.3	-11.4	-11.7
Equity and Investment Fund Shares	-15,976	-6,626	-4,696	-12,501	-25,365	-2.5	-1.3	-1.1	-3.3	-5.3
Debt Instruments	-23,794	-23,735	-22,933	-30,833	-31,111	-3.7	-4.5	-5.2	-8.1	-6.5
Portfolio Investment	-97,130	-52,404	-2,527	9,984	17,760	-15.3	-10.0	-0.6	2.6	3.7
Equity and Investment Fund Shares	13,039	22,433	31,844	37,476	46,810	2.1	4.3	7.2	9.9	9.7
Debt Securities	-110,169	-74,838	-34,371	-27,492	-29,050	-17.3	-14.3	-7.8	-7.2	-6.0
Financial Derivatives	-3,451	-1,296	-543	-128	-397	-0.5	-0.2	-0.1	0.0	-0.1
Other Investment	102,628	83,906	101,118	115,605	121,567	16.2	16.1	22.9	30.5	25.3
Other Equity	2,806	3,074	3,223	3,364	3,520	0.4	0.6	0.7	0.9	0.7
Debt Instruments	99,823	80,832	97,896	112,241	118,047	15.7	15.5	22.2	29.6	24.5
Reserve Assets	55,055	65,786	44,848	39,387	39,662	8.7	12.6	10.2	10.4	8.2
Assets	**337,123**	**377,521**	**399,273**	**399,280**	**417,507**	**53.1**	**72.2**	**90.6**	**105.2**	**86.8**
Direct Investment	40,930	42,228	42,829	40,985	42,452	6.4	8.1	9.7	10.8	8.8
Equity and Investment Fund Shares	40,930	42,228	42,829	40,985	42,452	6.4	8.1	9.7	10.8	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	80,460	9.4	11.6	15.7	18.3	16.7
Equity and Investment Fund Shares	38,806	33,370	39,500	41,808	51,737	6.1	6.4	9.0	11.0	10.8
Debt Securities	20,599	27,419	29,794	27,607	28,724	3.2	5.2	6.8	7.3	6.0
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	254,932	28.6	39.9	55.0	65.7	53.0
Other Equity	2,806	3,074	3,223	3,364	3,520	0.4	0.6	0.7	0.9	0.7
Debt Instruments	178,927	205,631	239,066	246,111	251,412	28.2	39.4	54.3	64.8	52.2
Reserve Assets	55,055	65,786	44,848	39,387	39,662	8.7	12.6	10.2	10.4	8.2
Liabilities	**319,791**	**311,891**	**284,004**	**277,766**	**295,390**	**50.3**	**59.7**	**64.4**	**73.2**	**61.4**
Direct Investment	80,700	72,589	70,458	84,319	98,928	12.7	13.9	16.0	22.2	20.6
Equity and Investment Fund Shares	56,906	48,854	47,525	53,486	67,817	9.0	9.3	10.8	14.1	14.1
Debt Instruments	23,794	23,735	22,933	30,833	31,111	3.7	4.5	5.2	8.1	6.5
Portfolio Investment	156,535	113,193	71,821	59,432	62,700	24.6	21.7	16.3	15.7	13.0
Equity and Investment Fund Shares	25,767	10,937	7,656	4,333	4,926	4.1	2.1	1.7	1.1	1.0
Debt Securities	130,768	102,257	64,165	55,099	57,774	20.6	19.6	14.6	14.5	12.0
Financial Derivatives	3,451	1,309	554	145	397	0.5	0.3	0.1	0.0	0.1
Other Investment	79,105	124,799	141,170	133,870	133,365	12.5	23.9	32.0	35.3	27.7
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	133,365	12.5	23.9	32.0	35.3	27.7
Memorandum items										
Debt liabilities	233,667	250,791	228,269	219,802	222,250	36.8	48.0	51.8	57.9	46.2

Sources: National authorities and Fund staff estimates.

Table 11. Argentina: Financial Soundness Indicators, 2015–2022

	2015	2016	2017	2018	2019	2020	2021	2022Q2
	(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	25.6	27.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.4	15.2	14.1	14.2	15.5	22.3	24.1	26.5
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-3.2	-2.5	-3.0	-2.4	0.3	-4.4	-1.2	-1.2
Non-performing Loans to Total Gross Loans	1.7	1.8	1.8	3.1	5.7	3.9	4.3	3.2
Earnings and Profitability								
Return on Assets	4.1	3.6	2.7	4.1	5.4	2.4	1.1	1.0
Return on Equity	32.4	29.6	23.4	36.1	46.4	16.4	6.9	5.8
Liquidity								
Liquid Assets to Total Assets (Liquid Asset Ratio)	34.3	36.4	30.0	41.8	43.2	48.0	50.6	-
Liquid Assets to Short Term Liabilities	53.4	54.0	45.5	60.1	62.0	69.2	78.7	-
Net Open Position in Foreign Exchange Capital	21.8	18.6	11.1	9.4	8.0	12.4	12.0	-
Private Banks								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	13.7	15.1	15.3	16.8	19.5	25.5	27.0	28.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.8	13.4	13.4	14.4	16.9	23.0	25.1	27.1
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-3.5	-2.9	-2.4	-0.6	-2.1	-6.2	-2.6	-2.2
Non-performing Loans to Total Gross Loans	1.5	1.6	1.8	3.1	4.4	2.2	2.9	1.9
Earnings and Profitability								
Return on Assets	4.1	3.7	3.2	4.2	7.5	2.7	1.3	0.9
Return on Equity	31.2	29.4	26.6	35.6	60.3	2.7	1.3	0.9
Public Banks								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	12.3	19.5	16.2	14.7	13.6	21.9	23.2	26.2
Regulatory Tier 1 Capital to Risk-Weighted Assets	11.6	18.7	15.4	14.1	13.0	21.3	22.6	25.6
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-2.9	-2.4	-4.7	-6.3	4.9	-0.7	1.3	0.5
Non-performing Loans to Total Gross Loans	2.0	2.2	1.6	2.7	7.8	6.6	6.5	5.3
Earnings and Profitability								
Return on Assets	4.0	3.5	2.0	4.0	2.0	2.1	0.9	1.3
Return on Equity	34.8	30.3	18.5	38.6	20.2	17.2	6.4	8.8

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

Table 12. Argentina: Indicators of Fund Credit, 2022–2032

	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/	6,003.4	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	52,545.4
GRA charges 1/	218.7	934.8	901.1	910.1	908.8	863.5	749.7	601.8	450.7	299.0	149.1	6,987.3
GRA surcharges 1/	186.4	803.7	768.2	777.8	776.4	728.7	608.9	453.6	294.6	135.1	10.3	5,543.7
of which level-based	132.0	535.8	512.1	518.5	517.6	485.8	405.9	302.4	196.4	90.1	6.9	3,703.6
time-based	54.4	267.9	256.1	259.3	258.8	242.9	203.0	151.2	98.2	45.1	3.4	1,840.2
GRA service charge 1/	37.5	60.0	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	109.6
SDR assessments and charges 1/	7.7	33.6	33.6	33.5	33.6	33.6	33.6	33.5	33.6	33.6	33.6	343.2
Total debt service 1/	6,453.7	15,135.5	5,127.5	1,721.4	2,552.1	5,125.8	6,442.1	6,408.0	6,097.9	5,786.7	4,678.7	65,529.2
(in percent of exports of G&S)	8.7	20.0	6.9	2.2	3.2	6.18	7.35	6.92	6.23	5.77	4.56	
(in percent of GDP)	1.4	3.2	1.1	0.4	0.6	1.08	1.30	1.24	1.14	1.04	0.81	
(in percent of GIR)	19.5	43.3	13.7	4.2	5.8	11.1	12.1	10.8	9.1	8.1	6.3	
(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)	7.5	6.9	6.9	7.1	6.8	5.8	4.5	3.3	2.2	1.2	0.4	
(in percent of GIR)	103.5	94.1	85.2	78.3	70.6	59.7	42.4	29.0	17.7	9.1	2.8	
Memorandum items:												
Exports of goods and services (US$ mn)	103,462	105,212	104,007	107,969	110,913	115,266	121,840	128,789	136,135	139,356	142,654	
Gross International Reserves (US$ mn)	45,957	48,614	52,068	56,649	61,232	64,232	73,824	82,488	93,388	99,911	102,598	
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: Schedule of Reviews and Purchases

Available on or after	Original Amounts SDR millions	% Quota	Conditions 1/
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. Application of the Sovereign Risk and Debt Sustainability Framework

Table 1. Argentina: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	**High**	Despite 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 continue to be high.
Near term 1/	n.a	n.a	Not applicable.
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	Moderate	…	
GFN	Moderate	…	
Stress test	…	…	
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.
Sustainability assessment 2/	Sustainable but not with high probability	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 indicates high risks to this assessment.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

The 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, unchanged from the first review. The GFN module shows moderate risk, broadly in line with the first review, including because vulnerabilities are contained somewhat by the 2020 restructuring and expectations of financing from less risky creditors. The debt fanchart signal also indicates moderate risk, as at the first review. Importantly, the continued high/moderate borderline result is largely due to the very wide fan chart, reflecting Argentina's history of high volatility. Over the longer-term, fanchart analysis points to debt sustainability (albeit with substantial risks) and there are high risks of a renewed round of sovereign stress as Argentina needs to re-enter international debt markets. Moreover, projected long-term debt and debt service metrics remain above the targets set out in the March 2020 Technical Note on Debt Sustainability (consistent at the time with sustainable debt with hih probability) - another indication that buffers remain limited.

Risks to the updated baseline are exceptionally high, reflecting Argentina's exposure to shocks, significant uncertainty around the evolution of external conditions, and policy implementation risks. In this context, the assessment of moderate risk of sovereign distress in the medium term hinges critically on the steadfast implementation of macroeconomic and structural policies under the Fund program. Latent structural vulnerabilities remain including: the low and undiversified export base, thin domestic capital markets, high shares of foreign currency and non-resident debt, and contingent liabilities from provinces' FX debt and central bank balance sheet weaknesses. In this context, sustained fiscal consolidation, including beyond the program, along with efforts to deepen domestic capital markets and boost exports and productivity, remain essential to mobilize domestic saving, strengthen reserves, and improve prospects of international market access, which in turn would strengthen debt-servicing capacity.

Source: Fund staff.
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/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

A. Assessment of Debt Sustainability

1. Staff assesses that Argentina's debt is "sustainable, but not with high probability". This assessment is based on three tools: (i) Debt Fanchart analysis that provides information on the prospects for debt stabilization: (ii) a GFN Financeability module which indicates whether rollover risks are at acceptable levels; and (iii) a crisis prediction model which gives a probability of unsustainable debt (e.g., events involving sovereign default and restructuring). Staff's judgment is also informed by other important elements which, in this case, includes the results of a 10-year Debt Fanchart, and an updated assessment of whether federal government debt and debt service (excluding intra-public sector debt obligations to the central bank, BCRA, and the social security trust fund, FGS) remains manageable over the medium- to long-term.[1] The assessment is also predicated on the steadfast implementation of prudent macroeconomic policies included in staff's baseline, consistent with the resumption of international market access in 2025 and a gradual unwinding of capital controls.

B. Medium-Term Risk Analysis

2. The GFN Financeability Module continues to point to moderate risk. Baseline GFNs average around 13 percent of GDP over the 2022-27 period, slightly below the first review. This largely reflects the authorities' updated financing strategy, which relies on the greater use of longer-maturity instruments linked to inflation (CER), and in contrast to fixed rate securities, would help contain the interest bill in the context of the programed medium-term disinflation path.[2] At end-May 2022, banks' exposures to government debt were moderate and generally unchanged at around 15 percent of banking system assets. The GFN index was also broadly unchanged, indicating continued space for banks to finance the government, including in stressed conditions. However, Argentina' low export base, small banking sector (assets of 40 percent of GDP) and weak policy credibility and uncertainties (which may intensify ahead of the 2023 Presidential Elections) are key vulnerabilities for absorbing GFNs, while historical volatility tends to translate into large macroeconomic shocks — another important risk factor. In the near to medium-term these risks are mitigated by the lack of new debt issuances to foreign private creditors, the large share of FX debt that is held by IFIs, the large share of overall debt held by the intra-public sector, and capital controls. In the stress scenario, the domestic banking sector would have to use an extra 14 percent of assets to absorb residual issuances. That said, financing needs and risks could increase further if the favorable structure of new debt issuances in the baseline fails to materialize, efforts to rein-in inflation prove unsuccessful, and global financial conditions tighten faster than anticipated.

[1] The March 2020 Staff Technical Note on Public Debt Sustainability set out indicative targets for projected debt and debt service, excluding obligations to the BCRA and FGS, at the time consistent with an assessment of sustainable debt with high probability.

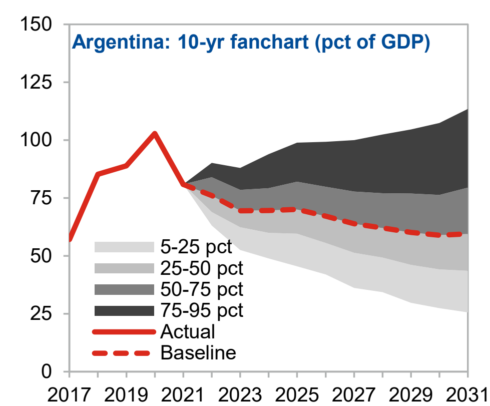
[2] CER is the *Coeficiente de Estabilización de Referencia* (the Reference Stabilization Coefficient).

3. The debt fanchart module points to moderate risk of sovereign stress, although it remains close to the border with high risk. Public debt is projected to decline from around 81 percent of GDP at end-2021 to 64 percent of GDP by end-2027—somewhat higher than at the first review, reflecting mainly revised debt data and lower projected growth during 203-24. The probability of debt stabilization under the baseline continues to be high (above 99 percent). Projected institutions-adjusted median debt level in 2026 remains around 45 percent of GDP, with only a modest contribution to the overall risk index. Uncertainty as proxied by the fanchart width, remains high at around 65 percent, in line with the first review, indicating a strong possibility that the debt trajectory could diverge significantly from the baseline.

4. The overall medium-term index (MTI) continues to indicate moderate risks. The MTI index is 0.35, in line with the first review, and still close to the high-risk threshold. At this level, predictions of stress events with false alarms have a 21 percent probability, while predictions of missed crises have a 27 percent probability. Thus, the mechanical signal continues to be of moderate sovereign stress risk, with a trend of recent improvement, reflecting the effects of the 2020 debt restructuring, and assumed implementation of program policies. However, uncertainty around the baseline and diverging developments in the signals from the two underlying modules constitute important risks to this assessment. Furthermore, the high probability of debt stabilization may be distorted by negative real interest rates, reflecting the current situation of strict capital controls and high inflation (notwithstanding the prevalence of inflation-linked debt).

C. Longer-Term Risk Analysis

5. A long-term fanchart analysis points to debt sustainability, albeit with substantial risks. The probability of debt stabilization in a fanchart ending in 2031 is around 60 percent, broadly unchanged from the first review. While this is lower than in the 5-year horizon it is sufficiently high to be consistent with debt sustainability, although with substantial risks. In the long term, Argentina will need to refinance maturing debt obligations from the 2020 debt restructuring as well as Fund repurchases, likely at less favorable financing term. Capacity to repay will depend on successful IMF program implementation and re-accessing international private credit markets.



6. Moreover, while debt (and debt service) held by the official and private sectors is projected to remain manageable in the medium- to long-term, buffers are limited. The March 2020 Technical Note set indicative targets, which were set consistent at the time with an assessment of sustainable debt with high probability. As at the first review, federal debt (excluding debt held by the BCRA and FGS) would fall close to the 40 percent of GDP, and *FX debt service* would stabilize at 3.2 percent of GDP during 2025-30, consistent with cashflow relief from the 2020 restructuring and the extension of maturities under the EFF. While projected debt and FX debt service remain close to the respective thresholds, overall *GFNs* are still projected to average around 7.5 percent of GDP during 2025-2030, over 2 ppts above the March Technical Note target. This points to the limited buffers available, and the large and sustained domestic financing assumed in the program baseline, which could become challenging in the context of a gradual easing of capital flow measures. In this context, strengthening domestic debt management remains critical.

Box 1. SRDSF Key Macroeconomic and Financing Assumptions

The SRDSF reflects the updated program baseline, which maintains the same core objectives of fiscal consolidation, reserve accumulation, peso market development, and eventual easing of CFMs with re-access to international capital markets. Assumptions continue to depend on the successful tightening of macroeconomic policies to entrench stability and growth-enhancing reform.

Macroeconomic assumptions

- *Real GDP growth* is projected to moderate to 4.0 percent in 2022 and to 2 percent in 2023 and 2024, down 0.5 percentage points from the first review due to the weaker global environment and domestic uncertainties. Potential growth also remains at 2 percent, in line with average growth in the past 20 years.
- *Inflation (eop)* is projected to rise to 90-100 percent (mid-point 95 percent) in 2022, around 40 percentage points higher than at the first review, before falling to around 60 percent in 2023 and 45 percent in 2024.
- The *REER* is projected to remain broadly unchanged for the remainder of 2022, with a gradual real depreciation through 2025 to reach average 2021 levels, consistent with medium-term fundamentals.
- The *primary fiscal deficit* path is projected to fall steadily from 2.5 percent of GDP in 2022 to 0.9 percent of GDP in 2024, with further consolidation required to reach a 1.3 percent of GDP surplus by 2027.
- *Capital flow management measures (*CFMs) are assumed to remain in place through the program (albeit with targeted easing in key sectors), limiting outflows and supporting the BoP. As reserve coverage improves, CFMs could be gradually eased, consistent with a return to international markets in 2025.

Financing assumptions

- *External official financing and market access*.
  - Annual *official* net financing is somewhat lower than previously assumed (by US$150 million in 2022 and US$600 million in 2023), reflecting delays on project financing from bilateral creditors due to technical factors. Annual net financing from MDBs remains broadly unchanged at 0.3 percent of GDP through 2024, and over the medium term. The *IMF EFF* provides positive net financing in 2022 (0.8 percent of GDP), with zero net financing thereafter.
  - Following resumption of negotiations with the *Paris Club*, with the aim of reaching agreement in the coming months, Argentina's repayment of the outstanding 2014 legacy debt is assumed by end-2026.
  - Debt service on FX-denominated debt to the *foreign private sector* is assumed to follow the 2020 restructuring schedule, with modest new issuance in international markets from 2025 onwards.
- *Monetary financing*. Consistent with the authorities' policy announcement, *BCRA transfers* will be limited to 0.8 percent of GDP in 2022, and fall further to 0.6 percent of GDP in 2023, and are zero from 2024 onwards.
- *Peso market financing*. The baseline assumes the continued rebuilding of confidence in the peso market, following the episode of disorderly conditions in June-July. Peso market financing is projected to be somewhat higher during the program period, averaging 2.7 percent of GDP, consistent with average annual rollover rates of around 145 percent. Given higher inflation and slower disinflation path, the updated financing strategy maintains reliance on short-term fixed rate instruments and inflation (CER)-linkers in the near term, with issuance of longer term-CER linkers from 2024 onwards and a more gradual shift to fixed rate issuances over the medium to long-term. Domestic real interest rates are assumed to gradually rise from 2 percent in 2022 to 4½ percent by 2028, consistent with a gradual unwinding of capital controls and the cost of accessing international markets.

Table 2. Argentina: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	No	Excludes FGS/ANSES liabilities
				4	State governments	No	Excludes state govt liabilities
				5	Local governments	No	Excludes local govt liabilities
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

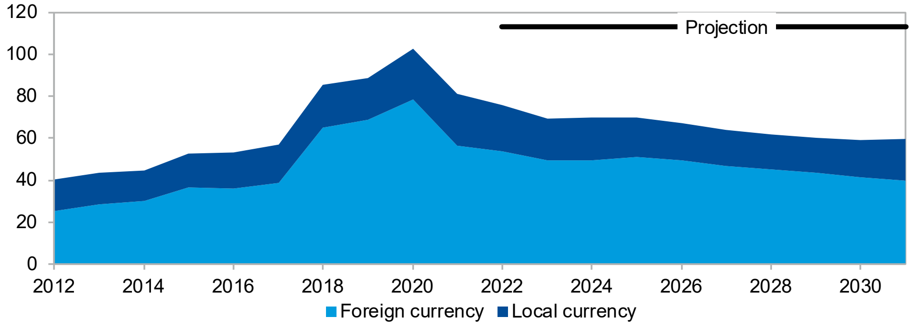
					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is gross federal (central government) debt held by the private, official and public sectors. The DSA does not include GDP warrants, debt of the provinces or municipalities, or debt of the central bank. Staff does not judge the exclusion of provincial debt as a signifcant contingent liability risk, as demonstrated by the federal government's non-bailout approach to the recent provincial debt restructuring. Under a risk-based approach, central bank liabilities, including central bank swaps, are not included, as long as: (i) they represent normal 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) (SM/20/169). While Argentina has drawn on one central bank bilateral FX swap, the drawn amount is below the 1 percent of GDP de minimis threshold. Nevertheless, the central bank’s weak balance sheet is a key contingent liability, necessitating a strategy to strengthen both its finances and governance. With the help of IMF technical assistance, the BCRA is conducting an initial assessment of the underlying condition of the balance sheet, based on internationally recognized accounting standards, which will inform contingent liability analysis in the SRDSA at future program reviews.

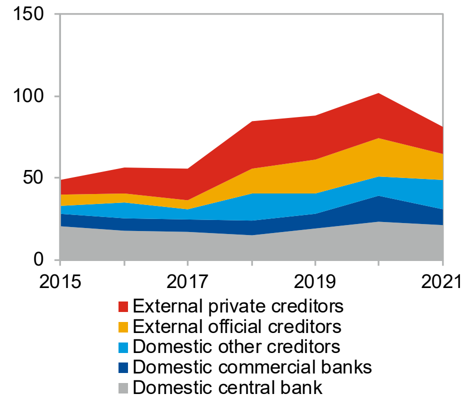
Table 3. Argentina: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



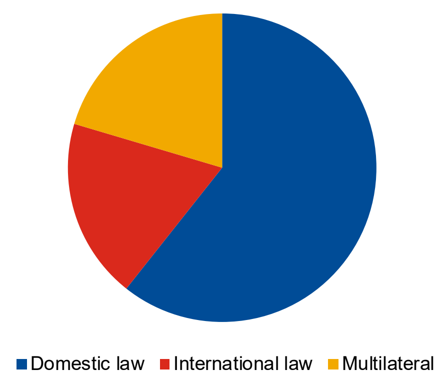
Note: The perimeter shown is central government.

Public debt by holder (percent of GDP)



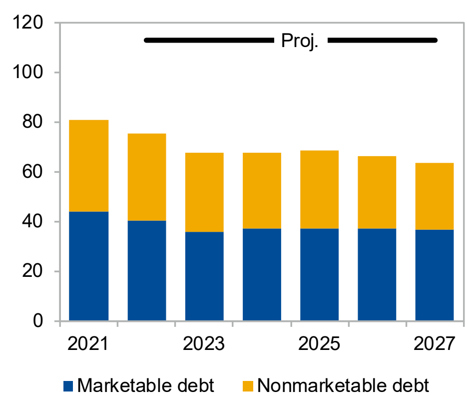
Note: The perimeter shown is central government.

Public debt by governing law, 2021 (percent)



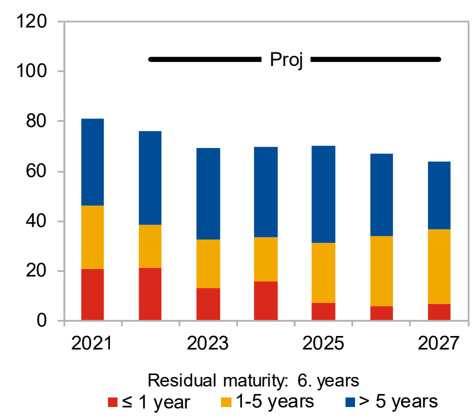
Note: The perimeter shown is central government.

Debt by instruments (percent of GDP)



Note: The perimeter shown is central government.

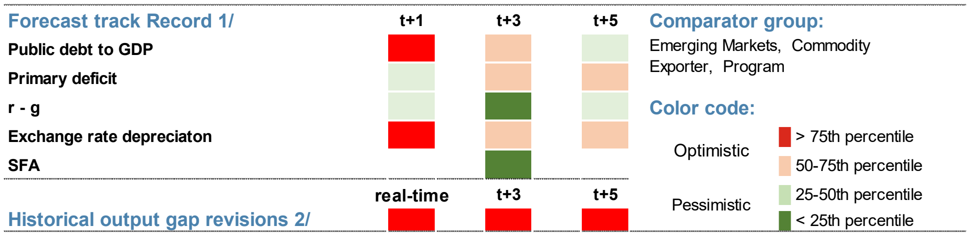
Public debt by maturity (percent of GDP)



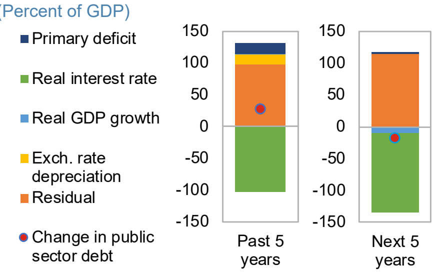
Note: The perimeter shown is central government.

Commentary: Foreign-currency denominated debt will continue to dominate over the long term, but its share is expected to fall as ambitious domestic peso market development facilitates the repayment of official creditors, including the IMF, and private external creditors (notwithstanding resumption of modest access to international capital markets from 2025 onwards). In the near term, and while inflation is high and unanchored, the financing strategy assumes reliance on short-term fixed rate instruments and inflation (CER)-linkers, with an increase in maturity envisaged over the medium term. The large share of FX debt is held by IFIs, and the large share of overall debt held by the intra-public sectors (including non-marketable instruments), mitigates rollover risks.

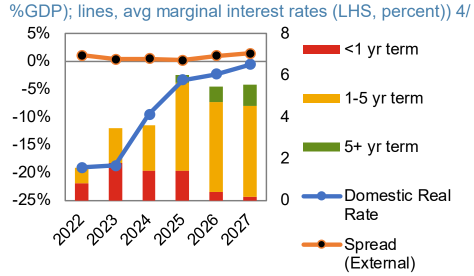
Table 4. Argentina: Realism of Baseline Assumptions



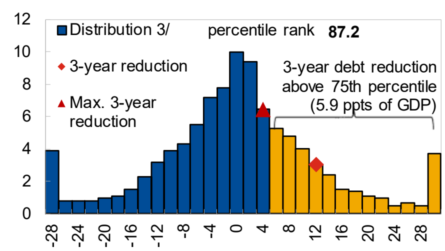
Public Debt Creating Flows
(Percent of GDP)



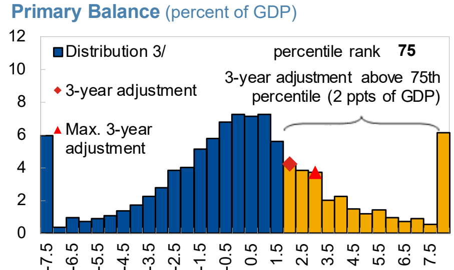
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent)) 4/



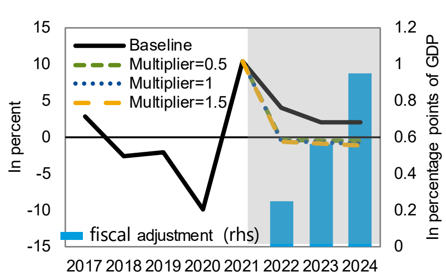
3-Year Debt Reduction
(Percent of GDP)



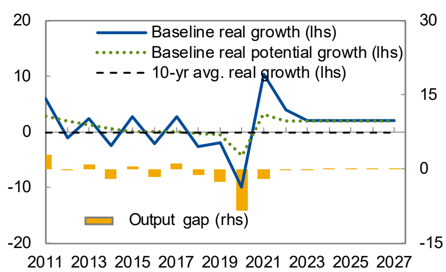
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth
(in percent)



Commentary: Forecast track record analysis point to baseline optimism, particularly the debt reduction and exchange rate paths, in line with the staff assessment that risks to the baseline remain exceptionally high. Argentina's extreme economic volatility makes it difficult to achieve high forecast accuracy over long periods of time. Moreover, the program baseline assumes a significant and sustained macroeconomic adjustment to address underlying imbalances and help Argentina emerge from its prolonged period of crisis. Envisaged fiscal consolidation appears relatively optimistic, but the projected consolidation is broadly in line with other EM post-debt restructuring episodes over the last 20 years. Bond issuance analysis reflects the program objectives of developing the peso market, including a gradual increase in maturity and a rise in real interest rates, also consistent with resumption of international market access from 2025 onwards, with modest initial issuances. While projected growth is optimistic relative to the 10-year average (reflecting recent volatility and crises), it is in line with the 20-year average, though this depends on entrenching stability and growth-enhancing reforms.

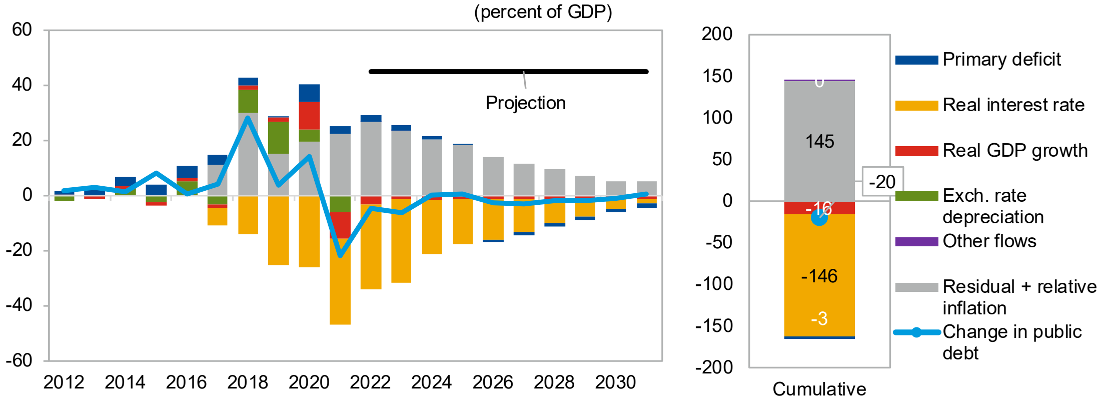
Source : IMF Staff.
1/ Projections made in the October and April WEO vintage.
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
4/ Bond issuances include all bonds (external and domestic). Real interest rates on domestic issuances are calculated by subtracting GDP deflator growth from nominal marginal interest rates on issuances. For external issuances, spreads with the 10-year US Treasury rates are calculated.

Table 5. Argentina: Baseline Scenario
(Percent of GDP, Unless Indicated Otherwise)

	Actual	Medium-term projection						Extended projection			
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Public debt	80.9	76.0	69.5	69.6	70.0	67.1	63.8	62.0	60.1	58.9	59.5
Change in public debt	-21.9	-4.9	-6.5	0.1	0.4	-2.9	-3.3	-1.8	-1.9	-1.2	0.5
Contribution of identified flows	-21.5	-10.4	-8.4	-5.1	-4.8	-4.2	-3.9	-2.7	-1.8	-0.7	-0.2
Primary deficit	3.0	2.5	1.9	0.9	0.0	-0.8	-1.3	-1.3	-1.3	-1.3	-1.3
Noninterest revenues	25.9	25.7	24.9	25.7	26.5	27.1	27.5	27.5	27.5	27.5	27.5
Noninterest expenditures	29.0	28.2	26.8	26.7	26.5	26.4	26.2	26.2	26.2	26.2	26.2
Automatic debt dynamics	-24.5	-13.0	-10.4	-5.9	-4.9	-3.5	-2.6	-1.5	-0.5	0.6	1.0
Int. rate-growth differential	-40.8	-34.0	-31.9	-21.1	-17.8	-16.1	-13.4	-10.1	-7.8	-4.8	-3.1
Real interest rate	-31.2	-30.9	-30.3	-19.7	-16.4	-14.7	-12.1	-8.8	-6.5	-3.7	-2.0
Real growth rate	-9.7	-3.1	-1.5	-1.4	-1.4	-1.4	-1.3	-1.3	-1.2	-1.2	-1.2
Real exchange rate	-6.1	…	…	…	…	…	…	…	…	…	…
Relative inflation	22.4	21.0	21.5	15.2	12.9	12.6	10.8	8.6	7.2	5.4	4.2
Other identified flows	0.0	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.4 .	5.4	1.9	5.2	5.2	1.3	0.6	0.9	-0.1	-0.5	0.7
Gross financing needs	18.2	17.3	15.5	12.6	14.4	8.7	7.6	9.4	12.2	11.4	13.3
of which: debt service	15.1	14.8	13.6	11.6	14.4	9.5	8.8	10.7	13.4	12.6	14.6
Local currency	10.8	9.7	7.9	7.4	9.9	6.2	4.9	6.0	7.5	6.9	6.1
Foreign currency	4.3	5.1	5.7	4.3	4.5	3.3	4.0	4.7	5.9	5.8	8.5
Memo:											
Real GDP growth (percent)	10.4	4.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	53.9	70.3	76.0	50.4	40.8	37.1	32.1	26.0	22.2	17.3	13.9
Nominal GDP growth (percent)	68.4	76.6	80.0	53.2	43.8	39.8	34.8	28.5	24.7	19.6	14.6
Effective interest rate (percent)	2.4	2.7	4.3	7.0	6.9	7.8	7.8	8.2	9.1	10.0	10.1

Contribution to change in public debt

(percent of GDP)



Staff commentary: Public debt is projected to decline gradually over the medium term and stabilize by 2030, reflecting the baseline assumptions of steadfast program implementation of the Fund-supported EFF. Stable macroeconomic conditions, sustained fiscal consolidation (including beyond the program), along with efforts to further deepen domestic capital markets and boost exports and productivity, remain essential to mobilize domestic saving, strengthen reserves, and improve prospects of international market access, which in turn would strengthen debt-servicing capacity.

Table 6. Argentina: Medium-term Risk Analysis

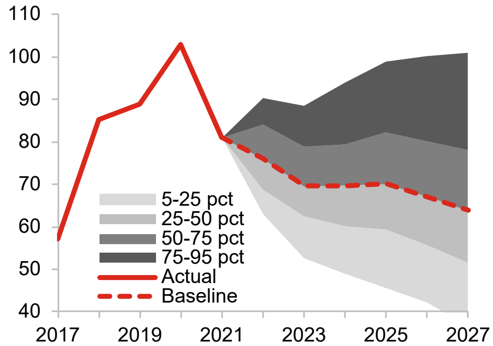
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

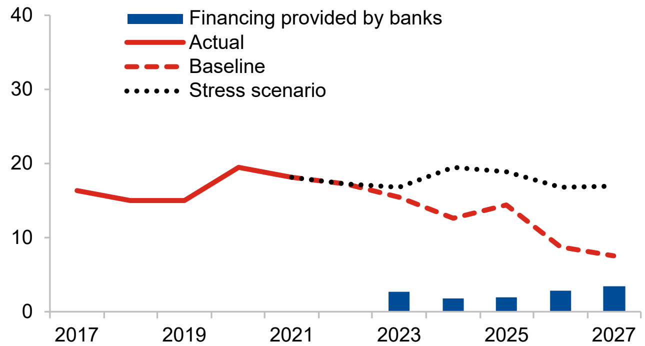
Module	Indicator	Value	Risk index	Risk signal	Emerging Markets, Commodity Exporter, Program
					0 25 50 75 100
Debt fanchart module	Fanchart width	64.1	0.9	…	
	Probability of debt not stabilizing (pct)	0.54	0.0	…	
	Terminal debt level x institutions index	44.6	1.0	…	
	Debt fanchart index	**…**	**1.90**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	12.7	4.3	…	
	Bank claims on government (pct bank assets)	15.3	5.0	…	
	Chg. in claims on govt. in stress (pct bank assets)	13.8	4.6	…	
	GFN financeability index	**…**	**13.9**	**Moderate**	

Legend: Interquartile range; Argentina

Final fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

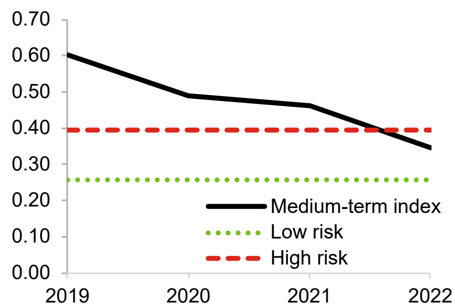


Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.3
Medium-term index (MTI)	0.3	0.4	…	0.3, Moderate

Prob. of missed crisis, 2022-2027 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2022-2027 (if stress predicted): 21.6 pct.

Commentary: Both medium-term tools point to a moderate level of risk, consistent with the first review, but are borderline moderate/high. With respect to the fanchart, the results are driven by the extreme width, which in turn reflects Argentina's history of high volatility. However, the probability of debt stabilization remains above 99 percent. The GFN module shows moderate risk including because vulnerabilities are contained somewhat by the 2020 restructuring and expectations of financing from less risky creditors.

Table 7. Argentina: Decomposition of Public Debt and Debt Service by Creditor, 2022–2024

	Debt Stock (end of period)			Debt Service					
	31-Mar-22			2022[6]	2023	2024	2022	2023	2024
	(In US$ bn)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ bn)*			*(Percent GDP)*		
Total	**373.76**	1.00	59.7%	**106.03**	**66.72**	**35.45**	16.9%	10.4%	5.6%
External	147.98	0.40	23.6%	26.50	24.88	11.30	4.2%	3.9%	1.8%
Multilateral creditors[2,3]	73.55	0.20	11.7%	21.19	21.34	7.36	3.4%	3.3%	1.2%
IMF	46.63	0.12	7.4%	18.89	19.12	5.04	3.0%	3.0%	0.8%
World Bank	8.56	0.02	1.4%	0.43	0.41	0.43	0.1%	0.1%	0.1%
CAF	3.67	0.01	0.6%	0.65	0.57	0.56	0.1%	0.1%	0.1%
ADB/AfDB/IADB	13.93	0.04	2.2%	1.14	1.15	1.23	0.2%	0.2%	0.2%
FONPLATA	0.41	0.00	0.1%	0.05	0.05	0.06	0.0%	0.0%	0.0%
BEI	0.12	0.00	0.0%	0.01	0.01	0.01	0.0%	0.0%	0.0%
BCIE	0.08	0.00	0.0%	0.00	0.00	0.00	0.0%	0.0%	0.0%
Other Multilaterals	0.16	0.00	0.0%	0.02	0.02	0.02	0.0%	0.0%	0.0%
OFID	0.12	0.00	0.0%	0.01	0.02	0.02	0.0%	0.0%	0.0%
FIDA	0.04	0.00	0.0%	0.01	0.01	0.01	0.0%	0.0%	0.0%
o/w: list largest two creditors									
list of additional large creditors									
Bilateral Creditors[2]	4.38	0.01	0.7%	2.51	0.48	0.44	0.4%	0.1%	0.1%
Paris Club	1.49	0.00	0.2%	1.99	-	-	0.3%	0.0%	0.0%
list of additional large creditors									
Non-Paris Club	2.89	0.01	0.5%	0.51	0.48	0.44	0.1%	0.1%	0.1%
o/w: China	2.60	0.01	0.4%	0.44	0.43	0.40	0.1%	0.1%	0.1%
T-Bills	0.61	0.00	0.1%	1.00	0.01	-	0.2%	0.0%	0.0%
Bonds	69.39	0.19	11.1%	1.79	3.04	3.50	0.3%	0.5%	0.6%
Commercial creditors	0.06	0.00	0.0%	0.00	0.01	0.01	0.0%	0.0%	0.0%
o/w: list largest two creditors									
list of additional large creditors									
Other international creditors									
o/w: list largest two creditors									
list of additional large creditors									
Domestic	225.77	0.60	36.0%	79.53	41.84	24.15	12.7%	6.5%	3.8%
T-Bills	94.27	0.25	20.6%	40.89	16.21	11.34	6.5%	2.5%	1.8%
Held by: central bank									
local banks									
local non-banks									
Bonds	105.52	0.28	23.0%	20.20	18.22	12.58	3.2%	2.8%	2.0%
Held by: central bank									
local banks									
local non-banks									
Loans	23.74	0.06	0.0%	18.31	7.30	0.11	2.9%	1.1%	0.0%
Held by: central bank									
local banks									
local non-banks									
Memo items:	2.24	0.01	0.4%	0.13	0.12	0.12			
Collateralized debt[4]	0.78	0.00	0.1%	0.04	0.04	0.04			
o/w: Related									
o/w: Unrelated	0.78	0.00	0.1%	0.04	0.04	0.04			
Contingent liabilities	1.46	0.00	0.2%	0.09	0.08	0.08			
o/w: Public guarantees	1.46	0.00	0.2%	0.09	0.08	0.08			
o/w: Other explicit contingent liabilities[5]									
Nominal GDP			626.34	626.34	644.14	629.11			

Source: IMF staff

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 is 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.

6/ Debt service payment for year 2022 is composed of actual debt service for Q1 and projections for Q2-Q4.

Annex II. Update of Foreign Exchange Regime as it Applies to Exchange Restrictions and Multiple Currency Practices

This Annex provides an update on measures taken with respect to Argentina's FX regime that give rise to exchange restrictions or MCPs subject to Fund jurisdiction under Article VIII since the time of approval of the extended arrangement.[1]

1. Overview. Since end-June 2022, Argentina has taken a number of measures with respect to its foreign exchange regime that give rise to new multiple currency practices, exchange restrictions, and intensify pre-existing exchange restrictions.

2. Measures. More specifically, the key changes fall within the following categories:

- <u>Soy Dollar</u>: Exporters of soybean and derivates can fulfill their surrender requirement by exchanging their dollar receipts at a more preferential exchange rate of 200 pesos per dollar until end-September 2022.[2] Due to the large spread between the preferential exchange rate and the official exchange rate (which trades at around 140 pesos per dollar), which exceeds two percent, this measure constitutes a new multiple currency practice (MCP) subject to Fund jurisdiction.

- <u>Tourist Dollar:</u> Non-resident tourists in Argentina may exchange foreign currency (in an amount up to USD 5000 within the last 30 days) for pesos with domestic commercial banks at preferential exchange rate equivalent to the implicit rate available on the capital market, by selling securities acquired in pesos and settled in foreign currency.[3] Due to the large spread between the rate available for such transactions and the official exchange rate, which exceeds two percent, this measure constitutes a new MCP subject to Fund jurisdiction.

- <u>Imports of Goods and Services</u>: Under Argentina's current regime, importers of goods are subject to a complex system (the "SIMI" system), that sets forth annual limits on the amount of foreign exchange that may be immediately accessed for imports of goods, which gives rise to an exchange restriction subject to Fund jurisdiction.[4] At end-June 2022, the exchange restriction was intensified temporarily until end-December 2022 as follows: (i) the annual limits on undelayed FX access were lowered and ; (ii) FX market access beyond those limits was further restricted for certain import categories subject to non-automatic import licenses (the list of which was also expanded). A similar system of annual limits on the amount of foreign exchange that can be

[1] See March 2022 Argentina Staff Report Annex II. Foreign Exchange Regime as it Applies to Current International Transactions.

[2] Decree 576/22, September 4, 2022.

[3] See Communication A7551

[4] Communication A7466 set limits equal either to 2021 imports plus 5 percent or 2020 imports plus 70 percent.

immediately accessed for payments of imports of services (the "SIMPES" system) was also implemented in June, intensifying restrictions on payments for imports of services.[5]

- Other: Argentina has in place a number of general conditions that must be satisfied to access the official foreign exchange market.[6] The scope of these general conditions was extended in July 2022, i.e. transactions with Argentine Certificates of Deposits Representative Foreign Shares (CEDEARS) instruments were added to the list of capital market transactions that cannot be undertaken 90 days prior to and after access to the official FX market is granted, giving rise to an intensification of a currently existing exchange restriction.[7]

[5] See Communication A7532.

[6] See March 2022 Staff Report Annex.

[7] See Communication A 7552.

Appendix I. Letter of Intent

Buenos Aires, Argentina
September 25, 2022

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

Dear Ms. Georgieva,

Against the backdrop of an increasingly difficult global situation and domestic market turbulence, the new economic team has taken important steps to rebuild credibility and restore macroeconomic stability. Our actions have been accompanied by a reinvigorated commitment to implement the Fund-supported program, which remains a key anchor for economic policy making. We recognize the many challenges facing Argentina yet are determined to continue to take the policy measures necessary—around our pillars of fiscal order and reserve accumulation—to help ensure the Argentine economy returns to a path of more sustainable and inclusive growth.

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) we reaffirm our strengthened commitment to the policies and objectives of the economic program supported by an IMF arrangement under the Extended Fund Facility (EFF), and to meeting the program's targets for the remainder of 2022 and next year, which will remain generally unchanged. Our updated macroeconomic framework takes into account the more difficult global situation and recent domestic developments, along with the implementation of our agreed policy actions. In this regard, we will continue to:

- **Restore fiscal order**, by recent actions to curb expenditures, improving the targeting of subsidies, not just in energy sector, but also in water and in transportation, and re-prioritizing our spending to secure execution of critical investment projects and proper protection of the most vulnerable. These new priorities are also reflected in our Draft 2023 Budget that was submitted to Congress in mid-September (prior action).

- **Address persistent high inflation**, through prudent management of fiscal policy, reduced reliance on monetary financing (below the original 2022 program target), and more consistent implementation of the monetary policy framework that is already delivering sufficiently positive real policy rates. In fact, since end-July, we have decisively raised the policy rate by 2,300 basis points.

- **Strengthen reserve coverage**, through the decisive implementation of our fiscal and monetary policies along with targeted measures to strengthen and improve the composition of the trade balance and efforts to combat abuses in customs. In fact, our recent actions, including the adoption of a temporary incentive to encourage grain sales, are already supporting stronger reserve accumulation. Our policy actions will be complemented by renewed efforts to mobilize external official support, and foreign direct investment.

- **Revitalize our structural agenda**, by focusing on measures to review corporate tax incentives and combat tax evasion and money laundering (AML/CFT framework), including through enhanced international information exchange agreements. Further progress will continue to strengthen public financial management, the peso government debt market, the effectiveness of monetary and FX operations, and the net export potential of strategic sectors, particularly in energy.

On the basis of the steps that we have already taken and commitments for the period ahead, including with respect to the program's targets—critically, our annual fiscal and monetary financing targets will remain unchanged, and in fact tightened in some cases, as a share of GDP—we request completion of the second review, with a disbursement in the amount of SDR 3,000 million. We note that the end-June net international reserves target was missed by a small margin, and as a result the new economic team redoubled efforts to durably accumulate reserves and will report end-September performance when final data become available. We request (i) waivers of nonobservance of the continuous PC on not introducing or modifying multiple currency practices, and the continuous PC on not imposing or intensifying exchange restrictions; (ii) waivers of applicability for the end-September primary fiscal balance and domestic arrears PCs; and (iii) modification of the end-September and end-December 2022 PCs (expressed in nominal terms) on the primary fiscal balance and the stock of domestic arrears mainly to accommodate the impact of higher-than-expected inflation, and the end-December 2022 PC on monetary financing of the fiscal deficit. Regarding net international reserves, while the cumulative reserve accumulation targets through end-2023 remain unchanged (defined in US$), we request modification of the end-December 2022 PC to take into account the more challenging external environment and less favorable terms of trade triggered by the war in Ukraine, and the additional time needed to correct earlier policy setbacks.

We also request completion of the financing assurances review and approval of exchange restrictions and multiple currency practices under Article VIII sections 2 and 3, given that they are temporary, have been imposed for balance of payments reasons and are non-discriminatory in nature. The program will continue to be monitored through quarterly reviews, prior actions, quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

The new economic team is confident that its policies are adequate to achieve the economic, financial, and social objectives and targets of the program and will take any additional measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of any revision contained in the MEFP, 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 commitments herein. Underscoring our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Yours sincerely,

/s/	/s/
Sergio Massa	Míguel Pesce
Minister of Economy of Argentina	President, Central Bank of Argentina

Attachments: Memorandum of Economic and Financial Policies
Update Technical Memorandum of Understanding.

Attachment I. Memorandum of Economic and Financial Policies Update

September 25, 2022

I. Context

1. **In the context of an increasingly complex global backdrop, and following a period of strong market pressures, the new economic team is taking bold steps to restore stability, while redoubling efforts to implement our program.** In the wake of heightened tensions in the government bond and foreign exchange markets in June-July, we have acted decisively to stabilize markets and strengthen credibility. Critical steps have been taken to: (i) restore fiscal order, through a combination of stricter expenditure controls, improved targeting of subsidies, and strengthened revenue compliance; (ii) limit monetary financing of the fiscal deficit below program levels; (iii) mobilize domestic financing, while reducing rollover risks; and (iv) boost international reserves, through targeted actions aimed at improving the trade balance and catalyzing external support from private and official sources. These initial actions have been complemented by a more consistent and forceful application of the monetary and FX policy framework to ensure sufficiently positive real interest rates. Our actions reflect our reinvigorated commitment to implement our economic program and we will continue to take the actions necessary to durably address underlying imbalances and secure more sustainable and inclusive growth.

II. Recent Developments and Program Performance

2. **Economic activity and job creation remain robust.** Following an expansion of 10.4 percent in 2021, the Argentine economy grew at an annual rate of 6.5 percent during S1-2022, driven by strong private consumption and investment. The level of real GDP is already 10.3 percent above pre-pandemic levels, and capacity utilization levels stands at multi-year highs. Meanwhile, unemployment fell to its lowest level since 2015, supported by strong private sector employment growth, with over 350,000 s.a. formal private sector jobs added since end-2020.

3. **The trade surplus has narrowed on account of strong demand and less favorable terms of trade triggered by the war in Ukraine.** The cumulative trade goods balance through August has narrowed to US$ 2.2 billion, as strong export receipts have been more than offset by exceptionally strong goods imports, especially energy, and a deterioration in the services balance. Consistent with strong consumption and investment growth, cumulative import volumes of goods through August grew by 18.7 percent y/y, far outpacing goods export growth (-1.6 percent), which were partly held back due to climate-related factors, with increased energy import volumes the result of reduced domestic hydroelectricity production.

4. **After rising sharply in June-July, domestic market pressures are starting to dissipate.** Tightening global financial conditions and domestic uncertainties, led to sharp rise domestic government bond markets yields, an increase in the gap between the official and parallel exchange

rates, and a loss in international reserves. Since early-August, decisive actions by the new economic team have helped to quickly restore credibility and ease market pressures. Specifically, bond yields are down, the exchange rate gap has fallen near pre-market pressure levels, and central bank intervention in the secondary government bond market and non-deliverable forward market has started to unwind. A contribution of around US$5 billion to the international reserve accumulation thus far in September was due to our successful temporary incentive schemes to increase soy liquidation.

5. In tandem, inflation pressures are beginning to moderate although they remain strong. After peaking at 7.4 percent m/m in July, headline inflation fell to 7.0 percent m/m in August as uncertainties weighing on the price formation process began to fade. This initial reduction was supported by our reinvigorated commitment to strengthen macroeconomic policies, and specifically to implement the monetary and exchange rate policy framework that delivers sufficiently positive real policy interest rates (see ¶20).

6. While program performance through end-June 2022 was generally in line with program commitments (Tables 1 and 2), our more decisive policy implementation will help ensure adherence to the program targets going forward.

- **Fiscal targets:** The primary fiscal deficit through end-June was ARS 800 billion (1 percent of GDP), roughly ARS 50 billion below the adjusted target, reflecting our initial efforts to control cash spending. Average quarterly domestic arrears (deuda exigible) also remained below target, albeit with an important increase towards end-June. Meanwhile, the social spending IT was also observed, supported by our policies to protect low-income households. Importantly, efforts have been stepped up to meet the fiscal deficit target for the remainder of the year, as well as reduce the stock of arrears through improved expenditure management.

- **Monetary targets:** We limited central bank financing of the fiscal deficit to ARS 435 billion through end-June, below the program target of ARS 476 billion (0.6 percent of GDP). The stock of central bank non-deliverable futures, while rising sharply in June 2022 to contain high volatility in foreign exchange market, remained below the program ceiling. Meanwhile, net international reserve (NIR) accumulation fell US$296 million short of the adjusted program target, reflecting the weaker-than-expected trade balance and delays in budget support from multilateral partners. These deviations on the reserve front grew during June-July, although revitalized efforts are underway to boost NIR and mobilize additional official support.

- **Structural benchmarks (SB).** All three end-June SBs were met, including: (i) preparation of an action plan to enhance financial and budget reporting of national public sector entities; (ii) modification of resolutions to set prioritization and selection criteria for investment projects ahead of the 2023 Budget; and (iii) publication of a plan to streamline the reserve requirements system. Given the additional time needed to incorporate IMF technical assistance, the preparation of a plan to strengthen revenue compliance is now expected by end-year (end August 2022, SB; ***reset to end December 2022, SB***).

III. Policy Framework and Economic Program

7. The baseline macroeconomic framework has been revised to reflect recent domestic and global developments, and renewed commitments to meet our program targets.

- **Real GDP growth** is projected to reach 4 percent in 2022 and gradually moderate to 2 percent next year (consistent with Argentina's medium-term growth potential) on account of weaker global outlook and the ongoing policy tightening.

- **Inflation** is projected to rise to 95 percent by end-2022 reflecting not only the spike in global food and energy prices in the first half of the year, but also the impact of the recent heightened domestic market volatility. Inflation is projected to fall gradually during the remainder of the year and into next year due to a combination of tighter fiscal policies, sufficiently positive real monetary policy rates, reduced monetary financing, improved wage-price coordination, and lower global commodity prices. Specifically, monthly inflation is expected to fall from around 5 percent by end-2022 and to near 3.5 percent by end-2023 (equivalent to an annual end of period inflation of 60 percent).

- The **trade surplus** is projected to fall to 1.2 percent of GDP (from 3.1 percent of GDP in 2021), reflecting mainly stronger-than-expected import volume growth and less favorable terms of trade. Our end-2022 reserve accumulation target was revised down slightly (US$0.8 billion), although we expect this shortfall to be compensated during 2023 on the back of tighter macroeconomic policies, efforts to increase domestic energy production and other targeted FX measures. This is consistent with a projected rise in the trade surplus (to 2.2 percent of GDP) in 2023.

Text Table. Argentina: Revised Macroeconomic Projections, 2021–2024

		Proj.	Proj.	Proj.
	2021	2022	2023	2024
GDP growth (avg, %)	10.4	[3.5 - 4.5]	[1.5 - 2.5]	[1.5 - 2.5]
Inflation (eop, %)	50.9	[90.0 - 100.0]	[55.0 - 65.0]	[40.0 - 48.0]
Primary fiscal balance (% of GDP)	-3.0	-2.5	-1.9	-0.9
Current account balance (% GDP)	1.4	-0.3	0.6	0.4
Change in net int'l reserves (US$bn)[1]	-1.5	5.0	4.8	5.2
Monetary base (% of GDP)	7.9	6.1	6.4	6.5
Monetary financing (% GDP)	3.7	0.8	0.6	0.0

Sources: National authorities and Fund staff estimates and projections.

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

8. Policies will need to be adjusted, however, to evolving external and domestic conditions. The outlook for Argentina is subject to important downside risks from the intensification of the war in Ukraine, a rapid tightening in global financial conditions, a sudden deterioration in the terms of trade (through global commodity price movements), weather-related shocks and other domestic uncertainties. In this context, we stand ready to adapt our policies as needed to ensure macroeconomic stability through continued adherence to program objectives.

A. Fiscal Policy

9. To strengthen fiscal order, we are redoubling efforts to meet the 2022 primary deficit target of 2.5 percent of GDP. Efforts are underway to implement the required policy package to compensate for higher energy subsidies and social assistance spending. Our approach is bearing fruit, with real spending contracting by 5 percent y/y in July, alongside a significant reduction in domestic arrears. Achieving our end-2022 program objective is a matter of the highest priority, and we stand ready to make the necessary policy adjustments, as needed.

- On the **revenue front**, we recently: (i) advanced payments of income taxes from companies with extraordinary profits related to the global commodity price shock, making around 0.1 percent of GDP (before co-participation) of additional revenues available in Q4-2022; and (ii) introduced a temporary export incentive for the soy sector, with positive revenue spillovers.

- On the **expenditure front**, we have tightened controls to limit monthly accrual spending to cash resources available and prioritize/reallocate expenditures within existing budgetary spending ceilings, by over 0.5 percent of GDP during the year, through a series of administrative decisions. In addition, steps are being taken to (i) improve the targeting of *energy subsidies* by expanding the tariff segmentation scheme, capping utility subsidies for middle income consumers for consumption above certain thresholds and reducing subsidies for commercial users (see ¶29-31); (ii) raise tariffs on water utilities and public transport; and (iii) contain the wage bill, by extending the hiring freeze to include public companies and state-owned enterprises.

10. As part of our commitment to our multi-year fiscal consolidation path, we recently submitted a draft 2023 Budget to Congress, consistent with the 1.9 percent of GDP program deficit target (*prior action*; *previously mid-September 2022, SB*). The draft budget includes a description of our baseline macroeconomic framework as well as details of the underlying policies needed to deliver the 1.9 percent of GDP primary deficit target for the non-financial public sector on a cash basis, from our 2.5 percent of GDP deficit objective in 2022. Specifically, achievement of the proposed adjustment is largely underpinned by: (i) strengthened revenue mobilization efforts (see ¶11); (ii) improved targeting in subsidies (0.5 percent of GDP), including on energy (see ¶29-30), transport and water; (iii) the streamlining of social assistance (0.7 percent of GDP), in the context of our efforts to encourage labor market insertion, limit the indexation of certain benefits, and reduce redundancy (see ¶12); and (iv) tighter expenditure controls in key areas. In particular, the wage bill is projected to remain unchanged as a share of GDP, while pension spending will continue to follow the indexation formula.

11. Revenue mobilization efforts remain critical to secure yields over the medium term. In this regard, and with support from IMF technical assistance, we are advancing work on our action plan to improve revenue compliance (*end-August 2022 SB;* ***reset to end-December 2022, SB***). The plan will be underpinned by institutional policies and guidelines for risk segmentation of taxpayers and foreign trade operators along with a comprehensive compliance gap analysis for key taxes. The new plan will also be supported by several organizational changes, including a new Compliance Risk

Management committee (CRM) (established in August) and a new risk management unit to be established by end-2022. In addition, we are focused on: (i) reviewing corporate tax incentives; (ii) seeking to strengthen information exchanges and international cooperation to combat tax evasion; and (iii) conducting the preparatory work to improve personal wealth taxation (*bienes personales*), including through enhancing the AFIP database, connecting provincial cadasters and property tax registers with federal tax-payers' identification numbers (CUIT/CUIL). In the first stage, this will cover the AMBA region (*end-September 2022, SB;* ***modified and reset to end-March 2023, SB***). The Organismo Federal de Valuaciones de Inmuebles (OFEVI), will develop a unified methodology for property valuations, for use by provinces should they wish. In future, property valuation for purposes of *bienes personales* will be assessed based on the greater of: i) the provincial valuation, or; ii) the OFEVI unified methodology valuation.

12. Improving the efficiency and targeting of social expenditures is a key priority. The Ministry of Social Development, in partnership with a group of universities, is conducting a comprehensive evaluation of all income support programs, including *Potenciar Trabajo, Progresar, Tarjeta Alimentar* and those paid by ANSES to identify options to strengthen the efficiency and targeting of social assistance in Argentina (*end-December 2022*; **reset to *end-March 2023, SB***). Data on recipients of all social assistance programs will be compiled at the household level and cross checked against other official databases. The evaluation is expected to identify options for improving and integrating beneficiary databases, reducing redundancy and duplication across different programs, and limiting leakage to higher-income groups while ensuring adequate coverage of vulnerable groups. As a first step, we will focus on *Potenciar Trabajo* by end-December 2022. On the pension front, the Ministry of Labor is undertaking a study with the University of Buenos Aires, to consider options for strengthening the equity and sustainability of the system, while reducing its pronounced fragmentation (***end-December 2022, SB***).

13. In parallel, efforts are needed to strengthen the transparency and controls of public spending. Following the IMF's Public Investment Management Assessment (PIMA), we have developed an action plan *(Resolution 117/2022)* to enhance financial and budget reporting of the entities of the national public sector other than the National Administration (according to the Law 25.917, Article 3) and strengthen the monitoring and governance of investment projects (***end-June 2022, SB***). As part of its implementation, we will establish (via a Disposition of the Undersecretary of Budget) a general framework to execute and control transfers from the Treasury to public corporations, trust funds and other entities. In particular, the framework will clarify the criteria for execution of transfers, information requirements and sanctions in case of non-compliance. We are also modernizing the oversight of these entities by enhancing the information requirements to be implemented through a joint Resolution of the Secretaries of Treasury and Finance. This exchange of information will facilitate the publication of enhanced quarterly reports for public corporations and trust funds ***(proposed end-March 2023, SB),*** with information on major investment projects financed by federal transfers and earmarked taxes included starting mid-2023.

14. *Work is progressing to improve Federal-Provincial Fiscal Coordination.* Congress approved the Fiscal Consensus agreed with 21 provincial governments in mid-September, 2022. The

Fiscal Consensus proposes a strategic agenda for: (i) a revision to the definition of escape clauses; (ii) a review the role of Federal Fiscal Responsibility Council, and (iii) a limit on foreign-currency denominated borrowing by provincial governments. This agenda will now be developed by the Federal and provincial governments. In addition, we are working to increase the speed of provincial government fiscal reporting, to ensure timely quarterly and end-year general government reports.

B. Financing Policy

15. Building on strengthened commitments to meet our fiscal goals, we are implementing an enhanced domestic peso market financing strategy. Following the period of heightened market volatility, we have implemented a more proactive debt management policy to alleviate pressures and secure additional net peso financing. Voluntary debt exchanges successfully pushed some 2.3 percent of GDP of obligations falling due in August-October 2022 into Q3:2023. In parallel, in recent auctions we have secured rollover rates near 200 percent by offering interest rates above the effective BCRA policy rate and consideration is being given to increasing the frequency of short-term issuances. In 2023, our goal is to continue extending maturities to reduce rollover risks, using inflation- and foreign exchange-linked instruments, with fixed-rate instruments playing a role as conditions permit. In addition, we will seek to accumulate buffers through issuances of LEDES, and normalize the yield curve through operations in the secondary treasury market. These operations will help limit monetary financing of the fiscal deficit to 0.8 percent in 2022 (below the current program target) and 0.6 percent of GDP in 2023.

16. Efforts to strengthen and deepen the peso debt market need to continue over the medium term. To this end, we have completed an annual borrowing plan, which will be implemented in Q4-2022 and thereafter on an ongoing basis. Work on a medium-term debt strategy (MTDS) remains on track and will be completed by end-2022 (***end-December 2022, SB***), with Fund technical support. In addition, a *Committee for the Development of the Capital Markets* will be established soon, to bring together public and private actors to study and discuss various initiatives to strengthen the local debt market, including proposals to widen the investor universe.

17. In parallel, efforts to secure official (non-IMF) external support have intensified. Total external disbursements in the first half of 2022 reached almost US$800 million, around US$900 million below projections at the first review. However, official net financing is expected to pick up and reach US$ 770 million by end-September, and US$ 2,300 million by end-2022, largely reflecting a catch-up in programed budget support. The bulk of net official financing comes from multilateral development banks (US$ 2,200 million) and the remainder from bilateral creditors. Negotiations with Paris Club creditors have resumed and our goal is to reach agreement in the coming months, on a repayment schedule for our legacy obligations that is consistent with our repayment capacity and debt sustainability.

18. We are continuing with our good faith efforts to resolve external arrears. Specifically, (i) outstanding arrears to vulture funds and holdout creditors that did not participate in the 2005/10 debt exchange or settle under the terms provided in 2016; (ii) disputed and undisputed claims to the binational entity, Yacyreta (with undisputed claims, which were reduced to US$9.7 million at end-August 2022, expected to be fully repaid by the end-2022); and (iii) outstanding sovereign arrears to private external firms. Meanwhile, the Court of Appeal found the claims of the French export credit agency to be outside the statute of limitations, and is currently considering an appeal to the Argentine Supreme Court.

C. Monetary and Exchange Rate Policies

19. We remain committed to tackling persistent high inflation and rebuilding reserves. Sharply higher global energy and food prices along with domestic uncertainties have exacerbated the challenge of addressing inflation. In this context it is critical to continue to decisively implement our enhanced monetary and FX policies, along with efforts to reduce the fiscal deficit, limit monetary financing, and improve wage-price coordination.

20. To this end, real monetary policy interest rates will remain sufficiently positive. The BCRA has raised the nominal annual policy rate by about 2300 basis points terms since end-July, bringing the monthly equivalent policy rate to 6.2 percent. Our decision to actively narrow the interest rate corridor, together with a proactive pricing policy by the Treasury on its recent issuances, has helped align interest rates of peso-denominated assets, improving the monetary policy transmission, and helping to reduce the exchange rate gap. We stand ready to adapt policy based on the evolution of core inflation, forward-looking measures of inflation, and international reserves dynamics, ensuring that real policy rates stay firmly in positive territory, to guard against further inflationary shocks and keep the quasi-fiscal deficit in check. Delivering positive real policy rates, and continuing to price Treasury securities in line with these policy rates, will also help to reinforce the demand for peso deposits and the holdings of domestic government and private securities.

21. A proactive FX management will remain necessary. Specifically, the rate of crawl will remain consistent with the evolution of inflation and trading partner currency developments, essential to maintain the competitiveness of the real effective exchange rate over the medium term and maintain Argentina's current account surplus. This will be critical to boost reserve accumulation and meet the program targets. In addition, efforts will be necessary to improve the trade balance. Recently introduced temporary export incentive schemes are encouraging the liquidation of stockpiled soy exports and consideration is being given to measures to contain the widening services deficit and transfer pricing abuse. BCRA operation in the non-deliverable futures market will be focused on addressing disorderly FX market conditions.

Monetary Operations and Financial Stability

22. In parallel, we are implementing structural measures to strengthen our operational framework and enhance the effectiveness of monetary policy. The BCRA is continuing to implement measures that improve the transmission of monetary policy rates to deposit rates, including further raising commercial banks' deposits floor rates and lending ceiling rates. Since the first review, the BCRA has also developed and published a plan to simplify the reserve requirements regime (***end-June 2022, SB***). The adopted regulations streamline incentives for lending to small and medium sized enterprises and to consumers, while gradually phasing out a number of special rebates on reserve requirements, with due consideration for the capital and liquidity positions of commercial banks, and an overarching goal of minimizing the impact on the overall liquidity position of the banking system.

23. The BCRA will pursue policies, within its mandate, to entrench financial stability. The banking system remains liquid and well capitalized, supported by strong oversight. Efforts are underway to support and sustain the development of the secondary market for government securities. To this end, government securities recently purchased by the BCRA in the secondary market, will be used to smooth yield curve volatility—consistent with its monetary and financial stability mandate. Over time, a gradual tapering of these holdings will be considered, as conditions allow.

Capital Flow Management Policies (CFMs)

24. We continue to adjust CFMs as external conditions evolve, complementing appropriate macroeconomic policies. In the face of heightened FX pressures and reserve losses, CFMs have been tightened, including through a broadening of import financing requirements, and an additional surcharge on overseas credit card payments. As conditions permit, and reserve coverage strengthens, however, steps will be taken to gradually ease CFM restrictions. To this end, a working group is advancing the preparation of a roadmap for the easing of CFMs, and we expect this to be completed by end-June, 2023 to enable input from recently requested IMF technical assistance (*end-December 2022, SB;* ***reset to end-June 2023, SB***).

Central Bank Balance Sheet

25. Work to strengthen the BCRA's balance sheet is ongoing. Work is now underway to assess the underlying health of the central bank's balance sheet and options to strengthen it going forward, based on internationally recognized accounting standards, and supported by IMF technical assistance. Based on the recommendations of this work, we will develop a strategy to gradually and durably improve the central bank's financial position (***end-December 2022, SB).***

D. Growth and Resilience Policies

26. We are strongly committed to boost Argentina's net export potential, which is essential to strengthen resilience and lay the foundations for more sustainable and inclusive growth. In this regard, we have redoubled our efforts to advance legislation and regulations that will boost investment and net exports in strategic sectors. Discussions with relevant stakeholders, including international investors to secure financing, have intensified to increase investment in the hydrocarbon, mining, agro-industry, automotive, hydrogen and biotechnology industries. Regulatory frameworks are being enhanced in these key sectors, with the aim of boosting the country's productive and export capacity. Moreover, reform efforts in the agricultural and energy sectors are expected to reduce energy-related imports, including by tapping into Argentina's vast gas and fertilizer production potential. Initiatives will help ease international supply constraints and support global energy and food security, taking into consideration domestic market conditions.

27. Given its strategic importance, we are focusing our efforts to improve the efficiency of use, and the equity and sustainability of Argentina's energy sector. This is being achieved through a multipronged strategy aimed at boosting domestic energy production, transportation and distribution, reducing energy costs and reliance on imported energy, while ensuring the financial sustainability of the sector through end-user prices that better reflect production costs and improvements in the targeting and progressivity of energy subsidies. We are focused on mitigating the fiscal impact of the recent global energy crisis, and on increasing the incentives for efficient energy use.

28. Building on efforts to reduce costly energy imports, we are implementing supply-side measures to increase domestic production and unlock Argentina's energy export potential. Our arrangements with Bolivia and Brazil will help secure energy supplies at favorable rates during winter and reduce reliance on costly imports of LNG. We are also advancing with the construction of the Nestor Kirchner gas pipeline, the first and second phases of which are expected to be completed by end-June and end-December 2023, respectively. The pipeline will support an increase in the daily supply of domestically-produced gas of 11 million cubic meters, starting in July 2023. To encourage an increase in gas supply for the domestic market and incentivize exports, we will also launch a new Plan Gas, which will extend current production volumes to 2028. Moreover, we have been working on strengthening bilateral agreements with Chile to expand foreign markets. Finally, to underpin the increase in domestic production, our objective is to improve the financial position of the sector, including by updating tariff agreements with electricity distributors for the metropolitan region of Buenos Aires next year, and reducing arrears to/from the state-owned electricity dispatch operator.

29. A key part of our strategy is eliminating subsidies for residential users with the greatest payment capacity. A decree was issued in June establishing a new residential subsidy segmentation scheme that will eliminate electricity and gas subsidies by end-2022 for residential consumers nationwide with the greatest payment capacity. For this group, subsidies will be removed in three stages (September, November, and January), with the issuance of final resolutions to reach cost recovery for both electricity and gas in January 2023 (***proposed end-January 2023, SB)***. Implementation of the scheme is supported by a new voluntary database (RASE) of energy consumers who request to keep the energy subsidy and are classified according to socio-economic characteristics. We estimate that around 20 percent and 15 percent of users, for electricity and gas, respectively, would be subject to full subsidy removal.

30. The subsidy will be further differentiated between middle-income and low-income consumers and will also be subject to a consumption cap for middle-income consumers. For subsidized users, increased reference prices for electricity (PEST) and gas (PIST) went into effect on June 1. For 2023, in line with our policy commitment to anchor updates in energy costs for consumers on past average wage growth, the overall increase in the subsidized reference prices will be capped at 40 percent and 80 percent of growth in the wage index for low- and middle-income consumers, respectively. Middle-income residential consumers will also be subject to an additional consumption cap and will pay full cost for electricity use above 400KWh/month (with higher thresholds for some regions without access to gas) and gas use above 70 percent of the previous 5-year average for each category of users in the relevant region. This measure, which will be phased in gradually, in line with the removal of subsides outlined in ¶29, will help to both further contain the subsidy bill and improve energy conservation.

31. We are also fully removing electricity subsidies for commercial users. Commercial users (defined in ¶33, TMU) that currently receive electricity subsidies will also have these subsidies significantly reduced in 2023 and fully eliminated during 2024.

32. We are also advancing with the development of a national strategy to improve the efficiency and financial sustainability of the energy sector in the medium term. Development of this strategy is supported by World Bank technical assistance and will support improvements in the efficiency of our energy matrix and reduce costly energy subsidies, while also strengthening the quality of energy services and affordability of access for vulnerable households. The strategy has a special emphasis on the electricity sector and includes actions to:

- **i.** **Improve energy efficiency** for the sector as a whole, by tackling consumption inefficiencies, including by better tailoring efficiency policies to regional consumption patterns, and reducing losses in the distribution sector through improvements in metering, billing, and user-targeting;
- **ii.** **Support electricity generation cost management** by expanding hydroelectricity and other renewables generation capacity, and improving risk management for energy imports;
- **iii.** **Strengthen the electricity distribution and transmission segment.** Strengthen federal regulatory coordination for the distribution and transmission sector to support its development; and improve current Value-Added Distribution allocation schemes and service quality provision, including through reviewing minimum quality standards and incentives;
- **iv.** Strengthen the **recent electricity and gas segmentation** scheme, by improving databases and the exchange of information to better target energy subsidies, and ensure that tariffs are fully cost-reflective for those able to afford them. An initial detailed plan will be developed by the end of the year to strengthen the implementation of the segmentation scheme going forward;
- **v.** **Improve the overall financial sustainability of the sector.** Review cost generation and remuneration criteria across different subsectors and consumers, to ensure a more sustainable sector, and that over time end-user tariffs better and more predictably reflect wholesale gas and electricity costs.

Although the recent changes in the administration led to some delays in undertaking the technical work, the Energy Secretariat still expects to publish a draft strategy for consultation with key stakeholders, by the end of the year, along with a detailed plan to improve the implementation of the segmentation scheme (*end-September 2022, SB;* ***modified and reset to end-December 2022, SB***).

E. Transparency and Governance Policies

33. Ahead of the evaluation by the Financial Action Task Force (FATF) in 2023, we have made further progress in strengthening our overall AML/CFT regime. We have completed a gap analysis of the entire AML/CFT regime against FATF's 40 Recommendations, and in consultation with IMF staff we will identify key items to be incorporated into the amended AML/CFT legislation, or relevant regulations, as needed, during the Congressional review process. As planned, the Financial Intelligence Unit (FIU) is preparing the necessary resolutions to facilitate prompt and full implementation of the amended legislation once approved. In addition, we have finalized and adopted the national risk assessment of money laundering, which has been consolidated with an updated terrorist financing assessment (Decrees Nº 652/2022 and Nº 653/2022). Lastly, we remain on track to publish the National AML/CFT Strategy (*end-September 2022, SB*), including recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.

IV. Program Monitoring

34. Program targets and structural benchmarks have been adjusted to reflect our new macroeconomic framework and policy priorities. The program will continue to be monitored through quarterly reviews. Revised targets and definitions are set out in Table 1, and further specified in the Technical Memorandum of Understanding (TMU). Meanwhile, proposed prior actions and SBs are set out in Table 2.

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

(In Billions of Argentine Pesos, Unless Otherwise Stated)

	2022									2023				Indicative Targets 2023	
	end-June				end-Sept 9/			end-Dec		end-Mar		end-June		end-Sept	end-Dec
	Target	Adjusted	Actual	Status	CR 22/192	Status	Proposed	CR 22/192	Proposed	CR 22/192	Proposed	CR 22/192	Proposed	Proposed	Proposed
Fiscal targets															
Performance Criteria															
1. Cumulative floor on the federal government primary balance 3/ 8/	-874.4	-849.0	-800.7	Met	-1142.1	n.a.	-1156.8	-1884.9	-2015.7	-365.4	-441.5	-931.7	-1181.4	-2064.4	-2798.3
2. Ceiling on the federal government stock of domestic arrears 4/	612.2	...	489.4	Met	612.2	n.a.	654.0	612.2	654.0	927.5	1177.4	927.5	1177.4	1177.4	1177.4
Continuous Performance Criterion															
3. Non-accumulation of external debt payments arrears by the federal government	0.0	...	0.0	Met	0.0	n.a.	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets															
4. Cumulative floor on real federal government revenues 3/ 5/	5179.7	...	5169.6	Not met	7763.9	n.a.	...	10347.6	...	2594.4	...	5346.8	...	...	...
5. Cumulative floor on federal government spending on social assistance programs 3/	332.2	...	343.4	Met	542.1	n.a.	565.3	780.6	823.2	249.8	239.3	522.8	500.4	823.8	1199.7
Monetary targets															
Performance Criteria															
6. Cumulative floor on the change in net international reserves of BCRA 6/ 8/	3.45	2.95	2.66	Not met	4.1	n.a.	...	5.8	5.0	6.2	5.5	9.4	8.6	8.7	9.8
7. Cumulative ceiling on central bank financing of the federal government 3/	475.8	...	435.1	Met	665.4	n.a.	...	765.2	654.0	215.3	139.3	647.8	372.8	651.4	883.0
Indicative Target															
8. Ceiling on the central bank stock of non-deliverable futures 7/	7.000	...	4.358	Met	9.000	n.a.	...	9.000	9.000	9.000	9.000	9.000	9.000	9.000	9.000

Sources: National authorities and Fund staff estimates and projections.
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/ Includes intra-public sector transfers (transferencias figurativas).
5/ Rebased assuming CPI=100 at end-2021. This target will no longer be part of program conditionality after June 2022.
6/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021, which stood at US$2.325 billion. It excludes payments to Paris Club from September 2022 onwards.
7/ In billions of U.S. dollars. The stock of non-deliverable futures on December 31, 2021 stood at US$ 4.185 billion, as defined in the TMU.
8/ Targets subject to adjustors as defined in the TMU.
9/ Staff will update the Board on final status at the time of the Board meeting where available.

Table 2. Argentina: Prior Actions and Structural Benchmarks			
Proposed Prior Actions	**Sector**	**Status**	**Completion date**
Submit to Congress the Draft 2023 Budget consistent with the agreed primary deficit of 1.9 percent of GDP and include an elaboration of the key macroeconomic assumptions and the underlying policies for 2023.	Fiscal Structural	Met	
Proposed New Structural Benchmark			
Secretary of energy will publish a) a medium-term energy sector strategy, with the technical support of the World Bank and for consultation with key stakeholders, focusing on improvements to: i) energy efficiency, ii) generation cost management, iii) distribution and transmission, iv) targeting of subsidies; and (v) the overall financial sustainability of the sector; and b) a detailed plan to improve the implementation of the subsidy segmentation scheme.	Fiscal Structural		end-December, 2022
Issue final energy price resolutions (PEST and PIST) to reach full cost recovery for electricity and gas residential consumers nationwide with the greatest payment capacity.	Fiscal Structural		end-January, 2023
Enhance the AFIP database by connecting with provincial cadasters and provincial property registers, and assigning a federal taxpayer identification number (CUIT/CUIL) to each property. In the first stage, this initiative will cover the AMBA region	Fiscal Structural		end-March, 2023
Publish first enhanced quarterly report for public corporations and trust funds including a breakdown of assets and liabilities, based on 2022 data and quarterly data through 2022Q4.	Fiscal Structural		end-March, 2023
Structural Benchmarks			
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	Met	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 (*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	Met	end-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	Met	end-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	Met	end-June, 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	Met	end-June, 2022

Table 2. Argentina: Prior Actions and Structural Benchmarks (concluded)

Structural Benchmarks	Sector	Status	Completion date
Publish a time-bound plan to streamline the reserve requirement system and improve the transmission of monetary policy.	Monetary/ FX Policy	Met	end-June, 2022
Publication of semi-annual investor relations presentation to advance the investors relation program.	Financing	Met	end-July, 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	Not Met	end-Aug. 2022 Reset to end-Dec. 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	Not Met	end-Sep. 2022 Modified and Reset to end-Dec. 2022
Publish a National AML/CFT Strategy with recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.	Financial Integrity		end-September, 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	Not Met	end-Sep. 2022 Modified and Reset to end-Dec. 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		end-Dec. 2022 Reset to end-Mar. 2023
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		end-Dec. 2022 Reset to end-Jun. 2023
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		end-December, 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		end-December, 2022
Prepare, in consultation with Fund staff, a medium-term debt management strategy (MTDS).	Financing		end-December, 2022
Publication of an external ex-post audit on COVID spending that took place of at least during 2020	Governance /Structural		end-June, 2023

Attachment II. Argentina: Technical Memorandum of Understanding Update

September 25, 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 is based on a point estimate of 95 percent in 2022 and 60 percent in 2023 (end of period), within the revised 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 Manual 2014 and the Public Sector Debt Statistics Guide. 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*). For the purposes of assessing the floor of the primary deficit, 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. In addition, revenue income from the issuance of government debt that is part of non-tax revenues (*resto rentas de la propiedad*) will be capped at ARS$222.1 billion (less than 0.3 percent of GDP) in 2022 and will be excluded from revenues in 2023 for calculation of the primary fiscal deficit under the program.

- Federal government primary expenditure is recorded on a cash basis and includes spending on social protection (*prestaciones sociales*), economic subsidies (*subsidios económicos*), operational expenses (*gastos de funcionamiento*), current transfers to provinces (*transferencias corrientes a provincias*), other current spending (*otros gastos corrientes*), and capital spending (*gastos de capital*), which includes capital transfers to provinces.

- 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).

- 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.

- 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.

6. **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.

7. **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.

8. **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 disbursements of project loans from multilateral and bilateral partners, compared to the project loans in the program baseline (Table 2)[1]. The value of the adjustor would be capped at cumulative 0.2 percent of GDP in 2022 and 2023 (163,511 million pesos and 294,343 million pesos, respectively).[2]

Table 2. Multilateral and Bilateral Project Financing
(Baseline Projections)

	AR$ millions 1/
end-March 2022	27,028
end-June 2022	78,453
end-September 2022	142,728
end-December 2022	256,927
end-March 2023	29,360
end-June 2023	148,324

1/ Cumulative from January 1 of each year.

Ceiling on Federal Government Accumulation of Domestic Arrears

9. **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 includes intra-public transfers (*transferencias figurativas*),[3] and primary spending for personnel (*gasto en personal*),

[1] The upward adjustment to the primary balance would exclude already executed expenditures linked to projects with temporary delays on their associated external disbursements up to a maximum of ARS30,000 million pesos in 2022.

[2] The cap for the adjustor for end-June 2022 was set in the TMU of IMF Country Report No. 22/192 at 0.2 percent of the nominal GDP projected at that time (153,042 million pesos).

[3] *Transferencias figurativas* were excluded from the definition of domestic arrears for the purposes of measurement against the end-March 2022 performance criterion. The TMU of IMF Country Report No. 22/192 was updated to

(continued)

acquisition of goods and services (*bienes y servicios*), nonprofessional services (*servicios no profesionales*), capital expenditures (*bienes de uso*), and transfers (*transferencias*).

10. **Measurement**: The arrears are measured on a daily basis. The program will cap the quarterly average of the daily stock of arrears for 2022, consistent with reducing the stock from 1.2 percent of GDP at end-2021 to 0.8 percent of GDP (654,045 million pesos) in Q4 2022. The quarterly average cap for the daily stock of arrears will remain unchanged at 0.8 percent of GDP during 2023 (1,177,375 million pesos).

11. **Monitoring**: Daily data on the stock of arrears (and underlying spending on an accrual and cash basis), 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

12. **Definitions:**

- **Debt**[4] 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:

    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

clarify that, starting from the end-June 2022 performance criterion, *transferencias figurativas* will be included in the definition of domestic arrears.

[4]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.

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.

- **External 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.

13. 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.

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

Cumulative Floor on the Change in Net International Reserves of BCRA

15. 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. 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 since March 25, 2022 (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 cumulative disbursements, except for the net financing component of the program (SDR 3.166 billion), net of cumulative Fund payments that have taken place from March 25, 2022 onwards, (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.

16. **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.

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

18. **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 BCIE, 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$750 million in each calendar year.[5] Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements and IMF budget support) from official creditors 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	55
end-June 2022	62
end-September 2022	1,132
end-December 2022	1,967
end-March 2023	20
end-June 2023	20

1/ Cumulative from January 1 of each year.

[5] The cap for the adjustor for end-June and end-September 2022 was set in the TMU of IMF Country Report No. 22/192 at US$500 million.

- **Paris Club payments**: Starting with the end-December 2022 performance criterion, the NIR accumulation targets will be adjusted downward by the amount of any payments to the Paris Club creditors, relating to the outstanding debt that was reprofiled in 2014[6].

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

19. **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.

20. **Measurement**: The program will cap such financing at 654,045 million pesos (0.8 percent of GDP in 2022) by end-December 2022, with cumulative flows from end-December 2021 in millions of pesos. The cap of cumulative flows by end-December 2023 will be set at 0.6 percent of GDP (883,031 million pesos), with zero net financing in 2024.

21. **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*.

22. **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

23. 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

24. **Definition**: Federal government revenues are defined as above (¶5).

25. **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

[6] The adjustor for end-June and end-September 2022 was set in the TMU of IMF Country Report No. 22/192.

calendar year, and compared with the program baseline projection. This target will no longer be part of program conditionality after June 2022.

26. **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

27. **Definition**: Social spending for the purpose of the program is computed as the cumulative sum of all federal government spending (both current 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*

28. **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 Futures

29. **Definitions**: The stock of net non-deliverable futures 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.

30. **Measurement**: The net stock of non-deliverable futures will be measured at each test date as the value of all short position contracts minus the value of all long position contracts and will be capped at US$9 billion by end-2022, and at US$9 billion by end-2023. On this basis, the stock of net non-deliverable futures stood at US$4.185 billion on December 31, 2021.

31. **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

Wage growth

32. **Definition.** Average wage growth, used to determine adjustments to energy bills for residential consumers (excluding those subject to the subsidy segmentation scheme), will be 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.

Energy prices and user categories

33. Definition. Energy prices are defined as the regulated 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 and natural gas, the universe of users will cover all users supplied at the regulated prices (PEST and PIST, respectively), separated into the following categories: (i) high-income residential users and those who did not apply for the subsidy *(Nivel 1)*; (ii) low-income residential users *(Nivel 2*); (iii) middle income residential users (*Nivel 3*); (iv) commercial users; (v) other non-residential users subsidized as low-income residential users (*Nivel 2*), and; (vi) large non-residential users (GUDIs) (applies in the case of electricity only).
- For program purposes, the energy price will be measured as weighted averages of the actual PESTs/PISTs charged to different categories of users, with the weights based on estimates of energy consumption.
- For program purposes, commercial electricity users comprise all non-residential users other than large industrials (GUDIs), public hospitals, educational entities, welfare entities, and social clubs.

34. Monitoring: For each category of user described above, data will be provided to the Fund on the estimated energy consumption in each category and the actual values of the PEST and the PIST.

OTHER INFORMATION REQUIREMENTS

35. 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; and interest rates on overnight deposits.
- Aggregated data on banks' foreign exchange positions, provided in the following categories: public national; public provincial; private domestic; private foreign; and small banks.
- 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.
- Data on BCRA position of non-deliverable futures by maturity, to be provided within two working days.

B. Weekly

- BCRA balance sheet.
- Daily data on BCRA holdings of government securities by maturity.
- Daily data on BCRA-issued securities by type of security and interest rate.
- 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.
- Daily data on Treasury deposits in SDRs at the BCRA.

C. Fortnightly

- Interest rates on domestic debt instruments including LELITE, LEDES, LECER, LEPAS, BONAR, BONTE, BONAD and BONCER (at different maturities).
- Daily data on external financing from each multilateral and bilateral creditor, broken down by budget support and project financing, and by largest bilateral projects.

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 details on:

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

  ii. Income related to the issuance of government debt securities (*resto de rentas de la propiedad*).

- Data on the stock of domestic arrears by ministry or agency.
- 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:

i. 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.

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

iii. 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.

iv. 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:

i. 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.

ii. 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).

iii. 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

October 4, 2022

SECOND REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF APPLICABILITY AND NONOBSERVANCE OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

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

This supplement provides an update on developments since the issuance of the Staff Report (EBS/22/86) circulated to the Executive Board on September 26, 2022. Specifically, it provides details on recently released economic indicators and an update of program performance, including with respect to end-September performance criteria, which govern this review, and the structural agenda. The thrust of the staff appraisal remains unchanged.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

1. **Consistent with the baseline projections, recently released data suggest an incipient and healthy deceleration in output growth.** Economic activity remained flat (m/m) in July (down from 1.2 percent m/m in June), bringing expansion through the first seven months of the year to 6.4 percent (y/y). Growth has been fairly balanced across most sectors, supported by favorable labor market conditions, with rising participation rates and declining unemployment (reaching 6.9 percent in Q2:2022). Meanwhile, overall poverty rates fell further (to 36.5 percent in S1:2022 from 37.3 percent in S2:2021), although extreme poverty rose slightly (to 8.8 percent from 8.2 percent), largely reflecting the rise in food prices and despite increased social support.

2. **Available data confirm that key end-September quantitative program targets have been met (See Table 1 and Figure 1).**[1]

- **Net international reserves (NIR) (performance criterion, PC).** The cumulative change in NIR through end-September reached US$4.6 billion—versus an adjusted program floor of US$3.6 billion—largely driven by the, now expired scheme to incentivize the liquidation of soy stocks. The scheme, in place September 5-30, supported the settlement and sale of more than US$8 billion of soybean and derivatives. As noted in the Staff Report (¶23), measures are being considered to deal with the rapid widening of the trade services deficit.
- **Central bank financing of the federal government (PC).** In line with the authorities' commitment to cap monetary financing of the fiscal deficit to 0.8 percent of GDP in 2022, central bank financing of the federal government at end-September stood at ARS 620 billion, below the program ceiling of ARS 665 billion. In September, reduced reliance on BCRA transfers, was supported by strong net domestic debt placements of around 0.5 percent of GDP, with minimal BCRA intervention in the secondary bond market.
- **Central bank stock of non-deliverable futures (indicative target)**. The stock of non-deliverable futures (NDF) narrowed to US$3.1 billion by end-September, significantly below the program ceiling of US$9billion, notwithstanding some BCRA intervention in the NDF market in late September in response to volatile market conditions.

3. **The recent publication of the National AML/CFT Strategy is a key milestone in preparation for an evaluation by the Financial Action Task Force (FATF) in 2023 (*met end-September structural benchmark*).** The National Strategy, developed in consultation with key stakeholders and IMF staff, reflects recommendations to mitigate risks, vulnerabilities, and threats identified in the money laundering (ML) and terrorist financing (TF) national risk assessments. Key objectives of the strategy include: (i) harmonizing the AML/CFT legal and regulatory framework in line with FATF standard; (ii) strengthening the detection and application of sanctions related to

[1] Fiscal data through end-August and preliminary tax revenue data for September—up on account of higher export duties from the soy stock liquidation—suggest good prospects of having met the end-September floor on the federal fiscal primary balance and the ceiling on domestic arrears (both unchanged as a share of GDP).

ML/TF activities; and (iii) enhancing the identification of ultimate beneficial owners of legal persons/arrangements. Implementation is envisaged through 2024.

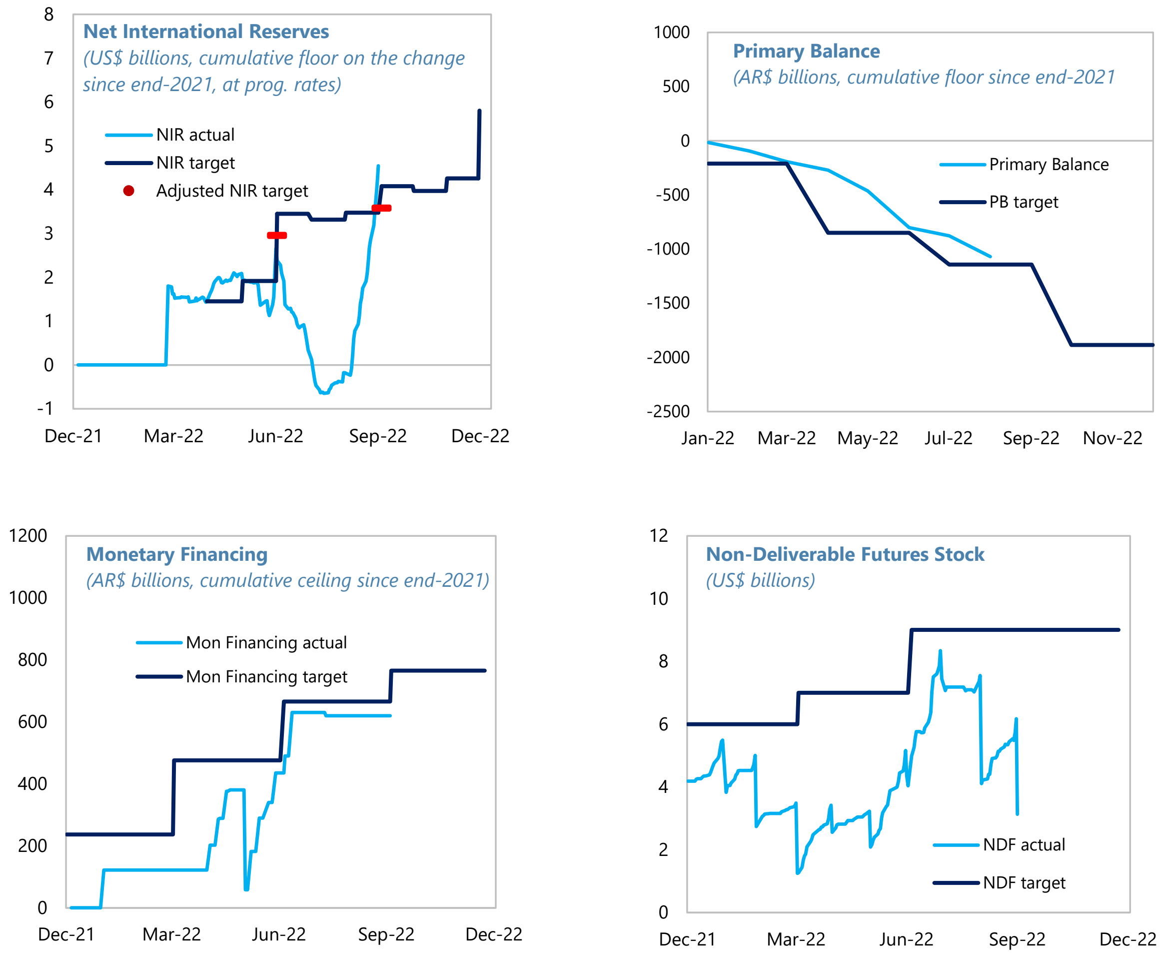
Table 1. Argentina: Baseline Quantitative Performance Criteria and Indicative Targets 1/ 2/

(In Billions of Argentine Pesos, Unless Otherwise Stated)

	2022								
	end-June				end-Sept				
	Target	Adjusted	Actual	Status	CR 22/192	Adjusted	Actual	Status	Proposed
Fiscal targets									
Performance Criteria									
1. Cumulative floor on the federal government primary balance 3/ 8/	-874.4	-849.0	-800.7	Met	-1142.1	n.a.	n.a.	n.a.	-1156.8
2. Ceiling on the federal government stock of domestic arrears 4/	612.2	...	489.4	Met	612.2	...	n.a.	n.a.	654.0
Continuous Performance Criterion									
3. Non-accumulation of external debt payments arrears by the federal government	0.0	...	0.0	Met	0.0	...	0.0	Met	...
Indicative Targets									
4. Cumulative floor on real federal government revenues 3/ 5/	5179.7	...	5169.6	Not met	7763.9	...	n.a.	n.a.	...
5. Cumulative floor on federal government spending on social assistance programs	332.2	...	343.4	Met	542.1	...	n.a.	n.a.	565.3
Monetary targets									
Performance Criteria									
6. Cumulative floor on the change in net international reserves of BCRA 6/ 8/	3.450	2.950	2.655	Not met	4.100	3.600	4.627	Met	...
7. Cumulative ceiling on central bank financing of the federal government 3/	475.8	...	435.1	Met	665.4	...	620.1	Met	...
Indicative Target									
8. Ceiling on the central bank stock of non-deliverable futures 7/	7.000	...	4.358	Met	9.000	...	3.130	Met	...

Sources: National authorities and Fund staff estimates and projections.
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/ Includes intra-public sector transfers (transferencias figurativas).
5/ Rebased assuming CPI=100 at end-2021. This target will no longer be part of program conditionality after
6/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021, which stood at US$2.325 billion. It excludes payments to Paris Club from September 2022 onwards.
7/ In billions of U.S. dollars. The stock of non-deliverable futures on December 31, 2021 stood at US$ 4.185 billion, as defined in the TMU.
8/ Targets subject to adjustors as defined in the TMU.

Figure 1. Performance Relative Key Program Targets[1]



Sources: National authorities and Fund staff calculations.

1/ Targets apply only to the end-quarter. Data through September 30, 2022 for net international reserves, monetary financing and non-deliverable futures. The fiscal primary balance is based on data through August 30, 2022.

Statement by Mr. Chodos and Mr. Lischinsky on Argentina
October 7, 2022

On behalf of the Argentinean authorities, we thank Mr. Cubeddu and the entire IMF mission team for the constructive and in-depth policy dialogue and engagement facilitating the process to reach a staff-level agreement and for the staff report on the Second Review of the Extended Fund Facility for Argentina.

We would like to highlight that a new economic team took office in early August, amid a global and local context of uncertainty. This team, headed by Sergio Massa -the head of one of the three components of the ruling coalition, and former Speaker of the House of Representatives-, brought about a greater sense of ownership, and enhanced implementation capabilities. This is due to, on the one hand, a greater concentration of areas, coupled with a more in-depth coordination with the Central Bank, and on the other hand, by a greater political unity of purpose regarding the key policies of the Program.

The new team is staunchly committed to its vision for the future, which can be captured in four basic pillars: fiscal sustainability, reserve accumulation, promotion of exports (in particular, value-added exports), and continued growth with social inclusion. Along that vein, we also envision, while fostering and preserving general growth, the furthering of key economic sectors such as: the knowledge economy, energy, mining, and agro-industry.

To be clear, our economic team is convinced that the Program policies are an anker in themselves, not merely performance criteria to be met. They are needed as a key element of Argentina's prosperity. So much so that, despite slippages, and an increasingly difficult global context, it redoubled efforts and faced challenges that allowed Argentina to stabilize the situation within the framework of the Program.

We want to emphasize that all through even September, all Performance Criteria will be met; the monetary was met already, as well as the reserve accumulation PC. As for the fiscal PC, available preliminary data show that it will be met too. We are, thus, in an auspicious path regarding the tasks going forward.

As we mentioned, notwithstanding an increasingly complex global backdrop, following a period of market turbulence, multi-decade high peaks in inflation, the war in Ukraine, high food and energy prices, and tighter global financial conditions, our authorities are taking bold steps to avoid disorderly adjustment and restore stability, ensuring program implementation and continue tackling Argentina's challenges. More importantly, despite all the mentioned difficulties and against all odds, the Argentine economy continues to recover, and the program is well on track. There are significant challenges ahead, but our authorities are confident they will be able to take the necessary steps to avoid disorderly adjustments, minimize turbulent market fluctuations and continue to rebuild a strong and resilient economy.

Corrective actions allowed our country to meet the relevant performance criteria, including the primary balance of the federal government, and the ceiling on the central bank financing of the fiscal deficit. Moreover, had there been no war, we estimate our stock of net international reserve to be around US$ 4.9 billion larger. All end-June indicative targets were also met, and our authorities made steady progress in meeting structural benchmarks, although revisions to the timeline will be required.

Going forward, our authorities have taken critical steps to restore fiscal order through improved budget management, including a combination of stricter expenditure controls, enhanced targeting of subsidies, and strengthened revenue compliance. Our authorities have reinforced the implementation of monetary policy, by limiting monetary financing of the fiscal deficit below program levels, while our authorities continue to mobilize domestic and external financing and increasing roll over rates. During September, our authorities built a resilient base of international reserves, through targeted actions aimed at improving the trade balance and catalyzing external support from private and official sources.

These initial actions have been complemented by a more consistent and forceful application of the monetary policy framework to ensure sufficiently positive real interest rates. The 2023 Budget presented to Congress on September 15, represents a key stone for macroeconomic stability, the recompositing of the purchasing power of income and the strengthening of the economy. Our authorities will continue to take the necessary actions to address underlying imbalances and secure more sustainable and inclusive growth.

Program Performance

The program remains well on track, despite the challenging international context. Our authorities remain committed to the program and are taking the necessary steps to meet the incoming targets. The primary fiscal deficit through end-June was ARS 800 billion (1 percent of GDP), roughly ARS 50 billion below the adjusted target, reflecting our efforts to control cash spending. As for the end September targets, while final numbers are not yet available, the greater challenges we face were met by a redoubling of efforts, making us more than comfortably optimistic regarding the meeting of such targets. As for the average quarterly stock of domestic arrears, it remained below target. The social spending indicative target was observed as spending exceeded the established floor on account of efforts to shield the lower-income households from higher inflation, and the real revenues indicative target was somewhat higher than programmed.

Central bank financing of the fiscal deficit was limited to ARS 435 billion (0.54 percent of GDP) through end-June, below the program target of ARS 476 billion (0.6 percent of GDP), thanks to our authorities' efforts to frontload peso debt issuance in the domestic market. International Reserve accumulation fell US$296 million short of the adjusted program target for end June (reflecting the weaker-than-expected trade balance and delays in budget support from multilateral partners), but it has rebounded remarkably during September; so much so that the target was met. As mentioned above, estimations from the BCRA suggests that, due to the Ukraine war alone, our stock of net international reserves is around US$ 4.9 billion lower than would otherwise have been the case. These deviations on the reserve front grew during June-July, although successful efforts were made to boost net international reserves and mobilize additional official support. The stock of central bank non-deliverable futures narrowed through end-June 2022, remaining well below the program's ceiling.

All three end-June structural benchmarks were met, including the preparation of an action plan to enhance financial and budget reporting of national public sector entities, the modification of resolutions to set prioritization and selection criteria for investment projects ahead of the 2023 Budget, and the publication of a plan to streamline the reserve requirements system. Given the additional time needed to incorporate IMF technical assistance, the preparation of a plan to strengthen revenue compliance is now expected by end-year.

The Macroeconomic Framework

The Argentine economy continues to recover, and it grew at an annual rate of 6.5 percent during the first semester of 2022, driven by private consumption and investment. The level of real GDP is already 10.3 percent above pre-pandemic levels, and capacity utilization levels stand at multi-year highs, while unemployment fell to its lowest level since 2015, with over 350,000 formal private sector jobs added since end-2020 (seasonally adjusted).

The global and local scenario is far from rosy. Tightening global financial conditions and domestic uncertainties in June/July led to a sharp rise of domestic government bond markets yield, an increase in the gap between the official and parallel exchange rates, and reduced international reserves. Since early August, decisive actions by the new economic team have helped to quickly restore credibility and stability, without significant impacts in activity, employment levels, nor implicating a disorderly exchange rate adjustment. Bond yields are now down, the exchange rate gap has fallen near pre-market pressure levels, and central bank intervention in the secondary government bond market and non-deliverable forward market has started to unwind.

Furthermore, an increase of almost US$5 billion in international reserves in September was the consequence of the successful temporary incentive schemes to increase soy

liquidation. Significant challenges remain, mainly associated with the recent price dynamics. Inflation pressures are beginning to moderate although they remain strong. After peaking at 7.4 percent m/m in July, headline inflation fell to 7.0 percent m/m in August as uncertainties weighing on the price formation process began to fade.

Going forward, the key ingredients behind our authorities long-run growth, inflation, and trade balance projections are the growth resilience policies and an adequate level of public capital spending. These policies are instrumental to raise the productivity of the private sector and expand the export base, helping to enlarge our net international reserve position while improving the standard of living of the population and tackling inflationary pressures.

Considering the abovementioned developments, our authorities have updated the baseline macroeconomic framework for 2022 in the following way: growth in 2022 is projected to remain unchanged (relative to program approval) at around 4 percent, and gradually moderate to 2 percent next year (consistent with Argentina's medium-term growth potential, but still a significant improvement when compared to past performance) on account of weaker global outlook and the ongoing policy tightening.

Inflation is now projected to rise to 95 percent by end-2022, reflecting the spike in global food and energy prices and impact of the recent market turbulence. Inflation is projected to fall gradually during the remainder of the year and into next year, from around 5 percent by end-2022 to 3.5 by end-2023, due to a combination of tighter fiscal policies, sufficiently positive real monetary policy rates, reduced monetary financing, improved wage-price coordination, and lower global commodity prices.

The trade surplus is projected to fall to 1.2 percent of GDP (from 3.1 percent of GDP in 2021), reflecting mainly stronger-than-expected import volume growth and less favorable terms of trade (due to higher import prices, including liquefied natural gas and fertilizers). Our end-2022 reserve accumulation target was revised down slightly (US$0.8 billion), although our authorities expect this shortfall to be compensated during 2023 on the back of tighter macroeconomic policies, efforts to increase domestic energy production, and other targeted measures (consistent with a projected rise in the trade surplus to 2.3 percent of GDP in 2023).

Fiscal Policy

Our authorities remain committed to the fiscal path envisaged in the program, and are taking important steps to improve fiscal management, redoubling efforts to meet the 2022 primary deficit target of 2.5 percent of GDP. Efforts are underway to implement the required policy package to compensate for higher energy subsidies and social assistance spending (both needed to counterbalance the effects of the war in Ukraine), while aiming to maintain public capital spending as much as possible. Securing adequate levels of public capital spending, as well as an efficient execution, is of the utmost importance to ensure that growth proceeds at sufficiently fast pace, which is critical for program success. Moreover, in the medium and long run it is clear that there is direct link between infrastructure and capital spending -that help to structurally boost exports-, and the ability of Argentina to accumulate reserves. Our approach is bearing fruit, with real spending having been contracting through September, alongside a significant reduction in domestic arrears.

Our authorities recently advanced payments of income taxes from companies with extraordinary profits related to the global commodity price shock, introduced a temporary export incentive for the soy sector, with positive revenue spillovers, tightened controls to limit monthly accrual spending to cash resources available and prioritize/reallocate expenditures within existing budgetary spending ceilings, by over 0.5 percent of GDP during the year. In addition, our authorities are taking steps to improve the targeting of energy subsidies by expanding the tariff segmentation scheme, capping utility subsidies for middle income consumers for level of consumption above certain thresholds and reducing subsidies for commercial users, raise tariffs on water utilities and public transport and contain the wage bill, by extending the public sector hiring freeze to include public companies and state-owned enterprises.

To cement the budget path, our authorities recently submitted a bill of the 2023 Budget to Congress, consistent with the 1.9 percent of GDP program deficit target. This bill includes a description and the details of the underlying policies needed to deliver the 1.9 percent of GDP primary deficit target for the non-financial public sector on a cash basis. Achievement of the proposed adjustment is largely underpinned by strengthened revenue mobilization efforts, improved targeting in subsidies (0.5 percent of GDP), including on energy, transport and water, the streamlining of social assistance (0.7 percent of GDP) and tighter expenditure controls in key areas. In turn, the wage bill is projected to remain unchanged as a share of GDP, while pension spending will continue to follow the indexation formula.

Congress approved the Fiscal Consensus agreed with 21 provincial governments in mid-September 2022. The Fiscal Consensus proposes a strategic agenda for reviewing the definition of escape clauses, an appraisal of the role of Federal Fiscal Responsibility Council, and a limit on foreign-currency denominated borrowing by provincial governments. In addition, our authorities are working to increase the speed of provincial government fiscal reporting, to ensure timely quarterly and end-year general government reports.

Building on recommendations of the IMF's Public Investment Management Assessment (PIMA), our authorities are advancing on the development of an action plan to enhance financial and budget reporting of the entities of the national public sector other than the

National Administration and to strengthen the monitoring and governance of investment projects. The government recently modified a resolution to improve the prioritization and selection criteria for the public investment projects to be included in the 2023 Budget and recommendations from the recently updated fiscal safeguards review have also been assessed.

Our authorities are intensifying efforts to improve property tax collection and to strengthen the tax and customs administration, drawing on the ongoing IMF Technical Assistance. The plan will be underpinned by institutional policies and guidelines for risk segmentation of taxpayers and foreign trade operators along with a comprehensive compliance gap analysis for key taxes. The new plan includes a new compliance risk management committee and a new risk management unit to be established by end-2022. Our authorities will also thoroughly review tax incentives to both, streamline fiscal performance and ensure that such incentives are aligned with key policies objectives.

Our authorities would also like to emphasize and underscore the importance of tax information exchanges and international cooperation for combating tax evasion and improving fiscal performance; not just in our case, but even more broadly for EMDCs.

Financing Strategy

Our authorities are also implementing an enhanced domestic peso market financing strategy buttress on strengthened commitments to meet the fiscal goals. The development of the domestic capital money and capital markets is a vital component of the macroeconomic framework. In fact, due to a more proactive debt management policy to alleviate pressures and secure additional net peso financing, the financing strategy remains on track. Voluntary debt exchanges successfully pushed around 2.3 percent of GDP of obligations falling due in August-October 2022, into the third quarter of 2023. In the most recent auctions, our authorities have secured rollover rates near 200 percent by offering sufficiently attractive interest rates (above the effective BCRA policy rate), while considering to increase the frequency of short-term issuances. In 2023, our goal is to continue extending maturities to reduce rollover risks, using inflation- and foreign exchange-linked instruments, while relying on fixed-rate instruments playing a role, as conditions allow. In addition, our authorities will seek to accumulate buffers through issuances of LEDES (Treasury short term instruments) and normalize the yield curve through operations in the secondary treasury market. The combination of these efforts will allow us to reduce monetary financing of the fiscal deficit to 0.8 percent in 2022 (below the current program target) and 0.6 percent of GDP in 2023.

Our authorities have finalized an annual borrowing plan, which will be implemented in the fourth quarter of 2022 and thereafter on an ongoing basis. The required work to complete a medium-term debt strategy (MTDS) remains on track and will be completed by end-2022, with Fund technical support. A *Committee for the Development of the Capital Markets* will be established soon, to bring together public and private actors to study and discuss initiatives to strengthen the local debt market, including proposals to widen the investor universe.

Our authorities have intensified the efforts to secure official (non-IMF) external financing. Total external disbursements in the first half of 2022 reached almost US$800 million, around US$900 million below projections established during the first review. Our government efforts in this area start to bear fruit, and official net financing is expected to pick up and reach US$ 770 million by end-September, and US$ 2,300 million by end-2022, largely reflecting a catch-up in programed budget support. The bulk of net official financing comes from multilateral development banks (US$ 2,200 million) and the remainder from bilateral creditors. Our authorities have resumed the negotiations with the Paris Club and our goal is to reach an agreement in the coming months, based on a repayment schedule that is consistent with our repayment capacity and debt sustainability.

Monetary, Exchange Rate Policies, and Anti-Inflationary Policies

Higher global energy and food prices along with domestic uncertainties have exacerbated the challenge of addressing inflation. Our authorities continue to implement monetary and exchange rate policies to secure sufficiently positive real monetary policy interest rates, which along with efforts to reduce the fiscal deficit, limit monetary financing, and improve wage-price coordination, will gradually reduce inflation. Our authorities stand ready to adapt policies based on the evolution of core inflation, forward-looking measures of inflation, and international reserves dynamics, ensuring that real policy rates stay firmly in positive territory, to guard against further inflationary shocks and keep the quasi-fiscal deficit in check.

Our authorities have raised the nominal annual policy rate by about 2300 basis points terms since end-July, bringing the monthly equivalent policy rate to 6.2 percent. Our authorities have narrowed the interest rate corridor, together with a proactive pricing policy by the Treasury on its recent issuances, helping to align interest rates of peso-denominated assets, improving the monetary policy transmission, and reducing the exchange rate gap.

The rate of crawl of the exchange rate has been adjusted, and it will remain consistent with the evolution of inflation and trading partner currency developments. This is essential to maintain competitiveness and Argentina's current account surplus, which will be critical to boost reserve accumulation and meet the program targets. Recently introduced temporary export incentive schemes are encouraging exports of stockpiled soy and consideration is being given to measures to contain the widening services deficit and transfer pricing abuse.

Measures that improve the transmission of monetary policy rates to deposit rates are continuing to be implemented, including further raising commercial banks' deposits floor rates and lending ceiling rates. Since the first review, the BCRA has also developed and published a plan to simplify the reserve requirements regime. The adopted regulations streamline incentives for lending to small and medium-sized enterprises and to consumers, while gradually phasing out a number of special rebates on reserve requirements, with due consideration for the capital and liquidity positions of commercial banks, and an overarching goal of minimizing the impact on the overall liquidity position of the banking system.

The banking system remains liquid and well capitalized, supported by strong oversight. Efforts are underway to support and sustain the development of the secondary market for government securities. To this end, government securities recently purchased by the BCRA in the secondary market, will be used to smooth yield curve volatility. Our authorities will consider a gradual tapering of these holdings, as conditions allow.

In the face of heightened market pressures and reserve losses, capital flow measures have been tightened, including through a broadening of import financing requirements, and additional charges on overseas credit card payments, to avoid a disorderly adjustment that would have jeopardized the program. A recently established working group to analyze CFM restrictions is advancing the preparation of a roadmap. This is expected to be completed by end-June 2023 to enable input from recently requested IMF technical assistance. As conditions permit, and reserve coverage strengthens, steps will be taken to advance gradually to ease these restrictions.

In line with the recommendations of the recently completed IMF Safeguards Assessment, our authorities are working in evaluate the underlying health of the central bank's balance sheet and discussing the options to strengthen it, based on internationally recognized accounting standards, and supported by IMF technical assistance.

Growth and Resilience Policies

Promoting strategic sectors remains key to program success. Growth and resilience policies are essential to diversify and boost net exports and to solidify the macroeconomic framework. Our authorities are giving special emphasis to policies aimed at improving the efficiency, fairness, and sustainability of the energy sector, as well as building a stronger and more diverse export base.

A critical ingredient in our strategy to spur growth is to foster public capital spending in infrastructure, and the private sector should be a partner. Discussions with relevant stakeholders, including international investors to secure financing, have intensified to increase investment in the hydrocarbon, mining, agro-industry, automotive, hydrogen and biotechnology industries. Our authorities are enhancing the regulatory frameworks in these key sectors, with the aim of boosting the country's productive and export capacity. Reform efforts in the agricultural and energy sectors are expected to reduce energy-related imports, including by tapping into Argentina's vast gas and fertilizer production potential. Initiatives will help ease international supply constraints and support global energy and food security, taking into consideration domestic market conditions.

Improving the efficiency of the energy sector is a cornerstone of our strategy to build a resilient economy and contribute to the international supply of traditional and cleaner sources of energy. A top policy priority has been mitigating the impact of the recent increase in global energy prices on the energy subsidy bill, while also ensuring distributional fairness and equity. A key part of our strategy is eliminating subsidies for residential users with the greatest payment capacity. Building on efforts to reduce costly energy imports, our authorities are implementing supply-side measures to increase domestic production and unlock Argentina's energy export potential. Our arrangements with Bolivia and Brazil will help secure energy supplies during winter and reduce reliance on costly imports of liquefied natural gas.

Our authorities are also advancing with the construction of the Nestor Kirchner gas pipeline, the first and second phases of which are expected to be completed by end-June and end-December 2023, respectively. The pipeline will support an increase in the daily supply of domestically produced gas of 11 million cubic meters (m^3), starting in July 2023. To encourage an increase in gas supply for the domestic market and incentivize exports, our authorities will also launch a new Plan Gas, which will extend current production volumes to 2028. Moreover, our authorities have been working on strengthening bilateral agreements with Chile to expand foreign markets. Finally, to underpin the increase in domestic productionthe objective is to improve the financial position of the sector, including by updating tariff agreements with electricity distributors for the metropolitan region of Buenos Aires next year, and reducing arrears to/from the state-owned electricity dispatch operator.

A decree was issued in June establishing a new residential subsidy segmentation scheme that will eliminate electricity and gas subsidies for residential consumers nationwide with the greatest payment capacity. Implementation of the scheme is supported by a new voluntary database (RASE) of energy consumers who request to keep the energy subsidy and are classified according to socio-economic characteristics.

For 2023, the overall increase in the subsidized reference prices will be capped at 40 percent and 80 percent of growth in the wage index for low- and middle-income consumers, respectively. Middle-income residential consumers will be subject to an additional consumption cap and will pay full cost for electricity use above 400KWh/month (with higher thresholds for some regions without access to natural gas) and gas use above 70 percent of the previous 5-year average for each category of users in the relevant region.

The development of the government's strategy to improve the efficiency and financial sustainability of the energy sector in the medium term is also advancing. The development of this strategy is supported by the World Bank's technical assistance. The strategy has a special emphasis on the electricity sector and includes actions to improve energy efficiency for the sector as a whole, support electricity generation cost management, strengthen the electricity distribution and transmission segment, strengthen the recent electricity and gas segmentation scheme, and improve the overall financial sustainability of the sector. Our authorities still expect to publish a draft strategy for consultation with key stakeholders, by the end of the year, along with a plan to improve further the implementation of the segmentation scheme.

Governance and Transparency

Our authorities have made additional progress in strengthening our AML/CFT regime. Our authorities recognize the need to improve governance and transparency, in order to tackle tax avoidance and external assets formation. In consultation with IMF staff, our authorities have prepared a gap analysis of the entire AML/CFT regime compared to Financial Action Task Force 40 Recommendations, the findings of which will be incorporated as necessary into the amended AML/CFT legislation during the congressional review process.

In addition, our authorities have finalized and adopted the national risk assessment of money laundering, which has been consolidated with an updated terrorist financing assessment. Lastly, our authorities remain on track to publish the National AML/CFT Strategy, including recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.

Conclusion

Our authorities reaffirm their strengthened commitment to the policies and objectives of the economic program supported by the IMF arrangement under the Extended Fund Facility (EFF), and to meeting the program's targets for the remainder of 2022 and next year, which will remain generally unchanged. The updated macroeconomic framework takes into account the more difficult global situation, recent domestic developments, and the conviction that growth and resilient policies and public capital spending, to develop infrastructure to pave the way to private investment in the real economy, are as essential as the implementation of the agreed policy actions program targets and structural benchmarks that have been adjusted to reflect the new macroeconomic framework and policy priorities. Hence, we encourage the Executive Directors to support the second review under the extended arrangement under the Extended Fund Facility, the requests for waivers of applicability and nonobservance of performance criteria, the modification of performance criteria, and the financing assurances review.