



# ARGENTINA

June 2022

## FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ARGENTINA

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 24, 2022, following discussions that ended on May 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 June 15, 2022.
- A **Staff Statement** 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.

Copies of this report are available to the public from  
International Monetary Fund • Publication Services  
PO Box 92780 • Washington, D.C. 20090  
Telephone: (202) 623-7430 • Fax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Web: <http://www.imf.org>  
Price: \$18.00 per printed copy

**International Monetary Fund**  
**Washington, D.C.**



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

### FOR IMMEDIATE RELEASE

- The IMF Executive Board completed today the first review of the extended arrangement under the Extended Fund Facility (EFF) for Argentina, enabling an immediate disbursement of about US\$ 4.01 billion.
- The authorities met all end-March 2022 and continuous performance criteria and remain committed to achieve the program's unchanged annual fiscal, monetary financing, and reserve accumulation objectives.
- Decisive implementation of program policies will be critical to support Argentina's economic recovery, strengthen macroeconomic stability, and make further progress in addressing its deep-seated challenges to set the basis for more sustainable and inclusive growth.

**Washington, DC – June 24, 2022:** The Executive Board of the International Monetary Fund (IMF) completed today the first review of the extended arrangement under the Extended Fund Facility (EFF) for Argentina. Against the backdrop of increased global uncertainties, the Executive Board assessed that all end-March 2022 and continuous performance criteria and indicative targets were met, and that initial progress was made on the structural front. It also welcomed the authorities' commitment to implement policies consistent with the unchanged annual program objectives. The Executive Board's decision enables an immediate disbursement of SDR 3 billion (about US\$ 4.01 billion) and marks the conclusion of an important initial step under the program which aims to support Argentina's ongoing economic recovery, strengthen macroeconomic stability, and begin to address its deep-seated challenges.

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 tied to specific measures to strengthen public finances, tackle persistent high inflation, boost reserve accumulation, and set the basis for more sustainable and inclusive economic growth.

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

"The Argentine economy is continuing its post-pandemic recovery, but is being affected by shocks associated with the war in Ukraine and broader global uncertainties. Higher global food and energy prices are adding to inflation pressures and challenging fiscal and reserve accumulation goals. Notwithstanding these shocks, the authorities met all end-March 2022 quantitative targets and have made progress toward implementing the structural commitments under the program.

"The authorities recognize the importance of investing in economic stability and maintained the end-year program objectives with some flexibility in the quarterly paths to accommodate the shocks. To this end, the recently modified 2022 budget reprioritizes spending to accommodate higher energy subsidies and appropriate social assistance to protect the vulnerable from the food price shock. Adhering to the primary fiscal deficit target of 2.5 percent of GDP in 2022 is essential to moderate domestic demand, limit monetary financing of the

deficit, and support reserve accumulation, and will require steadfast implementation and monitoring of budget commitments. Sustained efforts are also needed to improve tax compliance, reduce energy subsidies, and strengthen public financial management.

“The authorities remain committed to the agreed multi-pronged strategy to tackle persistent high inflation, including by continuing to normalize policy interest rates consistent with achieving positive real interest rates. Steadfast implementation of the enhanced monetary policy framework will be essential to encourage demand for peso assets, preserve external competitiveness, and support unchanged end-year reserve accumulation targets.

“In the context of recent market volatility, efforts to strengthen and deepen the peso debt market—which is an essential pillar of the 30-month EFF— remain critical, alongside steadfast implementation of fiscal targets. In addition, ensuring the timely delivery of financial commitments from Argentina’s international partners is vital to help boost reserve buffers and support reform efforts.

“Continued progress is needed in implementing the structural reform agenda, including to strengthen public expenditure management, central bank finances, the AML/CFT regime, as well as the development of key sectors through enhancements in the predictability and effectiveness of regulatory frameworks.

“Decisive implementation of program policies will be critical to support Argentina’s economic recovery, strengthen macroeconomic stability, and make further progress in addressing its deep-seated challenges to set the basis for more sustainable and inclusive growth.”



# ARGENTINA

## FIRST REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

### EXECUTIVE SUMMARY

**Context.** Spillovers from the war in Ukraine have materialized adding to Argentina's economic and social challenges. While the shock is projected to have a limited impact on growth, sharply higher commodity prices are adding to inflation pressures and challenging fiscal, reserve accumulation and market financing goals. Meanwhile social and political tensions remain elevated, including as a result of high inflation, adding to spending and wage pressures. The first review discussions focused on updating the macroeconomic framework to account for changes in external conditions and on reprioritizing policies to address the impact of the shock (including, importantly, social spending to protect low-income households) and ensure meeting the end-year program targets.

**Program Performance.** All performance criteria and indicative targets through end-March 2022 were met and initial progress is being made on the program's structural agenda. Public hearings on proposals to update wholesale electricity and gas tariffs were announced (*end-April, structural benchmark*) and tariff updates became effective early June (*prior action*), and a selected package of reforms to the AML/CFT legislation was submitted to Congress (*end-May, structural benchmark*). Meanwhile, the current budget is being modified to ensure consistency with the end-2022 fiscal targets (*prior action*) and the central bank has continued to raise policy rates and remains committed to apply the enhanced monetary and FX policy framework.

**Program Risks.** The program remains subject to exceptional risks. Since approval of the arrangement, global risks have intensified not only from the war in Ukraine, but also from a resurgence of the pandemic, a rapid tightening in external financial conditions, and a slowdown in key emerging economies. Meanwhile, policy implementation risks remain acute in the context of a very complex economic, social, and political environment and ongoing spending and wage pressures. High inflation, if not addressed, could further fuel social discontent, and weaken political support for the program. These risks cannot be fully mitigated through program design and contingency planning.

**Policy Recommendations.** Steadfast program implementation remains essential to tackle persistent high inflation and secure a decisive improvement in reserve coverage. Achieving the agreed primary fiscal target for end-2022 will require tighter fiscal policies in the second half of the year through a reorientation of public spending to make way for higher spending on energy subsidies and social assistance. A stronger application of the enhanced monetary and FX policy framework is essential to deliver positive real policy interest rates and preserve real exchange rate competitiveness. These actions are also critical to support an appropriate deepening of the domestic government peso market and reduce reliance on central bank financing. In tandem, continued efforts are needed to mobilize official external support from multilateral and bilateral sources, including through a restructuring agreement with the Paris Club. Continued implementation of the structural agenda remains essential. On the energy front, aside from efforts to update energy tariffs, the development of a medium-term energy reform plan, with support from the World Bank, remains a priority to unlock the country's vast energy potential. Early actions are also needed to start improving revenue compliance, the efficiency and management of public spending, the transmission of monetary operations, and the effectiveness of the AML/CFT regime, among others.

**Program Requests/Commitments.** The program's end-year objectives remain unchanged. However, to address the impact of the shock—which has been especially severe in Q2:2022—a modification of the quarterly targets is being proposed. Specifically, the authorities have requested the modification of the end-June 2022 performance criteria and indicative targets to reflect the immediate impact of higher-than-programmed global commodity prices on the fiscal deficit and the reserve accumulation path, while maintaining end-year objectives unchanged as a share of GDP (e.g., fiscal deficit, monetary financing) and in U.S. dollars (e.g., reserve accumulation). The program also proposes a new structural benchmark on the submission to Congress by mid-September of a Draft 2023 Budget consistent with the agreed program fiscal deficit target of 1.9 percent of GDP for 2023.

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

Discussions took place in Washington, D.C. and virtually during April–May 2022. The team included J. Kozack and L. Cubeddu (heads), F. Arizala, A. Chailloux, R. Llaudes, M. Perks, (all WHD), J. Hooley (FAD), C. DeLong (LEG), M. Tamene (MCM), A.C. Paret (SPR), M. Szafoval (Local Economist), and B. Kelmanson (Resident Representative). F. Figueroa (LEG), F. de Paula Machado (FAD), I. Gudbjartsdottir (MCM) joined part of the discussions. V. Bonifacio (WHD) provided research assistance and A. Veras (WHD) provided document management. The team met with M. Guzman (Economy Minister), M. Pesce (BCRA President) and their teams, as well as G. Beliz (Strategic Affairs Secretary), M. Kulfas (former Industry and Production Minister). Mr. Chodos (OED) participated in the discussions.

## CONTENTS

<b>CONTEXT</b>	<b>5</b>
<b>RECENT DEVELOPMENTS</b>	<b>5</b>
<b>PROGRAM PERFORMANCE</b>	<b>9</b>
<b>MACROECONOMIC OUTLOOK AND RISKS</b>	<b>10</b>
<b>POLICY DISCUSSION</b>	<b>12</b>
A. Fiscal Policies	12
B. Financing	15
C. Monetary and Exchange Rate Policies	16
D. Other Structural Policies	18
<b>PROGRAM ISSUES</b>	<b>19</b>
<b>EXCEPTIONAL ACCESS</b>	<b>20</b>
<b>STAFF APPRAISAL</b>	<b>22</b>
<b>BOXES</b>	
1. Recent Inflation Developments	24
2. Energy Subsidies	25
3. Government Domestic (Peso) Market Financing	26

**FIGURES**

1. Real Economic Developments	<a href="#">27</a>
2. Fiscal Sector Developments	<a href="#">28</a>
3. Inflation, Foreign Exchange, and Monetary Developments	<a href="#">29</a>
4. External Sector Developments	<a href="#">30</a>
5. Banking Sector Developments	<a href="#">31</a>

**TABLES**

1. Selected Economic and Financial Indicators, 2020–27	<a href="#">32</a>
2. External Balance of Payments, 2020–27	<a href="#">33</a>
3a. Federal Government Operations, 2020–27 (In Billions of Argentine Pesos)	<a href="#">34</a>
3b. Federal Government Operations, 2020–27 (In Percent of GDP)	<a href="#">35</a>
4. General Government Operations, 2020–27	<a href="#">36</a>
5a. Summary Operations of Central Bank, 2020–27	<a href="#">37</a>
5b. Summary Operations of the Banking Sector, 2020–27	<a href="#">38</a>
6. Summary of Public and External Debt, 2020–27	<a href="#">39</a>
7. Federal Government Gross Financing Needs and Sources, 2020–27	<a href="#">40</a>
8. External (Residency) Gross Financing Needs and Sources, 2021–27	<a href="#">41</a>
9. Federal Government Debt by Creditor, 2015–22	<a href="#">42</a>
10. International Investment Position, 2017–21	<a href="#">43</a>
11. Financial Soundness Indicators, 2015–21	<a href="#">44</a>
12. Indicators of Fund Credit, 2022–32	<a href="#">45</a>
13. Schedule of Reviews and Purchases	<a href="#">46</a>

**ANNEXES**

I. Updated Public Debt Sustainability Analysis	<a href="#">47</a>
II. Updated External Debt Sustainability Analysis	<a href="#">63</a>

**APPENDIX**

Letter of Intent	<a href="#">68</a>
Attachment I. Memorandum of Economic and Financial Policies Update	<a href="#">70</a>
Attachment II. Technical Memorandum of Understanding Update	<a href="#">83</a>