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ARGENTINA

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

In the context of the Third Review Under the Extended Arrangement Under the Extended Fund Facility, Request for Waivers of Nonobservance 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 December 22, 2022, following discussions that ended on November 17, 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 December 12, 2022.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Argentina.

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

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Washington, D.C.

IMF Executive Board Completes Third 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 third review of Argentina's 30-month EFF arrangement, allowing for an immediate disbursement of about US$6 billion.
- Tighter macroeconomic policies since July are starting to bear fruit—inflation is moderating, the trade balance is improving, and reserve coverage is gradually strengthening.
- With a more challenging external and domestic backdrop, decisive program implementation will be critical to safeguard stability and program objectives.

Washington, DC – December 22, 2022: The Executive Board of the International Monetary Fund (IMF) completed today the third review of the extended arrangement under the Extended Fund Facility (EFF) for Argentina. The Board's decision enables an immediate disbursement of SDR 4.5 billion (about US$6 billion), bringing total disbursements under the arrangement to about US$23.5 billion.

In completing the review, the Executive Board assessed that all quantitative performance criteria through end-September 2022 were met, on the back of prudent macroeconomic management by the new economic team. In addition, the Board also approved waivers of non-observance associated with the introduction of policy measures that gave rise to new exchange restrictions and multiple currency practices and called for their unwinding as conditions permit.

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 implementation of polices to strengthen public finances, tackle persistent high inflation, improve reserve coverage, and set the basis for sustained and inclusive economic growth.

At the conclusion of the Executive Board's discussion, Ms. Gita Gopinath, First Deputy Managing Director and Acting Chair, made the following statement:

"Continued decisive policy actions are starting to bear fruit. Against a more challenging external and domestic backdrop, resolute policy implementation, including tightening of fiscal and monetary policies, is leading to a reduction in inflation as well as improvements in the trade balance and reserve coverage. Nevertheless, macroeconomic imbalances persist, and conditions remain fragile. Continued enhanced program implementation will therefore be critical to achieve key program objectives and maintain the program as an anchor for stability. Exchange restrictions and multiple currency practices should be avoided and unwound as early as conditions permit, and macroeconomic imbalances are addressed.

"Fiscal consolidation as budgeted will be needed to support the disinflation and reserve accumulation processes, alleviate financing pressures, and strengthen debt sustainability. Reducing the primary fiscal deficit to 1.9 percent of GDP in 2023 while providing space for priority infrastructure spending will require continued efforts to mobilize revenues, strengthen expenditure controls, and, importantly, improve the targeting of energy subsidies and social assistance. The timely implementation of measures will be critical to boost credibility.

“Sustained positive real interest rates remain essential to reduce persistent high inflation and strengthen the demand for peso assets. In addition, it would allow for improvements in competitiveness and reserve coverage, while avoiding reliance on ad-hoc FX incentives and restrictions as they are not a substitute to consistent macroeconomic policies. Meanwhile, voluntary price and wage coordination could play a complementary role as macroeconomic imbalances are addressed.

“A proactive market-oriented debt management strategy is vital to mobilize domestic financing, mitigate rollover risks, and reduce central bank financing of the deficit. Building on recent progress, including the welcome restructuring agreement with Paris Club creditors, mobilizing support from multilateral and bilateral partners remains essential to ensure financing commitments are met and reserve coverage is strengthened.

“Continued efforts on the structural front remain key to support broader macroeconomic goals, including by strengthening public financial management, the peso government debt market, AML/CFT framework, the central bank balance sheet, and the efficiency and sustainability of the energy sector.

“Agile policy making remains essential to meet program objectives, and further policy actions could be necessary to safeguard macroeconomic stability if downside risks materialize. Broad political support for program policies remains critical in the period ahead.”

ARGENTINA

December 12, 2022

THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Early decisive policy implementation by the new economic team was critical to stabilizing markets and begin rebuilding confidence in the run-up to the second review. Domestic demand has since slowed in response to tighter macroeconomic policies, with high frequency indicators pointing to a further moderation in inflation, a contraction in goods imports, and improvements in the trade balance. Nonetheless, and against a more challenging external and domestic backdrop, the situation remains fragile. Inflation is still high and unanchored, reserves are low, and confidence needs further strengthening. Moreover, social discontent has risen amid spending restraint and some decline in real wages. Review discussions focused on strengthening macroeconomic policies to safeguard stability and achieve program objectives, especially a durable reduction in inflation and improvement in reserve coverage.

Program performance. All quantitative performance criteria through end-September were met due to more decisive policy implementation, but also the introduction of temporary measures that have given rise to a new multiple currency practice (MCP) and intensified/modified existing exchange restrictions/MCPs, thereby leading to the nonobservance of the respective continuous PCs. Fiscal targets were met on account of strong expenditure controls and cash management, as well as higher export duties from the FX incentive scheme. Progress is being made in implementing the structural agenda, including in the areas of revenue administration, public debt management, and energy policy. Completion of the second review also catalyzed official financing, including budget support, and paved the way for a restructuring agreement with Paris Club creditors. Preliminary data suggest that end-2022 quantitative targets are within reach if prudent macroeconomic management is maintained.

Policy recommendations. Continued resolute program implementation remains essential to help strengthen policy credibility and the anchoring role of the program. Prudent macroeconomic policies are necessary to secure key program targets, address high persistent inflation, and improve reserve coverage. The planned reduction in the primary fiscal deficit, supported by expenditure controls and actions to improve the targeting of subsidies and social assistance, is essential to ensure a healthy moderation in domestic demand, alleviate financing pressures, and support reserve accumulation.

These high-quality spending measures are also essential to improve the structure of spending, facilitate fiscal consolidation beyond 2023, and ensure debt sustainability. Continued application of the enhanced monetary and FX policy framework, maintaining sufficiently positive real interest rates, remains critical to reduce inflation, encourage the demand for peso assets, reduce reliance on central bank financing, and improve competitiveness. Meeting domestic financing objectives for the remainder of 2022 and 2023 will require a more proactive market-oriented debt management strategy centered on extending maturities to mitigate rollover risks given the complex external and domestic context, including the political cycle. Building on recent progress, mobilizing support from multilateral and bilateral partners will be essential to ensure financing commitments are met. On the structural reform front, further efforts are needed to strengthen revenue mobilization, public financial management, the central bank balance sheet, and the efficiency/sustainability of the energy sector. Reliance on ad-hoc and distortionary measures, including exchange restrictions and multiple currency practices, should be avoided going forward, as they are not a suitable way to address macroeconomic imbalances. Meanwhile, a gradual easing of these restrictions should be sought as conditions permit including to support the return to international capital markets by the time repurchases to the Fund come due. Broad political support for the program remains essential, especially as elections draw closer.

Program risks. Program risks remain elevated in the context of a less favorable external environment and ongoing policy implementation risks. A sharper-than-anticipated slowdown in global growth or tightening in global financial conditions could adversely impact Argentina, including through negative knock-on effects on commodity prices and the domestic bond market. Intensification of the ongoing drought could reduce agricultural exports and foreign currency inflows, stoking inflation and jeopardizing program objectives. Program implementation risks remain elevated given the very complex domestic economic, social, and political situation. Social discontent could escalate further, weakening political support for the program and leading to policy slippages and interventionist measures, especially ahead of the elections. Contingency planning and agile policy making will remain essential to help meet program objectives, and further policy tightening may be necessary should risks materialize. The Fund continues to face significant enterprise risks, as program risks cannot be fully mitigated.

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. The authorities also request: (i) completion of the financing assurances review; (ii) a waiver for the non-observance of the continuous performance criterion related to the imposition or intensification of exchange restrictions and the introduction or modification of MCPs; and (iii) Board approval of the temporary retention of the measures giving rise to exchange restrictions and MCPs under Article VIII, Sections 2(a) and 3. The program also proposes new and modified structural benchmarks.

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

Discussions took place virtually and in Buenos Aires and Washington, D.C. during November-December 2022. The team included L. Cubeddu and A. Ahuja (heads), F. Arizala, A. Chailloux, R. Llaudes, M. Perks, J. Schauer (all WHD), J. Hooley (FAD), G. Otokwala and F. Figueroa (LEG), C. de Barros Serrao (MCM), K. Elfayoumi (SPR), M. Szafowal (Local Economist), and B. Kelmanson (Resident Representative), I. Gudbjartsdottir (MCM) joined part of the discussions. V. Bonifacio (WHD) provided research assistance 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. Despite ongoing resolute policy implementation, the situation remains fragile. Strong actions by the new economic team have been critical to stabilize markets, rebuild confidence, and address earlier policy setbacks. Tighter fiscal and monetary policies since July are bearing fruit—inflation is moderating and domestic demand is decelerating, supporting a much-needed improvement in the trade balance and reserve coverage. In addition, completion of the second review has helped catalyze net financing from official creditors and paved the way for a restructuring agreement with Paris Club creditors in late October. Nevertheless, large macroeconomic imbalances persist. Inflation remains high, reserves coverage is still weak, and challenges in mobilizing reserves and domestic financing have reappeared, triggering renewed central bank intervention in the secondary bond market (though more limited than earlier in the year). An even stronger commitment to program implementation will be critical to entrench stability and lock in hard-won gains.

2. A more difficult external and domestic backdrop adds to the challenges going forward. A sharper-than-anticipated slowdown in trading partner growth or tightening in global financial conditions could adversely impact Argentina, including through negative knock-on effects on commodity prices and the domestic bond market. Intensification of the ongoing drought could reduce agricultural exports and foreign currency inflows, stoking inflation, and jeopardizing program objectives. Program implementation risks remain elevated given the very complex domestic economic, social, and political situation. Social discontent could escalate and political support for the program could wane, especially as the elections draw closer. In this context, contingency planning and the agile adaptation of policies will be essential to safeguard stability and to ensure that program objectives are met. The Fund continues to face significant enterprise risks.

RECENT DEVELOPMENTS

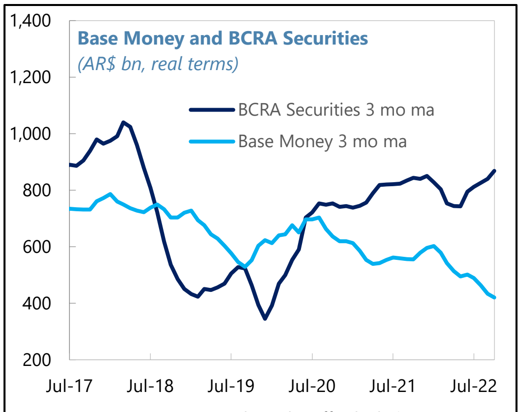
3. Key economic indicators are improving, but macroeconomic imbalances and vulnerabilities remain large.

- ***Economic activity** remains robust, although there are welcome signs that domestic demand is now softening*. The economy expanded by 6.2 percent y/y through Q3, largely driven by the manufacturing (6.3 percent y/y) and retail (7.5 percent y/y) sectors. However, activity declined in September by 0.3 percent m/m, and high-frequency indicators through October show some moderation in consumption and goods import volumes growth.[1]

- ***Inflation** has lost some momentum since July, but pressures remain strong* (**Box 1**). Headline inflation increased slightly in October to 6.3 percent m/m but remained below the peak of 7.4 percent m/m in July—mainly due to the decline in goods prices, non-food in particular. Core inflation remained unchanged at 5.5 percent m/m in October (compared to 7.3 percent m/m in

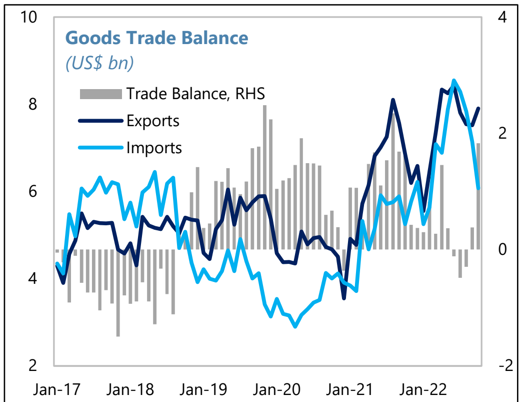
[1] Growth in supermarket sales moderated from 2 percent y/y in real terms in June to 0.8 percent y/y in September, while import volume growth moderated from 15.8 percent y/y in June to 8.3 percent in October.

July), with the increase in regulated prices (mostly energy tariffs) largely offset by the deceleration in the inflation of seasonal products. Inflation expectations for end-2022 remained broadly stable in October, though end-2023 expectations continued to increase to 96 percent (compared to 90.5 in September). Meanwhile, money demand has contracted further, with base money reaching 4.5 percent of GDP in November, its lowest levels since the early 2000s.[2] Staff considers that a moderation of inflation to around 60 percent by end 2023 is feasible with continued decisive policy implementation, but the risk that higher inflation persists is significant given inflation inertia and uncertainties (Box 1).



Sources: BCRA, INDEC and Fund Staff calculations.

- *The **trade balance** has strengthened, yet **reserve accumulation** remains challenging.* The goods trade balance, after shrinking and reaching a deficit in July of almost US$500 million, moved back into surplus in October (US$1,800 million), largely on account of a strong deceleration in import growth and some recovery in manufacturing exports. However, despite these improvements, reserve accumulation challenges have reappeared (the BCRA sold US$900 million in the official market during October-November), reflecting in part weakness in primary exports, a high services deficit, and an elevated FX gap (in the range of 90-100 percent).[3] This prompted the reintroduction of the temporary FX incentive scheme for soy exporters, which is resulting in a reversal of these trends (the BCRA has purchased over US$700 million during November 28-December 7).



Source: Haver and Fund staff calculations

- *After normalizing, **domestic bond market** pressures have reappeared.* Strong policy implementation and a more proactive debt management strategy, including through debt exchanges, reduced market pressures and permitted the authorities to mobilize net financing of about 0.9 percent of GDP since end-July. However, in response to increased global and domestic uncertainties, including speculation of a potential restructuring following the elections, domestic bond market pressures reappeared in October. As a result, the central bank intervened again in the secondary market, although at lower levels than previously seen, in an effort to safeguard

[2] Real base money in November was down 26.7 percent (y/y).

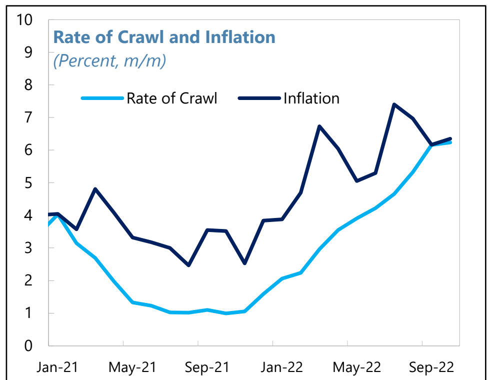
[3] In late October, Fitch downgraded Argentina's sovereign credit rating from CCC to CCC- largely on concerns about the inability to rebuild depleted reserves and recover access to international capital markets.

financial stability and ensure the normal functioning of these relatively thin markets.[4] Facing shortening maturities and rising yields, recent efforts have focused on new exchanges aimed at intra-public sector entities to extend the maturity of their holdings from Q4:2022 to Q3:2023.

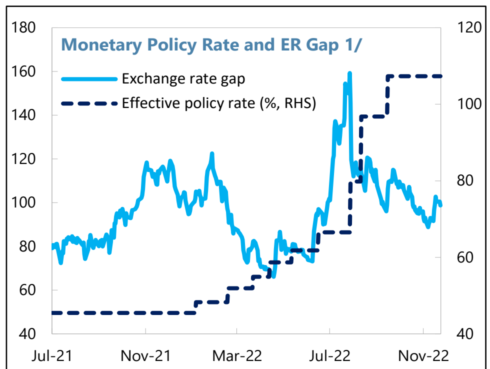
- *Meanwhile, **financial sector** balance sheet risks remain contained*. As of end-September, banks continued to maintain strong capital buffers (28.7 percent), with low and declining system-wide NPLs (3.1 percent). Bank exposure to the public sector has grown to over 50 percent of banking system domestic currency assets (still well within the regulatory limit), reflecting mainly an increase in bank holdings of BCRA securities. Meanwhile, private sector loans, which stand at only 6.2 percent of GDP, continue to shrink (down 11.3 percent y/y in real terms in November) in the context of high uncertainty, rising real interest rates, and reduced financing needs from exporters. On the liability side, private sector peso term deposits have started to recover on the back of higher real interest rates and increased deposits by soy exporters.

4. Macroeconomic policies are being tightened, in line with program commitments.

- On the *fiscal* front, efforts to restore fiscal order are continuing. Strong expenditure controls remain in place, alongside implementation of the subsidy segmentation scheme, a public sector-wide hiring freeze, and new policies to improve the effectiveness and targeting of social spending and channel savings to support SMEs (see ¶13). As a result, cumulative real spending growth moderated to 3.8 percent y/y in October (down from 14 percent y/y in May). At the same time, revenue performance remains robust in real terms (up 4 percent y/y), supported by higher customs duties from the temporary FX incentive scheme for soy exporters, advance income tax payments, and buoyant non-tax revenues.



Sources: BCRA, INDEC and Fund staff calculations.



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

- On the *monetary* front, policy rates remain firmly in positive territory, and have been kept unchanged since October in the context of some moderation in inflation. The monthly equivalent policy rate stands at 6.3 percent m/m (107.3 percent in annual effective terms), well above end-year inflation expectations (100 percent) and the program's model-based inflation reference rate. Meanwhile, the rate of crawl has been accelerated to around 6.4 percent m/m (above monthly

[4] The BCRA has purchased 2 percent of GDP in government securities from the secondary markets, of which ½ percent of GDP has taken place since end-September.

inflation) to contain earlier real appreciation trends (16 percent through October). These policies are being complemented by renewed efforts to strengthen price-wage coordination.[5]

5. Against the backdrop of continued reserve accumulation challenges, reliance on ad-hoc FX measures has persisted (Text Table 1)**.** Since mid-October, new FX restrictions and incentives have been introduced and expanded (see **Annex II**). Importantly, the authorities (i) reintroduced a temporary FX incentive scheme for the month of December to encourage soy exporters and producers to sell their stocks;[6] and (ii) extended the 30 percent tax on the purchase of FX to include the purchase of foreign currency for personal, cultural and recreational services and the import of select luxury goods. While the former results in a new multiple currency practice (MCP), the latter intensifies an exchange restriction and compounds the multiplicity of exchange rates. In addition, measures were introduced that (i) implemented a 25 percent surcharge, in the form of an anticipated tax withholding, on USD-denominated payments with credit/debit cards surpassing US$300/month, tickets of trips abroad, tourism expenses in foreign countries, and luxury imports; and (ii) allow nonresident tourists credit card purchases to be valued at a preferential legal parallel exchange rate (MEP). Finally, a new import monitoring and clearance system was recently put in place to enhance the enforcement of existing restrictions, resulting in a rise of imports subject to non-automatic licenses (from a much lower share earlier this year to over 40 percent currently).

Text Table 1. Measures Taken Since Program Approval Giving Rise to Exchange Restrictions / MCPs

Measure	Assessment
2nd Review	
Preferential exchange rate for exporters of soybeans and derivates 1/	new MCP
Preferential exchange rate for non-resident tourists	new MCP
Reduction in annual limits on undelayed FX access for goods imports and restriction of FX market access beyond those limits for certain import categories	Intensification of exchange restrictions
Implementation of a system of annual limits on the amount of foreign exchange that can be immediately accessed for payments of imports of services	Intensification of exchange restrictions
Inclusion of Transactions with Argentine Certificates of Deposits Representative Foreign Shares (CEDEARS) instruments 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	Intensification of exchange restrictions
3rd Review	
Reinstatement of preferential exchange rate for exporters of soybeans and derivates	new MCP
Extension of 30 percent tax to purchases of foreign currency for the payment of a) personal, cultural and recreational services and b) the importation of a list of luxury goods.	Intensification of exchange restrictions/ modification of an MCP

Sources: Annex II, IMF Country Report No.22/322 Annex II.

1/ The measure was eliminated before the second review Bord date.

[5] The new voluntary price agreements (*Precios Justos*), covering food and cleaning staples in supermarkets, freeze prices of around 2,000 products and cap price increases of some 30,000 products at 4 percent m/m for the next four months (November-February). Negotiations are ongoing to extend the agreements to cover textiles, medicines, and certain intermediary inputs as well as neighborhood shops. To encourage participation, firms receive unrestrained access to the official FX market to import goods sold under the program.

[6] Under the new scheme, soybeans and derivates sold for exports would benefit from a preferential rate of ARS 230 per USD, which was roughly 40 percent above the official rate. The scheme is expected to support the settlement and sale of US$3 billion of soybean products. Through December 7, BCRA purchased near US$700 million.

PROGRAM PERFORMANCE

6. All quantitative performance criteria through end-September were met, yet underlying conditions remain fragile (Figure 6 and MEFP Tables 1-2). Targets for central bank financing of the deficit and net international reserves were met as reported at the time of the second review. The performance criteria (PC) on the primary fiscal balance and domestic arrears through end-September were also met, partly on account of strict implementation of spending controls. Preliminary data suggest that all end-2022 quantitative targets are well within reach, although reserve accumulation is being supported by additional measures that give rise to intensified exchange restrictions and MCPs (see ¶5).

- ***Fiscal***. The primary fiscal deficit through end-September reached ARS 1,096 billion (1.3 percent of GDP), meeting the adjusted program target by ARS 40 billion, supported by tight expenditure controls and export duties associated with the temporary FX incentives for soy producers and exporters. Meanwhile, the stock of domestic arrears fell from around ARS 800 billion at end-June, to an average of ARS 590 billion in Q3, well below the program ceiling of ARS 654 billion. The indicative floor on social spending (covering only three of the flagship programs) was missed by a very narrow margin, largely reflecting the underexecution of AUH cash transfers.[7] However, additional social assistance spending was delivered through targeted one-off bonuses to compensate for higher food prices.

- **Monetary and reserves.** The PC on the cumulative change in NIR through end-September was met, reaching US$4.6 billion—versus an adjusted program floor of US$3.6 billion—largely driven by the FX incentive scheme. 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 reached ARS 620 billion, below the program ceiling of ARS 665 billion. Finally, the IT on the stock of non-deliverable futures (NDF) was also comfortably met.

- **Structural benchmarks**. With the support of IFI technical assistance, good progress is being made in meeting end-December structural benchmarks, including in developing plans to strengthen: (i) revenue compliance, (ii) the sustainability and efficiency of the energy sector; (iii) the domestic debt market over the medium term; and (iv) the central bank's financial position. Additional benchmarks were set to support revenue mobilization and strengthen the transparency of the central bank's balance sheet (see ¶28).

[7] AUH transfers were lower than projected due to the reduced withdrawal of the 20 percent portion of the benefit that is conditional on provision by beneficiaries of information confirming school attendance and medical checkups.

MACROECONOMIC OUTLOOK AND RISKS

7. The baseline remains largely unchanged, with minor changes to reflect recent developments, a more challenging global environment, and updated policy measures.

- **Real GDP growth**. The economy is projected to expand by 4.6 percent in 2022, up from 4 percent at the second review, on account of stronger-than-anticipated activity and demand through Q3:2022. Real GDP growth is still projected to moderate to 2 percent in 2023, reflecting the weaker global outlook, the impact of continued policy tightening, and other domestic factors, including election related uncertainties. With output gaps closing, the economy is projected to expand at 2 percent per year over the medium term, consistent with the average real GDP growth over the past 20 years.

- **Inflation.** Inflation is projected to decline from around 5 percent m/m by end-2022 (97 percent y/y) to around 3½ percent m/m by end-2023 (60 percent y/y), underpinned by the continued implementation of tight macroeconomic policies and some softening of global commodity prices. The process is assumed to be gradual, including over the medium term, reflecting the unusual challenges from high inertia and weak money demand, as well as the need to correct relative price misalignments (e.g., energy), and shore up real exchange rate competitiveness.[8]

- **External balance**. The current account balance, after deteriorating to a deficit of 0.3 percent of GDP in 2022, is projected to reach a surplus of 1.2 percent of GDP in 2023. This improvement is consistent with a policy-induced deceleration in domestic demand, import restrictions, improvements in competitiveness and terms of trade, as well as higher interest income on residents' investments abroad. The stronger current account, along with net official support and limited capital outflows (thanks to strict CFMs) are expected to support reserve accumulation of US$9.8 billion during 2022-23, with US$5 billion projected by end-2022 (unchanged relative to the second review) also supported by the recent adoption of administrative FX measures.

- **Fiscal and financing.** The primary fiscal deficit is projected to decline from 2.5 percent of GDP in 2022 to 1.9 percent of GDP in 2023. In line with the approved 2023 Budget (see ¶11), this consolidation will be achieved primarily through improved effectiveness and better targeting of subsidies and social assistance, while protecting critical infrastructure projects, namely the gas pipelines. The annual financing mix for 2023 remains broadly unchanged, underpinned by a pickup in net official financing and an improvement in domestic debt market conditions to enable rollover rates of 130 percent and support a reduction in monetary financing of the fiscal deficit (from 0.8 percent of GDP in 2022 to 0.6 percent of GDP in 2023). The medium-term fiscal and financing paths remain unchanged, although continued implementation will be critical to ensure debt sustainability (federal government debt is projected to decline from 80 percent of

[8] After weakening by nearly 30 percent between end-2017 and end-2020, the REER has appreciated by about 40 percent since (through November 2022), in part reflecting the fact that, until recently, the rate crawl has lagged headline inflation.

GDP in 2022 to below 73 percent by 2024)[9] and international market access, gradually starting in 2025.

Text Table 2. Revised Macroeconomic Baseline, 2021–2024

	2021	SR (Sep.) 2022	Proj. 2022	SR (Sep.) 2023	Proj. 2023	SR (Sep.) 2024	Proj. 2024
GDP growth (avg, %)	10.4	4.0	4.6	2.0	2.0	2.0	2.0
Inflation (eop, %)	50.9	95.0	95.9	60.0	60.0	44.0	44.0
Primary fiscal balance (% of GDP)	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	-0.9
Federal government debt (% GDP)	80.9	76.0	79.7	69.5	71.1	69.6	72.7
Current account balance (% GDP)	1.4	-0.3	-0.3	0.6	1.2	0.4	0.8
Change in net int'l reserves (US$bn)1/	-1.6	5.0	5.0	4.8	4.8	5.2	5.2
Monetary base (% of GDP)	7.9	6.1	6.1	6.4	6.4	6.5	6.5
Monetary financing (% GDP)	3.7	0.8	0.8	0.6	0.6	0.0	0.0
Terms of trade (percent change)	9.6	-0.2	-0.7	1.8	3.8	-2.7	-5.2

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 liabilities.

8. Program risks remain very elevated, and agile policymaking and contingency planning are of the essence.

- On the external front, the economy is subject to downside risks related to (i) a slowdown in key advanced and emerging economies; (ii) a faster-than-anticipated tightening in global financial conditions; and (iii) a sudden worsening in terms-of-trade (shifts in world energy and agricultural prices). Moreover, intensification of the drought would hurt agricultural exports and foreign currency inflows, all of which would jeopardize key program objectives.

- Domestic implementation risks remain elevated. Recent stability gains may not prove durable in the event of policy slippages or the intensification of domestic bond market pressures, resulting from policy uncertainties. Spending restraint or higher-than-projected inflation could lead to social discontent and weaken the support for the program, especially ahead of the October 2023 Presidential elections.

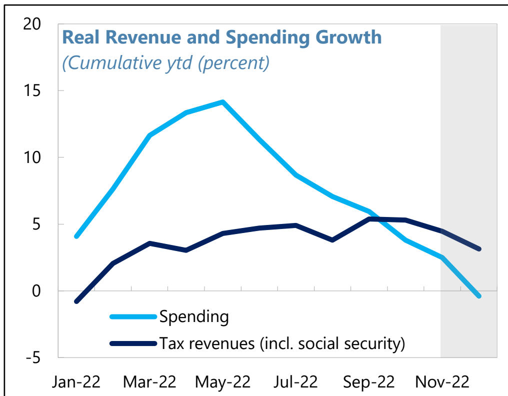
- Contingency planning and agile policy adjustment will be essential to ensure program objectives are met, especially given limited policy space. These plans should be anchored around the timely adaptation of macroeconomic policies, while reliance on administrative responses should be avoided to prevent further distortions and the buildup of new vulnerabilities. Importantly, a proactive market-oriented debt strategy will be necessary to deal with lumpy amortizations and raise the needed net financing in 2023. In the event of financing shortfalls, tighter fiscal policies (e.g., via reduced transfers to public entities, lower nonpriority capital spending) and higher real interest rates will be needed to alleviate market pressures, support demand for government securities, and boost policy credibility. Nevertheless, while contingency planning can help identify possible alternative policy options, as mentioned in previous reviews, it cannot fully mitigate program risks.

[9] The federal government debt ratio is now projected to be 3 percent of GDP higher by end-2024 than at the second review notwithstanding higher GDP growth, reflecting various factors including higher financing costs in the context of a shortening of maturities.

POLICY DISCUSSION

9. The continued tightening of macroeconomic policies in line with program commitments will be critical to durably strengthen stability. It was agreed that key program objectives—including those related to the primary fiscal deficit and net international reserves—would remain unchanged during the remainder of 2022 and through 2023 to continue to anchor policy making and expectations. Importantly, enhancing the credibility of the policy adjustment process requires that this be underpinned by upfront high-quality measures. In addition, given the risks around the baseline, even tighter macroeconomic policies may be required to achieve program objectives. Meanwhile, reliance on ad-hoc FX measures and restrictions and import controls should be avoided as they add to distortions, create new vulnerabilities, and tend to be counterproductive.

A. Fiscal Policies



Source: MECON and Fund staff calculations and projections

10. Continued tight expenditure controls are critical to ensure achievement of the 2022 primary deficit target of 2.5 percent of GDP. After earlier policy slippages, strong policy tightening is underway, largely underpinned by strong expenditure controls and early implementation of measures to improve the targeting of subsidies and social assistance. A new Emergency Decree will be issued modifying the current budget to reflect higher-than-anticipated revenues (including because of higher inflation) and update spending priorities, consistent with the program target (***prior action***). Specifically, the decree will raise the nominal spending ceilings for wages, pensions and some social assistance (in line with legal requirements), while also reprioritizing resources to accommodate additional targeted social spending (including bonuses for the poorest) and support for small farmers and businesses. Moreover, spending in the final month of the year will need to continue to be limited to cash resources available to ensure that the cumulative real primary spending this year remains generally unchanged relative to 2021, in line with program projections (see text chart).

11. Fiscal consolidation must continue into 2023 and spending pressures contained. The recently-approved 2023 budget is consistent with a fiscal primary deficit target of 1.9 percent of GDP, with the consolidation underpinned primarily by: (i) a reduction in subsidies (0.6 percent of GDP), mostly from the energy sector (see ¶12) but also in the water and transport sectors; and (ii) a rationalizing of social assistance (0.8 percent of GDP), through the unwinding of emergency bonuses as well as improvements in the targeting of benefits (see ¶13). In addition, efforts need to continue to contain the public sector wage bill (through the sector-wide hiring freeze), pensions (where increases will continue to be anchored on the indexation formula and avoidance of moratoria), and transfers to provinces, SOEs and other government agencies. These high-quality measures are necessary to protect priority infrastructure projects, absorb the one-off costs of running the 2023 Presidential election (about 0.2 percent of GDP), but also to facilitate fiscal consolidation beyond 2023 and ensure debt sustainability. To help strengthen policy credibility and disinflation goals, the primary deficit will be limited to 0.8 percent of GDP during the first half of next year.

Federal Government: Fiscal 2022-2023

Percent of GDP

	2022	2023	Diff
	(Percent of GDP)		
Revenues	**18.1**	**16.8**	**-1.2**
Tax revenues	11.2	10.8	-0.4
Social security contributions	5.2	5.2	0.0
Nontax revenues 1/	1.7	0.8	-0.9
Primary expenditures	**20.5**	**18.7**	**-1.8**
Wages	3.0	2.9	-0.1
Goods and services	0.7	0.7	0.0
Pensions	7.8	7.5	-0.2
Social assistance	3.8	2.9	-0.8
Subsidies	2.7	2.1	-0.6
Current transfers to provinces	0.7	0.5	-0.1
Other current	0.4	0.4	0.0
Capital spending	1.6	1.6	0.0
Primary balance	**-2.5**	**-1.9**	**0.6**

Sources: MECON and Fund staff calculations.

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

12. **Improving the targeting of energy subsidies will be critical to the success of fiscal consolidation.** Early steps have been taken to implement the energy subsidy segmentation scheme, which will drive the reduction in subsidy spending in 2023. High-income residential users (representing about 25 percent of all residential users) and commercial users have already experienced a cumulative 60 percent reduction in their electricity and gas subsidies during October and November. The subsidies for this high-income residential group and commercial users will be fully eliminated by February 2023 (end-January 2023 SB; ***modified and reset to February 15, 2023, SB***), with minor delays reflecting the need to ensure proper registration of users to determine subsidy eligibility.[10] Meanwhile, for the subsidized middle- and low-income residential users, energy tariffs will be raised, effective February 2023, by 80 percent and 40 percent of nominal wage growth (projected at around 100 percent), respectively. Separately, agreements with electricity distributors in the metropolitan region of Buenos Aires will be revised by February 2023, which along with agreements to gradually eliminate distributors' arrears to/from the state-owned electricity dispatch operator (CAMMESA), will help alleviate contingent pressures on federal government finances. Taken together, these efforts are projected to reduce energy subsidies by around 0.5 percent of GDP and, by staff estimates, raise cost recovery levels from around 30 percent in September 2022 to about 60 percent by end-2023.

13. **Improving the quality and targeting of social spending is also required.** A new strategy to strengthen the targeting of income support programs is being developed (***end-March 2023, SB***), key aspects of which are being implemented. In November, a decree was issued to help target spending by closing several social programs to new entrants, especially the workfare program *Potenciar Trabajo,* which has grown steadily since 2015, but particularly during the pandemic. Efforts are also underway to improve the governance of *Potenciar Trabajo* and exclude ineligible beneficiaries, with a rapid audit of all beneficiaries to be completed by January 2023. Over 20,000 ineligible recipients have already been removed, with further reductions expected during the course of next year. In parallel, plans are being developed to cap the *Potenciar Trabajo* benefit for

[10] The elimination of subsidies to commercial users has been brought forward (previously planned by early 2024).

those receiving other government transfers, to also encourage formal labor market re-entry. Over time, improving the targeting of social assistance and increasing formal employment should create further opportunities to unwind the workfare scheme. Apart from social assistance, work is underway in the preparation of a study to identify options that could over time strengthen the equity and financial sustainability of the pension system (***modified end-December 2022, SB***). Early diagnostics have narrowly focused on identifying the fragmentation in the system, particularly the relative generosity of the multiple special regimes for different occupations, although the preparation of specific reform proposals will only be plausible after the elections.

14. Further improvements in public financial management could support the consolidation process. The 2023 Budget saw the rollout of new prioritization and selection criteria for investment projects, ensuring a focus on large and ongoing projects. As part of the action plan to enhance financial and budget reporting of national public sector entities, a framework is now being developed to strengthen controls over Treasury transfers to public corporations/trusts. As an important first step, a decree has been recently issued to strengthen financial oversight of these entities through improved information reporting, with the aim of supporting the timely publication of enhanced quarterly reports for public corporations and trust funds (***end-March 2023, SB***). Further efforts are also needed to strengthen procurement practices, including through updating the regulatory framework and improving monitoring mechanisms. Finally, and in line with fiscal safeguard recommendations, improving expenditure controls and accountability will benefit from a further strengthening of the Treasury Single Account and the prompt publication of the annual audited financial statements.

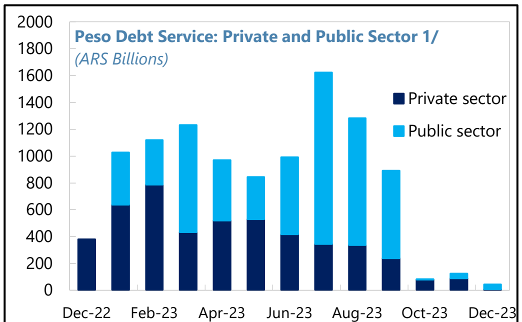
15. Revenue mobilization is necessary to support consolidation over the medium term.

- **Revenue policy.** Once completed, a comprehensive review of tax expenditures (estimated at near 2½ percent of GDP) will help identify options for streamlining tax incentive schemes *(**proposed end-June 2023, SB**)*, while efforts to strengthen property tax collection (*bienes personales*) should continue. The latter will require (i) improvements in the methodology for property valuations; and (ii) enhancements in property tax databases, that link provincial cadasters with federal property tax registers, starting first with the Greater Buenos Aires Metropolitan Area (***end-March-2023, SB***).

- **Revenue administration.** An action plan is being finalized, with the support of Fund technical assistance, to strengthen revenue administration capacity and efficiency (***end-December 2022, SB***). Key elements of this plan include a comprehensive compliance gap analysis for key taxes as well as policies and guidelines for the risk segmentation of taxpayers and foreign trade operators. To support implementation of the risk-based plan, a new risk management unit has been created to support the work of the recently-established Compliance Risk Management Committee (CRM). Moreover, the recently-signed tax information exchange agreement with the United States could improve revenues in the near to medium term, if managed properly and transparently.

B. Financing Strategy

16. Mobilizing net domestic financing and mitigating rising rollover risks will be critical in the period ahead. Recent reliance on short-term issuances and USD-denominated bonds has come at the cost of increased maturity and currency risks, with a notable build-up of amortizations falling due in Q3:2023, ahead of the elections. While capital controls and large intra-public sector holdings of domestic debt are important mitigating factors, implementation of a proactive market-oriented debt strategy will be necessary to deal with lumpy amortizations and raise the needed net financing, while ensuring that central bank intervention in the securities market is limited to ensuring normal market functioning (see ¶22). The strategy envisages (i) extending maturities of the debt held by intra-public sector entities, representing close to 60 percent of amortizations falling due next year; and (ii) a tailored approach to deal with the remaining obligations falling due to banks, mutual funds, and insurance companies (see also **DSA Annex** for more details). Mobilizing fresh peso financing during the remainder of 2022 and 2023 (roughly 3 percent of GDP), will also require efforts to encourage nonfinancial corporates (with deposits in banks and mutual funds) to hold government paper, and to tap cash surpluses of subnational governments and other public institutions. The different approaches should avoid schemes that involve coercive methods and add to future vulnerabilities. Close monitoring remains essential, and a high-frequency (monthly) monitoring mechanism is now in place to enable any necessary adjustment to the fiscal/financing plans should difficulties arise.



Source: MECON and Fund staff calculations and projections.
1/ Based on the authorities' definition of public-private debt, with Banco Nacion and other public sector entities classified as public debt.

17. In parallel, efforts to strengthen the peso market over the medium term should continue. An annual borrowing plan for implementation in 2023 has been completed and work is well advanced on the development of a medium-term debt strategy (***end-December 2022, SB***). However, achieving the net peso financing goals will crucially depend on the decisive and credible implementation of tight macroeconomic policies, including adherence to the planned fiscal consolidation and application of the enhanced monetary policy framework.

18. Efforts will need to continue to mobilize net external financing. After shortfalls close to US$800 million through end-September, official disbursements picked up during Q4:2022 on account of IADB budget support of US$1.2 billion, and project support of US$250 million is still expected from non-Paris Club creditors, mainly related to a large hydropower dam project. In parallel, a deal with Paris Club creditors was also reached to restructure US$1.97 billion in legacy debt consistent with Argentina's repayment capacity, debt sustainability and reserve accumulation goals, while respecting the principle of comparability of treatment.[11] Nevertheless, continued efforts will be needed to ensure that official creditors meet their financing commitments (worth over US$2 billion through end-2023) and to secure additional financing from official creditors, to support the programmed reduction in monetary financing, and boost reserve accumulation. This remains essential for re-accessing international capital markets, which is assumed to start gradually in 2025.

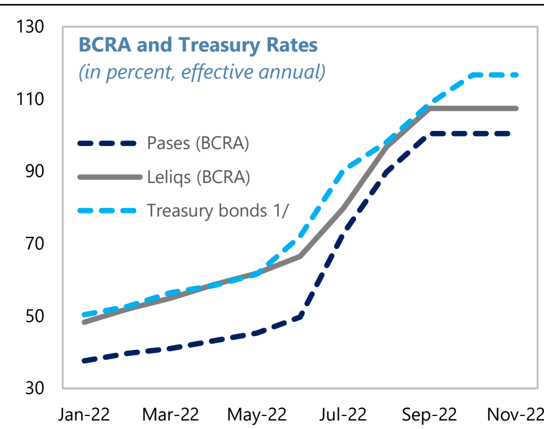
C. Monetary and Exchange Rate Policies

19. Continued application of the monetary policy framework is necessary to tackle persistent high inflation. Building on the recent strong track record, policy interest rates should remain firmly in positive real territory—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. To encourage peso demand, nominal policy rates should remain sufficiently positive to ensure inflation and inflation expectations are on a clear downward path, and the BCRA should stand ready to raise rates in line with the policy framework if new inflation shocks materialize. Meanwhile, efforts should continue to strengthen monetary transmission, including by improving coordination with the Treasury, maintaining a narrow corridor on monetary policy instruments, unwinding regulated bank deposit and lending rates, and completing the process of simplifying the reserve requirements regime, while taking account of the capital and liquidity positions of commercial banks. Well-designed wage-price coordination could play a complementary role in the disinflation process, although unilateral, involuntary price controls should be avoided.

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

	4-Dec-22
Monetary policy rate	6.3
Inflation reference rate 1/	5.4
Core inflation (3-mo ma)	6.0
Inflation expectations (avg, 3-mo ahead) 2/	6.2
Official rate of crawl	6.7
Devaluation expectations (avg, 3-mo ahead)	
NDF market	8.5
Market expectation 2/	6.2

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-October 2022.



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

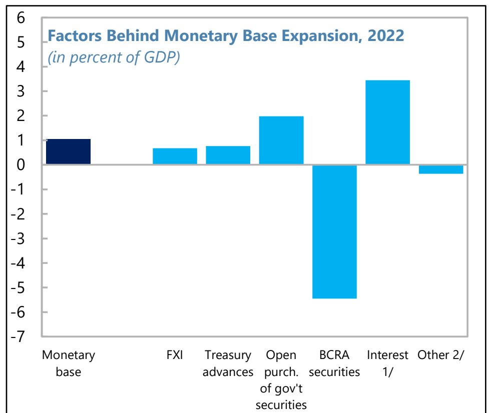
20. With positive real interest rates in place, the rate of crawl should remain above inflation to strengthen external competitiveness. Sustained positive real interest rates will not only encourage the demand for peso assets, but also enable the rate of crawl to remain above inflation, thereby gradually unwinding some of the earlier real exchange rate appreciation and

[11] The Paris Club deal includes: (i) an upfront payment (US$170 million) in December 2022; (ii) clearance of 40 percent of arrears through 2024, and full repayment by 2028; and (iii) a weighted average interest rate of 4.5 percent, with an initial rate of 3.9 percent, a step up to 4.5 percent in October 2023, and 5.2 percent in April 2027.

supporting a reduction in the FX gap and reserve accumulation. Tight fiscal policy will be needed to moderate domestic demand and mitigate the potential inflationary impact of this strategy. Meanwhile, the BCRA should continue to eschew interventions in the parallel markets and intervention in the non-deliverable futures markets should be limited to addressing disorderly FX market conditions, given potential risks to the central bank balance sheet.

21. **While administrative FX measures can safeguard reserves in the near term, they are not a durable solution or a substitute for addressing underlying imbalances.** While recent FX restrictions and incentives are helping to secure international reserve targets, they create multiple currency practices and exchange restrictions subject to Fund jurisdiction under Article VIII, and the measures also add to distortions and create new vulnerabilities (see ¶5 and ¶31). Importantly, these administrative approaches, even if labeled as temporary, could ultimately prove counterproductive—the ever-increasing complexity undermines enforcement and encourages rent-seeking, while also raising the expectation that similar measures will be implemented in the future. In this context, they should be minimized going forward and a plan for their gradual streamlining and easing should be sought as soon as conditions permit, and reserve coverage strengthens to facilitate timely re-access to international capital markets. Similarly, administrative import controls should eventually be removed as tighter macroeconomic policies gain traction. Looking further ahead, it will be critical to (i) develop a roadmap for a conditions-based easing of CFMs (***end-June 2023, SB***); and (ii) improve the sanctioning framework of the Foreign Exchange Criminal Law regime. Regarding the latter, a high-level working group has been established to produce recommendations to enhance the efficiency of the sanctioning framework (including through the introduction of administrative fines), with a view of submitting a revised law to Congress by end-March (end-December 2022, SB; ***reset to end-March 2023, SB***).

22. **It remains critical to protect the BCRA's balance sheet.** The stock of central bank securities reached 12 percent of GDP as of end-November, a historic high, generating carrying costs that are projected to exceed 4 percent of GDP in 2022. This rise in central bank securities reflects sterilization needs from monetary financing of the fiscal deficit, interest payments on central bank securities, subsidized FX sales, reserve accumulation, and central bank interventions in the secondary market for government securities (see text chart). Additional purchases in the secondary market should be avoided going forward unless they are critical to ensure smooth market functioning, while underlying imbalances and uncertainties are being addressed. Importantly, these interventions should be temporary, done at market prices, with offsetting sterilization measures to mitigate inflation risks, and consideration should be given to a conditions-based strategy for their unwinding. More generally, it remains critical to gradually strengthen the central bank's balance sheet, including to help bolster the credibility of monetary policy. In this context, the BCRA is finalizing its strategy to durably improve its financial position (***modified end-December 2022, SB***),



Sources: BCRA, IMF staff calculations. Data through November 30, 2022.
1/ Includes interest on BCRA securities, premiums and current account remuneration.
2/Includes other treasury operations, valuation effects and general expenses.

with steps also being taken to strengthen the transparency of its 2022 financial statements through enhancing disclosures in line with IFRS 7 (***proposed end-May 2023, SB***).

D. Other Structural Policies

23. Boosting domestic energy production and improving energy efficiency will be essential to strengthen external resilience over the medium term. Work to complete the construction of stage 1 of the gas pipeline by end-June 2023 remains a priority. Once completed, the pipeline will connect the vast shale oil and gas reserves of "*Vaca Muerta"* with large urban areas, supporting an increase in the daily supply of domestically-produced gas, initially by 11 million cubic meters, and by 22 million cubic meters once compressors are installed. These pipelines have the potential to sharply reduce costly energy imports from mid-2023 with positive spillovers for fiscal and external balances from 2024 onwards.[12] A comprehensive national energy sector strategy is being finalized, with World Bank support, and its publication is expected shortly ***(end-December 2022, SB***) for consultation with key stakeholders. The strategy aims to improve energy efficiency, expand renewable generation capacity, enhance electricity distribution and transmission, and strengthen the overall financial sustainability of the sector.[13] In addition, recommendations from the recently completed World Bank Country Climate and Development Report (CCDR) are being assessed and with the view of considering future conditionality in this area.

24. Further efforts are needed to strengthen and implement Argentina's AML/CFT regime. Preparations continue for the evaluation by the Financial Action Task Force (FATF) in 2023. Preliminary amendments to AML/CFT legislation have been presented to Congress, a gap analysis of the AML/CFT regime against the FATF's 40 Recommendations has been completed, and a national risk assessment of money laundering was adopted, together with an updated assessment of terrorist financing, and a national AML/CFT Strategy has been published (***end-September 2022, SB***). Building on this progress, and in consultation with IMF staff, key results of the gap analysis will be identified and incorporated into the amended AML/CFT legislation and relevant regulations. In addition, the Financial Intelligence Unit (FIU) will issue the necessary resolutions to facilitate prompt and full implementation of the AML/CFT regime.

25. More generally, continued efforts to reform the regulatory frameworks of key strategic sectors could help boost Argentina's net export capacity. As a complement to prudent macroeconomic policies and broader regulatory certainty, the authorities are working to advance draft legislation and regulatory improvements in strategic sectors (hydrocarbon, mining, agro-industry, automotive, hydrogen and biotechnology industries). These efforts have the potential to encourage additional investment and boost net exports. Nevertheless, any changes should maintain a level playing field and avoid additional fiscal costs or increasing regulatory burdens.

[12] 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.

[13] The strategy will also include a detailed plan for the implementation of the tariff segmentation scheme in 2023.

PROGRAM ISSUES

26. 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 future policy commitments. The Technical Memorandum of Understanding (TMU) clarifies program definitions and the various quarterly targets.

27. Quantitative targets: Key quantitative targets will remain unchanged relative to the second review. Quarterly performance criteria—on the fiscal balance, domestic arrears, net international reserves, and monetary financing—have been set through June 2023, and quarterly indicative targets for the second half of 2023, with revised adjustors where applicable reflecting updated projections on net external disbursements, including agreed Paris Club repayments. In addition, 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 actions, as staff is recommending their approval under Article VIII and also through the implementation of tight macroeconomic policies and the roadmap for a conditions-based easing of CFMs (see ¶21).

28. Structural Benchmarks: Two new structural benchmarks are being proposed, including: (i) a comprehensive evaluation of tax expenditures to identify options for streamlining inefficient schemes and support fiscal consolidation efforts (***proposed end-June 2023, SB***); and (ii) BCRA advancing toward application of internationally recognized accounting standards for the 2022 financial statements[14] by enhancing financial disclosures towards compliance with IFRS 7, drawing from the recent IMF technical assistance (***proposed end-May 2023, SB***). Several structural benchmarks are proposed for modification/resetting to better reflect progress in implementation. Notably, to support a reduction in energy subsidies, the current end-January 2023 SB is **proposed to be modified and reset to February 15, 2023, SB**, to ensure the elimination of gas and electricity subsidies for the high-income group and commercial users by February 2023. In addition, while recommendations for enhancements to the Foreign Exchange Criminal Law will be completed by end-December the structural benchmark is **proposed to be reset to end-March 2023**, reflecting the need to submit to Congress after the recess.

29. Financing assurances. Official creditors have provided firm financing commitments over the next 12 months, and good prospects of financing are in place for the remainder of the program. The MDBs, including the World Bank, Inter-American Development Bank (IADB), and the Andean Development Corporation (CAF) are projected to provide net financing of US$1.3 billion in 2023, including both budget support and project loans. At the same time, in early October Paris Club creditors reached an agreement to restructure Argentina's legacy debt with repayment by September 2028 (see ¶18). Net financing commitments from other bilateral creditors in the baseline amount to roughly US$0.4 billion per annum during 2022-24, unchanged from the second review,

[14] The BCRA already introduced inflation-adjusted accounting for the 2020 financial statements.

but progress has been made to address the technical factors delaying the construction of a hydroelectric powerplant project. For the program period, the baseline includes a projected US$15 billion accumulation of international reserves (program definition), with projected cumulative trade surpluses (US$40.9 billion) and net FDI inflows (US$31.1 billion) expected to more than offset net external debt obligations, and CFMs playing a supportive role in limiting capital outflows.

30. 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 6.8 percent of exports, or 12 percent of gross reserves, with Fund credit outstanding declining only gradually below 6 percent of GDP by 2027.

31. Jurisdictional issues. Since the completion of the second review, Argentina has introduced additional measures that give rise to a new MCP and the intensification/modification of currently existing exchange restrictions and MCPs, subject to Fund approval under Article VIII, Section 2(a), and 3. On November 28, the Argentine government reinstated its temporary FX incentive scheme for soy exporters, under which exporters of soybean and derivatives can fulfill their surrender requirement by exchanging their dollar receipts at a more preferential exchange rate of 230 pesos per dollar.[15] Due to the large spread between the preferential exchange rate and the official exchange rate (currently trading at around 168 pesos per dollar), which exceeds two percent, and given that the old measure had expired before the reintroduction of the scheme, this measure constitutes a **new MCP** subject to Fund jurisdiction. The authorities also extended coverage of the 30 percent tax on the purchase of foreign exchange by individuals and on payments for consumption abroad. The tax now applies to the purchases of foreign currency for the payment of a) personal, cultural, and recreational services; and b) the importation of a list of luxury goods. The extension in the coverage of the tax liability, amount to both an **intensification of the exchange restriction** and a **modification of the existing MCP** on the exchange tax. 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.

32. Arrears Policy. As required under the Fund's Lending into Arrears policy, staff assesses that the authorities are continuing to make good faith efforts 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$2.3 billion total); and (ii) Mobil Exploration, where negotiations remain underway on a repayment plan on principal claims (US$196 million). Two external arrears claims remain litigated: (i) the French export

[15] Decree 787/2022, November 28, 2022. The program that was in place in September 2022 had an exchange rate of 200 pesos per dollar.

credit agency (US$30 million), where the Court of appeals, but not yet the Supreme Court of Justice, rejected the firm's appeal on grounds of statute limitations; and (ii) Titan Consortium I, LLC, where a legacy claim is currently under court dispute on grounds of statute of limitations. The authorities affirmed that no other external arrears were accumulated since the last review.

EXCEPTIONAL ACCESS

33. 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. Nevertheless, risks remain exceptionally high, in the context of a more challenging global environment and ongoing domestic implementation risks—including political risks ahead of the Presidential elections—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 **DSA 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.

- ***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.** Sluggish reserve accumulation, weak external bond prices, and the recent downgrade to the sovereign rating, point to the current challenges in accessing external market financing. Decisive policy implementation, especially ahead of the 2023 elections, will be critical to strengthen confidence and allow Argentina to gradually regain access to international private capital markets by the time obligations to the Fund fall due (beginning in late 2026) on a scale that would enable repayment to the Fund. Importantly, strengthening the domestic debt market remains critical, including through the development of a medium-term debt management strategy (MTDS) with support of Fund technical assistance, to allow a gradual extension of maturities and reduced reliance on inflation-linked bonds. More generally, reserve accumulation will require policies that support external competitiveness, trade surpluses, and foreign direct investment, along with continued efforts to catalyze net official financing. While CFMs are needed to limit outflows in the near term while imbalances are addressed, improvements in reserve coverage and confidence should pave the way for a gradual lifting of CFMs and a gradual re-access to private international capital markets starting in 2025. 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 remain committed to the policies and objectives of the program, which they view as the key anchor for policy making. Minister Massa, operating with expanded powers and political support within the governing coalition, has improved policy coordination and significantly strengthened policy implementation, as evidenced by the decisive early actions taken on the fiscal, monetary, and subsidy policy fronts. While support for the program remains fairly broad based, as evidenced by congressional approval of the 2023 Budget, this support could wane in the period ahead, and especially as elections draw closer. In this context, delivering the agreed policy tightening will be especially challenging, 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. Any strategy to stabilize the domestic debt market will also require broad political consensus.

STAFF APPRAISAL

34. Tighter macroeconomic policies are starting to bear fruit, yet imbalances persist, in part reflecting political and policy uncertainties. Decisive actions by Minister Massa and his team have begun to restore macroeconomic stability—inflation is moderating (albeit from high levels) and the trade balance is improving on the back of a healthy slowdown in domestic demand and imports. However, inflation and the FX gap remain high and reserves coverage precariously low. Challenges in reserve accumulation persist, and with few palpable policy options in the near term, reliance on distortive FX measures has continued. Meanwhile, pressures in the domestic debt market have remerged, complicating financing goals and leading to further central bank intervention in the secondary market.

35. Against a challenging backdrop, continued decisive program implementation will be critical to safeguard key objectives and maintain the program as an anchor for stability. Tighter macroeconomic policies will be even more critical ahead of next year's elections to boost confidence and support a gradual reduction in inflation, a stronger trade surplus, and reserve accumulation. Reliance on ad-hoc and distortionary approaches should be avoided as they can add to imbalances and vulnerabilities and are not a substitute for necessary macroeconomic policies.

36. Fiscal consolidation should continue, supported by upfront commitments to high-quality measures to enhance its credibility. Reducing the primary fiscal deficit from 2.5 percent of GDP in 2022 to 1.9 percent of GDP in 2023, will require continued strong expenditure controls as well as upfront adoption of policies to improve the targeting of energy subsidies and social assistance. Efforts will also be needed to mobilize revenues, contain wage/pension spending, and transfers to provinces and public entities, including to make room for priority infrastructure spending. Some frontloading of these efforts in the first half of 2023 will be critical to boost credibility and support domestic demand management. Importantly, high-quality fiscal measures are essential to improve the structure of spending, facilitate fiscal consolidation beyond 2023, and ensure debt sustainability.

37. Greater priority needs to be given to mobilizing the needed financing. While recognizing mitigating factors, a more proactive market-based debt management strategy is necessary to mobilize net domestic financing, while strengthening market functioning and reducing the need for central bank intervention in the secondary debt market. Meanwhile, continued efforts will be needed to ensure delivery of official program financing, and to secure a pipeline of additional projects from other bilateral creditors.

38. The monetary and FX policy framework should continue to deliver positive real policy interest rates to reduce inflation and an improvement in external competitiveness. To this end, real policy rates should remain sufficiently positive to ensure inflation and inflation expectations are on a clear declining path. This would also allow the rate of crawl to exceed expected inflation and gradually improve external competitiveness. Administrative FX measures and import controls could ultimately prove counterproductive and should be avoided and unwound as reserve accumulation takes hold and the impact of tighter macroeconomic policies materializes. Meanwhile, while price-wage coordination could play a complementary role in addressing inflation, involuntary price controls should be eschewed.

39. Continued progress on the structural front is necessary to support broader macroeconomic goals. Continued efforts to strengthen public financial management, improve the targeting of spending and mobilize revenues, including through the recently signed international information exchange agreement with the United States, are critical to support fiscal consolidation. Plans also need to strengthen domestic debt management, monetary policy transmission, and the central bank balance sheet, including in light of further central bank intervention in the bond market. Realizing Argentina's net export potential, particularly in the area of energy, will require predictable investment and governance frameworks.

40. Program risks remain elevated, requiring agile policy-making and contingency planning. External downside risks continue to cloud the outlook, as a sharper-than-anticipated slowdown in key advanced and emerging economies or tightening in global financial conditions would adversely affect Argentina, with negative knock-on effects on commodity prices and domestic bond markets. Meanwhile, intensification of the ongoing drought could sharply reduce FX inflows, while program implementation risks cannot be discarded, especially as the elections draw closer. In this context, contingency planning and the agile adjustment of policies, including further tightening of policies if risks materialize, will be essential to safeguard macroeconomic stability. Efforts will be essential to maintain broad political support for the program and its financing strategy.

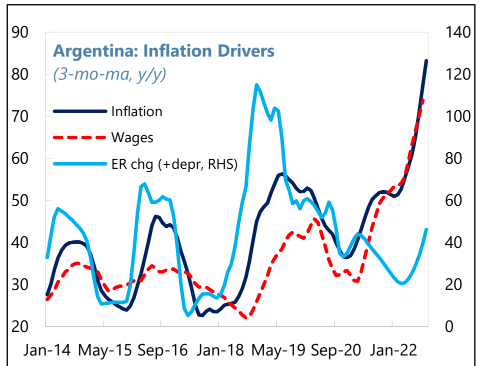
41. Staff supports the authorities' request for Board approval to maintain exchange restrictions and MCPs on a temporary basis, as they are all maintained for balance of payment reasons. The authorities have requested approval of these restrictions on the basis that they are temporary, expected to be gradually lifted over the program period as conditions allow, and do not give rise to an unfair competitive advantage over other members or discriminate among members. On the basis of planned corrective actions, staff support the waivers of nonobservance of the PC 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.

42. Staff supports the authorities' request for the completion of the Third Review under the Extended Arrangement. Staff also supports the requests for waivers of non-observance on the basis of corrective action assuming the Board grants the requested approval to retain these measures on a temporary basis. Staff supports the request to complete the review given the program performance so far and the new policy commitments going forward. Finally, staff also recommends completion of the financing assurances review, given Argentina's ongoing good faith efforts to resolve its external arrears.

Box 1. Argentina: Understanding Recent Inflation Dynamics

This box provides further analysis on the key drivers of inflation in Argentina and discusses their roles in inflation developments in 2022.

In the past decade, high inflation inertia and nominal exchange rate passthrough have explained inflation dynamics (Table 1). The persistence in inflation reflects prevalent formal and informal wage indexation mechanisms (Table 2), while high exchange rate passthrough reflects the high degree of dollarization and weak policy frameworks. Moreover, most of the impact on current inflation are immediate and come with a one-month lag.

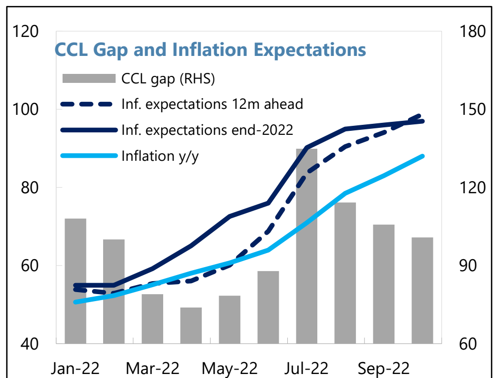


Sources: BCRA, INDEC and Fund staff calculations.

Other factors such as monetary financing, FX gap, and inflation expectations can play a complementary and more minor role.

- Even if sterilized, **central bank financing** of the fiscal deficit tends to push up inflation, as central bank balance sheet concerns reduce demand for money.
- The **FX gap** between the official and parallel market rate—a proxy for devaluation expectations—can raise inflation, especially when the gap is high and rising. In these circumstances the domestic price formation process can be affected as importers (expecting a depreciation or difficulties obtaining foreign currency) start to price goods at the more depreciated parallel rate. **Inflation expectations** play a similar role, with the size and significance of the FX gap dropping once inflation expectations are included.

A series of external and domestic shocks in the context of robust domestic demand caused inflation to jump sharply (from 3.9 percent m/m in January to 7.4 percent m/m in July). The sharp rise in global food and energy prices following Russia's invasion of Ukraine had a strong initial impact on Argentina, in part given the high share of food in the CPI basket.[1] Beyond the direct effects, these shocks further de-anchored inflation expectations and reduced the money demand, in the context of strong domestic demand and accommodative macroeconomic policies. Meanwhile, policy uncertainties also played a role, especially during July-August, when the FX gap rose sharply (up to 150 percent at end-July) following economic cabinet changes.



Sources: INDEC, WEO and Fund staff calculations.

While inflation is now moderating, reducing inflation will take time on account of the high degree of inertia (linked to wage indexations), and the need to correct relative price misalignments and improve competitiveness (i.e., crawl rate to exceed inflation). Durably reducing inflation will need a politically-backed commitment to tight macroeconomic policies, consistent with a reduction in monetary financing of the fiscal deficit, reserve accumulation (to strengthen the credibility of the peg), and a strengthening in the demand for peso assets. Improved wage-price coordination can play a complementary role.

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[1] Staff estimates suggest that a 10 percent increase in global cereal and fuel prices could raise Argentina's headline inflation by about 1.6 percentage points over 12 months, well above the passthrough of other Latin American peers (October 2022 Western Hemisphere Department Regional Economic Outlook).

Box 1. Argentina: Understanding Recent Inflation Dynamics (concluded)

Table 1. Determinants of Inflation

	(1) Inflation (y/y)	(2) Inflation (y/y)	(3) Inflation (y/y)	(4) Inflation (y/y)
Inflation (lagged)	0.925***	0.910***	0.910***	0.873***
	(0.021)	(0.021)	(0.021)	(0.027)
ER (y/y)	0.063***	0.066***	0.063***	0.035***
	(0.009)	(0.009)	(0.009)	(0.009)
FX gap	0.017**		-0.022	0.004
	(0.007)		(0.015)	(0.031)
FX gap^2		0.026***	0.045***	-0.035
		(0.007)	(0.015)	(0.022)
Mon. Fin (y/y) 12-months lag	0.016***	0.014***	0.015***	0.006
	(0.005)	(0.005)	(0.005)	(0.007)
Inflation Exp. 12-months ahead				0.229***
				(0.049)
Mon. pol. rate 12-months lag				-0.128***
				(0.026)
Constant	-0.007	-0.002	0.001	0.014
	(0.007)	(0.007)	(0.008)	(0.010)
Observations	108	108	108	65
R-squared	0.973	0.974	0.975	0.987

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 2. Determinants of Wages

	(1) Wages (y/y)	(2) Wages (y/y)	(3) Wages (y/y)
Inflation (lagged)	0.550***	0.560***	0.652***
	(0.050)	(0.035)	(0.054)
Inflation Exp. 12-months ahead	0.153***	0.031	-0.107
	(0.050)	(0.037)	(0.081)
ER (y/y) 12-months lag	0.060***	0.101***	0.069***
	(0.017)	(0.012)	(0.016)
Mon. Fin (y/y) 12-months lag		0.081***	
		(0.008)	
FX gap			0.092***
			(0.023)
Constant	6.957***	4.740***	8.315***
	(1.703)	(1.193)	(1.623)
Observations	101	101	101
R-squared	0.763	0.888	0.796

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Box 2. Argentina: Strengthening BCRA's Balance Sheet

Accurately assessing and strengthening the BCRA's policy solvency is essential to improve the credibility of its monetary and financial stability mandates.[1] This box summarizes a set of options to help strengthen the central bank's policy solvency and transparency.

BCRA's equity position has weakened in recent years, but prudent policies can support a recovery. Previous staff analysis highlighted that significant balance sheet expansion, in part as a result of the COVID-19 pandemic, had weakened the BCRA's equity position in recent years (see Box 10 in IMF Country Report No. 22/92). While the recent stop in temporary advances and profit distributions are important steps to halt these developments, durably improving the BCRA's equity position will require steadfast implementation of prudent macroeconomic policies. Importantly, these should be accompanied by concrete steps to enhance application of IFRS accounting and strengthen the transparency of the balance sheet.

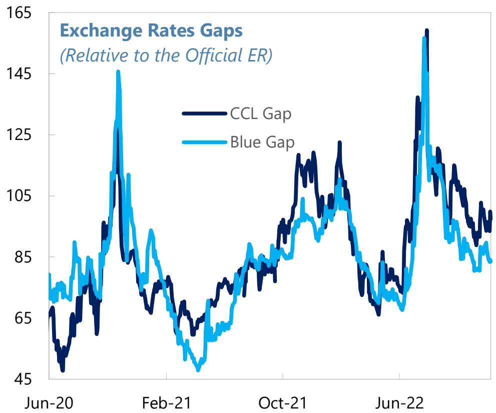
The policy mix to strengthen BCRA's equity position would need to be a multi-pronged approach:

- **Prudent macroeconomic policies**: Continued fiscal consolidation and application of the monetary policy framework, along with actions to strengthen the domestic capital markets, are essential to encourage the demand for peso assets, strengthen reserve coverage (and credibility of the crawling peg regime) and reduce the risk of a relapse to monetary financing.
- **Ceasing monetary financing**: It will be critical to eventually abstain from temporary advances and profit distributions as well as from quasi-fiscal activities that are not directly related to the BCRA's core monetary mandate.
- **Strengthening the quality of existing assets**: Consideration could be given to gradually swapping non-transferable government securities for marketable securities as market conditions allow. In addition, once fiscal consolidation is firmly underway, consideration could also be given to charging interest on existing temporary advances to the government.
- **Moving towards IFRS**: Financial transparency could be improved through the establishment of a project team and clear timetable and plan to fully transition to IFRS. This will require an assessment of information technology requirements, potential legal constraints, and other requirements for the application of IFRS 7 and IFRS 13.
- **Defining a framework for equity**: The BCRA governing law could consider clearly outlining: (i) an equity target range, allowing a buffer to deal with shocks; and (ii) conditions for profit distribution, while prohibiting the distribution of unrealized valuation gains.

[1] A policy solvent central bank generates sufficient operating income to cover its operating expenses.

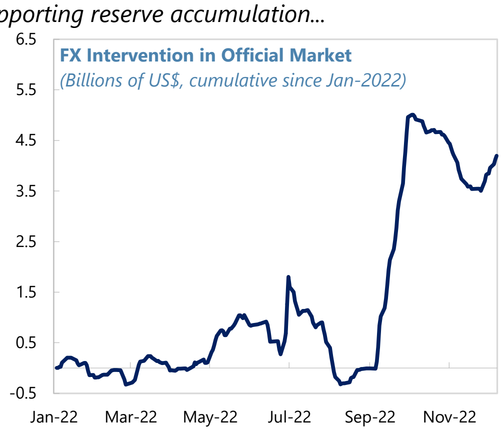
Figure 1. Argentina: Recent Financial Market Developments

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

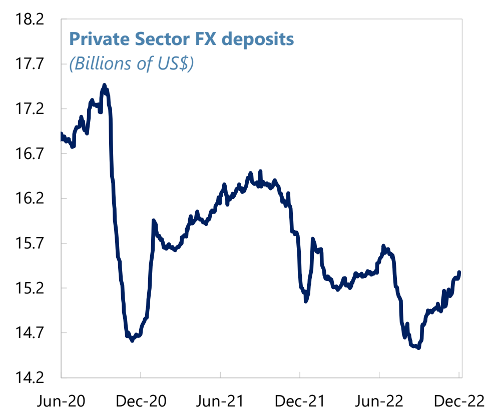


... with similar patterns for external bond prices, which have recovered somewhat but still trading at low levels.

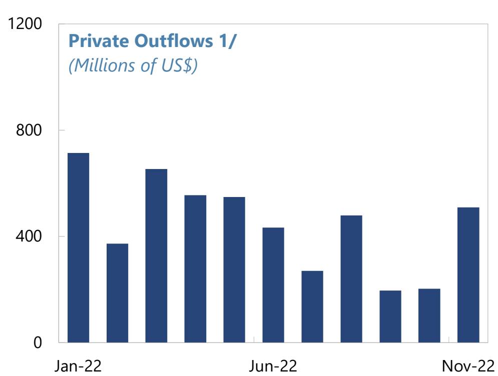
The reintroduction of the FX incentive scheme is supporting reserve accumulation...



... while the recovery in FX deposits continues...

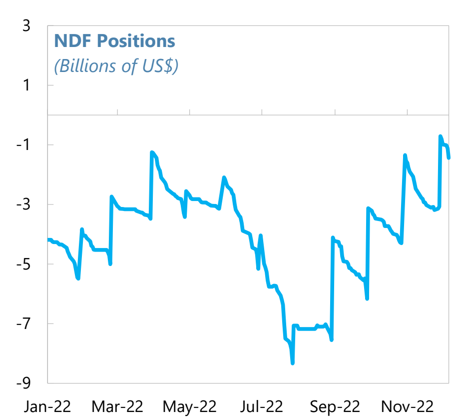


... and the tightening in FX restrictions has contained FX outflows.



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

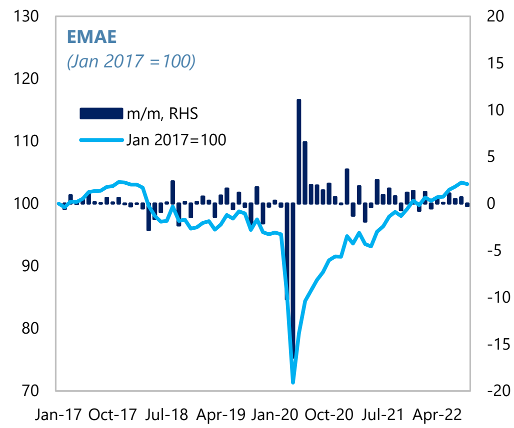
With reduced FX pressures, BCRA has also unwound intervention in the futures markets.



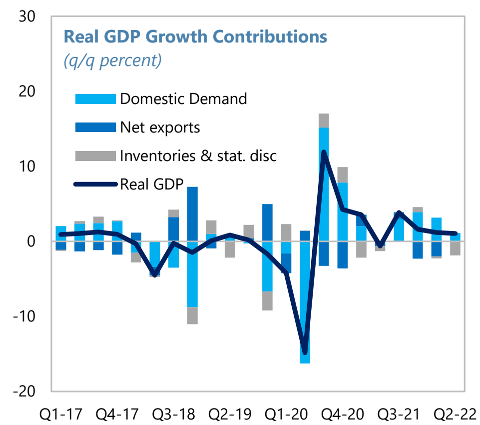
Source: Argentine authorities, IMF WEO Database, BCRA, IMF staff calculations.

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

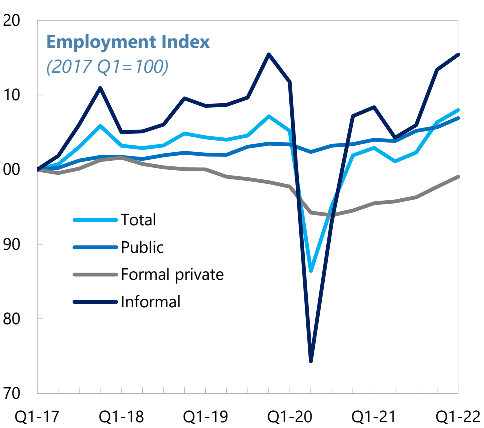
The post-COVID economic expansion continued …



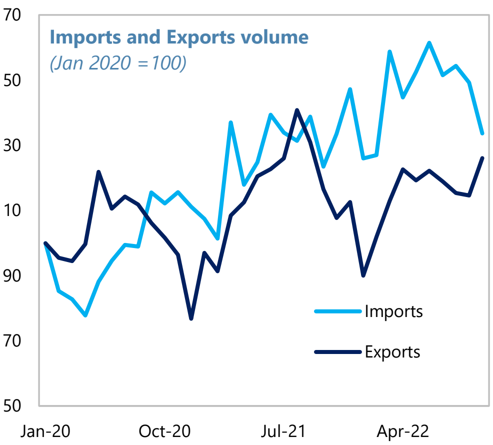
… but domestic demand expansion is slowing, …



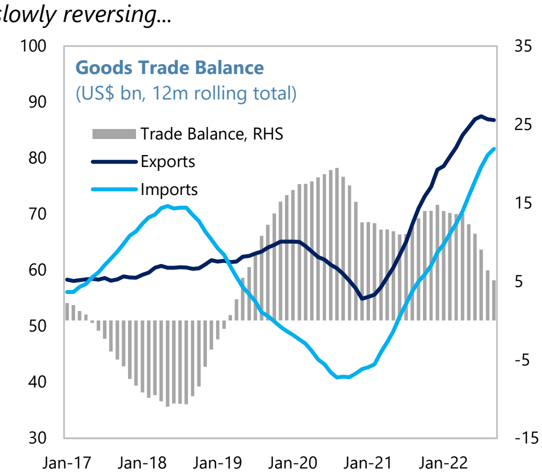
… although employment indicators remain strong.



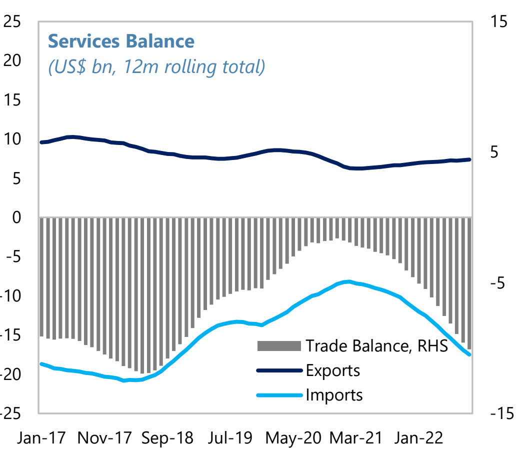
Meanwhile, imports volumes are slowing …



… and the deterioration in the goods trade balance is slowly reversing…



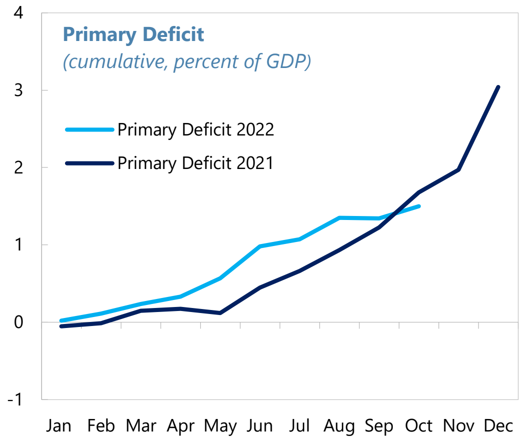
…, although challenges in reducing the services deficit persist.



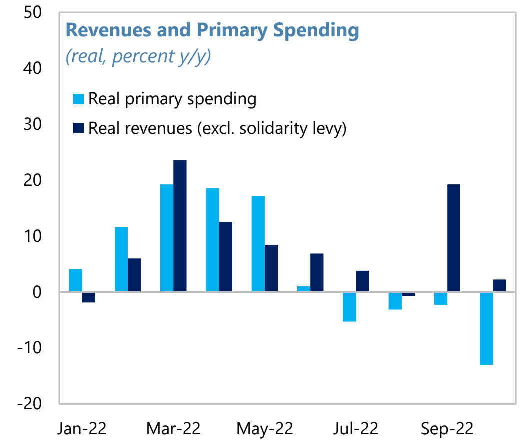
Source: Argentine authorities, Haver, BCRA, IMF staff calculations.

Figure 3. Argentina: Fiscal and Financing Developments

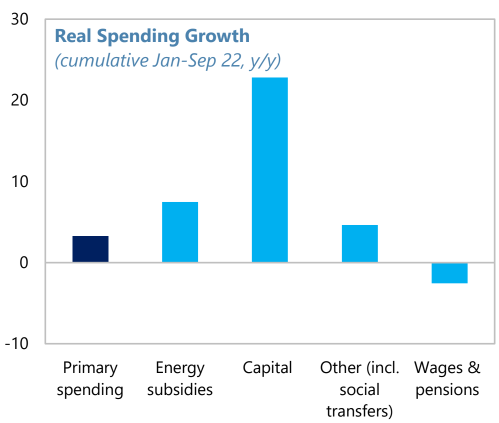
After rising sharply through H1:2022, the primary deficit is moderating …



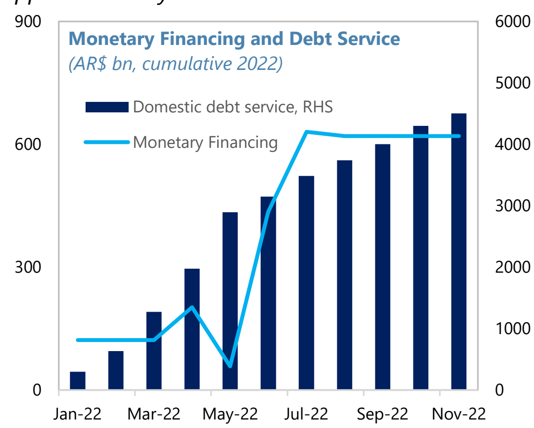
… mainly on account of a contraction in real spending (y/y) especially in October…



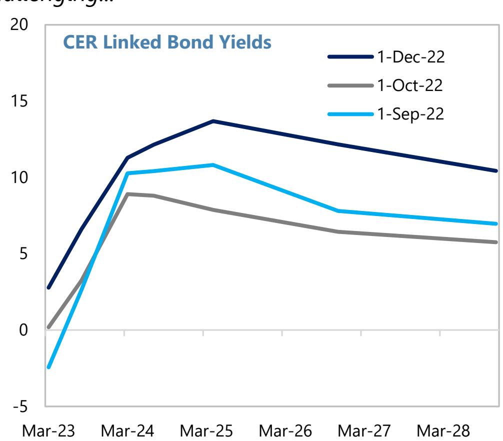
… led by declines in wages and pensions.



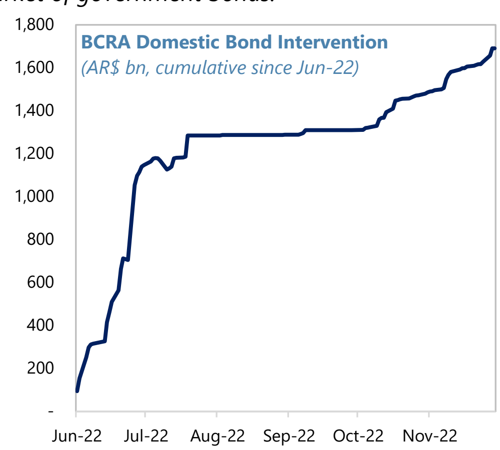
Meanwhile, BCRA monetary financing of the deficit has stopped since July …



… although domestic market conditions remain challenging…



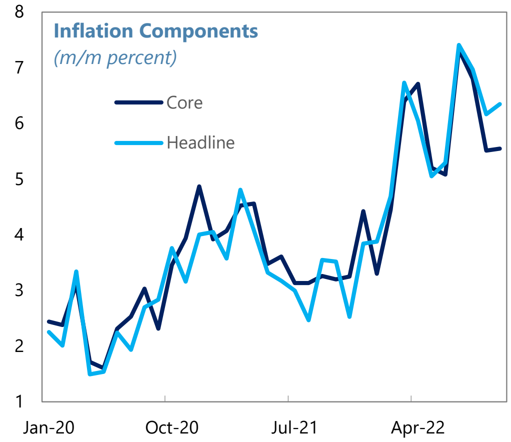
… prompting additional BCRA support in the secondary market of government bonds.



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

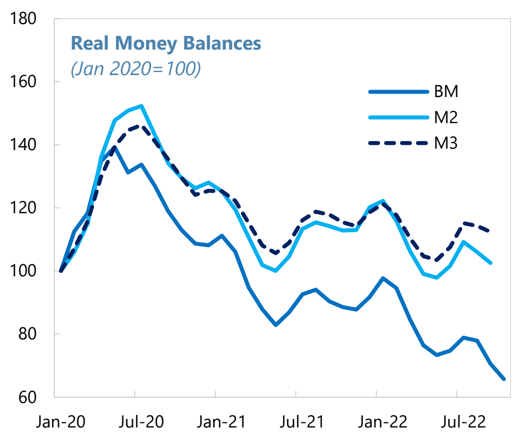
Figure 4. Argentina: Inflation and Monetary Developments

Inflation has lost some momentum since July, but price pressures remain strong…

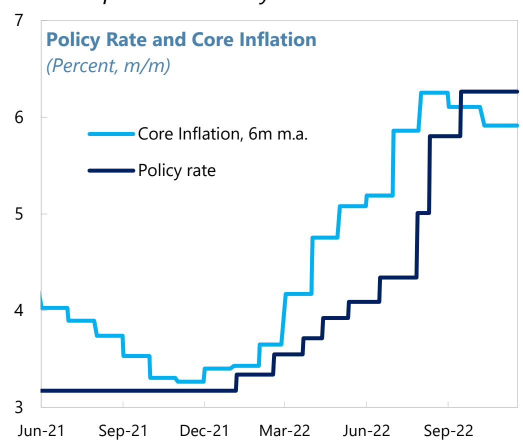


… and inflation expectations (while also moderating) remain unanchored…

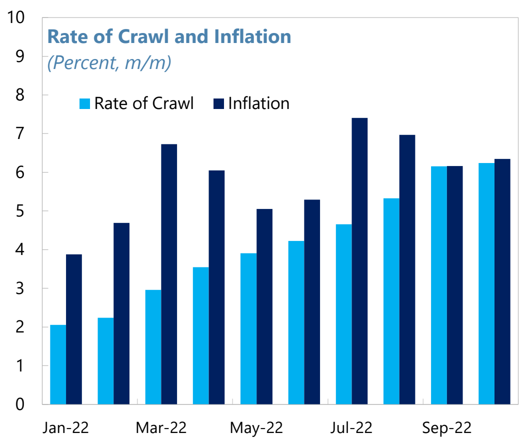
… in the context of a further decline in money demand.



Decisive policy action has moved real policy rates further into positive territory.



The rate of crawl has also continued to rise…

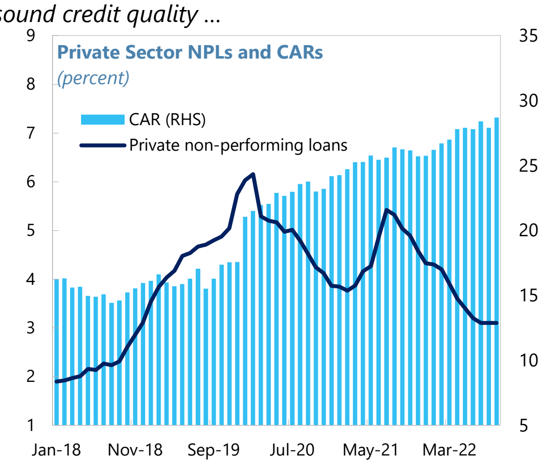


… unwinding some of the earlier real appreciation.

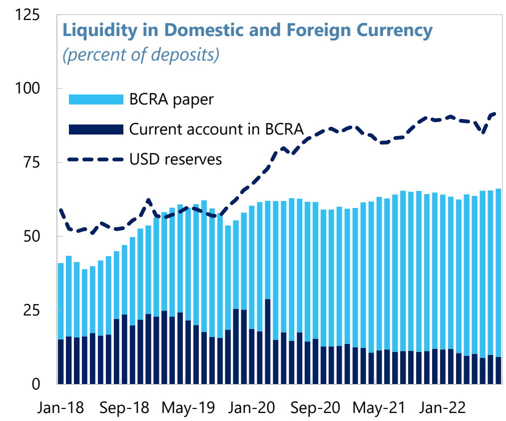
Source: Argentine authorities, BCRA's REM, Haver, IMF WEO database, IMF staff calculations.

Figure 5. Argentina: Banking Sector Developments

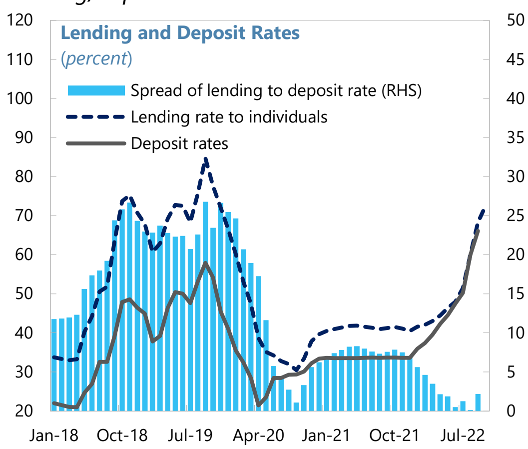
The banking sector remains well capitalized, with sound credit quality …



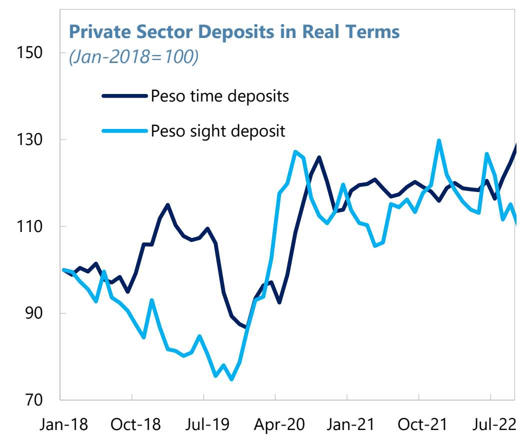
… sufficiently liquid buffers …



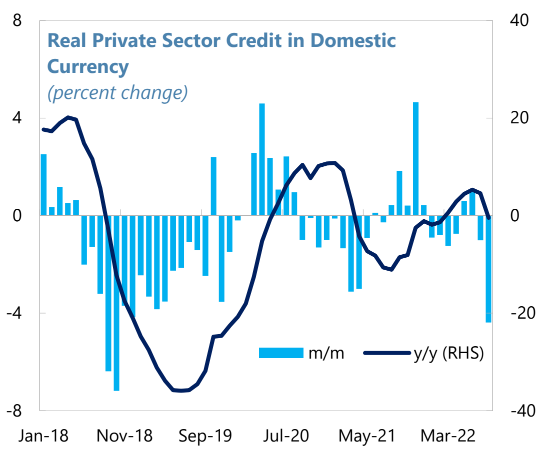
… but low net interest margins, reflecting regulations on lending/deposits rates.



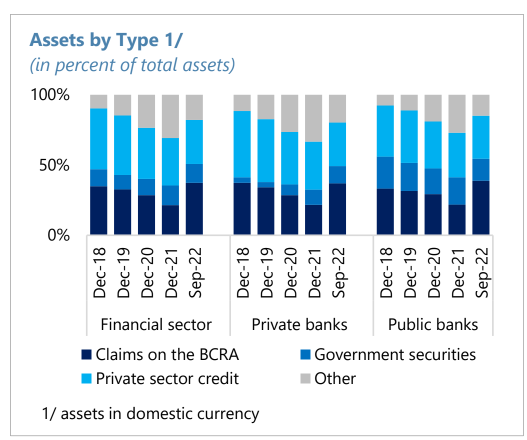
Higher rates have increased real peso time deposits …



… but have further weakened real private credit.

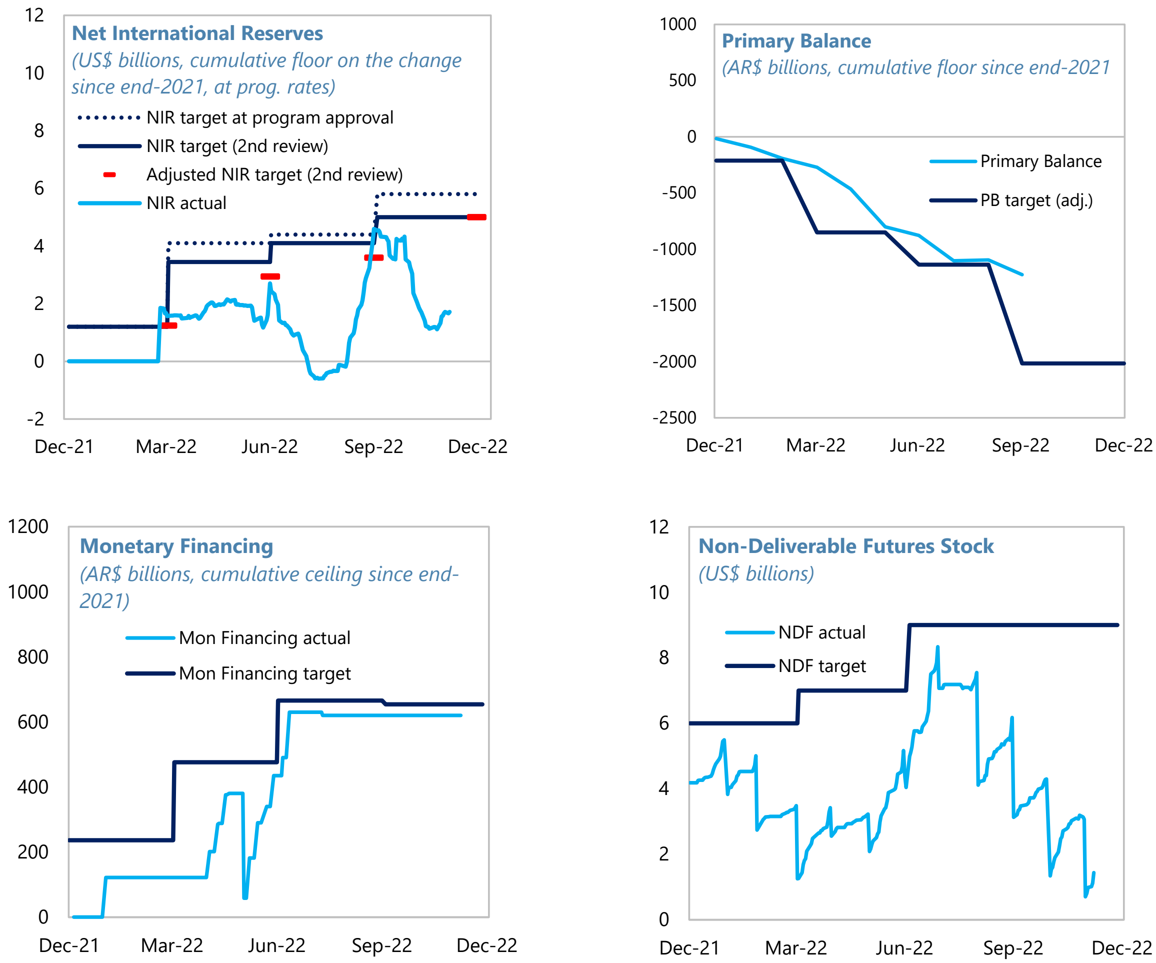


The banking system's exposure to the public sector has grown to 51 percent of total assets.



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

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



Sources: National authorities and Fund staff calculations.
1/ Targets are set on an end-quarter basis. Data as of December 7, 2022 for Non-Deliverable Futures; as of December 6, 2022 for Net International Reserves; as of November 30, 2022 for Monetary Financing; and as of October 31, 2022 for Primary Balance.

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

			SR (Sep.)	Proj.	SR (Sep.)			Proj.		
	2020	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	10.4	4.0	4.6	2.0	2.0	2.0	2.0	2.0	2.0
Domestic demand	-10.2	13.2	7.0	8.6	0.3	0.0	1.3	1.5	1.5	1.5
Consumption	-11.9	9.5	5.4	6.9	-0.3	-0.3	1.1	1.4	1.3	1.2
Investment	-13.0	33.4	14.0	16.0	2.7	1.5	2.0	2.0	2.3	2.5
Exports	-17.7	9.2	1.1	-3.2	3.0	4.9	4.6	5.7	4.9	4.9
Imports	-18.5	22.0	14.2	14.9	-4.2	-3.8	1.4	2.8	2.4	2.4
Net exports (percent contribution to real GDP)	0.3	-2.9	-3.2	-4.3	1.7	2.0	0.6	0.5	0.4	0.5
Output gap (percent of potential GDP)	-8.6	-2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation (eop)	36.1	50.9	95.0	95.9	60.0	60.0	44.0	40.0	35.0	30.0
Inflation (avg)	42.0	48.4	72.4	72.7	76.1	76.5	51.2	40.8	37.1	32.2
GDP deflator	39.6	54.0	70.5	69.3	75.9	77.8	51.0	40.8	37.2	32.2
	(Percent of GDP unless otherwise indicated)									
Savings-Investment balance										
Gross national savings	14.7	18.5	17.8	17.9	18.2	19.3	18.9	18.6	18.7	18.8
Private	23.3	22.9	17.8	21.5	18.2	23.0	22.0	20.8	20.6	20.2
Public	-8.6	-4.3	-3.5	-3.6	-3.3	-3.8	-3.1	-2.2	-1.9	-1.4
Gross domestic investment	13.9	17.1	18.1	18.2	17.7	18.1	18.1	18.1	18.2	18.3
Private	11.5	14.5	15.0	15.2	14.4	15.1	15.0	14.9	14.9	15.0
Public	2.3	2.7	3.1	3.0	3.3	3.0	3.1	3.2	3.3	3.3
External sector										
Current account balance	0.8	1.4	-0.3	-0.3	0.6	1.2	0.8	0.5	0.5	0.5
Trade balance	3.2	3.1	1.3	1.2	2.3	2.7	2.5	2.5	3.1	3.0
Foreign direct Investment (net)	0.9	1.1	1.2	1.5	1.5	1.5	1.9	1.9	1.9	1.9
Total external debt	83.1	59.2	56.4	57.7	52.3	51.8	53.2	55.8	53.7	51.0
Gross international reserves (US$ billions) 1/	39.4	39.6	46.0	42.7	48.6	45.9	50.8	55.8	60.8	63.8
Terms of trade (percent change)	0.6	9.6	-0.2	-0.7	1.8	3.8	-5.2	-1.3	0.7	-0.5
Federal government operations										
Revenues 2/	17.6	18.3	17.6	18.1	16.8	16.8	17.7	18.3	18.8	19.1
Primary expenditure 3/	24.0	21.3	20.0	20.5	18.7	18.7	18.5	18.3	18.0	17.8
Primary balance 4/	-6.4	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	0.0	0.8	1.3
Overall balance	-8.3	-4.5	-3.8	-4.0	-3.7	-4.1	-3.5	-2.7	-2.5	-2.0
Federal government debt	102.8	80.9	76.0	79.7	69.5	71.1	72.7	74.0	71.3	68.1
Official creditors	23.4	16.2	16.5	16.6	15.1	14.7	14.9	15.7	14.9	13.6
Private creditors	43.6	33.6	29.8	31.7	30.1	29.8	32.3	33.3	32.7	31.9
of which: FX-denominated debt	28.9	21.4	19.3	19.6	17.6	17.5	17.6	18.0	17.3	16.7
Public entities	35.8	31.1	29.7	31.4	24.3	26.7	25.5	24.9	23.7	22.6
Money and credit										
Monetary base	9.0	7.9	6.1	6.1	6.4	6.4	6.5	6.5	6.5	6.5
BCRA transfers to the government	7.4	3.7	0.8	0.8	0.6	0.6	0.0	0.0	0.0	0.0
BCRA securities	10.7	10.9	11.9	12.5	9.5	10.0	9.4	9.0	8.7	8.4
BCRA quasi-fiscal cost	3.2	3.3	4.2	4.5	3.3	3.4	3.0	2.6	2.4	2.0
Memorandum items										
GIR (adjusted, US$ billions) 5/	39.4	39.6	44.5	41.2	48.9	45.9	50.8	55.8	60.8	63.8
GIR change (adjusted, US$ billions) 5/	-5.5	0.2	4.8	1.6	4.4	4.7	4.9	5.0	5.0	3.0
NIR (TMU definition) (US$ billions)	3.8	2.2	7.3	7.2	12.1	12.0	17.2	22.2	27.2	30.2
Consolidated public sector balance (percent of GDP) 6/	-11.7	-7.6	-7.7	-8.1	-6.7	-7.2	-6.1	-4.8	-4.3	-3.4
Poverty rate (percent)	42.0	37.3	...	...	...	...	...	...	...	...
Unemployment rate (percent)	11.6	8.8	6.9	6.9	6.9	6.5	6.5	6.5	6.5	6.5
GDP per capita (in US$, nominal)	8,364	10,498	...	...	...	...	...	...	...	...

Sources: National authorities and Fund staff estimates and projections.

1/ Includes valuation effects.

2/ 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.

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

4/ Primary balance excludes BCRA profit transfers.

5/ Adjusted GIR correspond to GIR (including valuation effects) excluding fund disbursements net of payments and the net financing component.

6/ 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 (Sep.)	Proj.	SR (Sep.)			Proj.		
	2020	2021	2022	2022	2023	2023	2024	2025	2026	2027
					(in billions of U.S. dollars)					
Current account	**3.1**	**6.7**	**-2.0**	**-1.9**	**3.7**	**7.6**	**5.0**	**2.8**	**2.8**	**3.0**
Trade balance in goods	14.6	18.7	12.5	12.4	17.0	19.8	17.5	15.7	18.7	18.5
Exports f.o.b.	54.9	78.0	89.7	89.7	92.2	93.3	91.3	92.9	95.8	99.1
Imports f.o.b.	40.3	59.3	77.2	77.4	75.2	73.6	73.9	77.1	77.1	80.5
Trade balance in services	-2.5	-3.6	-4.6	-4.6	-1.9	-2.4	-1.7	-0.4	0.2	0.8
Primary income, net 1/	-10.1	-9.8	-11.7	-11.5	-13.3	-11.7	-12.8	-14.6	-18.0	-18.4
of which: public interest payments, net	-5.6	-2.9	-4.6	-4.2	-5.9	-6.4	-7.0	-7.2	-7.3	-7.6
Secondary income, net	1.1	1.5	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Capital Account	**0.2**	**0.2**	**0.2**	**0.1**	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Financial Account /2	**-14.9**	**-8.2**	**-18.3**	**-20.1**	**-21.0**	**-24.2**	**-7.6**	**-2.5**	**-2.2**	**-4.3**
Foreign direct investment, net	3.4	5.4	7.5	9.3	9.7	9.7	12.0	11.6	11.7	12.0
Portfolio investment, net	-2.5	-4.8	-1.8	-5.9	-0.6	-2.0	-1.1	-2.1	-0.7	0.9
of which: public, gross	7.8	-0.9	-0.4	-0.9	0.0	-0.2	-1.1	-1.7	0.6	2.6
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/ 3/	-15.9	-8.8	-24.1	-23.6	-30.1	-31.9	-18.5	-12.1	-13.2	-17.2
IMF repurchases	0.0	-3.8	-16.9	-16.9	-17.7	-17.7	-4.6	0.0	-1.1	-4.8
Other official repayments	-2.2	-2.4	-2.7	-2.7	-2.4	-2.5	-2.6	-2.6	-2.4	-2.4
Other items net	-13.7	-2.6	-4.5	-4.1	-10.0	-11.8	-11.3	-9.4	-9.7	-10.0
Errors and Omissions	**0.6**	**-2.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-11.1**	**-3.6**	**-20.1**	**-21.9**	**-17.1**	**-16.5**	**-2.5**	**0.4**	**0.8**	**-1.2**
Financing	**11.1**	**3.6**	**20.1**	**21.9**	**17.1**	**16.5**	**2.5**	**-0.4**	**-0.8**	**1.2**
IMF Financing	0.0	0.0	23.8	23.5	16.0	16.0	3.2	0.0	0.0	0.0
Other official financing 4/	3.3	3.5	4.3	4.1	3.8	3.7	4.2	4.6	4.2	4.2
Gross official reserves change (increase: -) /5	7.7	0.1	-8.0	-5.7	-2.7	-3.1	-4.9	-5.0	-5.0	-3.0
					(Percent of GDP unless otherwise indicated)					
Current account	**0.8**	**1.4**	**-0.3**	**-0.3**	**0.6**	**1.2**	**0.8**	**0.5**	**0.5**	**0.5**
Trade balance in goods	3.9	3.9	2.0	2.0	2.6	3.0	2.8	2.6	3.0	2.9
Exports, f.o.b.	14.5	16.2	14.3	14.4	14.3	14.4	14.5	15.2	15.5	15.4
Imports f.o.b.	10.6	12.3	12.3	12.4	11.7	11.4	11.7	12.6	12.5	12.5
Trade balance in services	-0.7	-0.8	-0.7	-0.7	-0.3	-0.4	-0.3	-0.1	0.0	0.1
Primary income, net	-2.7	-2.0	-1.9	-1.8	-2.1	-1.8	-2.0	-2.4	-2.9	-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
Capital Account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-3.8**	**-1.7**	**-2.9**	**-3.2**	**-3.2**	**-3.7**	**-1.2**	**-0.4**	**-0.4**	**-0.7**
Foreign direct investment, net	0.9	1.1	1.2	1.5	1.5	1.5	1.9	1.9	1.9	1.9
Portfolio investment, net	-0.7	-1.0	-0.3	-0.9	-0.1	-0.3	-0.2	-0.3	-0.1	0.1
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/	-4.1	-1.8	-3.8	-3.8	-4.6	-4.9	-2.9	-2.0	-2.1	-2.7
Errors and Omissions	**0.2**	**-0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.8**	**-0.7**	**-3.2**	**-3.5**	**-2.6**	**-2.5**	**-0.4**	**0.1**	**0.1**	**-0.2**
Financing	**2.8**	**0.7**	**3.2**	**3.5**	**2.6**	**2.5**	**0.4**	**-0.1**	**-0.1**	**0.2**
IMF Financing	0.0	0.0	3.8	3.8	2.4	2.5	0.5	0.0	0.0	0.0
Other official financing 4/	0.9	0.7	0.7	0.7	0.6	0.6	0.7	0.8	0.7	0.7
Gross official reserves (increase: -) 5/	2.0	0.0	-1.3	-0.9	-0.4	-0.5	-0.8	-0.8	-0.8	-0.5
Memorandum items:										
Exports volumes (percent change)	-12.9	12.7	1.2	-2.7	2.6	4.4	2.0	3.7	3.5	3.4
Imports volumes (percent change)	-10.4	29.8	11.3	9.4	-1.5	-0.9	0.1	3.3	3.2	3.0
Trading partners imports growth (percent change)	-6.6	15.1	1.5	1.7	1.4	1.4	3.1	3.6	3.4	3.4
Gross international reserves (US$ billions) 6/	39.4	39.6	46.0	42.7	48.6	45.9	50.8	55.8	60.8	63.8
GIR change (US$ billions) 6/	-5.5	0.2	6.4	3.2	2.7	3.1	4.9	5.0	5.0	3.0
GIR (adjusted, US$ billions) 7/	39.4	39.6	44.5	41.2	48.9	45.9	50.8	55.8	60.8	63.8
in months of imports of goods and services	9.0	6.6	5.7	5.4	6.5	6.6	7.3	7.9	8.4	8.4
in percent of ARA	64.1	62.7	71.7	66.6	80.0	75.7	85.6	97.6	109.2	117.3
GIR change (adjusted, US$ billions) 7/	-5.5	0.2	4.8	1.6	4.4	4.7	4.9	5.0	5.0	3.0
NIR change (program definition, US$ billions) 8/	-8.7	-1.6	5.0	5.0	4.8	4.8	5.2	5.0	5.0	3.0
excluding IMF contribution in 2022	-8.7	-1.6	1.2	1.2	4.8	4.8	5.2	5.0	5.0	3.0
Terms of Trade (percent change)	0.6	9.6	-0.2	-0.7	1.8	3.8	-5.2	-1.3	0.7	-0.5

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/ Excludes valuation effects.

6/ Includes valuation effects.

7/ Adjusted GIR correspond to GIR (including valuation effects) excluding fund disbursements net of payments and the net financing component.

8/ NIR (program definition) corresponds to GIR minus gross official liabilities with maturities of under one year. For the purpose of the program, NIR accumulation is assessed at program exchange rates and excludes Paris club payments. Gross official liabilities include fund disbursements net of payments excluding the net financing component over the program period.

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

(In Billions of Argentine Pesos)

			SR (Sep.)	Proj.	SR (Sep.)			Proj.		
	2020	2021	2022	2022	2023	2023	2024	2025	2026	2027
	(in billions of Argentine pesos)									
Revenues	**4,841**	**8,453**	**14,350**	**14,744**	**24,781**	**25,018**	**40,337**	**60,178**	**86,474**	**118,471**
Tax revenues	2,868	5,129	9,018	9,125	15,936	16,089	25,679	38,407	55,665	75,740
Social security contributions	1,533	2,382	4,141	4,209	7,600	7,673	12,268	17,856	25,239	35,071
Nontax revenues 1/	440	942	1,191	1,410	1,244	1,256	2,390	3,916	5,570	7,660
Primary expenditures	**6,591**	**9,860**	**16,366**	**16,759**	**27,580**	**27,817**	**42,305**	**60,103**	**82,686**	**110,254**
Wages	881	1,341	2,409	2,437	4,272	4,313	6,670	9,385	13,094	17,729
Goods and services	231	480	511	545	1,049	1,059	1,454	1,954	2,546	3,000
Pensions	2,614	3,710	6,300	6,327	11,108	11,215	18,418	27,558	39,267	54,926
Current transfers to private sector	2,181	3,104	5,082	5,272	7,376	7,446	10,160	13,382	17,103	20,246
Social assistance	1,484	1,723	2,921	3,063	4,325	4,367	6,394	8,639	11,455	14,701
Subsidies	697	1,382	2,161	2,209	3,085	3,115	3,766	4,743	5,648	5,545
of which: energy	492	1,051	1,730	1,754	2,288	2,359	2,929	3,706	4,447	4,238
Other current	81	214	297	361	673	653	822	1,149	1,377	1,547
Discretionary current transfers to provinces	324	360	517	534	758	765	1,141	1,477	2,066	2,785
Capital spending 2/	280	651	1,251	1,283	2,344	2,366	3,640	5,197	7,234	10,020
Primary balance	**-1,750**	**-1,408**	**-2,016**	**-2,016**	**-2,798**	**-2,798**	**-1,968**	**75**	**3,788**	**8,217**
Interest payments	**543**	**684**	**1,126**	**1,229**	**2,606**	**3,254**	**6,030**	**8,824**	**15,145**	**20,753**
Overall Balance	**-2,293**	**-2,092**	**-3,141**	**-3,245**	**-5,404**	**-6,053**	**-7,998**	**-8,749**	**-11,358**	**-12,536**
Financing	**2,293**	**2,092**	**3,141**	**3,245**	**5,404**	**6,053**	**7,998**	**8,749**	**11,358**	**12,536**
Treasury deposits (+, drawdown) 3/	**-62**	**-157**	**-515**	**-601**	**46**	**707**	**906**	**0**	**0**	**0**
External	**67**	**113**	**1,043**	**1,019**	**-254**	**-400**	**-53**	**735**	**1,550**	**-23**
IMF (net)	0	53	891	870	-386	-397	-484	0	-840	-4,568
Other official (net) 4/	83	102	214	213	305	285	582	1,054	1,347	1,751
Private (net)	-16	-42	-62	-64	-173	-288	-151	-319	1,042	2,793
Issuances	0	191	219	219	17	15	170	1,415	3,462	6,358
Amortization	16	233	281	283	190	303	321	1,735	2,420	3,564
Domestic	**2,288**	**2,136**	**2,614**	**2,827**	**5,612**	**5,746**	**7,145**	**8,015**	**9,808**	**12,560**
Private (net) 5/	355	1,060	2,539	2,699	3,900	4,561	6,330	5,991	4,026	3,427
Issuance	2,017	3,787	8,053	8,177	15,475	17,428	13,424	31,085	16,220	18,261
Amortization	1,662	2,727	5,515	5,478	11,575	12,867	7,094	25,094	12,194	14,834
Public entities (net) 6/	2,398	2,088	903	898	1,712	1,185	814	2,024	5,782	9,132
of which: BCRA transfers	2,038	1,701	658	654	884	883	0	0	0	0
Other 7/	-465	-1,011	-827	-770	0	0	0	0	0	0
Memorandum items:										
One-off support (COVID-19 & Solidarity Levy)	1,024	518	200	200	0	0	0	0	0	0
Nominal GDP (ARS billions)	27,481	46,282	81,756	81,626	147,172	148,581	228,293	328,290	459,031	618,946

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting with the 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 of Paris Club legacy obligations by 2028, consistent with the deal reached in October 2022.

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)

	2020	2021	SR (Sep.) 2022	Proj. 2022	SR (Sep.) 2023	Proj. 2023	2024	2025	2026	2027
					(Percent of GDP)					
Revenues	**17.6**	**18.3**	**17.6**	**18.1**	**16.8**	**16.8**	**17.7**	**18.3**	**18.8**	**19.1**
Tax revenues	10.4	11.1	11.0	11.2	10.8	10.8	11.2	11.7	12.1	12.2
Social security contributions	5.6	5.1	5.1	5.2	5.2	5.2	5.4	5.4	5.5	5.7
Nontax revenues 1/	1.6	2.0	1.5	1.7	0.8	0.8	1.0	1.2	1.2	1.2
Primary expenditures	**24.0**	**21.3**	**20.0**	**20.5**	**18.7**	**18.7**	**18.5**	**18.3**	**18.0**	**17.8**
Wages	3.2	2.9	2.9	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Goods and services	0.8	1.0	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.5
Pensions	9.5	8.0	7.7	7.8	7.5	7.5	8.1	8.4	8.6	8.9
Current transfers to private sector	7.9	6.7	6.2	6.5	5.0	5.0	4.5	4.1	3.7	3.3
Social assistance	5.4	3.7	3.6	3.8	2.9	2.9	2.8	2.6	2.5	2.4
Subsidies	2.5	3.0	2.6	2.7	2.1	2.1	1.6	1.4	1.2	0.9
of which: energy	1.8	2.3	2.1	2.1	1.6	1.6	1.3	1.1	1.0	0.7
Discretionary current transfers to provinces	1.2	0.8	0.6	0.7	0.5	0.5	0.5	0.4	0.5	0.5
Other current	0.3	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.3	0.3
Capital spending 2/	1.0	1.4	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Primary balance	**-6.4**	**-3.0**	**-2.5**	**-2.5**	**-1.9**	**-1.9**	**-0.9**	**0.0**	**0.8**	**1.3**
Interest cash	**2.0**	**1.5**	**1.4**	**1.5**	**1.8**	**2.2**	**2.6**	**2.7**	**3.3**	**3.4**
Overall Balance	**-8.3**	**-4.5**	**-3.8**	**-4.0**	**-3.7**	**-4.1**	**-3.5**	**-2.7**	**-2.5**	**-2.0**
Financing	**8.3**	**4.5**	**3.8**	**4.0**	**3.7**	**4.1**	**3.5**	**2.7**	**2.5**	**2.0**
Treasury deposits (+, drawdown) 3/	**-0.3**	**-0.4**	**-0.6**	**-0.7**	**0.0**	**0.5**	**0.4**	**0.0**	**0.0**	**0.0**
External	**0.2**	**0.2**	**1.3**	**1.2**	**-0.2**	**-0.3**	**0.0**	**0.2**	**0.3**	**0.0**
IMF (net)	0.0	0.1	1.1	1.1	-0.3	-0.3	-0.2	0.0	-0.2	-0.7
Other official (net) 4/	0.3	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Private (net)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	0.2	0.5
Issuances	0.0	0.4	0.3	0.3	0.0	0.0	0.1	0.4	0.8	1.0
Amortization	0.1	0.5	0.3	0.3	0.1	0.2	0.1	0.5	0.5	0.6
Domestic	**8.3**	**4.6**	**3.2**	**3.5**	**3.8**	**3.9**	**3.1**	**2.4**	**2.1**	**2.0**
Private (net) 5/	1.3	2.3	3.1	3.3	2.7	3.1	2.8	1.8	0.9	0.6
Issuance	7.3	8.2	9.9	10.0	10.5	11.7	5.9	9.5	3.5	3.0
Amortization	6.0	5.9	6.7	6.7	7.9	8.7	3.1	7.6	2.7	2.4
Public entities (net) 6/	8.7	4.5	1.1	1.1	1.2	0.8	0.4	0.6	1.3	1.5
of which: BCRA transfers	7.4	3.7	0.8	0.8	0.6	0.6	0.0	0.0	0.0	0.0
Other 7/	-1.7	-2.2	-1.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
One-off spending (COVID-19 & Solidarity Levy)	3.7	1.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance without COVID support	-2.6	-1.9	-2.2	-2.2	-1.9	-1.9	-0.9	0.0	0.8	1.3
Structural primary balance 8/ 9/	-0.6	-2.0	-2.5	-2.5	-2.0	-1.9	-0.9	0.0	0.8	1.3
Federal government debt 6/	102.8	80.9	76.0	79.7	69.5	71.1	72.7	74.0	71.3	68.1

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting with the 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 of Paris Club legacy obligations by 2028, consistent with the deal reached in October 2022.

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

6/ Includes federal debt held by the 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/

	2020	Est. 2021	SR (Sep.) 2022	Proj. 2022	SR (Sep.) 2023	Proj. 2023	2024	2025	2026	2027
	(Percent of GDP unless otherwise indicated)									
Revenues	**33.5**	**33.5**	**33.0**	**33.9**	**32.3**	**32.5**	**33.6**	**34.4**	**35.1**	**35.6**
Tax revenues	23.6	23.8	24.0	24.5	23.8	24.0	24.7	25.3	25.9	26.1
Federal	10.4	11.1	11.0	11.2	10.8	10.8	11.2	11.7	12.1	12.2
Provincial co-participated	8.2	7.7	8.1	8.3	8.0	8.1	8.3	8.5	8.7	8.7
Provincial own	5.0	5.0	4.9	5.0	5.0	5.1	5.1	5.1	5.1	5.2
Social security contributions	7.3	6.6	6.4	6.6	6.5	6.6	6.8	6.8	6.9	7.1
Federal	5.6	5.1	5.1	5.2	5.2	5.2	5.4	5.4	5.5	5.7
Provincial	1.7	1.5	1.3	1.4	1.3	1.4	1.4	1.4	1.4	1.4
Other revenues	2.6	3.1	2.6	2.8	2.0	2.0	2.2	2.3	2.3	2.4
Federal	1.6	2.0	1.5	1.7	0.8	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
Primary expenditures 2/	**39.6**	**36.0**	**34.9**	**35.8**	**33.7**	**33.9**	**33.9**	**33.8**	**33.7**	**33.5**
Wages	11.1	9.9	10.1	10.2	9.9	10.0	10.1	10.0	10.1	10.1
Federal	3.2	2.9	2.9	3.0	2.9	2.9	2.9	2.9	2.9	2.9
Provincial	7.9	7.0	7.1	7.3	7.0	7.1	7.2	7.2	7.2	7.2
Goods and services	2.4	2.6	2.2	2.2	2.2	2.2	2.1	2.0	2.0	1.9
Federal	0.8	1.0	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.5
Provincial	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4	1.4
Pensions	11.8	10.0	9.5	9.7	9.3	9.5	10.2	10.5	10.7	11.2
Federal	9.5	8.0	7.7	7.8	7.5	7.5	8.1	8.4	8.6	8.9
Provincial	2.3	2.0	1.7	2.0	1.8	2.0	2.1	2.1	2.1	2.3
Transfers to the private sector	9.3	8.1	7.5	7.9	6.4	6.4	5.9	5.5	5.1	4.6
Federal	7.9	6.7	6.2	6.5	5.0	5.0	4.5	4.1	3.7	3.3
Provincial	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Capital spending	2.3	2.7	3.1	3.0	3.3	3.0	3.1	3.2	3.3	3.3
Federal 3/	0.8	1.0	1.3	1.3	1.4	1.3	1.4	1.4	1.5	1.5
Provincial	1.5	1.7	1.8	1.7	1.9	1.7	1.7	1.8	1.8	1.8
Other	2.7	2.8	2.6	2.7	2.6	2.7	2.6	2.6	2.5	2.5
Federal	0.3	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.3	0.3
Provincial	2.4	2.3	2.2	2.3	2.1	2.3	2.2	2.2	2.2	2.2
Primary Balance	**-6.2**	**-2.5**	**-1.9**	**-1.9**	**-1.4**	**-1.4**	**-0.3**	**0.6**	**1.5**	**2.0**
Federal government	-6.4	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	0.0	0.8	1.3
Provincial government	0.2	0.5	0.6	0.6	0.5	0.5	0.5	0.6	0.7	0.7
Interest (cash)	**2.4**	**1.8**	**1.6**	**1.7**	**1.9**	**2.4**	**2.8**	**2.8**	**3.4**	**3.4**
Overall balance	**-8.6**	**-4.3**	**-3.5**	**-3.6**	**-3.3**	**-3.8**	**-3.1**	**-2.2**	**-1.9**	**-1.4**
Memorandum items										
General Gov't structural primary balance 4/	-3.0	-1.8	-2.2	-2.1	-1.5	-1.4	-0.3	0.6	1.5	2.0
Federal structural primary balance	-4.0	-2.6	-2.8	-2.7	-2.0	-1.9	-0.9	0.0	0.8	1.3
Provincial structural primary balance	1.0	0.8	0.6	0.6	0.5	0.5	0.6	0.6	0.7	0.7
Consolidated public sector balance 5/	-11.7	-7.6	-7.7	-8.1	-6.7	-7.2	-6.1	-4.8	-4.3	-3.4
Federal government debt	102.8	80.9	76.0	79.7	69.5	71.1	72.7	74.0	71.3	68.1
of which: net of debt held by public entities 6/	67.0	49.8	46.8	48.3	47.2	44.5	47.1	49.0	47.6	45.5
Provincial government debt	8.1	6.0	4.4	4.5	3.2	3.2	2.5	1.8	1.6	1.5
BCRA securities	10.7	10.9	11.9	12.5	9.5	10.0	9.4	9.0	8.7	8.4

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)

	2020	2021	SR (Sep.) 2022	Proj. 2022	SR (Sep.) 2023	2023	2024	Proj. 2025	2026	2027
					(In billions of Argentine pesos)					
Net foreign assets	**1,390**	**1,665**	**4,008**	**3,740**	**7,359**	**6,927**	**12,865**	**22,235**	**33,503**	**45,631**
Gross foreign assets	3,314	4,075	7,933	7,286	13,850	12,676	21,795	35,461	50,938	67,720
Gross foreign liabilities	1,925	2,410	3,925	3,546	6,492	5,749	8,929	13,226	17,436	22,089
Net domestic assets	**1,081**	**1,989**	**983**	**1,239**	**2,039**	**2,633**	**1,973**	**-896**	**-3,666**	**-5,504**
Credit to the public sector (net)	6,351	8,783	14,060	15,575	21,896	25,033	36,486	52,251	67,907	85,508
of which: Temporary advances to federal government	1,260	2,173	2,827	2,827	3,710	3,710	3,710	3,710	3,710	3,710
of which: Non-marketable government bonds	4,491	5,909	9,619	10,871	15,907	18,705	29,047	43,893	58,630	75,264
of which: Other credit and gvt. deposits (net)	599	701	1,614	1,876	2,279	2,618	3,729	4,648	5,567	6,534
Credit to the financial sector, excl. securities	-917	-1,243	-1,862	-2,041	-3,301	-3,679	-5,374	-8,104	-9,799	-8,485
BCRA securities	-2,942	-5,045	-9,729	-10,204	-13,943	-14,808	-21,462	-29,391	-39,924	-52,056
Official capital and other items	-1,412	-506	-1,487	-2,091	-2,613	-3,913	-7,677	-15,652	-21,850	-30,470
Monetary base	**2,470**	**3,654**	**4,990**	**4,979**	**9,398**	**9,559**	**14,839**	**21,339**	**29,837**	**40,127**
Currency issued	1,898	2,691	3,761	3,755	6,770	6,835	10,324	14,592	19,909	26,775
Bank deposits at the BCRA (peso-denominated)	572	963	1,230	1,224	2,628	2,724	4,515	6,747	9,929	13,352
					(Percent of GDP)					
Net foreign assets	**5.1**	**3.6**	**4.9**	**4.6**	**5.0**	**4.7**	**5.6**	**6.8**	**7.3**	**7.4**
Gross foreign assets	12.1	8.8	9.7	8.9	9.4	8.5	9.5	10.8	11.1	10.9
Gross foreign liabilities	7.0	5.2	4.8	4.3	4.4	3.9	3.9	4.0	3.8	3.6
Net domestic assets	**3.9**	**4.3**	**1.2**	**1.5**	**1.4**	**1.8**	**0.9**	**-0.3**	**-0.8**	**-0.9**
Credit to the public sector	23.1	19.0	17.2	19.1	14.9	16.8	16.0	15.9	14.8	13.8
of which: Temporary advances to federal government	4.6	4.7	3.5	3.5	2.5	2.5	1.6	1.1	0.8	0.6
of which: Non-marketable government bonds	16.3	12.8	11.8	13.3	10.8	12.6	12.7	13.4	12.8	12.2
of which: Other credit and gvt. deposits (net)	2.2	1.5	2.0	2.3	1.5	1.8	1.6	1.4	1.2	1.1
Credit to the financial sector, excl. securities	-3.3	-2.7	-2.3	-2.5	-2.2	-2.5	-2.4	-2.5	-2.1	-1.4
BCRA securities	-10.7	-10.9	-11.9	-12.5	-9.5	-10.0	-9.4	-9.0	-8.7	-8.4
Official capital and other items	-5.1	-1.1	-1.8	-2.6	-1.8	-2.6	-3.4	-4.8	-4.8	-4.9
Monetary base	**9.0**	**7.9**	**6.1**	**6.1**	**6.4**	**6.4**	**6.5**	**6.5**	**6.5**	**6.5**
Currency issued	6.9	5.8	4.6	4.6	4.6	4.6	4.5	4.4	4.3	4.3
Bank deposits at the BCRA (peso-denominated)	2.1	2.1	1.5	1.5	1.8	1.8	2.0	2.1	2.2	2.2
Memorandum items:										
NFA (billions of USD)	16.5	16.2	24.1	21.9	26.7	25.1	30.0	35.0	40.0	43.0
Quasi-fiscal deficit (percent of GDP)	3.2	3.3	4.2	4.5	3.3	3.4	3.0	2.6	2.4	2.0

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)

	2020	2021	SR (Sep.) 2022	Proj. 2022	SR (Sep.) 2023	2023	2024	Proj. 2025	2026	2027
				(In billions of Argentine pesos)						
Net foreign assets	**240**	**314**	**380**	**606**	**822**	**1,317**	**2,044**	**2,883**	**4,186**	**5,827**
Net domestic assets	**6,273**	**9,551**	**15,524**	**16,244**	**27,876**	**28,398**	**43,870**	**63,102**	**87,535**	**111,314**
Credit to the public sector	152	462	422	601	600	812	1,124	1,407	1,663	1,969
Gross credit to public sector	1,594	2,821	4,208	5,600	7,767	9,817	16,055	21,721	26,846	32,967
Deposits from the public sector	-1,442	-2,359	-3,786	-4,999	-7,168	-9,006	-14,932	-20,314	-25,182	-30,998
Claims on the central bank	4,686	7,521	13,192	13,858	20,541	21,919	32,419	45,752	61,711	76,664
Holdings of central bank securities	2,942	5,045	9,729	10,204	13,943	14,808	21,462	29,391	39,924	52,056
Reserves at central bank	1,488	2,202	3,093	3,268	5,931	6,405	9,891	14,852	19,730	21,839
Other	256	274	370	387	667	705	1,066	1,508	2,058	2,768
Claims on the private sector	3,762	5,357	9,482	8,561	17,773	16,663	27,221	40,259	58,064	78,483
US$ denominated	478	441	748	712	1,314	1,225	2,020	3,177	4,447	5,981
AR$ denominated	3,284	4,917	8,734	7,849	16,459	15,438	25,201	37,082	53,617	72,502
Net capital, reserves, and other assets	-2,327	-3,789	-7,573	-6,776	-11,038	-10,995	-16,894	-24,316	-33,903	-45,802
Liabilities with the private sector	**6,513**	**9,865**	**15,903**	**16,850**	**28,697**	**29,716**	**45,914**	**65,985**	**91,721**	**117,141**
Local currency deposits	5,170	8,245	13,490	14,284	24,282	25,258	39,265	57,450	80,951	109,738
Foreign currency deposits	1,343	1,621	2,413	2,565	4,415	4,458	6,649	8,535	10,770	7,403
in US$ billions	16.0	15.8	14.5	15.0	16.0	16.1	15.5	13.4	12.8	7.0
				(Percent GDP)						
Net foreign assets	**0.9**	**0.7**	**0.5**	**0.7**	**0.6**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
Net domestic assets	**22.8**	**20.6**	**19.0**	**19.9**	**18.9**	**19.1**	**19.2**	**19.2**	**19.1**	**18.0**
Credit to the public sector (net)	0.6	1.0	0.5	0.7	0.4	0.5	0.5	0.4	0.4	0.3
Gross credit to public sector	5.8	6.1	5.1	6.9	5.3	6.6	7.0	6.6	5.8	5.3
Deposits of the public sector	-5.2	-5.1	-4.6	-6.1	-4.9	-6.1	-6.5	-6.2	-5.5	-5.0
Claims on the central bank	17.1	16.3	16.1	17.0	14.0	14.8	14.2	13.9	13.4	12.4
Holdings of central bank securities	10.7	10.9	11.9	12.5	9.5	10.0	9.4	9.0	8.7	8.4
Reserves at central bank	5.4	4.8	3.8	4.0	4.0	4.3	4.3	4.5	4.3	3.5
Other	0.9	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Credit to the private sector	13.7	11.6	11.6	10.5	12.1	11.2	11.9	12.3	12.6	12.7
of which: Dollar denominated	1.7	1.0	0.9	0.9	0.9	0.8	0.9	1.0	1.0	1.0
of which: Peso denominated	12.0	10.6	10.7	9.6	11.2	10.4	11.0	11.3	11.7	11.7
Net capital, reserves, and other assets	-8.5	-8.2	-9.3	-8.3	-7.5	-7.4	-7.4	-7.4	-7.4	-7.4
Liabilities with the private sector	**23.7**	**21.3**	**19.5**	**20.6**	**19.5**	**20.0**	**20.1**	**20.1**	**20.0**	**18.9**
Local currency deposits	18.8	17.8	16.5	17.5	16.5	17.0	17.2	17.5	17.6	17.7
Foreign currency deposits	4.9	3.5	3.0	3.1	3.0	3.0	2.9	2.6	2.3	1.2
Memorandum items:										
M3 (AR$ billions)	7,668	11,510	17,580	19,419	31,954	33,458	50,452	71,695	101,447	136,431
M3 (percent of GDP)	27.9	24.9	21.5	23.8	21.7	22.5	22.1	21.8	22.1	22.0
M3 (as a ratio of monetary base)	3.1	3.2	3.5	3.9	3.4	3.5	3.4	3.4	3.4	3.4
Credit to the private sector, real (eop, y/y percent change)	-2.2	-5.6	-9.2	-18.4	17.1	21.6	13.4	5.6	6.8	4.0

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**	**381.5**	**382.5**	**386.5**	**381.8**	**390.7**	**397.1**
(in percent of GDP)	*102.8*	*80.9*	*79.7*	*71.1*	*72.7*	*74.0*	*71.3*	*68.1*
By creditor:								
Official sector	76.6	72.8	79.3	78.9	79.1	81.1	81.6	79.2
IMF	46.0	41.0	45.7	44.0	42.7	42.7	41.5	37.4
Other IFIs	25.1	27.1	28.9	30.3	32.0	34.0	35.8	37.6
Other official	5.5	4.8	4.7	4.6	4.5	4.4	4.3	4.2
Private sector 2/	142.3	151.5	152.0	160.3	171.6	172.1	179.2	186.0
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	140.3	150.2	143.3	135.8	128.6	129.8	131.9
of which: BCRA	81.9	97.0	104.6	102.0	98.2	94.6	95.0	95.6
By currency:								
Domestic currency	125.7	109.3	117.4	117.8	120.4	112.6	117.3	120.9
Foreign currency	210.0	255.3	264.2	264.6	266.1	269.2	273.4	276.2
of which: held by private sector	94.3	96.5	93.8	94.1	93.9	93.2	94.5	97.4
By residency:								
Non residents	152.6	146.8	146.7	145.4	144.5	144.0	144.1	142.2
of which: private non residents	76.1	74.0	67.3	66.6	65.4	63.0	62.5	63.0
Residents	183.1	217.8	234.9	237.1	242.0	237.8	246.5	254.9
Memorandum items								
Federal Gov't, excl. debt held by public entities	**218.8**	**224.3**	**231.4**	**239.1**	**250.7**	**253.2**	**260.8**	**265.2**
(in percent of GDP)	*67.0*	*49.8*	*48.3*	*44.5*	*47.1*	*49.0*	*47.6*	*45.5*
BCRA Debt (Leliqs and Pases)	**35.0**	**49.1**	**59.9**	**53.6**	**50.0**	**46.2**	**47.6**	**49.0**
(in percent of GDP)	*10.7*	*10.9*	*12.5*	*10.0*	*9.4*	*9.0*	*8.7*	*8.4*
Combined Federal Gov't and BCRA	**253.8**	**273.4**	**291.2**	**292.7**	**300.7**	**299.4**	**308.5**	**314.2**
(in percent of GDP)	*77.7*	*60.7*	*60.8*	*54.5*	*56.5*	*58.0*	*56.3*	*53.9*
Overall External Debt								
Gross external debt (includes holdouts)	**271.4**	**266.7**	**276.1**	**278.6**	**282.8**	**287.9**	**294.0**	**297.2**
(in percent of GDP)	*83.1*	*59.2*	*57.7*	*51.8*	*53.2*	*55.8*	*53.7*	*51.0*
By debtor								
Public sector	193.8	190.5	197.8	197.1	196.3	196.5	197.8	197.5
Federal government	152.6	146.8	146.7	145.4	144.5	144.0	144.1	142.2
Other public sector 4/	41.1	43.7	51.1	51.7	51.7	52.5	53.6	55.3
Private sector	77.7	76.2	78.3	81.5	86.5	91.4	96.2	99.7
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	83.3	87.0	89.2
By creditor								
Debt to official creditors	76.6	72.8	80.9	80.4	80.7	82.6	83.3	80.4
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	187.8	190.6	193.2	195.1	199.3	204.2
By maturity								
Long-term	222.6	216.3	223.3	224.4	227.1	230.8	235.4	237.6
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 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**	**1,470**	**4,637**	**2,253**	**7,015**	**15,376**	**1,909**	**3,233**	**3,870**	**3,192**	**12,204**	**5,427**	**-139**	**-5,087**	**-8,568**
Interest	**6,422**	**5,848**	**1,935**	**899**	**2,340**	**2,367**	**7,540**	**1,854**	**2,341**	**3,611**	**3,514**	**11,320**	**13,878**	**13,622**	**17,549**	**18,830**
External	1,840	1,201	575	233	647	296	1,752	929	357	933	343	2,563	3,124	3,351	3,387	3,408
Official (non-IMF)	671	624	124	127	208	247	706	314	328	321	320	1,283	1,363	1,419	1,486	1,541
Private	1,169	577	451	107	440	48	1,046	615	30	612	23	1,280	1,762	1,932	1,901	1,868
Domestic	4,583	4,647	1,360	666	1,692	2,071	5,789	925	1,984	2,678	3,171	8,757	10,754	10,271	14,162	15,422
Public entities 1/	445	246	81	66	85	182	415	148	105	185	95	533	1,203	1,859	3,382	3,940
Private 2/	4,138	4,401	1,278	599	1,607	1,889	5,374	777	1,879	2,494	3,075	8,224	9,550	8,412	10,780	11,482
Amortizations	**42,190**	**61,835**	**15,021**	**27,464**	**6,915**	**20,305**	**69,706**	**30,454**	**26,100**	**27,687**	**13,393**	**97,634**	**51,765**	**98,471**	**35,761**	**36,788**
External	2,388	4,883	1,638	862	1,516	628	4,645	1,235	779	1,197	563	3,775	3,497	5,856	5,651	6,101
Official (non-IMF)	2,163	2,434	985	414	616	460	2,474	812	407	804	427	2,451	2,613	2,632	2,400	2,384
Private	225	2,449	654	448	900	169	2,171	424	372	392	136	1,324	884	3,225	3,251	3,717
Domestic	39,802	56,953	13,383	26,602	5,399	19,677	65,061	29,218	25,321	26,491	12,830	93,860	48,268	92,614	30,110	30,687
Public entities 3/	16,267	28,271	1,807	11,972	287	9,011	23,079	16,089	8,159	11,082	2,350	37,679	28,703	45,969	13,731	15,218
Private 2/	23,535	28,682	11,575	14,630	5,111	10,665	41,982	13,130	17,162	15,409	10,480	56,181	19,565	46,645	16,379	15,468
IMF Debt Service	**1,471**	**5,128**	**3,800**	**3,788**	**5,175**	**5,996**	**18,759**	**6,034**	**6,026**	**4,268**	**4,253**	**20,581**	**7,318**	**2,781**	**3,922**	**7,573**
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**	**22,227**	**36,788**	**16,683**	**35,683**	**111,381**	**40,250**	**37,701**	**39,436**	**24,353**	**141,740**	**78,388**	**114,734**	**52,145**	**54,623**
Treasury deposits (+, drawdown) 4/	-989	-1,820	-7,861	5,425	-888	-1,355	-4,679	1,328	1,638	153	-48	3,071	2,500	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	887	2,431	4,107	298	1,102	1,333	963	3,696	4,218	4,591	4,210	4,210
Public entities 6/	50,220	50,226	3,342	15,790	1,253	9,578	29,963	17,090	9,461	12,702	3,598	42,852	30,949	49,731	21,498	24,741
Private sector issuances 2/	28,559	41,837	19,067	15,734	14,608	14,937	64,345	16,214	21,511	21,924	16,514	76,163	37,492	60,412	26,437	25,672
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	-2,045	-4,681	823	0	-5,902	0	0	0	0	0	0	0	0	0
Total Sources	**74,538**	**87,448**	**12,808**	**32,751**	**16,683**	**25,591**	**87,833**	**34,931**	**33,711**	**36,112**	**21,028**	**125,782**	**75,159**	**114,734**	**52,145**	**54,623**
Total Gap	**0**	**0**	**9,419**	**4,037**	**0**	**10,092**	**23,548**	**5,319**	**3,990**	**3,325**	**3,325**	**15,958**	**3,229**	**0**	**0**	**0**
IMF Disbursements	0	0	9,419	4,037	0	10,092	23,548	5,319	3,990	3,325	3,325	15,958	3,229	0	0	0
Memorandum Items																
Deposit stock	2,117	3,937	11,547	5,848	6,201	6,813	6,813	5,340	3,617	3,413	3,403	3,403	772	616	527	475
Private (domestic) debt service	27,673	33,083	12,854	15,229	6,719	12,554	47,356	13,906	19,041	17,902	13,556	64,405	29,115	55,058	27,159	26,950
Private rollover rates (percent)	120	134	145	104	253	139	146	119	129	140	156	132	183	121	135	134
Primary fiscal deficit (percent of GDP)	6.4	3.0	0.2	0.7	0.4	1.1	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	1,173	3,113	729	0	5,015	600	1,021	1,222	1,013	3,856	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.

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	21,793	27,120	27,283	17,509	93,704	85,795	87,863	89,156	91,162	95,159
FDI payments	1,363	431	420	-670	-778	-597	-206	-185	-185	-185	-185
Interest federal government	1,201	575	271	649	298	1,794	2,585	3,194	3,431	3,650	3,998
to IFIs (excl IMF)	624	124	127	208	247	706	1,283	1,363	1,419	1,486	1,541
to private creditors FX	122	435	2	428	1	866	1,219	1,754	1,946	2,099	2,386
to private creditors AR$	455	16	142	14	49	222	84	77	66	66	72
Interest provincial government	381	245	175	421	197	1,039	951	1,008	943	834	764
Amortization federal government	4,883	1,862	1,153	1,663	635	5,312	3,745	4,067	6,599	6,598	7,006
to IFIs (excl IMF)	2,434	985	414	616	460	2,474	2,451	2,613	2,632	2,400	2,384
to private creditors FX	10	0	0	0	0	0	0	648	3,276	3,465	3,972
to private creditors AR$	2,439	877	740	1,047	175	2,839	1,295	805	691	732	650
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	3,800	3,788	5,175	5,996	18,759	20,581	7,318	2,781	3,928	7,573
Other outflows (net)	14,025	4,491	4,024	-1,157	6,728	14,086	16,899	15,058	15,063	19,550	20,494
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	2,849	-6	1,126	297	297	1,713	-957	-4,475	-2,518	-2,441	-2,466
of which trade credits	-1,566	-1,275	-1,273	-202	-202	-2,952	-1,412	-1,437	-1,440	-1,468	-1,531
Total Needs	**99,809**	**33,367**	**37,028**	**33,414**	**30,742**	**134,550**	**131,425**	**119,881**	**120,013**	**127,730**	**136,974**
Exports G&S	87,415	22,434	28,566	27,685	22,780	101,466	103,155	103,634	104,534	110,036	114,537
FDI Inflows	6,782	3,884	4,592	1,373	1,789	11,638	9,936	12,183	11,793	11,891	12,185
Borrowing of federal government	5,516	815	993	1,396	2,940	6,144	5,142	5,327	8,045	9,909	11,862
from IFIs (excl IMF)	3,506	305	483	887	2,431	4,107	3,696	4,218	4,591	4,210	4,210
from private creditors FX	0	12	12	12	12	49	67	225	2,697	4,901	6,930
from private creditors AR$	2,010	497	497	497	497	1,988	1,379	883	757	798	722
Borrowing of provincial government	0	11	107	116	144	379	768	786	1,012	1,265	1,761
Reserve Drawdown (- = accumulation)	105	-3,192	-1,283	4,183	-5,449	-5,741	-3,123	-4,908	-5,000	-5,000	-3,000
Memo item: adjusted reserve drawdown (- = accumulation) 1/	105	-956	-630	-1,869	-2,280	-2,853	-4,856	-6,243	-5,000	-5,000	-3,000
Total Sources	**99,809**	**23,952**	**32,975**	**34,753**	**22,205**	**111,003**	**115,467**	**116,652**	**120,013**	**127,730**	**136,974**
Total Gap	**0**	**9,416**	**4,053**	**-1,340**	**8,537**	**23,548**	**15,958**	**3,229**	**0**	**0**	**0**
IMF Disbursements	0	9,419	4,037	0	10,092	23,548	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-October 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**	**384.4**
Debt held by Official and Private Creditors	**102.9**	**129.3**	**165.1**	**206.0**	**206.5**	**218.8**	**224.3**	**228.0**
Official Sector	*29.0*	*28.1*	*29.6*	*57.9*	*73.4*	*76.6*	*72.8*	*72.7*
Multilateral	19.8	20.2	21.3	51.0	68.0	71.1	68.0	68.1
IMF	-	-	-	28.3	44.1	46.0	41.0	40.7
Other IFIs	19.8	20.2	21.3	22.8	23.9	25.1	27.1	27.4
Bilateral	9.3	7.9	8.3	6.9	5.4	5.5	4.8	4.6
Paris Club 2/	7.5	6.0	5.5	3.7	2.1	2.4	1.9	2.0
Non-Paris Club	1.7	1.8	2.8	3.2	3.3	3.1	2.9	2.6
Private Sector 3/	*74.0*	*101.3*	*135.5*	*148.0*	*133.1*	*142.3*	*151.5*	*155.2*
Foreign Law	25.0	46.5	67.2	64.9	66.6	68.5	67.7	66.1
Bonds with new contractual clauses	-	21.9	41.3	40.4	41.2	43.5	42.8	41.4
Bonds with old contractual clauses	25.0	24.6	25.8	24.6	24.3	25.0	24.8	24.3
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	86.6
FX denominated	19.3	25.6	41.1	45.4	27.6	23.3	26.2	25.3
ARS denominated	11.7	20.7	24.4	34.8	36.5	48.0	55.0	61.3
Pending Restructuring from 2005/10 4/	18.0	8.5	2.9	2.8	2.4	2.5	2.6	2.6
Debt Held by the Public Sector 5/	**137.7**	**146.1**	**155.8**	**126.2**	**116.9**	**116.9**	**140.3**	**156.4**
				(Percent of GDP)				
Total Gross Federal Government Debt	**52.6**	**53.1**	**56.5**	**85.2**	**88.8**	**102.8**	**80.9**	**80.3**
Debt held by Official and Private Creditors	**22.5**	**24.9**	**29.1**	**52.8**	**56.7**	**67.0**	**49.8**	**47.6**
Official Sector	*6.3*	*5.4*	*5.2*	*14.9*	*20.2*	*23.4*	*16.2*	*15.2*
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	8.5
Other IFIs	4.3	3.9	3.8	5.8	6.6	7.7	6.0	5.7
Bilateral	2.0	1.5	1.5	1.8	1.5	1.7	1.1	1.0
Paris Club	1.6	1.2	1.0	1.0	0.6	0.7	0.4	0.4
Non-Paris Club	0.4	0.3	0.5	0.8	0.9	0.9	0.6	0.6
Private Sector 3/	*16.2*	*19.5*	*23.9*	*38.0*	*36.6*	*43.6*	*33.6*	*32.4*
Foreign Law	5.5	9.0	11.8	16.7	18.3	21.0	15.0	13.8
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	5.1
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	18.1
FX denominated	4.2	4.9	7.2	11.7	7.6	7.1	5.8	5.3
ARS denominated	2.6	4.0	4.3	8.9	10.0	14.7	12.2	12.8
Pending Restructuring from 2005/10 4/	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**	**32.7**
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	166.7
(percent of GDP)	19.9	20.9	24.8	43.9	46.7	52.3	37.6	34.8
Debt held by private sector nonresidents	34.6	63.9	100.0	103.2	82.5	76.1	74.0	67.6
(percent of GDP)	7.6	12.3	17.6	26.5	22.7	23.3	16.4	14.1
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/ Includes the revised Paris Club debt stock of US$ 1.97 billion, agreed as part of the restructuring deal in October 2022.

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

4/ 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.

5/ 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**	**113,155**	**121,925**	**122,247**	**2.7**	**12.6**	**25.7**	**32.1**	**25.4**
Direct Investment	-39,770	-30,362	-27,630	-44,386	-57,438	-6.3	-5.8	-6.3	-11.7	-11.9
Equity and Investment Fund Shares	-15,976	-6,626	-4,697	-12,505	-25,150	-2.5	-1.3	-1.1	-3.3	-5.2
Debt Instruments	-23,794	-23,735	-22,933	-31,881	-32,288	-3.7	-4.5	-5.2	-8.4	-6.7
Portfolio Investment	-97,130	-52,404	-2,548	11,641	18,685	-15.3	-10.0	-0.6	3.1	3.9
Equity and Investment Fund Shares	13,039	22,433	31,840	37,919	47,267	2.1	4.3	7.2	10.0	9.8
Debt Securities	-110,169	-74,838	-34,388	-26,278	-28,581	-17.3	-14.3	-7.8	-6.9	-5.9
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	99,028	115,411	121,735	16.2	16.1	22.5	30.4	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	95,805	112,047	118,215	15.7	15.5	21.7	29.5	24.6
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**	**397,180**	**399,135**	**417,768**	**53.1**	**72.2**	**90.1**	**105.1**	**86.8**
Direct Investment	40,930	42,228	42,828	40,985	42,452	6.4	8.1	9.7	10.8	8.8
Equity and Investment Fund Shares	40,930	42,228	42,828	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	70,388	80,693	9.4	11.6	15.7	18.5	16.8
Equity and Investment Fund Shares	38,806	33,370	39,500	41,676	51,600	6.1	6.4	9.0	11.0	10.7
Debt Securities	20,599	27,419	29,794	28,712	29,093	3.2	5.2	6.8	7.6	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	240,198	248,358	254,961	28.6	39.9	54.5	65.4	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	236,975	244,994	251,441	28.2	39.4	53.8	64.5	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**	**284,026**	**277,210**	**295,521**	**50.3**	**59.7**	**64.5**	**73.0**	**61.4**
Direct Investment	80,700	72,589	70,458	85,371	99,890	12.7	13.9	16.0	22.5	20.8
Equity and Investment Fund Shares	56,906	48,854	47,525	53,490	67,602	9.0	9.3	10.8	14.1	14.0
Debt Instruments	23,794	23,735	22,933	31,881	32,288	3.7	4.5	5.2	8.4	6.7
Portfolio Investment	156,535	113,193	71,842	58,747	62,008	24.6	21.7	16.3	15.5	12.9
Equity and Investment Fund Shares	25,767	10,937	7,661	3,757	4,333	4.1	2.1	1.7	1.0	0.9
Debt Securities	130,768	102,257	64,182	54,990	57,674	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	132,947	133,226	12.5	23.9	32.0	35.0	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	132,947	133,226	12.5	23.9	32.0	35.0	27.7
Memorandum items										
Debt liabilities	233,667	250,791	228,286	219,818	223,189	36.8	48.0	51.8	57.9	46.4

Sources: National authorities and Fund staff estimates.

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

	2015	2016	2017	2018	2019	2020	2021	2022*
				(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	28.7
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.4	15.2	14.1	14.2	15.5	22.3	24.1	27.6
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-3.2	-2.5	-3.0	-2.4	0.3	-4.4	-1.2	-1.5
Non-performing Loans to Total Gross Loans	1.7	1.8	1.8	3.1	5.7	3.9	4.3	3.1
Earnings and Profitability								
Return on Assets	4.1	3.6	2.7	4.1	5.4	2.4	1.1	1.5
Return on Equity	32.4	29.6	23.4	36.1	46.4	16.4	6.9	9.0
Liquidity								
Liquid Assets to Total Assets (Liquid Asset Ratio)	34.3	36.4	30.0	41.8	43.2	48.0	50.6	51.0
Liquid Assets to Short Term Liabilities	53.4	54.0	45.5	60.1	62.0	69.2	74.1	78.1
Net Open Position in Foreign Exchange Capital	21.8	18.6	11.1	9.4	8.0	12.4	11.7	11.0
Private Banks								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	13.7	15.1	15.3	16.8	19.5	25.5	27.0	30.6
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.8	13.4	13.4	14.4	16.9	23.0	25.1	29.1
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-3.5	-2.9	-2.4	-0.6	-2.1	-6.2	-2.6	-2.1
Non-performing Loans to Total Gross Loans	1.5	1.6	1.8	3.1	4.4	2.2	2.9	1.7
Earnings and Profitability								
Return on Assets	4.1	3.7	3.2	4.2	7.5	2.7	1.3	1.3
Return on Equity	31.2	29.4	26.6	35.6	60.3	2.7	1.3	1.3
Public Banks								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	12.3	19.5	16.2	14.7	13.6	21.9	23.2	25.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	11.6	18.7	15.4	14.1	13.0	21.3	22.6	25.3
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-2.9	-2.4	-4.7	-6.3	4.9	-0.7	1.3	-0.3
Non-performing Loans to Total Gross Loans	2.0	2.2	1.6	2.7	7.8	6.6	6.5	5.1
Earnings and Profitability								
Return on Assets	4.0	3.5	2.0	4.0	2.0	2.1	0.9	2.1
Return on Equity	34.8	30.3	18.5	38.6	20.2	17.2	6.4	13.8

Sources: Banco Central de la República Argentina (BCRA) and IMF database.
* Data as of September 2022, except for liquidity indicators, which are as of June 2022.

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

(In Millions of SDRs, unless otherwise specified)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total (2022-2032)
Existing and Prospective drawings (30-month EFF)	17,500.0	12,000.0	2,414.00	...	...	...	...	...	...	...	...	
(in percent of quota)	549.1	376.5	75.7									
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/												
Amortization 1/	2,014.2	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	48,556.1
GRA charges 1/	0.0	1,224.7	1,188.9	1,200.7	1,199.0	1,139.6	989.8	794.8	595.3	395.1	197.5	8,925.4
GRA surcharges 1/	0.0	799.3	768.2	777.8	776.4	729.0	609.5	454.3	295.1	135.6	10.7	5,355.9
of which level-based	0.0	532.8	512.1	518.5	517.6	486.0	406.4	302.9	196.8	90.4	7.1	3,570.6
time-based	0.0	266.4	256.1	259.3	258.8	243.0	203.2	151.4	98.4	45.2	3.6	1,785.3
GRA service charge 1/	22.5	60.0	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	94.6
SDR assessments and charges 1/	0.0	89.0	89.4	89.3	89.4	89.4	89.4	89.3	89.4	89.4	89.4	893.4
Total debt service 1/	2,036.7	15,476.3	5,471.1	2,067.8	2,898.1	5,458.0	6,738.8	6,657.5	6,298.8	5,939.1	4,783.3	63,825.5
(in percent of exports of G&S)	2.8	21.2	7.5	2.8	3.8	6.78	7.98	7.51	6.77	6.24	4.91	
(in percent of GDP)	0.5	3.3	1.2	0.5	0.7	1.18	1.40	1.33	1.21	1.09	0.85	
(in percent of GIR)	6.4	45.8	15.1	5.2	6.8	12.1	12.6	11.0	9.3	8.2	6.4	
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/												
Outstanding stock 1/	34,215.9	32,912.5	31,914.0	31,914.0	31,080.7	27,580.7	22,530.7	17,211.7	11,892.7	6,573.7	2,088.0	
(in percent of quota)	1,073.5	1,032.6	1,001.3	1,001.3	975.1	865.33	706.89	540.01	373.13	206.25	65.51	
(in percent of GDP)	7.6	7.1	7.0	7.3	7.0	5.9	4.7	3.4	2.3	1.2	0.4	
(in percent of GIR)	107.3	97.4	87.9	80.6	72.5	61.2	42.1	28.5	17.5	9.0	2.8	
Memorandum items:												
Exports of goods and services (US$ mn)	100,787	101,512	101,349	103,071	107,123	111,897	117,441	123,260	129,367	132,428	135,562	
Gross International Reserves (US$ mn)	44,353	47,009	50,463	55,044	59,627	62,627	74,336	83,870	94,646	101,101	103,800	
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	Original Amounts % 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	Cont. Liab.	…	
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	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 second review. The GFN module shows moderate risk, broadly in line with the second 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 second 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 high 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 remains "sustainable, but not with high probability". This assessment is based on four tools: (i) a 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; (iii) a crisis prediction model which gives a probability of unsustainable debt (e.g., events involving sovereign default and restructuring); and (iv) contingent liability analysis to illustrate potential debt surprises from outside the current central government debt perimeter. 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, despite rising near-term challenges.[1] The assessment is predicated on the steadfast implementation of prudent macroeconomic policies included in staff's baseline, consistent with an improvement in domestic debt market conditions, 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. Although near-term rollover risks have increased, baseline GFNs continue to average around 13 percent of GDP over the 2022–27 period, broadly in line with the second review. This largely reflects the authorities' financing strategy, which after relying on shorter term maturities during 2023 (as a result of the elections), gradually shifts towards the use of longer-maturity instruments as stability is further strengthened and disinflation takes hold (see Annex Box 1). At end-September 2022, banks' exposures to government debt remained moderate at around 15 percent of banking system assets. The GFN index is broadly unchanged relative to the second review, indicating continued space for banks to finance the government, including in stressed conditions. However, Argentina's banking system remains small (assets of 40 percent of GDP), and despite strong capital buffers and low NPLs, its ability to further absorb government debt securities, in case of stress, may be complicated by its exposure to the broader public sector, which, after including central bank securities (LELIQs) stands at around 50 percent of total assets. Argentina's low export base, high dollarization and weak policy credibility, and political uncertainties (which could intensify ahead of the 2023 Presidential elections) are also key vulnerabilities for absorbing GFNs, and 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 16 percent of assets to absorb residual issuances. That said, financing needs and risks could increase further if

[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.

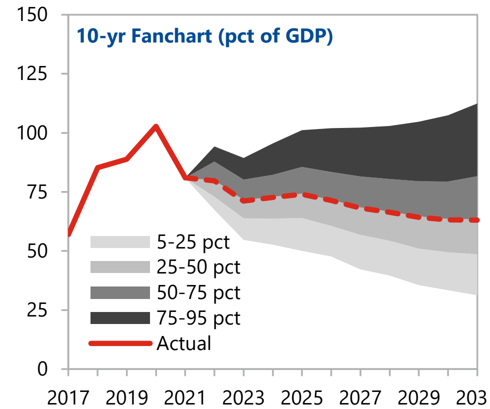
the favorable structure of new debt issuances in the baseline fails to materialize, efforts to durably reduce inflation prove unsuccessful, and global financial conditions tighten at a faster-than-anticipated pace.

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 80 percent of GDP at end-2021 to under 70 percent of GDP by end–2027, higher than at the second review, reflecting various factors including higher financing costs in the context of shortening maturities. 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 48 percent of GDP, with only a modest contribution to the overall risk index. Uncertainty, as proxied by the fanchart width, remains high at around 60 percent, broadly in line with the second review, indicating a strong possibility that the debt trajectory could diverge significantly from the baseline.

4. **The overall medium-term index (MTI), which aggregates the debt fanchart and GFN modules, continues to indicate moderate risks.** The MTI index is 0.36, consistent with the second review, and still close to the high-risk threshold. At this level, predictions of stress events will result in false alarms with a 20 percent probability, while predictions of no stress will result in missed crises with a 27 percent probability. Thus, the mechanical signal continues to be of moderate sovereign stress risk, reflecting the effects of the 2020 debt restructuring and assumed implementation of program policies. However, uncertainty around the baseline constitutes an important risk to this assessment. Furthermore, the high probability of debt stabilization may be distorted by the estimated negative real interest rates, reflecting the current situation of strict capital controls and high inflation (notwithstanding the prevalence of inflation-linked debt).

5. **Contingent liability analysis is also consistent with moderate medium-term risks of sovereign stress**. An illustrative contingent liability shock scenario illustrates the potential risks of debt surprises coming from outside the current central government debt perimeter. The shock is tailored for Argentina's circumstances by simulating a one-off debt materialization of 6 percent of GDP, equivalent to the total stock of provincial debt. In this scenario, public debt would rise by around 6 percent of GDP by end-2023 and fall back to around 72 percent of GDP by 2027, while GFNs would remain elevated at around 10 percent of GDP by 2027. Even so, debt would remain well below the 75th percentile in the debt fanchart. Moreover, staff does not assess provincial debt to have a high risk of becoming a contingent liability to the central government, as demonstrated by the non-bailout approach taken by the government during the 2020 provincial debt restructuring. Given the contained risk and modest impact if realized, based on this analysis, staff judges that the moderate medium-term risk assessment remain appropriate.

C. Longer-Term Risk Analysis



6. 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. This is lower than at the 5-year horizon but remains 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 terms. Capacity to repay will depend on successful IMF program implementation, an improvement in domestic debt market conditions, and the re-access of international private credit markets.

7. 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 even more 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 second review, federal debt (excluding debt held by the BCRA and FGS) would fall close to the 40 percent of GDP threshold. *FX debt service* would stabilize at around 3½ percent of GDP during 2025-30, slightly higher than at the second review, reflecting the impact of higher global interest rates on official debt service, but still 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 7½ percent of GDP during 2025-2030, over 2 ppts above the March Technical Note target. This continues to indicate that buffers remain limited, and that large and sustained domestic financing will be required going forward, with improvements in the maturity structure also needed to ensure a gradual easing of capital flow measures. In this context, strengthening domestic debt management remains critical.

Box 1. Argentina: SRDSF Key Macroeconomic and Financing Assumptions

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

Macroeconomic Assumptions

- *Real GDP growth* is projected to moderate to 4.6 percent in 2022 and to 2 percent in 2023 and 2024. This reflects the programmed moderation in domestic demand, due to ongoing policy tightening, and the deterioration in the global environment. Potential growth remains at 2 percent, in line with average growth in the past 20 years.
- *Inflation (eop)* is projected to rise close to but below 100 percent for 2022, in line with the second 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, and domestic financing conditions improve, 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 remains unchanged relative to the second review, with average annual contributions of 0.3 percent of GDP from MDBs, through 2024 and beyond. The *IMF EFF* provides positive net financing in 2022 (0.8 percent of GDP), with zero net financing thereafter.
  - Projected repayments of *Paris Club* legacy debt have been updated to reflect the recent joint agreement. Relative to the second review, the deal includes a somewhat less onerous repayment schedule stretching out to 2028, consistent with reserve accumulation and debt sustainability goals.
  - 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.* BCRA transfers remain 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.
- *Domestic market financing*. Domestic market financing is projected to average around 3 percent of GDP during the program, consistent with ambitious average annual rollover rates of around 150 percent (above the 2020-21 average of 125 percent). The baseline assumes a gradual strengthening of the domestic debt market underpinned by a proactive market-oriented financing strategy. In the near-term: (i) publicly held debt (60 percent of total amortizations in 2023) is rolled into CER-linkers with maturities beyond the election; (ii) fresh net financing is mobilized through efforts to encourage nonfinancial corporates to hold government paper (around 0.5 percent of GDP) and efforts to tap liquidity from the provinces and other public entities (0.2 percent of GDP); and (iii) remaining private sector issuances are more heavily focused on short-term fixed rate instruments. From 2024, the strategy shifts to reliance on longer term-CER linkers, and fixed rate issuances over the medium to long-term. Domestic real interest rates, after rising in 2023 on account of election-related uncertainties, are projected to decline in 2024 before gradually rising again 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:						

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

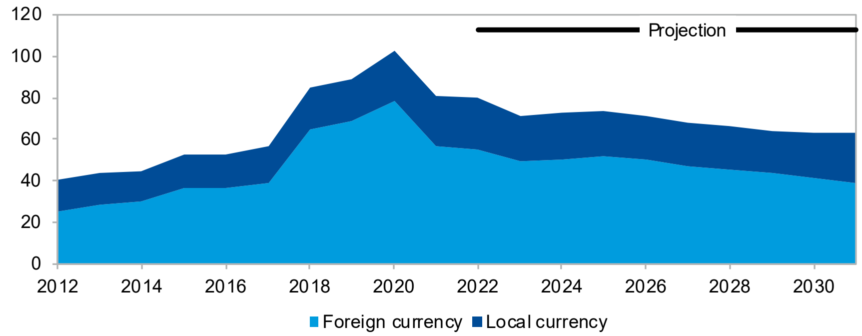
Coverage	#	Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	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 the risk-based approach (see SM/20/169), the drawn amount of one central bank bilateral fx swap is below the 1 percent of GDP de minimis threshold and thus not included in public debt for DSA purposes. Nevertheless, the central bank's weak balance sheet is a key contingent liability, necessitating a strategy to strengthen both its finances and governance.

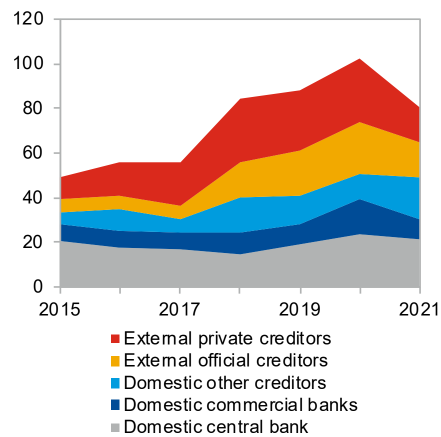
Table 3. Argentina: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



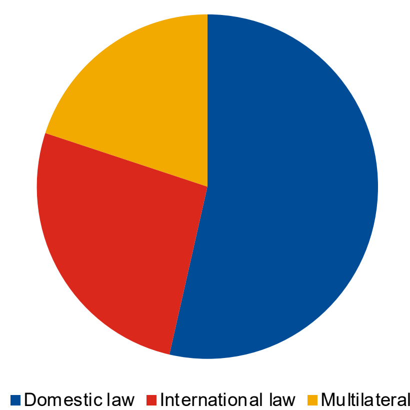
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



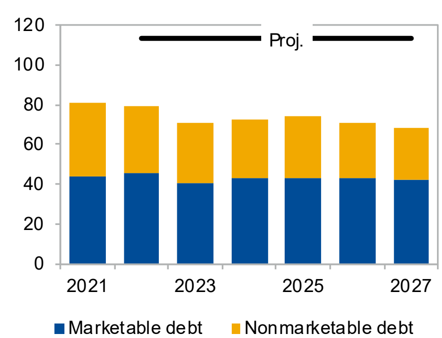
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2021 (percent)



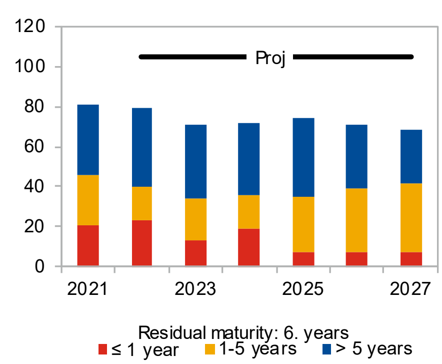
Note: The perimeter shown is central government.

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

Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			
	real-time	t+3	t+5
Historical Output Gap Revisions 2/			

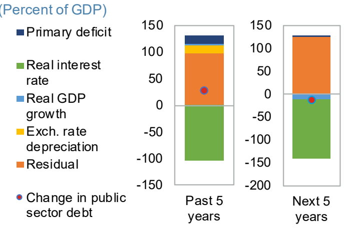
Comparator Group:
Emerging Markets, Commodity Exporter, Program

Color Code:

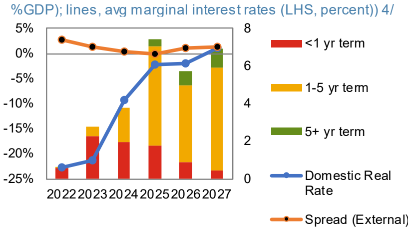
Optimistic
- > 75th percentile
- 50-75th percentile

Pessimistic
- 25-50th percentile
- < 25th percentile

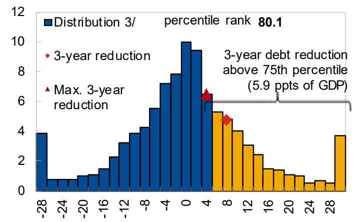
Public Debt Creating Flows
(Percent of GDP)



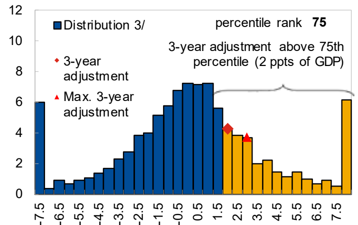
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent)) 4/



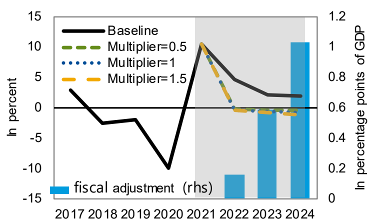
3-Year Debt Reduction
(Percent of GDP)



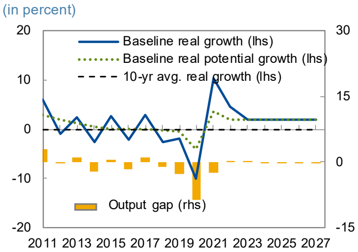
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



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.

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.

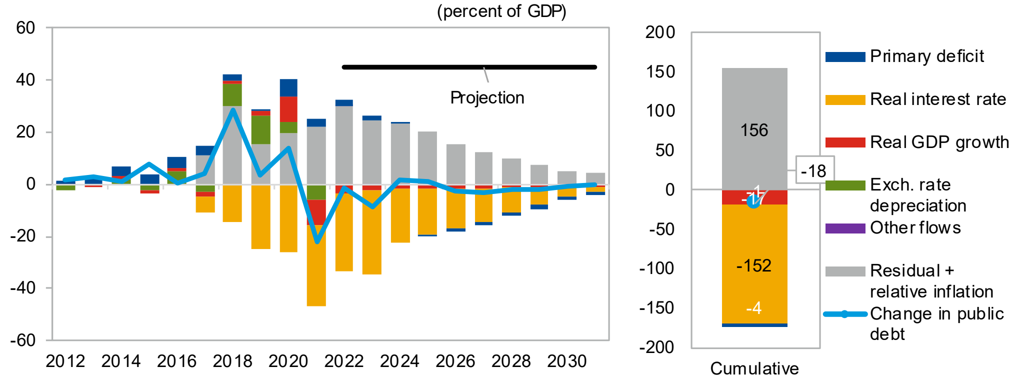
Table 5. Argentina: Baseline Scenario

(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	79.7	71.1	72.7	74.0	71.3	68.1	66.3	64.2	63.2	63.0
Change in public debt	-21.9	-1.2	-8.5	1.5	1.3	-2.6	-3.2	-1.8	-2.1	-1.1	-0.2
Contribution of identified flows	-21.5	-10.4	-10.5	-6.6	-6.0	-5.2	-4.7	-3.2	-2.2	-0.7	-0.1
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	26.4	24.9	26.0	26.8	27.6	27.8	27.8	27.8	27.8	27.8
Noninterest expenditures	29.0	28.9	26.8	26.9	26.8	26.7	26.5	26.5	26.5	26.5	26.5
Automatic debt dynamics	-24.5	-13.0	-11.9	-7.0	-6.0	-4.4	-3.4	-1.9	-0.8	0.6	1.2
Int. rate-growth differential	-40.8	-33.7	-34.4	-22.2	-19.2	-17.2	-14.4	-10.6	-8.1	-4.8	-2.9
Real interest rate	-31.2	-30.2	-32.8	-20.9	-17.7	-15.7	-13.0	-9.2	-6.8	-3.6	-1.7
Real growth rate	-9.7	-3.5	-1.6	-1.4	-1.4	-1.5	-1.4	-1.3	-1.3	-1.3	-1.2
Real exchange rate	-6.1	…	…	…	…	…	…	…	…	…	…
Relative inflation	22.4	20.7	22.4	15.2	13.2	12.8	11.0	8.7	7.3	5.4	4.2
Other identified flows	0.0	0.2	-0.5	-0.4	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	-0.5	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.4	9.1	2.0	8.1	7.3	2.6	1.5	1.4	0.1	-0.4	-0.1
Gross financing needs	18.2	17.3	16.1	12.0	16.2	8.4	8.7	10.5	13.7	12.3	14.6
of which: debt service	15.1	14.8	14.2	11.1	16.2	9.3	10.0	11.8	15.1	13.7	15.9
Local currency	10.8	9.4	8.4	6.8	11.6	5.9	5.9	7.0	9.1	7.9	7.3
Foreign currency	4.3	5.4	5.8	4.3	4.6	3.4	4.1	4.8	6.0	5.8	8.6
Memo:											
Real GDP growth (percent)	10.4	4.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	53.9	69.1	78.0	51.0	40.8	37.2	32.2	26.0	22.2	17.3	13.9
Nominal GDP growth (percent)	68.4	76.4	82.0	53.6	43.8	39.8	34.8	28.5	24.7	19.6	16.2
Effective interest rate (percent)	2.4	3.2	3.3	5.8	5.7	7.4	7.6	8.6	9.4	10.6	10.8

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 2031, 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

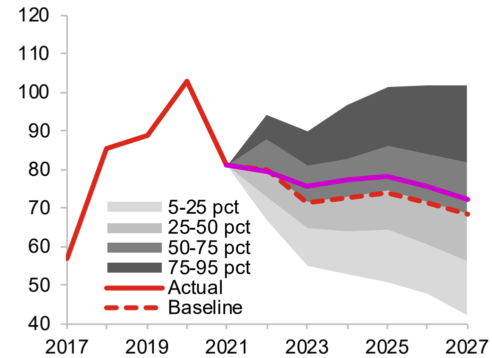
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

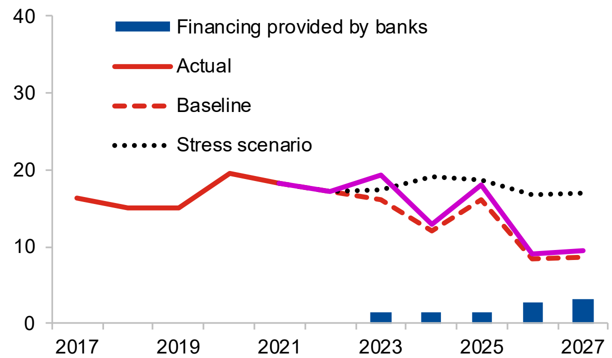
Module	Indicator	Value	Risk index	Risk signal	Emerging Markets, Commodity Exporter, Program
Debt fanchart module	Fanchart width	59.7	0.9	…	
	Probability of debt not stabilizing (pct)	0.05	0.0	…	
	Terminal debt level x institutions index	47.9	1.0	…	
	Debt fanchart index	**…**	**1.91**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	13.1	4.5	…	
	Bank claims on government (pct bank assets)	15.3	5.0	…	
	Chg. in claims on govt. in stress (pct bank assets)	16.5	5.5	…	
	GFN financeability index	**…**	**15.0**	**Moderate**	

Legend: Interquartile range; Argentina

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

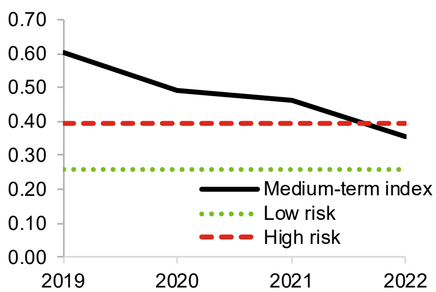


Triggered stress tests (stress tests not activated in gray)

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	…	0.4, Moderate

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

Prob. of false alarm, 2022-2027 (if stress predicted): 20.5 pct.

Commentary: Both medium-term tools point to a moderate level of risk, consistent with the second review, although the medium-term index has weakened slightly on account of the somewhat weaker debt path. 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[1]

	Debt Stock (end of period)			Debt Service					
	31-Oct-22			2022[6]	2023	2024	2022	2023	2024
	(In US$ bn)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ bn)*			*(Percent GDP)*		
Total	**381.68**	100.00	79.72	**96.32**	**108.93**	**47.04**	20.12	20.26	8.84
External	137.51	36.03	28.72	24.90	25.16	13.26	5.20	4.68	2.49
Multilateral creditors[2,3]	68.15	17.85	14.23	20.76	21.40	8.10	4.34	3.98	1.52
IMF	40.95	10.73	8.55	18.24	18.72	5.33	3.81	3.48	1.00
World Bank	8.82	2.31	1.84	0.48	0.58	0.60	0.10	0.11	0.11
CAF	3.78	0.99	0.79	0.69	0.69	0.67	0.14	0.13	0.13
ADB/AfDB/IADB	13.71	3.59	2.86	1.26	1.30	1.37	0.26	0.24	0.26
FONPLATA	0.44	0.12	0.09	0.05	0.07	0.08	0.01	0.01	0.01
BEI	0.21	0.06	0.04	0.01	0.02	0.02	0.00	0.00	0.00
BCIE	0.08	0.02	0.02	0.00	0.01	0.01	0.00	0.00	0.00
Other Multilaterals	0.16	0.04	0.03	0.02	0.02	0.02	0.00	0.00	0.00
OFID	0.13	0.03	0.03	0.02	0.02	0.02	0.00	0.00	0.00
FIDA	0.03	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00
o/w: list largest two creditors									
list of additional large creditors									
Bilateral Creditors[2]	4.09	1.07	0.85	0.71	0.50	2.15	0.15	0.09	0.41
Paris Club	1.36	0.36	0.28	0.19	-	1.69	0.04	-	0.32
list of additional large creditors							-	-	-
Non-Paris Club	2.72	0.71	0.57	0.52	0.50	0.47	0.11	0.09	0.09
o/w: China	2.49	0.65	0.52	0.33	0.34	0.33	0.07	0.06	0.06
T-Bills	0.87	0.23	0.18	1.76	0.81	-	0.37	0.15	-
Bonds	64.34	16.86	13.44	1.66	2.44	3.00	0.35	0.45	0.56
Commercial creditors	0.06	0.02	0.01	0.01	0.01	0.01	0.00	0.00	0.00
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	244.18	63.97	51.00	71.42	83.77	33.78	14.92	15.58	6.35
T-Bills	98.29	25.75	20.53	42.16	34.54	12.89	8.81	6.42	2.42
Held by: central bank									
local banks									
local non-banks									
Bonds	123.65	32.40	25.82	14.28	36.42	19.96	2.98	6.78	3.75
Held by: central bank									
local banks									
local non-banks									
Loans	20.17	5.28	4.21	14.60	12.45	0.81	3.05	2.32	0.15
Held by: central bank									
local banks									
local non-banks									
Memo items:	2.07	0.54	0.43	0.37	0.35	0.11			
Collateralized debt[4]	0.84	0.22	0.17	0.04	0.04	0.04			
o/w: Related									
o/w: Unrelated	0.84	0.22	0.17	0.04	0.04	0.04			
Contingent liabilities	1.24	0.32	0.26	0.33	0.31	0.07			
o/w: Public guarantees	1.24	0.32	0.26	-	-	-			
o/w: Other explicit contingent liabilities[5]									

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. The joint agreement with Paris Club creditors to restructure 2014 legacy debt is not reflected in the debt stock and debt service of this table, but is reflected in the DSA.

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 as of end-October 2022 and projections through the end of the year.

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 completion of the Second Review under the extended arrangement on October 7, 2022.

1. Overview. Since early October 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. These measures also amount to nonobservance of the continuous PCs on the introduction or intensification/modification of exchange restrictions/MCPs.

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

- ***FX Incentive Scheme:*** On November 28, the Argentine government reinstated its FX incentive scheme to encourage soy exporters and producers to sell their stocks that was introduced on a temporary basis, and which expired in September. Under the current scheme, exporters of soybean and derivates can fulfill their surrender requirement by exchanging their dollar receipts at a more preferential exchange rate of 230 pesos per dollar.[1] Due to the large spread between the preferential exchange rate and the official exchange rate (which trades at around 168 pesos per dollar), which exceeds two percent, and given that the old measure had expired before the reintroduction, this measure constitutes a **new multiple currency practice (MCP)** subject to Fund jurisdiction.
- ***Exchange Tax:*** Argentina maintains (i) an exchange restriction and an MCP arising from a 30 percent tax on the purchase of foreign exchange by individuals and on payments for consumption abroad. Under Decree 682/2022, the 30 percent tax has been extended to purchases of foreign currency for the payment of a) personal, cultural and recreational services; b) the importation of a list of luxury goods. The extension of the coverage of the 30 percent tax amounts to an intensification of the existing exchange restriction. It also amounts to a modification of the MCP.

[1] Decree 787/2022, November 28, 2022. The program that was in place in September had a ARS 200 exchange rate.

Appendix I. Letter of Intent

Buenos Aires, Argentina
December 9, 2022

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

Dear Ms. Georgieva,

Despite the increasingly challenging global context, including the negative impact of the war in Ukraine so far, we continue to take necessary policy measures to strengthen stability and adhere to the program objectives. As a result, inflation is moderating, the trade balance is improving, and reserves coverage is strengthening. The latter also supported by our efforts to mobilize official support, and recently reaching a debt restructuring agreement with Paris Club creditors.

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from September 25, 2022, we reaffirm our strong 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 2023, which remain unchanged. **Under our pillars of fiscal order and reserve accumulation, we will continue to:**

- **Implement our fiscal consolidation path** through ongoing actions to mobilize revenues, strengthen expenditures controls, improve the effectiveness and targeting of subsidies and social assistance, while providing space to priority social and infrastructure spending. Fiscal targets through end-September were met with margins, and the end-2022 primary deficit target of 2.5 percent of GDP is within reach. We are committed to continue the consolidation process and achieve a fiscal deficit of 1.9 percent of GDP next year, in line with the recently approved 2023 Budget.

- **Enhance our monetary and FX policy framework,** which ensures positive real policy interest rates and a gradual improvement in external competitiveness. This, together with our fiscal commitments, will continue to encourage the demand for peso assets, ensure a reduction in monetary financing in line with program targets, and support a gradual reduction in annual inflation--from around 95 percent by end-2022 to 60 percent by end-2023.

- **Strengthen reserve coverage** notably by implementing our fiscal and monetary policies and continuing to mobilize external official support. Targeted and temporary measures to improve the trade balance remain necessary as imbalances are addressed. We remain committed to increase net international reserves by US$9.8 billion by end-2023.

- **Pursue our structural agenda,** by redoubling our efforts to strengthen public financial management, revenue administration, the peso government debt market, the efficiency of the energy sector, monetary transmission, the AML/CFT framework, and the net export potential of strategic sectors, particularly in energy. Importantly, the recently-signed international information exchange agreement with the United States will further support revenue mobilization and reserve accumulation.

On the basis of the steps that we have already taken and commitments going forward, **we request completion of the third review, with a disbursement in the amount of SDR 4,500 million**. In addition, we request waivers of nonobservance of (i) the continuous PC on not introducing or modifying multiple currency practices and (ii) the continuous PC on not imposing or intensifying exchange restrictions on the basis of the policies set forth in the MEFP to be considered for approval by the Executive Board. We also request Executive Board approval of these exchange restrictions and multiple currency practices under Article VIII, Sections 2(a) and 3, on grounds that these measures have been imposed for balance of payments reasons and are temporary and non-discriminatory in nature. Finally, we also request completion of the financing assurances review, recognizing the need for continued steadfast efforts to mobilize domestic and external financing.

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). We are confident that our 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.

Finally, we are determined to continue to deepen our constructive dialogue on the increasingly challenging global situation, derived mostly from the extended war in Ukraine, and the impact it is having on middle-income countries, including Argentina. Following our previous discussions during the G20 meetings in Bali, we plan to move forward with an assessment of the economic and financial impact and ideas for compensatory mechanisms for affected countries.

Yours sincerely,

/s/	/s/
Sergio Massa	Miguel Pesce
Minister of Economy of the Republic of Argentina	President, Central Bank of the Republic of Argentina

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

Attachment I. Memorandum of Economic and Financial Policies Update

December 9, 2022

I. Context

1. Under an increasingly challenging global and domestic environment, continued strong policy implementation has been critical to sustain macroeconomic stability. Our economic program, centered on strengthening fiscal order and reserve accumulation, is having the intended effect. Since July, the pace of inflation has moderated (though still at high levels), the exchange rate gap has narrowed, and the trade balance has improved, largely reflecting a slowdown in import growth. Meanwhile, the central bank has purchased over US$3 billion in reserves (net amount) since early August, with additional official disbursements also supporting reserve accumulation. The restructuring agreement with the Paris Club should pave the way for additional financing. That said, conditions remain fragile, and continued tight macroeconomic policy implementation will be essential to ensure sustainable and inclusive growth going forward.

II. Recent Developments and Program Performance

2. Economic activity and job creation remain robust, although there are signs of a gradual convergence towards potential. The economy expanded by a cumulative 6.2 percent y/y through September and output levels are already about 8½ percent above pre-pandemic levels. Growth momentum is gradually moderating, supported by a healthy slowdown in domestic demand. Meanwhile, private sector employment growth remains strong, with unemployment levels at historic lows, although informality remains high and above pre-pandemic levels.

3. The pace of inflation has moderated and the goods trade balance has strengthened. Monthly headline inflation is on a downward trend from a peak of 7.4 percent m/m in July to 6.3 percent m/m in October, with core inflation declining even faster, reaching 5.5 percent m/m. Meanwhile, the goods trade balance has continued to improve, from a deficit of about US$0.5 billion in July to a surplus of about US$1.8 billion in October, thanks to a sharp rebound in exports (8.2 percent y/y, volume) and the ongoing moderation of imports (8.3 percent y/y, volume, after averaging around 20 percent y/y through August). These trends have been supported by the decisive implementation of fiscal and monetary policies, as positive real policy rates are helping to support the demand for peso assets.

4. However, market conditions remain challenging. After declining from a peak of over 150 percent in July, the gap between the parallel and official rates continues to hover around 90-100 percent. This presents challenges to reserve accumulation and has prompted the adoption of a series of new FX administrative measures (¶19). Meanwhile, despite our more proactive debt management efforts, which helped secure net domestic private financing of 0.8 percent of GDP since August, central bank intervention in the secondary bond market has remained necessary to ensure adequate market liquidity (¶21). Continued steadfast policy implementation will remain critical going forward to safeguard stability and program objectives.

5. Despite a very challenging global backdrop, including the impact from the war in Ukraine, our strong policy implementation has been critical to keep the program on track (Table 1). All quantitative performance criteria (PCs) through end-September 2022 were met and preliminary data suggest strong prospects of meeting the end-December 2022 targets.

- **Fiscal targets:** The primary fiscal balance and domestic arrears PCs through end-September were met, largely reflecting spending control efforts and strong export duties from the September export-incentive scheme. Specifically, the primary fiscal deficit reached ARS 1,096 billion (1.3 percent of GDP), about ARS 40 billion below the adjusted target, while the stock of domestic arrears fell to around ARS 590 billion, over ARS 60 billion below the program ceiling. Data through end-October suggest the end-2022 program fiscal targets are on course of being met.
- **Monetary targets:** As documented at the time of the second review, all monetary targets through end-September 2022 were met—net international reserve (NIR) accumulation reached US$4.6 billion (well above the adjusted program target of US$3.6 billion), central bank financing of the fiscal deficit was capped at ARS 620 billion (below the program ceiling of ARS 665 billion), and the stock of non-deliverable futures (NDF) was limited to US$3.1 billion (significantly below the program ceiling of US$9 billion). Data through early-December suggest the end-2022 targets are achievable, including as a result of the recent temporary export-incentive scheme which is scheduled to expire by end-December (¶19).

6. Efforts on the macroeconomic policy front are being supported by the steady implementation of our structural agenda (Table 2). In particular, steps are being taken to strengthen revenue administration, public financial management, the efficiency of the energy sector, and central bank finances, including with support from IFI technical assistance. A detailed discussion follows.

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 now projected to exceed 4.5 percent in 2022—against 4 percent at the time of the second review—driven by stronger-than-expected domestic demand dynamics. Growth is expected to gradually moderate to 2 percent next year (consistent with Argentina's medium-term growth potential), reflecting the impact of a weaker global outlook and the ongoing tightening of policies.
- **Inflation** is projected to continue to moderate from around 5 percent m/m by end-2022 (96 percent y/y) to around 3½ percent m/m by end-2023 (60 percent y/y), supported by a combination of tighter fiscal policies, sustained positive real monetary policy rates, improved

wage-price coordination, and some decline in global commodity prices. The decline in inflation is expected to be gradual, given high inflation inertia and the need to continue to improve the targeting of subsidies and ensure competitiveness.

- The **goods trade surplus** is projected to increase from around 2 percent of GDP in 2022 to around 3 percent in 2023, on the back of tighter macroeconomic policies, and improvements in external competitiveness and terms of trade, the latter also supported by lower energy imports following completion of the first stage of the Nestor Kirchner pipeline. This improvement is consistent with our NIR accumulation objective of US$ 9.8 billion during 2022-23. Well calibrated FX policies will remain important (¶19).

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

	2021	Proj. 2022	Proj. 2023	Proj. 2024
GDP growth (avg, %)	10.4	[4.5 - 5.5]	[1.5 - 2.5]	[1.5 - 2.5]
Inflation (eop, %)	50.9	[95 - 100]	[55 - 65]	[40 - 48]
Primary fiscal balance (% of GDP)	-3.0	-2.5	-1.9	-0.9
Current account balance (% GDP)	1.4	-0.3	1.2	0.8
Change in net int'l reserves (US$bn) 1/	-1.6	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 deposits, and other reserves liabilities.

8. **Policies will need to be adapted to evolving external and domestic conditions**. The outlook for Argentina is subject to important external downside risks from a sharp slowdown in key advanced and emerging economies, a deeper and more protracted impact of the war in Ukraine, a rapid tightening in global financial conditions, and a sudden worsening in terms of trade. Domestic risks remain elevated, including on account of weather-related shocks. 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. **We remain on track to meet our 2022 primary deficit target of 2.5 percent of GDP.** As part of our commitment to fiscal order, we are continuing to mobilize revenues and implement strict expenditure controls. In October, revenues grew by over 3 percent y/y in real terms, while real spending on a cash basis contracted by 13 percent y/y, with domestic arrears remaining stable below the program target. In light of higher-than-anticipated inflation, and in line with our legal commitments, we will issue a new Emergency Decree that remains consistent with the 2.5 percent of GDP program primary deficit target (**prior action**). The decree contains revised nominal revenue projections and spending ceilings, and includes some reallocation of spending to accommodate additional targeted social spending and support for small farmers and businesses. Moreover, to mitigate end-year spending risks, spending commitments will continue to be limited to available

cash resources, and the end-year spending commitment deadlines for government agencies have been brought forward.

10. Further consolidation will be necessary in 2023. We are committed to implement the recently-approved 2023 Budget, which targets a primary deficit of 1.9 percent of GDP. The consolidation will be underpinned by (i) strengthened revenue mobilization efforts (¶11); (ii) improved targeting of subsidies (around 0.6 percent of GDP), including for energy (¶26-28), transport and water; (iii) streamlining of social assistance (around 0.8 percent of GDP), supported by ongoing reforms to encourage labor market insertion, limit benefit indexation, and reduce redundancy (see ¶12); and (iv) tight expenditure controls in key areas, including wages (which will remain broadly unchanged as a share of GDP through the ongoing hiring freeze and an enhanced monthly reporting system), and pensions (which will continue to evolve according to the indexation formula). These efforts are essential to protect critical capital spending projects, especially on the gas pipelines, to reduce reliance on costly energy imports. To support stability and boost policy credibility, we will cap the primary deficit at 0.3 percent of GDP in Q1:2023, and at most 0.8 percent of GDP by June 2023. We will continue to strengthen the quality of our fiscal efforts, including through steadfast implementation of the subsidy segmentation scheme (¶26) and more focused and effective social assistance (¶12), and limits on discretionary transfers to government agencies and state-owned enterprises.

11. Achieving our multi-year fiscal consolidation plan requires redoubling revenue mobilization efforts. We are finalizing an action plan to improve revenue compliance (**end-December 2022, SB**), with support from IMF technical assistance. To that end, we have already started to make the needed organizational changes for its implementation, including by establishing a Compliance Risk Management committee (CRM), via AFIP provision 165-2022, and a new Risk Management Unit to provide support and analysis to AFIP's Planning Department. Efforts are also underway to develop the institutional policies and guidelines for risk segmentation of taxpayers and foreign trade operators, as well as comprehensive tax gap estimates. In tandem, we remain committed to (i) completing a comprehensive evaluation of tax expenditures (**proposed end-June 2023, SB**); (ii) strengthening information exchanges and international cooperation to combat tax evasion (an agreement between Argentina and the United States has been recently signed); and (iii) improving personal wealth taxation (*bienes personales*). The latter will require enhancing the federal tax database, connecting provincial cadasters and property tax registers with federal taxpayers' identification numbers (*CUIT/CUIL*), starting with the AMBA region (**end-March 2023, SB**). Since the last review, around 70 percent of CUIT/CUILs have been linked to the relevant property in the AMBA region. In addition, the *Organismo Federal de Valuaciones de Inmuebles* (OFEVI), will develop a unified methodology for property valuations, so that future property valuation (for purposes of *bienes personales*) will be based on the greater of either (i) the provincial valuation; or (ii) the OFEVI unified methodology valuation.

12. We are accelerating efforts to improve the effectiveness and targeting of social expenditures.

- *Social assistance*. The Ministry of Social Development is implementing policies that will form the core of our new strategy to strengthen the targeting of income support programs (**end-March 2023, SB**).
    - A decree was issued in November to close several social programs to new entrants, notably *Potenciar Trabajo,* which saw a steady rise in the number of beneficiaries from around 200,000 in 2015 to 1.35 million in 2022.
    - Immediate steps have been taken to improve the governance of *Potenciar Trabajo* by verifying the identities and eligibility of all existing recipients, with the goal of reducing ineligible claims. To this end, a new resolution has been issued requiring all beneficiaries to self-register and submit income data (including from other benefits) for means testing by January 6, 2023, with information then cross-checked with tax, social security, and central bank databases (ANSES, AFIP, and BCRA). By early December, this process had already removed 20,000 ineligible recipients, with further reductions expected once the audit process is completed in early 2023. In addition, to reduce potential disincentives to re-enter the labor market, we are also developing plans to reduce the *Potenciar Trabajo* benefit for those receiving other government transfers. Many of these savings would be used to promote the Bridge to Employment (*Puente al Empleo*) program, which aims to shift informal workers into the formal labor market.
- *Pensions*. The Ministry of Labor in collaboration with the University of Buenos Aires is finalizing its focused study (**end-December 2022, SB**) to help determine options for strengthening the equity and sustainability of the system, including reducing fragmentation.

13. Improvements in public financial management are necessary for strengthening transparency and public spending controls. Efforts continue to (i) enhance the financial and budget reporting of the entities of the national public sector other than the National Administration and (ii) strengthen the monitoring and governance of investment projects. A general framework to implement and control transfers from the Treasury to public corporations, trust funds, and other entities will be created, with the purpose of clarifying the criteria for execution of transfers, information requirements, and sanctions in case of non-compliance. In addition, we have adopted a decree (712) which strengthens the financial oversight of these entities by enhancing information requirements—implemented with support from a joint Resolution of the Secretaries of Treasury and Finance—with the objective of facilitating the publication of enhanced quarterly reports for public corporations and trust funds (**end-March 2023, SB**). Reports with information on major investment projects financed by federal transfers and earmarked taxes will be included starting mid-2023.

B. Financing Policy

14. In the context of challenging external and domestic conditions, efforts continue in mobilizing net domestic financing. A proactive market-oriented debt management approach has helped secure net market financing of roughly 0.9 percent of GDP since end-July. New instruments are being considered to mobilize peso funding through the end of the year, including to entice participation from corporates and subnational governments with large peso holdings. Beyond 2022, a financing strategy centered on reducing currency and maturity risks and addressing amortizations falling due in 2023 is being developed. Options under consideration include: (i) exchanging of bonds maturing next year for bonds maturing in 2024, including those held by other public sector entities; (ii) encouraging banks' demand for government securities; (iii) developing tools and mechanisms to help manage market volatility. Critically, this strategy will continue to rely on a high level of coordination between MECON and BCRA, including on the identification of additional funding sources. These operations will help limit monetary financing of the fiscal deficit to 0.8 percent in 2022 and 0.6 percent of GDP in 2023. More broadly, MECON and the BCRA will continue to closely monitor developments in the peso debt market and act proactively with the objective of ensuring its normal functioning. We stand ready to adapt our plans in the event of further financing challenges.

15. 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 starting in 2023 and thereafter. Work on a medium-term debt strategy (MTDS) remains on track and is expected to be completed by end-2022 (***end-December 2022, SB***). This strategy will help manage our debt exposure, further reduce macro-financial imbalances, and enhance transparency and stability in the government securities market. Key priorities underpinning the strategy are (i) continuing to set the debt-to-GDP ratio on a firm downward path; (ii) extending maturities while improving refinancing effectiveness; and (iii) supporting the development of the local capital market.

16. Efforts continue to mobilize official sector support. Despite shortfalls through Q3:2022, official sector disbursements are now back on track, with disbursements of US$1.2 billion of IDB budget support in October/November, and disbursements of US$250 million still expected by end-year from other bilateral creditors, mainly related to the large hydropower dam project. Meanwhile, an agreement was reached with Paris Club creditors to restructure US$ 1.97 billion of legacy debt, appropriately reflecting our repayment capacity and debt sustainability while respecting the principles of equality of treatment. Looking ahead, we will redouble our effort to ensure that both multilateral and bilateral creditors meet their program financing commitments, while continuing to work on additional financing that could further reduce reliance on monetary financing and boost reserve accumulation.

C. Monetary and Exchange Rate Policies

17. We are committed to continue addressing persistent high inflation and rebuilding reserve assets. Complementing a decisive reduction in the fiscal deficit and more limited monetary financing, we will continue the resolute implementation of our monetary and FX framework, along with efforts to entrench financial stability, improve wage-price coordination, and strengthen the BCRA's balance sheet.

Monetary and FX Policies

18. Positive real monetary policy rates and enhancements in the policy transmission mechanism are essential to encourage peso demand. In a significant break from past approaches, the BCRA policy rate now stands at over 107 percent in annual effective terms well above actual inflation (88 percent y/y in October) and forward-looking measures of monthly core inflation. Going forward, we remain committed to keeping real monetary policy rates firmly in positive territory and maintaining nominal interest rates unchanged until inflation and inflation expectations are on a clear downward path. Meanwhile, to further strengthen the transmission of monetary policy rates to deposit rates, the BCRA is finalizing the simplification of the reserves requirement regime, with the final pending measure (related to ATM transactions) taking effect in January 2023. Rates on short-term government paper should remain consistent with policy rates to continue to support the demand for peso assets and government securities.

19. Proactive and well-calibrated FX policies remain essential. To improve competitiveness and encourage reserve accumulation, we reaffirm our commitment to ensure that the rate of crawl remains above inflation (and below the policy interest rates). In addition, measures to support FX inflows and safeguard reserves remain necessary as imbalances are addressed. Specifically, we plan to monitor the impact of the recent (i) tax measures to limit the imports of non-essential services and luxury goods; (ii) FX incentives to encourage tourism inflows; and (iii) temporary export incentives. Implementation is also underway of a new import clearance and monitoring system (SIRA), aimed at streamlining the import approval process through better monitoring, strengthened coordination across agencies, and improved FX demand forecasting. These measures will be re-assessed over time to ensure their consistency with the broader macroeconomic goals, and their compliance with the Fund's policies on exchange restrictions and multiple currency practices. BCRA operations in the non-deliverable futures market will continue to be focused on addressing disorderly FX market conditions and on supporting the crawling peg regime.

20. Meanwhile, the CFM framework needs to be revised over time. Efforts are underway to streamline the CFM framework to enhance its effectiveness and efficiency. In this regard, we have established a working group to prepare enhancements to the Foreign Exchange Criminal Law, including by introducing authorization of administrative fines to enhance the efficiency of the sanctioning framework. We expect these recommendations to be finalized by end-December, followed by a revised law to be submitted to Congress after the recess (end-December 2022, SB; **proposed to be reset to end-March 2023**). As reserve coverage strengthens and conditions permit, steps will be taken to gradually ease CFM restrictions. To this effect, a conditions-based roadmap for gradually easing capital controls is being prepared with support of IMF technical assistance (**end-June 2023, SB**).

Financial Stability and Central Bank Balance Sheet

21. The BCRA will continue to pursue policies within its mandate to entrench financial stability. Central bank purchases of government securities in the secondary market will remain limited to ensuring market functioning and temporary in nature. These purchases will continue to be conducted at market prices and sterilized as needed in order to support the disinflation process. Over time, a gradual tapering of these holdings from the BCRA's balance sheet will be considered, as market conditions allow.

22. A gradual strengthening of the central bank's balance sheet is also necessary for broader disinflation efforts. We have set up a high-level committee to develop a strategy to gradually strengthen the BCRA's balance sheet, drawing from the IMF safeguards assessment and technical assistance (**end-December 2022, SB**). The strategy, which will be discussed by the BCRA Board, will crucially rely on the eventual elimination of monetary financing of the fiscal deficit, the gradual and appropriate adoption of IFRS, and a pro-active strengthening of the central bank's equity position. To this effect, we plan to advance our application of internationally recognized accounting standards for the 2022 financial statements[1] by gradually enhancing financial disclosures towards compliance with IFRS-7 (**proposed end-May 2023, SB**). Moreover, we are updating the information technology infrastructure to allow for the removal of the forward leg of repo transactions for the 2023 financial statements.

Income Policies

23. Given high inflation inertia, voluntary and well-designed wage-price coordination agreements are complementing broader disinflation efforts. Agreements (*Precios Justos*) have been recently reached with the largest mass consumption companies to: (i) freeze the prices of 2000 products; and (ii) cap price increases at 4 percent m/m of 30,000 products between November 2022 and February 2023. The agreement covers food and cleaning staples sold in supermarkets and is expected to be expanded to textiles, medicines, and certain intermediary inputs. Negotiations are also ongoing with wholesale agents so that lower prices also feed into neighborhood shops. Participating companies will be given a shorter payment term than the regulated condition to facilitate the import of goods sold under the program. The agreements will be revisited after four months depending on inflation developments.

D. Growth and Resilience Policies

24. A key priority remains to improve the efficiency, equity, and sustainability of Argentina's energy sector. We are advancing the multipronged strategy aimed at boosting domestic energy production, transportation and distribution, and 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.

25. We are implementing supply-side measures to increase domestic energy production and reduce costly energy imports. Our arrangements with Bolivia, Chile, and Brazil will help secure energy supplies at favorable rates during winter and reduce reliance on costly imports of LNG. We

[1] The BCRA already introduced inflation-adjusted accounting for the 2020 financial statements.

are also advancing with the construction of the Nestor Kirchner gas pipeline, with the first stage expected to be completed by end-June 2023 to support an increase in the daily supply of domestically produced gas of 11 million cubic meters. The second stage will include the construction of compressors which will further increase the transportable daily volume to around 22 million cubic meters. Construction of the second stage is expected to begin in May 2023 and be completed by 2024. To harness the pipeline's benefits of additional transportable capacity for domestic gas, a new Plan Gas was launched in November, which aims to incentivize domestic production (and exports, especially to Chile) by extending current producer price agreements to 2028.

26. Progress is being made in eliminating subsidies for residential users with the greatest payment capacity as well as commercial users.

- ***High income residential users***. Electricity and natural gas prices were raised in October and November for residential consumers nationwide with the greatest payment capacity, equivalent to a 60 percent cumulative reduction in the subsidy for electricity and 64 percent for natural gas. We will issue a resolution, subject to legal requirements, to remove the remaining subsidies for electricity and natural gas for this group in February 2023, (modified end-January 2023, SB; **proposed to be reset to 15 February 2023**). Electricity and natural gas prices will be subject to a cap during peak consumption months to ensure the fiscal targets are met and the segmentation scheme is sustainable.
- ***Middle- and low-income residential users***. 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. Increases in the energy price consistent with this commitment will be implemented in February 2023 (modified end-January SB; **proposed to be reset to 15 February 2023**).
- ***Commercial users***. Electricity and natural gas prices were raised in October and November for commercial consumers (defined in ¶33, TMU). The remaining subsidies for electricity and natural gas will be removed for this group in February 2023 (modified end-January 2023, SB; **proposed to be reset to 15 February 2023**). Electricity and natural gas prices for this group will also be subject to a cap during peak consumption months to ensure the fiscal targets are met and the segmentation scheme is sustainable.

27. Tariff agreements with electricity distributors will be updated in February 2023 to improve CAMMESA's income. We have launched a process to update tariff agreements with electricity distributors (*Valor Agregado de Distribución, VAD*) for the metropolitan region of Buenos Aires by February 2023. These updates will also include an agreement to eliminate those distributors' arrears to/from the state-owned electricity dispatch operator (CAMMESA) recently determined, by the Law 27.701 article 89, and hence alleviate the pressures on government finances.

28. A comprehensive strategy to improve the efficiency and financial sustainability of the energy sector is being finalized. This strategy, which is being supported by World Bank technical assistance, has a special emphasis on the electricity sector and includes actions to: (i) improve energy efficiency of the sector; (ii) support electricity generation cost and management; (iii) strengthen the electricity distribution and transmission segment; (iv) strengthen the recent electricity and gas segmentation scheme; and (v) improve the overall sustainability of the sector. The Energy Secretariat will publish a draft strategy for consultation with key stakeholders, by the end of 2022, along with a detailed plan to improve the implementation of the segmentation scheme (***end-December 2022, SB***). We will continue to ensure that our energy and growth policies remain aligned with Argentina's climate commitments. In parallel, we will assess the recommendations from the recently completed World Bank's Country Climate and Development Report (CCDR) for Argentina, also in the context of the availability of financing options.

E. Transparency and Governance Policies

29. 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 published the National Risk Assessments (NRAs) regarding Anti-Money Laundering (AML) and Counter-Terrorism Financing (TF/PF), and the National AML/CFT/CFP Strategy (**end-September 2022, SB**), which included recommendations to mitigate the risks, vulnerabilities and threats identified in the NRAs. Moreover, we are identifying, in consultation with IMF staff, key items of the gap analysis of the entire AML/CFT regime against FATF's 40 Recommendations 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.

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

(In billions of Argentine pesos unless otherwise stated)

	2022							
	end-Mar				end-June			
	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status
Fiscal targets								
Performance Criteria								
1. Cumulative floor on the federal government primary balance 3/ 8/	-222.3	-210.9	-192.7	Met	-874.4	-848.6	-800.7	Met
2. Ceiling on the federal government stock of domestic arrears 4/	535.9	...	336.2	Met	612.2	...	489.4	Met
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/	2417.3	...	2566.0	Met	5179.7	...	5169.6	Not met
5. Cumulative floor on social assistance spending (Asignación Universal para Protección Social, Tarjeta, Progresar) 3/	151.9	...	164.2	Met	332.2	...	343.4	Met
Monetary targets								
Performance Criteria								
6. Cumulative floor on the change in net international reserves of BCRA 6/ 8/	1.200	1.245	1.568	Met	3.450	2.950	2.703	Not met
7. Cumulative ceiling on central bank financing of the federal government 3/	236.8	...	122.0	Met	475.8	...	435.1	Met
Indicative Target								
8. Ceiling on the central bank stock of non-deliverable futures 7/	6.000	...	1.200	Met	7.000	...	4.358	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 June 2022.

6/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021 of US2.277 billion, which now reflects a revised stock of reserve liabilities at end-2021. 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.

Table 1. Argentina: Quantitative Performance Criteria and Indicative Targets 1/ 2/ (concluded)
(In billions of Argentine pesos unless otherwise stated)

										Indicative Targets
	2022						2023			
	end-Sept				end-Dec		end-Mar	end-Jun	end-Sep	end-Dec
	Target	Adjusted	Actual	Status	CR 22/322	Proposed	CR 22/322	CR 22/322	Program IT CR 22/322	Program IT CR 22/322
Fiscal targets										
Performance Criteria										
1. Cumulative floor on the federal government primary balance 3/ 8/	-1156.8	-1136.0	-1096.1	Met	-2015.7	-2015.7	-441.5	-1181.4	-2064.4	-2798.3
2. Ceiling on the federal government stock of domestic arrears 4/	654.0	…	589.7	Met	654.0	654.0	1177.4	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	0.0	0.0	0.0	0.0	0.0
Indicative Targets										
4. Cumulative floor on real federal government revenues 3/ 5/	…	…	…	…	…	…	…	…	…	…
5. Cumulative floor on social assistance spending (Asignación Universal para Protección Social, Tarjeta, Progresar) 3/	565.3	…	562.4	Not Met	823.2	810.8	239.3	500.4	823.8	1199.7
Monetary targets										
Performance Criteria										
6. Cumulative floor on the change in net international reserves of BCRA 6/ 8/	4.100	3.600	4.591	Met	5.000	5.000	5.500	8.600	8.700	9.800
7. Cumulative ceiling on central bank financing of the federal government 3/	665.4	…	620.1	Met	654.0	654.0	139.3	372.8	651.4	883.0
Indicative Target										
8. Ceiling on the central bank stock of non-deliverable futures 7/	9.000	…	3.130	Met	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 of US2.277 billion, which now reflects a revised stock of reserve liabilities at end-2021. 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.

Table 2. Argentina: Prior Actions and Structural Benchmarks

Proposed Prior Actions	Sector	Status	Completion date
Issue an emergency decree, with revised nominal revenues and spending ceilings, consistent with the 2.5 percent of GDP program primary deficit target for 2022.	Fiscal Structural		
Proposed New/Modified Structural Benchmark			
1. Conduct a study outlining options and recommendations to strengthen the equity and long-term sustainability of the pension system, focused on the special pensions regimes (set forth by Law 27.546) (Modified from previous SB#12).	Fiscal Structural		end-Dec., 2022
2. Develop in consultation with Fund staff, a strategy to durably improve the BCRA financial position, drawing on recommendations from the Fund's Safeguard Assessment (Modified from previous SB#13).	Monetary/ FX Policy		end-Dec., 2022
3. Issue new resolutions, subject to legal requirements, to update energy prices for February–April 2023 to ensure meeting the fiscal targets and the sustainability of the segmentation scheme. Updated electricity prices will fully eliminate subsidies for level 1 residential and commercial users, subject to a price increase cap during peak consumption months. For level 2 and 3 subsidized residential consumers, the updates for the peak consumption months will be consistent with 40% and 80% of the average wage growth in 2022 (coeficiente de variación salarial, CVS, as established by Law 27.443). For natural gas prices, the regulatory authority will issue a resolution setting natural gas prices for commercial users and level 1 residential users to achieve cost recovery starting February, subject to a price increase cap during peak consumption months (Modified from previous SB#14).	Fiscal Structural		February 15, 2023
4. Publish 2022 financial statements of the BCRA that enhance financial disclosures towards compliance with IFRS-7	Monetary/ FX Policy		end-May, 2023
5. Complete a comprehensive evaluation of tax expenditures on the basis of enhanced technical criteria, in consultation with IMF staff.	Fiscal Structural		end-June, 2023
Current Structural Benchmarks			
1. Avoid additional taxes on financial transactions.	Fiscal Structural		Continuous
2. 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		end-Dec., 2022
3. 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 (Modified from previous SB#11).	Fiscal Structural		end-Dec., 2022

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

Current Structural Benchmarks			
4. Modify 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-Dec., 2022 Reset to end-March, 2023
5. Prepare, in consultation with Fund staff, a medium-term debt management strategy (MTDS).	Financing		end-Dec., 2022
6. 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-March, 2023
7. 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 (Modified from previous SB#10).	Fiscal Structural		end-March, 2023
8. 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
9. 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-June, 2023
10. Publication of an external ex-post audit on COVID spending that took place of at least during 2020	Governance /Structural		end-June, 2023
Previous Structural Benchmarks			
1. 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
2. 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
3. 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
4. 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
5. 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
6. 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

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

Previous Structural Benchmarks	Sector	Status	Completion date
7. Publication of semi-annual investor relations presentation to advance the investors relation program.	Financing	Met	end-July, 2022
8. 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
9. Publish a National AML/CFT Strategy with recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.	Financial Integrity	Met	end-Sep., 2022
10. 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-March, 2023
11. 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
12. Conduct and publish a study outlining options and recommendations to strengthen the equity and long-term sustainability of the pension system, focused on the special pensions regime (set forth by Law 27.546), and on mechanisms to encourage voluntarily prolonging working lives	Fiscal Structural	Modified	end-Dec., 2022
13. 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	Modified	end-Dec., 2022
14. 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	Modified	end-Jan., 2023 Reset to Feb. 15, 2023

Attachment II. Argentina: Technical Memorandum of Understanding Update

December 9, 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 Text Table 1. For the purpose of setting program PCs and ITs, inflation is based on a point estimate of 95.9 percent in 2022 and 60 percent in 2023 (end of period), within the revised program inflation range.

Text 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 0.28 percent of GDP[1] 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

[1] This reflects the amount recorded through end-May 2022 as no further amounts have been recorded since then.

to a decrease in the primary balance. This only 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, payments of arrears as per ICSID or similar arbitration rulings and payments to the BCRA for losses incurred from export incentive schemes in September and December 2022.

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 (Text Table 2)[2]. 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).

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

	AR$ millions 1/
end-March 2022	27,028
end-June 2022	78,423
end-September 2022	122,201
end-December 2022	230,982
end-March 2023	30,008
end-June 2023	148,972
end-September 2023	223,182
end-December 2023	327,130

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

[2] 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 in 2022.

transfers (*transferencias figurativas*),[3] and primary spending for personnel (*gasto en personal*), acquisition of goods and services (*bienes y servicios*), nonprofessional services (*servicios no profesionales*), capital expenditures (*bienes de uso*), and transfers (*transferencias*).

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

[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 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.

total expected service life of the property, while the lessor retains the title to the property. For the purpose of the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- **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[5], (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, EIB, IBRD, IDB and CAF) and bilateral partners, relative to the baseline projection reported in Text 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. 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.

[5] Only in case of a delayed Fund disbursement, for the purpose of calculating the NIR until the disbursement is made, (ii) may be reported as negative by the difference between the sum of repurchases within the scheduled date and actual date of disbursement and the value of (ii) prior to the repurchase.

Text 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	543
end-December 2022	1,967
end-March 2023	20
end-June 2023	20
end-September 2023	665
end-December 2023	665

1/ Cumulative from January 1 of each year.

- **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.

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 calendar year, and compared with the program baseline projection. After June 2022, this target is no longer part of program conditionality.

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:

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.

Weekly

- BCRA balance sheet.

- Daily data on BCRA government securities purchased and sold in the secondary market by maturity and instrument.

- 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.

- Daily data on flows in and out of the BCRA's SDR holding account including amount and purpose

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.

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.

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

December 19, 2022

THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

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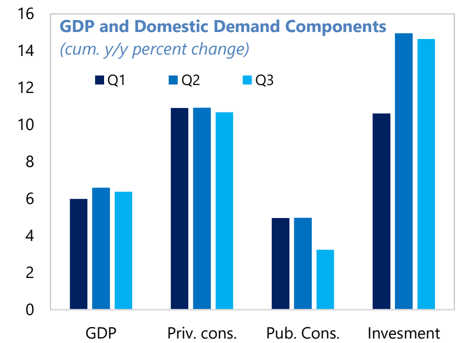
This supplement provides an update on developments since the issuance of the Staff Report (EBS/22/120) circulated to the Executive Board on December 12, 2022. Specifically, it provides details on recently released economic indicators and an update of program performance, including with respect to the prior action for this review and the structural agenda. The thrust of the staff appraisal remains unchanged.

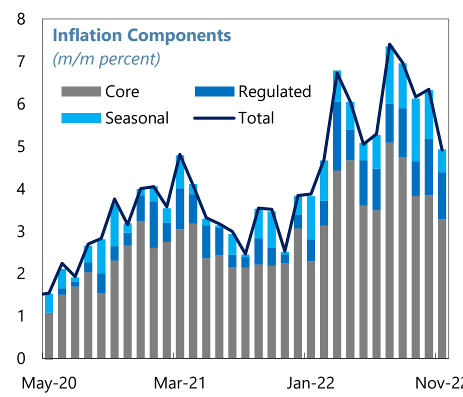
RECENT DEVELOPMENTS AND PERFORMANCE

1. **Consistent with baseline program projections, national accounts data through Q3:2022 confirm a healthy moderation in domestic demand.** Real GDP growth reached 6.4 percent y/y cumulatively through Q3:2022 (down from 6.6 percent y/y through Q2:2022), driven mainly by a robust expansion of private consumption and investment (10.7 percent and 14.6 percent y/y, respectively). Nonetheless, domestic demand growth momentum decelerated in the third quarter, reflecting in part the impact of tighter macroeconomic policies, as public consumption contracted by 1.7 percent q/q (s.a.). Specifically, private consumption growth moderated to 1.4 percent (compared to an average of 3 percent q/q in H1:2022), while overall investment contracted by 0.8 percent q/q, both consistent with a deceleration of real import growth.



Source: INDEC and Fund staff calculations.

2. **Inflation moderated markedly in November, although it remains high.** Headline inflation reached 4.9 percent m/m in November (92.4 percent y/y)—the lowest print since February 2022—reflecting a broad-based decline in prices, especially of food staples and services, as well as seasonal prices. Core inflation declined further to 4.8 percent m/m (from 5.5 percent in October), while regulated price inflation remained strong (6.8 percent m/m), in part reflecting recent increases in energy tariffs. Tighter macroeconomic policies, and the recently implemented voluntary price agreements (now being extended to around 40,000 goods to include apparel and electronics) are contributing to this moderation in inflation. In particular, real monetary policy rates have moved further into positive territory[1] as the monthly equivalent policy rate (6.3 percent m/m) stands above market inflation expectations (6.1 percent m/m, 3-months ahead) and the program's model-based inflation reference rate of 4.8 percent m/m.



Source: INDEC and Fund staff calculations.

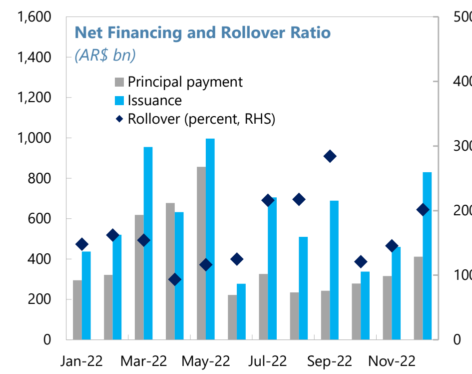
3. **On the fiscal side, an emergency decree was issued authorizing spending revisions consistent with the program's primary deficit target of 2.5 percent of GDP for 2022 (*prior action*).** The decree modifies the current budget by revising the nominal expenditure ceilings for the National Administration,[2] to reflect higher-than-anticipated nominal revenues and legally mandated increases for wage, pensions, and social assistance. The decree also (i) reallocated spending to accommodate additional targeted social spending and support for small businesses; and

[1] At its December 15 meeting, the BCRA Board kept monetary policy interest rates unchanged, and restated its objective to ensure that real positive rates support the demand for peso assets and the disinflationary process.

[2] The decree applied to operations of the National Administration on an accrual basis. Staff assessed consistency with the program's primary fiscal deficit target, which is defined on a cash basis and also covers selected nonfinancial public entities, companies, and trusts.

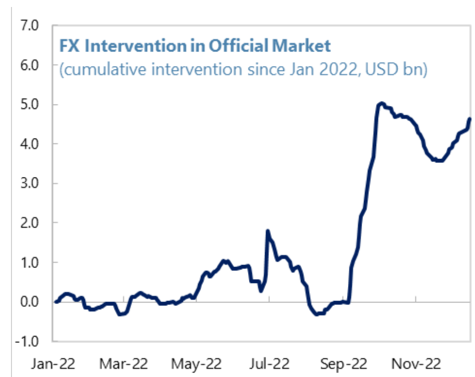
(ii) strengthened expenditure controls going forward, by prohibiting transfers to trust funds, public companies and other nonfinancial public sector entities that have freely available funds.

4. The needed fiscal domestic net financing for December was secured, although conditions remain challenging. In the latest auctions, the authorities successfully rolled over maturing bonds held by the private sector, and secured additional net financing (0.5 percent of GDP) to achieve the 2022 programmed rollover rate of 150 percent and net peso market financing of about 3.2 percent of GDP.[3] Nevertheless, financing conditions remain challenging, as the latest net placements continued to rely on short-term instruments and the contribution of public entities and banks, while the central bank has continued to make daily purchases, albeit limited, in the secondary bond market.[4] Domestic debt service falling due through September 2023 now stands at about 8 percent of GDP.



Source: MECON and Fund staff caclulations

5. Reserve buffers are being strengthened, supported by the temporary FX incentive scheme for soy exporters. Since implementation of the scheme, liquidation of soybean products reached over US$1.8 billion, with central bank net FX purchases from the official market totaling US$1.1 billion as of December 16. According to latest available data, Net International reserves (NIR) have risen to around US$4.8 billion, putting the end-2022 NIR accumulation target within reach, after considering remaining official disbursements expected by end-December (around US$400 million). These trends have also been supported by an acceleration in the rate of crawl (from an average of 6.4 percent in November to 7.5 percent thus far in December), some narrowing of the FX gaps (now ranging between 85-95 percent), and a seasonal increase in money demand. BCRA intervention in the non-deliverable futures market has remained limited, and well below program limits.



Source: BCRA and Fund staff calculations

6. Progress continues on the structural front. The authorities have prepared a medium-term debt strategy (MTDS*)*, which aims to ensure financing needs are met at the lowest possible costs while reducing refinancing risks, improving market functioning, and eliminating monetary financing of the deficit (***end-December 2022, structural benchmark (SB)***). Additionally, the development of a medium-term energy strategy to improve the efficiency and financial sustainability of the energy sector, in consultation with World Bank and IMF staff, is well advanced (***end-December 2022, SB***). Consultations with key stakeholders are underway and publication is expected by end-year.

[3] Net financing is defined as issuance minus principal.

[4] Cumulative BCRA purchases of government securities in the secondary market stand at 2.2 percent of GDP.

Statement by Mr. Chodos and Mr. Lischinsky on Argentina
December 22, 2022

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

Notwithstanding the increasingly complex scenario, we continue to take the necessary steps to ensure program implementation. We emphasize again that Program policies are the key anchor for our economy. Thus, we remain relentlessly committed to Program implementation.

Let us recall that the new economic team that took office in August had to face a scenario of domestic uncertainty and vulnerability and still faces the global uncertainty spearheaded by the consequences of the war in Ukraine, including its very negative impact on our economy, including our reserves position. However, the new economic team brought about greater implementation capabilities and a greater sense of ownership. This is evident not only in meeting the targets, but also in the broader general policy results, including the fiscal front, inflation, and the domestic debt market.

Despite the difficulties and against all the odds, the program remains well on track. As expected, there are significant challenges ahead, but we remain confident, and we will be able to take the necessary steps to attain a strong, inclusive, resilient, and sustainable economy. Early decisive policy implementation by the economic team was critical to stabilizing markets and rebuilding confidence. Corrective policy actions allowed our country to meet all the end-September performance criteria, including the primary balance of the federal government, and the ceiling on the central bank financing of the fiscal deficit. All end-September indicative targets were also met, and we made steady progress in meeting structural benchmarks.

Going forward, we have taken critical actions to restore fiscal order through improved budget management, including a combination of stricter expenditure controls, improved targeting of subsidies, and strengthened revenue compliance. We have strengthened the implementation of monetary policy, by limiting monetary financing of the fiscal deficit below program levels, while we made extraordinary efforts to mobilize domestic financing. During September we 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 actions have been complemented by a consistent and forceful application of the monetary policy framework to ensure sufficiently positive real interest rates. The 2023 budget represents a key stone for macroeconomic stability. We 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. We remained committed to the program and we are taking the necessary steps to meet the targets. All quantitative performance criteria and indicative targets through end-September were met. Also, preliminary data confirms our confidence that end-2022 criteria and targets will be met.

The primary fiscal deficit through end-June was ARS 1,096 billion (1.3 percent of GDP), about ARS 40 billion below the adjusted target, reflecting our efforts to control public finances. The average quarterly stock of domestic arrears remained below target (ARS 590 billion). The social spending was observed, as spending exceeded the established floor on account of efforts to shield 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 620 billion through end-September, below the program target of ARS 665 billion. Reserve accumulation reached US$4.6 billion, above the program target of US$3.6 billion. The stock of central bank non-deliverable futures was limited to US$3.1 billion, remaining well below the program ceiling of US$9 billion.

Progress is being made in advancing the structural agenda, including areas of revenue administration, energy policy, and public debt management.

The Macroeconomic Framework

Economic activity remains robust and grew at an annual rate of 6.4 percent accumulated as of the third quarter of 2022, driven by private consumption and investment. The level of real GDP is above pre-pandemic levels, and capacity utilization levels stands at multi-year highs, while unemployment fell to its lowest level since 2015.

The global and local scenario is increasingly complex. Tightening global financial conditions and domestic developments led to a more challenging government bond market and put pressure in the FX market. However, the decisive actions adopted since August have helped to quickly restore credibility and stability, without adverse impacts in activity and employment levels and avoiding disorderly exchange rate adjustment. Bond yields are down, the financial sector balance sheet remains contained, the exchange rate gap remains near pre-market pressure levels, and central bank intervention in the secondary government bond market and non-deliverable forward market continues to unwind. The stock of international reserves has stabilized, thanks in part to the temporary incentive schemes to increase soybean liquidation.

Significant challenges remain, mainly associated with the recent price dynamics. Nevertheless, inflation pressures are beginning to notably ease. After peaking at 7.4 percent m/m in July, headline inflation got into a consistent downward path, falling to 4.9 percent during November. A notable feat considering global dynamics.

Growth in 2022 is now projected to expand by 4.6 percent (against 4 percent at the time of the second review), gradually moderating to 2 percent next year. This is a significant improvement when compared to past performance, and taking stock of a weaker global outlook and the ongoing fiscal effort.

Inflation is projected to reach to 95.9 percent by end-2022, reflecting in part the spike in global food and energy prices. Inflation is projected to continue the downward path, falling gradually during the remainder of the year and into next year, from less than 5 percent by end-2022 to 3.5 by end-2023, due to a combination of fiscal policies, sufficiently positive real monetary policy interest rates, reduced monetary financing, improved wage-price coordination, and lower global commodity prices.

The annual financing mix for 2023 remains broadly unchanged, underpinned by a pickup in net official financing and an improvement in domestic debt market conditions, to enable rollover rates above 100 percent and support the reduction in monetary financing of the fiscal deficit. Our domestic financing strategy is proving successful. During the first half of December, we faced maturities for approximately 412.000 M pesos, obtaining financing for around 830.000 M pesos (which represents a more than 200 percent rollover rate). Offers received reached 1.2 B pesos. A record. As for interest rates, these were in line with past issuances, and even some instruments could have their rates compressed.

The current account balance is projected to reach a surplus of 1.2 percent of GDP in 2023. The trade surplus is still projected at around 1.2 percent of GDP, consistent with our policy set, imports administration, improvements in competitiveness and terms of trade, as well as higher income from residents abroad. The strong current account and limited capital outflows are expected to support reserve accumulation of US$9.8 billion during 2022-2023 (unchanged relative to the second review).

Fiscal Policy

We remain committed to the fiscal path envisaged in the program. We are intensifying our efforts to meet the 2022 primary deficit target of 2.5 percent of GDP. Our approach is bearing fruit, with spending contracting by 13 percent and revenues increased by 3 percent (y/y) in real

terms in September, alongside a significant reduction in domestic arrears.
The 2023 Budget, which is consistent with the 1.9 percent of GDP program deficit target, saw the rollout of new prioritization and selection criteria for investment projects, ensuring a focus on large and ongoing projects.

As part of the action plan to enhance financial and budget reporting of national public sector entities, a framework is now being developed to strengthen controls over Treasury transfers to public corporations/trusts. A decree has been recently issued to strengthen financial oversight of these entities through improved information reporting, with the aim of supporting the timely publication of enhanced quarterly reports for public corporations and trust funds. In line with fiscal safeguard recommendations, improving expenditure control and accountability will benefit from a further strengthening of the Treasury Single Account and the prompt publication of the annual audited financial statements.

Once completed, a comprehensive review of tax expenditures (estimated at near 2½ percent of GDP) will help identify options for streamlining tax incentive schemes, while efforts to strengthen property tax collection should continue. An action plan is being finalized, with the support of Fund technical assistance, to strengthen revenue administration capacity and efficiency. Key elements of this plan include a comprehensive compliance gap analysis for key taxes as well as policies and guidelines for the risk segmentation of taxpayers and foreign trade operators. A new risk management unit has been created to support the work of the recently established Compliance Risk Management Committee (CRM). Moreover, the recently signed tax information exchange agreement with the United States could improve revenues in the near to medium term.

Financing Strategy

The development of the domestic capital money and capital markets is a key component of our macroeconomic framework. 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. The combination of these efforts will allow us to reduce monetary financing of the fiscal deficit to 0.8 percent in 2022 and 0.6 percent of GDP in 2023.

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. We will seek to accumulate buffers through issuances of LEDES, and normalize the yield curve through operations in the secondary treasury market. We will pursue a proactive market-oriented debt strategy, while ensuring that central bank intervention in the securities market is limited to ensuring normal market functioning. The strategy envisages among other things extending maturities of the debt held by intra-public sector entities (representing close to 60 percent of amortizations falling due next year); as well as a tailored approach for institutional investors, such as banks, mutual funds, and insurance companies. We have made significant progress in advancing the structural agenda to support the financing strategy.

We have completed 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.

We are overall very confident in achieving our objectives for domestic financing, as our December 2022 debt operations described above show.

On the external financing front, we have redoubled our efforts to secure official non-IMF external financing. Despite shortfalls through Q3, disbursements are now back on track, with US$1.2 billion of IDB support in October/November, and US$250 million expected by end year from other bilateral creditors. Meanwhile, an agreement was reached with Paris Club creditors to restructure US$1.97 billion, appropriately reflecting our capacity to repay and debt sustainability.

All these efforts will secure debt sustainability, before and after the general selections of the next year. Financing needs through the following years are in line with the domestic market capacity to roll over existing debt stocks and provide the required additional finance, which will shrink over time, given the fiscal path. We are confident that there will be no further disruptions of domestic financial market.

Monetary, Exchange Rate Policies and Anti-Inflationary Policies

We 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, and improve the Central Bank´s balance sheet. We 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.

We have raised the nominal annual policy rate, which now stands over 107 percent in annual effective real terms, above actual inflation. We have calibrated the rate of crawl of the exchange rate, and it will remain consistent with the evolution of inflation and trading partner currency developments. The recently reintroduced temporary export incentive schemes are encouraging the liquidation of stockpiled soy exports.

We implemented voluntary wage-price coordination mechanisms to complement broader disinflation efforts, including agreements with the largest mass consumption companies to hold the price of 2000 products and limit price increases at 4 percent m/m of 30,000 products between November 2022 and February 2023. Negotiations are taking place with wholesale agents as to lower prices for neighborhood shops. The agreements will be revisited after the four months.

We remain committed 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. 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.

Capital flow measures have been adapted, including through a broadening of import financing requirements, to avoid a disorderly adjustment. We nevertheless remain committed to ease the regulations. We are advancing the preparation of a roadmap, and we expect this to be completed by end-June 2023 to enable input from recently requested IMF technical assistance. More generally, as conditions permit, and reserve coverage strengthens, steps will be taken to gradually ease restrictions.

In line with the recommendations of the recently completed IMF Safeguards Assessment, we are working in assessing the 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. The balance sheet will strengthen in the next years, thanks to our proacted efforts to meet program targets, secure public debt sustainability, and restore market access. Given the evolution of macroeconomic fundamentals, we are confident that we will improve Central Bank net worth in the long term.

Growth and Resilience Policies

A key priority are the policies to diversify and boost net exports. We 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. An important part of our strategy is eliminating subsidies for residential users with the greatest payment capacity. 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 liquefied natural gas.

We are also advancing with the construction of the Nestor Kirchner gas pipeline, which is expected to be completed by end-2024. Once completed, the pipeline will connect the vast shale oil and gas reserves of "Vaca Muerta" with large urban areas, supporting an increase in the daily supply of domestically produced gas, initially by 11 million cubic meters, and by 22 million cubic meters once compressors are installed. These pipelines have the potential to sharply reduce costly energy imports from mid-2023 with positive spillovers for fiscal and external balances from 2024 onwards.

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 to support CAMMESA's incomes.

Progress is being made to eliminate the subsidies for those with sufficient capacity to pay. 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 gas) and gas use above 70 percent of the previous 5-year average for each category of users in the relevant region. We will significantly reduce these subsidies for commercial users in 2023 and we will fully eliminate them during 2024.

We are also finalizing 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. 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. In addition, recommendations from the recently completed World Bank Country Climate and Development Report (CCDR) are being assessed and with the view of considering future conditionality in this area.

Governance and Transparency

Ahead of the evaluation by the Financial Action Task Force (FATF) in 2023, we have made further progress in strengthening our AML/CFT regime. We recognize the need to improve governance and transparency, in order to tackle tax avoidance and external assets formation. We have published the National AML/CFT Strategy, including recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments. In consultation with IMF staff, we 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.

Conclusion

Our authorities underline their commitment to the policies and objectives of the economic program supported by the IMF under the EFF. Once more not only for commitment reasons, but because such policies are Argentina's best anchor. Argentina has shown a remarkable commitment to being able to execute a notable fiscal performance. The cornerstone of our macro policy. We remain convinced, at the same time, that Argentina's future depends on our ability to develop infrastructure so that we can catalyze investment in the real economy, as well on our capacity to maintain our social safety nets. We are showing a consistent downward inflation path and we are maintaining healthy growth dynamics. We are consolidating our domestic debt market. We have met all targets and the proximate targets appear to be on track. The structural agenda is being implemented.

Considering all of the above, we encourage Executive Directors to support the third review under the extended arrangement under the Extended Fund Facility, including the requests for waivers for non-observance of continuous performance criteria against imposing or intensifying restrictions on the making of payments and transfers for current international transactions an introducing or modifying multiple currency practices.