INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/192

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.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 22/ 226

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."

INTERNATIONAL MONETARY FUND

ARGENTINA

June 15, 2022

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. Szafowal (Local Economist), and B. Kelmanson (Resident Representative). F. Figueroa (LEG), F. de Paula Machado (FAD), I. Gudbjartsdottir (MCM) joined part of the discussions. V. Bonifacio (WHD) provided research assistance and A. Veras (WHD) provided document management. The team met with M. Guzman (Economy Minister), M. Pesce (BCRA President) and their teams, as well as G. Beliz (Strategic Affairs Secretary), M. Kulfas (former Industry and Production Minister). Mr. Chodos (OED) participated in the discussions.

CONTENTS

FIGURES

TABLES

ANNEXES

APPENDIX

CONTEXT

1. **On March 25, 2022, the Executive Board approved Argentina's request for a 30-month SDR 31.914 billion (about US$44 billion or 1,001 percent of quota) Extended Arrangement.** Argentina's IMF-supported program set pragmatic and realistic objectives, which if credibly implemented would help tackle persistent high inflation, strengthen public finances and debt sustainability, improve reserve coverage, and allow gradual re-access to international capital markets. The program also envisages steps to begin tackling the country's deep-seated structural challenges, including to strengthen the domestic peso debt market, the governance and management of government spending, and sustainability and efficiency of key sectors, including energy.

2. **Given significant spillovers from the war in Ukraine, first review discussions focused on updating the baseline macroeconomic framework and underlying policies to secure meeting end-year program objectives.** While the external shock is projected to have a muted impact on growth, sharply higher commodity prices are adding to inflation pressures and challenging fiscal consolidation goals, mainly through higher energy subsidy spending and an appropriate expansion of social spending to protect low-income households. Meanwhile, stronger-than-anticipated domestic demand and some frontloading of energy imports are complicating reserve accumulation goals. Discussions focused on updating the macroeconomic framework to account for changes in external conditions and on adopting a set of compensatory policies to ensure stability while meeting end-year program targets.

3. **Despite commitments to implement the program, risks remain elevated.** All end-March quantitative targets were met, and initial progress is being made on the structural agenda. The authorities remain committed to implementing the program, and economic decision-making is increasingly being coordinated within the Ministry of Economy to further strengthen policy consistency and support program implementation. Global risks have intensified not only from the war in Ukraine, but also from an intensification of the pandemic, a rapid tightening of external financial conditions, and a slowdown in key emerging economies. Furthermore, policy implementation risks remain elevated in the context of a very complex economic, social, and political situation. Persistent 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. The Fund continues to face significant enterprise risks.

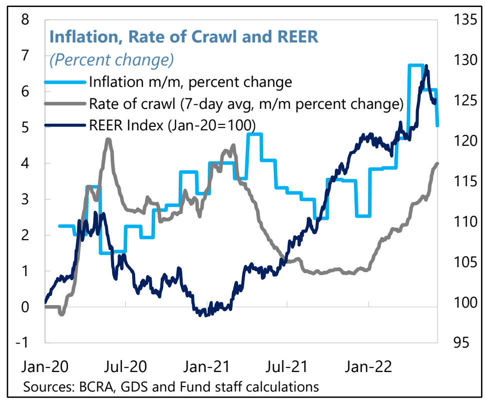
RECENT DEVELOPMENTS

4. **After rebounding strongly in 2021, the economic expansion continued at a somewhat faster than anticipated pace, driven by strong domestic demand (panel figure 1).** After contracting by 9.9 percent in 2020, the economy expanded by 10.3 percent last year. High frequency indicators suggests that economic activity grew by 6.1 percent y/y in Q1:2022, driven by robust domestic demand, with the services sector showing especially strong dynamism following the full

unwinding of mobility restrictions. Consumption and investment growth remains buoyant—real retail sales were up 5.4 percent y/y and imports of capital goods up 29 percent y/y in volume terms, through April. Output gaps are near closed—manufacturing capacity utilization levels are near 2017 peaks—with the level of real GDP already 6 percent above pre-pandemic levels.

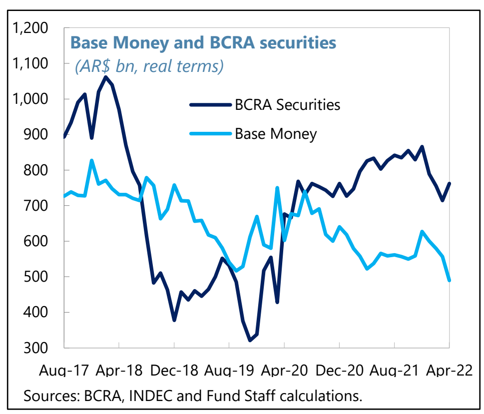
5. **Social conditions have been improving but remain very challenging.** The unemployment rate fell to 7.0 percent in Q4:2021, the lowest level since 2015, and the labor force participation rate returned to near pre-pandemic levels (47 percent). Employment growth has been especially robust, with over 215,000 new private sector jobs created since end-2020. However, while poverty rates fell to 37 percent in H2: 2021 (8 ppts below pandemic peaks), they remain above pre-pandemic levels and are especially high for women, children, and lower-skilled individuals. Importantly, real wages to date are still 21 percent below end-2017 levels (after rising by 4 percent during H2:2021, real wages are down 1 percent thus far in 2022), and informal workers still represent about 49 percent of total employment.

6. **Inflation pressures have risen sharply (see Box 1).** As in most other countries, inflation has accelerated since February, driven largely by higher global food and energy prices, as well as a rise in regulated prices along with a needed pickup in the rate of crawl of the official exchange rate. Headline inflation reached 5.1 percent m/m (60.7 percent y/y) in May (after peaking at 6.7 percent m/m in March), and underlying price pressures remain strong, reflecting also robust domestic demand and growing wage pressures. In fact, wage negotiations are being brought forward, with latest demands for wage adjustments exceeding 60 percent, along with quarterly revisions in some cases contingent on inflation developments.[1]



Sources: BCRA, GDS and Fund staff calculations

7. **In response, the central bank has steadily tightened its policy stance in a context of continued moderation in the growth of monetary aggregates (panel figure 3).** The BCRA has raised the annual effective policy rate from over 45 percent at end-2021 to near 62 percent in May, bringing the monthly equivalent policy rate to 4.1 percent, yet still below actual inflation. Meanwhile, real monetary aggregates have contracted through end-April—seasonally-adjusted base money is down 7.4 percent in real terms (and stands at 5.3 percent of GDP, its lowest level since 2003) while declines in real private M3 have been more moderate



Sources: BCRA, INDEC and Fund Staff calculations.

[1] Minimum wage adjustments were also advanced (from August/December to June/August), resulting in an average annual minimum wage increase of 59 percent during 2022.

(5.4 percent). Relatedly, the stock of BCRA remunerated liabilities (LELIQ and pases) declined to around 7.6 percent of GDP (from over 10 percent at end-2021), following a slower-than-anticipated pace of FX reserve accumulation and monetary financing, although sterilization operations as a share of a base money remains near historical highs.

8. **Fiscal policy through end-April has been accommodative driven by strong real expenditure growth (panel figure 2).** The cumulative primary deficit reached 0.4 percent of GDP through end-April, with strong and broad-based expenditure growth (up 13 percent y/y in real terms) more than offsetting tax and customs revenue growth (up 3 percent y/y).

- *On the revenue side,* tax receipts were somewhat softer-than-anticipated, reflecting a combination of Tanzi effects on income and personal wealth taxes, weak real wage growth, and tax administration difficulties in the context of rising inflation. In addition, despite higher commodity prices, customs duties disappointed due to temporary factors including strikes by grain carriers and port workers. Meanwhile, nontax revenues rose sharply on account of property income related to gains from the reopening of inflation-indexed (CER) securities.[2]

- *On the spending side,* the energy subsidy bill grew sharply (70 percent y/y in real terms) reflecting rising global energy import prices and efforts to pre-stock energy supplies ahead of the winter, despite the initial tariff adjustments that went into effect in March. That said, real primary spending excluding subsidies grew by 9 percent y/y through end-April,[3] with especially large increases in transfers to provinces, capital spending, and social assistance, the latter reflecting the initial impact of a package involving temporary bonuses to roughly 13.6 million low-income workers and pensioners (starting in April and paid through June), as well as increases in the value of food stamps (*Tarjeta Alimentar*) and workfare transfers (*Potentiar Trabajo*).

Federal Government Real Spending Growth
(ytd annual percent change)

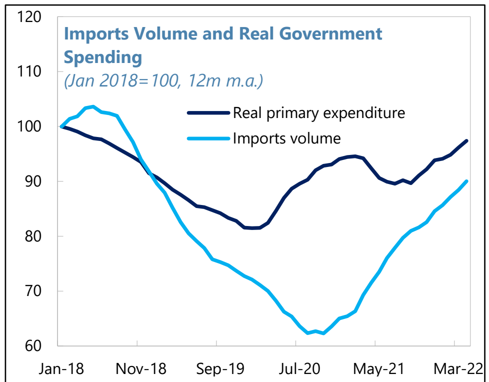
	Jan-Apr 2022
Primary expenditures	**13.3**
Wages	10.4
Goods and services	7.1
Pensions	5.1
Social assistance	14.0
Subsidies	48.1
Transfers to provinces 1/	19.9
Other current	15.0
Capital spending	13.0
Memo. Items	
Primary exp, excl. subsidies	9.2
Energy subsidies	70.5

Sources: MECON and Fund staff calculations.
1/ Discretionary current transfers only.

[2] Under the authorities' longstanding accounting practices, non-tax revenues include property income from the issuance of Treasury securities, reflecting the difference between the face value of inflation-indexed securities and their issue price in reopening auctions. However, according to international standards this gain should be recorded below the line as a financing operation.

[3] The annual real spending increase also reflects base effects from especially tight fiscal policy in S1-2021.

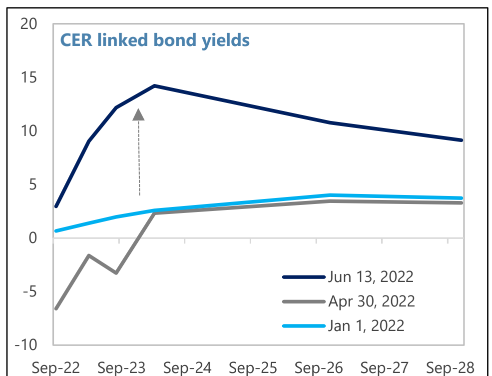
9. On the external front, the current account surplus narrowed through April 2022 challenging reserve accumulation (panel figure 4). Sharply higher global commodity prices have had muted effects on Argentina's terms of trade, as higher agricultural export prices generally offset higher energy and fertilizer import prices. Goods export volumes continued to show strong dynamism (up 4.9 percent y/y, cumulative through April), especially in the industrial manufacturing sector (up 11.4 percent), although these were more than offset by very strong goods import volumes growth (up 21.3 percent). The latter reflected some frontloading of energy imports[4] and buoyant domestic demand in the context of accommodative policies and the continued appreciation of real exchange rate (up an additional 5.3 percent since end-2021, as inflation continued to exceed the rate of crawl). As a result, the cash goods trade surplus narrowed (to US$5.3 billion through April 2022, compared to US$6.4 billion a year prior), with a sharply higher services deficit (on account of higher tourism outflows and lower services exports) adding to the reserve accumulation challenges, especially since April.[5] Financial flows have been generally in line with expectations, although net official support has lagged somewhat.



Sources: INDEC, MECON and Fund staff calculations.

10. Meanwhile, market conditions have turned more volatile recently, on account of global and domestic factors.

- *On the domestic government bond market front*, after strong net peso placements during Q1-2022 (with rollover rates reaching 150 percent, compared to 117 percent under the program), domestic financing conditions have become more challenging in the context of rising global risk aversion and domestic policy and political uncertainties. An increasing share of debt issuances is now concentrated in short-term inflation-indexed (CER) instruments, with the bond markets coming under stress more recently. In mid-June, the yield curve on CER securities shifted upwards sharply, despite strong central bank intervention.[6]



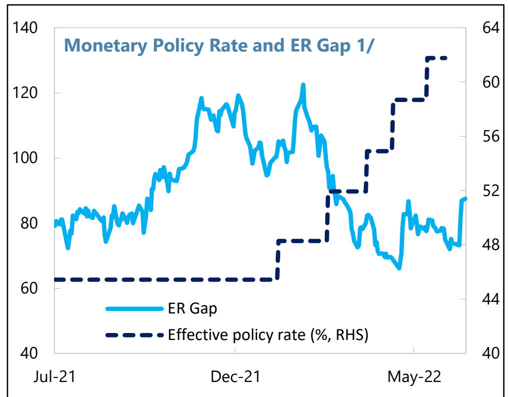
Source: Bloomberg and Fund staff calculations

[4] Through April 2022, energy (fuel and lubricant) import volumes rose by around 80 percent y/y.

[5] Net international reserves (at program exchange rates) have risen by US$0.4 billion during April-May 2022, bringing the cumulative reserve accumulation since end-2021 to around US$1.9 billion, compared to the proposed revised end-June target of US$3.45 billion (which assumes US$0.7 billion in official budget support during Q2).

[6] During June 9-14, the BCRA purchased roughly ARS$300 million (0.3 percent of GDP) of government securities.

- *On the FX front*, the gap between the parallel and official exchange rate after narrowing through early April, has also experienced some volatility (oscillating between 70 and 90 percent) also on account of increased global uncertainties (rising USD, VIX, and EM spreads) as well as domestic policy concerns, including from the weakness in reserve accumulation. Meanwhile, Argentine sovereign spreads have risen further, international bond prices have fallen to multi-year lows (to an average of around 25 cents per USD), and the BCRA's open position in the non-deliverable futures market has risen in recent weeks, after shrinking through early-April.



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

11. That said, financial and corporate balance sheets remain relatively stable (panel figure 5). Financial institutions continue to maintain ample liquidity and strong capital buffers, in the context of shrinking credit to the private sector. Real private sector credit fell by an additional 0.6 percent m/m in April (-0.2 percent y/y) and stood at 6.7 percent as a share of GDP (against 7.2 percent a year prior), while system-wide NPLs fell to 3.9 percent in March in the context of high provisioning (116 percent of NPLs). Meanwhile, exposure to the public sector has grown—representing around half of all banking system assets—yet remains well within regulatory limits. Corporate sector balance sheets have remained generally sound to date, reflecting limited and declining leverage, especially in foreign currency.

PROGRAM PERFORMANCE

12. All program performance criteria and indicative targets were met through end-March 2022, and initial progress has been made on the structural agenda (MEFP Tables 1–2).

- **Fiscal**. End-March performance criteria (PCs) on the primary fiscal balance and stock of domestic arrears, as well as indicative targets (ITs) on real revenues and social spending were met. The primary fiscal deficit through end-March was limited to ARS 192 billion (0.25 percent of GDP), roughly ARS 20 billion below the adjusted program target, as higher than expected non-tax revenues related to gains from reopening inflation-linked securities more than offset spending overruns, caused by higher-than-anticipated energy subsidies and the necessary expansion in social spending. In the absence of these nontax revenue gains, which exceeded 0.2 percent of GDP through end-March, the primary deficit target would not have been met.

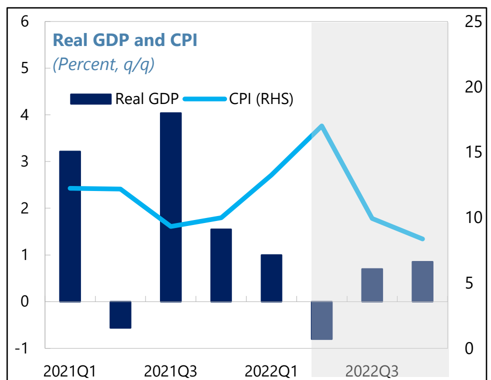
- **Monetary.** End-March monetary policy PCs and ITs were met by comfortable margins. Central bank financing of the fiscal deficit was limited to ARS 122 billion through end-March, well below the program target (ARS 237 billion), reflecting efforts to frontload net peso debt issuance in the domestic market. Net international reserve accumulation reached US$1,522 million, US$277 million above the adjusted program target, mainly on account of a higher-than-anticipated trade surplus (on a cash basis) through Q1-2022. The net stock of central bank non-deliverable futures was also well below the IT ceiling (US$1.2 bn vs. US$6bn), supported by the implementation of the enhanced monetary and FX framework.

- **Structural benchmarks**. The structural agenda is advancing broadly as envisaged. Public hearings on the proposal to update wholesale electricity and gas prices, were announced in early April (***end-April, SB***), with these increases becoming effective in early June in line with program commitments ***(prior action).*** In addition, the authorities secured the timely submission to Congress of a selected package of reforms to the AML/CFT legislation (***end-May, SB,*** ¶27). Meanwhile, revisions to the current budget to ensure its full consistency with the 2022 fiscal targets and updated spending priorities will be adopted shortly (***prior action***, previously ***mid-April, SB****)*, with the minor delay reflecting the additional time needed to fully assess the implications of spillovers from the war in Ukraine and design compensatory measures.

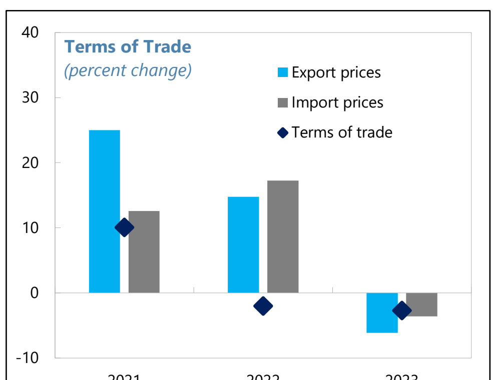
MACROECONOMIC OUTLOOK AND RISKS

13. The baseline macroeconomic framework has been updated to reflect the impact of the war in Ukraine, and recent domestic economic developments.

- *Real GDP Growth.* The 2022 growth projection remains between 3.5–4.5 percent, unchanged since the approval of the arrangement. The war in Ukraine is expected to have only a limited direct impact on growth, given Argentina's relatively closed economy and modest trade and financial linkages with Ukraine or Russia. Moreover, stronger-than-expected domestic activity in Q1 likely offset the potential impact of lower projected global growth and higher inflation on real incomes and domestic demand. Importantly, the expected moderation of growth to a mid-point of around 4 percent, remains predicated on a tightening of macroeconomic policies in the second half of 2022 to moderate domestic demand and support macroeconomic stability. The path for growth beyond 2022 also remains largely unchanged as the economy converges to potential of around 2 percent.



Sources: INDEC and Fund staff estimates.



Sources: Fund staff estimates and projections.

- *Inflation.* Higher global energy and food prices, coupled with relatively high passthrough—a 10 percent increase in global cereal and fuel prices is estimated to increase inflation by about 1.6 percent—are projected to increase the end-2022 inflation rate by nearly 15 percentage points relative to program approval (from 38-48 percent to 52-62 percent).

Projections assume a reduction in the monthly inflation rate for the remainder of the year underpinned by the tighter fiscal and monetary policies along with some softening of global commodity prices (see ¶22). That said, upside risks are large, reflecting the important challenges from high inertia and unanchored expectations, as well as the need to address relative price misalignments, rebuild reserves, and ensure that the rate of crawl of the exchange rate is consistent with competitiveness. As such, a gradual disinflation process continues to be assumed, including beyond 2022, in the context of subdued base money demand.[7]

- *External balance*. The current account surplus is still projected to narrow to around 0.5 percent of GDP in 2022, which, together with a generally unchanged financial account is expected to support a buildup in reserve accumulation in line with the original program targets. Higher export prices, mainly grains and crude oil, are expected to be offset by higher import prices, particularly LNG and fertilizers, while taking into account the recent energy import agreements with neighboring countries. Export and import volumes are projected to remain generally unchanged relative to approval of the arrangement and are predicated on a policy-induced deceleration in domestic demand in the second half of 2022 and a broadly unchanged real exchange rate during 2022 (relative to end-2021 levels). Beyond 2022, minor changes in the external balance are expected mainly reflecting changes in the external position.

- *Fiscal balance*. The baseline assumes an unchanged annual fiscal consolidation path and a gradual elimination of monetary financing of the fiscal deficit. Fiscal policy is projected to tighten in the second half of 2022 to meet the fiscal primary deficit target of 2.5 percent of GDP, through the steadfast implementation of a package of compensatory measures to offset higher-than-expected energy subsidies and social assistance (see ¶15). Meanwhile, monetary financing of the fiscal deficit is expected to be limited to 1 percent of GDP in 2022, supported by determined efforts to tap the government peso debt market (2 percent of GDP) and to mobilize external official support.

Revised Macroeconomic Baseline, 2021–24

	SR (March) 2021	2021	SR (March) 2022	Proj. 2022	SR (March) 2023	Proj. 2023	SR (March) 2024	Proj. 2024
GDP growth (avg, %)	10.2	10.3	[3.5 - 4.5]	[3.5 - 4.5]	[2.5 - 3.5]	[2.5 - 3.5]	[2.25 - 3.25]	[2.25 - 3.25]
Inflation (eop, %)	50.9	50.9	[38.0 - 48.0]	[52.0 - 62.0]	[34.0 - 42.0]	[46.0 - 54.0]	[29.0 - 37.0]	[40.0 - 48.0]
Primary fiscal balance (% of GDP)	-3.0	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	-0.9
Current account balance (% GDP)	1.3	1.4	0.5	0.5	0.4	0.4	0.2	0.2
Change in net int'l reserves (US$bn)[1]	-1.5	-1.5	5.8	5.8	4.0	4.0	5.2	5.2
Monetary financing (% GDP)	3.7	3.6	1.0	1.0	0.6	0.6	0.0	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.

[7] Base money projections have been revised down (from 7½ percent of GDP to 6½ percent of GDP) on account of higher-than-projected inflation and structural factors dampening the demand for cash balances.

14. In the context of high and rising downside risks, contingency planning remains essential.

- The global environment remains subject to exceptional uncertainty, with rising downside risks related to (i) a protracted war in Ukraine; (ii) a resurgence of the COVID pandemic; (iii) a faster-than anticipated tightening in global financial conditions; and (iv) a slowdown in key emerging economies. These shocks are all projected to have negative knock-on effects on trading partner growth, with important spillovers to Argentina, depending also on the evolution global commodity prices.[8]

- Implementation risks remain high in the context of an already fragile economic, social, and political environment and ongoing spending and wage pressures. Persistent high inflation, if not addressed through appropriate macroeconomic policies, could lead to renewed market pressures, an escalation of social tensions, and a weakening of political support for the program, especially ahead of the October 2023 Presidential elections.

- Given rising risks, and recognizing the very limited policy space, contingency planning remains even more critical to ensure the agile adjustment of policies needed to meet the program objectives. The authorities are committed to adhering to end-year program targets and stand ready to continue to reprioritize public spending—including the allocation among transfers, capital, and current expenditures—as needed. However, as noted at the time of approval of the arrangement, contingency planning cannot fully mitigate program risks.

POLICY DISCUSSION

A. Fiscal Policies

15. The authorities remain committed to achieving the 2.5 percent of GDP primary deficit target in 2022. To this end, they have developed a package of measures worth around ¾ percent of GDP to offset higher-than-expected energy subsidies and targeted social assistance assistance—both of which are related to the spillovers from the war in Ukraine—as well as somewhat lower-than-projected revenues.[9] With energy imports and subsidy spending projected to remain high through the Argentine Winter, and

Federal Government Primary Balance, 2022
(percent of GDP)

	H1		Year Total	
	Prog. Approval	*Rev.*	*Prog. Approval*	*Rev.*
Revenues	**8.4**	**8.1**	**18.2**	**18.0**
Tax revenues	5.3	4.9	11.6	11.4
Social security contributions	2.6	2.3	5.4	5.3
Nontax revenues	0.5	0.8	1.2	1.2
Primary expenditures	**9.2**	**9.2**	**20.7**	**20.4**
Wages	1.2	1.2	2.9	2.9
Goods and services	0.3	0.3	0.7	0.6
Pensions	3.8	3.5	8.5	8.1
Social assistance	1.4	1.7	3.2	3.5
Subsidies	1.0	1.3	2.2	2.6
Other current	0.2	0.2	0.4	0.3
Capital spending	0.9	0.6	2.2	1.8
Current transfers to provinces	0.3	0.3	0.6	0.6
Primary balance	**-0.8**	**-1.1**	**-2.5**	**-2.5**

Sources: Authorities' and Fund staff projections.

[8] Given Argentina's vast and untapped energy and mining resources, as well as its agricultural potential, positive opportunities also arise from rising commodity prices and geopolitical reconfigurations.

[9] According to World Bank estimates, this social assistance is expected to partially offset the impact of the food price shock on the most vulnerable, limiting the increase in poverty rates to 1.7 percentage points (versus 2.9 percentage points in the absence of social assistance measures).

additional social assistance to be disbursed between April and June, the primary deficit through the first half of 2022 is projected to be around ¼ percent of GDP higher than envisaged at the time of approval of the arrangement. To take into account the unusual levels and seasonality of spending, the authorities have requested modifications to the quarterly program fiscal targets—while keeping the year-end target unchanged as a share of GDP. Compensatory measures largely fall on the expenditure side, implying an important rebalancing of spending between the first and second half of the year (relative to the original program projections), necessary to support a moderation of domestic demand going forward. Real spending growth is now projected to decline from 12.8 percent y/y in H1:2022 to -7.8 percent y/y in H2:2022.

16. The revised 2022 fiscal program envisages a significant reprioritization of spending and tightening of fiscal policies in the second half of the year. The authorities are planning to revise the current budget to ensure its full consistency with the program's 2022 fiscal target and updated spending priorities (***prior action***; originally a ***mid-April 2022 SB***). Key features of the revised fiscal program are as follows:

- **Revenues** as a share of GDP are projected to end somewhat below the original program estimates, mainly on account of (i) weaker-than-anticipated income and payroll tax collections; and (ii) recent initiatives raising the nontaxable personal income floor (to account for higher inflation) and postponing the programmed adjustments on fuel excises (to avoid pressures on consumer prices).[10] However, projections continue to assume efforts to improve tax compliance, drawing where possible on early TA findings, although revenue gains in this area are expected to be modest this year. For program purposes, nontax revenues related to valuation gains on inflation indexed securities will be capped at 0.3 percent of GDP (which already materialized during January-April), the same level as in 2021.

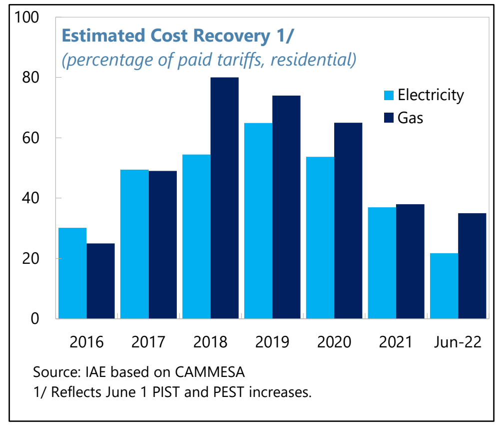
- **Primary expenditures** will need to be contained at 20.4 percent of GDP (0.3 percent of GDP below the original program estimates), through more disciplined expenditure management in the second half of 2022. Compensatory measures needed to offset the increase in energy subsidies and appropriate social assistance, include efforts to streamline goods and services spending, transport subsidies,[11] and discretionary transfers to provinces and public enterprises, as well as better prioritize capital spending. In addition, prudent wage management will be required to keep the federal government wage bill unchanged as a share of GDP. Pension spending is projected to decline as a share of GDP, consistent with the existing indexation formula, which is linked to past wage and payroll tax growth. That said, discretionary adjustments to pensions should also be avoided,[12] and work should initiate in the preparation of reform options to durably strengthen the equity and sustainability of the pension system (***end-December 2022, SB***).

[10] Fuel excises should be updated once international oil prices stabilize.

[11] Effective June, and given rising fuel prices, bus fares in the greater Buenos Aires region were raised by 40 percent.

[12] A new initiative is being considered by Congress aimed at introducing another costly pension moratorium, where access to a full contributory pension will be given to those close to retirement but who lack the necessary 30 years of contributions (missing years would be backfilled through a payment scheme financed from future pension benefits).

- **Energy policy** implementation remains key (see ¶12, and Box 2). Following public hearings in mid-May, the relevant authorities have issued resolutions, notifying the regulatory entities of the updated reference prices for wholesale electricity and gas, which went into effect early June ***(prior action)***. The weighted-average increase in tariffs during 2022 is estimated around 42 percent, broadly in line with the original program commitment and consistent with the authorities' objectives of ensuring that consumer bills rise in line with past average wage growth. In tandem, a Presidential Decree is being issued creating a new subsidy segmentation scheme aimed at eliminating electricity and gas subsidies for the top 10 percent of residential consumers with the greatest payment capacity that will gradually be adopted starting in June, although implementation risks remain. While supply-side efforts are also underway to reduce the cost of energy (see ¶26), subsidy spending this year is projected to remain generally unchanged relative to 2021 (at 2.6 percent of GDP, 0.4 percent of GDP higher than originally programed), with no overall improvement in cost recovery ratios.



Source: IAE based on CAMMESA
1/ Reflects June 1 PIST and PEST increases.

17. Beyond 2022, strong policy implementation remains necessary to secure the agreed medium-term consolidation path. The authorities plan to submit a Draft 2023 Budget consistent with the agreed primary fiscal deficit of 1.9 percent of GDP for 2023 by mid-September 2022 (***new SB***).[13] Achieving the target will rely on efforts to mobilize revenues through improvements in property tax collection and tax and customs administration.[14] Prompt adoption of a new compliance improvement plan and compliance risk management framework drawing on IMF technical assistance will be key to underpin these efforts. Importantly, current expenditure restraint remains necessary to make room for priority capital spending. Additional energy tariff adjustments (which over time should be linked more directly and automatically to the evolution of costs) will be required to contain the energy subsidy bill, along with continued efforts to reduce reliance on costly energy imports (global energy prices are expected to remain above levels assumed in the original program for 2022–24).

18. Strengthening the public financial management (PFM) system remains a priority. The recently updated fiscal safeguards review found that while Argentina's PFM system provides broadly adequate safeguards for the use of Fund resources for budget support, risks remain elevated and have increased in certain areas. As such, there is a need to enhance the system's robustness and increase capacity to plan for, track, and report the use of budgetary resources. Additional conditionality in this area will be considered in the context of the second review.

[13] A pre-budget statement will also be submitted by end-June, with a preliminary description of the macroeconomic outlook, a qualitative risk-assessment, and general policies to achieve the fiscal targets.

[14] The authorities recently submitted to Congress a new tax proposal on unexpected profits, targeting firms with large profits and which are benefiting from the global commodity price shock. If approved, this could raise federal tax revenues up to ¼ percent of GDP in 2023.

- **Control of public spending**. Given the recent increase in budgetary transfers to extra-budgetary entities, continued efforts are needed to strengthen controls around the release of transfers and improve the transparency of the larger non-financial public sector entities. In line with recommendations from the recent Public Investment Management Assessment (PIMA), it remains critical to develop an action plan to enhance financial and budget reporting of these non-financial public sector entities (***end-June 2022 SB***). The recent establishment of an inter-ministerial fiscal monitoring working group will also help support expenditure control efforts.

- **Control of budgetary resources**. Gaps persist in the structure of the treasury single account (TSA) system. Notably, certain budget-funded entities are excluded based on specific legal authorizations, and the treasury's cash balances are held in a state-owned commercial bank rather than the central bank. Options for strengthening the TSA will be explored going froward, including extending the coverage of the TSA and transferring the cash balances to BCRA.

- **Public investment efficiency.** Resolutions establishing clear investment project prioritization and selection criteria need to be issued (***end-June 2022 SB***) and implemented shortly after to help identify high-priority projects to be included in the Draft 2023 Budget.

- **Public Procurement**. Revisions to the legal framework for procurement in the Public Works Law, which are expected to be finalized by end-September 20202, are critical to strengthen processes for selection, awarding, execution and sanctions, as well as independent resolution procedures.

- **External controls.** Publication of audit opinions on the government's annual financial statements remain pending since 2018, and a timetable for their prompt publication should be sought.

B. Financing

19. Continued actions are necessary to deepen the domestic peso debt market (see Box 3). While net peso financing outperformed expectations during Q1:2022, further efforts will be required to secure the envisaged end-year financing (about 2 percent of GDP in 2022) and reduce rollover risk. In this regard, aside from adhering to the fiscal targets, sufficiently positive real interest rates will be required along with instruments that offer inflation protection while inflation expectations become better anchored. This would help keep monetary financing of the fiscal deficit below the program ceiling (1 percent of GDP in 2022), and support tackling persistent high inflation. Measures to strengthen debt management practices should continue—an investor relations presentation was made public in May (***end-July 2022, SB***) and work is on-track to develop a medium-term debt strategy ***(end-December 2022, SB***).

20. Mobilizing external official financing remains essential, including to support reserve accumulation. Despite minor shortfalls in Q1:2022, net official disbursements (excluding the Fund) are expected to pick-up and reach the originally-programmed level of 0.4 percent of GDP by end-2022. Budget support from MDBs is expected to move forward generally as programmed, and while minor delays have arisen on the project lending front, end-year total disbursements remain broadly unchanged.[15] Negotiations to restructure Paris Club legacy debt are ongoing, with both sides aiming to reach a deal over the coming weeks. Once completed, the terms and timing of the restructuring will be reflected in the program baseline, at the second program review. Consistent with the original program, the resumption of access to international capital markets is assumed to only start in 2025, with modest initial placements.

C. Monetary and Exchange Rate Policies

21. Addressing rising inflation pressures will require a more decisive implementation of the agreed multi-pronged approach. Even prior to the global commodity price shock, addressing inflation was already challenging given high inertia and unanchored expectation, in the context of low reserve coverage and relative price misalignments. The impact of the war in Ukraine has added to these challenges, suggesting that stabilizing inflation will require adhering to commitments to reduce the fiscal deficit, lower monetary financing, and deliver positive real policy interest rates. Incomes policies could play a complementary role in anchoring inflation expectations and avoiding adverse wage-price spirals, yet unilateral approaches should be avoided.[16]

22. Well-calibrated and proactive monetary and FX policies remain critical to support peso demand and reserve accumulation. The BCRA has increased the annual effective policy rate by about 690 bps since March and is committed to continue to adjust monetary policy as determined by the evolution of core inflation, forward-looking measures, and international reserves.[17] This would not only help support the demand for pesos but also allow a faster rate of crawl, which in turn is essential to preserve external competitiveness. These actions are critical to ensure a further reduction of the FX gap (which at current levels create incentives for export under invoicing and import over invoicing) and support the reserve accumulation goals under the program. In the context of low reserves, FX sales in the official market should be limited, intervention in the parallel markets should continue to be avoided, while intervention in the non-deliverable future should remain limited (consist with program ceilings) to bolster the credibility of the monetary framework.

Policy Rates and Inflation Measures

(in monthly terms)

	May 2022 (In percent)
Monetary policy rate (28-day Leliq)	4.1
Official Rate of crawl	4.0
Core inflation (3-mo-ma) (Feb-Apr)	5.9
Bond prices break-even inflation (3-mo ahead)	4.5
BCRA survey inflation expectations (next 3-mo avg.)	4.9
CF inflation expectations (next 3-mo avg.)	4.5

Sources: BCRA, Consensus Forecasts (CF), Fund staff calculations.

[15] Project disbursements from Non-Paris Club bilateral creditors are projected at around US$700 million during 2022, with roughly US$500 million now expected in Q4:2022.

[16] Voluntary price agreements on key staples (*precios cuidados*), representing around 7 percent of the overall consumption basket in April 2022, have been extended and updated to account for the food price shock.

[17] The framework combines backward-looking core inflation measures along with a model-based forecast of inflation (that uses non-deliverable futures market data) to arrive at a model reference rate. Decisions are also informed by judgement, and other forward looking inflation measures.

Moreover, import restrictions should be avoided as rapid import growth is best addressed through macroeconomic policy adjustments.[18]

23. Meanwhile, efforts are required to improve the transmission of monetary policy. Regulated deposit and lending rates should continue to move in tandem with policy rates and be eased as conditions allow, and changes to the operational framework should be considered to allow for a more consistent alignment between short-term rates on money market instruments (including Treasury Bills) and the policy rate. Meanwhile, the development of a time-bound plan to reform the reserve requirement regime should be finalized (***end-June; 2022 SB),*** and regulations promptly issued to reduce the number of special reserve requirement rebates, that can be gradually phased out conditional on the capital and liquidity positions of commercial banks. While existing incentives for lending to small and medium sized enterprises and consumers could be initially maintained, efforts will also be required to assess their overall adequacy and design.

24. Strengthening the BCRA balance sheet and governance framework will, over time, help to buttress monetary policy credibility. An updated IMF safeguards assessment was conducted during April-May 2022, to follow up on recommendations from the 2018 assessment. In line with recommendations from the most recent assessment, the BCRA recently established an internal audit committee comprising non-executive BCRA board members with a mandate to oversee financial reporting, internal and external audit, and control and risk processes. Meanwhile, work has been initiated with the aim of developing a strategy to strengthen the BCRA balance sheet and financial soundness (***end-December 2022, SB***), for which IMF technical assistance has been requested. That said, further actions are required to address the remaining weaknesses and additional conditionality, including on the legal framework and transition to International Financial Reporting Standards, will be considered in future reviews (see Text Box 1 below).

Text Box 1. Summary of the Updated 2022 Safeguards Assessment

The assessment found that while the BCRA has maintained robust external audit arrangements and has strengthened its internal audit practices, notable weaknesses remain in some areas, including as a result of the substantial central bank balance sheet expansion following the COVID shock. Recommendations focused on enhancing the central bank's: (i) financial autonomy, including through more robust profit retention provisions; (ii) legal framework, especially its governance arrangements and operational independence (a SB under the 2018 SBA); and (iii) balance sheet's transparency, through the reinstatement of International Financial Reporting Standards.[1]

1/ In late 2019, a legislative directive required the BCRA to record government receivables on its balance sheet at nominal value (rather than fair value, as previously).

25. Some targeted easing of capital controls has been undertaken to encourage FX inflows. Regulations were issued to ease FX controls in the hydrocarbon and knowledge economy sectors conditional on increased exports and other requirements (compliance will be

[18] In March 2022, the BCRA issued regulations requiring importing firms to increase the share of trade financing once the value of their imports exceed 2021 levels.

monitored by sectoral and revenue administration authorities). While the precise impact of these targeted measures is uncertain, sustained, and meaningful FX inflows will require the development of more predictable strategy for easing capital flow management (CFMs). In this regard, a cross-institutional working group is being established to press ahead with the preparation of a conditions-based plan for gradually easing CFMs (***end-December 2022, SB***).

D. Other Structural Policies

26. Initial steps are being taken to encourage the development and export capacity of key strategic sectors. While certain sector-specific incentives could play a role, securing a level playing field and minimizing fiscal/regulatory costs are key.

- ***Energy sector***. With the support of the World Bank, work is underway in developing a medium-term plan to strengthen Argentina's energy sector (***end-September 2022 SB***). The plan will aim to identify options to improve the country's energy matrix, reduce distribution losses and inefficiencies, strengthen the quality and accessibility of energy services. Efforts are needed to facilitate the construction of the natural gas pipeline project connecting the vast shale oil and gas reserves of "*Vaca Muerta*" with the large urban areas, including to reduce reliance on more expensive energy imports. In this regard, it remains critical to ensure the transparency and governance of the tendering and procurement process.

- ***Other strategic sectors***. Work is progressing on legislation and regulations in strategic sectors (hydrocarbons, mining, agro-industry, automotive industry, and electro-mobility), with the goal of encouraging investment and exports, while also securing a level playing field and minimizing fiscal/regulatory costs. In addition, legislation to promote investment in the hydrogen sector is being developed, the legal framework for investments in biotechnology is being extended, while the tax regime for copper exports is being aligned to conform with best practices. These initiatives are benefiting from ongoing consultations with relevant stakeholders.

27. Progress continues in strengthening the overall AML/CFT regime ahead of the evaluation by the Financial Action Task Force (FATF). In consultation with relevant stakeholders and IMF staff, selected amendments to Law 25.246, Argentina's AML/CFT legislation were submitted to Congress (***end-May 2022, SB***) with the aim of further strengthening (i) the sanctioning regime, (ii) the inventory of reporting entities subject to AML/CFT obligations, (iii) the preventive measures applicable to reporting entities, and (iv) the requirements related to ultimate beneficial owner information disclosure. Additional amendments will be considered during the Congressional review process drawing on the findings of the gap analysis (an assessment of the adequacy of technical obligations imposed by the entire legal and regulatory AML/CFT regime and the requirements of the FATF's 40 Recommendations), which is expected to be completed by end-August 2022. Meanwhile, preparatory work is advancing to facilitate implementation of the amended legislation once approved and ensure publication of the National AML/CFT Strategy (***end-September 2022, SB***), which will include recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.

PROGRAM ISSUES

28. Program conditionality.

- **Quantitative targets**: The authorities are requesting revisions to end-June 2022 QPCs (primary fiscal deficit, monetary financing of the fiscal deficit, the change in net international reserves, domestic arrears) to accommodate the immediate spillovers from the war in Ukraine. In addition, new QPCs are proposed for all relevant indicators for September/December 2022 (previously ITs), and new ITs are being proposed for March/June 2023. That said, end-year objectives will remain unchanged as a share of GDP (e.g., fiscal deficit, monetary financing) and in U.S. dollars (e.g., reserve accumulation).

- **Definitions**: Revisions to the definition of the primary fiscal deficit target are being proposed (see TMU) to cap non-tax revenues related to gains from reopening inflation-linked securities at 0.3 percent of GDP in 2022.

- **Benchmarks**: A new structural benchmark is being proposed on the submission to Congress of a Draft 2023 Budget consistent with program targets (***mid-September 2022, SB)***, to secure continued progress on program commitments.

29. Financing assurances. Firm financing commitments have been secured from official creditors over the next 12 months, with good prospects for the remainder of the program. Net financing from the MDBs, including the World Bank, Inter-American Development Bank (IADB), and the Andean Development Corporation (CAF), is projected to reach US$1.6 billion from June 2022 to June 2023, through a combination of budget support and project loans. Meanwhile, negotiations with the Paris Club to restructure the county's legacy debt (US$2.4 billion at end-July 2021) are progressing well, with both sides aiming to reach a deal over the coming weeks. Other bilateral creditors have re-affirmed commitments to provide net financing of around US$0.6 billion per annum during 2022-24, notably for the Rio Santa Cruz Hydroelectric powerplant project. For the program period, projected cumulative trade surpluses (US$39 billion) and net FDI inflows (US$27 billion) are expected to more than offset net external debt obligations and permit an accumulation of international reserves (program definition) of roughly US$15 billion, with FX controls playing a supportive role and limiting capital outflows.

30. Capacity to repay. Argentina's capacity to repay its Fund obligations remains subject to very high risks and hinges on strong policy implementation to enable a buildup in international reserves and an eventual resumption of market access by the time repayments to the Fund come due (Table 12). Full implementation of program polices 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 extended arrangement. Fund debt service obligation would remain very large over the medium term—around 6 percent of exports, or 10 percent of gross reserves—with Fund credit outstanding declining only gradually to around 6 percent of GDP by 2027.

31. Jurisdictional issues. No new exchange restrictions have been imposed or intensified, no multiple currency practices have been introduced or modified, and no import restrictions have been imposed for balance of payments reasons (***continuous PC***).

32. Arrears Policy. Staff assesses that the authorities are continuing to make good faith efforts, as required under the Fund's Lending into Arrears policy, to resolve its arrears to: (i) external private creditors that did not participate in the 2005/10 debt exchange or did not settle under the terms provided in 2016 and those to which there is debt outstanding from the 2001 default (US$2.5 billion total); and (ii) Mobil Exploration, where negotiations are underway on a repayment plan on principal claims (US$196 million). Arrears not related to official-sector involvement are also owed to: (i) the binational (Paraguayan and Argentine) entity *Yacyreta*, where compensation for energy provided is expected by end-2022 (US$76 million); and (ii) the French export credit agency (US$30 million), which is awaiting a decision from the Argentine Supreme Court.

EXCEPTIONAL ACCESS

33. Staff assesses that Argentina continues to meet the four EA criteria for exceptional access, contingent on strong program implementation. Program risks remain exceptionally high, even with the proposed revisions to the program baseline and policies, 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, and despite trade surpluses and tight capital controls. Meeting the very large debt service external obligations during 2022–24, will require the financial support from the Fund, beyond its normal access limits, as well as the broader support of the international community.

- ***CRITERION 2.*** *A rigorous and systematic analysis indicates that there is a high probability that the member's debt is sustainable in the medium-term; where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*
  - **Staff judges this criterion as met.** Under the revised baseline and policy framework, staff continues to assess that Argentina's public debt is sustainable but not with high probability (see Annex I). Consistent with the Fund's EA framework, staff also assesses that adequate safeguards are in place to meet EA2. Specifically, in the event that adverse shocks materialize, staff assesses that there would be sufficient restructurable FX debt to the private sector

potentially available after the program to improve debt sustainability and enhance safeguards for Fund resources. However, this assessment continues to be subject to exceptionally high risks and hinges critically on the steadfast implementation of the proposed fiscal consolidation path, the enhanced monetary and FX policy framework, as well as the broader set of policies to strengthen growth, exports, FDI, and reserve coverage over the medium term. 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 capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.*

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

- ***CRITERION 4.*** *Staff judges that the policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.*

  - **Staff judges this criterion as met.** All QPCs and ITs through end-March were met, and initial progress is being made on the structural agenda, most notably on the energy front. Importantly, the authorities have made public their commitment to meet end-year program objectives and are seeking to modify the current budget to secure meeting the fiscal and reserve accumulation objectives. Meanwhile, following congressional approval in March 2022 of the Fund-supported program (with an 80 percent majority in both chambers), public support for the program remains broadly unchanged. That said, a wing within the ruling coalition has openly opposed the program, while spending and wage pressures remain very strong in response to higher inflation. In the context of the necessary tightening of macroeconomic policies, social and political support for the program could be strained going forward, and especially ahead of the October 2023 Presidential elections.

STAFF APPRAISAL

34. Argentina's Fund-supported program, approved in March 2022, set pragmatic and realistic objectives, along with carefully calibrated policies, that if implemented, would strengthen macroeconomic stability, and begin to address deep-seated challenges. Specifically, the program aims to strengthen public finances and tackle persistent high inflation through a multi-pronged strategy involving a gradual elimination of monetary financing of the fiscal deficit and an enhanced monetary and exchange rate policy framework. It also envisages steps to strengthen the domestic peso debt market, the effectiveness of government spending, and the competitiveness of key sectors. In light of the elevated risks from the evolving war in Ukraine, it was recognized that the early identification and adoption of measures would be critical to achieve the program's objectives.

35. All performance criteria and indicative targets through end-March 2022 were met and initial progress is being made on the program's structural agenda. In particular, to limit the energy subsidy bill, wholesale electricity and gas were raised in early June, and a new tariff segmentation scheme is being adopted to gradually eliminate subsidies for wealthier households. 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 gradually raise policy rates since the approval of the arrangement.

36. Going forward, a tightening in macroeconomic policies, in line with end-year program objectives, will be necessary to strengthen stability and sustain the ongoing recovery. While spillovers from the war in Ukraine are expected to have a muted effect on growth and the overall balance of payments, rising global commodity prices are materially impacting inflation and the fiscal balance. The authorities' compensatory measures seek to reprioritize spending to make way for higher energy subsidies and appropriately targeted social assistance to protect low-income households from the food price shock. Adhering to the originally-planned 2022 primary fiscal deficit of 2.5 percent of GDP will require tighter fiscal policies in the second half of year, which in turn are critical to limit monetary financing of the deficit, moderate domestic demand growth and help address persistent high inflation. In addition, stronger application of the enhanced monetary and FX policy framework will be critical to encourage the demand for peso assets, preserve exchange rate competitiveness and support more robust reserve accumulation, which has been weaker than anticipated largely on account of strong import growth. Voluntary incomes policies could play a complementary role to contain adverse wage-price inflationary dynamics, yet unilateral price controls or trade restrictions should be eschewed as these could prove counterproductive and risk undermining program objectives. Revisions to the quarterly paths for the primary deficit and reserves are appropriate given the immediate impact of the external shocks, although steadfast and focused policy implementation of tighter macroeconomic policies will be essential going forward.

37. Efforts must continue in implementing the structural agenda. Fiscal consolidation needs to be underpinned by continued efforts to strengthen tax compliance, reduce energy subsidies, and contain the wage and pension bill, including to attend to large social and infrastructure gaps.

Discretionary upward adjustments to wages and pensions should be avoided to secure fiscal targets, while work should commence in the preparation of options to improve the equity and sustainability of the pension system. Meanwhile, public financial management reforms are critical to improve expenditure controls as well as the transparency and efficiency of public policies. Work should continue in deepening the domestic peso debt market, improving the transmission of monetary policy, strengthening the central bank's balance sheet, and enhancing the AML/CFT regime. Unlocking Argentina's vast export potential remains critical, although care will need to be taken in designing targeted incentives, while giving greater priority to strengthening the overall predictability of the regulatory framework and ensuring a level playing field.

38. Program risks are elevated, and contingency planning remains necessary. Argentina is highly vulnerable to external shocks and policy implementation is often challenged by its complex economic, social, and political situation. The global outlook is even more uncertain than at the time of approval of the arrangement, with increased downside risks from the evolution of the war in Ukraine, an intensification of the pandemic, and sudden tightening in global financing conditions. Meanwhile, support for the program could weaken, especially ahead of the 2023 Presidential election, or earlier if persistent high inflation is unaddressed. In this context, contingency planning remains necessary to permit the early identification and adoption of measures to secure macroeconomic stability.

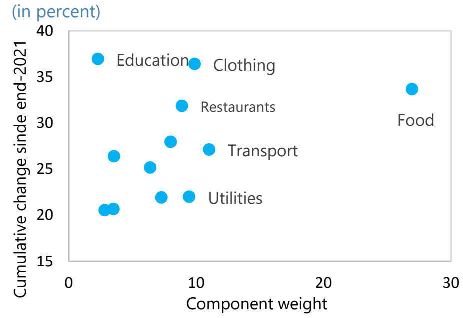
39. Staff supports the authorities' request for the completion of the First Review under the Extended Arrangement and modification of performance criteria, given the program performance so far and the policy commitments going forward. Staff also recommends completion of the financing assurances review, given Argentina's ongoing good faith efforts to resolve its external arrears.

Box 1. Recent Inflation Developments

Over the past years, inflation dynamics in Argentina have largely been driven by exchange rate and wage developments, the latter closely related to past inflation dynamics (see Box 9 in March 2022 Staff Report). This box documents recent inflation trends following the global commodity price shock drawing preliminary lessons.

Already strong inflation pressures have been exacerbated by the global commodity price shock. The rise in inflation in the first five months of 2022 (up a cumulative 29.3 percent), was broad-based and largely concentrated in (i) food prices (up 29.3 percent) on account higher global food and fertilizer prices; (ii) transport prices (up 27.1 percent), consistent with higher global energy prices; (iii) utility prices (up 22 percent), following tariffs adjustments; (iv) restaurants and hospitality prices (up 31.9 percent) following the easing of mobility restrictions; and (v) clothing/apparel (up 36.4 percent), reflecting pent up demand in the context of limited sectoral competition.

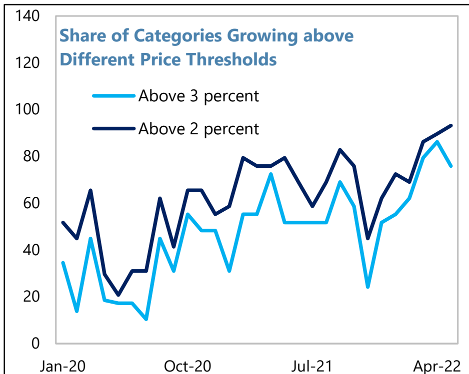
Inflation: Component Weight vs Cumulative Increase since end-2021
(in percent)



Source: INDEC and Fund staff calculations

While headline inflation has fallen since March, inflation pressures remain strong and broad based. In May, core inflation reached 5.2 percent m/m, with over 80 percent of items in the consumption basket posting price increases above 3 percent m/m. Importantly, inflation expectations remain unanchored—the median BCRA market survey respondent in May expected end-2022 inflation to reach 73 percent compared to 55 percent back in December 2021.

Share of Categories Growing above Different Price Thresholds

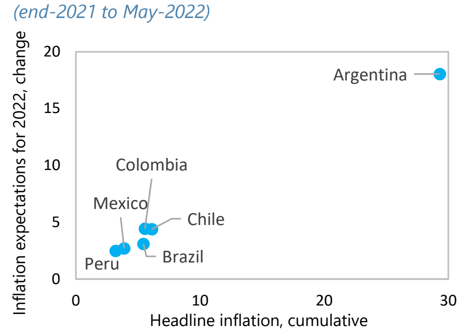


Source: INDEC and Fund staff calculations

While sharp increases in inflation have also been observed in Latin American peers, complications are especially stark in Argentina.

The passthrough from food and fuel prices to inflation is relatively high in the region, partly due to the high share of food in the CPI basket, with even larger estimates in Argentina given weaker policy framework and more unanchored expectation. Specifically, staff estimates that a 10 percent increase in global cereal and fuel prices is estimated to increase inflation over 12 months by about 1.6 percent in Argentina, compared to the average passthrough of 1.1 percent for the LA5. (see April 2022 WHD REO).

Inflation: Headline vs Expectation
(end-2021 to May-2022)



Source: INDEC, Consensus Forecast and Fund staff calculations

Already high levels of inflation, a high degree of wage indexation, unanchored expectations, relative price misalignments, and weak reserve buffers add to the challenges of addressing second round effects from the shock. Importantly, while the credit channel is less relevant in Argentina, monetary policy still plays a critical role in encouraging the demand for peso assets and enabling reserve accumulation. Its effectiveness, however, is largely conditional on having a credible fiscal anchor to contain reliance on monetary financing and strengthen debt sustainability.

Box 2. Energy Subsidies

This box documents the evolution of energy subsidies and policy measures needed to contain them.

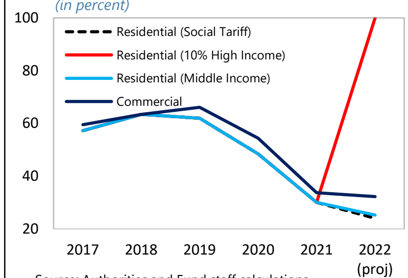
Argentina's spending on energy subsidies is among the highest in the region, while energy tariffs among the lowest. Argentina's spending on electricity and gas subsidies doubled in the past two years—rising from 1.0 percent of GDP in 2019, to 2.3 percent of GDP in 2021 (equivalent to US$11 billion). This increase was mainly driven by limited tariff adjustments, which led to sharp declines in cost recovery ratios (from 64 percent to 37 percent for electricity and from 79 percent to 44 percent for gas between Q4-2019 and Q4-2021). As a result, energy subsidies in Argentina are currently the highest in Latin America (after Venezuela), while tariffs are among the lowest. Sharp increases in energy prices, especially since February 2022, and climate-related factors (notably the impact of the drought on hydroelectricity production in the Parana basin) have added upward pressure on the subsidy bill.

To contain subsidy bill overruns resulting from the global energy price shock, the authorities have pursued a two-pronged strategy.

Supply side: Efforts are being made to reduce the cost of energy imports in the very near term, through shifts in the energy import mix (e.g., substituting gas and fuel oil for more expensive LNG) as well as agreements with Bolivia on supplies of natural gas, and with Brazil on electricity swaps. Finalization of the construction of the gas pipeline will help to expand domestic gas production and reduce imports.

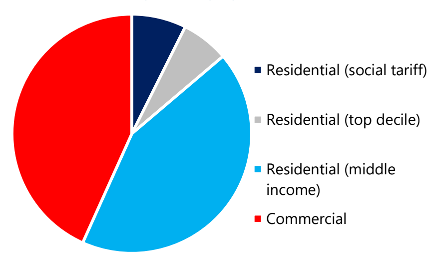
Tariffs: Regulated prices for wholesale gas and electricity were raised in March and again in June. A new segmentation scheme was introduced differentiating tariff increases among users in a progressive structure. High income residential consumers (wealthiest 10 percent) will pay full cost by end-2022, while tariff increases for residential consumers will be a share of past nominal wage growth (80 percent for middle income and 40 percent for low-income users under "*tarifa social*"). Energy tariffs for small commercial users will increase by more than residential users, while large commercial and industrial users (*GUDIs*, not included in text chart) will continue to pay full cost.

Cost Recovery Ratios by User Type, 2017-22 1/
(in percent)



Source: Authorities and Fund staff calculations.
1/ Refflects June 1 PIST and PEST increases and the announced segmentation scheme for high income consumers.

Share of Electricity Subsidy by user (2021)



Source: Authorities and IMF staff calculations.

While recent efforts to contain the subsidy bill are commendable, further improvements in cost recovery and energy efficiency will be needed, including through better linking tariffs to costs.

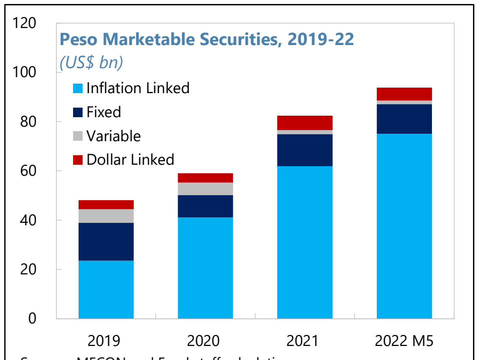
Cost recovery. In the context of rising global energy costs, tariff increases in 2022 remain insufficient to improve cost recovery. Moreover, the scheme to eliminate subsidies from the top 10 percent wealthiest residential users remains untested and could face implementation challenges and legal hurdles. Going forward, and to make way for higher-priority capital spending, residential energy pricing should be linked more directly and automatically to the evolution of costs, while subsidies for all commercial users should be gradually phased out. This will also help to encourage conservation and reduce greenhouse emissions.

Energy efficiency and climate friendliness. Actions to improve the efficiency of energy production and consumption are also needed, including reducing distribution losses, improving energy conservation, and enhancing the quality of services. Efforts are also needed to encourage investment in renewable energy, including to exploit Argentina's vast wind and hydroelectric potential.

Box 3. Government Domestic (Peso) Market Financing

Since end-2019, shut out from international capital markets and in the context of capital controls, the government has appropriately sought to strengthen the domestic peso market.

- Net financing has been largely in peso securities, with the occasional issuance of USD linked bonds during periods of high volatility. Through a combination of these new peso issuances as well as swaps converting domestically-issued USD securities to peso securities, the government has been able to reduce its exposure to foreign currency. In addition, non-resident holdings of peso securities have been on the decline, with their share of peso portfolio holding decreasing from 27 percent in 2019 to around 5 percent currently.



Sources: MECON and Fund staff calculations

- These developments have been facilitated by a strengthening of debt management practices: (i) minimum pricing at auctions have been removed; (ii) auction calendars are now announced six months ahead and held on certain weeks of the month; (iii) a market makers program has been established (to facilitate activity of both primary and secondary markets); and (iv) engagement with investors has been stepped up.

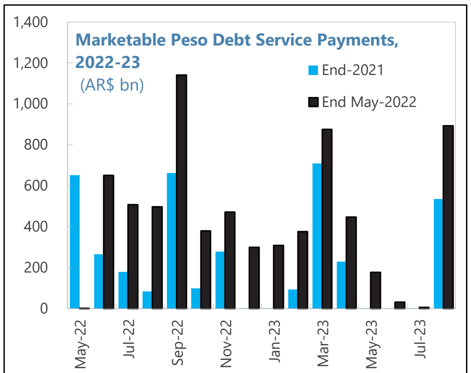
Despite progress, important challenges remain, accentuated by rising inflation.

- The share of inflation linked securities jumped from around 50 percent in 2019 to 80 percent in May 2022, as investors also sought protection from rising inflation and policy uncertainties. In fact, despite having moved to market pricing at auctions, demand for conventional instruments has been subdued, with average cover ratio of 0.9 compared to 2.1 for inflation-linked securities.

- In addition, there have been difficulties in extending maturities, especially more recently. The share of T-Bills has risen from around 20 percent at end-2019 to over 30 percent in May 2022, while the average time to maturity has fallen from 4.8 to 3.6 years over the same time period.

Reducing refinancing risks will require careful debt management and steadfast program implementation. This is especially important ahead of the 2023 elections, as pre-election periods in Argentina have historically been associated with heightened uncertainty and risk aversion (in the absence of mechanisms to smooth swings in the less liquid segments of the market). As such, carefully communicated interventions might be necessary to prevent liquidity disruptions, in particular if disorderly market conditions were to occur.

- On the debt management side, mitigating refinancing risks will require efforts to proactively build cash buffers while enticing investment at longer maturities (beyond 2023). This will require a more intentional pricing behavior at auctions through the acceptance of higher premium against investment alternatives (including central bank securities), along with efforts to improve the government's cash management.

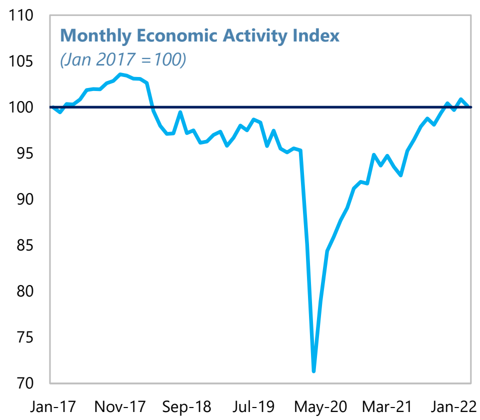


Sources: MECON and Fund staff calculations

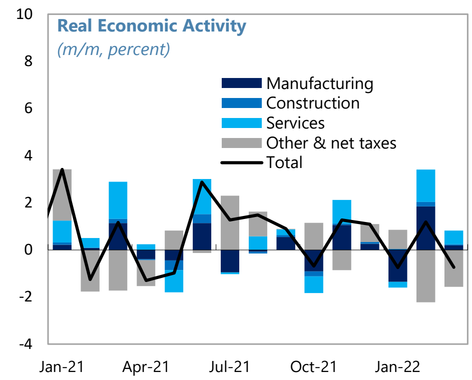
- Importantly, the credibility of the fiscal anchor needs to be strengthened to reassure markets that reliance on monetary financing of the budget will be limited (to under 1 percent of GDP in 2022) and placate sustainability concerns (the stock of peso denominated debt stood at only 12 percent of GDP at end-2021). A stronger application of the new monetary policy framework and a better alignment of market rates (including on Treasury bills) to the policy rate should help encourage the demand for peso assets, and relative attractiveness of government debt instruments. These efforts, by also supporting a reduction in inflation, will help to extend maturities and reduce reliance on inflation-linked instruments (which are appropriate in the current volatile inflation context).

Figure 1. Argentina: Real Economic Developments

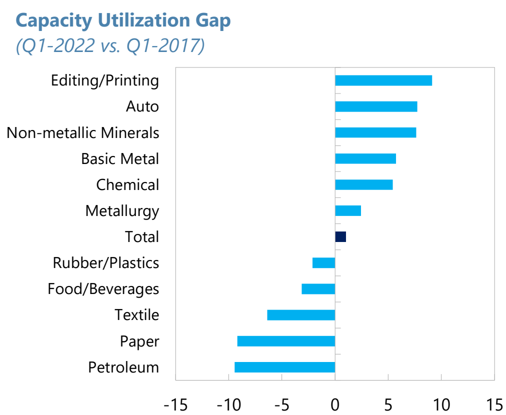
After a sharp rebound in 2021, economic expansion has continued …



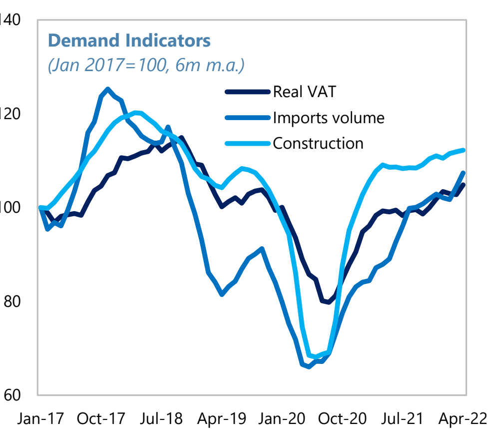
… led more recently by a recovery in manufacturing and services…



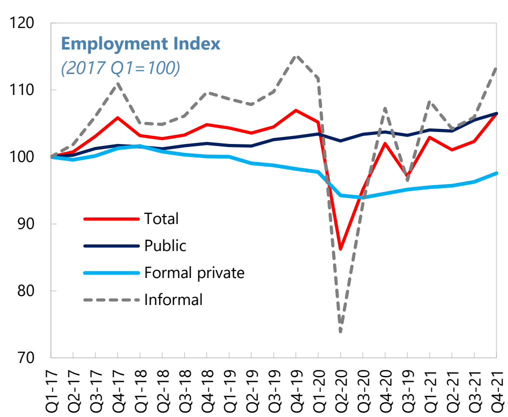
… with capacity utilization now near its peak in 2017.



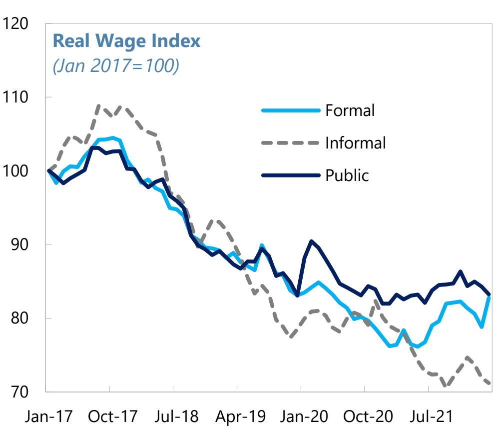
Robust domestic demand has translated into strong import growth…



…supported by a continued recovery in employment, informal sector in particular…



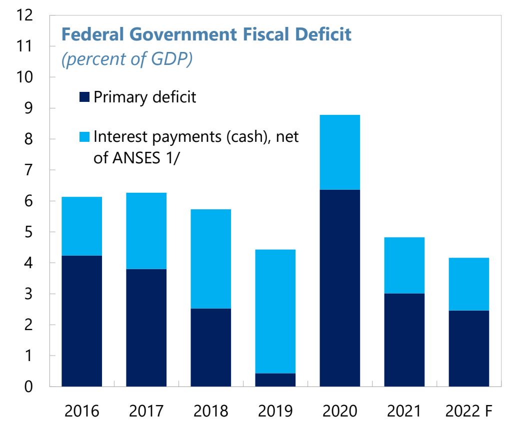
…although real wages are markedly down from end-2017 levels.



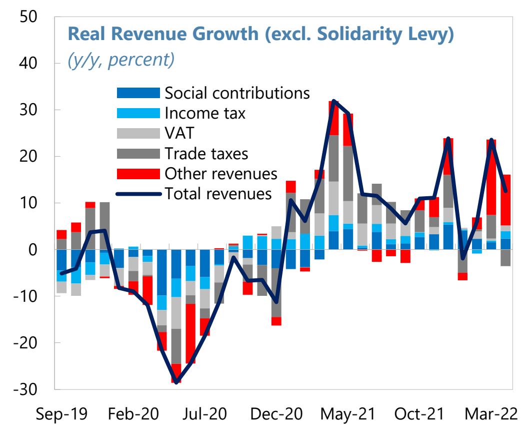
Sources: Argentine authorities, Haver, IMF WEO database, IMF staff calculations.

Figure 2. Argentina: Fiscal Sector Developments

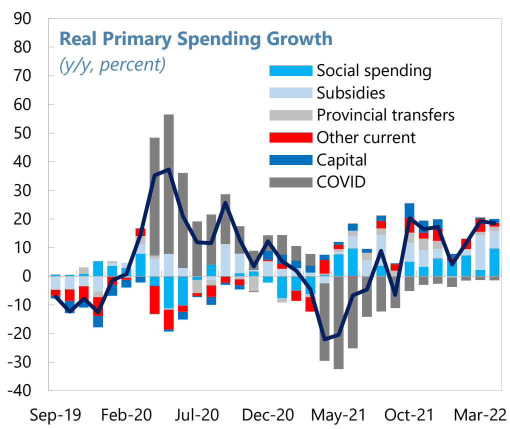
The program targets a further narrowing of the fiscal deficit in 2022.



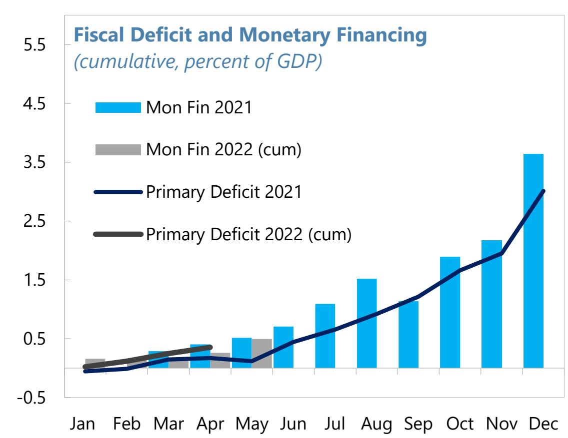
Revenue growth has slowed, with a large contribution coming from nontax revenues …



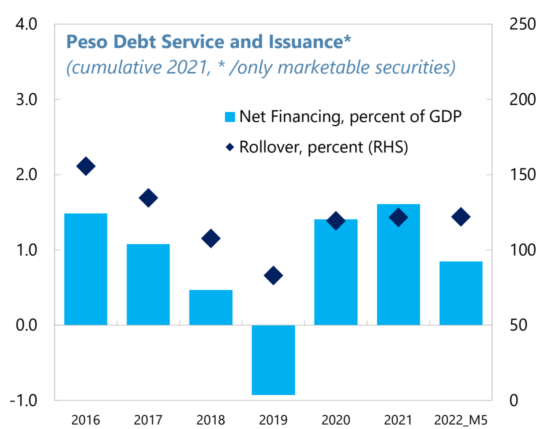
while spending has grown sharply, especially in subsidies and social spending.



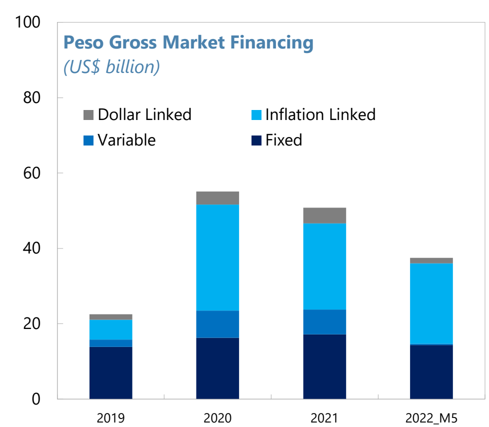
After declining considerably in 2021, monetary financing was relatively limited through Q1:2022...



… supported by strong net domestic debt placements…



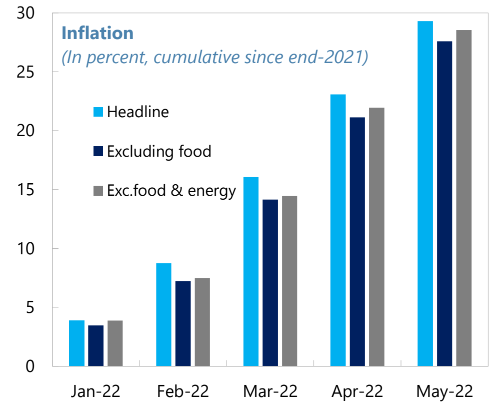
… although with continued reliance on inflation-linked securities and at short maturities.



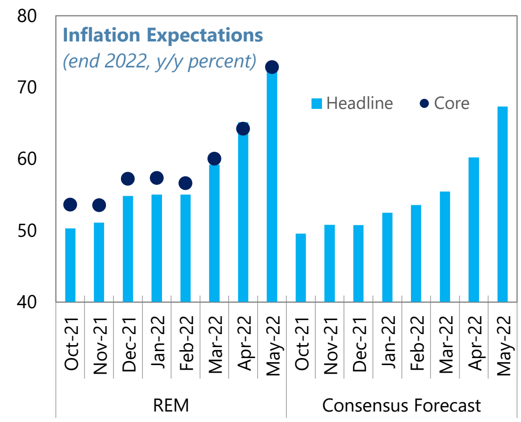
Sources: Argentine authorities, IMF WEO Database, IMF staff calculations.
1/ ANSES: National Social Security Administration of Argentina.

Figure 3. Argentina: Inflation, Foreign Exchange, and Monetary Developments

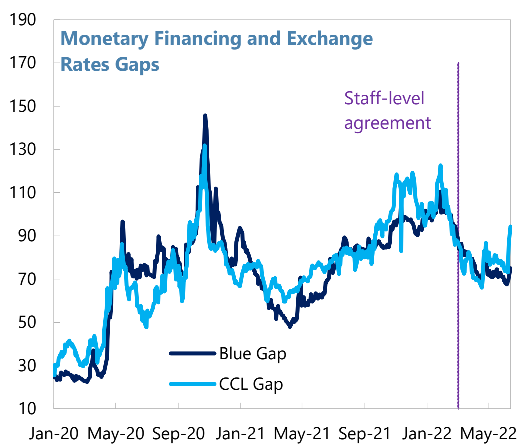
As in most countries, inflation has accelerated since February; pressures remain broad-based…



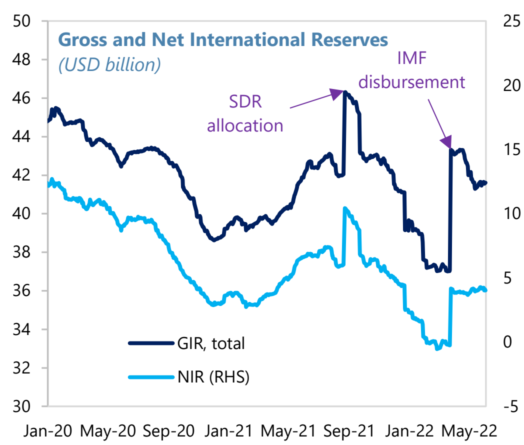
…and inflation expectations unanchored.



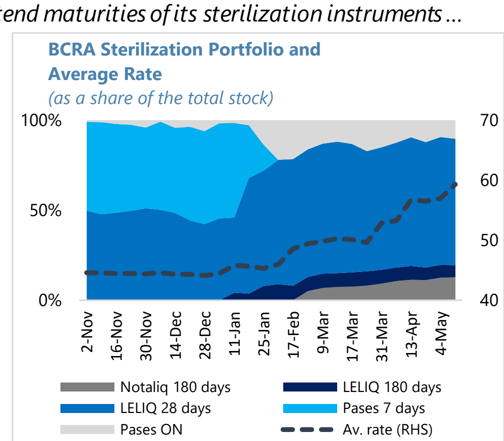
FX gaps narrowed from supportive polices and announcement of a Fund-supported program, but have been more volatile recently…



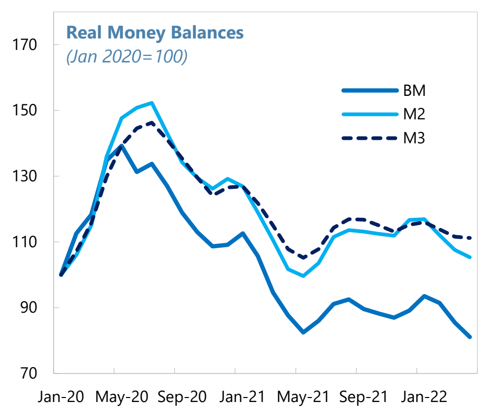
…as reserve accumulation has been hindered by strong domestic demand and energy imports.



The BCRA has continued to raise policy rates and to extend maturities of its sterilization instruments…

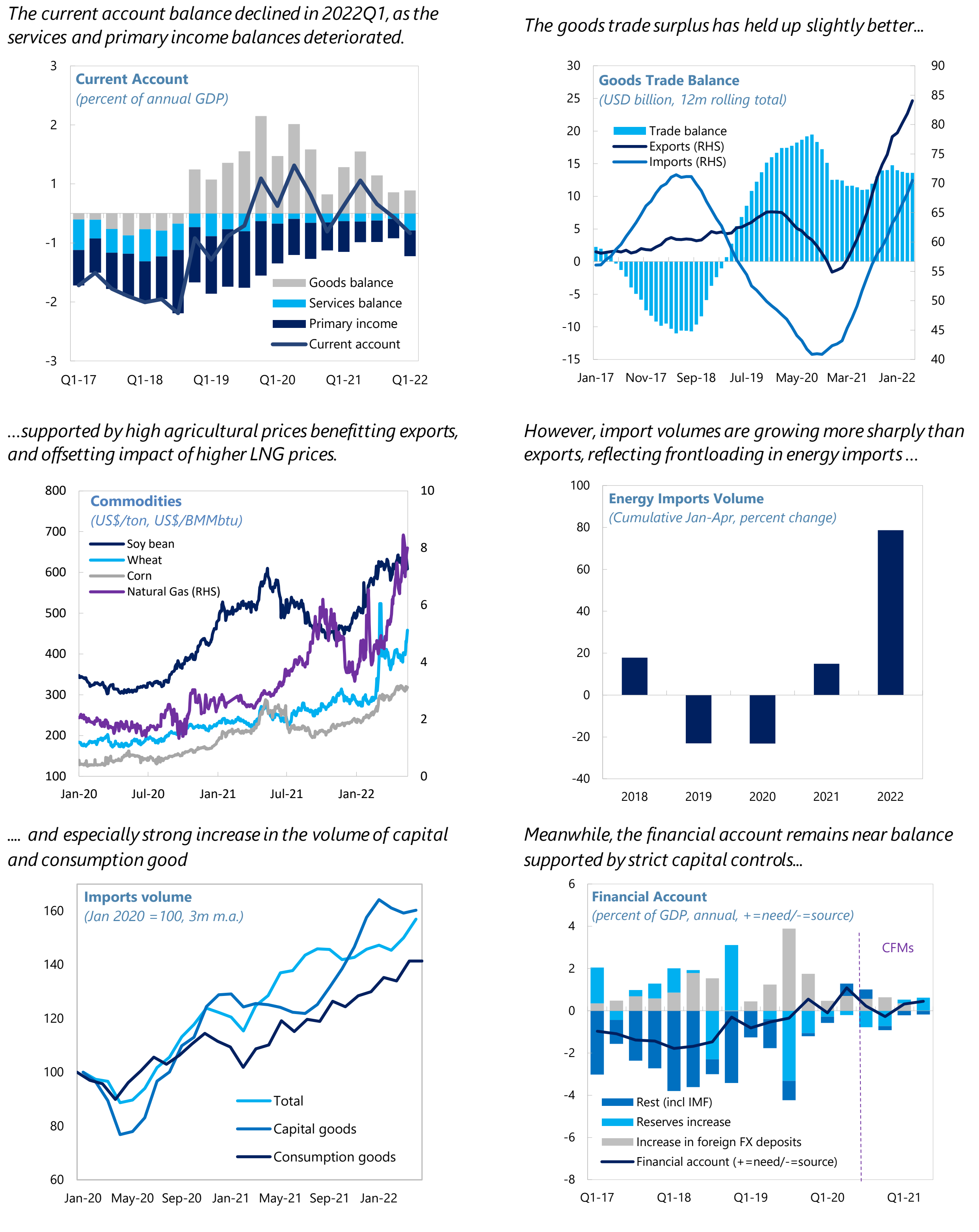


… in the context of continued moderation in monetary aggregates, money demand in particular.



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

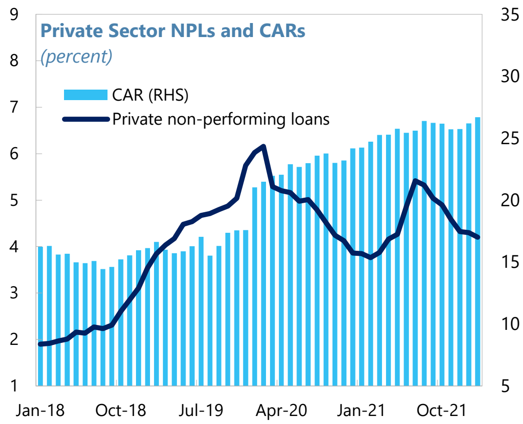
Figure 4. Argentina: External Sector Developments



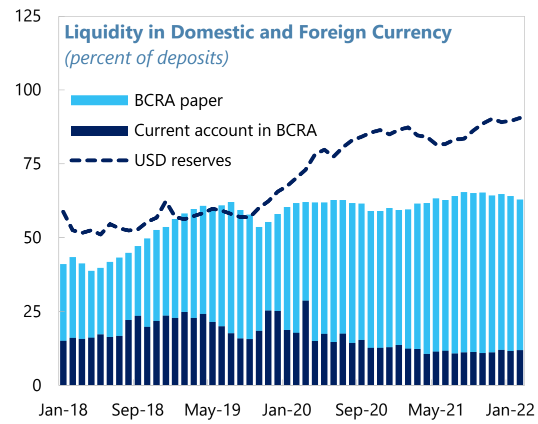
Sources: Argentine authorities, IMF WEO Database, IMF staff calculations.

Figure 5. Argentina: Banking Sector Developments

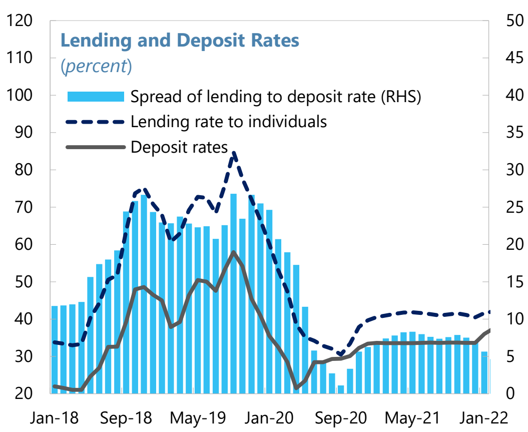
The banking sector is well capitalized, NPLs are declining....



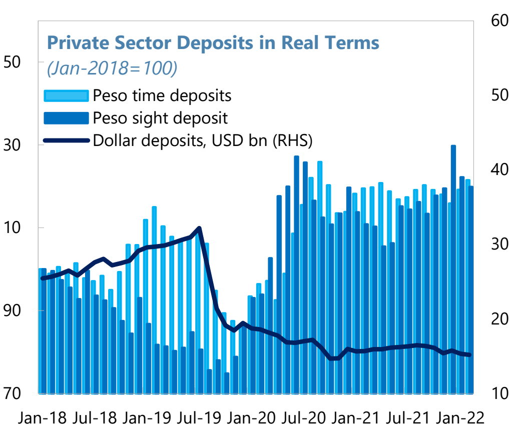
...and banks are sufficiently liquid.



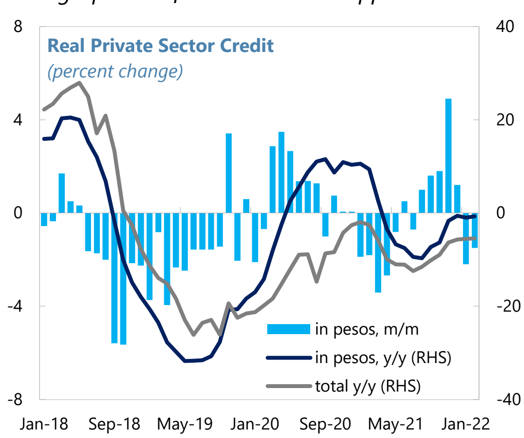
Banks' net interest margins have stabilized at lower levels reflecting regulations on lending/deposit rates.



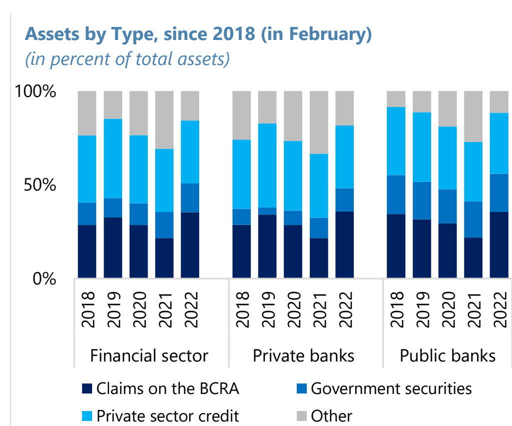
Since late 2020, growth in peso deposits has been limited while FX deposit have fallen somewhat.



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



...and banks' exposure to the public sector has increased relative to 2021.



Sources: Argentine authorities, Bloomberg, IMF WEO Database, IMF staff calculations.

Table 1. Argentina: Selected Economic and Financial Indicators, 2020–27

		SR (March)	Act.	SR (March)	Proj.	SR (March)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
					(Annual percentage changes unless otherwise indicated)						
National income and prices											
GDP at constant prices	-9.9	10.2	10.3	4.0	4.0	3.0	3.0	2.8	2.0	2.0	2.0
Domestic demand	-10.1	12.7	13.0	4.9	5.2	2.8	2.3	2.5	1.9	2.1	2.1
Consumption	-12.1	9.2	9.7	5.7	5.1	2.7	2.0	2.3	1.8	2.1	2.1
Investment	-12.9	30.8	32.9	2.8	5.0	3.6	3.8	3.4	2.1	2.0	2.0
Exports	-17.3	8.6	9.0	1.4	3.5	4.7	4.6	3.9	4.1	3.5	3.4
Imports	-17.9	20.0	21.5	5.5	8.7	3.8	1.3	2.7	3.2	3.5	3.6
Net exports (percent contribution to real GDP)	0.3	-2.6	-2.8	-1.0	-1.4	0.0	0.6	0.1	0.1	-0.1	-0.2
Output gap (percent of potential GDP)	-7.4	-3.5	-3.5	-1.7	-1.7	-0.7	-0.7	0.0	0.0	0.0	0.0
Inflation (eop)	36.1	50.9	50.9	43.0	57.0	38.0	50.0	44.0	40.0	35.0	30.0
Inflation (avg)	42.0	48.4	48.4	47.6	57.7	38.8	48.6	46.0	44.0	37.1	32.2
GDP deflator	39.9	53.4	54.1	46.2	57.6	37.8	47.1	46.1	43.9	37.1	32.2
					(Percent of GDP unless otherwise indicated)						
Savings-Investment balance											
Gross national savings	14.8	18.2	18.4	17.4	17.6	17.4	17.7	17.6	17.8	18.0	18.2
Private	23.3	22.8	22.7	21.2	21.3	20.5	21.1	20.5	20.4	20.3	20.2
Public	-8.6	-4.6	-4.3	-3.8	-3.8	-3.2	-3.5	-3.0	-2.6	-2.3	-2.0
Gross domestic investment	13.9	16.9	17.0	16.9	17.1	17.0	17.3	17.4	17.4	17.4	17.4
Private	11.6	13.8	14.3	13.0	13.6	13.1	13.5	13.5	13.6	13.5	13.6
Public	2.3	3.1	2.6	3.9	3.5	3.9	3.8	3.9	3.9	3.9	3.8
External sector											
Current account balance	0.9	1.3	1.4	0.5	0.5	0.4	0.4	0.2	0.4	0.6	0.7
Trade balance	3.2	3.2	3.1	2.4	2.1	2.3	2.2	2.2	2.6	2.9	3.1
Foreign direct Investment (net)	0.7	1.1	1.1	1.3	1.2	1.6	1.5	1.8	1.9	1.9	1.9
Total external debt	83.1	58.3	58.7	55.6	55.0	55.5	55.9	55.7	52.7	50.7	48.0
Gross international reserves (US$ billions)	39.4	39.7	39.7	49.1	48.9	51.5	51.3	55.4	60.6	65.8	69.1
REER (ave, percent change)	2.3	4.3	4.3	12.7	12.7	-4.1	-4.1	-5.2	-2.4	0.0	0.0
REER (eop, percent change)	0.1	21.4	21.4	0.0	0.0	-5.2	-5.2	-5.2	0.0	0.0	0.0
Terms of trade (percent change)	0.6	9.4	10.1	-0.1	-0.8	-4.1	-3.8	-3.2	-0.7	-0.9	-0.7
Federal government operations											
Revenues	17.6	18.2	18.1	18.2	18.0	18.6	18.2	18.8	19.3	19.7	19.8
Primary expenditure 1/	24.0	21.2	21.1	20.7	20.4	20.5	20.1	19.8	19.3	18.9	18.6
Primary balance 2/	-6.4	-3.0	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	0.0	0.8	1.3
Overall balance	-8.3	-4.5	-4.5	-4.0	-4.0	-3.4	-3.7	-3.3	-3.0	-2.7	-2.6
Federal government debt	102.8	80.6	80.2	74.4	73.2	74.3	73.2	71.9	67.6	63.8	60.2
Official creditors	23.4	16.1	16.0	16.7	16.1	16.6	16.2	15.9	15.2	14.5	13.3
Private creditors	43.6	33.5	33.3	31.1	30.0	32.9	31.9	32.7	31.1	29.2	27.8
of which: FX-denominated debt	28.9	21.3	21.2	19.4	18.9	19.0	18.7	18.1	16.3	15.2	14.1
Public entities	35.8	31.0	30.9	26.6	27.1	24.9	25.1	23.3	21.3	20.1	19.1
Money and credit											
Monetary base	9.0	7.9	7.8	7.5	6.5	7.5	6.5	6.5	6.5	6.5	6.5
BCRA transfers to the government	7.4	3.7	3.6	1.0	1.0	0.6	0.6	0.0	0.0	0.0	0.0
BCRA securities	10.7	10.9	10.8	9.3	10.1	9.1	9.9	9.1	8.5	8.2	8.1
BCRA quasi-fiscal cost	3.2	3.3	3.3	3.3	3.5	2.9	3.0	2.3	2.0	1.7	1.3
Memorandum items											
GIR (adjusted, US$ billions) 3/	39.4	39.7	39.7	45.9	45.8	50.1	50.1	55.5	60.7	66.0	69.2
GIR change (adjusted, US$ billions) 3/	-7.7	0.3	-0.1	6.2	6.2	4.2	4.2	5.4	5.2	5.2	3.2
NIR (TMU definition) (US$ billions)	3.8	2.3	2.3	8.1	8.1	12.1	12.1	17.3	22.3	27.3	30.3
Primary expenditures, excl. COVID (y/y real change) 4/	-1.1	11.8	11.8	3.6	3.9	3.0	2.0	0.9	-0.4	-0.4	0.5
Consolidated public sector balance (percent of GDP) 5/	-11.7	-7.8	-7.6	-7.1	-7.3	-6.1	-6.5	-5.3	-4.5	-4.0	-3.3
Poverty rate (percent)	42.0	40.6	37.3	...	...	...	...	...	...	...	...
Unemployment rate (percent)	11.6	9.3	8.8	9.2	7.0	8.1	7.0	7.0	7.0	7.0	7.0
GDP per capita (in US$, nominal)	8,451	10,540	10,588	...	...	...	...	...	...	...	...

Sources: National authorities and Fund staff estimates and projections.

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

2/ Primary balance excludes BCRA profit transfers.

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

4/ Federal government.

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

Table 2. Argentina: External Balance of Payments, 2020–27

		SR (March)	Act.	SR (March)	Proj.	SR (March)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
					(in billions of U.S. dollars)						
Current account	**3.3**	**6.3**	**6.8**	**3.1**	**2.8**	**2.0**	**2.4**	**1.1**	**2.6**	**3.8**	**5.0**
Trade balance in goods	14.6	18.3	18.7	16.5	15.5	14.7	14.7	13.8	14.4	14.2	13.9
Exports f.o.b.	54.9	78.0	78.0	84.5	89.5	85.4	88.9	90.1	94.1	97.5	101.2
Imports f.o.b.	40.3	59.7	59.3	68.0	74.0	70.7	74.2	76.3	79.6	83.3	87.3
Trade balance in services	-2.2	-2.9	-3.5	-3.0	-3.0	-1.4	-1.3	-0.4	1.8	4.4	7.3
Primary income, net 1/	-10.2	-10.5	-9.9	-12.1	-11.5	-12.9	-12.9	-14.2	-15.6	-17.0	-18.5
of which: public interest payments, net	-5.6	-2.9	-2.9	-4.2	-4.3	-5.0	-5.2	-5.7	-5.9	-6.0	-6.2
Secondary income, net	1.1	1.4	1.5	1.6	1.8	1.7	1.9	1.9	2.0	2.2	2.3
Capital Account	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account	**-14.7**	**-8.3**	**-8.7**	**-23.3**	**-22.7**	**-21.8**	**-21.5**	**-4.9**	**-2.2**	**-3.7**	**-6.5**
Foreign direct investment, net	2.7	5.4	5.2	7.5	7.2	9.1	8.7	11.1	11.6	12.1	12.7
Portfolio investment, net	-2.8	-6.5	-4.9	-2.6	-1.7	-1.7	-0.7	-1.2	-2.2	-0.1	1.4
of which: public, gross	7.8	-0.9	-0.9	0.2	-0.1	-0.4	0.0	-1.1	-2.1	0.2	2.3
Derivatives, net	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/ 3/	-14.7	-7.2	-8.9	-28.2	-28.2	-29.2	-29.6	-14.8	-11.6	-15.7	-20.7
IMF repurchases	0.0	-3.8	-3.8	-17.7	-17.5	-19.0	-18.8	-4.9	0.0	-1.2	-5.1
Other official repayments	-2.2	-2.4	-2.4	-2.3	-2.3	-2.5	-2.5	-2.6	-2.5	-2.4	-2.0
Other items net	-12.5	-1.0	-2.7	-8.1	-8.4	-7.8	-8.3	-7.3	-9.1	-12.1	-13.6
Errors and Omissions	**0.2**	**-1.5**	**-2.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-11.0**	**-3.2**	**-3.6**	**-20.0**	**-19.7**	**-19.5**	**-18.9**	**-3.6**	**0.6**	**0.4**	**-1.3**
Financing	**11.1**	**3.2**	**3.6**	**20.0**	**19.7**	**19.5**	**18.9**	**3.6**	**-0.6**	**-0.4**	**1.3**
IMF Financing 5/	0.0	0.0	0.0	24.7	24.4	17.1	16.9	3.4	0.0	0.0	0.0
Other official financing 4/	3.3	3.5	3.5	4.7	4.6	4.7	4.4	4.2	4.6	4.9	4.6
Gross official reserves (increase: -)	7.7	-0.3	0.1	-9.4	-9.3	-2.3	-2.4	-4.0	-5.2	-5.2	-3.2
GIR adjusted change (increase: -)		-0.3	0.1	-6.2	-6.2	-4.2	-4.2	-5.4	-5.2	-5.2	-3.2
					(Percent of GDP unless otherwise indicated)						
Current account	**0.9**	**1.3**	**1.4**	**0.5**	**0.5**	**0.4**	**0.4**	**0.2**	**0.4**	**0.6**	**0.7**
Trade balance in goods	3.8	3.8	3.9	2.9	2.6	2.6	2.5	2.3	2.3	2.2	2.0
Exports, f.o.b.	14.3	16.1	16.1	15.0	15.2	14.9	14.8	14.9	15.2	15.0	14.9
Imports f.o.b.	10.5	12.4	12.2	12.1	12.5	12.3	12.4	12.6	12.9	12.8	12.8
Trade balance in services	-0.6	-0.6	-0.7	-0.5	-0.5	-0.2	-0.2	-0.1	0.3	0.7	1.1
Primary income, net	-2.7	-2.2	-2.0	-2.1	-2.0	-2.3	-2.2	-2.4	-2.5	-2.6	-2.7
Secondary income, net	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital Account	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-3.8**	**-1.7**	**-1.8**	**-4.1**	**-3.8**	**-3.8**	**-3.6**	**-0.8**	**-0.4**	**-0.6**	**-1.0**
Foreign direct investment, net	0.7	1.1	1.1	1.3	1.2	1.6	1.5	1.8	1.9	1.9	1.9
Portfolio investment, net	-0.7	-1.4	-1.0	-0.5	-0.3	-0.3	-0.1	-0.2	-0.4	0.0	0.2
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/	-3.8	-1.5	-1.8	-5.0	-4.8	-5.1	-4.9	-2.4	-1.9	-2.4	-3.0
Errors and Omissions	**0.0**	**-0.3**	**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-2.8**	**-0.7**	**-0.7**	**-3.5**	**-3.3**	**-3.4**	**-3.1**	**-0.6**	**0.1**	**0.1**	**-0.2**
Financing	**2.8**	**0.7**	**0.7**	**3.5**	**3.3**	**3.4**	**3.1**	**0.6**	**-0.1**	**-0.1**	**0.2**
IMF Financing	0.0	0.0	0.0	4.4	4.1	3.0	2.8	0.6	0.0	0.0	0.0
Other official financing 4/	0.9	0.7	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.8	0.7
Gross official reserves (increase: -)	2.0	-0.1	0.0	-1.7	-1.6	-0.4	-0.4	-0.7	-0.8	-0.8	-0.5
Memorandum items:											
Exports volumes (percent change)	-13.1	12.8	12.9	1.2	1.0	5.0	4.4	4.6	4.0	3.5	3.4
Imports volumes (percent change)	-10.7	29.9	29.9	6.7	9.5	3.6	1.2	2.8	3.3	3.5	3.6
Trading partners imports growth (percent change)	-6.5	13.5	14.9	1.3	2.8	3.9	3.3	3.6	3.5	3.5	3.3
GIR (adjusted, US$ billions) 6/	39.4	39.7	39.7	45.9	45.8	50.1	50.1	55.5	60.7	66.0	69.2
in months of imports of goods and services	9.1	6.6	6.6	6.7	6.2	7.1	6.8	7.3	7.7	8.0	8.0
in percent of ARA	64.1	63.7	62.8	75.6	73.8	84.7	82.6	92.9	103.4	114.1	121.9
GIR change (adjusted, US$ billions) 6/	-7.7	0.3	-0.1	6.2	6.2	4.2	4.2	5.4	5.2	5.2	3.2
NIR change (program definition, US$ billions) 7/	-8.6	-1.5	-1.5	5.8	5.8	4.0	4.0	5.2	5.0	5.0	3.0
excluding IMF contribution in 2022	-8.6	-1.5	-1.5	2.0	2.0	4.0	4.0	5.2	5.0	5.0	3.0
Terms of Trade (percent change)	0.6	9.4	10.1	-0.1	-0.8	-4.1	-3.8	-3.2	-0.7	-0.9	-0.7

Sources: National authorities and Fund staff estimates and projections.

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

2/ Excludes disbursements from the IMF and other IFIs.

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

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

5/ Assumes a 3-year EFF program for US$61.8bn, starting in 2022Q1.

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

7/ NIR (program definition) corresponds to GIR minus gross official liabilities with maturities of under one year (which include disbursements from the Fund committed for the repayment of near-term Fund repurchases). For the purpose of the program, NIR accumulation is assessed at program exchange rates.

Table 3a. Argentina: Federal Government Operations, 2020–27

(In Billions of Argentine Pesos)

		SR (March)	Act.	SR (March)	Proj.	SR (March)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
	(in billions of Argentine pesos)										
Revenues	**4,841**	**8,453**	**8,453**	**12,852**	**13,754**	**18,660**	**21,151**	**32,772**	**49,320**	**70,452**	**95,572**
Tax revenues	2,868	5,129	5,129	8,192	8,752	11,822	13,311	20,671	31,339	45,220	61,349
Social security contributions	1,533	2,382	2,382	3,829	4,051	5,737	6,588	10,229	15,150	21,343	28,887
Nontax revenues 1/	440	942	942	832	951	1,101	1,251	1,872	2,831	3,888	5,336
Primary expenditures	**6,591**	**9,860**	**9,860**	**14,611**	**15,639**	**20,537**	**23,352**	**34,421**	**49,376**	**67,433**	**89,540**
Wages	881	1,341	1,341	2,011	2,205	2,904	3,409	5,118	7,532	10,383	13,845
Goods and services	231	480	480	499	496	601	670	978	1,345	1,753	2,109
Pensions	2,614	3,710	3,710	6,012	6,208	8,912	9,678	14,852	22,213	31,922	44,361
Current transfers to private sector	2,181	3,104	3,104	3,785	4,660	4,906	6,248	8,282	10,887	13,406	16,363
Social assistance	1,484	1,723	1,723	2,231	2,648	3,004	3,617	5,002	6,936	9,090	11,620
Subsidies	697	1,382	1,382	1,555	2,012	1,902	2,631	3,281	3,951	4,316	4,743
Other current	81	214	214	307	232	501	348	522	715	1,000	1,252
Discretionary current transfers to provinces	324	360	360	446	439	501	580	870	1,149	1,286	1,252
Capital spending 2/	280	651	651	1,550	1,399	2,213	2,420	3,798	5,534	7,683	10,357
Primary balance	**-1,750**	**-1,408**	**-1,408**	**-1,759**	**-1,885**	**-1,877**	**-2,201**	**-1,649**	**-57**	**3,019**	**6,032**
Interest payments	**543**	**684**	**684**	**1,037**	**1,142**	**1,498**	**2,058**	**4,132**	**7,551**	**12,795**	**18,494**
Overall Balance	**-2,293**	**-2,092**	**-2,092**	**-2,796**	**-3,026**	**-3,375**	**-4,259**	**-5,781**	**-7,607**	**-9,777**	**-12,461**
Financing	**2,293**	**2,092**	**2,092**	**2,796**	**3,026**	**3,375**	**4,259**	**5,781**	**7,607**	**9,777**	**12,461**
Treasury deposits (+, drawdown) 3/	**-62**	**-157**	**-157**	**-499**	**-343**	**318**	**322**	**446**	**0**	**0**	**0**
External	**67**	**113**	**113**	**1,185**	**1,137**	**-69**	**-151**	**-77**	**478**	**1,282**	**-3**
IMF (net)	0	53	53	874	894	-325	-355	-409	0	-660	-3,578
Other official (net) 4/	83	102	102	297	290	396	372	468	865	1,366	1,798
Private (net)	-16	-42	-42	14	-48	-140	-168	-136	-387	576	1,776
Issuances	0	191	191	245	224	14	16	176	1,091	2,624	4,679
Amortization	16	233	233	231	271	154	184	312	1,478	2,048	2,903
Domestic	**2,288**	**2,136**	**2,136**	**2,109**	**2,233**	**3,126**	**4,088**	**5,412**	**7,129**	**8,494**	**12,464**
Private (net) 5/	355	1,060	1,060	1,278	1,559	1,986	2,577	3,652	4,170	4,449	7,169
Issuance	2,017	3,787	3,787	8,185	9,053	6,512	10,310	12,532	18,152	21,719	20,542
Amortization	1,662	2,727	2,727	6,907	7,494	4,526	7,733	8,880	13,982	17,270	13,373
Public entities (net) 6/	2,398	2,088	2,088	831	934	1,140	1,511	1,759	2,959	4,045	5,295
of which: BCRA transfers	2,038	1,701	1,701	705	763	573	685	0	0	0	0
Other 7/	-465	-1,011	-1,012	0	-260	0	0	0	0	0	0
Memorandum items:											
One-off support (COVID-19 & Solidarity Levy)	1,024	518	518	277	277	0	0	0	0	0	0
Primary expenditures (y/y real change) 8/	-1.1	11.8	11.8	3.6	3.9	3.0	2.0	0.9	-0.4	-0.4	0.5
Nominal GDP (ARS billions)	27,481	46,463	46,687	70,523	76,521	100,132	115,933	174,033	255,380	357,166	481,542

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting with the inclusion of sales of nonfinancial assets and exclusion of BCRA profit transfers.
2/ Includes federal capital transfers to provinces.
3/ Deposit accumulation in 2022 reflects Federal Government deposits at the BCRA related to IMF purchases.
4/ Assumes repayment to the Paris Club of the outstanding obligations reprofiled in 2014 in four equal annual payments from 2023 to 2026.
5/ Includes Banco Nacion and other public entities.
6/ Includes BCRA and FGS.
7/ Corresponds to cash management operations of the non-financial public sector entities (-, deposits).
8/ Excludes COVID and Solidarity Levy-related spending.

Table 3b. Argentina: Federal Government Operations, 2020–27
(In Percent of GDP)

		SR (March)	Act.	SR (March)	Proj.	SR (March)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
	(Percent of GDP)										
Revenues	**17.6**	**18.2**	**18.1**	**18.2**	**18.0**	**18.6**	**18.2**	**18.8**	**19.3**	**19.7**	**19.8**
Tax revenues	10.4	11.0	11.0	11.6	11.4	11.8	11.5	11.9	12.3	12.7	12.7
Social security contributions	5.6	5.1	5.1	5.4	5.3	5.7	5.7	5.9	5.9	6.0	6.0
Nontax revenues 1/	1.6	2.0	2.0	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Primary expenditures	**24.0**	**21.2**	**21.1**	**20.7**	**20.4**	**20.5**	**20.1**	**19.8**	**19.3**	**18.9**	**18.6**
Wages	3.2	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Goods and services	0.8	1.0	1.0	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.4
Pensions	9.5	8.0	7.9	8.5	8.1	8.9	8.3	8.5	8.7	8.9	9.2
Current transfers to private sector	7.9	6.7	6.6	5.4	6.1	4.9	5.4	4.8	4.3	3.8	3.4
Social assistance	5.4	3.7	3.7	3.2	3.5	3.0	3.1	2.9	2.7	2.5	2.4
Subsidies	2.5	3.0	3.0	2.2	2.6	1.9	2.3	1.9	1.5	1.2	1.0
Discretionary current transfers to provinces	1.2	0.8	0.8	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.3
Other current	0.3	0.5	0.5	0.4	0.3	0.5	0.3	0.3	0.3	0.3	0.3
Capital spending 2/	1.0	1.4	1.4	2.2	1.8	2.2	2.1	2.2	2.2	2.2	2.2
Primary balance	**-6.4**	**-3.0**	**-3.0**	**-2.5**	**-2.5**	**-1.9**	**-1.9**	**-0.9**	**0.0**	**0.8**	**1.3**
Interest cash	**2.0**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.8**	**2.4**	**3.0**	**3.6**	**3.8**
Overall Balance	**-8.3**	**-4.5**	**-4.5**	**-4.0**	**-4.0**	**-3.4**	**-3.7**	**-3.3**	**-3.0**	**-2.7**	**-2.6**
Financing	**8.3**	**4.5**	**4.5**	**4.0**	**4.0**	**3.4**	**3.7**	**3.3**	**3.0**	**2.7**	**2.6**
Treasury deposits (+, drawdown) 3/	**-0.3**	**-0.4**	**-0.4**	**-0.7**	**-0.5**	**0.3**	**0.3**	**0.3**	**0.0**	**0.0**	**0.0**
External	**0.2**	**0.2**	**0.2**	**1.7**	**1.5**	**-0.1**	**-0.1**	**0.0**	**0.2**	**0.4**	**0.0**
IMF (net)	0.0	0.1	0.1	1.2	1.2	-0.3	-0.3	-0.2	0.0	-0.2	-0.7
Other official (net) 4/	0.3	0.2	0.2	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.4
Private (net)	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	0.2	0.4
Issuances	0.0	0.4	0.4	0.3	0.3	0.0	0.0	0.1	0.4	0.7	1.0
Amortization	0.1	0.5	0.5	0.3	0.4	0.2	0.2	0.2	0.6	0.6	0.6
Domestic	**8.3**	**4.6**	**4.6**	**3.0**	**2.9**	**3.1**	**3.5**	**3.1**	**2.8**	**2.4**	**2.6**
Private (net) 5/	1.3	2.3	2.3	1.8	2.0	2.0	2.2	2.1	1.6	1.2	1.5
Issuance	7.3	8.2	8.1	11.6	11.8	6.5	8.9	7.2	7.1	6.1	4.3
Amortization	6.0	5.9	5.8	9.8	9.8	4.5	6.7	5.1	5.5	4.8	2.8
Public entities (net) 6/	8.7	4.5	4.5	1.2	1.2	1.1	1.3	1.0	1.2	1.1	1.1
of which: BCRA transfers	7.4	3.7	3.6	1.0	1.0	0.6	0.6	0.0	0.0	0.0	0.0
Other 7/	-1.7	-2.2	-2.2	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
One-off spending (COVID-19 & Solidarity Levy)	3.7	1.1	1.1	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance without COVID support	-2.6	-1.9	-1.9	-2.1	-2.1	-1.9	-1.9	-0.9	0.0	0.8	1.3
Primary expenditures (y/y real change) 8/	-1.1	11.8	11.8	3.6	3.9	3.0	2.0	0.9	-0.4	-0.4	0.5
Structural primary balance 8/ 9/	-0.9	-2.0	-1.9	-2.0	-2.2	-1.8	-1.9	-1.0	0.0	0.8	1.3
Federal government debt 6/	102.8	80.6	80.2	74.4	73.2	74.3	73.2	71.9	67.6	63.8	60.2

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting, with the inclusion of sale of nonfinancial assets and exclusion of BCRA profit transfers.
2/ Includes federal capital transfers to provinces.
3/ Deposit accumulation in 2022 reflects Federal Government deposits at the BCRA related to IMF purchases.
4/ Assumes repayment to the Paris Club of the outstanding obligations reprofiled in 2014 in four equal annual payments from 2023 to 2026.
5/ Includes Banco Nacion and other public entities.
6/ Includes BCRA and FGS.
7/ Corresponds to cash management operations of the non-financial public sector entities (-, deposits).
8/ Excludes COVID and Solidarity Levy-related spending.
9/ Adjusts for the economic and commodity price cycles; in percent of potential GDP.

Table 4. Argentina: General Government Operations, 2020–27 [1]

		SR (March)	Est.	SR (March)	Proj.	SR (March)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
	(Percent of GDP unless otherwise indicated)										
Revenues	**33.5**	**33.5**	**33.2**	**34.1**	**33.6**	**34.8**	**34.1**	**34.9**	**35.6**	**36.2**	**36.5**
Tax revenues	23.6	23.6	23.5	24.7	24.5	25.2	24.8	25.4	26.0	26.6	26.8
Federal	10.4	11.0	11.0	11.6	11.4	11.8	11.5	11.9	12.3	12.7	12.7
Provincial co-participated	8.2	7.6	7.6	8.2	8.1	8.4	8.3	8.5	8.8	9.1	9.1
Provincial own	5.0	5.0	5.0	4.9	5.0	5.0	5.0	5.0	4.9	4.8	5.0
Social security contributions	7.3	6.9	6.6	7.2	6.8	7.5	7.2	7.4	7.4	7.5	7.5
Federal	5.6	5.1	5.1	5.4	5.3	5.7	5.7	5.9	5.9	6.0	6.0
Provincial	1.7	1.7	1.5	1.7	1.5	1.7	1.5	1.5	1.5	1.5	1.5
Other revenues	2.6	3.0	3.1	2.2	2.3	2.1	2.2	2.2	2.2	2.2	2.2
Federal	1.6	2.0	2.0	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Provincial	1.0	1.0	1.1	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Primary expenditures 2/	**39.6**	**36.3**	**35.7**	**36.2**	**35.6**	**36.3**	**35.7**	**35.4**	**35.1**	**34.8**	**34.5**
Wages	11.1	10.0	9.8	9.9	9.9	10.1	10.1	10.2	10.2	10.1	10.1
Federal	3.2	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Provincial	7.9	7.1	6.9	7.0	7.0	7.2	7.2	7.2	7.2	7.2	7.2
Goods and services	2.4	2.5	2.6	2.3	2.2	2.2	2.1	2.0	2.0	2.0	1.9
Federal	0.8	1.0	1.0	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.4
Provincial	1.6	1.5	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5
Pensions	11.8	10.0	9.9	10.7	10.1	11.2	10.4	10.7	10.9	11.2	11.5
Federal	9.5	8.0	7.9	8.5	8.1	8.9	8.3	8.5	8.7	8.9	9.2
Provincial	2.3	2.0	2.0	2.2	2.0	2.3	2.1	2.1	2.2	2.2	2.3
Transfers to the private sector	9.3	8.1	8.0	6.8	7.5	6.2	6.7	6.2	5.7	5.2	4.7
Federal	7.9	6.7	6.6	5.4	6.1	4.9	5.4	4.8	4.3	3.8	3.4
Provincial	1.4	1.4	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.4
Capital spending	2.3	3.1	2.6	3.9	3.5	3.9	3.8	3.9	3.9	3.9	3.8
Federal 3/	0.8	1.0	1.0	1.7	1.5	1.7	1.6	1.7	1.7	1.7	1.7
Provincial	1.5	2.1	1.7	2.2	2.0	2.2	2.2	2.2	2.2	2.2	2.2
Other	2.7	2.6	2.8	2.6	2.5	2.7	2.5	2.5	2.5	2.5	2.4
Federal	0.3	0.5	0.5	0.4	0.3	0.5	0.3	0.3	0.3	0.3	0.3
Provincial	2.4	2.1	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Primary Balance	**-6.2**	**-2.8**	**-2.5**	**-2.1**	**-2.1**	**-1.5**	**-1.5**	**-0.5**	**0.5**	**1.4**	**2.0**
Federal government	-6.4	-3.0	-3.0	-2.5	-2.5	-1.9	-1.9	-0.9	0.0	0.8	1.3
Provincial government	0.2	0.3	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7
Interest (cash)	**2.4**	**1.8**	**1.8**	**1.7**	**1.7**	**1.7**	**2.0**	**2.5**	**3.1**	**3.7**	**4.0**
Overall balance	**-8.6**	**-4.6**	**-4.3**	**-3.8**	**-3.8**	**-3.2**	**-3.5**	**-3.0**	**-2.6**	**-2.3**	**-2.0**
Memorandum items											
General Gov't structural primary balance 4/	-3.4	-1.9	-1.6	-1.8	-1.9	-1.4	-1.4	-0.5	0.5	1.5	2.0
Federal structural primary balance	-4.3	-2.5	-2.4	-2.4	-2.5	-1.8	-1.9	-1.0	0.0	0.8	1.3
Provincial structural primary balance	0.9	0.6	0.8	0.6	0.6	0.4	0.5	0.5	0.5	0.6	0.7
Consolidated public sector balance 5/	-11.7	-7.8	-7.6	-7.1	-7.3	-6.1	-6.5	-5.3	-4.5	-4.0	-3.3
Federal government debt	102.8	80.6	80.2	74.4	73.2	74.3	73.2	71.9	67.6	63.8	60.2
of which: net of debt held by public entities 6/	67.0	49.6	49.4	47.8	46.2	49.4	48.1	48.6	46.3	43.7	41.1
Provincial government debt	8.1	5.7	5.5	4.6	4.2	3.9	3.6	2.8	2.0	1.8	1.4
BCRA securities	10.7	10.9	10.8	9.3	10.1	9.1	9.9	9.1	8.5	8.2	8.1

Sources: National authorities and Fund staff estimates and projections.

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

Table 5a. Argentina: Summary Operations of Central Bank, 2020–27
(end of period, unless otherwise indicated)

	2020	SR (March) 2021	Act. 2021	SR (March) 2022	Proj. 2022	SR (March) 2023	Proj. 2023	2024	2025	2026	2027
	(In billions of Argentine pesos)										
Net foreign assets	**1,390**	**1,670**	**1,670**	**3,693**	**3,889**	**5,645**	**6,467**	**10,897**	**17,311**	**25,929**	**35,275**
Gross foreign assets	3,314	4,075	4,075	7,055	7,455	10,357	11,886	18,878	28,205	40,231	53,352
Gross foreign liabilities	1,925	2,405	2,405	3,363	3,565	4,712	5,419	7,981	10,894	14,302	18,077
Net domestic assets	**1,081**	**1,984**	**1,984**	**1,597**	**1,085**	**1,865**	**1,068**	**417**	**-717**	**-2,725**	**-3,992**
Credit to the public sector (net)	6,337	9,272	9,272	11,607	12,198	16,060	18,141	25,495	33,457	42,766	53,065
of which: Temporary advances to federal government	1,260	2,173	2,173	2,878	2,936	3,451	3,634	3,634	3,634	3,634	3,634
of which: Non-marketable government bonds 1/	4,491	5,909	5,909	8,331	8,834	11,674	13,426	19,775	26,991	35,435	44,788
of which: Other credit and gvt. deposits (net)	586	1,190	1,190	398	429	936	1,081	2,086	2,832	3,696	4,643
Credit to the financial sector, excl. securities	-917	-1,243	-1,243	-1,664	-1,764	-2,382	-2,740	-4,189	-4,771	-5,338	-3,286
BCRA securities	-2,942	-5,045	-5,045	-6,552	-7,729	-9,100	-11,435	-15,843	-21,743	-29,441	-38,850
Official capital and other items	-1,466	-1,001	-1,001	-1,795	-1,621	-2,714	-2,898	-5,047	-7,659	-10,711	-14,921
Monetary base	**2,470**	**3,654**	**3,654**	**5,290**	**4,974**	**7,510**	**7,535**	**11,313**	**16,594**	**23,204**	**31,283**
Currency issued	1,898	2,691	2,691	3,925	3,520	5,507	5,278	7,754	11,092	15,388	20,913
Bank deposits at the BCRA (peso-denominated)	572	963	963	1,364	1,454	2,003	2,257	3,559	5,503	7,816	10,369
	(Percent of GDP)										
Net foreign assets	**5.1**	**3.6**	**3.6**	**5.2**	**5.1**	**5.6**	**5.6**	**6.3**	**6.8**	**7.3**	**7.3**
Gross foreign assets	12.1	8.8	8.7	10.0	9.7	10.3	10.3	10.8	11.0	11.3	11.1
Gross foreign liabilities	7.0	5.2	5.2	4.8	4.7	4.7	4.7	4.6	4.3	4.0	3.8
Net domestic assets	**3.9**	**4.3**	**4.2**	**2.3**	**1.4**	**1.9**	**0.9**	**0.2**	**-0.3**	**-0.8**	**-0.8**
Credit to the public sector	23.1	20.0	19.9	16.5	15.9	16.0	15.6	14.6	13.1	12.0	11.0
of which: Temporary advances to federal government	4.6	4.7	4.7	4.1	3.8	3.4	3.1	2.1	1.4	1.0	0.8
of which: Non-marketable government bonds 1/	16.3	12.7	12.7	11.8	11.5	11.7	11.6	11.4	10.6	9.9	9.3
of which: Other credit and gvt. deposits (net)	2.1	2.6	2.5	0.6	0.6	0.9	0.9	1.2	1.1	1.0	1.0
Credit to the financial sector, excl. securities	-3.3	-2.7	-2.7	-2.4	-2.3	-2.4	-2.4	-2.4	-1.9	-1.5	-0.7
BCRA securities	-10.7	-10.9	-10.8	-9.3	-10.1	-9.1	-9.9	-9.1	-8.5	-8.2	-8.1
Official capital and other items	-5.3	-2.2	-2.1	-2.5	-2.1	-2.7	-2.5	-2.9	-3.0	-3.0	-3.1
Monetary base	**9.0**	**7.9**	**7.8**	**7.5**	**6.5**	**7.5**	**6.5**	**6.5**	**6.5**	**6.5**	**6.5**
Currency issued	6.9	5.8	5.8	5.6	4.6	5.5	4.6	4.5	4.3	4.3	4.3
Bank deposits at the BCRA (peso-denominated)	2.1	2.1	2.1	1.9	1.9	2.0	1.9	2.0	2.2	2.2	2.2
Memorandum items:											
NFA (billions of USD)	16.5	16.3	16.3	25.7	25.5	28.0	27.9	32.0	37.2	42.4	45.7
Quasi-fiscal deficit (percent of GDP)	3.2	3.3	3.3	3.3	3.5	2.9	3.0	2.3	2.0	1.7	1.3

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

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

Table 5b. Argentina: Summary Operations of the Banking Sector, 2020–27
(end of period, unless otherwise indicated)

		SR (March)	Act.	SR (March)	Proj.	SR (March)			Proj.		
	2020	2021	2021	2022	2022	2023	2023	2024	2025	2026	2027
					(In billions of Argentine pesos)						
Net foreign assets	**240**	**283**	**283**	**425**	**346**	**612**	**522**	**804**	**1,287**	**1,923**	**2,752**
Net domestic assets	**6,273**	**9,579**	**9,579**	**13,530**	**14,738**	**19,450**	**22,564**	**33,914**	**48,261**	**65,368**	**83,356**
Credit to the public sector	152	462	462	512	527	605	640	837	1,030	1,266	1,687
Gross credit to public sector	1,594	2,821	2,821	3,831	4,121	5,692	6,376	10,321	14,187	18,909	27,324
Deposits from the public sector	-1,442	-2,359	-2,359	-3,318	-3,594	-5,086	-5,736	-9,484	-13,157	-17,642	-25,637
Claims on the central bank	4,686	7,520	7,520	9,981	11,306	14,047	16,972	24,384	33,151	44,170	54,646
Holdings of central bank securities	2,942	5,045	5,045	6,552	7,729	9,100	11,435	15,843	21,743	29,441	38,850
Reserves at central bank	1,488	2,202	2,202	3,029	3,220	4,386	4,999	7,750	10,275	13,156	13,657
Other	256	273	273	399	358	561	538	791	1,133	1,573	2,138
Claims on the private sector	3,762	5,356	5,356	7,974	8,644	11,806	13,615	21,661	33,229	46,712	63,122
US$ denominated	478	479	479	711	753	1,057	1,216	1,901	2,755	3,840	5,153
AR$ denominated	3,284	4,878	4,878	7,263	7,891	10,749	12,400	19,760	30,475	42,872	57,970
Net capital, reserves, and other assets	-2,327	-3,759	-3,759	-4,937	-5,739	-7,009	-8,663	-12,967	-19,150	-26,780	-36,099
Liabilities with the private sector	**6,513**	**9,862**	**9,862**	**13,955**	**15,084**	**20,062**	**23,086**	**34,719**	**49,549**	**67,291**	**86,109**
Local currency deposits	5,170	8,241	8,241	11,636	12,626	16,722	19,245	28,813	43,041	60,267	82,906
Foreign currency deposits	1,343	1,621	1,621	2,319	2,459	3,340	3,841	5,906	6,508	7,025	3,202
in US$ billions	16.0	15.5	15.5	16.1	16.1	16.6	16.6	17.3	14.0	11.5	4.1
					(Percent GDP)						
Net foreign assets	**0.9**	**0.6**	**0.6**	**0.6**	**0.5**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.6**
Net domestic assets	**22.8**	**20.6**	**20.5**	**19.2**	**19.3**	**19.4**	**19.5**	**19.5**	**18.9**	**18.3**	**17.3**
Credit to the public sector (net)	0.6	1.0	1.0	0.7	0.7	0.6	0.6	0.5	0.4	0.4	0.4
Gross credit to public sector	5.8	6.1	6.0	5.4	5.4	5.7	5.5	5.9	5.6	5.3	5.7
Deposits of the public sector	-5.2	-5.1	-5.1	-4.7	-4.7	-5.1	-4.9	-5.4	-5.2	-4.9	-5.3
Claims on the central bank	17.1	16.2	16.1	14.2	14.8	14.0	14.6	14.0	13.0	12.4	11.3
Holdings of central bank securities	10.7	10.9	10.8	9.3	10.1	9.1	9.9	9.1	8.5	8.2	8.1
Reserves at central bank	5.4	4.7	4.7	4.3	4.2	4.4	4.3	4.5	4.0	3.7	2.8
Credit to the private sector	13.7	11.5	11.5	11.3	11.3	11.8	11.7	12.4	13.0	13.1	13.1
of which: Dollar denominated	1.7	1.0	1.0	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.1
of which: Peso denominated	12.0	10.5	10.4	10.3	10.3	10.7	10.7	11.4	11.9	12.0	12.0
Net capital, reserves, and other assets	-8.5	-8.1	-8.1	-7.0	-7.5	-7.0	-7.5	-7.5	-7.5	-7.5	-7.5
Liabilities with the private sector	**23.7**	**21.2**	**21.1**	**19.8**	**19.7**	**20.0**	**19.9**	**19.9**	**19.4**	**18.8**	**17.9**
Local currency deposits	18.8	17.7	17.7	16.5	16.5	16.7	16.6	16.6	16.9	16.9	17.2
Foreign currency deposits	4.9	3.5	3.5	3.3	3.2	3.3	3.3	3.4	2.5	2.0	0.7
Memorandum items:											
M3 (AR$ billions)	7,668	11,529	11,529	17,630	16,578	24,933	25,135	37,707	55,753	78,893	106,361
M3 (percent of GDP)	27.9	24.8	24.7	25.0	21.7	24.9	21.7	21.7	21.8	22.1	22.1
M3 (as a ratio of monetary base)	3.1	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.4	3.4	3.4
Credit to the private sector, real (eop, y/y percent change)	-2.2	-5.7	-5.7	4.1	2.8	7.3	5.0	10.5	9.6	4.1	3.9

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

Table 6. Argentina: Summary of Public and External Debt, 2020–27 [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**	**368.0**	**366.7**	**366.9**	**371.2**	**372.9**	**375.1**
(in percent of GDP)	*102.8*	*80.2*	*73.2*	*73.2*	*71.9*	*67.6*	*63.8*	*60.2*
By creditor:								
Official sector	76.6	72.8	80.9	81.0	81.2	83.3	85.0	82.9
IMF	46.0	41.0	47.2	45.4	43.9	43.9	43.1	38.8
Other IFIs	25.1	27.1	29.0	31.0	32.8	34.9	37.3	39.5
Other official	5.5	4.8	4.7	4.6	4.5	4.5	4.6	4.6
Private sector	142.3	151.5	150.9	159.8	166.9	170.7	170.7	173.2
of which: Holdouts 2/	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Other public entities	116.9	140.3	136.1	125.8	118.8	117.1	117.3	119.0
of which: BCRA	81.9	97.0	98.1	93.8	88.7	86.4	85.4	85.2
By currency:								
Domestic currency	79.3	109.3	104.6	102.4	101.7	103.6	101.3	100.8
Foreign currency	256.4	255.3	263.4	264.3	265.2	267.5	271.7	274.3
of which: held by private sector	94.3	96.5	94.7	93.8	92.5	89.5	88.6	88.2
By residency:								
Non residents	152.6	146.8	154.0	153.1	151.8	148.7	145.1	136.3
of which: private non residents	76.1	74.0	73.0	72.1	70.6	65.3	60.1	53.4
Residents	183.1	217.8	214.0	213.6	215.0	222.5	227.8	238.8
Memorandum items								
Federal Gov't, excl. debt held by public entities	**218.8**	**224.3**	**231.9**	**240.8**	**248.1**	**254.0**	**255.7**	**256.1**
(in percent of GDP)	*67.0*	*49.4*	*46.2*	*48.1*	*48.6*	*46.3*	*43.7*	*41.1*
BCRA Debt (Leliqs and Pases)	**35.0**	**49.1**	**50.7**	**49.4**	**46.5**	**46.7**	**48.2**	**50.3**
(in percent of GDP)	*10.7*	*10.8*	*10.1*	*9.9*	*9.1*	*8.5*	*8.2*	*8.1*
Combined Federal Gov't and BCRA	**253.8**	**273.4**	**282.6**	**290.2**	**294.6**	**300.8**	**303.9**	**306.4**
(in percent of GDP)	*77.7*	*60.2*	*56.3*	*58.0*	*57.7*	*54.8*	*52.0*	*49.1*
Overall External Debt								
Gross external debt (includes holdouts)	**271.4**	**266.7**	**276.3**	**279.9**	**284.0**	**289.2**	**296.1**	**299.5**
(in percent of GDP)	*83.1*	*58.7*	*55.0*	*55.9*	*55.7*	*52.7*	*50.7*	*48.0*
By debtor								
Public sector	193.8	190.5	199.6	199.8	198.9	198.9	200.4	200.2
Federal government	152.6	146.8	154.0	153.1	151.8	148.7	145.1	136.3
Other public sector 3/	41.1	43.7	45.6	46.6	47.0	50.2	55.3	63.9
Private sector	77.7	76.2	76.7	80.1	85.1	90.3	95.6	99.3
Financial	6.5	5.7	5.3	5.5	6.7	7.9	9.1	10.4
Non-financial	71.2	70.5	71.4	74.6	78.4	82.4	86.5	88.8
By creditor								
Debt to official creditors	76.6	72.8	82.0	82.1	82.3	84.4	85.7	83.2
Debt to banks	13.9	7.8	7.4	7.6	8.8	10.0	11.3	12.6
Debt to other private creditors	181.0	186.1	186.9	190.2	192.9	194.8	199.1	203.7
By maturity								
Long-term	222.6	216.3	223.2	225.1	227.5	230.9	235.9	238.2
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 US$ 2.4 bn of debt not included in the exchange offer (based on Decrees 1735/04 y 563/10), and US$ 0.1 bn of debt outstanding from the 2001 default that was not eligible for exchanges.

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

Table 7. Argentina: Federal Government Gross Financing Needs and Sources, 2020–27
(in millions of U.S. dollars)

		Est.	2022									
	2020	2021	Q1	Q2	Q3	Q4	Full Year	2023	2024	2025	2026	2027
Primary fiscal deficit	**24,455**	**14,634**	**1,485**	**5,254**	**2,063**	**5,725**	**14,527**	**11,231**	**5,733**	**137**	**-5,496**	**-8,546**
Interest	**6,422**	**5,848**	**1,883**	**1,271**	**2,042**	**1,844**	**7,040**	**8,680**	**12,512**	**16,465**	**21,418**	**24,316**
External	1,840	1,201	561	258	618	232	1,669	2,271	2,818	3,039	3,056	3,019
Official (non-IMF)	671	624	110	151	169	161	591	864	926	978	1,034	1,050
Private	1,169	577	451	107	449	71	1,078	1,406	1,892	2,061	2,022	1,969
Domestic	4,583	4,647	1,322	1,012	1,424	1,612	5,371	6,409	9,694	13,426	18,362	21,296
Public entities 1/	445	246	81	55	80	48	265	1,376	1,653	1,836	2,001	2,141
Private 2/	4,138	4,401	1,240	957	1,344	1,565	5,106	5,033	8,041	11,590	16,361	19,156
Amortizations	**42,190**	**61,835**	**14,884**	**30,070**	**22,977**	**24,044**	**91,975**	**75,978**	**62,584**	**64,451**	**50,243**	**36,373**
External	2,388	4,883	1,501	871	1,621	427	4,420	3,418	3,664	6,117	6,125	6,139
Official (non-IMF)	2,163	2,434	847	407	660	412	2,325	2,465	2,580	2,528	2,397	2,026
Private	225	2,449	654	464	961	16	2,095	953	1,085	3,589	3,728	4,113
Domestic	39,802	56,953	13,383	29,199	21,356	23,617	87,555	72,561	58,920	58,333	44,118	30,234
Public entities 3/	16,267	28,271	1,807	12,876	5,939	9,028	29,650	32,524	28,052	24,387	12,677	11,288
Private 2/	23,535	28,682	11,575	16,324	15,417	14,588	57,905	40,037	30,868	33,946	31,441	18,946
IMF Debt Service	**1,471**	**5,128**	**3,937**	**3,923**	**5,354**	**6,052**	**19,266**	**20,729**	**6,704**	**1,867**	**3,077**	**6,952**
of which: Amortization	0	3,780	3,522	3,522	4,881	5,560	17,485	18,751	4,854	0	1,201	5,068
Total Needs	**74,538**	**87,446**	**22,189**	**40,518**	**32,436**	**37,665**	**132,808**	**116,617**	**87,533**	**82,920**	**69,243**	**59,095**
Treasury deposits (+, drawdown) 4/	-989	-1,820	-8,278	644	1,877	3,066	-2,691	1,502	1,550	0	0	0
IMF 5/	0	4,335	0	0	0	0	0	0	0	0	0	0
Official (not IMF)	3,335	3,506	305	1,415	1,532	1,315	4,567	4,392	4,208	4,629	4,884	4,574
Public entities 6/	50,220	50,226	3,344	15,874	7,496	10,150	36,865	40,349	34,168	31,571	20,042	18,790
Private sector issuances 2/	28,559	41,837	19,067	18,403	17,350	16,862	71,682	53,461	44,174	46,721	44,316	35,732
of which: international market issuance	0	0	0	0	0	0	0	0	0	2,000	4,000	6,000
Other 7/	-6,588	-10,638	-2,006	0	0	0	-2,006	0	0	0	0	0
Total Sources	**74,538**	**87,446**	**12,432**	**36,337**	**28,255**	**31,393**	**108,416**	**99,703**	**84,100**	**82,920**	**69,243**	**59,095**
Total Gap	**0**	**0**	**9,757**	**4,181**	**4,181**	**6,272**	**24,392**	**16,914**	**3,434**	**0**	**0**	**0**
IMF Disbursements	0	0	9,757	4,181	4,181	6,272	24,392	16,914	3,434	0	0	0
Memorandum Items												
Deposit Stock	2,117	3,937	11,547	10,039	7,802	4,508	4,508	2,416	620	468	381	322
Private Rollover Rates (percent)	120	134	145	110	116	108	119	130	138	124	126	155
Primary Fiscal Deficit (percent of GDP)	6.4	3.0	0.3	0.9	0.3	1.0	2.5	1.9	0.9	0.0	-0.8	-1.3
BCRA monetary financing (net)	28,855	17,886	1,176	2,676	1,269	775	5,896	3,547	0	0	0	0

Sources: National authorities and Fund staff estimates and projections.

1/ Includes BCRA.

2/ Includes Banco Nacion and other public entities.

3/ Includes BCRA and FGS.

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

5/ Includes SDR allocation in 2021.

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

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

Table 8. Argentina: External (Residency) Gross Financing Needs and Sources, 2021–27
(in millions of U.S. dollars)

	2021	2022					2023	2024	2025	2026	2027
		Q1	Q2	Q3	Q4	Year					
Imports G&S	72,125	21,363	23,157	22,475	21,305	88,300	88,650	90,899	94,427	99,317	104,125
FDI payments	1,363	526	322	306	395	1,549	1,855	2,036	2,019	2,142	2,271
Interest federal government	1,201	556	259	618	232	1,664	2,282	2,882	3,123	3,325	3,631
to IFIs (excl IMF)	624	104	151	169	161	584	865	927	979	1,035	1,051
to private creditors FX	122	436	3	436	3	877	1,292	1,854	2,054	2,204	2,489
to private creditors AR$	455	16	105	13	68	203	125	101	90	86	91
Interest provincial government	381	160	144	316	197	818	963	1,008	943	834	764
Amortization federal government	4,883	1,659	946	1,557	427	4,589	3,724	4,286	7,008	7,189	7,179
to IFIs (excl IMF)	2,434	793	393	660	412	2,257	2,465	2,580	2,528	2,397	2,026
to private creditors FX	10	0	3	0	0	3	13	744	3,709	3,868	4,347
to private creditors AR$	2,439	866	551	897	15	2,329	1,247	963	770	924	806
Amortization provincial government	467	160	116	86	157	520	1,112	1,558	2,225	2,193	2,165
Debt service to IMF	5,128	3,937	3,921	5,356	6,044	19,258	20,698	6,674	1,837	3,046	6,904
Other outflows (net)	13,966	2,572	4,151	4,210	4,253	15,186	14,706	13,860	16,730	21,035	24,165
of which NFA formation (incl. tourism outflows)	6,461	1,166	2,707	2,707	2,707	9,287	11,165	10,942	12,819	16,187	18,409
of which private sector net debt payments	2,888	297	297	297	297	1,187	-957	-2,401	-2,420	-2,480	-2,601
of which trade credits	-1,342	-275	-275	-275	-275	-1,099	-1,694	-1,702	-1,783	-1,867	-1,972
Total Needs	**99,513**	**30,933**	**33,018**	**34,924**	**33,009**	**131,884**	**133,991**	**123,204**	**128,311**	**139,081**	**151,204**
Exports G&S	87,346	22,156	27,411	25,984	25,209	100,760	102,070	104,310	110,679	117,952	125,293
FDI Inflows	6,534	1,662	2,181	2,234	2,649	8,726	10,597	13,104	13,606	14,273	15,008
Borrowing of federal government	5,516	823	1,933	2,049	1,833	6,638	5,847	5,503	8,252	10,832	12,382
from IFIs (excl IMF)	3,506	305	1,415	1,532	1,315	4,567	4,392	4,208	4,629	4,884	4,574
from private creditors FX	0	13	13	13	13	53	83	232	2,764	4,937	6,911
from private creditors AR$	2,010	504	504	504	504	2,018	1,372	1,064	860	1,011	897
Borrowing of provincial government	0	71	191	181	203	647	966	873	1,012	1,265	1,761
Reserve Drawdown (- = accumulation)	106	-3,536	-2,878	293	-3,156	-9,278	-2,403	-4,020	-5,239	-5,241	-3,240
Memo item: adjusted reserve drawdown (- = accumulation) 1/	106	-1,081	-2,219	-407	-2,444	-6,151	-4,240	-5,441	-5,239	-5,241	-3,240
Total Sources	**99,513**	**21,176**	**28,837**	**30,742**	**26,737**	**107,492**	**117,077**	**119,770**	**128,311**	**139,081**	**151,204**
Total Gap	**0**	**9,757**	**4,181**	**4,181**	**6,272**	**24,392**	**16,914**	**3,434**	**0**	**0**	**0**
IMF Disbursements	0	9,757	4,181	4,181	6,272	24,392	16,914	3,434	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 flows]. 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 shown 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, 2015–22[1]

	2015	2016	2017	2018	2019	2020	2021	End-Apr 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**	**373.7**
Debt held by Official and Private Creditors	**102.9**	**129.3**	**165.1**	**206.0**	**206.5**	**218.8**	**224.3**	**232.7**
Official Sector	*29.0*	*28.1*	*29.6*	*57.9*	*73.4*	*76.6*	*72.8*	*75.9*
Multilateral	19.8	20.2	21.3	51.0	68.0	71.1	68.0	71.6
IMF	-	-	-	28.3	44.1	46.0	41.0	44.8
Other IFIs	19.8	20.2	21.3	22.8	23.9	25.1	27.1	26.8
Bilateral	9.3	7.9	8.3	6.9	5.4	5.5	4.8	4.3
Paris Club	7.5	6.0	5.5	3.7	2.1	2.4	1.9	1.6
Non-Paris Club	1.7	1.8	2.8	3.2	3.3	3.1	2.9	2.7
Private Sector	*74.0*	*101.3*	*135.5*	*148.0*	*133.1*	*142.3*	*151.5*	*156.8*
Foreign Law	25.0	46.5	67.2	64.9	66.6	68.5	67.7	67.6
Bonds with new contractual clauses	-	21.9	41.3	40.4	41.2	43.5	42.8	42.6
Bonds with old contractual clauses	25.0	24.6	25.8	24.6	24.3	25.0	24.8	24.6
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	86.7
FX denominated	19.3	25.6	41.1	45.4	27.6	23.3	26.2	25.4
ARS denominated	11.7	20.7	24.4	34.8	36.5	48.0	55.0	61.2
Pending Restructuring from 2005/10 **2/**	18.0	8.5	2.9	2.8	2.4	2.5	2.6	2.6
Debt Held by the Public Sector 3/	**137.7**	**146.1**	**155.8**	**126.2**	**116.9**	**116.9**	**140.3**	**141.0**
				(Percent of GDP)				
Total Gross Federal Government Debt	**52.6**	**53.1**	**56.5**	**85.2**	**88.8**	**102.8**	**80.2**	**74.4**
Debt held by Official and Private Creditors	**22.5**	**24.9**	**29.1**	**52.8**	**56.7**	**67.0**	**49.4**	**46.3**
Official Sector	*6.3*	*5.4*	*5.2*	*14.9*	*20.2*	*23.4*	*16.0*	*15.1*
Multilateral	4.3	3.9	3.8	13.1	18.7	21.8	15.0	14.2
IMF	-	-	-	7.2	12.1	14.1	9.0	8.9
Other IFIs	4.3	3.9	3.8	5.8	6.6	7.7	6.0	5.3
Bilateral	2.0	1.5	1.5	1.8	1.5	1.7	1.0	0.9
Paris Club	1.6	1.2	1.0	1.0	0.6	0.7	0.4	0.3
Non-Paris Club	0.4	0.3	0.5	0.8	0.9	0.9	0.6	0.5
Private Sector	*16.2*	*19.5*	*23.9*	*38.0*	*36.6*	*43.6*	*33.3*	*31.2*
Foreign Law	5.5	9.0	11.8	16.7	18.3	21.0	14.9	13.5
Bonds with new contractual clauses	-	4.2	7.3	10.4	11.3	13.3	9.4	8.5
Bonds with old contractual clauses	5.5	4.7	4.6	6.3	6.7	7.6	5.5	4.9
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	17.9	17.3
FX denominated	4.2	4.9	7.2	11.7	7.6	7.1	5.8	5.1
ARS denominated	2.6	4.0	4.3	8.9	10.0	14.7	12.1	12.2
Pending Restructuring from 2005/10 **2/**	3.9	1.6	0.5	0.7	0.7	0.8	0.6	0.5
Debt Held by the Public Sector 3/	**30.1**	**28.1**	**27.4**	**32.4**	**32.1**	**35.8**	**30.9**	**28.1**
Memorandum items:								
FX-Denominated Debt held by private and official sec	91.2	108.6	140.7	171.1	170.0	170.9	169.2	171.5
(percent of GDP)	19.9	20.9	24.8	43.9	46.7	52.3	37.2	34.1
Debt held by private sector nonresidents	34.6	63.9	100.0	103.2	82.5	76.1	74.0	72.2
(percent of GDP)	7.6	12.3	17.6	26.5	22.7	23.3	16.3	14.4
Provincial Debt **4/**	20.7	28.4	35.6	29.1	26.6	26.6	25.9	…
(percent of GDP)	4.5	5.5	6.3	7.5	7.3	8.1	5.7	…

Source: National authorities.

1/ Debt is based on the authorities' data and estimated using eop exchange rate. Debt to GDP ratio presented is based on average GDP (estimated for 2021 and staff's projection for 2022).

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

3/ Public sector include BCRA and FGS.

4/ Provincial debt as of end-September 2021.

Table 10. Argentina: International Investment Position, 2017–21

	In millions of US dollars					In percent of GDP				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Net IIP	**17,332**	**65,630**	**115,268**	**121,514**	**122,117**	**2.7**	**12.6**	**25.9**	**31.7**	**25.2**
Direct Investment	-39,770	-30,362	-27,629	-43,334	-56,476	-6.3	-5.8	-6.2	-11.3	-11.6
Equity and Investment Fund Shares	-15,976	-6,626	-4,696	-12,501	-25,365	-2.5	-1.3	-1.1	-3.3	-5.2
Debt Instruments	-23,794	-23,735	-22,933	-30,833	-31,111	-3.7	-4.5	-5.1	-8.0	-6.4
Portfolio Investment	-97,130	-52,404	-2,527	9,984	17,760	-15.3	-10.0	-0.6	2.6	3.7
Equity and Investment Fund Shares	13,039	22,433	31,844	37,476	46,810	2.1	4.3	7.1	9.8	9.6
Debt Securities	-110,169	-74,838	-34,371	-27,492	-29,050	-17.3	-14.3	-7.7	-7.2	-6.0
Financial Derivatives	-3,451	-1,296	-543	-128	-397	-0.5	-0.2	-0.1	0.0	-0.1
Other Investment	102,628	83,906	101,118	115,605	121,567	16.2	16.1	22.7	30.1	25.0
Other Equity	2,806	3,074	3,223	3,364	3,520	0.4	0.6	0.7	0.9	0.7
Debt Instruments	99,823	80,832	97,896	112,241	118,047	15.7	15.5	22.0	29.3	24.3
Reserve Assets	55,055	65,786	44,848	39,387	39,662	8.7	12.6	10.1	10.3	8.2
Assets	**337,123**	**377,521**	**399,273**	**399,280**	**417,507**	**53.1**	**72.2**	**89.6**	**104.1**	**86.0**
Direct Investment	40,930	42,228	42,829	40,985	42,452	6.4	8.1	9.6	10.7	8.7
Equity and Investment Fund Shares	40,930	42,228	42,829	40,985	42,452	6.4	8.1	9.6	10.7	8.7
Debt Instruments	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Portfolio Investment	59,405	60,789	69,294	69,415	80,460	9.4	11.6	15.5	18.1	16.6
Equity and Investment Fund Shares	38,806	33,370	39,500	41,808	51,737	6.1	6.4	8.9	10.9	10.7
Debt Securities	20,599	27,419	29,794	27,607	28,724	3.2	5.2	6.7	7.2	5.9
Financial Derivatives	0	13	11	17	0	0.0	0.0	0.0	0.0	0.0
Other Investment	181,733	208,705	242,289	249,475	254,932	28.6	39.9	54.4	65.0	52.5
Other Equity	2,806	3,074	3,223	3,364	3,520	0.4	0.6	0.7	0.9	0.7
Debt Instruments	178,927	205,631	239,066	246,111	251,412	28.2	39.4	53.6	64.2	51.8
Reserve Assets	55,055	65,786	44,848	39,387	39,662	8.7	12.6	10.1	10.3	8.2
Liabilities	**319,791**	**311,891**	**284,004**	**277,766**	**295,390**	**50.3**	**59.7**	**63.7**	**72.4**	**60.9**
Direct Investment	80,700	72,589	70,458	84,319	98,928	12.7	13.9	15.8	22.0	20.4
Equity and Investment Fund Shares	56,906	48,854	47,525	53,486	67,817	9.0	9.3	10.7	13.9	14.0
Debt Instruments	23,794	23,735	22,933	30,833	31,111	3.7	4.5	5.1	8.0	6.4
Portfolio Investment	156,535	113,193	71,821	59,432	62,700	24.6	21.7	16.1	15.5	12.9
Equity and Investment Fund Shares	25,767	10,937	7,656	4,333	4,926	4.1	2.1	1.7	1.1	1.0
Debt Securities	130,768	102,257	64,165	55,099	57,774	20.6	19.6	14.4	14.4	11.9
Financial Derivatives	3,451	1,309	554	145	397	0.5	0.3	0.1	0.0	0.1
Other Investment	79,105	124,799	141,170	133,870	133,365	12.5	23.9	31.7	34.9	27.5
Other Equity	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Debt Instruments	79,105	124,799	141,170	133,870	133,365	12.5	23.9	31.7	34.9	27.5
Memorandum items										
Debt liabilities	233,667	250,791	228,269	219,802	222,250	36.8	48.0	51.2	57.3	45.8

Sources: National authorities and Fund staff estimates.

Table 11. Argentina: Financial Soundness Indicators, 2015–22

	2015	2016	2017	2018	2019	2020	2021	2022Q1
	(Percent, end-of-period)							
Financial System								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	13.3	16.7	15.6	16.0	17.5	24.2	25.6	27.0
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.4	15.2	14.1	14.2	15.5	22.3	24.1	25.6
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-3.2	-2.5	-3.0	-2.4	0.3	-4.4	-1.2	-1.1
Non-performing Loans to Total Gross Loans	1.7	1.8	1.8	3.1	5.7	3.9	4.3	3.9
Earnings and Profitability								
Return on Assets	4.1	3.6	2.7	4.1	5.4	2.4	1.1	1.0
Return on Equity	32.4	29.6	23.4	36.1	46.4	16.4	6.9	6.2
Liquidity								
Liquid Assets to Total Assets (Liquid Asset Ratio)	34.3	36.4	30.0	41.8	43.2	48.0	50.6	-
Liquid Assets to Short Term Liabilities	53.4	54.0	45.5	60.1	62.0	69.2	80.0	-
Net Open Position in Foreign Exchange Capital	21.8	18.6	11.1	9.4	8.0	12.4	12.0	-
Private Banks								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	13.7	15.1	15.3	16.8	19.5	25.5	27.0	28.2
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.8	13.4	13.4	14.4	16.9	23.0	25.1	26.4
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-3.5	-2.9	-2.4	-0.6	-2.1	-6.2	-2.6	-2.2
Non-performing Loans to Total Gross Loans	1.5	1.6	1.8	3.1	4.4	2.2	2.9	2.5
Earnings and Profitability								
Return on Assets	4.1	3.7	3.2	4.2	7.5	2.7	1.3	0.9
Return on Equity	31.2	29.4	26.6	35.6	60.3	2.7	1.3	0.9
Public Banks								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	12.3	19.5	16.2	14.7	13.6	21.9	23.2	25.0
Regulatory Tier 1 Capital to Risk-Weighted Assets	11.6	18.7	15.4	14.1	13.0	21.3	22.6	24.5
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-2.9	-2.4	-4.7	-6.3	4.9	-0.7	1.3	0.8
Non-performing Loans to Total Gross Loans	2.0	2.2	1.6	2.7	7.8	6.6	6.5	6.1
Earnings and Profitability								
Return on Assets	4.0	3.5	2.0	4.0	2.0	2.1	0.9	1.4
Return on Equity	34.8	30.3	18.5	38.6	20.2	17.2	6.4	10.0

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

Table 12. Argentina: Indicators of Fund Credit, 2022–32
(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/	9,505.1	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	56,047.1
GRA charges 1/	270.0	533.4	514.2	519.3	518.6	492.0	427.1	342.7	256.5	169.9	84.4	4,128.1
GRA surcharges 1/	382.0	803.7	768.2	777.8	776.4	727.4	607.6	452.3	293.3	133.9	10.3	5,732.8
of which level-based	274.2	535.8	512.1	518.5	517.6	484.9	405.1	301.6	195.5	89.2	6.9	3,841.4
time-based	107.8	267.9	256.1	259.3	258.8	242.5	202.5	150.8	97.8	44.6	3.4	1,891.4
GRA service charge 1/	52.5	60.0	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	124.6
SDR assessments and charges 1/	2.9	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	63.5
Total debt service 1/	10,212.5	14,706.6	4,713.1	1,303.2	2,134.4	4,725.5	6,090.7	6,120.1	5,874.8	5,628.9	4,586.5	66,096.1
(in percent of exports of G&S)	14.1	20.0	6.3	1.6	2.5	5.24	6.46	6.20	5.69	5.32	4.23	
(in percent of GDP)	2.4	3.4	1.1	0.3	0.5	0.96	1.19	1.15	1.06	0.98	0.77	
(in percent of GIR)	29.0	39.8	11.8	3.0	4.5	9.5	10.6	9.6	8.3	7.6	6.1	
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/												
Outstanding stock 1/	34,215.9	32,912.5	31,914.0	31,914.0	31,080.7	27,580.7	22,530.7	17,211.7	11,892.7	6,573.7	2,088.0	
(in percent of quota)	1,073.5	1,032.6	1,001.3	1,001.3	975.1	865.33	706.89	540.01	373.13	206.25	65.51	
(in percent of GDP)	8.0	7.6	7.3	7.2	6.6	5.6	4.4	3.2	2.2	1.1	0.3	
(in percent of GIR)	97.2	89.1	80.2	73.2	65.6	55.5	39.2	27.0	16.9	8.9	2.8	
Memorandum items:												
Exports of goods and services (US$ mn)	100,760	102,070	104,310	110,679	117,952	125,293	131,120	137,218	143,600	147,186	150,862	
Gross International Reserves (US$ mn)	48,940	51,343	55,364	60,603	65,843	69,083	79,889	88,523	98,009	103,136	104,345	
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

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

Sources: Fund staff calculations.

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

Annex I. Updated Public Debt Sustainability Analysis

The Updated Debt Sustainability Analysis (DSA) indicates that under the program's revised baseline macroeconomic framework, public debt remains sustainable but not with high probability. Federal gross public debt is projected to decline from around 80 percent of GDP at end-2021 to around 60 percent by 2027 and 55 percent by 2030.[1] *Despite the 2020 FX debt restructurings, FX debt service and gross financing needs (GFNs) remain relatively high over the medium to long term (and above the thresholds established in the March 2020 Technical Note on Debt Sustainability). This assessment remains subject to significant uncertainty, notably from the evolution of external conditions, including spillovers from the ongoing war in Ukraine. In this context, risks to the baseline are exceptionally high, reflecting Argentina's exposure to shocks and policy implementation risks. Sustained fiscal consolidation, including beyond the program, along with efforts to further deepen domestic capital markets and boost exports and productivity, remain essential to mitigate refinancing risks, mobilize domestic saving, strengthen reserves, and improve prospects of international market access, which in turn would strengthen debt-servicing capacity.*

A. Background

1. **At end-2021, Argentina's federal public debt stood at US$364 billion (80 percent of GDP).** Federal public debt rose from in US$ terms from US$ 323 billion at end-2019, largely driven by a rise in domestic debt (placed with the market and public entities) to finance the fiscal deficits but declined steeply as a share of GDP from 89 percent of GDP in 2019, largely due to the very positive interest rate/growth differential. At end-2021, the private and public sectors (BCRA and FGS) each held around 40 percent of this debt, with the remaining 20 percent (US$73 billion) held by the official sector. Of the debt held by the private sector, about 65 percent is FX-denominated debt issued under foreign and domestic law (the bulk of which was restructured in September 2020), with 35 percent held in peso-denominated debt. The bulk of official sector debt is held by the IMF and other IFIs, with bilateral creditors holding a small portion. The share of public debt in FX and held by nonresidents was 70 percent and 40 percent of total debt at end-2021, respectively.

B. Revised Baseline Scenario

2. **The program's revised macroeconomic baseline assumes an unchanged fiscal consolidation and reserve accumulation path, which would allow an eventual easing of capital controls and re-access to international capital markets.** The updated DSA reflects the revised macroeconomic framework, although fiscal and financing projections would remain broadly unchanged relative to those at program approval.[2]

[1] The DSA covers gross federal debt held by the private, official and public sectors. The DSA does not include undrawn central bank bilateral FX swaps. Under the risk-based approach, central bank liabilities shall not be included, as long as: (i) they represent normal central bank monetary or liquidity operations (as opposed to sovereign-to-sovereign medium-term balance of payments support), and (ii) the central bank is expected to be able to extinguish the swap position without actions detrimental to government debt levels (e.g., outright government foreign borrowing to pay off the swap). In the event that swaps are drawn and either of these conditions are not met, the drawn amount will be included in the DSA, unless deemed de minimis (SM/20/169).

[2] Debt stock and debt service projections are based on end-April 2022 data.

- *Real GDP growth*. Growth is projected to remain unchanged--slowing to 3.5–4.5 percent in 2022 and settling at 2 percent over the medium term as the output gap closes. Assumed potential growth is consistent with Argentina's average real GDP growth over the past 20 years but achieving this would require entrenching stability and growth-enhancing reforms.

- *Inflation and exchange rate*. Annual eop inflation is projected to rise from 50.9 percent in 2021 to 52–62 percent (mid-point 57 percent) in 2022, before falling by around 5 percentage points per annum, stabilizing around 30 percent over the medium term. The REER is projected to stabilize in 2022 and remain broadly unchanged at average 2021 levels, consistent with medium-term fundamentals.

- *Primary balance*. Despite a higher projected primary deficit in the first half of the year (0.3 percent of GDP), largely due to the impact of higher energy subsidies, the deficit for 2022 as a whole is assumed to remain unchanged at 2.5 percent of GDP, reflecting the modified 2022 budget and implementation of compensatory measures. Relative to program approval, the primary deficit path remains unchanged, falling steadily from 3 percent in 2021 to 0.9 percent of GDP by the end of the program in 2024. Further consolidation would be required to converge to the 1.3 percent of GDP steady-state fiscal primary surplus by 2027. Achievement of this path requires implementation of a well-sequenced and balanced policy reform package.

- *Capital flow management measures*. Capital flow measures are assumed to continue to remain generally in place through the program period (albeit with some targeted easing in key sectors), limiting outflows and supporting the BoP in the near term. Over time, and as reserve coverage improves, capital flow measures would be gradually eased, consistent with a return to international capital markets in 2025.

- *Domestic financing*. The revised baseline continues to assume the successful delivery of an ambitious plans to deepen the peso debt market with some changes in composition to account for higher inflation during 2022–23. Net domestic financing is expected to average 1.8 percent of GDP during 2022–27, consistent with average annual rollover rates of around 130 percent, and a full unwinding of monetary financing by 2024. In the near term, and while inflation is high and unanchored, the financing strategy assumes slightly greater reliance on short-term fixed rate instruments and inflation (CER)-linkers in 2022 and 2023, relative to program approval, reflecting the pattern of issuance through May 2022. Over the medium term, an ambitious increase in longer-term issuance is still envisaged, as disinflation takes hold and investors are more willing to hold longer-maturity, fixed-rate instruments. Domestic real interest rates are assumed to rise from around 2 percent in 2022, to 3 percent by 2025, and 4½ percent by 2028, consistent with Uncovered Interest Parity and the cost of accessing international markets.

- *External financing and market access*. External net financing projections are generally unchanged. The assumed phasing under the EFF provides positive net financing in 2022 (0.8 percent of GDP), with zero net financing thereafter. Net financing from MDBs is projected at 0.3 percent of GDP from 2022-24, with net financing from official bilateral creditors dependent on the rescheduling agreement reached with the Paris Club.[3] Beyond 2024, net non-IMF official financing is projected to reach 0.4 percent of GDP to cover interest obligations. Debt service on FX-denominated debt is assumed to follow the post-restructuring schedule, with modest issuance in international markets anticipated from 2025 onwards.

3. **Under the revised baseline, public debt and debt service are still projected to fall to manageable levels over the near to medium term, yet buffers are limited**. In particular, gross financing needs would still remain above the indicative targets set in the March 2020 Technical Note, which were set consistent with an assessment of sustainable debt with high probability.

- *Federal debt* is projected to decline from 80 percent of GDP to around 60 percent of GDP by 2027, slightly lower than at program approval, due to automatic debt dynamics (i.e., a more beneficial interest rate/growth differential driven by the higher inflation path). Excluding debt held by the public sector, debt would also fall below the 40 percent of GDP ceiling established in the March 2020 Technical Note by 2030.

- *FX debt service* held by the private and official sector declines and stabilizes at an average of 3.2 percent of GDP during 2025–30, consistent with cashflow relief from the 2020 restructuring and the extension of maturities under the EFF.

- *GFNs are projected to* average around 11 percent of GDP from 2025-30, and around 7.2 percent of GDP excluding intra-public sector debt obligations (over 2 ppts higher than the target in the March Technical Note). Large and sustained domestic financing assumed in the revised baseline, implies a sizable increase in peso debt service, which could become challenging in the context of a gradual easing of capital flow measures. Strengthening domestic debt management will therefore remain critical.

C. Risks and Vulnerabilities

4. **The program baseline is subject to exceptional uncertainty on the macroeconomic and policy implementation front.** The global economic outlook is subject to increasing uncertainty, associated with the evolution of the war in Ukraine (and its spillovers to commodity prices and capital flows), an intensification of the pandemic, a sudden tightening of global financial conditions and a slowdown in key emerging economies. All these shocks could negatively impact activity and fiscal/external balances, with adverse knock-on effects on inflation, social conditions, and debt service capacity. In addition, policy implementation slippages (especially ahead of the October 2023 Presidential elections) could also undermine confidence, lead to pressures on international reserves, exacerbate refinancing risks and undermine the ability to rollover domestic peso debt, and compromise the assumed re-access to international capital markets. Risks are amplified by the large

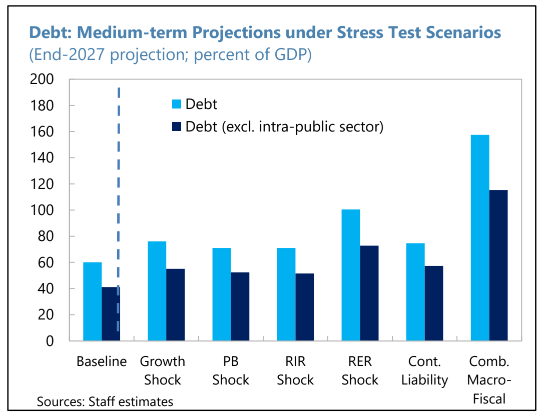
[3] At program approval, the baseline projections assumed net financing from non-Paris Club bilateral creditors (averaging US$ 0.6 billion per year), offsetting the assumed repayment of outstanding debt to the Paris Club during 2023-26. Negotiations to restructure Paris Club legacy debt are ongoing, with the authorities aiming to reach agreement in mid-2022.

share of FX debt and the presence of non-residents, especially given Argentina's low export base and thin domestic market. However, risks are also somewhat mitigated by the large share of FX debt that is held by IFIs; and a large share of overall debt is held by the intra-public sector, reducing rollover risks.

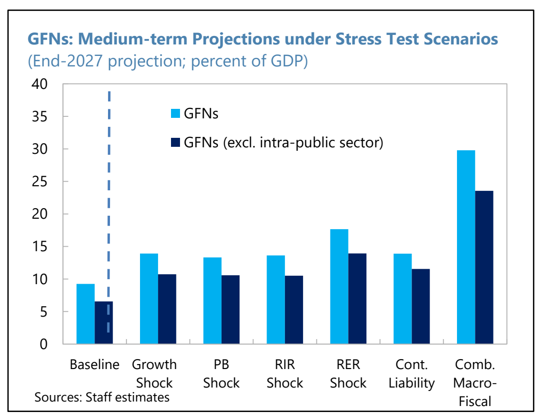
D. Alternative Scenarios and Stress Tests

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

- ***Alternative scenarios.*** Under the ***historical scenario***, the debt-to-GDP ratio would gradually rise from 80 percent of GDP (50 percent of GDP, excluding intra-public sector debt) in 2021 to over 100 percent of GDP by 2027 (85 percent of GDP, excluding intra-public sector debt). Under the ***constant primary balance scenario***, debt-to-GDP would fall initially but gradually rise back to 83 percent of GDP (65 percent of GDP, excluding intra-public sector debt). As such, both scenarios would see debt put on an upward trajectory, while GFNs would remain elevated at around 20 percent of GDP, in contrast to the sharp decline in the baseline.



- A one standard deviation ***growth shock***, a sustained ***real interest rate shock*** of (200bps), or a ***primary balance*** **shock** in which only half the planned fiscal consolidation is implemented over the ***medium*** term (1.9 percent of GDP less cumulatively), would see debt rise to around 75 percent of GDP by 2027 (or 55 percent of GDP, excluding intra-public sector debt). GFNs would decline more slowly than in the baseline, rising to around 14 percent of GDP by 2027 (11 percent of GDP, excluding intra-public sector debt).



- A ***real exchange rate shock*** (100 percent real depreciation – the maximum over a 10-year period), with 25 percent pass-through would see debt-to-GDP rise to 120 percent of GDP in 2023 before declining to around 100 percent of GDP by 2027 (75 percent of GDP, excluding intra-public sector debt). GFNs would peak at 21 percent of GDP and only decline to 18 percent of GDP by 2027 (14 percent of GDP, excluding intra-public sector debt).

- A ***combined macro-fiscal shock*** would weaken debt dynamics more significantly, pushing debt up to 160 percent of GDP over the medium term (around 115 percent of GDP, excluding intra-public sector debt), while GFNs would rise to around 30 percent of GDP by 2027 (25 percent of GDP, excluding intra-public sector debt).

- Under a tailored ***contingent liability shock*** of 5 percent of GDP, the fiscal deficit would rise to around 8 percent of GDP in 2023-24 and debt would only fall to 75 percent of GDP by 2027 (57 percent of GDP, excluding intra-public sector debt). GFNs would remain around 14 percent of GDP by 2027 (12 percent of GDP, excluding intra-public sector debt). The BCRA's weak balance sheet remains a key contingent liability, especially if reliance on monetary financing is not scaled back and money demand wanes.

E. Overall Assessment

6. Staff assesses debt remains sustainable but not with high probability. With projected debt and debt service metrics now above the targets set out in the March 2020 Technical Note on Debt Sustainability, buffers are limited and risks to the revised baseline remain exceptionally high, given uncertainties on the external front and ongoing policy implementation risks. Anything less than steadfast implementation of policies to reduce fiscal imbalances and rebuild reserves in line with end-year program objectives could weaken stability and the ability to decisively tackle high inflation and encourage holdings of peso assets. Moreover, latent structural vulnerabilities remain, including: (i) the low and undiversified export base; (ii) thin domestic capital markets; (iii) high shares of foreign currency and non-resident debt; and (iv) the contingent liabilities from provinces' FX debt and central bank balance sheet weaknesses, which will need to be addressed over the medium term.

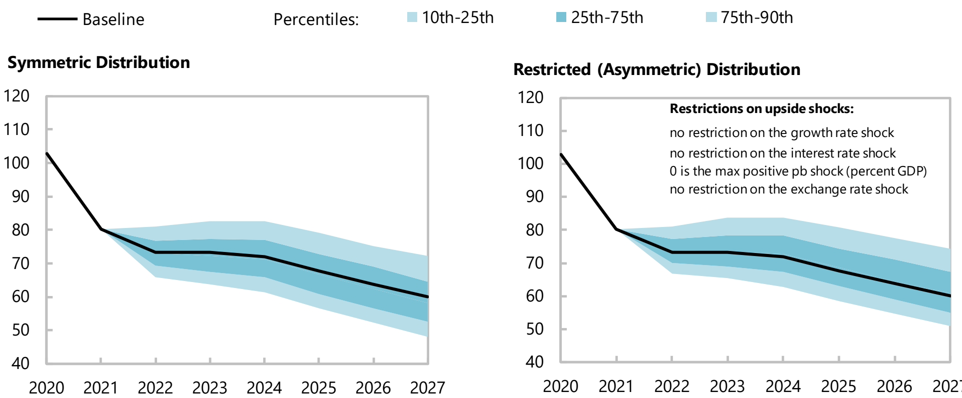
AI.1. Argentina: Public Debt Sustainability Analysis Risk Assessment

Heat Map

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

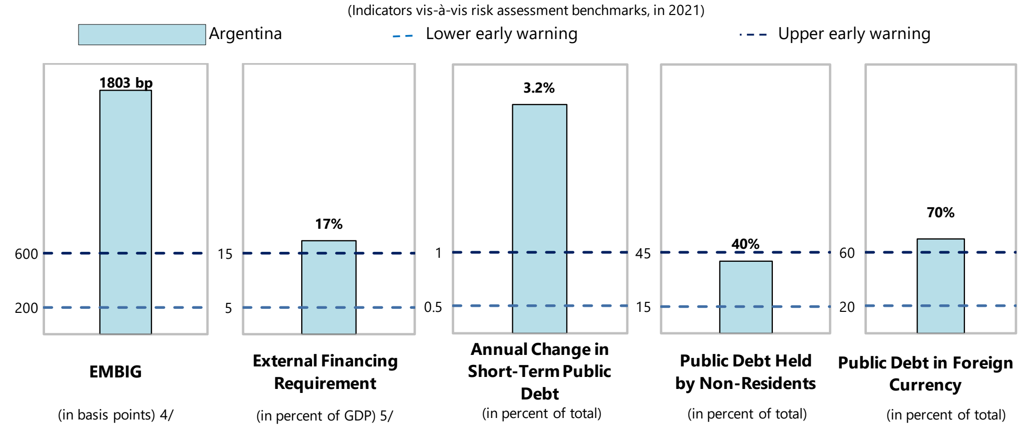
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

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



Source: IMF staff; national authorities for historical data.

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

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

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

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

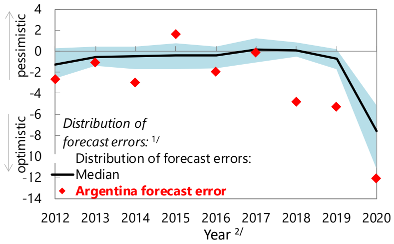
4/ EMBIG, an average over the last 3 months, 25-Feb-22 through 26-May-22.

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

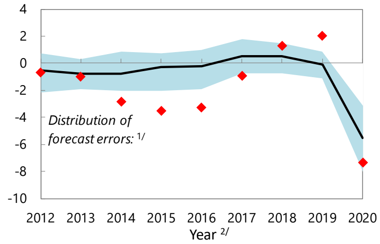
AI.2. Argentina: Public Debt Sustainability Analysis – Realism of Baseline Assumptions

Forecast Track Record, versus all countries

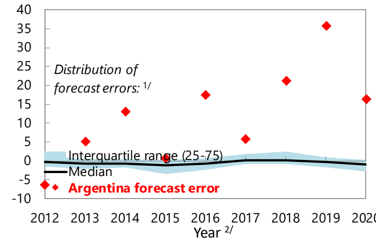
Real GDP Growth
(in percent, actual-projection)
Argentina median forecast error, 2012-2020: -2.69
Has a percentile rank of: 9%



Primary Balance
(in percent of GDP, actual-projection)
Argentina median forecast error, 2012-2020: -1.01
Has a percentile rank of: 26%

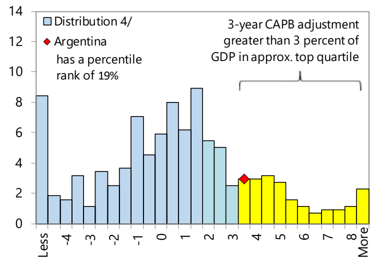


Inflation (Deflator)
(in percent, actual-projection)
Argentina median forecast error, 2012-2020: 13.03
Has a percentile rank of: 100%

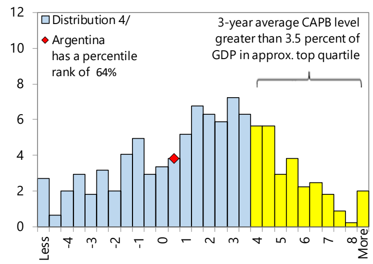


Assessing the Realism of Projected Fiscal Adjustment

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

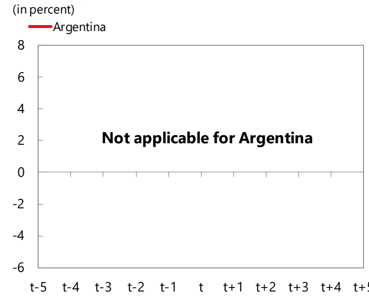


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



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

AI.3. Argentina: Public Sector Debt Sustainability Analysis – Baseline Scenario

(in percent of GDP unless otherwise indicated)

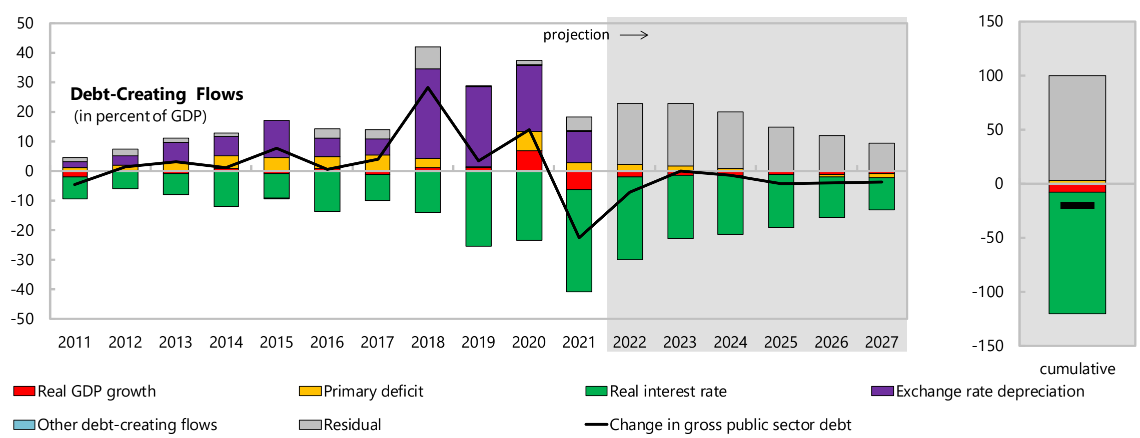
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	56.0	102.8	80.2	73.2	73.2	71.9	67.6	63.8	60.2
Public gross financing needs	12.5	18.8	17.2	19.5	17.0	15.2	14.2	11.4	9.2
Real GDP growth (in percent)	0.4	-9.9	10.3	4.0	3.0	2.8	2.0	2.0	2.0
Inflation (GDP deflator, in percent)	33.0	39.8	53.8	57.7	48.6	46.0	43.9	37.1	32.2
Nominal GDP growth (in percent)	33.3	26.0	69.9	63.9	51.5	50.1	46.7	39.9	34.8
Effective interest rate (in percent) [4/]	4.1	2.8	2.4	3.0	5.3	6.3	7.8	9.1	9.7

As of May 26, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		1926
5Y CDS (bp)		3962
Ratings	Foreign	Local
Moody's	Ca	Ca
S&Ps	CCC	CCC
Fitch	CCC	CCC

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	5.0	14.0	-22.6	-7.0	0.0	-1.3	-4.2	-3.8	-3.6	-20.1	
Identified debt-creating flows	2.8	12.8	-27.0	-27.4	-21.0	-20.4	-19.1	-15.7	-13.1	-116.7	
Primary deficit	3.1	6.4	3.0	2.5	1.9	0.9	0.0	-0.8	-1.3	3.2	-2.5
Primary (noninterest) revenue and grants	26.0	25.8	25.7	26.0	26.5	27.4	28.1	28.8	28.9	165.8	
Primary (noninterest) expenditure	29.2	32.2	28.7	28.5	28.4	28.3	28.2	28.0	27.6	169.0	
Automatic debt dynamics [5/]	-0.3	6.1	-30.4	-29.9	-22.9	-21.3	-19.1	-14.9	-11.9	-120.0	
Interest rate/growth differential [6/]	-11.4	-16.3	-40.7	-29.9	-22.9	-21.3	-19.1	-14.9	-11.9	-120.0	
Of which: real interest rate	-11.3	-23.3	-34.5	-27.9	-21.4	-20.0	-18.1	-13.9	-10.9	-112.3	
Of which: real GDP growth	-0.1	7.0	-6.2	-2.0	-1.4	-1.3	-1.0	-1.0	-0.9	-7.6	
Exchange rate depreciation [7/]	11.0	22.5	10.3	…	…	…	…	…	…	0.0	
Other identified debt-creating flows	0.0	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Government and Public Sector Finance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Prefinancing	0.0	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	2.3	1.2	4.4	20.4	21.0	19.1	14.9	11.9	9.5	96.7	



Source: IMF staff; national authorities for historical data.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

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

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

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

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

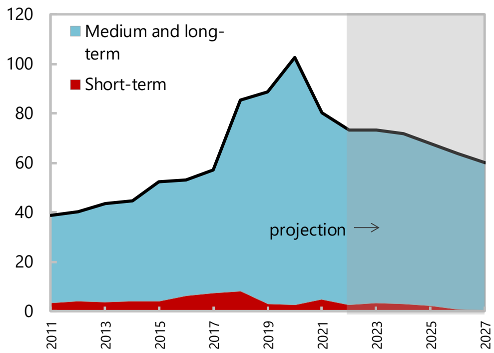
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

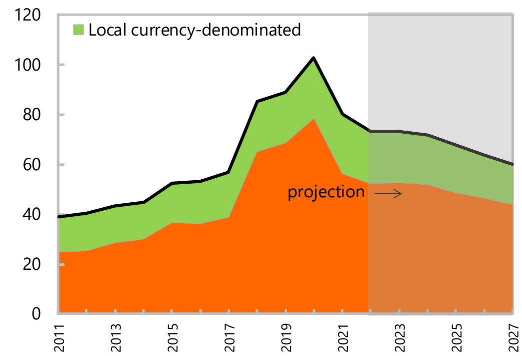
AI.4. Argentina: Public Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



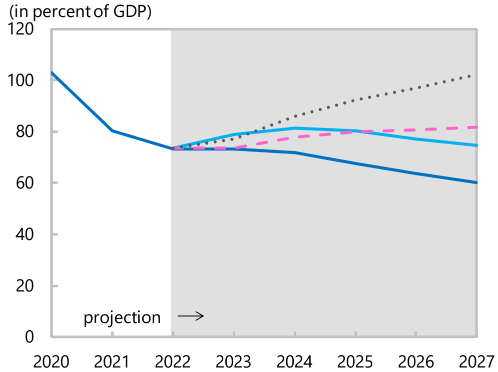
By Currency
(in percent of GDP)



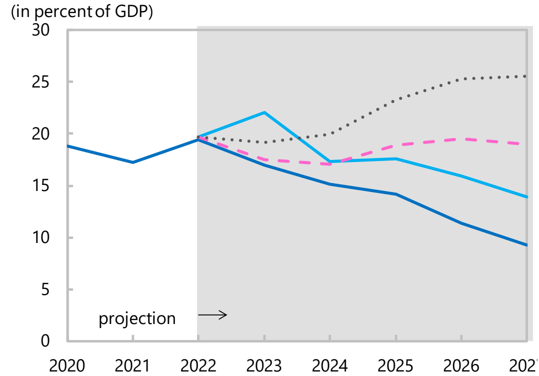
Alternative Scenarios

Baseline
Contingent Liability Shock
Historical
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

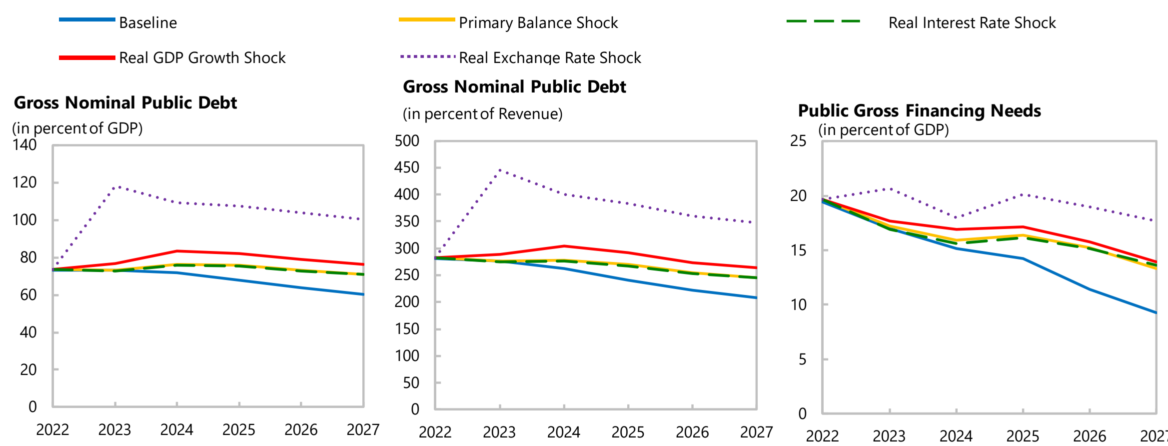
Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	57.7	48.6	46.0	43.9	37.1	32.2
Primary Balance	-2.5	-1.9	-0.9	0.0	0.8	1.3
Effective interest rate	3.0	5.3	6.3	7.8	9.1	9.7
Constant Primary Balance Scenario						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	57.7	48.6	46.0	43.9	37.1	32.2
Primary Balance	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Effective interest rate	3.0	5.4	6.5	10.5	13.9	15.1

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.0	-0.2	-0.2	-0.2	-0.2	-0.2
Inflation	57.7	48.6	46.0	43.9	37.1	32.2
Primary Balance	-2.5	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	3.0	5.4	7.3	11.9	15.8	17.2

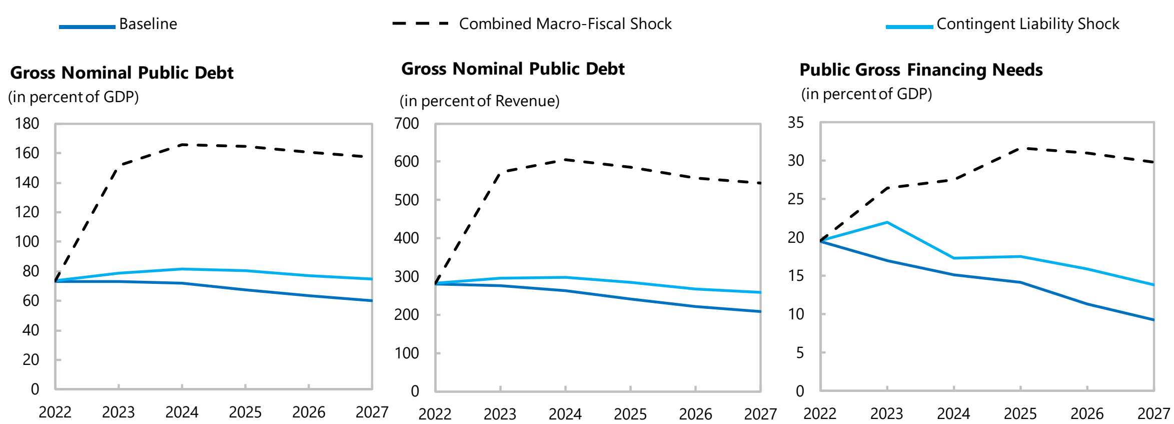
Source: IMF staff.

AI.5. Argentina: Public Debt Sustainability Analysis – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	57.7	48.6	46.0	43.9	37.1	32.2
Primary balance	-2.5	-2.2	-1.4	-0.5	0.4	1.0
Effective interest rate	3.0	5.4	6.5	10.2	13.4	14.2
Real Interest Rate Shock						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	57.7	48.6	46.0	43.9	37.1	32.2
Primary balance	-2.5	-1.9	-0.9	0.0	0.8	1.3
Effective interest rate	3.0	5.4	7.1	11.1	14.4	15.3
Combined Shock						
Real GDP growth	4.0	-2.2	-2.5	2.0	2.0	2.0
Inflation	57.7	48.6	46.0	43.9	37.1	32.2
Primary balance	-2.5	-2.2	-1.4	-0.5	0.4	1.0
Effective interest rate	3.0	7.5	5.8	9.3	12.8	13.9

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	4.0	-2.2	-2.5	2.0	2.0	2.0
Inflation	57.7	48.6	46.0	43.9	37.1	32.2
Primary balance	-2.5	-1.9	-0.9	0.0	0.8	1.3
Effective interest rate	3.0	5.4	6.4	10.0	13.0	13.8
Real Exchange Rate Shock						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	57.7	82.4	62.9	43.9	37.1	32.2
Primary balance	-2.5	-1.9	-0.9	0.0	0.8	1.3
Effective interest rate	3.0	7.4	5.3	8.5	11.6	12.6
Contingent Liability Shock						
Real GDP growth	4.0	3.0	2.8	2.0	2.0	2.0
Inflation	57.7	48.6	46.0	43.9	37.1	32.2
Primary balance	-2.5	-6.9	-0.9	0.0	0.8	1.3
Effective interest rate	3.0	5.7	7.0	10.4	13.5	14.3

Source: IMF staff.

A1.1. Argentina: Decomposition of Public Debt and Debt Service by Creditor, 2022–24[1]

	Debt Stock (end of period)			Debt Service					
	31-Mar-22			2022[6]	2023	2024	2022	2023	2024
	(In US$ bn)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ bn)*			*(Percent GDP)*		
Total	**373.76**	1.00	0.61	**106.03**	**66.72**	**35.45**	17.4%	10.8%	5.4%
External	147.98	0.40	0.24	26.50	24.88	11.30	4.4%	4.0%	1.7%
Multilateral creditors[2,3]	73.55	0.20	0.12	21.19	21.34	7.36	3.5%	3.4%	1.1%
IMF	46.63	0.12	0.08	18.89	19.12	5.04	3.1%	3.1%	0.8%
World Bank	8.56	0.02	0.01	0.43	0.41	0.43	0.1%	0.1%	0.1%
CAF	3.67	0.01	0.01	0.65	0.57	0.56	0.1%	0.1%	0.1%
ADB/AfDB/IADB	13.93	0.04	0.02	1.14	1.15	1.23	0.2%	0.2%	0.2%
FONPLATA	0.41	0.00	0.00	0.05	0.05	0.06	0.0%	0.0%	0.0%
BEI	0.12	0.00	0.00	0.01	0.01	0.01	0.0%	0.0%	0.0%
BCIE	0.08	0.00	0.00	0.00	0.00	0.00	0.0%	0.0%	0.0%
Other Multilaterals	0.16	0.00	0.00	0.02	0.02	0.02	0.0%	0.0%	0.0%
OFID	0.12	0.00	0.00	0.01	0.02	0.02	0.0%	0.0%	0.0%
FIDA	0.04	0.00	0.00	0.01	0.01	0.01	0.0%	0.0%	0.0%
o/w: list largest two creditors									
list of additional large creditors									
Bilateral Creditors[2]	4.38	0.01	0.01	2.51	0.48	0.44	0.4%	0.1%	0.1%
Paris Club	1.49	0.00	0.00	1.99	-	-	0.3%	0.0%	0.0%
list of additional large creditors									
Non-Paris Club	2.89	0.01	0.00	0.51	0.48	0.44	0.1%	0.1%	0.1%
o/w: China	2.60	0.01	0.00	0.44	0.43	0.40	0.1%	0.1%	0.1%
T-Bills	0.61	0.00	0.00	1.00	0.01	-	0.2%	0.0%	0.0%
Bonds	69.39	0.19	0.11	1.79	3.04	3.50	0.3%	0.5%	0.5%
Commercial creditors	0.06	0.00	0.00	0.00	0.01	0.01	0.0%	0.0%	0.0%
o/w: list largest two creditors									
list of additional large creditors									
Other international creditors									
o/w: list largest two creditors									
list of additional large creditors									
Domestic	225.77	0.60	0.37	79.53	41.84	24.15	13.1%	6.8%	3.7%
T-Bills	94.27	0.25	0.21	40.89	16.21	11.34	6.7%	2.6%	1.7%
Held by: central bank									
local banks									
local non-banks									
Bonds	105.52	0.28	0.23	20.20	18.22	12.58	3.3%	2.9%	1.9%
Held by: central bank									
local banks									
local non-banks									
Loans	23.74	0.06	0.00	18.31	7.30	0.11	3.0%	1.2%	0.0%
Held by: central bank									
local banks									
local non-banks									
Memo items:	2.24	0.01	0.00	0.13	0.12	0.12			
Collateralized debt[4]	0.78	0.00	0.00	0.04	0.04	0.04			
o/w: Related									
o/w: Unrelated	0.78	0.00	0.00	0.04	0.04	0.04			
Contingent liabilities	1.46	0.00	0.00	0.09	0.08	0.08			
o/w: Public guarantees	1.46	0.00	0.00	0.09	0.08	0.08			
o/w: Other explicit contingent liabilities[5]									
Nominal GDP			608.08	608.08	618.85	651.33			

Source: IMF staff

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

2/ Non-Paris Club Bilateral includes Paris Club member creditor performing obligations that were not reprofiled in 2014. Paris Club includes only those obligations that were subject to reprofiling in 20

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

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

5/ Guaranteed debt includes public guarantees.

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

Application of the New Sovereign Risk and Debt Sustainability Framework

Argentina: Sovereign Risk and Debt Sustainability Framework Summary

Horizon	Mechanical signal	Final assessment	Comments
Sovereign risk assessment			
Overall	…	High	Despite the moderate risk signal at the medium-term horizon, the exceptional level of current uncertainty and risks around the necessary eventual re-entry to international markets indicate that overall risks of sovereign stress are high.
Near term	n.a.	n.a.	Not applicable.
Medium term	Moderate	Moderate	Staff concurs w ith 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	…	
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 renew ed episode of sovereign stress over the longer term. Full implementation of the program w ill help contain these risks.
Debt sustainability assessment			
Sustainability assessment	…	Sustainable but not w ith high probability	There are good prospects for debt stabilization and acceptable rollover risks, consistent w ith debt sustainability. How ever, substantial uncertainty around the baseline indicates high risks to this assessment.
Debt stabilization in the baseline			Yes

DSA summary assessment

The new Sovereign Risk and Debt Sustainability Framew ork (SRDSF) tools indicate that debt is sustainable but not w ith high probability, although overall risks of sovereign stress are high. At a medium-term horizon, risks are moderate, unchanged from the program request. The gross financing needs module show s a slight w eakening relative to the program request but remains at moderate risk, including because vulnerabilities are contained somew hat by the 2020 restructuring and expectations that financing w ill mainly be forthcoming from less risky creditors. The debt fanchart signal has improved to moderate risk, though it remains close to the border w ith high risk. Moreover, the w idth of the fanchart remains very w ide reflecting Argentina's history of high volatility. Over the longer-term, as Argentina needs to re-enter international debt markets, there are high risks of a renew ed round of sovereign stress.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress w ithout its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

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

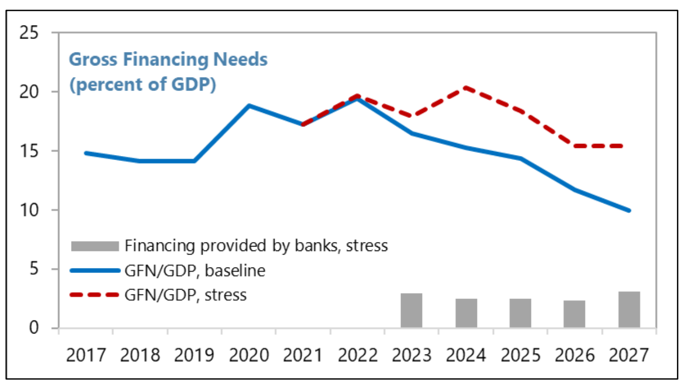
[1] For a description of the methodology underpinning the SRDSF tools, please refer to IMF, 2021, "Review of the Debt Sustainability Framework for Market Access Countries", Policy Paper No. 2021/003 (link).

assessment of the probability of debt stabilization and consideration of the risks to market re-access support staff's assessment that risks to sovereign stress are high over the long-term. Despite high risk of sovereign stress, debt is still assessed to be sustainable (though not with high probability).

A. Medium-Term Risk Analysis

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

3. The first tool—the GFN Financeability Module—continues to point to moderate risk. Although, the GFN Financeability Index that informs the result has weakened, it is still in the moderate risk zone; it is influenced by:

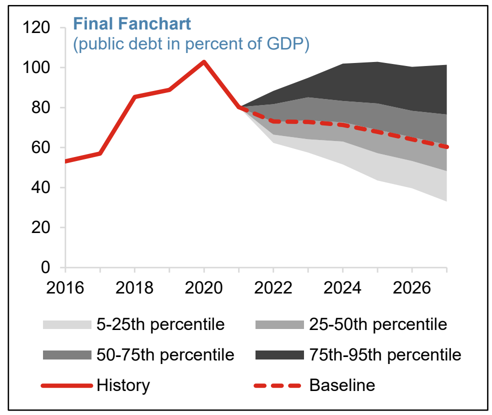


- *Baseline gross financing needs*: GFNs for Argentina average 14½ percent of GDP over the 2022-27 period and are relatively high, unchanged from the program request.

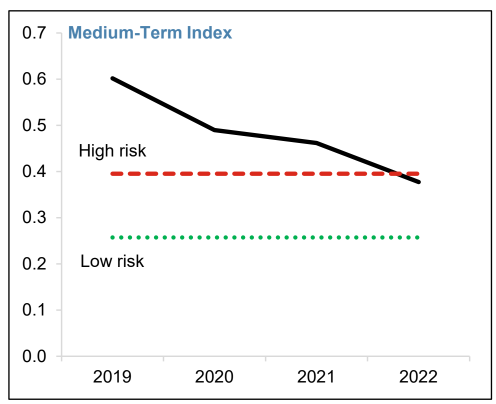
- *Initial bank claims on the government*: At 16 percent of the Argentine banking system's assets banks' exposures are at moderate levels. However, exposures are currently estimated at somewhat higher levels than at the program request (13.4 percent of banking system assets), contributing to the weakening of the total index. This still suggests some space for banks to provide financing to the government, including in stressed conditions, although, the banking sector is comparatively small in Argentina (total assets are 40 percent of GDP), which is a crucial vulnerability as regards absorbing additional gross financing needs.

- *Potential changes in bank claims on the government amid further stress*: Argentina's historical volatility, which translates into large macroeconomic shocks, is another important risk factor in this analysis. On the other hand, risks in the medium term are mitigated by lack of debt issuances to foreign private creditors and dependence on the domestic central bank and other domestic creditors in absorbing debt issuances. Thus, in a generalized stress scenario, which simulates a loss in foreign private investor appetite along with adverse macro-fiscal shocks, the domestic banking sector may have to devote an extra 20 percent of its assets—a notable increase in exposure to the sovereign—to absorb residual issuance. This result would weaken further, however, if the favorable structure of new debt issuances in the baseline scenario fails to materialize.

4. **The second tool—the debt fanchart module—has improved slightly and points to moderate risk, although it is close to the border with high risk**. The module is based on three metrics: (1) The *probability of debt stabilization* at the end of the 5-year projections period; (2) the median *debt level in 2026, interacted with an institutions* index, as a proxy for debt carrying capacity beyond the projection period; (3) the *fanchart width*, a measure of uncertainty calculated as the upper bound of the fanchart less the lower bound. The probability of debt stabilization under the baseline continues to be high (99 percent), while the projected institutions-adjusted median debt level in 2026 is 43 percent of GDP, making a relatively modest contribution to the overall risk index.[2] However, uncertainty as proxied by the fanchart width (68 percent of GDP), is very high, suggesting a strong possibility that the debt trajectory outcomes could diverge significantly from the baseline.



5. **The revisions to the GFN and debt fanchart indexes were largely offsetting when they are aggregated into the medium-term index (MTI), which continues to indicate that risks are moderate.** The MTI that is consistent with the GFN Financeability and Debt Fanchart Indexes for Argentina is 0.38, just below the high-risk threshold and well above the low-risk threshold. At this level, predictions of stress events would be false alarms with a 16 percent probability. Predictions of tranquility (no crisis) would be missed crises with 27 percent probability. Thus, the mechanical signal is moderate sovereign stress risk. The trend has been improving recently, and it reflects the beneficial effects of the 2020 debt restructuring, and the assumed implementation of the policies in the program. The uncertainty around the baseline and diverging developments in the signals from the two underlying modules constitute important risks to this assessment. Furthermore, the high probability of debt stabilization at the end of the 5-year projection period may be distorted



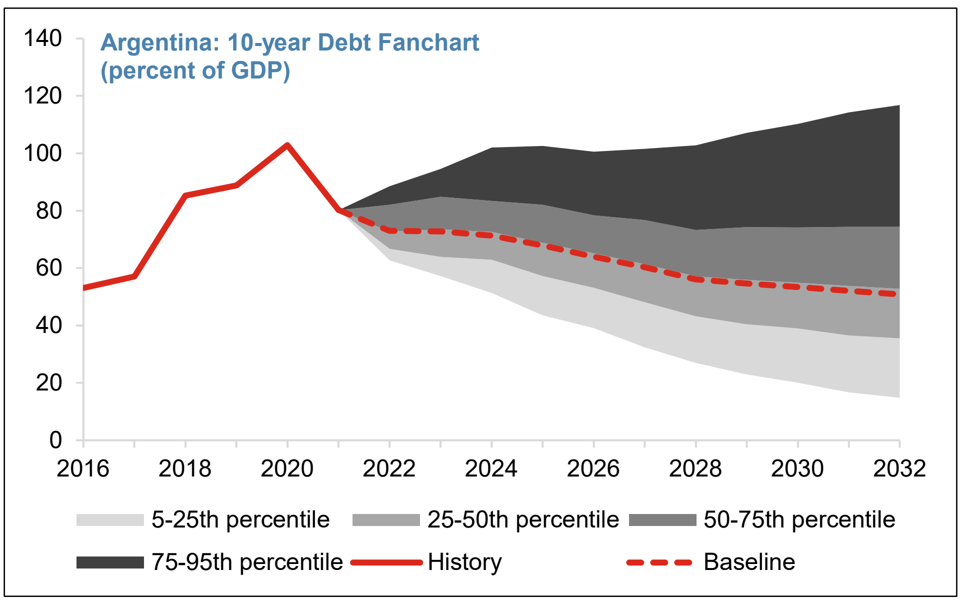
[2] An additional diagnostic to test for risks of baseline optimism indicated that the baseline represents an adequate balance of risks, and therefore the final fanchart is centered on the baseline.

by the fact that real interest rates are negative in Argentina and are projected to remain negative over the 5-year fanchart horizon, reflecting capital controls, inflation (notwithstanding the prevalence of inflation-linked debt), and low interest rates on external privately held debt as a result of the 2020 debt restructuring.

B. Longer-Term Risk Analysis

6. To account for the impact of refinancing at market rates after Argentina re-accesses external debt markets and the implications of shocks to real interest rates and other debt drivers,[3] debt risks were analyzed over a 10-year horizon. In an extended period after the program, Argentina will need to refinance the maturing debt obligations from the 2020 debt restructuring as well as its Fund repurchases. Thus, over the longer-term, Argentina will likely face less favorable financing terms and its capacity to repay will depend critically on successful IMF program implementation and re-accessing international private credit markets.

7. The 10-year debt fanchart suggests that debt would continue to decline under the baseline, but the probability of debt stabilization is lower than in the 5-year horizon. Specifically, the probability of debt stabilization in a fanchart ending in 2032 is 66 percent. This is sufficiently high to be consistent with debt sustainability, although with substantial risks.



C. Assessment of Debt Sustainability

8. In addition to the risk analysis described above, the SRDSF underpins Argentina's debt sustainability assessment, which is "sustainable, but not with high probability". This assessment is based on three tools: The Debt Fanchart described in the medium-term analysis

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

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

Annex II. Updated External Debt Sustainability Analysis

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

1. **At end-2021, Argentina's external debt reached 59 percent of GDP (US$267 billion), with the public sector owing the bulk (71 percent) of these obligations, and EGFNs in 2021 remained large (19 percent of GDP).** Public sector obligations amounted to US$191 billion, including debt owed by the Federal government (US$147 billion), the BCRA (US$30 billion), and provincial governments (US$14 billion).[1] External debt owed by the private sector reached US$76 billion, the bulk of which (US$70 billion) was debt incurred by nonfinancial corporates. In 2021, GEFNs reached US$62 billion, with debt service obligations (US$76 billion) partially offset by the non-interest trade surplus (US$13 billion). Amortizations (US$69 billion) reflect repayments on both short-term credit (US$27 billion, mainly trade credits and intercompany loans) as well as medium-term instruments (US$42 billion). The bulk of the latter corresponds to public debt amortization (US$9 billion, including Fund repurchases for US$3.8 billion), private sector amortization (US$11 billion, including longer term trade credits), with the rest related to longer-term trade intercompany lending.

2. **Balance of payments balance projections under the revised baseline are relatively unchanged since program approval and continue to hinge critically on strong policy implementation (see also Public DSA Annex).** Trade surplus is now projected to increase from around 2 percent of GDP in 2022 to around 3 percent of GDP over the medium term, supported by fiscal consolidation, some expansion of export capacity, and policies that secure a relatively unchanged real exchange rate.[2] Meanwhile, the current account would converge to a small surplus of around ¾ percent of GDP (near the current account norm), with external interest payments averaging about 3 percent of GDP and retained earnings stabilizing around ½ percent. On the financing side, assumptions on the respective economic sectors are broadly unchanged since the program approval Staff Report.

3. **Under the revised baseline, external debt is projected to gradually decline from 55 percent of GDP in 2022 to around 48 percent of GDP by 2027**. This decline is supported by a cumulative current account surplus (excluding interest payments) of 13 percent of GDP along with policies that support productivity and export growth. Projections are also underpinned by continued

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

[2] Spillovers from the war in Ukraine have had a limited impact on Argentina's terms of trade, as higher export prices (grains, crude oil) have been generally offset by higher import prices (gas, fertilizers).

efforts to encourage non debt creating FDI and mobilize official external financing at concessional terms, which would support gross reserves accumulation (US$25 billion over 2022–26).

4. Downside risks to external debt sustainability remain significant.

- External conditions have grown more uncertain since program approval. The war in Ukraine continues to cloud the global outlook for growth, commodity prices, and capital flows. Moreover, risks are rising from an intensification of the pandemic, an abrupt tightening of external financial conditions, and a faster slowdown in key emerging economies, all of which will carry negative knock-on effects for Argentina. While the country is benefiting from higher grain and crude oil prices, it is being adversely affected by higher gas and fertilizer prices, even despite efforts to secure gas from Bolivia at prices lower than international prices.[3]

- Policy implementation slippages could also complicate external stability, especially given Argentina's low reserve coverage, low export base, and high exposure to FX debt. For example, a 30 percent real depreciation shock in 2022 would increase the external debt-to-GDP ratio to 160 percent. Without access to international markets and low levels of international reserves, debt would be unserviceable. Under this scenario, external debt-to-GDP would decline only to 137 percent and GEFNs-to-GDP to 62 percent by 2027.

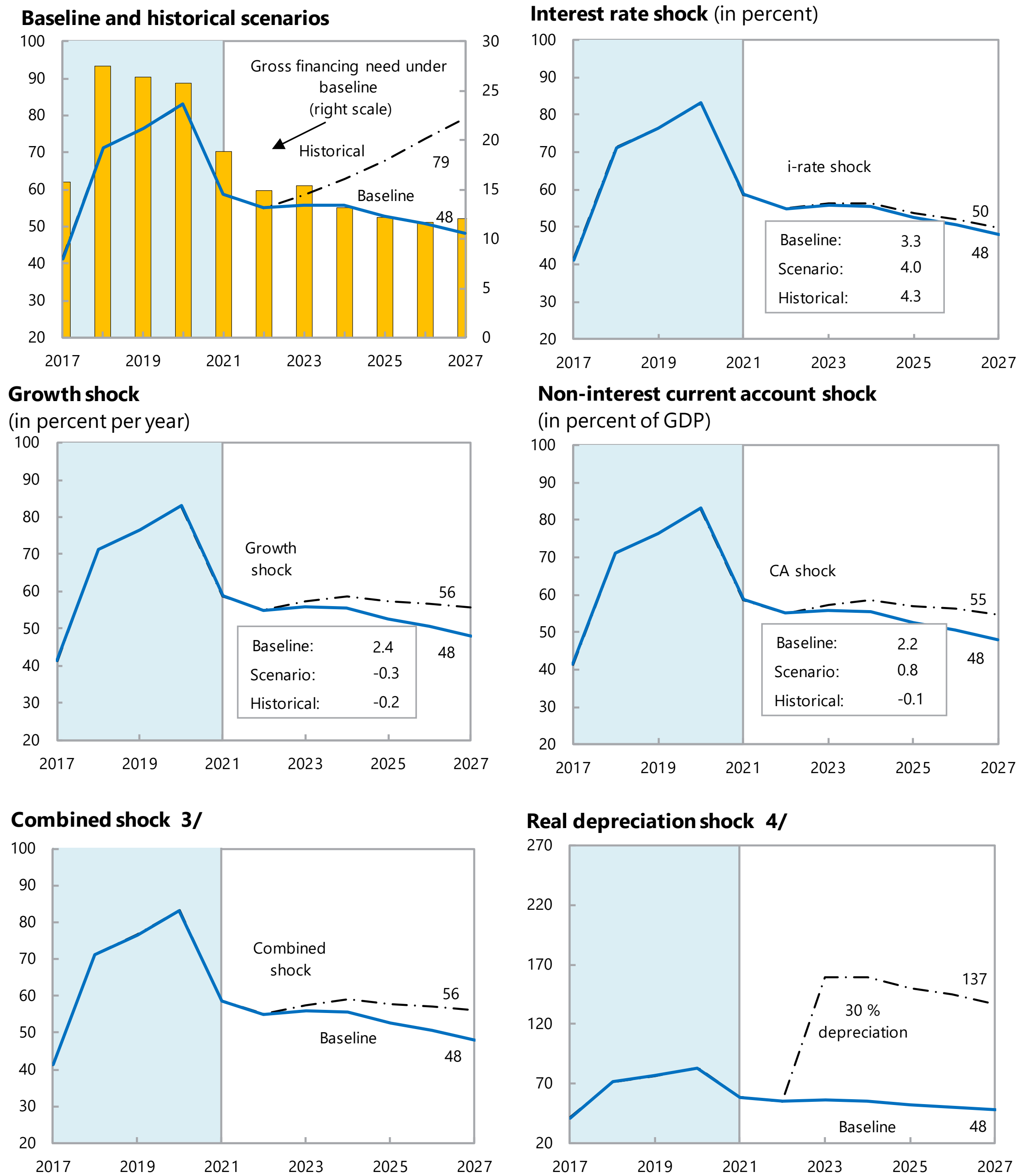
- While composition of near-term external obligations help to mitigate risks, near-term GEFNs remain high (about 50 percent higher than gross external reserves in 2022).[4] Large repurchases to the IMF are expected to be addressed through the Fund-supported EFF program, yet program implementation risks cannot be discarded. In addition, even if GEFN are projected to fall and stabilize over the medium term, they will remain large (averaging 12 percent of GDP per annum during 2026–30) and subject to significant rollover risks if market access is not secured.

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

[3] Opportunities could arise in the medium term from new global trade and commodity price developments, given Argentina's vast shale oil and gas reserves, as well as its agricultural and mining potential.

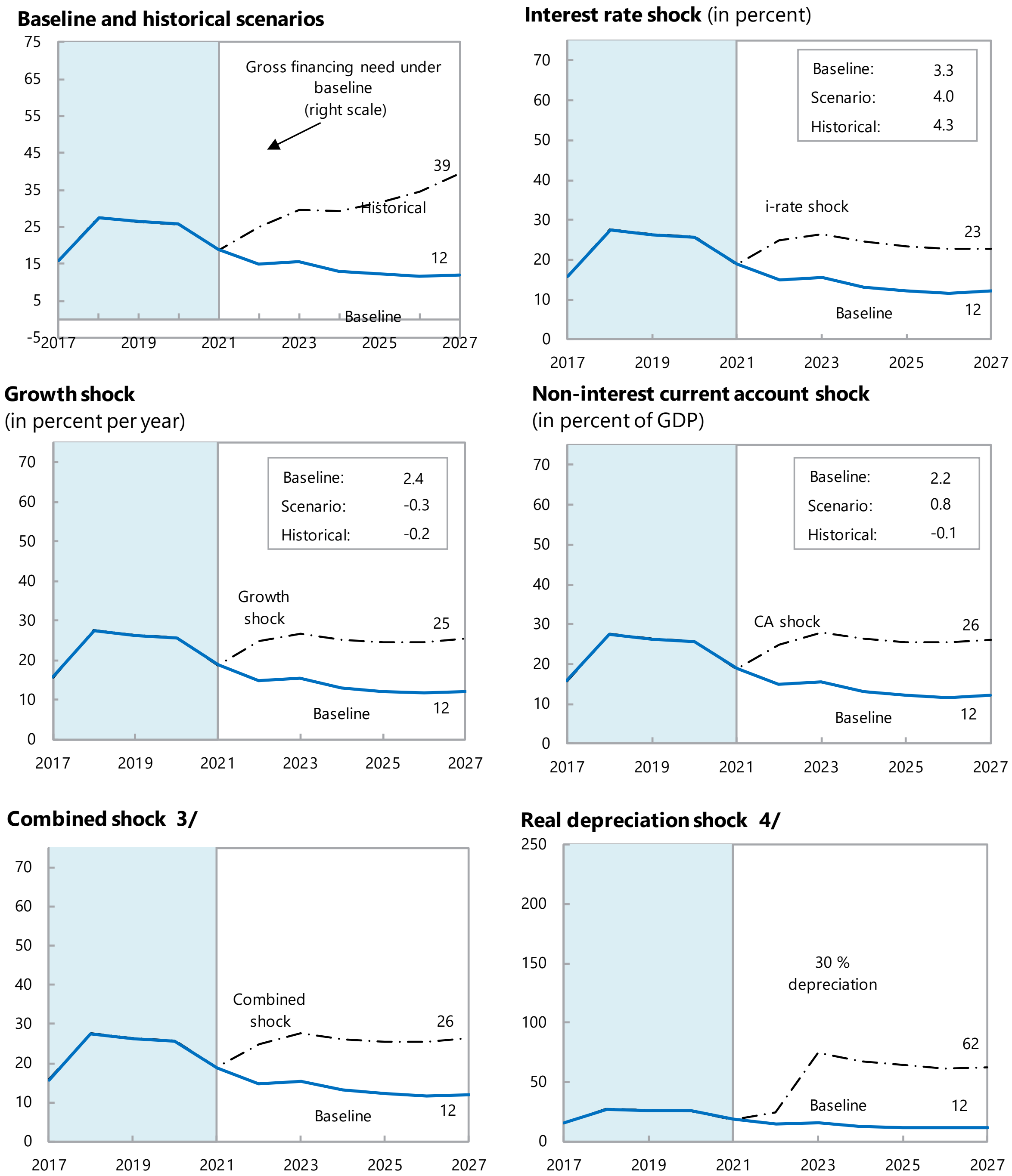
[4] About half of the GEFN reflect BCRA swap, trade credits (which co-move with trade), and inter-company loans, which are subject to lower rollover risks. It is worth noting that GEFNs include the non-interest current account plus external debt service obligations (interest and amortizations).

Figure AII.1. Argentina: External Debt Sustainability Bound Tests [1, 2]
(External Debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2022.

Figure AII.2. Argentina: External Debt Sustainability Bound Tests [1,2]
(External Gross Financing Needs in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2022.

Table AII.1. Argentina: External Debt Sustainability Framework, 2017–30
(in percent of GDP, unless otherwise indicated)

	Actual							Projections									
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	2028	2029	2030	Debt-stabilizing non-interest current account 6/
Baseline: External debt	41.3	71.2	76.5	83.1	58.7			**55.0**	**55.9**	**55.6**	**52.7**	**50.6**	**48.0**	**43.5**	**42.1**	**40.7**	**-3.0**
Change in external debt	6.4	29.9	5.3	6.6	-24.4			-3.7	0.9	-0.2	-2.9	-2.1	-2.6	-4.5	-1.5	-1.4	
Identified external debt-creating flows (4+8+9)	0.2	23.1	4.9	7.1	-25.9			-4.1	-3.9	-3.9	-3.6	-3.7	-3.8	-3.6	-3.7	-3.7	
Current account deficit, excluding interest payments	3.6	2.9	-3.7	-4.3	-2.9			-2.0	-2.2	-2.0	-2.2	-2.4	-2.5	-2.4	-2.5	-2.6	
Deficit in balance of goods and services	2.7	2.5	-3.7	-3.8	-3.3			-2.5	-2.7	-2.6	-3.0	-3.2	-3.4	-3.2	-3.4	-3.5	
Exports	13.1	19.8	22.0	19.7	19.2			20.1	20.4	20.4	20.2	20.2	20.1	18.9	19.1	19.2	
Imports	15.7	22.3	18.3	15.9	15.9			17.6	17.7	17.8	17.2	17.0	16.7	15.7	15.7	15.7	
Net non-debt creating capital inflows (negative)	-2.4	-2.4	-1.4	-0.7	-1.1			-1.4	-1.7	-2.2	-2.1	-2.1	-2.0	-1.9	-1.9	-1.9	
Automatic debt dynamics 1/	-1.1	22.6	10.0	12.1	-21.9			-0.6	0.0	0.3	0.7	0.7	0.7	0.7	0.7	0.8	
Contribution from nominal interest rate	1.9	4.0	4.7	3.3	1.4			1.5	1.7	1.8	1.8	1.7	1.7	1.6	1.6	1.6	
Contribution from real GDP growth	-0.9	1.6	1.6	8.4	-6.1			-2.1	-1.7	-1.5	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	
Contribution from price and exchange rate changes 2/	-2.1	17.0	3.7	0.4	-17.1			...	...	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.2	6.8	0.4	-0.5	1.5			0.4	4.8	3.6	0.7	1.7	1.2	-0.9	2.2	2.3	
External debt-to-exports ratio (in percent)	316.2	360.1	348.5	421.9	305.4			274.3	274.2	272.3	261.3	251.0	239.0	229.6	220.6	212.1	
Gross external financing need (in billions of US dollars) 4/	89.6	107.5	96.0	84.0	85.7			74.5	77.3	66.9	66.8	68.4	75.4	80.1	82.8	86.4	
in percent of GDP	15.8	27.6	26.4	25.7	18.9	10-Year	10-Year	14.8	15.4	13.1	12.2	11.7	12.1	11.6	11.5	11.5	
Scenario with key variables at their historical averages 5/								**55.0**	**58.7**	**62.8**	**67.8**	**73.6**	**79.3**	**85.1**	**91.4**	**98.3**	**2.4**
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation										
Real GDP growth (in percent)	2.8	-2.6	-2.0	-9.9	10.3	-0.2	5.2	4.0	3.0	2.8	2.0	2.0	2.0	2.0	2.0	2.0	
GDP deflator in US dollars (change in percent)	6.2	-29.2	-5.0	-0.5	26.0	0.4	15.9	6.5	-3.3	-0.8	5.4	4.4	4.6	8.8	2.0	2.0	
Nominal external interest rate (in percent)	5.8	6.7	6.1	3.8	2.4	4.3	1.4	2.8	3.0	3.3	3.4	3.5	3.5	3.6	3.8	4.0	
Growth of exports (US dollar terms, in percent)	3.9	4.0	3.6	-19.5	35.7	-0.2	15.0	15.4	1.3	2.2	6.1	6.6	6.2	4.7	4.7	4.7	
Growth of imports (US dollar terms, in percent)	18.4	-2.8	-23.3	-21.9	38.8	-0.5	18.6	22.4	0.4	2.5	3.9	5.2	4.8	4.4	4.0	4.0	
Current account balance, excluding interest payments	-3.6	-2.9	3.7	4.3	2.9	-0.1	2.9	2.0	2.2	2.0	2.2	2.4	2.5	2.4	2.5	2.6	
Net non-debt creating capital inflows	2.4	2.4	1.4	0.7	1.1	1.6	0.8	1.4	1.7	2.2	2.1	2.1	2.0	1.9	1.9	1.9	

Source: IMF staff

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

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

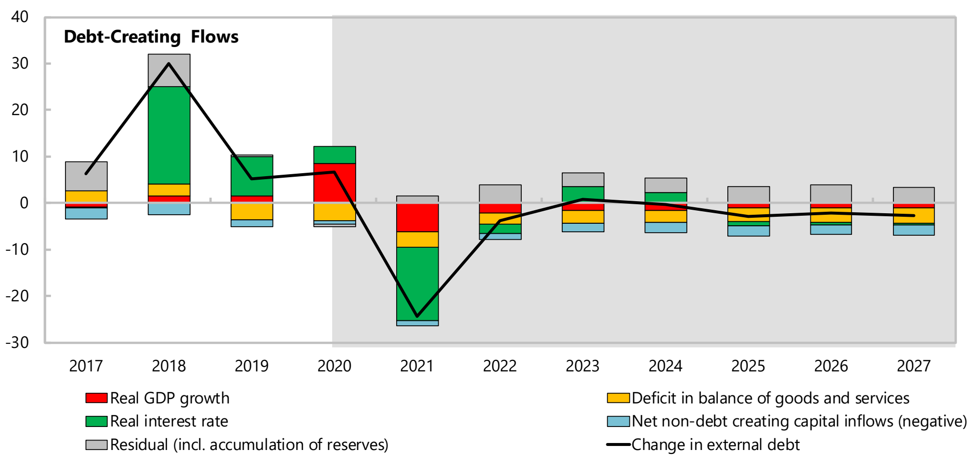
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

External Debt Dynamics, 2017–2027
(In percent of GDP)



Appendix I. Letter of Intent

Buenos Aires, Argentina
June 14, 2022

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

Dear Ms. Georgieva:

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from March 3, 2022, we confirm our commitment to the policies and objectives of the economic program supported by an IMF arrangement under the Extended Fund Facility (EFF). We also describe progress and further policy steps toward meeting these objectives.

Notwithstanding a more difficult global environment—with the war in Ukraine leading to significantly higher global food and energy prices—we continue to implement the needed policies to safeguard macroeconomic stability and continue tackling Argentina's economic and social challenges. Our consistent policy management allowed us to meet all end-March 2022 performance criteria, including the primary balance of the federal government, the floor on the change in net international reserves, and the ceiling on the central bank financing of the fiscal deficit. All indicative targets were also met, and we have made steady progress in meeting structural benchmarks, as further elaborated in the attached MEFP (¶6).

We remain committed to meeting the program's end-year targets. In response to the global commodity price shock, we have intensified efforts to improve tax compliance and have reoriented our spending policies, including to make space for greater targeted support to protect the real incomes of lower-income households. These new priorities are reflected in the planned modification of the current budget (*prior action*). Efforts continue to tackle persistent high inflation, which has been aggravated by sharp increases in global food and energy prices. In addition to actions to meet the fiscal deficit and monetary financing targets, the central bank has remained proactive in implementing the enhanced monetary and FX policy framework to deliver positive real policy rates and maintain external competitiveness. In this regard, and to limit the second-round effects of the inflation shock, the effective monetary policy rate has been increased by about 690 bps since program approval. Meanwhile, efforts continue to strengthen public financial management, the peso government debt market, the effectiveness of monetary and FX operations, the overall AML/CFT regime, and the net export potential of strategic sectors, particularly energy.

On the basis of policies steps that we have already taken and commitments for the period ahead, including with respect to the program's end-year targets, we request completion of the first review, and a disbursement in the amount of SDR 3,000 million. We also request the modification of the end-June 2022 performance criteria on the primary fiscal balance, the change in net international reserves, monetary financing of the fiscal deficit, and the stock of domestic arrears to accommodate the impact of various factors, including: (i) the higher-than-expected inflation; (ii) higher-than-anticipated energy import volumes and prices, with implications on the energy subsidy and import bills; and (iii) upfront targeted and temporary social support to protect lower-income households from the food price shock (see also MEFP ¶22). We also request completion of the financing assurances review. 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 remain 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.

Yours sincerely,

/s/	/s/
Martin Guzman Minister of Economy of Argentina	Miguel Pesce President of the Central Bank of Argentina

Attachment I. Memorandum of Economic and Financial Policies Update

June 14, 2022

I. Context

1. **Since the approval in March of the 30-month arrangement under the Extended Fund Facility (EFF), the global environment has become increasingly challenging, spilling over to our economy.** Apart from the grave human consequences, the war in Ukraine has led to significantly higher global food and energy prices, which are adding to inflation pressures in many countries. Relatedly, the tightening of global financial conditions and increasing growth concerns in key advanced and emerging market economies are adding to uncertainties. While these developments are not expected to materially impact Argentina's growth or the external balance, they are leading to higher inflation and upward pressure on energy subsidies, although the full impact of these external shocks continues to evolve.

2. **Recognizing the implications of the shifting global environment on our economy, we have reprioritized our policies to protect those most in need and to safeguard macroeconomic stability through steadfast program implementation.** To reflect the evolving impact of the shock, we have updated our baseline macroeconomic framework. We have also prioritized policies to create space for greater social support to protect the real incomes of the most vulnerable, while also addressing domestic sources of inflation. Notably, we have taken important steps to contain energy subsidies and reorient spending that will allow us to meet the end-year fiscal deficit target and are working to secure financing from the domestic market and official creditors to lower monetary financing of the fiscal deficit. Tackling persistent high inflation through the continued implementation of our multipronged strategy remains of utmost importance. In this regard, we remain committed to decisively implementing our enhanced monetary and FX policy framework to encourage the demand for peso assets and achieve our reserve accumulation goals.

II. Recent Developments and Program Performance

3. **Economic activity continues to expand at a fast pace, supported by strong domestic demand.** After expanding by 10.3 percent during 2021, the Argentine economy grew at an annual rate of 6.1 percent during Q1-2022 driven by strong private consumption and investment. The goods sector expanded by close to 4 percent y/y, with services showing especially strong dynamism (up 6.8 percent y/y) as the scars of the pandemic receded. Export volumes showed continued dynamism, especially in the manufacturing sector (up 11.4 percent y/y, cumulative through April), although these gains were more than compensated by robust import volume growth (up 21.3 percent y/y), including in energy and services. Manufacturing capacity utilization levels have recovered to around 67 percent, and the level of real GDP is now around 6 percent above pre-pandemic levels.

4. **Importantly, the economic expansion has supported a marked improvement in social indicators, although conditions remain challenging.** The unemployment rate fell to 7.0 percent in Q4:2021, the lowest level since 2015, and the labor force participation rate returned to pre-pandemic levels (47 percent). Employment growth has been especially strong—formal employment levels are above pre-pandemic levels with over 215,000 formal private sector jobs added since end-2020. In addition, inequality has been reduced, in part reflecting targeted transfers to most vulnerable households. That said, poverty rates, despite declining 8 percentage points relative to pandemic peaks, remain high at 37 percent in S2-2021, with higher levels among women, children, and individuals with low skills or insufficient qualifications.

5. **Inflation has risen sharply, largely on account of the global commodity rise shock, although it is starting to gradually ease.** Headline inflation reached 5.1 percent m/m in May, compared to 6.0 percent m/m in April, as the impact of higher global food and energy began to ease. In response to underlying price pressures, the BCRA has raised its effective policy rates by about 690 basis points since program approval (and a cumulative of roughly 1630 basis points since end-2021) guided by the enhanced monetary and exchange rate policy framework. Price agreements on key staples remain in place, with scheduled quarterly adjustments, and efforts continue to strengthen price-wage coordination. Importantly, we have remained proactive in protecting those most in need from food price increases through targeted support measures (see ¶9).

6. **Meanwhile, performance under the EFF has been in line with program commitments.** All end-March 2022 performance criteria (PCs) and indicative targets (ITs) were met, and efforts are underway to meet structural benchmarks (see Tables 1 and 2).

- **Fiscal targets:** The primary fiscal deficit through end-March was ARS 192 billion (0.25 percent of GDP), roughly ARS 20 billion below the adjusted target. This outturn took place despite the higher-than-programmed energy subsidies, reflecting a combination of prudent expenditure management and a rise in non-tax revenues. Meanwhile, the average quarterly stock of domestic arrears (*deuda exigible*) remained below target (ARS 536 billion). In addition, the social spending IT was observed as spending exceeded the established floor on account of efforts to shield the lower-income households from higher inflation, and the real revenues IT was somewhat higher than programmed.

- **Monetary targets:** Central bank financing of the fiscal deficit was limited to ARS 122 billion (0.16 percent of GDP) through end-March, well below the program target ARS 237 billion (0.3 percent of GDP) as efforts were made to frontload peso debt issuance in the domestic market. Reserve accumulation reached US$1,522 million, US$278 million above the adjusted program target, mainly on account of a higher-than-anticipated trade surplus (on a cash basis). The stock of central bank non-deliverable futures narrowed through end-March 2022, remaining well below the end-March program ceiling, largely reflecting implementation of the enhanced monetary and FX policy framework.

- **Structural benchmarks (SBs)**. Public hearings were called on a proposal to update wholesale electricity and gas tariffs to become effective in June (***end-April, SB***), the investor relations presentation has been published (***end-July, SB***), and revisions to our AML/CFT legislation have been submitted to congress, generally in line with best practice (***end-May, SB***). Meanwhile, we will modify the current budget to ensure its full consistency with the 2022 fiscal targets and policies outlined in this memorandum (***prior action***; see ¶9). Short delays in this issuance reflected the need for additional time to fully assess and incorporate into the budget the implications of global shock associated with the war in Ukraine.

III. Policy Framework and Economic Program

7. The baseline macroeconomic framework has been revised to reflect recent developments, acknowledging that uncertainty remains high given the evolving external conditions. Nonetheless, our baseline macroeconomic program continues to envisage a steady and sustained economic expansion and assumes policy responses to secure meeting end-year program targets.

- **Growth** in 2022 is projected to remain unchanged (relative to program approval) at around 4 percent, taking into account the strong Q1 performance and the expected dynamism of the services sector, as well as the limited direct impact of the war in Ukraine shock. Beyond this year, projections are also unchanged relative to program approval.

- **Inflation** is now projected to rise to 52–62 percent by end-2022, compared to 38–48 percent at the time of program approval, largely on account of the passthrough of higher-than-anticipated global food and energy prices. Inflation is expected to decline gradually during the course of this year and into 2023–24 as the impact of the commodity price shock dissipates and implementation of our multipronged strategy to tackle inflation bears fruit.

- The **external balance** is projected to remain broadly unchanged relative to the program, as higher imports —from higher prices, including on LNG and fertilizers, and more dynamic import volumes—are expected to be broadly offset by higher export prices (grains and crude oil) and stronger financial inflows. End-year reserve accumulation goals remain unchanged through the continued active management of macroeconomic policies.

Argentina: Macroeconomic Projections

		Proj.		
	2021	2022	2023	2024
GDP growth (avg, %)	10.3	[3.5 - 4.5]	[2.5 - 3.5]	[2.5 - 3.0]
Inflation (eop, %)	50.9	[52.0 - 62.0]	[46.0 - 54.0]	[40.0 - 48.0]
Primary fiscal balance (% of GDP)	-3.0	-2.5	-1.9	-0.9
Current account (% GDP)	1.4	0.5	0.4	0.2
Change in net int'l reserves (US$bn)[1]	-1.5	5.8	4.0	5.2
Monetary Financing	3.6	1.0	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. Given unprecedented uncertainties, policies will need to continue to be adapted as circumstances evolve. Argentina's economic outlook will depend significantly on the evolution of external shocks, including the war in Ukraine, and the magnitude and duration of the associated spillovers. A more fragmented global economy, with further disruptions in supply chains, could lead to faltering global and trading partner growth, while a faster-than anticipated tightening in global financial conditions or a re-intensification of the pandemic could have additional negative knock-on effects on financial flows and global growth prospects. Mindful of these risks, and recognizing the limited policy space and available financing, we stand ready to adapt our policies as needed to ensure macroeconomic stability through continued adherence to program targets.

A. Fiscal and Financing Policy

9. We remain committed to our multiyear fiscal consolidation path and have adopted policy measures to secure meeting the end-year primary deficit target of 2.5 percent of GDP. The severe commodity price shock has not only exerted pressures on inflation, but also on subsidies and social assistance to shield lower-income households from higher food inflation. Nonetheless, a reprioritization of our policy priorities will ensure achievement of our end-year fiscal targets, which we view as essential to also meeting our end-year reserve accumulation and monetary financing targets. That said, some revisions of the quarterly fiscal targets will be required to take into account the increased subsidy spending and upfront social support. The current Budget Law will be modified to reflect these new policy priorities, outlined below, consistent with a primary fiscal deficit for 2022 of 2.5 percent of GDP **(*prior action*)**. Moreover, given the importance that we place on achieving our end-year program objectives in the face of unprecedented uncertainties (¶8) which are affecting our revenue collection and spending priorities, we stand ready to continue to reprioritize public spending—including the allocation among transfers, capital, and current expenditures—going forward to ensure that our end-year fiscal target is met.

- On the **revenue front**, in addition to higher-than-programmed commodity-related revenues, we have intensified efforts to improve property tax collection (by raising real estate valuations so that they are increasingly aligned with market prices) and to strengthen tax and customs administration drawing on ongoing IMF Technical Assistance. In addition, we recently submitted to our Congress a proposal to capture unexpected windfall profits, targeted at firms with large profits that are also benefiting from the global commodity price shock.

- On the **social protection front**, we have introduced a package of additional targeted and temporary social assistance (equivalent to about ¼ percent of GDP) to mitigate the impact of higher food inflation on those most in need (informal workers, AUH recipients, low-income pensioners, and domestic and self-employed workers). The value of the food stamp transfers (*Tarjeta Alimentar*) has been adjusted as well as transfers under our workfare program (*Potenciar Trabajo),* the latter in line with minimum wage adjustments.

- On the **expenditure front**, we are implementing a multipronged strategy to contain energy subsidy spending through targeted adjustments in wholesale electricity and gas tariffs and efforts to reduce the cost of energy imports, in line with our program commitments (see ¶18).

In addition, we are reprioritizing spending through amendments in goods and services, current transfers, subsidies, and prioritization of capital spending. Finally, we will carefully manage the wage bill of the public sector, to ensure it grows consistently with the growth rate of the economy, while pension spending will continue to follow the pension formula.

10. In parallel, efforts continue to improve the efficiency and transparency of public spending.

- ***Strengthening the efficiency of public spending.*** Building on recommendations of the IMF's Public Investment Management Assessment (PIMA), we are advancing in the development of an action plan to enhance financial and budget reporting of the entities of the national public sector other than the National Administration (according to the Law 25.917, Article 3) and strengthen the monitoring and governance of investment projects (***end-June, SB***). In parallel, we recently modified the Resolution (SEPIPyPPP 1/2021) to improve the prioritization and selection criteria for the public investment projects to be included in the 2023 Budget (***end-June, SB***). Finally, we are also assessing recommendations from the recently updated fiscal safeguards review and, in this context, we remain committed to strengthening the Treasury Single Account (TSA).

- ***Budgetary process.*** Work is underway on a pre-budget statement (*Informe de Avance del Proyecto de Presupuesto*) for the 2023 Budget, which will be submitted to Congress by end-June and include a description of the macroeconomic outlook, as well as a qualitative assessment of risks and measures supporting the achievement of the fiscal framework. The statement will draw on recommendations from a workshop on international experiences with Medium-Term Fiscal Frameworks. Importantly, this outlook will be updated when we submit by mid-September our Draft 2023 Budget, which will be consistent with the agreed primary deficit of 1.9 percent of GDP and include an elaboration of the underlying policies to meet this target ***(new mid-September 2022, SB)***.

- ***Federal-Provincial Fiscal Coordination.*** Congressional approval of the Fiscal Consensus agreed with 21 provincial governments is expected by end-September. Meanwhile, work is also underway on options for revamping the Fiscal Responsibility Legislation, including to better define escape clauses, review the role of Fiscal Council, and limit foreign-currency denominated borrowing by provincial governments. Enhancing the timeliness of the general government fiscal reporting remains a priority—in addition to regular quarterly general government reports, we expect to publish the end-year report by June of the following year.

11. Building on an encouraging early performance, we will continue to strengthen the domestic peso debt market. Net domestic peso market financing through end-March reached 0.9 percent of GDP (and 1.0 percent of GDP through end-May) with an average rollover rate of around 150 percent (122 percent through end-May), which in turn have permitted us to limit reliance on monetary financing of the fiscal deficit below the end-June target. In the context of the recent rise in inflation, our net domestic placements have increasingly focused on inflation-linked instruments, where efforts are underway to extend maturities in order to reduce rollover risks. That said, as conditions permit, we plan to gradually increase the issuance and maturity of our fixed-rate instruments supported by continued improvements in our domestic debt management. In this regard, minimum pricing remains restricted to exceptional cases (when secondary pricing is unavailable or to guide pricing when instruments are trading in stressed markets). Moreover, we are in the process of formulating an annual borrowing plan (ABP), which we plan to finalize by end-June 2022 for its implementation in the remainder of 2022, and on ongoing basis for the years ahead. In parallel, the work on a medium-term debt strategy (MTDS) is ongoing and expected to be completed before end-2022 (***end-December, SB***), with Fund technical support. Finally, we recently revamped the finance secretary external website with a dedicated investor relations section, making public our investor relations presentation (***end July, SB***), which we will aim to update on a monthly basis.

12. Official (non-IMF) external support remains on track. Net official financing is expected to pick up and reach a cumulative total of US$600 million by end-June, and around US$2,500 million by the end-2022, split between multilateral development banks (US$2,200 million) and bilateral creditors (US$300 million). Meanwhile, negotiations are underway with Paris Club creditors on a repayment schedule for our legacy obligations, consistent with our repayment capacity and debt sustainability. We are aiming to reach agreement by end-June 2022.

B. Monetary and Exchange Rate Policies

13. We remain committed to tackling persistent high inflation and rebuilding reserves. As in other countries, sharply higher global energy and food prices have exacerbated the challenge of addressing inflation. We recognize the need to advance with the implementation of our multipronged approach, and to complement our commitment to meet the targeted reduction in the fiscal deficit and monetary financing with proactive monetary and FX policies to rebuild international reserves and contain inflation. Well-designed price and income policies can also help in anchoring inflation expectations.

- **Monetary policy.** We will remain guided by our enhanced monetary and exchange rate policy framework to deliver real positive policy rates while keeping the quasi-fiscal deficit in check. Achieving this transition will reinforce the demand for peso deposits and the holdings of domestic government and private securities. To this end, the BCRA has raised the effective policy rate by about 690 basis points since end-March and stands ready to continue to adapt monetary policy as determined by the evolution of core inflation, forward-looking measures, and international reserves dynamics.

- **FX policy**. We continue to actively manage the official rate of crawl mindful of inflation developments and currency developments in trading partners with a view to maintaining the real effective exchange rate this year at competitive levels. This is necessary to sustain Argentina's current account surplus and secure the program's reserve accumulation goals. In addition, we will remain prudent in our interventions in the non-deliverable futures market as done to date, limiting our interventions to help guide market participants as the new monetary and FX policy framework is implemented.

- **Price and income policies.** We have extended voluntary price agreement on over 1300 key goods with over 150 private firms through end-June and widened the scheme to include a subset of staples sold in smaller grocery stores. Efforts continue to help ensure wage negotiations are consistent with the objective of improving real incomes over time.

14. **In parallel, we will continue to strengthen our operational framework to enhance the effectiveness of monetary policy.** We have taken measures to improve the transmission of monetary policy rates to deposit rates, including by further raising commercial banks' deposits floor rates and lending ceiling rates and lengthening the maturity of central bank sterilization instruments to encourage banks to extend the duration of their deposit liabilities. In parallel, we are developing a plan to gradually simplify the existing reserve requirements regime, which we expect to communicate over the coming weeks (***end-June, SB***). The regulations would sharply reduce the number of special rebates on reserve requirements (which would be gradually phased out considering the capital and liquidity positions of different commercial banks), while maintaining existing incentives for lending to small and medium sized enterprises and to consumers mainly for the purchase of durable goods.

15. **Consideration is being given to easing capital controls in key sectors.** Regulations have been issued that facilitate access to foreign currency in the official market to companies engaged in the energy sector and knowledge economy under certain conditions. These measures are critical to encourage investment in key sectors, such as the energy sector, and bolster net FX inflows over time. Furthermore, a working group has been established with a view to initiating preparation of a roadmap for the conditions-based easing of CFMs (***end-December 2022, SB***).

16. **Steps are being taken to strengthen the BCRA's finances and governance framework.** In line with the recommendations of the recently-completed IMF Safeguards Assessment, the BCRA recently issued an internal resolution establishing an internal audit committee to strengthen internal audit mechanisms and systems of internal controls. Work is starting to assess the financial soundness of the central bank's balance sheet, based on internationally recognized accounting standards. Thereafter, and with inputs from IMF technical assistance, we will develop a strategy for gradually and durably improving the central bank's financial position (***end-December 2022, SB*).**

C. Growth and Resilience Policies

17. **Our economic program remains focused on policies to build resilience and unleash the growth and export potential of our economy.** To this end, we are advancing reforms outlined in our MEFP of March 2022, giving special emphasis to policies aimed at improving the efficiency and sustainability of the energy sector and building a stronger and more diverse export base. As discussed earlier (see ¶15), initiatives to selectively ease capital controls in the energy sectors and the knowledge economy are part of this broader strategy.

Energy Sector Policies

18. A top policy priority remains improving the efficiency, fairness, and sustainability of Argentina's energy sector. This is being achieved through a multipronged strategy aimed at reducing energy costs and reliance on imported energy, while setting wholesale prices to better reflect production costs and improving the targeting and progressivity of energy subsidies.

- **Near term actions.** Our immediate focus has been on mitigating the impact of the recent increase in global energy prices on the energy subsidy bill, while also ensuring distributional fairness and equity. Specific actions include:

  - *Reducing energy costs*. Important efforts have been made to reduce the cost of energy imports through the signing of a new agreement with Bolivia to secure increased gas supplies at favorable rates (around US$11.5 per MMBTU), and exchanges of electricity with Brazil to reduce the reliance on more costly fuel imports. In addition, we are working actively to pre-purchase energy and adjust the energy import mix (substituting imports of LNG with less expensive fuel/gas oils) to reduce costs and uncertainty in the face of highly volatile global energy prices. Importantly, following a competitive and open bidding process, we have initiated the process of construction of the Nestor Kirchner gas pipeline, the first phase of which is expected to be completed by mid-2023.

  - *Improving the targeting of energy tariffs*. Following the relevant public hearings (***end-April, SB***), resolutions were issued, notifying regulatory entities of updated reference prices for wholesale electricity and gas that went into effect June 1 (***prior action***). Overall, the weighted-average increase in wholesale energy prices during 2022 is estimated at around 42 percent, in line with our policy commitment to anchor updates in consumer bills on past average wage growth. This commitment will continue to remain valid during 2023. Our actions are expected to result in energy subsidy savings of 0.15 percent of GDP in 2022 and to keep the energy subsidy bill near 2.1 percent of GDP.

    i. *Updates to wholesale energy tariffs*. For electricity, a resolution (405/2022) was issued communicating increases in the price associated with the generation of electricity (PEST, precio estacional de energia) of: 26.1 percent for residential consumers, and 36.6 percent for nonresidential consumers. For gas, a resolution (403/2022) was issued communicating increases in the wholesale price (PIST, precio al punto de ingreso al sistema de transporte) of 41.7 percent for both residential and nonresidential consumers. The new regulated wholesale prices imply a cumulative increase during 2022 in the final consumer bill of 21.4 percent for lower-income residential consumers (Tarifa Social) and of 42.7 percent for middle-income residential consumers.

    ii. *Subsidy segmentation for residential users with greater payment capacity.* A decree will be issued shortly establishing a new residential subsidy segmentation scheme that will go into effect starting June. The scheme will eliminate electricity and gas subsidies by end 2022 for the top 10 percent of residential consumers nationwide with the greatest payment capacity. We are also continuing our policy of not providing subsidies to large users (GUDIs), ensuring their wholesale energy tariff fully reflects cost recovery. Beyond 2022, consideration will be given to expanding the subsidy segmentation scheme, drawing on lessons from implementation.

- **Medium-term actions**. We recently requested World Bank technical assistance to provide inputs to support the development of a medium-term plan to improve the efficiency of our energy matrix and reduce costly energy subsidies, while also strengthening the quality of energy services and affordability of access for vulnerable households. On the basis of our initial discussions, this medium-term plan, which has a special emphasis on the electricity sector, includes actions to: (i) improve energy efficiency, by encouraging private and public investments in generation and transmission, tackling consumption inefficiencies, and reducing losses in the distribution sector through improvements in metering, billing, and collections; (ii) expand hydroelectricity generation and other renewables; (iii) review energy pricing, to ensure that over time end-user tariffs better and more predictably reflect wholesale gas and electricity costs, (iv) strengthen the social tariff scheme, including by improving information systems and databases to better target energy subsidies; (v) improve the quality of service, including through reviewing minimum quality standards and incentives; (vi) strengthen federal regulatory coordination for the distribution sector to support its development; and (vii) improve risk management for energy imports. The Energy Secretariat expects to publish this plan for consultation (***end-September 2022, SB***), with the view of making the final version public by end-2022.

Other Policies

19. We are advancing legislation and regulations to encourage investment and net exports in strategic sectors. Consultation with relevant stakeholders is ongoing on the different legislative initiatives—hydrocarbons, mining, agro-industry, automotive industry, and electro-mobility—which we expect will be considered by congress during the course of 2022. These initiatives can greatly expand our productive capacity, increase productivity, and enhance external resilience, including by reducing energy-related imports. Moreover, Argentina's vast potential in gas and fertilizer production can contribute to ease international supply constraints, supporting global energy and food security. We are also working on legislation to promote investment in the hydrogen sector and are seeking to extend the legal framework for investments in biotechnology.

D. Transparency and Governance Policies

20. We are also taking decisive steps to strengthen our overall AML/CFT regime ahead of the evaluation by the Financial Action Task Force (FATF) in 2023.

- We recently submitted to congress, in consultation with relevant stakeholders and IMF staff, revisions to the AML/CFT legislation (Law 25.246) (***end-May 2022, SB***). The amended law strengthens the sanctioning regime, the inventory of reporting entities subject to AML/CFT obligations, the preventive measures applicable to reporting entities, and the requirements related to ultimate beneficial owner information disclosure. In parallel, we will prepare by end-August, in consultation with IMF staff, a gap analysis of the entire AML/CFT regime against FATF's 40 Recommendations, the findings of which will be incorporated as necessary into the amended AML/CFT legislation during the congressional review process. Finally, the Financial Intelligence Unit (FIU) is advancing the preparation of the necessary implementing resolutions to facilitate prompt and full implementation of the amended legislation once approved.

- We are in the process of finalizing and adopting the national risk assessment of money laundering and will consolidate the results with the already-finalized terrorist financing assessments. Work is also underway towards publishing the National AML/CFT Strategy (***end-September 2022, SB***), which will include recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.

E. Gender Policies

21. Promoting gender equity and inclusion. We remain committed to gender equity and to continue to pursue our multipronged strategy. Our actions to encourage female labor force participation are bearing fruit. Since the creation of the Registradas Program in September 2021, over 14,000 female workers have been registered under the program and over 127,000 female domestic workers have been formalized. Female labor force participation rates exceeded 50 percent in Q3:2021, and female employment rates reached 46.4 percent in Q4:2021, both at their highest levels since 2003. Furthermore, we have strengthened the gender orientation of our social support systems. The income reinforcements granted during April-May 2022 targeted groups with significant female populations—domestic workers (98 percent women), Universal Child Allowance (95 percent), Potenciar Trabajo (67 percent), low-income pensioners (67 percent). In addition, to improve access to care and other infrastructure for mothers, we issued a decree in March requiring that all workplaces with more than 100 workers have childcare facilities and submitted legislation in May for the creation of an Integrated Care System of Argentina (ICSA). The draft bill would seek to improve infrastructure for care workers, secure minimum funding for public care infrastructure, and extend paid leave for parents of chronically ill and/or disabled children, and for survivors of domestic abuse. Finally, we continue to enhance our gender budgeting approach, and have identified that 15 percent of national spending as being allocated to policies that contribute to closing gender gaps.

IV. Program Monitoring

22. Program targets and structural benchmarks have been adjusted to reflect our new macroeconomic framework and policy priorities. The program will continue to be monitored through quarterly reviews. We are requesting modification of the end-June 2022 performance criteria on the primary fiscal balance, the change in net international reserves, monetary financing of the fiscal deficit, and the stock of domestic arrears. This is necessary given the large spillovers from war in Ukraine, which has led to higher inflation, the need for upfront and temporary social assistance to shield vulnerable households from higher food prices, and increased energy imports and subsidy spending. We also request establishing performance criteria through end-December 2022 and indicative targets through end-June 2023, consistent with the new macroeconomic framework and policy commitments. That said, the end-year reserve accumulation target will remain unchanged while other peso-denominated targets (primary fiscal balance, domestic arrears, monetary financing) will be kept unchanged as a share of GDP. We have also updated our definition of the primary fiscal balance by capping non-tax revenues from the issuance of debt at 0.3 percent of GDP in 2022. These revised targets and definitions are set out in Table 1, and further specified in the Technical Memorandum of Understanding. The proposed prior actions and structural benchmarks are set out in Table 2.

23. Good faith efforts continue towards resolving external arrears. Specifically, (i) outstanding arrears to vulture funds and holdout creditors that did not participate in the 2005/10 debt exchange or settle under the terms provided in 2016; (ii) disputed and undisputed claims to the binational entity, Yacyreta (with undisputed claims, which amounted to US$76 million at end-2021, expected to be repaid by the end-August 2022); and (iii) outstanding sovereign arrears to private external firms. Meanwhile, claims by the French export credit agency remain under litigation in the Argentine courts.

Table 1. Argentina: Baseline Quantitative Performance Criteria and Indicative Targets [1, 2]

(In billions of Argentine pesos unless otherwise stated)

	Performance Criteria 2022										Indicative Targets 2023	
	end-Mar				end-June		end-Sept		end-Dec		end-Mar	end-June
	PC	Adjusted	Actual	Status	Program PC (CR 22/92)	Proposed Revised PC	Program IT (CR 22/92)	Proposed PC	Program IT (CR 22/92)	Proposed PC	Proposed IT	Proposed IT
Fiscal targets												
Performance Criteria												
1. Cumulative floor on the federal government primary balance 3/ 8/	-222.3	-210.9	-192.7	Met	-566.8	-874.4	-912.3	-1142.1	-1758.6	-1884.9	-365.4	-931.7
2. Ceiling on the federal government stock of domestic arrears 4/	535.9	...	336.2	Met	535.9	612.2	535.9	612.2	535.9	612.2	927.5	927.5
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	0.0	0.0
Indicative Targets												
4. Cumulative floor on real federal government revenues 3/ 5/	2417.3	...	2566.0	Met	4759.4	5179.7	6929.2	7763.9	8900.0	10347.6	2594.4	5346.8
5. Cumulative floor on federal government spending on social assistance programs	151.9	...	164.2	Met	318.0	332.2	494.4	542.1	707.8	780.6	249.8	522.8
Monetary targets												
Performance Criteria												
6. Cumulative floor on the change in net international reserves of BCRA 6/ 8/	1.200	1.245	1.523	Met	4.100	3.450	4.400	4.100	5.800	5.800	6.200	9.400
7. Cumulative ceiling on central bank financing of the federal government 3/	236.8	...	122.0	Met	438.5	475.8	613.3	665.4	705.2	765.2	215.3	647.8
Indicative Target												
8) Ceiling on the central bank stock of non-deliverable futures 7/	6.000	...	1.200	Met	7.000	7.000	9.000	9.000	9.000	9.000	9.000	9.000

Sources: National authorities and Fund staff estimates and projections.

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).

2/ Based on program exchange rates defined in the TMU.

3/ Flows from January 1 through December 31. Since the 2023 Budget is yet to be submitted to Congress, the March and June 2023 primary balance targets are indicative.

4/ The stock of domestic arrears at end-Q4 2021 stood at 535.9 billion pesos including intra-public sector transfers (transferencias figurativas) and 397.9 billion pesos excluding these transfers. The TMU definition excluded these transfers for the purposes of the end-March PC, but has been amended to include them going forward.

5/ Rebased assuming CPI=100 at end-2021.

6/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021, which stood at US$2.325 billion.

7/ In billions of U.S. dollars. The stock of non-deliverable 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 under the EFF Arrangement

Prior Actions	Sector	Completion date	Status
Modify the current Budget Law to ensure its full consistency with the 2022 program's fiscal targets	Fiscal Structural		
Issue resolutions notifying regulatory entities of updated reference prices for wholesale electricity and gas that will go into effect June 1	Fiscal Structural		Met
Proposed New Structural Benchmark			
Submit to Congress the Draft 2023 Budget consistent with the agreed primary deficit of 1.9 percent of GDP and include an elaboration of the underlying policies to meet this target	Fiscal Structural	September 15, 2022	
Structural Benchmarks			
Avoid additional taxes on financial transactions	Fiscal Structural	Continuous	
Modify the current Budget Law to be in line with the 2022 primary fiscal deficit target agreed under the program	Fiscal Structural	April 15, 2022	Set as PA
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	end-April, 2022	Met
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	end-May, 2022	Met
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	end-June, 2022	
Modify the SEPIPyPPP 1/2021 Resolution to enable an annual regulation that sets investment projects prioritization and selection criteria. Criteria will prioritize ongoing projects and, among major projects, those with pre-feasibility or feasibility studies. On this basis, a regulation will be adopted to determine prioritization and selection criteria for projects to be included in the 2023 Budget	Fiscal Structural	end-June, 2022	
Publish a time-bound plan to streamline the reserve requirement system and improve the transmission of monetary policy	Monetary/FX Policy	end-June, 2022	
Publication of semi-annual investor relations presentation to advance the investors relation program	Financing	end-July, 2022	Met
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-August, 2022	
Complete, in close coordination with provincial governments, the process of updating property valuations at the federal level so that they can begin to go into effect for fiscal year 2022	Fiscal Structural	end-September, 2022	
Publish a National AML/CFT Strategy with recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments	Financial Integrity	end-September, 2022	
Develop and publish a medium-term plan, with technical and financial support of international development partners, to further reduce energy subsidies, with specific cost recovery targets, and improve the efficiency of the energy matrix, while ensuring the quality of energy services and the affordability of access for more vulnerable households	Structural	end-September, 2022	
Conduct and publish, working with development partners, a comprehensive evaluation of social support programs and strategy to identify options for policy improvements	Fiscal Structural	end-December, 2022	
Conduct and publish a study outlining options and recommendations to strengthen the equity and long-term sustainability of the pension system, focused on the special pensions regime (set forth by Law 27.546), and on mechanisms to encourage voluntarily prolonging working lives	Fiscal Structural	end-December, 2022	
Develop and publish a roadmap, in consultation with Fund staff, for the gradual easing of FX controls outlining the necessary conditions and objectives	Monetary/FX Policy	end-December, 2022	
Develop and publish, in consultation with Fund staff, a strategy to durably improve the BCRA financial position, drawing on recommendations from the Fund's Safeguard Assessment	Monetary/FX Policy	end-December, 2022	
Amend and submit to congress legislation—Foreign Exchange Criminal Law—to improve the penalty framework, including by introducing authorization of administrative fines, to make the sanctioning framework more efficient and enhance the timeliness of enforcement	Monetary/FX Policy	end-December, 2022	
Prepare, in consultation with Fund staff, a medium-term debt management strategy (MTDS)	Financing	end-December, 2022	
Publication of an external ex-post audit on COVID spending that took place of at least during 2020	Governance/ Structural	end-June, 2023	

Attachment II. Technical Memorandum of Understanding Update

June 14, 2022

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

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on March 2, 2022. Accordingly, the exchange rates for the purposes of the program are shown in Table 1. For the purpose of setting program PCs and ITs, inflation in 2022 is based on a point estimate of 57 percent (end of period), within the program inflation range.

Table 1. Argentina: 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 0.3 percent of GDP in 2022 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 (*subsidies económicos*), operational expenses (*gastos de funcionamiento*), current transfers to provinces (*transferencias corrientes a provincias*), other current spending (*otros gastos corrientes*), and capital spending (*gastos de capital*), which includes capital transfers to provinces.

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

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

- All primary expenditures (including fines) that are directly settled with bonds or any other form of non-cash liabilities will be recorded as spending above-the-line and will therefore contribute to a decrease in the primary balance. This excludes the settlement of liabilities related to pensions, revenue sharing and expenditure allocation, with the provinces and the Autonomous City of Buenos Aires, associated with court proceedings that are either finalized or pending as of March 3, 2022, and payments of arrears as per ICSID or similar arbitration rulings.

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

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

8. **Adjustor for external project financing disbursements**: The target for the primary balance of the federal government will be adjusted up (down) by the shortfall (excess) in the expenditure financed by disbursements of project loans from multilateral and bilateral partners, compared to the project loans in the program baseline (Table 2). The value of the adjustor would be capped at cumulative 153,042 million pesos in 2022 (equivalent to US$1.2 billion / 0.2 percent of GDP).

Table 2. Argentina: Multilateral and Bilateral project Financing
(baseline projections)

	AR$ millions 1/
end-March 2022	27,028
end-June 2022	104,196
end-September 2022	200,525
end-December 2022	335,683

1/ Cumulative from January 1 of each year.

Ceiling on Federal Government Accumulation of Domestic Arrears

9. **Definition:** Domestic arrears are defined as the floating debt, that is the difference between primary spending recorded on an accrual basis (*gasto devengado*, from the SIDIF system) and primary spending recorded on a cash basis (*base caja,* from the Treasury). This includes intra-public transfers (*transferencias figurativas*)[1], 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 in Q4 2022.

[1] *Transferencias figurativas* were excluded from the definition of domestic arrears for the purposes of measurement against the end-March 2022 performance criterion. The TMU has been updated to clarify that, going forward, *transferencias figurativas* will be included in the definition of domestic arrears.

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**[2] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

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

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

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

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[2] 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.

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

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

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

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

Table 3. Argentina: Program Loan Disbursements from Multilateral and Bilateral Sources
(Baseline Projection)

	(In millions of US$) 1/
end-March 2022	55
end-June 2022	755
end-September 2022	1,394
end-December 2022	1,457

1/ Cumulative from January 1 of each year.

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

Table 4. Argentina: Paris Club Payments (Amortization and Interest)
(Baseline Assumptions)

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

1/ Cumulative from January 1 of each year.

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

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 765,213 million pesos (1 percent of GDP in 2022) by the end of December 2022, with cumulative flows from end-December 2021 in millions of pesos. The cap for 2023 will be 0.6 percent of GDP, with zero net financing in 2024.

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.

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 recurrent and capital) on the following social assistance programs:

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

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. 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

Revisions to Energy Bills for Residential Consumers

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

Calculation of the Real Change in Wholesale Energy Prices

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

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

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

34. Measurement:

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

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

- For 2022, the annual real change in the weighted average wholesale energy price will be calculated as the average annual projected change in the nominal price (based on implemented values of the PEST and PIST), deflated by projected average annual inflation of 58 percent[3] for 2022, under the program.

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

OTHER INFORMATION REQUIREMENTS

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

A. Daily

- Nominal exchange rates; total currency issued by the BCRA; deposits held by financial institutions at the BCRA; total liquidity assistance to banks through normal BCRA operations, including overdrafts; and interest rates on overnight deposits.

[3] Projected end-of-period inflation in 2022 is 57 percent (see TMU¶2).

- Aggregated data on banks' foreign exchange positions, provided in the following categories: public national; public provincial; private domestic; private foreign; and small banks.

- Daily data on BCRA sales and purchases of securities settled in different currencies will be provided to the Fund with a weekly frequency, no more than two business days following the end of the considered week.

- BCRA activity in the non-deliverable futures market.

B. Weekly

- BCRA balance sheet.

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

C. Fortnightly

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

D. Monthly

- Federal government operations including monthly cash flow from the beginning to the end of the current fiscal year (and backward revisions as necessary), with a lag of no more than 25 days after the closing of each month, according to both the format of the *Informe Mensual de Ingresos y Gastos* (IMIG) and to the format of the *Cuenta Ahorro Inversion Financiamiento* (AIF). Specific reporting will include details on:

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

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

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

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

- On federal debt:

  i. Domestic and external debt service (amortization and interest payments) of the federal government, with a lag of no more than 25 days after the closing of each month. Projected monthly federal government debt amortization/repayments and interest payments (local currency and FX bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). This would include both direct and guaranteed debt. In the case of issuance of government guaranteed debt, the name of the guaranteed individual/institution shall be included.

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

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

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

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

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

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

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

E. Semi-annual

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

  i. Quarterly data on the provincial government debt stock by currency, provided within six months of the closing of each semester (i.e., end-June and end-December), including by (i) creditor (official, commercial domestic, commercial external; (ii) instrument (local currency and FX denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); and (iii) direct and guaranteed.

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

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

Statement by the Staff Representative on Argentina
June 22, 2022

This statement provides an update on developments since the issuance of the staff report to the Executive Board on June 15, 2022. In particular, it reports on the completion of the prior action related to modification of the 2022 budget consistent with program objectives, and on recent monetary policy actions by the BCRA. The update does not affect the recommendation to complete the review nor the thrust of the staff appraisal.

Policy actions. On June 16, the authorities announced a coordinated policy package consistent with the program's fiscal, monetary, and energy policies with the aim of securing the end-year program objectives. Decisive implementation will remain essential going forward.

- **Monetary and credit policy.** In its sixth consecutive move since the start of the year, the BCRA raised its policy interest rate by an additional 300 bps in annual nominal terms (475 bps in annual *effective* terms to equivalent of 66.5 percent).[1] In tandem, and in an effort to improve monetary policy transmission, it raised by 400–500 bps the interest rate floors on bank deposits and the interest rate ceilings on bank credit. Meanwhile, interest rates on the flagship credit incentive scheme (*Ahora 12*) were adjusted upward by 900 bps to help moderate domestic demand and imports. Critically, in its communique, the BCRA appropriately signaled its commitment to continue to adjust monetary policies to deliver positive real policy rates, strengthen financial and exchange rate stability, and tackle inflation inertia.

- **Fiscal policy.** Consistent with the prior action, an Emergency Decree was issued modifying the current budget to ensure its consistency with the program's primary deficit target of 2.5 percent of GDP for 2022. The Decree established new expenditure ceilings for the National Administration, reflecting a reprioritization of spending in line with the agreed program baseline in the staff report. To provide additional clarity, the Ministry of Economy also issued a press release emphasizing the consistency of the Decree with the program's fiscal and reserve accumulation objectives.[2]
- **Energy tariff segmentation.** A Decree was issued creating a new tariff segmentation scheme which would eliminate energy subsidies by end-2022 of the top 10 percent of households with the greatest capacity to pay. The new scheme is expected to be rolled out through three separate increases (2 months apart), and consumers identified as having high capacity to pay (and hence subsidy elimination) will be allowed to challenge the decision. This complements earlier efforts to raise wholesale energy price in March and June.

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[1] The BCRA's overnight rate was also raised by 300 bps in nominal annual terms.

[2] The program's primary fiscal deficit target is defined on a "cash" basis and covers the Federal government, which comprises the National Administration as well as selected non-financial public entities and trusts. The Decree applied to operations of the National Administration on an accrual basis.

Recent Developments and Data Releases

- **Market developments.** Domestic bond yields, after rising sharply during June 9–13, have stabilized since then in the context of waning central bank intervention in the bond market. Domestic market conditions, however, remain fragile against a backdrop of increased global uncertainties.

- **Fiscal outturn May 2022.** The primary fiscal deficit rose further in May, reaching a cumulative ARS 463 billion (0.6 percent of GDP) since the start of the year.[3] Tax and customs real revenue growth (4 percent cumulative y/y), was offset by continued strong real primary expenditure growth (14 percent cumulative y/y), especially in energy subsidies and social assistance outlays. The cumulative deficit through May is consistent with the end-June revised primary deficit target, conditional on policy implementation.

[3] This measure of the deficit reflects the cap of non-tax revenues from the issuance of inflation-linked securities at 0.3 percent of GDP in 2022, consistent with the updated program Technical Memorandum of Understanding.

Statement by Sergio Chodos, Executive Director for Argentina and Bernardo Lischinsky, Senior Advisor to Executive Director June 24, 2022

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

Notwithstanding a complex global environment, our authorities remain committed to fully implement the program, carry on with needed policies to safeguard macroeconomic stability, protect the most vulnerable, and continue tackling Argentina's challenges. Consistent policy management allowed our country to meet all end-March 2022 performance criteria, including the primary balance of the federal government, the floor on the change in net international reserves, and the ceiling on the central bank financing of the fiscal deficit. All indicative targets were also met, and our authorities made steady progress in meeting structural benchmarks.

Program Performance

The program remains well on track. However, due to the war in Ukraine, which has led to significantly higher global food and energy prices, our authorities are reconsidering the macroeconomic framework and re-balancing fiscal policies, to accommodate: (i) the higher-than-expected inflation; (ii) higher-than-anticipated energy import prices, with implications on the energy subsidy and import bills; and (iii) upfront targeted and temporary social support to protect lower-income households from the food price shock. The adaptation of the strategy includes not only reprioritizing main goals, but also a different path for the next quarterly fiscal deficit and foreign exchange reserves accumulation, which despite a very challenging international context, are nevertheless consistent with the yearly targets established in the Extended Fund Facility. The path and the year target for monetary financing remains unchanged.

The primary fiscal deficit through end-March was ARS 192 billion (0.25 percent of GDP), roughly ARS 20 billion below the adjusted target. This outturn took place despite the higher-than-programmed energy subsidies, reflecting a combination of prudent expenditure management and a rise in non-tax revenues. Meanwhile, the average quarterly stock of domestic arrears remained below target (ARS 536 billion). In addition, the social spending indicative target was observed as spending exceeded the established floor on account of efforts to shield the lower-income households from higher inflation, and the real revenues indicative target was somewhat higher than programmed.

Central bank financing of the fiscal deficit was limited to ARS 122 billion (0.16 percent of GDP) through end-March, well below the program target of ARS 237 billion (0.3 percent of GDP) as efforts were made to frontload peso debt issuance in the domestic market. Reserve accumulation reached US$1,522 million, US$278 million above the adjusted program target, mainly on account of a higher-than-anticipated trade surplus (on a cash basis). The stock of central bank non-deliverable futures narrowed through end-March 2022, remaining well below the end-March program ceiling.

Public hearings were called on a proposal to update wholesale electricity and gas tariffs, which became effective from June 1st, the investor relations presentation has been published, and revisions to the AML/CFT (anti-money laundering/combat of financial terrorism) legislation have been submitted to congress, in line with best practices. The current budget has been modified to ensure its full consistency with the ongoing program. Short delays in this issuance reflected the need for additional time to fully assess and incorporate into the budget the implications of the global shock associated with the war in Ukraine.

Efforts continue to tackle persistent high inflation, which has been aggravated by sharp increases in global food and energy prices. The central bank has remained proactive in implementing the enhanced monetary and FX policy framework to gradually deliver positive real policy rates and maintain external competitiveness. In this regard, and to limit the second-round effects of the inflation shock, the effective monetary policy rate has been increased by about 990 bps since program approval.

The New Macroeconomic Framework

Our authorities have updated the baseline macroeconomic framework as follows: growth in 2022 is projected to remain unchanged (relative to program approval) at around 4 percent, taking into account the strong Q1 performance and the expected dynamism of the services sector, as well as the limited direct impact of the war in Ukraine shock. Beyond this year, projections also remain unchanged relative to program approval.

Inflation is now projected to rise to 52–62 percent by end-2022, compared to 38–48 percent at the time of program approval, largely on account of the pass-through of higher-than-anticipated global food and energy prices. Inflation is expected to decline gradually during this year and into 2023-24 as the impact of the commodity price shock dissipates and implementation of the multipronged strategy to tackle inflation bears fruit.

The external balance is projected to remain broadly unchanged relative to the program, as higher imports —from higher prices, including on liquefied natural gas and fertilizers, and more dynamic import volumes—are expected to be broadly offset by higher export prices (grains and crude oil) and stronger financial inflows. End-year reserve accumulation goals remain unchanged.

Economic outlook

After three consecutive years of economic contraction, the economy expanded by 10.3 percent in 2021, the first increase after three consecutive years of decline (-2.6 percent, -2.0 percent, and -9.9 percent during 2018, 2019 and, respectively 2020), and the largest since the start of the series in 2004, surpassing the expansion recorded in 2010 (+10.1 percent). On the demand side, the recovery in 2021 was driven by investment, which grew by an annual average of 32.9 percent - the first rise after three years of decline and the highest since the start of the series in 2004 - and explained 5.5 percentage points (p.p.) of GDP growth. The investment rate closed 2021 at 20.1 percent of GDP, well above the records of 16.6 percent in 2020 and 17.2 percent in 2019 and reached a ratio of 20.9 percent of GDP in the fourth quarter of the year, the highest since the first quarter of 2018. On the supply side, in 2021 all sectors grew year-on-year except for the agricultural sector, which recorded a slight decline of -0.3 percent on average year-on-year. The recovery was mainly driven by the goods-producing sectors, which in 2021 grew by 11.3 percent year-on-year on average, driven by construction (+27.1 percent) and industry (+15.8 percent), the sector with the highest contribution to GDP growth (+2.5 p.p.).

Thanks to the strong expansion and policy efforts, fiscal imbalances narrowed, while social and infrastructure spending were expanded. The federal primary fiscal deficit fell from 6.4 percent of GDP in 2020 to 3 percent in 2021, compared to an original target of 4.5 percent of GDP. Net domestic (peso) market financing rose from 1.3 percent of GDP in 2020 to over 2 percent in 2021. Monetary financing of the deficit fell sharply—from 7.4 percent of GDP in 2020 to 3.7 percent in 2021. The trade surplus reached a near-historic high of US$15 billion, although sizeable outflows in the financial account limited reserve accumulation.

Headline inflation reached 5.1 percent m/m in May, 6.0 percent m/m in April, and compared to 6.7 percent m/m in March, as the impact of higher global food and energy began to ease. In the first five months of the year, accumulated inflation stood at 29.3 percent. After a brief stabilization in mid-2021, agricultural international prices grew significantly due to unfavorable weather conditions in South America and the subsequent outbreak of the war in Ukraine, boosting food and energy prices during the first quarter of 2022.

Between December 2021 and March 2022, there were increases in the local reference prices of the main commodities such as bread wheat (71.7 percent), corn (42.9 percent), sunflower (59.6 percent), sunflower oil (77.8 percent), soybean oil (48.4 percent) and soybean (35.5 percent). The impact on domestic inflation was significant. The index of food and beverages accelerated, from an average monthly inflation rate of 2.9 percent during the second half of 2021 to an average monthly inflation rate of 6.0 percent in the first five months of 2022, with peaks of 7.5 percent in February and 7.2 percent in March. Starting in April, food inflation began to decline, reaching the lowest monthly rise of the year in May (4.4 percent).

Social conditions are also gradually improving. The labor market has been recovering, with the unemployment rate falling to 7.0 percent in Q4:2021, after peaking 13.1 percent during Q2:2020. The labor force participation rate is also rising, formal employment is above pre-pandemic levels, real wages are beginning to recover, and poverty is declining, falling to 37.3 percent of the population during the second half of 2021, below the peak during the pandemic (42 percent). Female labor force participation rates exceeded 50 percent in Q3:2021, and female employment rates reached 46.4 percent in Q4:2021, both at their highest levels since 2003. Employment growth has been especially strong—formal employment levels are above pre-pandemic levels with over 215,000 formal private sector jobs added since end-2020. In addition, inequality has been reduced, in part reflecting targeted transfers to most vulnerable households. That been said, poverty rates, despite declining 8 percentage points relative to pandemic peaks, remain high, and stood at 37 percent in S2-2021, with higher levels among women, children, and individuals with low skills or insufficient qualifications.

The Modified Budget

Our authorities remain committed to the fiscal path envisaged in the program, which in turn will place public debt on a downward trajectory and will support the gradual resumption of international market access. Argentina will continue to pursue a growth-friendly fiscal consolidation that is consistent with the ongoing economy recovery. Due to the unusual international context, the government has been working on the reprioritization of policy priorities, and given the importance placed on achieving end-year program objectives in the face of unprecedented uncertainties, our authorities stand ready to reprioritize public spending, including the allocation among transfers, capital, and current expenditures.

Some revisions of the quarterly fiscal targets will be required to take into account the increased subsidy spending and upfront social support, which are crucial given the complex international scenario. Our authorities consider the Budget Law as a key ingredient of the program, which aims to foster an inclusive, balanced, federal, and sustainable process of economic growth. To reflect reprioritization in an uncertain and complex environment, the current Budget Law via a "*Decreto de Necesidad y Urgencia"*, was modified to carefully address the impact of the war in Ukraine. The modified budget reflects the country´s commitment to stimulate public investment, protect the most vulnerable, and foster the national research, technology, and innovation system. The modified budget envisaged a primary deficit of 4 percent of GDP (for the National Public Administration, on accrued basis; this is fully consistent with a primary fiscal deficit for 2022 of 2.5 percent of GDP for the National Public Sector, on a cash basis, as defined by the program) and the medium-term fiscal outlook.

In order to achieve the fiscal targets, our authorities are implementing a multipronged strategy to contain energy subsidy spending through targeted adjustments in wholesale electricity, and gas tariffs and efforts are being made to reduce the cost of energy imports, in line with program commitments. The wage bill of the public sector will be carefully managed, to ensure it grows consistently with the growth rate of the economy, while pension spending will continue to follow the pension formula.

To protect the most vulnerable, a package of additional targeted and temporary social assistance (equivalent to about ¼ percent of GDP) has been introduced to mitigate the impact of higher food inflation on those most in need (informal workers, recipients of the *Asignación Universal por Hijo*, low-income pensioners, and domestic and self-employed workers). The value of the food stamp transfers (*Tarjeta Alimentar*) has been adjusted as well as transfers under the workfare program (*Potenciar Trabajo*), the latter in line with minimum wage adjustments.

Efficiency and Transparency of Public Spending and Tax Collection

In parallel, efforts continue to improve the efficiency and transparency of public spending. Building on recommendations of the IMF's Public Investment Management Assessment (PIMA), our authorities are advancing on the development of an action plan to enhance financial and budget reporting of the entities of the national public sector other than the National Administration and strengthening the monitoring and governance of investment projects.

The government recently modified a resolution to improve the prioritization and selection criteria for the public investment projects to be included in the 2023 Budget, and recommendations from the recently updated fiscal safeguards review have also been assessed. Work is underway on a pre-budget statement for the 2023 Budget. The statement will draw on recommendations from a workshop on international experiences with Medium-Term Fiscal Frameworks. Congressional approval of the Fiscal Consensus agreed with 21 provincial governments is expected by end-September. Work is also underway on options for revamping the Fiscal Responsibility Legislation, including to better define escape clauses, review the role of the Fiscal Council, and limit foreign-currency denominated borrowing by provincial governments.

Our authorities are intensifying efforts to improve property tax collection (by raising real estate valuations so that they are increasingly aligned with market prices) and to strengthen tax and customs administration, drawing on ongoing IMF Technical Assistance. In that regard, they have recently submitted to Congress a proposal to capture unexpected windfall profits, targeted at firms with large profits that are benefiting from the global commodity price shock.

Financing Strategy

Developing a sound and stable capital market to promote investment and to offer a competitive rate of return to savings in domestic currency remains a key priority. The recent FED rate hike which has prompted flight to quality is an important challenge and illustrates the importance of macroprudential regulations and a sound domestic capital market, to minimize the impacts of negative international financial conditions. Argentina's government strategy for domestic financing remains focused on strengthening the peso securities market. Coupled with the ongoing efforts to obtain additional external financing from multilateral and bilateral sources, our authorities will continue to unwind the monetary financing of the deficit and the support of the ongoing economic recovery.

In this front, progress has been steady. Net domestic peso market financing through end-March reached 0.9 percent of GDP (and 1.0 percent of GDP through end-May) with an average rollover rate of around 150 percent (122 percent through end-May), which has permitted to limit reliance on monetary financing of the fiscal deficit, well below the end-June target. Net domestic placements have increasingly focused on inflation-linked instruments (to accommodate higher than expected inflation rates), but efforts are underway to extend maturities in order to reduce rollover risks. Our government is in the process of formulating an Annual Borrowing Plan, the work on a Medium-Term Debt Strategy is ongoing (with Fund technical support) and is expected to be completed before the end of the year, and recently the Finance Secretary´s external website was revamped with a dedicated investor relations section, making public the investor relation presentations.

Monetary, Exchange Rate, and Anti-inflationary Policies

As in other countries, sharply higher global energy and food prices have exacerbated the challenge of containing inflationary pressures. Our authorities recognize the need to advance with the implementation of the multipronged approach, and to complement their commitment to meet the targeted reduction in the fiscal deficit and monetary financing with proactive monetary and exchange rate policies to rebuild international reserves and to anchor expectations. In order to support domestic currency demand and to increase the attractiveness of peso denominated assets, the central bank (BCRA) has raised the effective policy rate by about 990 basis points since end-March and stands ready to continue to adapt monetary policy as determined by the evolution of core inflation, forward-looking measures, and international reserves dynamics. The BCRA continues to actively manage the official rate of crawl, mindful of inflation developments and currency developments in trading partners with a view to maintaining the real effective exchange rate at competitive levels.

Our authorities have also taken measures to improve the transmission mechanism of monetary policy by further raising commercial banks' deposits floor rates and lending ceiling rates, lengthening the maturity of central bank sterilization instruments, and the development of a plan to gradually simplify the existing reserve requirements regime. A smooth transmission mechanism is an essential pilar of the anti-inflationary strategy.

Inflation is a multifaceted phenomenon, and as recognized by the IMF staff, addressing inflation in Argentina requires an integral approach, including price and income policies. Towards that end, the government has extended a voluntary price agreement on over 1300 key goods with over 150 private firms through end-June (and it is expecting the program to be continued) and widened the scheme to include a subset of staples sold in smaller grocery stores. Efforts continue to help ensure wage negotiations are consistent with the objective of improving real incomes over time.

A working group has been established to prepare a roadmap for conditions-based easing of the capital controls and to establish a system of macroprudential regulations that reduces the exposure to short-term capital flows while encouraging long-term flows. This is a key step towards rebuilding the stock of foreign exchange reserves which, together with sectorial policies that will increase exports of key sectors, will help the BCRA to maintain financial stability. Moreover, some important measures in that direction were already taken i.e., regulations that facilitate access to foreign currency in the official market to companies engaged in the energy sector and knowledge economy, to encourage investment in those key sectors and bolster the net inflows of foreign exchange over time.

In line with the recommendations of the recently completed IMF Safeguards Assessment, work is starting to assess the financial soundness of the central bank's balance sheet, based on internationally recognized accounting standards. Likewise, a resolution to establish an internal audit committee, to strengthen internal controls, was recently issued.

Growth and Resilience Enhancing Policies

Promoting strategic sectors remains key to program success. Growth and resilience policies are essential to diversify and boost the country´s net exports and to solidify the macroeconomic framework. In this regard, our authorities are giving special emphasis to policies aimed at improving the efficiency, fairness, and sustainability of the energy sector, as well as building a stronger and more diverse export base. Consultation with relevant stakeholders is ongoing on the different legislative initiatives—hydrocarbons, agro-industry, automotive industry, and electro-mobility—which will be considered by congress during the course of 2022. These initiatives can greatly expand productive capacity, increase productivity, and enhance external resilience, for instance, by reducing energy-related imports.

Our authorities are working on legislation to promote investment in the hydrogen sector and are seeking to extend the legal framework for investments in biotechnology. A comprehensive package that provides fiscal stability, special access to the foreign exchange market, and refund of tax credits related to additional investment to the mining sector will be adopted soon.

There has been USD 10 billion announced investments during 2020 and 2021 in cooper and lithium projects. Our authorities are working with provinces and private companies to foster these investments that would multiply mining exports by four in the next ten years (from USD 3.2 billion in 2021, to USD 6.0 billion in 2025, and to USD 13.2 billion in 2030).

A new legislation was recently issued that allows an increase of the weight of biofuels in gasoil production (from 5 percent to 15 percent). It is important to highlight those European markets are not demanding the oils that now will be used to produce additional gasoil. Thus, this new legislation increases the domestic supply without any significant negative impact in the foreign exchange market and, if anything, is also reduces the need of additional imports.

The abovementioned initiatives to selectively ease capital controls in the energy sectors and the knowledge economy, are part of this broader strategy, which not only helps to strength the economy, but it also supports global energy and food security, as well as the mitigation of climate change.

Energy Sector Policies

Improving the efficiency of the energy sector is a cornerstone of our authorities´ integral strategy to build a resilient external sector, accumulate foreign exchange reserves, reduce inflation, and contribute to the international supply of traditional and cleaner sources of energy. A top policy priority has been on mitigating the impact of the recent increase in global energy prices on the energy subsidy bill, while also ensuring distributional fairness and equity.

Our authorities continue to tackle the main challenges working on several fronts. Specific actions include the reduction of energy costs through the signing of a new agreement with Bolivia to secure increased natural gas supplies, and exchanges of electricity with Brazil to reduce the reliance on costly fuel imports. In addition, our authorities are working actively to pre-purchase energy and adjust the energy import mix (substituting imports of liquified national gas with less expensive fuel/gas oils) to reduce costs and uncertainty in the face of highly volatile global energy prices.

Following a competitive and open bidding process, the process for construction of the Nestor Kirchner gas pipeline has been initiated, the first phase of which is expected to be completed by 2023. The new pipeline will increase the supply of gas, both for domestic and international consumers.

Our authorities have requested World Bank technical assistance to provide inputs to support the development of a medium-term plan to improve the efficiency of the energy matrix and reduce costly energy subsidies, while also strengthening the quality of energy services and affordability of access for vulnerable households. The Energy Secretariat expects to make the final version public by end-2022. Towards the same goal, important progresses to reduce the subsidy bill while protecting the most vulnerable are underway. Resolutions were issued, notifying regulatory entities of updated reference prices for wholesale electricity and natural gas, that went into effect June 1, 2022. The new regulated wholesale prices imply a cumulative increase during 2022 in the final consumer bill of 21.4 percent for lower-income residential consumers and of 42.7 percent for middle-income residential consumers. A decree was issued establishing a new residential subsidy segmentation scheme which will eliminate electricity and gas subsidies by end-2022 for the top

10 percent of residential consumers nationwide with the greatest payment capacity. Importantly, the remaining 90 percent of residential consumers will need to formally request to continue to receive subsidy, thus self-selecting those segments with greater capacity to pay. Our country′s experience suggests that these type of selection mechanisms are the most effective. Our authorities are also continuing the policy of not providing subsidies to large users, ensuring their wholesale energy tariff fully reflects cost recovery. These actions are expected to result in energy subsidy savings of 0.15 percent of GDP in 2022 and to keep the energy subsidy bill near 2.1 percent of GDP. Our authorities will continue developing and applying the segmentation scheme.

Gender Policies

A key goal of the government strategy is the reduction of Argentina's large gender gaps, which were further exacerbated during the pandemic. Actions to encourage female labor force participation are bearing fruit. Since the creation of the *Registradas* Program in September 2021, over 14,000 female workers have been registered under the program and over 127,000 female domestic workers have been formalized.

To improve access to care and other infrastructure for mothers, a decree requiring that all workplaces with more than 100 workers have childcare facilities was issued. In that vein, legislation for the creation of an Integrated Care System of Argentina was submitted, which seeks to improve infrastructure for care workers, secures minimum funding for public care infrastructure, and extends paid leave absences for parents of chronically ill and/or disabled children, and for survivors of domestic abuse.

The income reinforcements granted during April-May 2022 targeted groups with significant female populations, such as domestic workers (98 percent women), *Asignación Universal por Hijo* (95 percent women), *Potenciar Trabajo* (67 percent women), and low-income pensioners (67 percent women). The government continues to enhance the gender budgeting approach and has identified that 15 percent of national spending is being allocated to policies that contribute to closing gender gaps.

Governance and Transparency

Our authorities recognize the need to improve governance and transparency, in order to tackle tax avoidance and external assets formation. They recently submitted to Congress, in consultation with relevant stakeholders and IMF staff, revisions to the AML/CFT legislation. By end-August, in consultation with IMF staff, a gap analysis of the entire AML/CFT regime compared to Financial Action Task Force 40 Recommendations will be prepared, the findings of which will be incorporated as necessary into the amended AML/CFT legislation during the congressional review process.

Our authorities are finalizing the national risk assessment of money laundering and will consolidate the results with the already-finalized terrorist financing assessments. Work is underway to publish a National AML/CFT Strategy, which will include recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.