IMF Country Reports 23/133

Argentina: Fourth Review Under the Extended Arrangement Under the Extended Fund Facility, Requests for Modification of Performance Criteria, Waiver for Nonobservance of Performance Criteria, and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for Argentina

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 23/133

ARGENTINA

April 2023

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

In the context of the Fourth 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 March 31, 2023, following discussions that ended on March 01, 2023, 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 March 20, 2023.
- **Staff Supplements** on March 30, 2023, updating information on recent developments and staff's oral statement at the Board Meeting on March 31, 2023.
- 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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PRESS RELEASE

PR23/102

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

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund completed yesterday the fourth review of Argentina's 30-month EFF arrangement, allowing for an immediate disbursement of about US$5.4 billion.
- All quantitative performance criteria through end-December 2022 were met with some margin, supported by firmer macroeconomic policy implementation in the second half of 2022.
- Against the backdrop of an increasingly severe drought, rising inflation, weak reserve coverage, a stronger policy package is needed to safeguard stability, address setbacks, and secure program objectives. Alongside this, a modification of the reserve target was also approved.

Washington, DC – April 1, 2023: The Executive Board of the International Monetary Fund (IMF) completed yesterday the fourth review of the extended arrangement under the Extended Fund Facility (EFF) for Argentina. The Board's decision enables an immediate disbursement US$5.4 billion (SDR 4 billion), bringing total disbursements under the arrangement to about US$28.9 billion.

In completing the review, the Executive Board assessed that all quantitative performance criteria through end-December 2022 were met with some margin. In addition, the Board approved waivers of non-observance associated with the introduction of policy measures that gave rise to new exchange restrictions and multiple currency practices. The Board also approved modifications to the reserve accumulation targets to partially accommodate the impact of the severe drought, alongside stronger policies to safeguard stability, address setbacks, and secure program objectives, while maintaining the anchoring role of the program.

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

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

"More prudent macroeconomic policies in the second half of 2022 supported a moderation in inflation and improvements in fiscal and external balances, helping to secure end-2022 program targets. However, the economic situation has become more challenging since the beginning of this year in light of the increasingly severe drought and policy setbacks. Given the magnitude of the weather shock, some downward adjustments to reserve accumulation targets are warranted, although a stronger policy package is now necessary to safeguard stability and maintain the anchoring role of the program.

“Achieving the 2023 primary fiscal deficit target of 1.9 percent of GDP remains essential to support disinflation and reserve accumulation, alleviate financing pressures, and strengthen debt sustainability. Timely implementation of high-quality measures, particularly improving the targeting of energy subsidies and social assistance, will help offset lower export taxes due to the drought, protect priority infrastructure and social spending, and secure the fiscal targets. Specifically, it will be critical to ensure that energy tariffs for high-income residential and commercial users move to become fully aligned with costs, including to reduce the regressivity of the system. Meanwhile, the fiscal cost of the new pension moratorium should be mitigated through strong regulations to target entry only to those with the greatest need.

“Real interest rates should remain sufficiently positive to tackle high inflation and support demand for peso assets. Further rate increases may be warranted in the event of further inflation shocks or intensification of FX pressures. The rate of crawl should continue to support competitiveness, with recent actions to rationalize the FX regime and boost exports also helping to support reserve accumulation. Interventions in the parallel FX market using reserves or short-term external debt instruments should be eschewed. As conditions permit and imbalances are addressed, capital flow management measures, multiple currency practices, and exchange restrictions should also be unwounded, as they are no substitute for sound macroeconomic policy.

“On the domestic financing front, prudent efforts will be needed to mitigate near-term rollover risks and mobilize net financing, while limiting the buildup of vulnerabilities and protecting debt sustainability. Meanwhile, central bank interventions in the secondary bond markets should be limited to address financial stability risks. Mobilizing support from multilateral and bilateral partners, including finalizing technical understandings with remaining Paris Club creditors, is essential to ensure financing commitments are met and strengthen reserve coverage.

“Given that downside risks have risen further, including in the context of a very severe drought, agile policymaking remains indispensable to underpin program success, as additional macroeconomic policy tightening and further modifications to FX policies may be required to safeguard macroeconomic stability. Political support for program policies remains critical in the period ahead.”

ARGENTINA

March 20, 2023

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

EXECUTIVE SUMMARY

Context. Implementation of more prudent macroeconomic policies in the second half of 2022 supported a moderation in inflation and improvements of fiscal and external balances through end-2022. However, against the backdrop of still large macroeconomic imbalances and challenges from an increasingly severe drought, the nascent improvements in inflation and reserve coverage have proved evasive. Meanwhile, policy setbacks have contributed to recent underperformance and added to uncertainties about the political resolve to adhere to the program ahead of the elections. The authorities reaffirmed their commitments to implement the program, which they continue to view as the key anchor for policy making. In this context, the review discussions focused on strengthening policies to secure delivery of key underlying program objectives, and on how best to adapt to an increasingly complex environment, while avoiding building future vulnerabilities.

Program performance. All quantitative performance criteria through end-2022 were met, supported by firmer macroeconomic policy implementation in the second half of 2022, as well as efforts to mobilize external financing. Notably, fiscal targets were met on account of strong expenditure controls and cash management, as well as higher export duties from another soy FX incentive scheme. Meanwhile, achievement of the net international reserves target reflected efforts to contain imports and encourage the liquidation of exports, including through administrative schemes that led to multiple currency practices and exchange restrictions. That said, progress since end-2022 has been more mixed, owing to the severe drought (for which a modification of the reserve targets is being requested below), but also setbacks in the areas of energy, pension, and exchange rate policy.

Policy recommendations. Against the backdrop of an increasingly severe drought, weak and falling reserve coverage, and limited financing options, a stronger policy package is necessary to regain stability, correct policy setbacks, and maintain the anchoring role of the program.

- **Fiscal policy:** Continued adherence to fiscal targets will require timely implementation of high-quality measures, particularly on the energy and social assistance front, to offset lower export taxes on account of the drought and make

room for priority infrastructure spending. Meanwhile, it will be critical to mitigate the cost from the unfunded mandate created by the new pension moratorium, including through prudent regulations to ensure entry to the new scheme is targeted at those with the greatest need.

- **Monetary and FX policy.** A tight monetary policy stance should be maintained to tackle high and rising inflation pressures and support demand for peso assets. Sufficiently high real policy rates are needed until inflation expectations are put on a clear downward path, and further rate increases may be warranted in the event of further inflation shocks and/or an intensification of FX pressures. The rate of crawl should be consistent with improvements in external competitiveness over time, to support a reduction in the FX gap, and boost reserves. Importantly, early decisive actions will be needed to rationalize the current complex FX regime and improve its effectiveness. Meanwhile, interventions in the FX parallel market through the use of net international reserves or short-term external debt instruments should be eschewed.
- **Financing strategy.** The recently initiated, proactive and market-oriented domestic financing strategy should continue to be prudently implemented to mobilize net financing and mitigate near-term rollover risks, while limiting the buildup of vulnerabilities and protecting debt sustainability. Further efforts will be needed to ensure timely delivery of external official financing commitments and finalize technical understandings with remaining Paris Club creditors. This will support the programmed reserve accumulation and the reduction in monetary financing of the fiscal deficit. A successful fiscal consolidation and financing strategy is critical to protect the central bank's balance sheet, including by ensuring that interventions in the secondary bond market are limited to address financial stability risks.

Program risks. Program risks are now more elevated on account of the less favorable economic backdrop and rising policy implementation challenges. A worsening of the drought could further reduce agricultural exports and foreign currency inflows, with negative implications for growth, reserves, inflation, and fiscal balances. Slower-than-anticipated global growth or tighter global financial conditions could adversely impact Argentina, especially through spillovers to commodity prices and the domestic debt market. Program implementation risks remain very elevated given the complex domestic economic, social, and political situation. Higher inflation and sharply lower growth could fuel social discontent and undermine support for the program, particularly given the electoral cycle. In this context, contingency planning and agile policy making will be indispensable to improve the likelihood of program success, with additional policy tightening and FX policy adjustments potentially required. The Fund continues to face significant enterprise risks, as program risks cannot be fully mitigated.

Program requests/commitments. The program framework is being revised to reflect the unforeseen impact of the drought, although high uncertainties persist regarding its severity and evolution. Specifically, a modification in the international reserve accumulation target is proposed to partially accommodate the drought, while also taking into account the impact of lower energy imports and the agreed offsetting policy measures. Fiscal and monetary financing targets remain unchanged as a share of GDP, although they imply a larger underlying consolidation given the lower-than-programmed export taxes. The authorities also request completion of the financing assurances review. The program also proposes new structural benchmarks in the areas of energy policy and tax administration.

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

Discussions took place virtually and in Buenos Aires and Washington, D.C. during January-March 2023. The team included L. Cubeddu and A. Ahuja (heads), F. Arizala, M. Perks, J. Schauer (all WHD), J. Hooley and A. Lagerborg (FAD), G. Otokwala and F. Figueroa (LEG), C. de Barros Serrao (MCM), K. Elfayoumi (SPR), M. Szafowal (Local Economist), and B. Kelmanson (Resident Representative). I. Gudbjartsdottir (MCM), B. Bonthuis, R. Cerda, and M. Soto (all FAD) joined part of the discussions. V. Bonifacio (WHD) provided research assistance and G. Ramos (WHD) provided document management. The team met with S. Massa (Economy Minister), M. Pesce (BCRA President) and their teams. Mr. Chodos (OED) participated in the discussions.

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CONTEXT

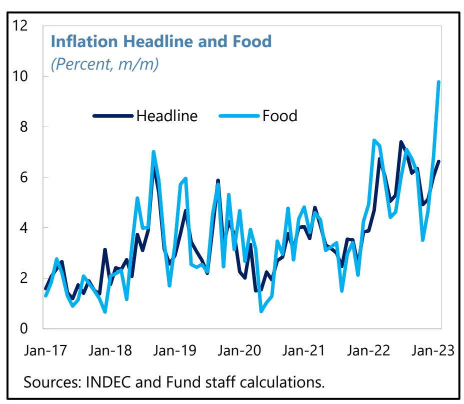
1. **Improved program ownership and tighter macroeconomic policies helped to stabilize the economy and secure program targets through end-2022.** In the second half of the year, the program was brought more firmly on track through the implementation of more prudent macroeconomic policies and efforts to mobilize external financing from official creditors and secure the restructuring agreement with Paris Club creditors in October. These actions started to yield positive results—inflation moderated from earlier peaks and the trade balance improved, reflecting a needed slowdown in domestic demand and imports. Meanwhile, all end-2022 quantitative performance criteria were met, supported in part by temporary administrative FX measures.

2. **However, since early 2023 the economic situation has become more challenging, especially in view of the increasingly severe drought.** Against the backdrop of large macroeconomic imbalances, the drought is seriously challenging reserve accumulation (see Box 1), adding to inflation and FX pressures. Meanwhile, policy implementation has become less reliable, with the recent debt buybacks, energy policy shortfalls, and congressional approval of a new pension moratoria undercutting reserve accumulation and fiscal consolidation objectives. A stronger policy package is now necessary to address the challenges from the drought, reverse reserve losses and rising inflation, and strengthen the anchoring role of the program. The already high downside risks have risen further, including given the political cycle.

RECENT DEVELOPMENTS

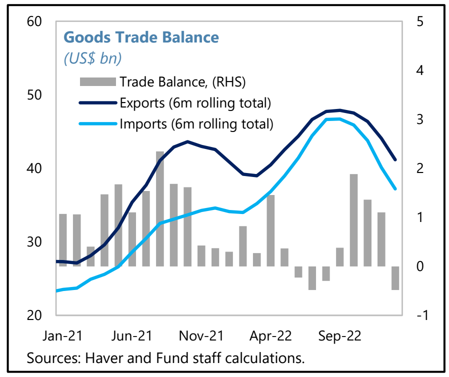
3. **After narrowing during the second half of 2022, imbalances have risen more recently largely reflecting the ongoing impact of the increasingly severe drought.**

- *Output and domestic demand growth are slowing from robust levels.* Economic activity contracted modestly between September and December 2022, with declines in construction, manufacturing, and agriculture (reflecting the drought), more than offsetting improvements in certain services, namely hospitality. On the demand side, private consumption continues to gradually slow (real supermarket sales fell by 5.1 percent y/y in December), in line with minor declines in average real wages (down 2.3 percent during 2022), although these have been more pronounced for the growing number of informal sector workers.



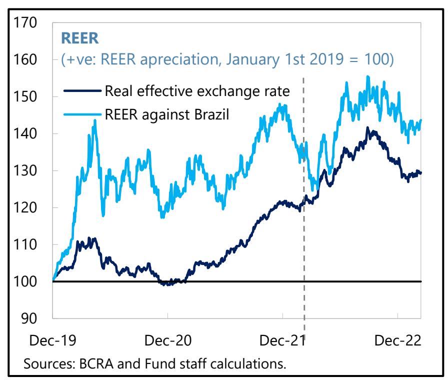
- *Inflation pressures have picked up, after moderating during S2:2022.* Monthly inflation averaged 6.3 percent m/m in January/February (compared to 5 percent in November/December), reaching an annual rate of 102.5 percent. The uptick in monthly headline inflation was largely driven by higher food prices (reflecting supply-side factors), although price pressures remain strong across the board, reflecting in part FX pressure and concerns over the ability to mobilize reserves as a result of the drought. Meanwhile, 12-month-ahead inflation expectations remain unanchored at close to 100 percent y/y at end-2023, in the context of weak money demand (4.4 percent of GDP base money in February) and a rapid expansion of BCRA securities.

- *After improving in S2:2022, the trade balance has deteriorated on account of sharply weaker export performance*. The goods trade surplus reached US$4.3 billion in Q4:2022, from a deficit of US$0.4 billion in Q3:2022, underpinned by a sharp contraction in goods imports volumes (down 11.6 percent q/q, sa) on account of tighter macroeconomic policies and administrative import restrictions. Meanwhile, export volume growth remained moderate (up 4.1 percent q/q, sa), even despite the second FX incentive scheme, which encouraged the liquidation of US$3 billion worth of soy. These trends, combined with a narrowing in the services deficit and renewed official flows, supported an increase in net international reserves (NIR) of US$5.4 billion during 2022. However, on account of the drought and hoarding by exporters, these trends have changed sharply since the beginning of 2023, as sharp declines in exports (down 24 percent y/y on a cash basis through February) have more than offset declines in goods imports (down 18.5 percent y/y on cash basis). These trends, together with net debt service payments to private and official creditors, and a decision to intervene in the FX parallel market, have led to a reduction in net international reserves of US$5.8 billion since the start of the year.



Sources: Haver and Fund staff calculations.

- *As such, the external position is even more fragile*. Gross reserve coverage has fallen to less than 3 months of imports, after excluding swap lines, and the gap between the parallel exchange rates and the official rate has been hovering near 90 percent. The rise in the rate of crawl since mid-2022 has unwound some of the earlier real appreciation, although staff assesses that the external position remains weaker than implied by medium-term fundamentals and desirable policies with a real exchange rate overvaluation of between 10-25 percent (Annex I). Meanwhile, after narrowing during October and January, sovereign spreads have risen to above 2300 bps, mainly reflecting renewed tightening in global financial conditions and concerns about the evolving drought.

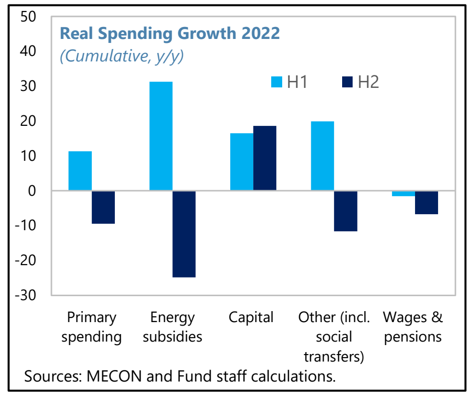


Sources: BCRA and Fund staff calculations.

4. While tight macroeconomic policies have largely been maintained, reliance on interventionist policies persists, and there have been notable recent policy setbacks.

- *Monetary policy rates remain in positive territory*. The BCRA recently raised policy interest rates by 600 bps to 113 percent (in annual effective terms), which is well above the inflation reference rate (101 percent) and the 12-month inflation expectations (103.5 percent). In addition, the various policy interest rates are now better aligned-the overnight deposit rate for banks and mutual funds was raised (and differences between the two narrowed), as well the lending facility rate. In line with the framework, policy interest rates remain above the rate of crawl, which is being adjusted with inflation to ensure improvements in competitiveness over time.

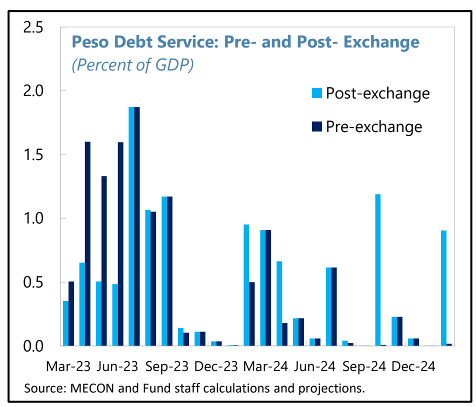
- *Fiscal policy was tightened in line with program commitments, although spending picked up in January*. Tight spending controls and initial actions on the energy subsidy front resulted in a broad-based cumulative contraction in real spending of 10 percent y/y during August-December 2022, correcting earlier policy slippages (real spending expanded by 8.7 percent y/y during January-July).[1] However, the primary deficit reached 0.13 percent of GDP in January 2023, with real spending reaching 6 percent y/y, reflecting in part some frontloading of LNG imports, spending on the gas pipeline and the cancelation of arrears. Revenues also disappointed (down 3 percent in real terms), as lower export duties more than offset higher social security contributions and nontax revenues.



Sources: MECON and Fund staff calculations.

- *Moreover, a new unfunded pension moratorium created additional challenges to medium-term consolidation*. The approval by congress of a new pension moratorium bill in February is likely to create additional pension liabilities of around 0.4 percent of GDP over the medium-term, for which additional policy measures will be required to mitigate the impact and maintain the programmed fiscal adjustment path.[2] The fiscal costs this year are much smaller and expected to be absorbed through savings by the social security institute (see ¶13).

- *The initial phase of a new domestic financing strategy has permitted an important extension of maturities beyond the elections*. After securing net domestic financing of around 0.3 percent of GDP during January-February, a voluntary exchange to deal with 5.2 percent of GDP of peso maturities coming due in Q2:2023 was launched in an effort to push rollovers beyond the October 2023 elections, and into 2025. Overall participation rates reached around 60 percent, with important differences across the universe of investors. Specifically, participation by public entities reached 86 percent, commercial banks 84 percent, and other private sector investors only 9 percent. In the exchange, securities were converted into baskets of mostly inflation-linked (86 percent of total)



Source: MECON and Fund staff calculations and projections.

[1] For the year as a whole, real spending was broadly unchanged and below the 3.6 percent projected at the time of the program request.

[2] Like previous moratoria, the new scheme allows up to 800,000 people of pensionable age who lack the necessary 30 years of contributions to access the contributory pension regime by making up contribution shortfalls through payments financed from future pension benefits. Those within 10 years of retirement will also be able to make up missing contributions through a monthly top-up contribution to existing social security payments.

and some dual-linked bonds (inflation- and USD-linked, 14 percent), maturing between February 2024 and February 2025, with protection and incentives offered by the central bank.[3] The real interest rate offered on the new inflation-linked securities maturing in 2024 averaged 11 percent, below the recent prevailing secondary market interest rate (12-13 percent) and in line with rollover rates on securities maturing within 4 months (11-12 percent) under the previous strategy. Initial secondary market developments indicated that further yield compression may happen, though this is likely to depend on the implementation of the fiscal program and political developments (see ¶10). The operation reduced Q2:2023 maturities by 2.8 percent of GDP, leaving around 2.2 percent of GDP in Q2:2023 still to be refinanced, although riskier rollovers (e.g., mutual funds, insurance companies and non-residents) remain manageable at 1.3 percent of GDP.

- *Banks remain generally healthy, although continued weakness in private sector credit has led to a further rise in exposure to central bank securities.* As of end-2022, banks continued to maintain strong capital buffers (29.6 percent), with low and stable system-wide NPLs (3.1 percent). On the asset side, bank holdings of BCRA securities rose sharply since end-2021 (from 22 percent to 35 percent in January 2023), bringing the banking system's overall exposure to the public sector to 49 percent of domestic currency assets.[4] These trends were supported by further declines in private sector credit in pesos (14.2 percent y/y in February in real terms), which now stand at only 6 percent of GDP. On the liability side, in response to higher real interest rates, time deposits rose sharply since mid-2022, weakening in recent months on account of rising inflation and uncertainties.
- *Meanwhile, interventions in the parallel FX market were renewed with negative implications for reserve coverage.* In response to pressures in the FX market, the Treasury intervened in the parallel market, purchasing around US$550 million in securities through a debt buyback operation in January-February. These operations have since ceased, and consideration is no longer being given to short-term external borrowing for these purposes. Meanwhile, central bank exposure in the non-deliverable forward market has fallen sharply (US$350 million) since the July 2022 peak of US$8 billion.

PROGRAM PERFORMANCE

5. All quantitative performance criteria through end-December were met, although delays arose in the structural area (Figure 6 and MEFP Tables 1-2).

- ***Fiscal***. The primary fiscal deficit through end-December reached ARS 1955 billion (2.3 percent of GDP), meeting the adjusted program target by around ARS 60 billion, supported by tight

[3] The new securities can be used by banks to fulfill reserve requirements, even if purchased on the secondary market. A put option was also offered similar to the one previously provided to banks but extended to instruments maturing after end-2023. Less than 20 percent of the new securities were covered by this protection. The put is effective until one day before the underlying asset matures and comes with a different exercise price formula (with a premium of 30 bps above market yields, instead of 200 bps, as it did previously).

[4] High participation by banks in the recent voluntary debt exchange may have increased duration risk, yet rescheduling and inflation risks are more contained from the investors' perspective.

expenditure controls and export duties associated with the reintroduction of the temporary FX incentives for soy producers and exporters in December.[5] Meanwhile, the stock of domestic arrears was contained to an average of ARS 616 billion in Q4, below the program ceiling of ARS 654 billion.[6]

- **Monetary and reserves.** Net international reserve (NIR) rose by US$5.4 billion in 2022, well above the program floor of US$5.0 billion, although compliance with this target was associated with the adoption of multiple currency practices and exchange restrictions. Furthermore, since August, the authorities have refrained from direct central bank financing of the fiscal deficit, allowing such financing to remain capped at ARS 620 billion in 2022 (well below the program ceiling of ARS 665 billion). The stock of non-deliverable futures (NDF) narrowed to about US$0.6 billion at end-2022, significantly below the program indicative target of US$9 billion.
- **Structural benchmarks**. On energy, the issuance of resolutions to eliminate subsidies for high income residential users was delayed to April from February ***(February 2023, SB, not met)***, reflecting challenges in ensuring that lower income households register for subsidies (¶11), while commercials would achieve cost recovery by end-2023, with frontloaded increases in May. Similarly, some delays arose in the preparation of a strategy to improve the BCRA financial position. That said, the authorities finalized on time (i) a study of the equity and sustainability of the pension system; (ii) a revenue compliance action plan; (iii) a medium-term energy plan; and (iv) a medium-term debt strategy.

6. **In light of the balance of payments impact of the severe drought, significant revisions to the reserves targets for 2023 are being requested.** Specifically, the NIR targets for 2023 are being revised down by US$1.8 billion with most of the revisions taking place in the first half of 2023 to reflect the impact of the drought, which is estimated at over US$5 billion after considering lower energy import prices. As such, meeting the quarterly targets will require significant policy efforts, including on the FX front. While the quarterly fiscal and monetary financing targets will remain unchanged, the projected underlying consolidation will be greater, to offset the impact of lower export taxes. Preliminary information suggests that the Q1:2023 fiscal targets will be met on account of renewed spending controls (see also ¶4). Uncertainties persist, as most recent data suggest that the severity of the drought could be even greater.

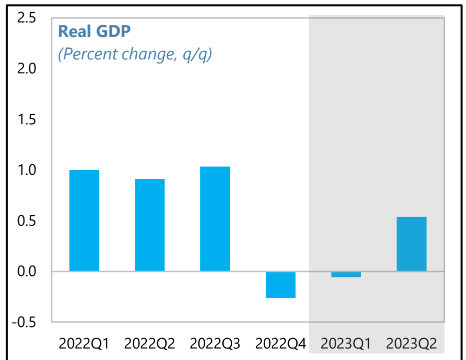
MACROECONOMIC OUTLOOK AND RISKS

7. **The baseline has been partly updated to reflect recent developments and policies, although further revisions are likely given the evolving nature of the drought.** Special focus was given to the outlook through S1:2023, as well as the necessary policies to address the more challenging environment.

[5] The costs between the preferential and official rate (0.7 percent of GDP) was borne by the central bank in 2022, compensated with non-tradable treasury securities.

[6] In line with seasonal patterns, the stock of arrears rose in the final weeks of the year to ARS 1000 billion but fell to around ARS 700 billion by end-January 2023.

- **Real GDP growth**. Output growth was revised up to around 5.4 percent in 2022, as a result of a softer-than-anticipated slowdown in activity in the last quarter of the year. Yet growth is still projected to moderate in 2023 on account of the worsening drought, the effects of policy tightening, and continued weakness in real wages. Specifically, growth is expected to remain subdued in the first half of the year, with a recovery conditional on the evolution of the drought and political uncertainties.



Sources: MECON and Fund staff calculations.

- **Inflation.** Tackling rising inflation will be especially challenging given headwinds from high inflation inertia, the weak central balance sheet (reflecting past liquidity injections), the need for relative price adjustments, and external challenges posed by the drought. As such, inflation is projected to only decline gradually (from over 6 percent m/m in Q1:2023 to around 4 percent by mid-2023), although especially large upside risks persist, including over the subdued demand for pesos.

- **External balance**. After posting a deficit of 0.5 percent of GDP in 2022, the current account balance is projected to reach a surplus of 1 percent of GDP in 2023, slightly below that projected during the third review on account of the evolving drought (net of lower energy imports). The projected improvement mainly reflects the impact of policy tightening on domestic demand, although large uncertainties remain as the drought could prove more severe and longer lasting. As such, the proposed NIR accumulation target is now US$1.8 billion lower than previously programmed for 2022-23, with most of the adjustment projected to take place in early 2023. The cumulative target through end-2024 remains unchanged at US$15 billion, given the drought's assumed temporary impact.

- **Fiscal and financing.** In line with the original program, the primary fiscal deficit is projected to narrow to 1.9 percent of GDP in 2023 from 2.3 percent of GDP in 2022. The consolidation is largely underpinned by improved targeting of energy subsidies and social assistance, with real spending estimated to contract by 5 percent, to compensate for lower export revenues. The financing mix reflects the implementation of the authorities' new domestic financing strategy (see ¶16) as well as continued efforts to mobilize official support to ensure that the 2023 monetary financing of the deficit is kept unchanged at 0.6 percent of GDP. Meanwhile, the medium-term fiscal and financing paths remain generally unchanged, with assumed gradual international market access from 2025 onwards. Debt sustainability continues to depend on steadfast policy implementation, including beyond the program, and on avoiding actions in the near term that add to debt vulnerabilities.

Text Table 2. Revised Macroeconomic Baseline, 2021–2023

	2021	SR (Dec.) 2022	Proj. 2022	SR (Dec.) 2023	Proj. 2023
GDP growth (avg, %)	10.4	4.6	5.4	2.0	2.0
Inflation (avg, %)	48.4	72.7	72.4	76.5	79.6
Primary fiscal balance (% of GDP)	-3.0	-2.5	-2.3	-1.9	-1.9
Federal government debt (% GDP)	80.9	79.7	83.2	71.1	72.2
Current account balance (% GDP)	1.4	-0.3	-0.6	1.2	1.0
Change in net int'l reserves (US$bn)1/	-1.5	5.0	5.4	4.8	2.6
Monetary base (% of GDP)	7.9	6.1	6.2	6.4	6.3
Monetary financing (% GDP)	3.7	0.8	0.7	0.6	0.6
Terms of trade (percent change)	9.6	-0.7	-1.6	3.8	1.7

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

8. **With program risks becoming more elevated, agile policymaking and contingency planning will remain indispensable.**

- An even more severe and prolonged drought could further adversely impact agricultural exports, foreign currency inflows, and inflation, all of which would undermine key program objectives. Meanwhile, a sharper slowdown in key trading partner growth or tighter-than-anticipated global financial conditions could add to ongoing headwinds.
- Already high policy implementation risks could rise further given the political cycle. Policy slippages and an even more heterodox approach could add to FX and bond market pressures, and further undermine reserve coverage. Higher-than-expected inflation and/or sharply lower growth, including because of the drought, could fuel social discontent and undermine support for the program, especially as the political cycle evolves.
- Contingency planning and agile macroeconomic policy adjustment will be even more critical going forward. Tighter-than-programmed macroeconomic policies will need to be considered to safeguard stability, particularly in the event of a shortfall in exports or domestic financing. This will mean higher real interest rates and sharper spending cuts, but also FX policy measures that address the exchange rate misalignment. Reliance on administrative responses, like price and FX controls, should be avoided, as they create new distortions and vulnerabilities. Nevertheless, while contingency planning can help identify possible alternative policy options, as mentioned in previous reviews, it cannot fully mitigate program risks. As such, the Fund continues to face significant enterprise risks.

POLICY DISCUSSION

9. **Given new challenges from the drought, as well as falling reserves and rising inflation, a stronger policy package is necessary to ensure macroeconomic stability.** In the context of weak reserve coverage and limited financing options, the negative supply shock caused by the drought will require a stronger policy package to anchor the program and deliver its objectives. Specifically, efforts are needed to adhere to the unchanged primary fiscal deficit target, and offset the impact of lower export taxes, including through the timely implementation of high-quality

measures to better target energy subsidy and social assistance. Early and decisive actions are also required to durably address the significant unfunded fiscal costs of the unforeseen pension moratorium (0.4 percent of GDP over the medium term) to secure the fiscal consolidation path. Meanwhile, addressing rising inflation pressures, where risks are tilted considerably to the upside, will continue to require sufficiently positive real interest rates to encourage peso demand, recognizing that this process will be gradual given high inertia and relative price misalignments. Mobilizing reserves will require early and bold efforts to rationalize the FX regime, while avoiding reliance on distortionary ad-hoc FX measures. Finally, to deal with large and lumpy maturities over the next few months, continued implementation of a well-coordinated domestic financing strategy is necessary, although care will need to be taken to limit the buildup of debt vulnerabilities.

A. Fiscal Policies

10. Given limited financing options, adherence to the 2023 fiscal targets and implementation of high-quality measures will be of overriding importance. Given the projected decline in export taxes from lower agricultural exports (0.4 percent of GDP) and other setbacks[7], achieving the primary deficit target of 1.9 percent of GDP (0.8 percent of GDP by S1:2023) will require redoubling efforts to (i) mobilize revenues; (ii) enhance monthly cash and budget management controls; (iii) continue adherence to the sector-wide hiring freeze; and (iii) improve targeting of energy subsidies and social assistance (¶11-¶12). Timely implementation of these high-quality measures will also be needed to offset the structural costs of the pension moratorium (¶13), although further reprioritization of spending may be necessary (through reduced transfers to trust funds, public companies and entities) to ensure timely completion of the gas pipelines, which will help lower costly energy imports and fiscal subsidies in the second half of the year.

Federal Government: Fiscal 2022-2023
Percent of GDP

	2022	2023			Diff
		H1	H2	FY	22-'23
Revenues	**17.7**	**7.0**	**9.6**	**16.7**	**-1.1**
Tax revenues	10.9	4.2	6.0	10.2	-0.8
Social security contributions	5.1	2.3	3.0	5.3	0.2
Nontax revenues 1/	1.7	0.6	0.6	1.2	-0.5
Primary expenditures	**20.0**	**7.8**	**10.8**	**18.6**	**-1.5**
Wages	2.9	1.1	1.8	2.9	0.0
Goods and services	0.8	0.2	0.4	0.7	-0.1
Pensions	7.5	3.0	4.6	7.6	0.1
Social assistance	3.7	1.5	1.4	2.9	-0.7
Subsidies	2.6	0.8	1.2	2.0	-0.5
Current transfers to provinces	0.7	0.2	0.4	0.6	0.0
Other current	0.4	0.1	0.1	0.2	-0.1
Capital spending	1.6	0.8	0.8	1.6	0.0
Primary balance	**-2.3**	**-0.8**	**-1.2**	**-1.9**	**0.4**

Sources: MECON and Fund staff calculations.

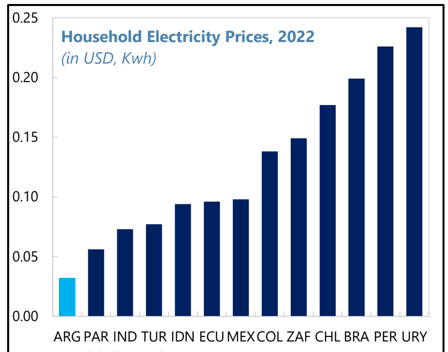
1/ Nontax revenues in 2022 include 0.3 percent of GDP income from the issuance of inflation-linked debt securities. This income is excluded from revenues in 2023.

11. Improved targeting of energy subsidies will be critical to deliver the budgeted savings and gradually achieve cost recovery (see Box 2). Energy subsidies are expected to decline to 1.5 percent of GDP in 2023, from 1.9 percent in 2022, while average cost recovery is estimated to improve, reflecting a combination of lower production costs and higher real tariffs (which in mid-2022 were among the lowest relative to emerging market peers).[8] Regarding the latter, energy tariff increases will be guided by the new tariff segmentation scheme, where high-income residential and

[7] In December, the Supreme Court ruled in favor of the City of Buenos Aires (CABA), requiring the federal government partially reverse an earlier decision to reduce the City's share of co-participated taxes. The net fiscal cost is estimated at roughly 0.1 percent of GDP.

[8] For 2023, LNG imports have been secured at a cost of around US$20 per MMBTU, versus budget projections of US$55 per MMBTU.

commercial users would eventually be charged cost recovery levels, while tariff increases for subsidized middle- and low-income residential users would be capped by the evolution of nominal wages. A new resolution will be issued in April with the aim to (i) bring tariffs for high-income residential consumers to full cost recovery effective May (85-90 percent increase); and (ii) increase tariffs by 31 percent in May for other commercial users and municipal streetlighting ***(proposed end-April 2023, SB)***. While tariff adjustments for high-income residentials will follow cost recovery (subject to a cap during peak consumption months), for other commercial users, additional price increases will be implemented in August (17 percent) and November (7 percent) to achieve full cost recovery.



Source: Global Petrol Prices

12. Improving the quality and targeting of social spending remains a priority. Efforts to strengthen targeting of the flagship social employment program (*Potenciar Trabajo*) should continue. Following a recent audit, around 97,000 ineligible claimants were suspended from the program, while an additional 400,000 beneficiaries are now expected to re-enter the labor market, and another 500,000 to re-enroll in school.[9], Meanwhile, following a rapid expansion in social assistance during the pandemic and last year's food price increases, a comprehensive evaluation of social support programs (***end-March 2023, SB***) is identifying the potential to reduce program overlaps, including by capping total social assistance benefits for those receiving other social transfers at or below the minimum wage to encourage formal labor market entry.[10]

13. Containing and offsetting the fiscal impact of the new pension moratorium will be critical to maintain the programmed consolidation.[11] Independent estimates put the cost of the moratorium at under 0.2 percent of GDP in 2023, rising to around 0.4 percent of GDP over the medium term, assuming entry of the potential 800,000 beneficiaries into the new scheme. As such, to address these costs, efforts are underway to issue a decree and implementing regulations ***(prior action)*** to target entry into the moratorium on those with the greatest need. These measures, which

[9] Nearly 160,000 (10 percent) of beneficiaries of flagship workfare program (*Potenciar Trabajo)* failed to validate their credentials in a recent audit and were given a 60-day window to do so before removal from the scheme. Of these, about 60,000 appealed their suspension. In mid-March, the government announced that around 85,000 previous beneficiaries have been permanently deregistered from the scheme.

[10] Social assistance expanded in 2020 largely through extraordinary allowances/bonuses under existing flagship programs, and a new emergency family income (IFE) targeted at informal workers. While much of this support was unwound by early 2021, targeted bonuses through pensions and flagship social programs continued through 2022 to compensate for rising inflation (especially food), alongside an expansion of *Potenciar Trabajo*, the Universal Child Allowance (*AUH*) and food stamp program (*Tarjeta Alimentaria*).

[11] Argentina has a long history of pension moratoria--the first program was first implemented in 2005, with subsequent extensions in 2014, 2016, and 2019. These programs seek to provide benefits mainly to retirees that have not made the very high 30-year minimum contributions to opt into a contributory pension regime. The main beneficiaries of the current moratorium are expected to be women aged 60-64, not eligible to receive a social pension (granted only at age 65). As such, these schemes are an ad-hoc solution to a fundamental gap in pension coverage, requiring a deeper reform of the system.

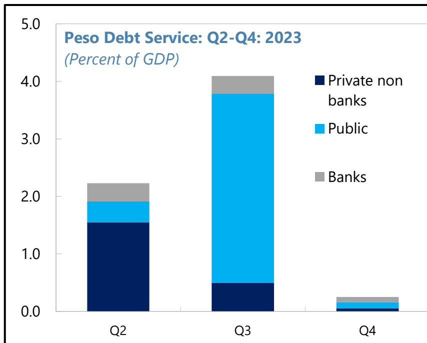
could result in savings of about 0.2 percent of GDP, would seek to: (i) ensure strong means-testing (income- and wealth-based); (ii) raise pension deductions, including by having an interest rate structure that steps up with increasing contribution instalments; and (iii) allow access only for those who have made some contributions to the pension system, are not receiving other social benefits, and are foregoing access to the official exchange rate. That said, further high-quality revenue and expenditure measures will likely be needed to offset the remaining costs and ensure delivery of the targeted steady-state fiscal surplus of 1.3 percent of GDP. Moreover, consideration needs to be given to reforming the equity and financial sustainability of the pension system, drawing on the findings of the recently completed diagnostic study of the special pension regimes ***(end-December 2022, SB)***.

14. Strengthened expenditure and budget controls are necessary to support a high-quality medium-term consolidation. Timely implementation of the action plan to enhance financial oversight over extra-budgetary public entities remains critical, including by strengthening controls over Treasury transfers to public corporations and trusts. A crucial step in this process is improving information reporting through publication of enhanced quarterly reports for public corporations and trust funds (***end-March 2023, SB***), as well as securing the timely publication of the external ex-post audit on COVID spending (***end-June 2023, SB***). Improving expenditure controls and accountability will also benefit from (i) further strengthening of the Treasury Single Account and the prompt publication of the annual audited financial statements; and (ii) further efforts to strengthen procurement practices for investment projects, including through updating the regulatory framework and improving monitoring mechanisms.

15. Revenue mobilization remains necessary. Efforts to strengthen tax administration, including through implementation of the Compliance Risk Management (CRM) for 2023-25 (***end-December 2022, SB***) will support revenue mobilization. Focus should now be on timely implementation of the plan, including through development of specific compliance improvement plans, based on finalized compliance gap estimates for key taxes (***proposed mid-December 2023, SB***) and effort to complete the risk segmentation of taxpayers. Meanwhile, to improve the equity and efficiency of the tax system continued efforts are needed to (i) strengthen personal wealth taxation (*bienes personales*), including through enhancements of federal and provincial databases (***end-March 2023, SB***); and (ii) finalize a comprehensive evaluation of tax expenditures (***end-June 2023, SB***) to help identify options to streamline tax incentive schemes, based on enhanced technical criteria.

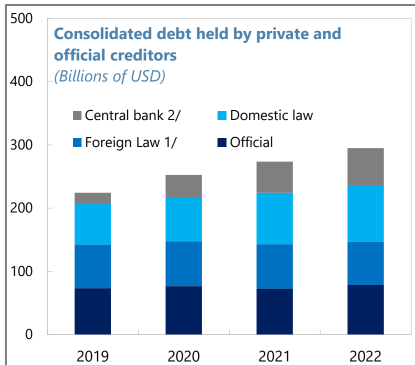
B. Financing Strategy

16. Building on the recent debt exchange, prudent implementation of the new financing strategy will be critical to mitigate rollover risks. The recent exchange successfully extended a significant share of Q2 maturities beyond the elections, particularly for debt held by banks, while avoiding increased reliance on USD-linked papers. The benefits from reduced rollover risks outweigh the costs of the operation, in the form of higher interest rates and limited central bank protection. Similar efforts will now be required to extend maturities for the pending 6.6 percent of GDP in obligations coming due through end-2023 to avoid debt monetization or a forced restructuring. A tailored approach will be needed to address these near-term obligations, particularly for commercial banks (0.7 percent of GDP), and other private entities (2.1 percent of GDP). A further liability management operation is already planned to extend maturities for most of the remaining peso debt held by the public sector (3.8 percent of GDP). Pushing the bulk of rollovers beyond the 2023 elections will help reduce uncertainties, and further facilitate a gradual reduction in borrowing costs, although efforts will be necessary to protect the central bank's balance sheet in the near term.



Source: MECON and Fund staff calculations and projections.

17. Critically, the approach should remain market-oriented, and efforts should continue to prevent a buildup of additional vulnerabilities. In addition to adhering to the fiscal consolidation plan, care needs to be taken to avoid the excessive issuance of FX-linked instruments, overly onerous interest rates and other protections, with negative implications on debt sustainability and the central bank balance sheet down the road. In the current context of weak money demand, raising net domestic financing will be challenging and should be approached in a manner that does not undermine market confidence and the balance sheets of other public entities. The continued success of the strategy will hinge on strong and transparent communication.



Source: Authorities and IMF staff calculations (based on eop official exchange rate)
1/ Includes holdouts.
2/ BCRA debt (Leliq and pases) held by the private sector.

18. Further efforts will be needed to ensure timely delivery of external official financing commitments. After large initial delays, total official disbursements during 2022 exceeded US$4.3 billion, with shortfalls relative to program limited to US$400 million. The strong pick-up in official financing continued in December and early 2023 with disbursements of roughly US$1 billion from multilateral creditors and US$540 million from non-Paris Club creditors, mainly related to the large hydropower dam. Going forward, it remains critical to ensure official creditors continue to meet their net financing commitments of about US$1.9 billion this year (¶31), and to secure additional financing for construction of the second phase of the gas pipeline (US$1.2 billion).[12] Meanwhile, prompt finalization of bilateral agreements with the pending Paris Club creditors is necessary.

C. Monetary and Exchange Rate Policies

19. A tight monetary policy stance remains essential to tackle rising inflation pressures and support peso demand. Building on the recent rate hike, policy interest rates should remain

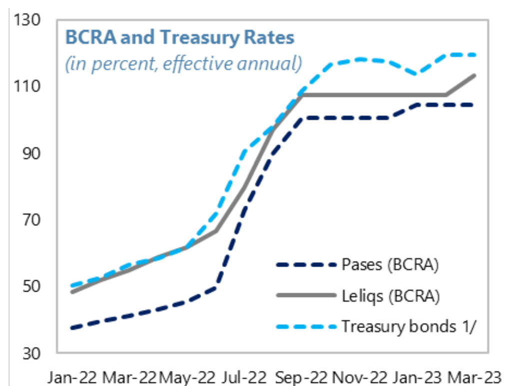
[12] The Inter-American Development Bank (IADB) has approved a US$150 million project to expand water and sanitation in Buenos Aires; the Andean Development Corporation (CAF) has approved a US$430 million loan for rural roads and the energy sector; and negotiations with non-Paris Club creditors are well advanced to finance the next phases of a railway and solar plant project (about US$700 million).

firmly in positive real territory—guided by the enhanced monetary policy framework, based on actual core inflation and forward-looking measures, as well as by broader market and reserves dynamics. To encourage peso demand, nominal policy rates must remain sufficiently high to ensure inflation and inflation expectations are put on a clear downward path, and the BCRA should stand ready to raise rates in line with the policy framework if inflation shocks materialize. Meanwhile, following the recent implementation of the simplification of the reserve requirements regime, efforts should continue to strengthen monetary transmission, including by enhancing coordination with the Treasury, maintaining the narrower corridor on monetary policy instruments, and gradually unwinding regulated bank deposit and lending rates. Well-designed wage-price coordination, including their recent extension through June and expansion to a broader set of products, could play a complementary role in the disinflation process, although unilateral, involuntary price controls should continue to be avoided.[13]

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

	17-Mar-23
Monetary policy rate	6.5
Inflation reference rate 1/	6.0
Core inflation (3-mo ma)	6.1
Inflation expectations (avg, 3-mo ahead) 2/	6.1
Official rate of crawl	5.6
Devaluation expectations (avg, 3-mo ahead)	
NDF market	6.5
Market expectation 2/	5.5

Sources: BCRA and Fund staff calculations.
1/ Combines backward-looking core inflation measures along with a model-based forecast of inflation.
2/ Based on BCRA survey of end-Feb 2023.



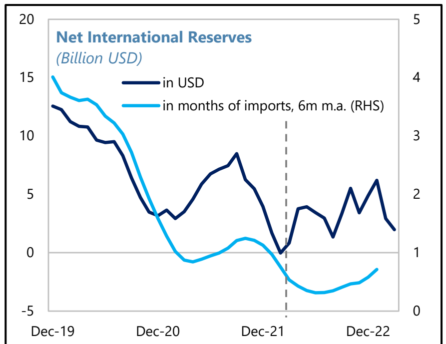
Source: MECON, BCRA and Fund staff calculations.
1/ LEDES

20. A proper alignment of the rate of crawl remains necessary to improve external competitiveness, while interventions in the parallel FX markets should be discontinued, given scarce reserves. The rate of crawl should be set to support a reduction in the FX gap, and encourage reserve accumulation, with tight policies mitigating any potential inflationary impact. Meanwhile, interventions in the parallel markets through use of reserves or foreign-repo operations should be eschewed, and central bank purchases of non-deliverable futures should be limited to addressing disorderly FX market conditions, given potential risks to the central bank balance sheet. Finally, reliance on administrative import restrictions should be carefully calibrated and implemented to limit distortionary effects, including on inflation.[14]

[13] Voluntary price agreements (Precios Justos) with firms and supermarkets, which originally covered food, beverage, and cleaning staples, have been extended through June 2023 and expanded to cover other goods and services, including apparel, medicines, education, and construction materials. Under the agreements, firms commit to keep monthly price increases below 3.2 percent for 50,000 products and to freeze the prices of another 2000 products. Negotiations have advanced with wholesale agents to ensure that lower prices also feed into smaller neighborhood shops and new information technologies are being used to ensure compliance with the agreements.

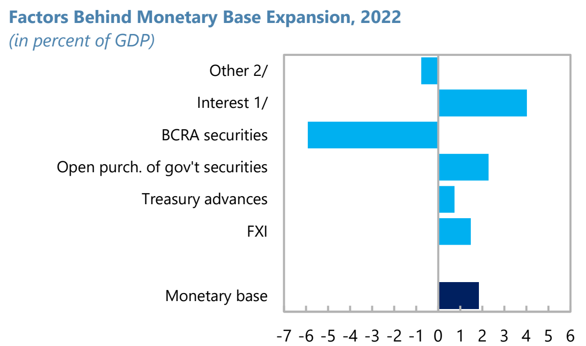
[14] Accompanying the introduction of SIRA in 2022, resolutions were introduced that broadened coverage of non-automatic licenses from 15 percent of goods in the nomenclature to 41 percent (see Box 4).

21. In the context of the drought, additional actions will be required to rationalize the FX policy. The current system of various FX incentives and restrictions has become increasingly complex and distortionary, with negative implications on the FX market, inflation, and BCRA's balance sheet (see Box 4). As such, early decisive actions will be required to streamline the current system. In parallel, efforts should continue to strengthen monitoring and enforcement, especially to address irregularities in the imports of goods and services. In this regard, the timely submission of the revised Foreign Exchange Criminal Law to congress remains essential (***end-March 2023, SB; proposed to be reset to end-May***). As conditions permit and imbalances are addressed, a gradual unification of the exchange rate regime together with the unwinding of capital flow management measures (CFMs) and elimination of MCPs and exchange restrictions should be sought. In this context, the authorities have requested technical assistance in the preparation of the roadmap for a conditions-based easing of FX controls **(*end-June 2023, SB*)**.

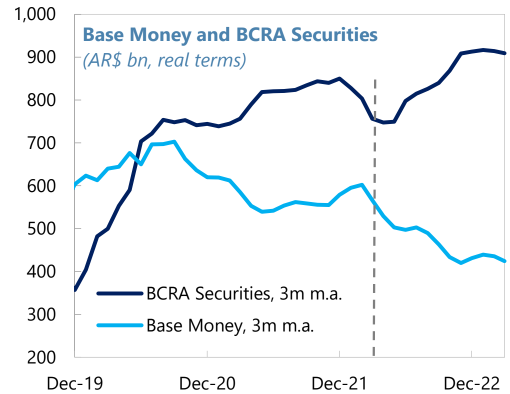


Source: BCRA, Haver and Fund staff calculations

22. Importantly, the BCRA's balance sheet needs to be protected and gradually stengthened to durably address underlying inflation pressures. The stock of central bank securities reached a historic high of about 12½ percent of GDP at end-2022, as the BCRA continued to sterilize purchases in the FX and secondary bond markets amid rising quasi-fiscal/interest costs (see Text Figure). Efforts to refrain from temporary advances to the Treasury and to limit central bank's secondary market purchases thus far this year (0.1 percent of GDP) are a welcome development, although protecting the BCRA's balance will require the orderly implementation of the domestic financing strategy as well as a more coherent FX policy (see ¶21). Interventions in the secondary bond market should take place only when critical to ensure normal market functioning, at market prices, and with offsetting sterilization measures to mitigate inflation risks. As conditions allow, a medium-term strategy should be implemented to gradually strengthen the BCRA's financial position and bolster the credibility of monetary policy. Key elements of this strategy, which was designed with IMF technical assistance **(*end-December 2022, SB; not met, progress is ongoing*),** should include: the elimination of monetary financing of the fiscal deficit, strengthening the quality of existing assets, and the adoption of IFRS. Regarding the latter, recent and forthcoming enhancements in the accounting of currency swap bilateral arrangements with central banks and repo transactions, along with financial disclosures towards compliance with IFRS-7 **(*end-May 2023, SB*)** will be important first steps.



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



Sources: BCRA, INDEC and Fund Staff calculations.

23. Meanwhile, the BCRA is progressing with the implementation of the 2022 safeguards assessment recommendations. An audit committee comprising non-executive (independent) Board members was established to improve oversight arrangements, and steps have been taken to strengthen oversight of foreign reserves management and independent reporting of the internal audit function. Reforms are necessary to strengthen the BCRA legal framework, and in particular the financial and institutional autonomy, but timing is deferred to embark on this after the Presidential elections in October 2023.

D. Other Structural Policies

24. Efforts to boost energy production and increase the efficiency, equity, and sustainability of the energy sector are essential to improve external resilience. Construction of gas pipelines, connecting the vast shale oil and gas reserves of "*Vaca Muerta*" with large urban areas, has the potential to reshape Argentina's external position, by reducing costly energy imports and boosting crude oil and gas exports to neighboring countries over the medium term (see Box 3). These supply-side efforts will need to be accompanied by improvements in electricity generation, distribution, and transportation as well as more predictable regulatory frameworks to encourage investment (see below). In this regard, initial actions are underway to begin implementation of a new medium-term strategy, prepared with World Bank technical assistance, to improve the efficiency and financial sustainability of the energy sector ***(end-December 2022, SB).***

25. These supply-side efforts on the energy front should be accompanied by reforms to enhance the regulatory frameworks of Argentina's key strategic sectors. New legislation and regulation to encourage investment and exports in strategic sectors—hydrocarbon, mining, agroindustry, automotive, hydrogen and biotechnology industries—should be advanced in a way that ensures a level playing field and avoids costly fiscal and regulatory burdens.[15]

[15] Independent estimates suggest that announced investments in lithium and copper could lead to a five-fold increase in mining exports over the next decade (US$18 billion per year by 2030).

26. Further efforts are needed to strengthen and implement Argentina's AML/CFT regime. In preparation for the Financial Action Task Force (FATF) evaluation in March 2024, key regulatory reforms have been identified in connection to terrorist financing, the role and responsibility of the financial intelligence unit (FIU), the sanctioning regime, and non-government organizations. Following the completion of a gap analysis of the AML/CFT regime against the FATF's 40 Recommendations, the AML/CFT legislation is being amended to incorporate the virtual assets service providers and the FIU is preparing the necessary resolutions to facilitate prompt and full implementation of the amended legislation once approved.

PROGRAM ISSUES

27. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and set out future policy commitments. The Technical Memorandum of Understanding (TMU) clarifies program definitions and the various quarterly targets.

28. Quantitative targets: Key quantitative fiscal targets remain broadly unchanged relative to the third review, with minor revisions to the primary balance floor in H2:2023 to reflect nominality. Meanwhile, the authorities are requesting a modification of the NIR accumulation target (US$8.0 billion over 2022-2023, versus US$9.8 billion at the third review) to partially accommodate the large and unforeseen impact of the more severe drought, alongside offsetting factors (e.g., lower global energy prices) and policy measures to secure stability. The NIR accumulation target for end 2024 remains unchanged at US$15 billion. Quarterly performance criteria—on the fiscal balance, domestic arrears, net international reserves, and monetary financing—have been set through September 2023, and quarterly indicative targets through end-December 2023, with revisions to adjustors where applicable, reflecting updated projections on external disbursements.

29. Prior action. Ahead of the Board meeting, the authorities will issue a decree and specific regulations to contain the fiscal costs of the pension moratorium recently approved by Congress, including measures to target the entry into the scheme on those with the greatest need.

30. Structural Benchmarks: Two new SBs are being proposed: (i) issuance of a resolution to update electricity prices to improve the progressivity of energy subsidies, facilitate a faster move towards cost recovery, and support fiscal consolidation ***(end-April, 2023 SB)***; (ii) development of tax compliance improvement plans for key taxes, as an essential step in supporting revenue mobilization ***(December 15, 2023 SB)***.

31. Financing assurances. Official creditors have provided firm financing commitments over the next 12 months, and good prospects of financing are in place for the remainder of the program. Multilateral development banks, including the World Bank, Inter-American Development Bank (IADB), and the Andean Development Corporation (CAF) are committed to provide net financing of around US$1.5 billion in 2023, including both budget support and project loans. Paris Club creditors have agreed to restructure Argentina's legacy debt with repayment by September 2028, while other bilateral creditors are committed to provide net financing of around US$0.4 billion per annum starting in 2023, with construction of a hydroelectric powerplant project now underway. Despite shortfalls in NIR accumulation through end-2023 on account of the drought, the baseline still assumes an accumulation of US$15 billion during the program period, with projected cumulative trade surpluses (around US$35 billion) and net FDI inflows (around US$30 billion) more than offsetting net external debt obligations, and CFMs continuing to play a supportive role in limiting capital outflows.

32. Capacity to repay. Argentina's capacity to repay its Fund obligations remains subject to exceptional risks and continues to hinge on strong policy implementation to improve reserve coverage and an eventual resumption of market access by the time repayments to the Fund come due (Table 12). The proposed revisions to the baseline, namely lower NIR accumulation on account of the drought, do not alter staff's assessment of Argentina's capacity to repay over the medium term. Full implementation of the EFF, which would imply addressing the reserve shortfall next year, would help address the balance of payments need arising from the large obligations due to the Fund related to the 2018 SBA in 2022-23 and the current EFF. Fund debt service obligations would remain very large over the medium term, around 7 percent of exports, or 12 percent of gross reserves, with Fund credit outstanding declining only gradually below 6 percent of GDP by 2027.

33. Jurisdictional issues. The authorities have requested, and staff supports, the extension by twelve months of the Board's approval on March 25th, 2022, for the retention of the MCPs and exchange restrictions identified at arrangement approval in March 2022. These measures are maintained for balance of payment reasons, are temporary, expected to be gradually eliminated over the arrangement period as conditions allow, and do not give rise to an unfair competitive advantage over other members or discriminate among members.[16]

34. Arrears Policy. Consistent with the Fund's Lending into Arrears policy, staff assesses that the authorities are continuing to make good faith efforts to resolve their arrears to: (i) the external private creditors that did not participate in the 2005/10 debt exchange or did not settle under the terms provided in 2016 and those to which there is debt outstanding from the 2001 default (US$2.3 billion total); and (ii) Mobil Exploration, where negotiations remain underway on a repayment plan on principal claims (US$196 million). Two external arrears claims remain under litigation: (i) Bpifrance Assurance Export , where the firm filed an appeal with the Supreme Court of Justice on December 2, 2022, after the Court of Appeal had rejected the extraordinary appeal submitted by the agency on grounds of statute of limitations; and (ii) Titan Consortium I, LLC, where a legacy claim is currently under litigation on grounds of statute of limitations. The authorities affirmed that no other external arrears were incurred since the third review.

EXCEPTIONAL ACCESS

35. Staff assesses that Argentina continues to satisfy the four criteria for exceptional access. This assessment is premised on the steadfast implementation of the agreed baseline policies

[16] See Annex II of IMF Country Report No. 22/92.

to ensure adherence to the program's objectives. However, risks remain exceptionally high, especially given the severe drought, a more challenging global environment and ongoing domestic implementation risks—which are likely to intensify ahead of the Presidential elections—implying even higher risks and uncertainties around staff's assessment of the EA criteria. As such, this assessment remains subject to finely balanced judgements.

- ***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 assesses this criterion as met.** Argentina is experiencing exceptional balance of payments pressures on the financial account, which have been aggravated by the recent severe drought, in the context of low reserve coverage and broader macroeconomic imbalances. In addition to a decisive implementation of tight macroeconomic policies, meeting the very large external debt service obligations during 2023–24 will require 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 assesses this criterion continues to be met.** Under the current baseline and policy framework, Argentina's public debt is sustainable but not with high probability (see **Annex II**). 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. The assessment continues to be subject to exceptionally high risks and hinges critically on the steadfast implementation of the proposed fiscal consolidation path, the enhanced monetary and FX policy framework, as well as broader efforts to mobilize domestic financing, reduce rollover risks and support reserve accumulation. Importantly, 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). Prudent implementation of ongoing plans to extend maturities for domestic debt could significantly reduce gross financing needs in the near and medium term, although care will need to be taken to avoid overreliance on FX-linked instruments that add to vulnerabilities. Nevertheless, margins for maneuver remain extremely limited. In this regard, further debt buybacks should be avoided since they undermine reserve coverage and near-term debt service capacity.

- **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 assesses that this criterion continues to be met.** External bond prices continue to trade at distressed levels, pointing to lingering difficulties in accessing external market financing. Meanwhile difficulties in accumulating reserves, aggravated by the recent severe drought and policy setbacks, persist, in part reflecting underlying exchange rate misalignment. As such, steadfast policy implementation remains critical to mobilize reserves and allow Argentina to gradually regain access to international private capital markets by the time obligations to the Fund fall due (beginning in late 2026) on a scale that would enable repayment to the Fund. Specifically, macroeconomic and structural policies should aim to strengthen external competitiveness, the trade surpluses, and foreign direct investment, while efforts should continue to catalyze net official financing. Importantly, completion of the gas pipelines would significantly improve Argentina's external energy trade balance in the coming years, boosting export receipts, reserves, and the country's repayment capacity. Such positive developments would strengthen prospects of regaining market access by 2025. While CFMs are needed to limit outflows in the near term while imbalances are addressed, improvements in reserve coverage should pave the way for their gradual lifting and re-accessing of private international capital markets starting in 2025. This assessment, however, continues to be subject to a high degree of uncertainty as shocks and further policy setbacks could compromise reserve accumulation and the timely re-access to international capital markets to meet prospective Fund obligations. In this regard, debt buybacks or near-term external indebtedness to intervene in the FX markets should be avoided, including because they can involve collateral requirements that entail the creation of more senior claims that risk complicating future market access, with implications for capacity to repay the Fund.
- **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 assesses that this criterion would be met**. The economic team remains committed to implement the program, which they view as the key anchor for policy making. Despite recent policy setbacks on the energy and pension front, corrective actions are being taken to mitigate the fiscal costs, while decisive actions by the central bank continue to maintain policy interest rates in positive territory. Political support from key stakeholders remains strong, as demonstrated by the participation of commercial banks in the recent voluntary debt exchange. That said, social and political support for the program could wane if inflation does not recede and growth falters further, including if the drought becomes more severe. Support could also weaken as elections draw closer. Indeed, criticism of the program, both from within the coalition and from the opposition is becoming more vocal, and the unforeseen congressional approval of the recent pension moratoria could be a presage to pre-election spending pressures. As such, staff's assessment of this criterion has become more precarious. In this context, implementation of the needed policy package will be especially challenging, including the strategy to mitigate rollover risks of domestic debt, which also requires broad

political support. While it is still too early in the electoral process to seek political assurances, such assurances will become an essential element in future reviews.[17]

STAFF APPRAISAL

36. Implementation of more prudent macroeconomic policies helped to stabilize the economy through end-2022, but the situation has become more challenging. The implementation of more prudent macroeconomic policies in the second half of 2022 supported a moderation in inflation, improvements in fiscal and external balances, as well as achievement of all end-2022 quantitative performance criteria. However, in the face of an increasingly severe drought, and recent policy setbacks these gains have proven difficult to sustain.

37. Against new challenges from the severe drought and policy setbacks, a stronger policy package is now required to secure macroeconomic stability and maintain the anchoring role of the program. In the context of limited financing and weak and falling reserve coverage, tight macroeconomic policies remain essential to offset the impact of the drought, address rising inflation, and secure stability. Continued implementation of a well-coordinated domestic financing strategy is necessary to deal with large maturities coming due, while mobilizing reserves will also require early and decisive efforts to rationalize the FX regime.

38. Adherence to fiscal targets will require timely implementation of high-quality measures. Achieving the primary fiscal deficit target of 1.9 percent of GDP in 2023 will necessitate decisive efforts to strengthen tax compliance, expenditure controls, and the targeting of energy subsidies and social assistance. Efforts will also be required to address the unfunded mandate created by the new pension moratorium, including through implementing regulations aimed at ensuring the scheme targets retirees with the greatest need. These actions are necessary to safeguard stability and medium-term debt sustainability, while providing space for priority infrastructure spending, especially the gas pipelines.

39. Continued prudent implementation of the new domestic financing strategy is critical to reduce rollover risks and enhance market confidence. Efforts should continue to mobilize net financing and mitigate near-term rollover risks, while limiting the buildup of vulnerabilities and safeguarding debt sustainability. Successful execution of the financing strategy can help underpin an improvement in market functioning and contain rising central bank balance sheet risks. In this regard, central bank intervention in the secondary bond market should be limited to addressing financial stability risks. Meanwhile, continued efforts will be needed to ensure timely delivery of official program financing, and finalize understandings with remaining Paris Club creditors, consistent with the 2022 joint declaration.

40. Steadfast implementation of the monetary and FX policy framework is needed to tackle rising inflation and improve external competitiveness. Aside from tight fiscal policies,

[17] While Presidential elections are slated to take place in October, Presidential primaries will take place in August, and key Presidential candidates will be defined by end-June.

sufficiently high real policy rates are needed to encourage demand for peso assets and tackle persistent and rising inflation pressures. A tight monetary stance should be maintained until inflation expectations are put on a clear downward path, and the central bank should stand ready to raise rates in the event of further inflation shocks and/or an intensification of FX pressures. Well-designed wage-price coordination could play a complementary role in the disinflation process, although involuntary schemes should be discarded. To improve reserve coverage, the rate of crawl should support competitiveness, although early and decisive efforts will also be needed to rationalize the current complex FX regime. As conditions permit and imbalances are addressed, the unwinding of capital flow management measures (CFMs) and elimination of MCPs and exchange restrictions should be sought, as temporary administrative FX measures are not a substitute for sound macroeconomic policy. Finally, interventions in the parallel FX market through the use of international reserves or near-term external indebtedness should be avoided.

41. Furthermore, continued efforts are needed to boost Argentina's net export capacity. Progress in advancing the gas pipeline connecting the vast shale oil and gas reserves with large urban areas and northern regions is commendable and should intensify. These efforts are not only expected to reduce costly energy imports but also boost crude oil and gas exports to neighboring countries over the medium term. Enhancing regulatory frameworks of strategic sectors, including energy, mining, and the knowledge economy, will be needed to boost investment and Argentina's export potential.

42. With program risks becoming more elevated than before, agile policy-making and contingency planning are indispensable. With the outlook significantly clouded by the increasingly severe drought, further negative impacts on growth, reserves, and inflation cannot be ruled out. In addition, a sharper slowdown in key trading partners or tighter global financial conditions could add to the headwinds. Already high program implementation risks have risen further, given the complex domestic economic, social, and political situation, and could rise further as the election approaches. This puts a premium on contingency planning and agile policy making. Specifically, and given scarce reserves and financing options, further policy tightening and improvements in the FX regime may be needed to address shortfalls in exports or domestic financing.

43. Staff supports the authorities' request for an extension of Board approval to maintain MCPs and exchange restrictions. The authorities have requested a 12-month extension to the approval of MCPs and exchange measures first granted by the Board in March 2022. Staff supports the extension, given that the measures are temporary, maintained for balance of payment reasons, expected to be gradually eliminated over the arrangement period as conditions allow, and do not give rise to an unfair competitive advantage over other members or discriminate among members.

44. Staff supports the authorities' request for completion of the Fourth Review under the Extended Arrangement and modification of performance criteria, based on ongoing program performance and new policy commitments. Specifically, staff supports the requested modification of the reserve accumulation target to partially accommodate the impact of the increasingly severe drought, while taking into account the impact of agreed offsetting policy measures. Staff also recommends completion of the financing assurances review, given Argentina's ongoing good faith efforts to resolve its external arrears.

Box 1. Impact of the Drought on the Balance of Payments, 2023

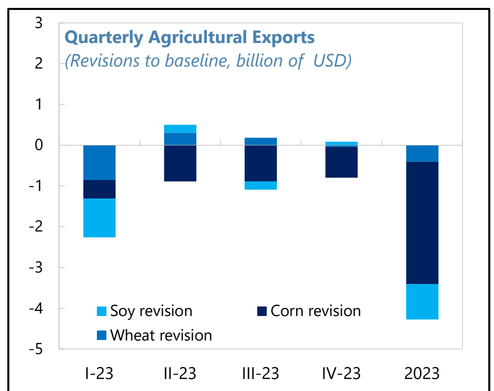
Estimates of the 2022/2023 harvest have been revised down significantly. The third review baseline assumed moderate damage to the wheat crop, reflecting the estimated impact of the early wave of the drought. Since then, the drought has become progressively more severe, with further downward revisions to harvest estimates by experts (including by the Bolsa de Cereales de Buenos Aires and the USDA). The revised baseline assumes a recovery in rainfall for the remainder of the harvest season and an average 15 percent downward revision in grain production estimates. That said, risks are skewed to the downside, as latest estimates suggest this drought could be the worst in 60 years. In that event, corn and soy production could be down by an additional 20 and 35 percent, respectively.

Agricultural Production: Evolution of Projections

in million tons	Wheat	Corn	Soy
2022 agricultural production	22.1	59.0	44.0
2023 agricultural production			
Third review baseline	14.0	59.9	50.8
Fourth review baseline	13.3	46.8	45.5

Relative to the third review, estimates of agricultural production for exports are being revised down by US$6 billion, with other factors playing an offsetting role.[1/]

- *Lower energy imports (around US$1.5 billion) on account of lower-than-projected natural gas prices would partially offset the impact of the drought on reserves.*
- *Sector-specific factors, including (i) increased liquidation of pre-existing grain stocks, especially soy; and (ii) a rise in exports pre-financing*, as farmers and exporters seek to smooth the impact of the shock could help as well.



Source: BCRA and Fund staff calculations.

That said, large downside risks persist. The final impact of the drought on exports will be dependent on the evolution of weather conditions, but also its interaction with exchange rate expectations and liquidity/financing conditions facing exporters. If incentives to accumulate precautionary savings and fear of devaluation exceed the need to smooth financial income, and/or if lending conditions are not sufficiently favorable, the assumed liquidation of existing grain stocks and increased export pre-financing may not materialize, and reserve losses would be higher. Meanwhile, global grain prices could rise if the impact of the drought on Argentina's crop becomes sufficiently severe.

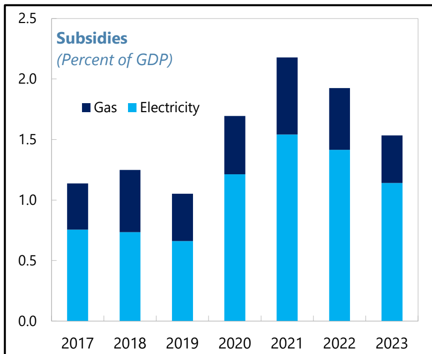
Securing reserves and stability will require stronger policy actions. In particular, early and decisive efforts are needed to rationalize the complex FX regime to disincentivize hoarding and encourage liquidation of grains and to contain imports, especially of services and luxury products, which may be subject to over invoicing.

1/ Estimates assume the direct spillovers from weaker agricultural production to non-energy imports to be limited—most intermediate agricultural imports took place last year and lower freight costs (because of lower import volumes) are likely being offset by higher transport costs (due to river transportation conditions related to the drought).

Box 2. Energy Subsidy Policies

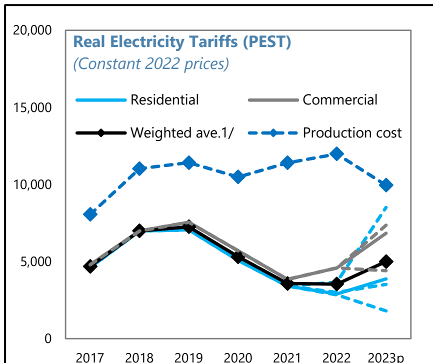
This box documents recent energy subsidy policies and their fiscal and distributional impact.

Energy subsidies are projected to fall relative to 2021 peaks, yet they remain well above 2019 levels. After peaking at 2.1 percent of GDP in 2021, energy subsidies fell marginally to 1.9 percent of GDP last year. This trend is projected to continue in 2023 supported by declines in production costs and continued implementation of a new segmentation scheme focusing tariff increases on users with higher payment capacity. Estimates are highly sensitive to the evolution of costs, inflation, and policy efforts.



Source: National authorities.

- **Production cost.** After rising sharply last year, LNG prices are projected to fall in 2023 to multi-year lows (US$20 MMBtu) and below budget projections (US$55 MMBtu). This, coupled with an expansion of cheaper domestic natural gas production and distribution (see Box 3), and some recovery in hydroelectric power generation will help reduce real energy production costs by 15-20 percent this year.
- **Tariff segmentation.** The new tariff segmentation scheme, which became effective in October 2022, is expected to deliver large improvements in cost recovery for high-income residential consumers and subsidized commercial users (representing 53 percent of subsidized consumption[1]), while protecting low- and middle-income households and small businesses.
  - Average **wholesale electricity prices**, after remaining constant in 2022, are projected to increase by about 25-35 percent in real terms during 2023, with subsidized commercial and high-income residential users observing a 55-70 percent real increase, while other subsidized users observe a 15-25 percent real decline.[2] The lower (upper) range assume average monthly inflation of 6 percent (4 percent) in 2023. Estimates assume that (i) high income residential users start paying cost recovery in May; and (ii) '*tarifa alta*' commercial users (above 800kWh) observe increases in May (31 percent), with smaller ones in August (17 percent) and November (7 percent) to reach cost recovery, while municipalities (Street lighting) will be subject to these higher tariffs starting in May.
  - Average **wholesale natural gas prices** (where historical data are scant) are projected to change by an average of [-3-6] percent in real terms, with subsidized commercial and high-income residential users observing a 40-55 percent increase, offsetting a 20-25 percent real decline for other subsidized users. Yet, average real tariffs and cost recovery remain low by historical standards.



Source: National authorities and IMF staff calculations.
Note: Dashed lines show segmented tariffs while solid lines show weighted averages among residential users (light blue) and commercial users (grey). Values for 2023 are projected.
1/ Weighted average includes all residential and commercial users (excludes unsubsidized industrial users).

Going forward, further efforts will be needed to more durably converge to cost recovery. In addition to continued supply-side improvements, further policy actions are needed to bring tariffs closer to cost recovery, while protecting the most vulnerable. Consideration should be given to strengthen and simplify the segmentation, including by automatically indexing tariffs to costs, replacing the current system of ad-hoc discretionary adjustments and indexation to past wages, to ensure consistency with financial sustainability objectives. This will help to improve regulatory predictability and encourage much needed investment in the sector.

1/ The user segmentation classification (RASE database) was formulated based on income self-declarations. Residential consumers who do not register are automatically classified as high-income and assumed not to need subsidies. Efforts to improve the database are underway, including by encouraging low-income households to register.

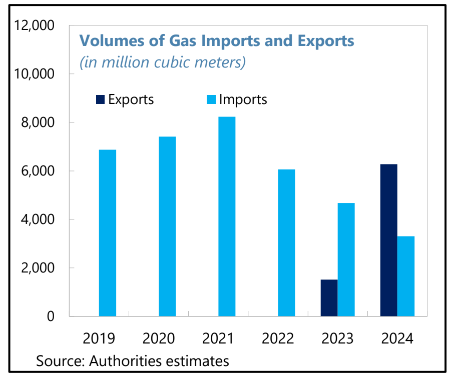
2/ In chart, dashed lines show range of tariffs paid by residential (light blue) and commercial users (grey). Weighted average includes residential and commercial users (excludes unsubsidized industrial users for electricity). Quoted ranges assume 2023 annual inflation in the range of 60 to 100 percent.

Box 3. Energy Sector Potential: Fiscal and External Implications

Status of gas pipelines. Construction of new gas pipelines connecting the shale oil and gas reserves of *Vaca Muerta* with large urban areas and the northern provinces is underway. The first phase of the pipeline is expected to be completed by end-June 2023, at an estimated cost of US$1.6 billion (0.3 percent of GDP) in 2023. Phase 2 of the pipeline—now in the engineering design stage—would transport gas to additional consumption hubs, at a cost of US$3.2 billion, with construction expected to begin in July 2023 and be completed by June 2024.

Impact of pipelines.

Once complete, the pipeline is projected to reduce energy imports, supporting the planned reduction in fiscal subsidies. The supply of domestically produced gas is expected to increase by 11 million cubic meters per day upon completion of the first phase in June, doubling by September once new compressors are installed. Increased distribution of domestic gas will reduce reliance on costlier LNG and Bolivian gas imports, cutting imports by 2.5 billion cubic meters in 2023 (US$2 billion, based on current prices) and by 10 billion cubic meters (US$6.9 billion) in 2024. This reduced reliance in costly imports is a key driver behind the projected improvement in Argentina's external and fiscal position.



Source: Authorities estimates

The "net" near-term external impact will depend importantly on the precise timing and financing of construction. Import construction costs are projected to be around US$0.5 billion for phase 1 and around US$3.2 billion for phase 2 during 2022-23. External financing is being secured for a portion of phase 2 of the project from official creditors. Ultimately, the precise external impact in 2023-24 will depend on the timing of construction and whether additional external financing sources are identified for the remaining US$2.2 billion.

BoP Impact of the Kirchner Pipeline

in billion USD	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2023	2024
Energy imports savings			1.3	0.7	2.0	6.9
Energy exports			0.1	0.4	0.5	1.9
Imported construction costs/1		-0.4	-1.1	-0.7	-2.2	
Financing flows		0.5	1.5	1.0	3.1	1.3
CAF		0.5			0.5	
others				0.4	0.4	0.4
unidentified			1.5	0.7	2.2	1.0
Net		0.2	1.9	1.3	3.3	10.1

Ministry of energy estimates.
/1 conservatively assumes import share of 70 percent of external financing flows.

Other efforts. In parallel, efforts are being made to increase gas exports to neighboring countries. Gas sales to Chile, which rose to 7 million cubic meters per day in October 2022 are projected to almost double by 2024 to around US$2 billion, as the *Vaca Muerta* site comes on stream. Building additional export capacity to further tap domestic gas reserves would require major infrastructure investment over the medium term, including construction of natural gas liquefaction terminals. In addition to the gas, independent experts suggest that crude oil exports could increase by US$8 billion per year over the medium term, if the necessary investments materialize.

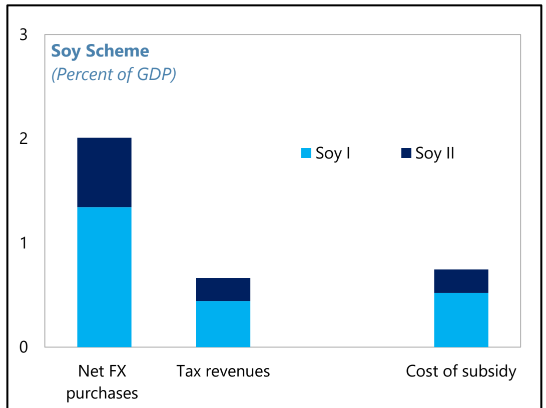
Medium-term Energy Transition. Over time, savings generated from the new gas pipelines could support fiscal consolidation and the transition to a more efficient, sustainable, and low carbon energy sector, taking into consideration the recommendations of the World Bank's Country Climate and Development Report (CCDR). In this sense, the gas pipelines provide an important foundation for the development of a broader strategy, which includes scaling up investment in renewables, reducing energy subsidies, and improving energy efficiency **(end-December 2022, SB)**. Ongoing efforts to improve the targeting of energy subsidies, alongside other efficiency initiatives (e.g., regulatory reforms for new buildings), will also contribute to reducing reliance on carbon energy consumption. Finally, boosting investment and production will require efforts to strengthen and improve the predictability of regulatory frameworks, in addition to implementing macroeconomic policies that can durably secure stability.

Box 4. Impact of the 2022 FX Measures

This box documents and assesses the effectiveness and costs of FX measures introduced during 2022. Findings suggest that efforts to harmonize the FX regime are critical to boost reserve accumulation prospects while reducing distortions.

FX measures introduced in 2022 supported reserve accumulation, although came with mixed effectiveness and various costs. In the context of a fundamental exchange rate misalignment (see ESA Annex I), reserve accumulation challenges have persisted as exporters have tended to hoard and under-invoice while importers have sought to stockpile and over-invoice. Tighter macroeconomic policies and a better alignment of the crawl rate to inflation have supported a slowdown in domestic demand and imports, although unconventional ad-hoc FX measures were also adopted to strengthen the trade balance, including through: (i) export incentive schemes, (ii) price-based measures targeted mainly at services trade; and (iii) quantity and administrative import restrictions, some of which were assessed as multiple currency practices and/or exchange restrictions. As documented below, their effectiveness has been mixed, as they came with various costs and distortions (often difficult to quantify).

The soy schemes. A temporary preferential exchange rate (around 40 percent above the official rate) for exporters of soybeans was implemented during September and December 2022 to incentivize soy producers and exporters to liquidate their stocks in the context of high export taxes (33 percent). Implementation was targeted and well-coordinated with the sector, and the measure outperformed the announced targets, resulting in sales of about US$11 billion (2 percent of GDP) of soy, which helped secure the Q3 and Q4 NIR program targets as well as the fiscal targets, the latter through higher export tax revenues. Nevertheless, as the BCRA purchased dollar proceeds from exporters at a higher exchange rate and sold dollars to importers at the official rate, it bore the costs (0.7 percent of GDP) arising from the exchange rate differential, for which it was compensated by the Treasury through long-maturity non-transferable Treasury securities. The BCRA also bore the sterilization cost, as it mopped up additional peso liquidity introduced into the system. Given that the measure has been twice implemented, incentives to hoard soy (and potentially other exports) may have increased as exporters likely expect further rounds.

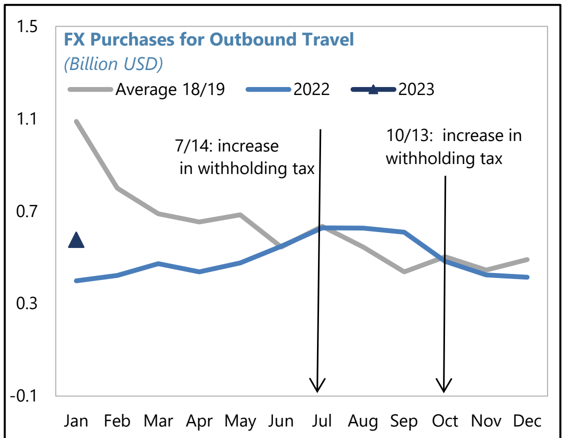


Sources: BCRA, MECON, Fund Staff estimates.

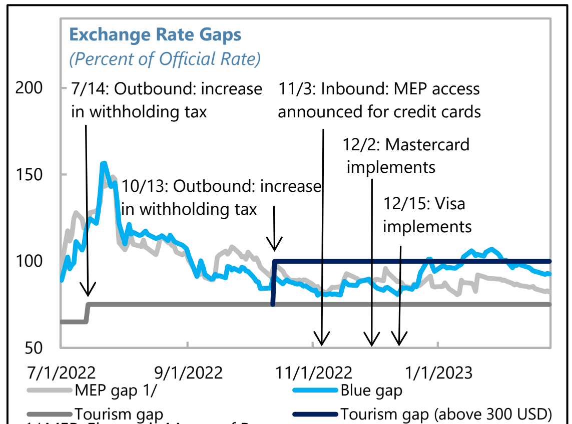
Trade services schemes. Other price-based mechanisms have also been adopted mainly in the services sectors. These had mixed results due to their complexity and negative side effects.

- The measure to allow *access to the parallel financial FX market / MEP (Electronic Means of Payment Market) for inbound tourists* took a while to become more effective as companies participated on a voluntary basis. The measure raised tax revenues while redirecting FX inflows away from the informal "blue" market to the MEP (US$70 million in December and US$140 million January). That said, the measure also led to a widening of the informal FX gap and reduced inflows to the official FX market (about US$40 million per month in 2022).
- Increases in *withholding taxes for outbound tourism* have reduced FX purchases for travel in the official market from more than US$600 million during August/September (which was well above seasonal trend) to around US$400 million during November/December, even despite a rise in the number of outbound tourists. However, the measure also led to a widening in the "blue" gap as FX demand moved from the more expensive after-tax official rate to the less expensive blue rate.

Box 4. Impact of the 2022 FX Measures (concluded)

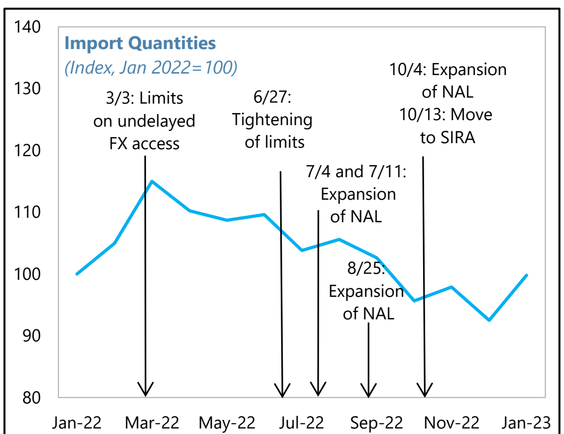


Sources: BCRA.

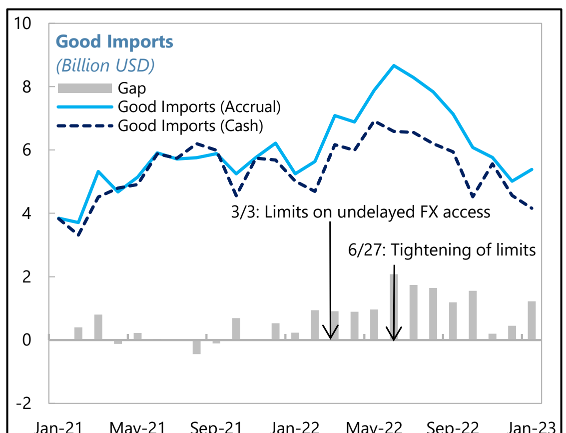


1/ MEP: Electronic Means of Payment
Sources: BCRA, Haver, Staff calculations.

Quantitative/administrative import measures. Since March 2022, limits on immediate FX access for imports and requirements for import financing have been in place, which have led to an increase in import financing (now worth US$8.9 billion, 13 percent of imports) and helped to reduce the cash value of imports since mid-2022. In addition, the share of imports subject to non-automatic licenses (NAL) have risen sharply in parallel with the introduction of the new import clearance and monitoring systems for goods (SIRA) and services (SIRASE) also contributing to the sharp slowdown in nonenergy import volumes. That said, these more discretionary administrative import restrictions and "required" financing measures have created costing uncertainties for importers, likely leading them to raise markups, adding to price pressures more broadly. Ongoing efforts to calibrate the application of SIRA/SIRASE to reduce distortions and address import irregularities are necessary.



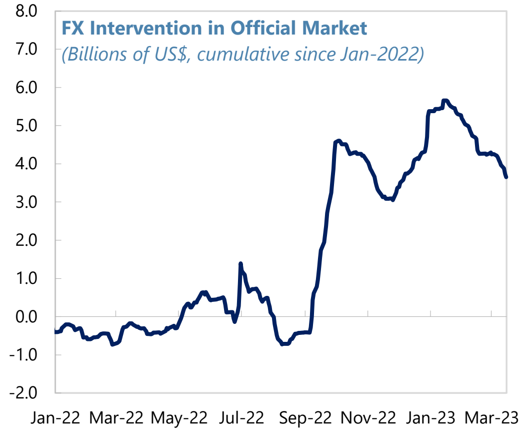
Sources: BCRA.



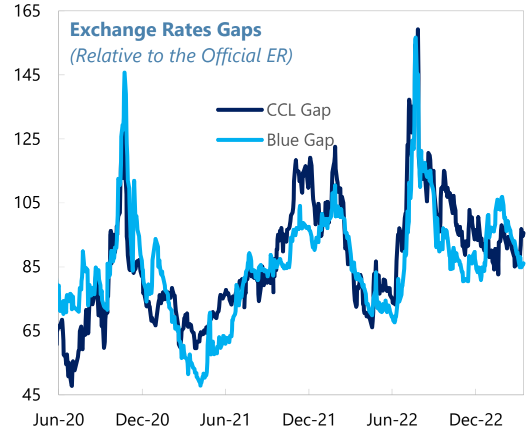
Sources: BCRA.

Figure 1. Argentina: Recent Financial Market Developments

Reserve accumulation remains challenging, reflecting weak agricultural exports under the severe drought...

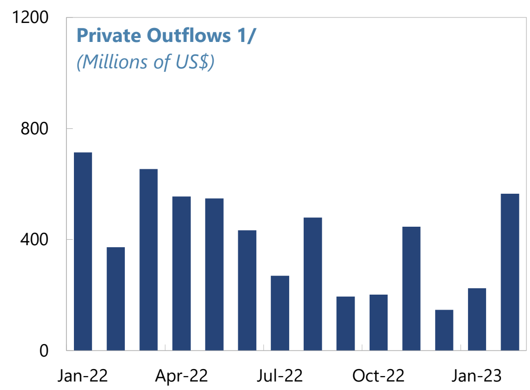


... as well as export hoarding, given elevated pressures in the parallel exchange rate market...



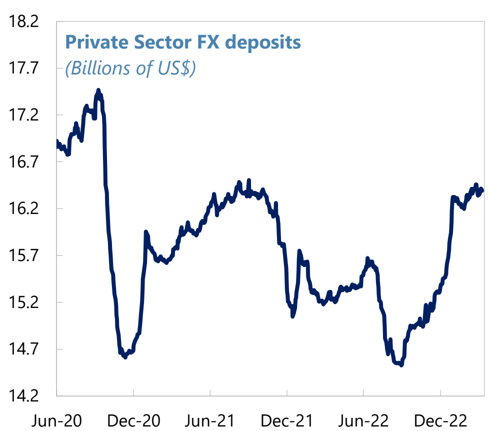
... as external bond prices have fallen, partly reflecting global trends.

Tight FX restrictions have helped to contain FX outflow....

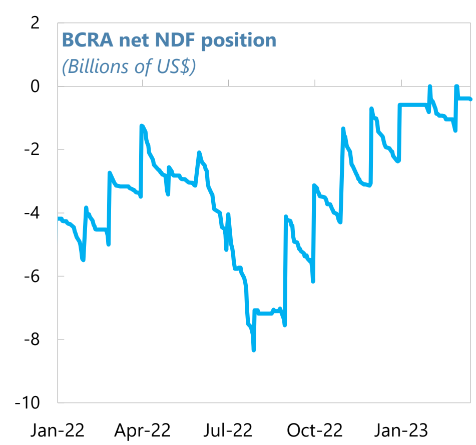


1/ USD banknotes, Net Foreign Assets, Foreign Investment, Debt and rest of transactions

... and FX deposits have continued to recover....



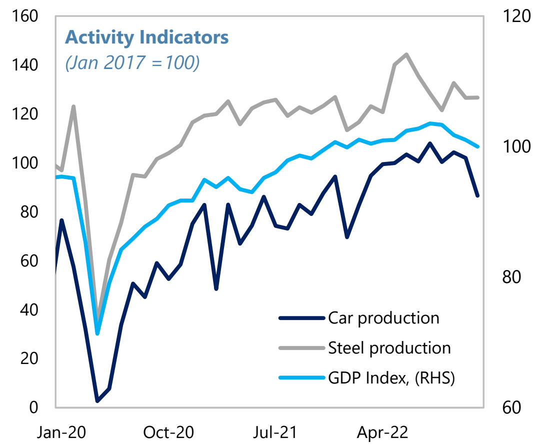
... allowing the BCRA to unwind most of its position in the futures markets.



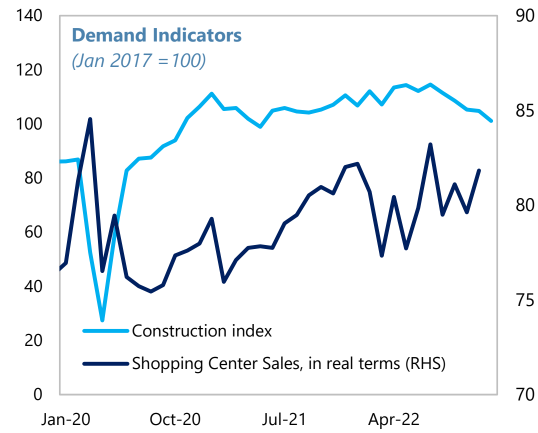
Source: Argentine authorities, IMF WEO Database, BCRA, IMF staff calculations.

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

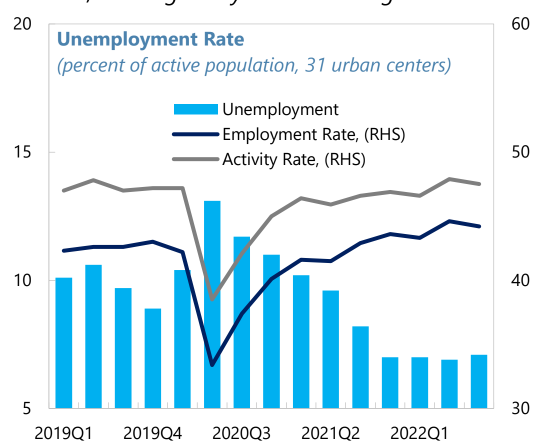
Industrial and manufacturing activity is decelerating …



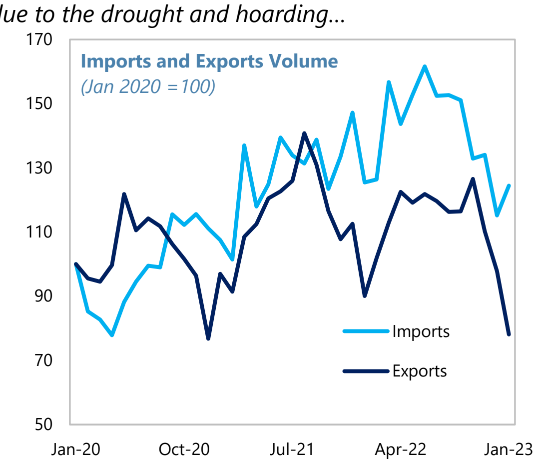
… along with investment, private consumption indicators…



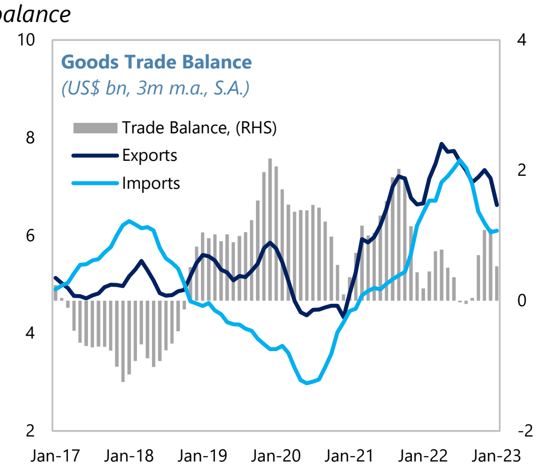
… in line with some softening in employment indicators, although they remain strong



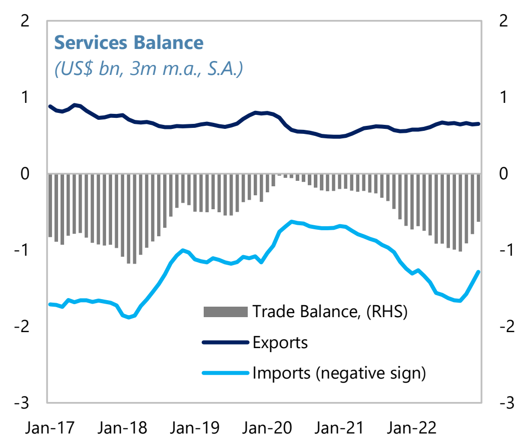
Import volumes have slowed, yet exports have collapsed due to the drought and hoarding…



… leading to a recent weakening in the goods trade balance



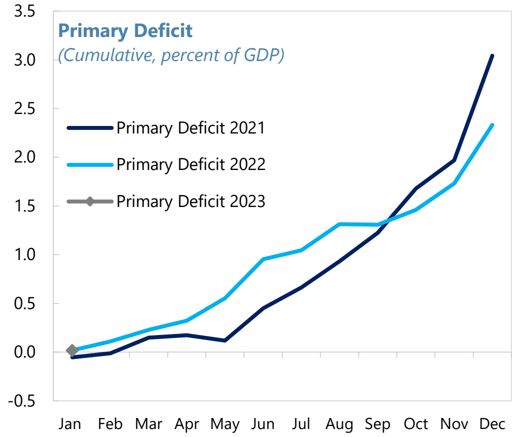
Meanwhile, services imports are contracting contributing to the compression in the services deficit.



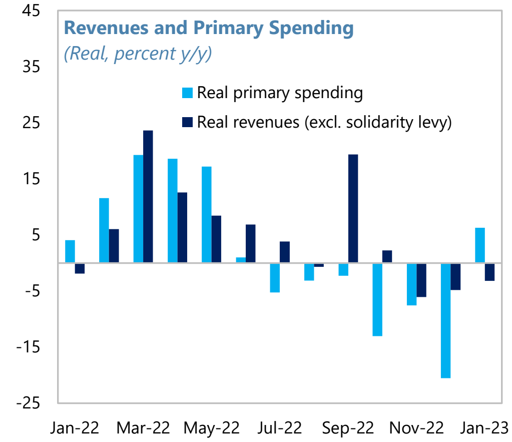
Source: Argentine authorities, Haver, BCRA, IMF staff calculations.

Figure 3. Argentina: Fiscal and Financing Developments

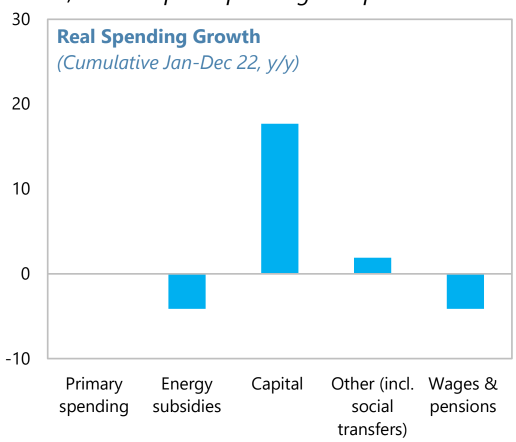
The primary deficit moderated in H2:2022, in line with program objectives...



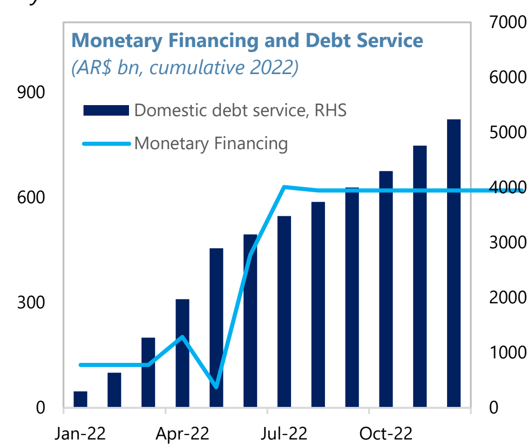
... mainly owing to the contraction in real spending (y/y) especially in Q4...



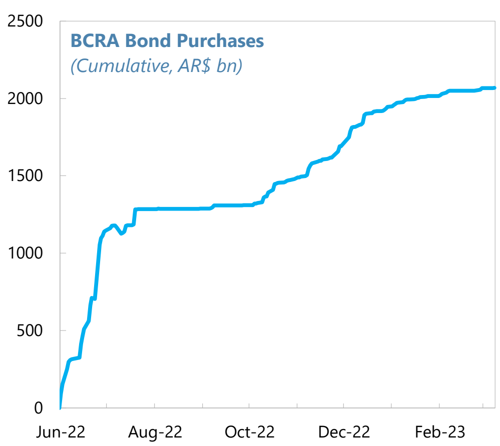
... led by declines in energy subsidies and wages and pensions, while capital spending was preserved.



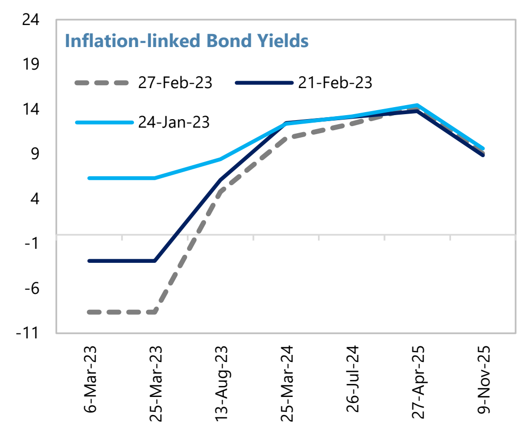
BCRA monetary financing of the deficit stopped in July...



... however, BCRA has continued low-level purchases in the secondary government bond market...



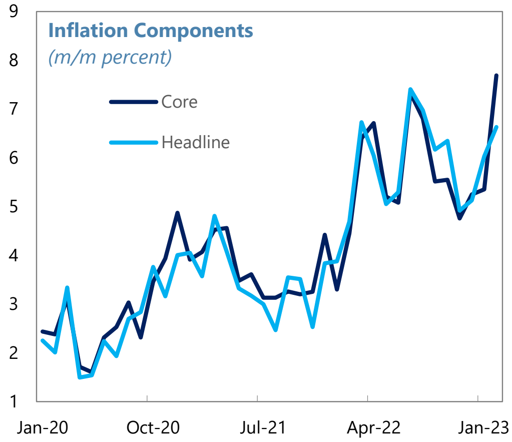
... as domestic financing conditions remain challenging.



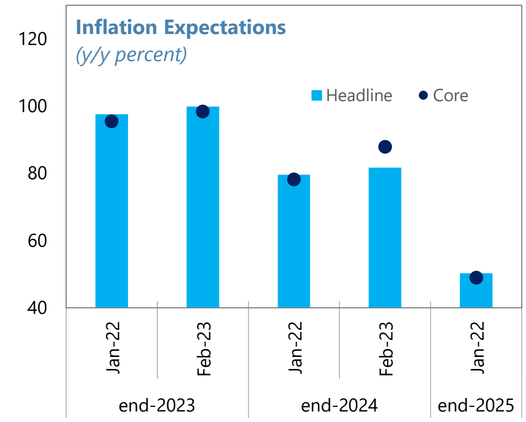
Source: Argentine authorities, IMF WEO Database, Bloomberg, BCRA, IMF staff calculations.

Figure 4. Argentina: Inflation and Monetary Developments

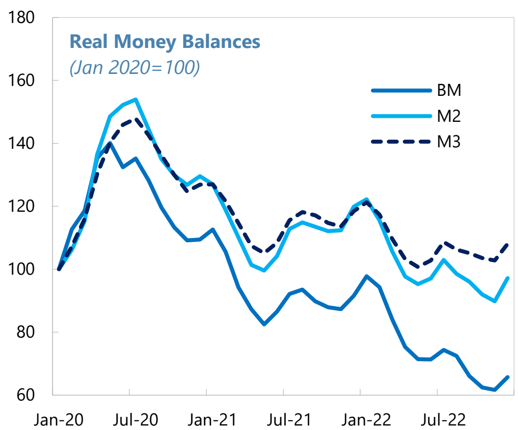
Inflation, after moderating in S2:2022, picked-up in early 2023...



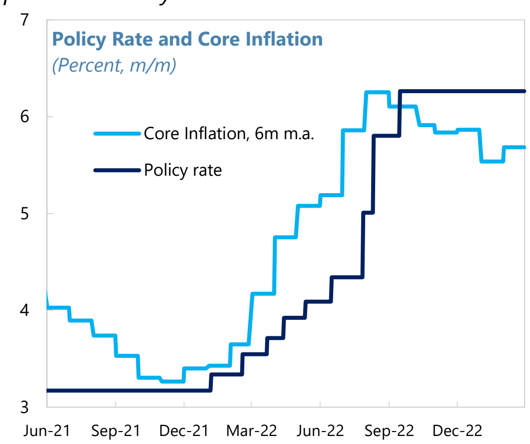
... and inflation expectations have risen, remaining unanchored...



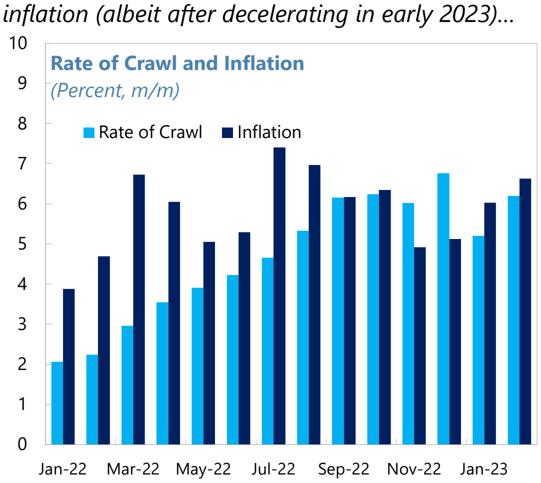
... as money demand remains weak.



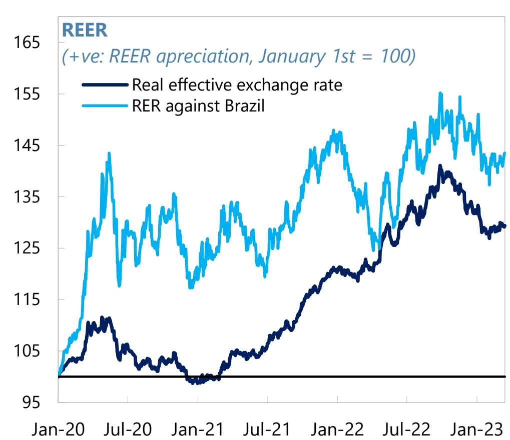
Meanwhile, real policy rates remain squarely in positive territory ...



... while the crawl rate remains generally in line with inflation (albeit after decelerating in early 2023)...



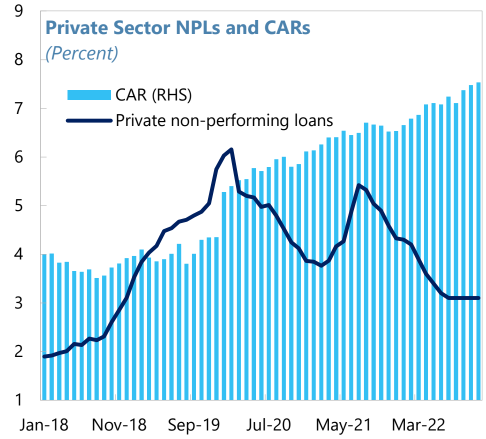
... supporting some unwinding of the earlier real appreciation.



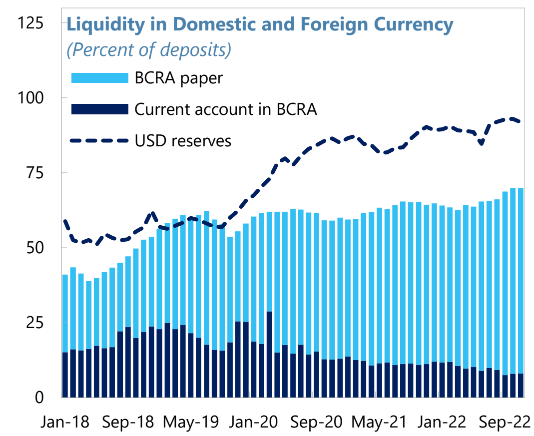
Source: Argentine authorities, BCRA's REM, Haver, IMF WEO database, IMF staff calculations.

Figure 5. Argentina: Banking Sector Developments

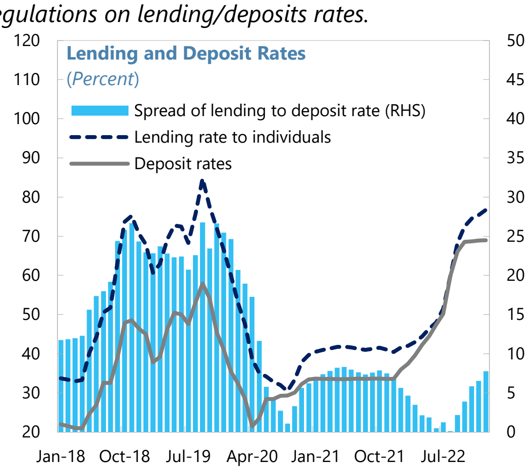
Banking sector capitalization and credit quality are sound, and continue to improve …



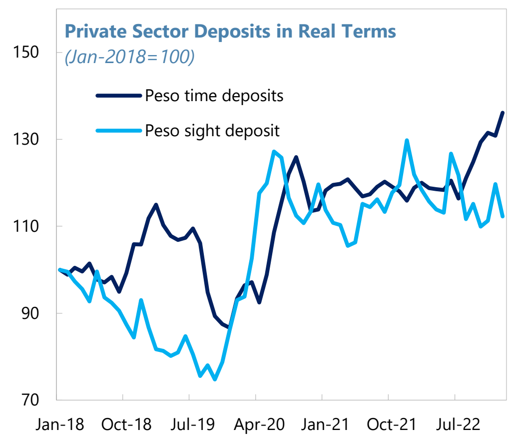
… with sufficiently liquid buffers …



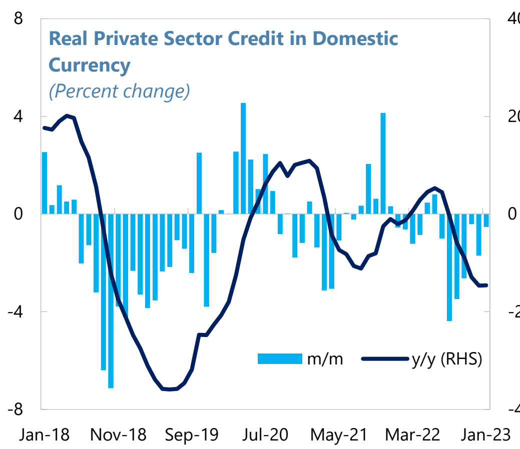
… but with low net interest margins, reflecting regulations on lending/deposits rates.



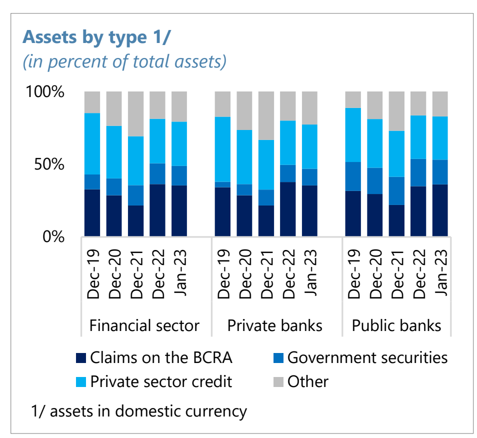
Higher interest rates have helped to boost real peso time deposits…



… yet credit demand remains weak reflecting uncertainties and cash buffers of firms.

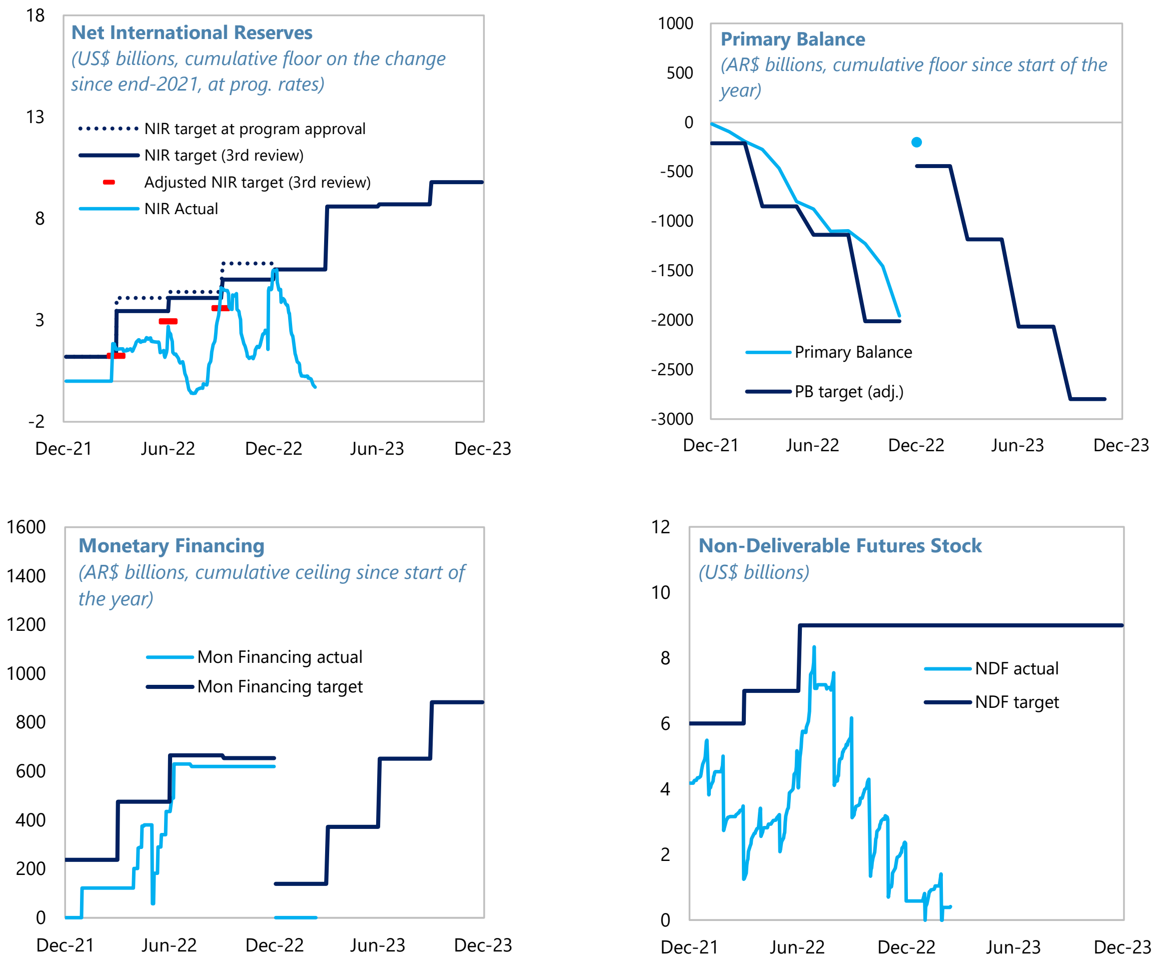


The banking system's exposure to the public sector has grown to about 50 percent of total assets.



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

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



Sources: National authorities and Fund staff calculations.

1/ Targets are set on an end-quarter basis. Data as of March 15, 2023 for Non-Deliverable Futures; as of March 13, 2023 for Net International Reserves; as of March 13, 2023 for Monetary Financing; and as of January 31, 2023 for Primary Balance.

Table 1. Argentina: Selected Economic and Financial Indicators, 2021–2028

		SR (Dec.)	Proj.	SR (Dec.)	Proj.					
	2021	2022	2022	2023	2023	2024	2025	2026	2027	2028
	(Annual percentage changes unless otherwise indicated)									
National income and prices										
GDP at constant prices	10.4	4.6	5.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Domestic demand	13.2	8.6	9.1	0.0	2.0	1.5	1.6	1.5	1.5	1.5
Consumption	9.5	6.9	7.0	-0.3	1.2	1.4	1.5	1.4	1.4	1.4
Investment	33.4	16.0	18.3	1.5	5.1	2.0	2.0	2.0	2.0	2.1
Exports	9.2	-3.2	-5.3	4.9	-2.3	7.2	4.6	4.9	4.9	4.9
Imports	22.0	14.9	12.0	-3.8	-1.1	3.4	2.2	2.1	2.3	2.3
Net exports (percent contribution to real GDP)	-2.9	-4.3	-4.0	2.0	-0.2	0.4	0.3	0.4	0.4	0.4
Output gap (percent of potential GDP)	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation (eop)	50.9	95.9	94.8	60.0	60.0	44.0	40.0	35.0	30.0	25.0
Inflation (avg)	48.4	72.7	72.4	76.5	79.6	48.0	40.8	37.1	32.2	27.5
GDP deflator	54.0	69.3	72.3	77.8	80.1	47.6	40.8	37.2	32.2	27.5
	(Percent of GDP unless otherwise indicated)									
Savings-Investment balance										
Gross national savings	18.5	17.9	17.7	19.3	19.3	19.1	18.9	18.8	19.0	19.3
Private	22.9	21.5	21.4	23.0	23.0	22.5	20.8	20.3	20.1	20.5
Public	-4.3	-3.6	-3.8	-3.8	-3.8	-3.4	-1.9	-1.6	-1.1	-1.2
Gross domestic investment	17.1	18.2	18.3	18.1	18.3	18.3	18.3	18.3	18.3	18.3
Private	14.5	15.2	15.4	15.1	15.3	15.2	15.1	15.0	15.1	15.1
Public	2.7	3.0	2.9	3.0	3.0	3.1	3.2	3.3	3.2	3.1
External sector										
Current account balance	1.4	-0.3	-0.6	1.2	1.0	0.8	0.6	0.5	0.7	1.0
Trade balance	3.1	1.2	0.8	2.7	2.1	2.3	2.5	2.9	3.1	3.2
Foreign direct Investment (net)	1.1	1.5	2.1	1.5	1.1	1.6	1.8	2.0	2.0	2.0
Total external debt	59.2	57.7	58.4	51.8	50.7	50.3	51.7	49.8	47.4	44.9
Gross international reserves (US$ billions) 1/	39.7	42.7	44.6	45.9	46.2	52.9	57.9	62.9	65.9	68.9
Terms of trade (percent change)	9.6	-0.7	-1.6	3.8	1.7	-7.3	-3.7	-1.2	-2.1	-4.5
Federal government operations										
Revenues 2/	18.3	18.1	17.7	16.8	16.7	17.5	18.1	18.7	19.0	19.1
Primary expenditure 3/	21.3	20.5	20.0	18.7	18.6	18.4	18.1	17.9	17.7	17.8
Primary balance 4/	-3.0	-2.5	-2.3	-1.9	-1.9	-0.9	0.0	0.8	1.3	1.3
Overall balance	-4.5	-4.0	-4.1	-4.1	-4.1	-3.7	-2.4	-2.0	-1.7	-1.8
Federal government debt	80.9	79.7	83.2	71.1	72.2	72.5	73.0	70.3	67.3	64.7
Official creditors	16.2	16.6	16.5	14.7	14.7	14.4	14.8	14.1	12.9	11.4
Private creditors	33.6	31.7	33.2	29.8	27.5	29.4	29.7	29.2	28.7	28.6
of which: FX-denominated debt	21.4	19.6	19.5	17.5	16.8	16.4	16.4	15.7	15.2	15.1
Public entities	31.1	31.4	33.5	26.7	30.0	28.8	28.5	26.9	25.6	24.7
Money and credit										
Monetary base	7.9	6.1	6.2	6.4	6.3	6.5	6.5	6.5	6.5	6.5
BCRA transfers to the government	3.7	0.8	0.7	0.6	0.6	0.0	0.0	0.0	0.0	0.0
BCRA securities	10.9	12.5	12.5	10.0	10.8	10.2	9.6	9.4	8.9	8.6
BCRA quasi-fiscal cost	3.3	4.5	4.2	3.4	4.0	3.2	2.6	2.4	2.1	1.8
Memorandum items										
GIR (adjusted, US$ billions) 5/	39.7	41.2	43.0	45.9	46.2	52.9	57.9	62.9	65.9	68.9
GIR change (adjusted, US$ billions) 5/	0.3	1.6	3.3	4.7	3.3	6.6	5.0	5.0	3.0	3.0
NIR (TMU definition) (US$ billions)	2.3	7.2	7.7	12.0	10.3	17.3	22.3	27.3	30.3	33.2
Consolidated public sector balance (percent of GDP) 6/	-7.6	-8.1	-8.0	-7.2	-7.8	-6.6	-4.5	-3.9	-3.2	-3.0
Poverty rate (percent)	37.3	...	...	...	...	...	...	...	...	
Unemployment rate (avg, percent)	8.8	6.9	7.0	6.5	7.1	7.1	7.1	7.1	7.1	7.1
GDP per capita (in US$, nominal)	10,498	...	...	...	...	...	...	...	...	...

Sources: National authorities and Fund staff estimates and projections.

1/ Includes valuation effects.

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

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

4/ Primary balance excludes BCRA profit transfers.

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

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

Table 2. Argentina: External Balance of Payments, 2021–2028

		SR (Dec.)	Proj.	SR (Dec.)	Proj.					
	2021	2022	2022	2023	2023	2024	2025	2026	2027	2028
					(in billions of U.S. dollars)					
Current account	**6.7**	**-2.0**	**-4.1**	**7.6**	**6.4**	**5.2**	**3.8**	**3.5**	**5.2**	**7.4**
Trade balance in goods	18.7	12.5	12.3	19.8	19.7	19.5	19.7	22.6	24.7	26.3
Exports f.o.b.	78.0	89.7	88.5	93.3	86.8	90.1	92.6	97.4	102.7	108.4
Imports f.o.b.	59.3	77.4	76.2	73.6	67.1	70.6	72.9	74.8	78.0	82.1
Trade balance in services	-3.6	-4.6	-7.1	-2.4	-5.5	-4.1	-3.4	-3.2	-3.2	-2.7
Exports	9.4	11.7	13.7	9.8	17.3	19.0	20.2	21.6	23.1	24.7
Imports	13.1	16.3	20.8	12.2	22.8	23.1	23.6	24.8	26.2	27.4
Primary income, net 1/	-9.8	-11.7	-11.3	-11.7	-9.8	-12.2	-14.6	-18.0	-18.5	-18.6
of which: public interest payments, net	-2.9	-4.6	-4.4	-6.4	-6.9	-7.6	-7.8	-7.9	-8.0	-7.9
Secondary income, net	1.5	1.8	2.0	1.9	2.0	2.1	2.1	2.2	2.2	2.4
Capital Account	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Financial Account /2	**-8.1**	**-20.1**	**-16.9**	**-24.2**	**-24.9**	**-6.1**	**-3.7**	**-3.3**	**-6.7**	**-9.0**
Foreign direct investment, net	5.4	9.3	13.6	9.7	7.1	10.4	11.6	13.1	13.8	14.5
Portfolio investment, net	-4.8	-5.9	-7.7	-2.0	-2.8	-1.0	-1.9	-0.5	1.0	2.2
of which: public, gross	-0.9	-0.9	-0.9	-0.2	-0.5	-1.1	-1.7	0.6	2.7	4.8
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/ 3/	-8.8	-23.6	-22.8	-31.9	-29.2	-15.5	-13.4	-15.8	-21.5	-25.6
IMF repurchases	-3.8	-16.9	-16.9	-17.7	-17.7	-4.6	0.0	-1.1	-4.8	-6.9
Other official repayments	-2.4	-2.7	-2.4	-2.5	-2.5	-2.7	-2.8	-2.7	-2.7	-2.7
Other items net	-2.6	-4.1	-3.5	-11.8	-8.9	-8.2	-10.6	-12.0	-14.0	-16.1
Errors and Omissions	**2.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-3.6**	**-21.9**	**-20.9**	**-16.5**	**-18.4**	**-0.8**	**0.2**	**0.3**	**-1.4**	**-1.5**
Financing	**3.6**	**21.9**	**20.9**	**16.5**	**18.4**	**0.8**	**-0.2**	**-0.3**	**1.4**	**1.5**
IMF Financing	0.0	23.5	23.5	16.0	16.0	3.2	0.0	0.0	0.0	0.0
Other official financing 4/	3.5	4.1	4.3	3.7	4.1	4.2	4.8	4.7	4.4	4.5
Gross official reserves change (increase: -) /5	0.1	-5.7	-6.9	-3.1	-1.6	-6.6	-5.0	-5.0	-3.0	-3.0
					(Percent of GDP unless otherwise indicated)					
Current account	**1.4**	**-0.3**	**-0.6**	**1.2**	**1.0**	**0.8**	**0.6**	**0.5**	**0.7**	**1.0**
Trade balance in goods	3.9	2.0	1.9	3.0	3.0	3.0	3.0	3.4	3.5	3.6
Exports, f.o.b.	16.2	14.4	13.9	14.4	13.1	13.7	14.2	14.6	14.7	14.8
Imports f.o.b.	12.3	12.4	12.0	11.4	10.1	10.7	11.1	11.2	11.2	11.2
Trade balance in services	-0.8	-0.7	-1.1	-0.4	-0.8	-0.6	-0.5	-0.5	-0.5	-0.4
Primary income, net	-2.0	-1.8	-1.8	-1.8	-1.5	-1.9	-2.2	-2.7	-2.7	-2.5
Secondary income, net	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital Account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-1.7**	**-3.2**	**-2.6**	**-3.7**	**-3.7**	**-0.9**	**-0.6**	**-0.5**	**-1.0**	**-1.2**
Foreign direct investment, net	1.1	1.5	2.1	1.5	1.1	1.6	1.8	2.0	2.0	2.0
Portfolio investment, net	-1.0	-0.9	-1.2	-0.3	-0.4	-0.2	-0.3	-0.1	0.1	0.3
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/	-1.8	-3.8	-3.6	-4.9	-4.4	-2.3	-2.0	-2.4	-3.1	-3.5
Errors and Omissions	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-0.7**	**-3.5**	**-3.3**	**-2.5**	**-2.8**	**-0.1**	**0.0**	**0.1**	**-0.2**	**-0.2**
Financing	**0.7**	**3.5**	**3.3**	**2.5**	**2.8**	**0.1**	**0.0**	**-0.1**	**0.2**	**0.2**
IMF Financing	0.0	3.8	3.7	2.5	2.4	0.5	0.0	0.0	0.0	0.0
Other official financing 4/	0.7	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.6	0.6
Gross official reserves (increase: -) 5/	0.0	-0.9	-1.1	-0.5	-0.2	-1.0	-0.8	-0.7	-0.4	-0.4
Memorandum items:										
Exports volumes (percent change)	12.7	-2.7	-2.3	4.4	-2.6	7.7	4.1	4.9	4.9	4.9
Imports volumes (percent change)	29.8	9.4	10.1	-0.9	-8.2	4.2	3.3	3.7	3.7	3.7
Trading partners imports growth (percent change)	15.1	1.7	1.7	1.4	1.4	3.1	3.6	3.4	3.4	3.4
Gross international reserves (US$ billions) 6/	39.7	42.7	44.6	45.9	46.2	52.9	57.9	62.9	65.9	68.9
GIR change (US$ billions) 6/	0.3	3.2	4.9	3.1	1.6	6.6	5.0	5.0	3.0	3.0
GIR (adjusted, US$ billions) 7/	39.7	41.2	43.0	45.9	46.2	52.9	57.9	62.9	65.9	68.9
in months of imports of goods and services	6.6	5.4	5.3	6.6	6.2	6.8	7.2	7.6	7.6	7.6
in percent of ARA	62.9	66.6	69.3	75.7	75.1	85.9	94.6	101.5	104.8	104.7
GIR change (adjusted, US$ billions) 7/	0.3	1.6	3.3	4.7	3.3	6.6	5.0	5.0	3.0	3.0
NIR change (program definition, US$ billions) 8/	-1.5	5.0	5.4	4.8	2.6	7.0	5.0	5.0	3.0	3.0
excluding IMF contribution in 2022	-1.5	1.2	1.6	4.8	2.6	7.0	5.0	5.0	3.0	3.0
Terms of Trade (percent change)	9.6	-0.7	-1.6	3.8	1.7	-7.3	-3.7	-1.2	-2.1	-4.5

Sources: National authorities and Fund staff estimates and projections.

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

2/ Excludes disbursements from the IMF and other IFIs.

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

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

5/ Excludes valuation effects.

6/ Includes valuation effects.

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

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

Table 3a. Argentina: Federal Government Operations, 2020–2028

(In Billions of Argentine Pesos)

			SR (Dec.)	Proj.	SR (Dec.)			Proj.			
	2020	2021	2022	2022	2023	2023	2024	2025	2026	2027	2028
					(in billions of Argentine pesos)						
Revenues	**4,841**	**8,453**	**14,744**	**14,854**	**25,018**	**25,700**	**40,577**	**59,978**	**86,610**	**118,808**	**155,414**
Tax revenues	2,868	5,129	9,125	9,152	16,089	15,676	25,299	38,002	55,252	75,783	99,538
Social security contributions	1,533	2,382	4,209	4,274	7,673	8,107	12,548	18,015	25,729	35,284	45,723
Nontax revenues 1/	440	942	1,410	1,428	1,256	1,916	2,731	3,961	5,629	7,741	10,153
Primary expenditures	**6,591**	**9,860**	**16,759**	**16,809**	**27,817**	**28,670**	**42,647**	**60,016**	**83,030**	**110,713**	**145,077**
Wages	881	1,341	2,437	2,450	4,313	4,538	6,786	9,336	13,021	17,629	23,126
Goods and services	231	480	545	657	1,059	1,040	1,399	1,880	2,334	2,946	3,590
Pensions	2,614	3,710	6,327	6,288	11,215	11,659	19,572	29,039	41,560	57,639	76,967
Current transfers to private sector	2,181	3,104	5,272	5,203	7,446	7,604	9,513	12,371	15,769	18,919	23,918
Social assistance	1,484	1,723	3,063	3,064	4,367	4,515	6,190	8,290	10,909	14,033	18,062
Subsidies	697	1,382	2,209	2,139	3,115	3,124	3,323	4,081	4,860	4,887	5,857
of which: energy	492	1,051	1,754	1,657	2,359	2,365	2,612	3,225	3,894	3,882	4,916
Other current	81	214	361	324	653	383	580	829	1,206	1,564	2,034
Discretionary current transfers to provinces	324	360	534	555	765	976	1,067	1,327	1,856	2,377	3,254
Capital spending 2/	280	651	1,283	1,332	2,366	2,470	3,730	5,234	7,284	9,638	12,189
Primary balance	**-1,750**	**-1,408**	**-2,016**	**-1,956**	**-2,798**	**-2,970**	**-2,070**	**-38**	**3,580**	**8,095**	**10,337**
Interest payments	**543**	**684**	**1,229**	**1,493**	**3,254**	**3,337**	**6,473**	**7,795**	**13,011**	**18,830**	**25,109**
Overall Balance	**-2,293**	**-2,092**	**-3,245**	**-3,449**	**-6,053**	**-6,307**	**-8,543**	**-7,832**	**-9,430**	**-10,735**	**-14,772**
Financing	**2,293**	**2,092**	**3,245**	**3,449**	**6,053**	**6,307**	**8,543**	**7,832**	**9,430**	**10,735**	**14,772**
Treasury deposits (+, drawdown) 3/	**-62**	**-157**	**-601**	**-827**	**707**	**1,403**	**942**	**0**	**0**	**0**	**0**
External	**67**	**113**	**1,019**	**1,035**	**-400**	**-365**	**-84**	**732**	**1,589**	**-59**	**797**
IMF (net)	0	53	870	872	-397	-403	-470	0	-783	-4,259	-7,636
Other official (net) 4/	83	102	213	251	285	361	525	1,013	1,373	1,555	2,014
Private (net)	-16	-42	-64	-87	-288	-323	-140	-281	999	2,645	6,419
Issuances	0	191	219	199	15	16	118	1,350	3,236	5,935	11,890
Amortization	16	233	283	286	303	339	258	1,630	2,237	3,289	5,472
Domestic	**2,288**	**2,136**	**2,827**	**3,241**	**5,746**	**5,269**	**7,685**	**7,100**	**7,841**	**10,794**	**13,975**
Private (net) 5/	355	1,060	2,699	2,875	4,561	2,741	6,237	5,321	4,409	4,444	4,207
Issuance	2,017	3,787	8,177	7,849	17,428	12,999	16,092	22,436	18,516	15,277	26,953
Amortization	1,662	2,727	5,478	4,973	12,867	10,258	9,855	17,115	14,108	10,833	22,746
Public entities (net) 6/	2,398	2,088	898	859	1,185	2,528	1,448	1,780	3,433	6,350	9,768
of which: BCRA transfers	2,038	1,701	654	620	883	883	0	0	0	0	0
Other 7/	-465	-1,011	-770	-493	0	0	0	0	0	0	0
Memorandum items:											
One-off support (COVID-19 & Solidarity Levy)	1,024	518	200	200	0	0	0	0	0	0	0
Nominal GDP (ARS billions)	27,481	46,282	81,626	83,875	148,581	154,304	231,958	331,754	463,918	625,504	813,427

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting with the exclusion of BCRA profit transfers. Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues from 2023 onwards.

2/ Includes federal capital transfers to provinces.

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

4/ Assumes repayment of Paris Club legacy obligations by 2028, consistent with the deal reached in October 2022.

5/ Includes Banco Nacion and other public entities.

6/ Includes BCRA and FGS.

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

Table 3b. Argentina: Federal Government Operations, 2020–2028

(In Percent of GDP)

			SR (Dec.)	Proj.	SR (Dec.)			Proj.			
	2020	2021	2022	2022	2023	2023	2024	2025	2026	2027	2028
				(Percent of GDP)							
Revenues	**17.6**	**18.3**	**18.1**	**17.7**	**16.8**	**16.7**	**17.5**	**18.1**	**18.7**	**19.0**	**19.1**
Tax revenues	10.4	11.1	11.2	10.9	10.8	10.2	10.9	11.5	11.9	12.1	12.2
Social security contributions	5.6	5.1	5.2	5.1	5.2	5.3	5.4	5.4	5.5	5.6	5.6
Nontax revenues 1/	1.6	2.0	1.7	1.7	0.8	1.2	1.2	1.2	1.2	1.2	1.2
Primary expenditures	**24.0**	**21.3**	**20.5**	**20.0**	**18.7**	**18.6**	**18.4**	**18.1**	**17.9**	**17.7**	**17.8**
Wages	3.2	2.9	3.0	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.8
Goods and services	0.8	1.0	0.7	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.4
Pensions	9.5	8.0	7.8	7.5	7.5	7.6	8.4	8.8	9.0	9.2	9.5
Current transfers to private sector	7.9	6.7	6.5	6.2	5.0	4.9	4.1	3.7	3.4	3.0	2.9
Social assistance	5.4	3.7	3.8	3.7	2.9	2.9	2.7	2.5	2.4	2.2	2.2
Subsidies	2.5	3.0	2.7	2.6	2.1	2.0	1.4	1.2	1.0	0.8	0.7
of which: energy	1.8	2.3	2.1	2.0	1.6	1.5	1.1	1.0	0.8	0.6	0.6
Discretionary current transfers to provinces	1.2	0.8	0.7	0.7	0.5	0.6	0.5	0.4	0.4	0.4	0.4
Other current	0.3	0.5	0.4	0.4	0.4	0.2	0.3	0.3	0.3	0.3	0.3
Capital spending 2/	1.0	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5
Primary balance	**-6.4**	**-3.0**	**-2.5**	**-2.3**	**-1.9**	**-1.9**	**-0.9**	**0.0**	**0.8**	**1.3**	**1.3**
Interest cash	**2.0**	**1.5**	**1.5**	**1.8**	**2.2**	**2.2**	**2.8**	**2.3**	**2.8**	**3.0**	**3.1**
Overall Balance	**-8.3**	**-4.5**	**-4.0**	**-4.1**	**-4.1**	**-4.1**	**-3.7**	**-2.4**	**-2.0**	**-1.7**	**-1.8**
Financing	**8.3**	**4.5**	**4.0**	**4.1**	**4.1**	**4.1**	**3.7**	**2.4**	**2.0**	**1.7**	**1.8**
Treasury deposits (+, drawdown) 3/	**-0.3**	**-0.4**	**-0.7**	**-0.9**	**0.5**	**0.9**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**
External	**0.2**	**0.2**	**1.2**	**1.2**	**-0.3**	**-0.2**	**0.0**	**0.2**	**0.3**	**0.0**	**0.1**
IMF (net)	0.0	0.1	1.1	1.0	-0.3	-0.3	-0.2	0.0	-0.2	-0.7	-0.9
Other official (net) 4/	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.2
Private (net)	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	0.2	0.4	0.8
Issuances	0.0	0.4	0.3	0.2	0.0	0.0	0.1	0.4	0.7	0.9	1.5
Amortization	0.1	0.5	0.3	0.3	0.2	0.2	0.1	0.5	0.5	0.5	0.7
Domestic	**8.3**	**4.6**	**3.5**	**3.9**	**3.9**	**3.4**	**3.3**	**2.1**	**1.7**	**1.7**	**1.7**
Private (net) 5/	1.3	2.3	3.3	3.4	3.1	1.8	2.7	1.6	1.0	0.7	0.5
Issuance	7.3	8.2	10.0	9.4	11.7	8.4	6.9	6.8	4.0	2.4	3.3
Amortization	6.0	5.9	6.7	5.9	8.7	6.6	4.2	5.2	3.0	1.7	2.8
Public entities (net) 6/	8.7	4.5	1.1	1.0	0.8	1.6	0.6	0.5	0.7	1.0	1.2
of which: BCRA transfers	7.4	3.7	0.8	0.7	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Other 7/	-1.7	-2.2	-0.9	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
One-off spending (COVID-19 & Solidarity Levy)	3.7	1.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance without COVID support	-2.6	-1.9	-2.2	-2.1	-1.9	-1.9	-0.9	0.0	0.8	1.3	1.3
Structural primary balance 8/ 9/	-0.5	-1.9	-2.5	-2.4	-1.9	-2.0	-0.9	0.0	0.8	1.3	1.3
Federal government debt 6/	102.8	80.9	79.7	83.2	71.1	72.2	72.5	73.0	70.3	67.3	64.7

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting with the exclusion of BCRA profit transfers. Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues from 2023 onwards.

2/ Includes federal capital transfers to provinces.

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

4/ Assumes repayment of Paris Club legacy obligations by 2028, consistent with the deal reached in October 2022.

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

6/ Includes federal debt held by the BCRA and FGS.

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

8/ Excludes COVID and Solidarity Levy-related spending.

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

Table 4. Argentina: General Government Operations, 2020–2028 1/

	2020	Est. 2021	SR (Dec.) 2022	Proj. 2022	SR (Dec.) 2023	Proj. 2023	2024	2025	2026	2027	2028
	(Percent of GDP unless otherwise indicated)										
Revenues	**33.5**	**33.5**	**33.9**	**33.0**	**32.5**	**32.2**	**33.5**	**34.3**	**35.1**	**35.6**	**35.8**
Tax revenues	23.6	23.8	24.5	23.7	24.0	23.2	24.4	25.2	25.8	26.2	26.3
Federal	10.4	11.1	11.2	10.9	10.8	10.2	10.9	11.5	11.9	12.1	12.2
Provincial co-participated	8.2	7.7	8.3	7.8	8.1	8.0	8.3	8.5	8.7	8.8	8.7
Provincial own	5.0	5.0	5.0	5.0	5.1	5.0	5.2	5.2	5.2	5.3	5.4
Social security contributions	7.3	6.6	6.6	6.5	6.6	6.6	6.8	6.8	6.9	7.0	7.0
Federal	5.6	5.1	5.2	5.1	5.2	5.3	5.4	5.4	5.5	5.6	5.6
Provincial	1.7	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other revenues	2.6	3.1	2.8	2.8	2.0	2.3	2.3	2.3	2.3	2.4	2.4
Federal	1.6	2.0	1.7	1.7	0.8	1.2	1.2	1.2	1.2	1.2	1.2
Provincial	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Primary expenditures 2/	**39.6**	**36.0**	**35.8**	**34.8**	**33.9**	**33.6**	**33.9**	**33.8**	**33.8**	**33.6**	**33.8**
Wages	11.1	9.9	10.2	9.8	10.0	10.0	10.0	9.8	9.8	9.9	10.0
Federal	3.2	2.9	3.0	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.8
Provincial	7.9	7.0	7.3	6.9	7.1	7.1	7.1	7.0	7.0	7.1	7.1
Goods and services	2.4	2.6	2.2	2.3	2.2	2.2	2.1	2.0	1.9	1.9	1.8
Federal	0.8	1.0	0.7	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.4
Provincial	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4
Pensions	11.8	10.0	9.7	9.5	9.5	9.6	10.7	11.1	11.4	11.7	12.0
Federal	9.5	8.0	7.8	7.5	7.5	7.6	8.4	8.8	9.0	9.2	9.5
Provincial	2.3	2.0	2.0	2.0	2.0	2.0	2.3	2.4	2.4	2.5	2.6
Transfers to the private sector	9.3	8.1	7.9	7.6	6.4	6.3	5.5	5.1	4.8	4.4	4.3
Federal	7.9	6.7	6.5	6.2	5.0	4.9	4.1	3.7	3.4	3.0	2.9
Provincial	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Capital spending	2.3	2.7	3.0	2.9	3.0	3.0	3.1	3.2	3.3	3.2	3.1
Federal 3/	0.8	1.0	1.3	1.2	1.3	1.3	1.4	1.4	1.5	1.4	1.4
Provincial	1.5	1.7	1.7	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Other	2.7	2.8	2.7	2.7	2.7	2.5	2.6	2.6	2.6	2.6	2.6
Federal	0.3	0.5	0.4	0.4	0.4	0.2	0.3	0.3	0.3	0.3	0.3
Provincial	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Primary Balance	**-6.2**	**-2.5**	**-1.9**	**-1.8**	**-1.4**	**-1.4**	**-0.5**	**0.5**	**1.3**	**2.0**	**2.0**
Federal government	-6.4	-3.0	-2.5	-2.3	-1.9	-1.9	-0.9	0.0	0.8	1.3	1.3
Provincial government	0.2	0.5	0.6	0.6	0.5	0.5	0.4	0.5	0.6	0.7	0.7
Interest (cash)	**2.4**	**1.8**	**1.7**	**2.0**	**2.4**	**2.3**	**2.9**	**2.5**	**2.9**	**3.1**	**3.2**
Overall balance	**-8.6**	**-4.3**	**-3.6**	**-3.8**	**-3.8**	**-3.8**	**-3.4**	**-1.9**	**-1.6**	**-1.1**	**-1.2**
Memorandum items											
General Gov't structural primary balance 4/	-2.9	-1.6	-2.1	-2.0	-1.4	-1.5	-0.4	0.5	1.3	2.0	2.0
Federal structural primary balance	-4.0	-2.4	-2.7	-2.6	-1.9	-2.0	-0.9	0.0	0.8	1.3	1.3
Provincial structural primary balance	1.1	0.8	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.7	0.7
Consolidated public sector balance 5/	-11.4	-7.6	-8.1	-8.0	-7.2	-7.8	-6.6	-4.5	-3.9	-3.2	-3.0
Federal government debt	102.8	80.9	79.7	83.2	71.1	72.2	72.5	73.0	70.3	67.3	64.7
of which: net of debt held by public entities 6/	65.8	49.8	48.3	49.8	44.5	42.2	43.7	44.5	43.4	41.6	40.0
Provincial government debt	8.1	6.0	4.5	4.6	3.2	3.2	2.5	1.9	1.7	1.6	1.6
BCRA securities	10.7	10.9	12.5	12.5	10.0	10.8	10.2	9.6	9.4	8.9	8.6

Sources: National authorities and Fund staff estimates and projections.

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

Table 5a. Argentina: Summary Operations of Central Bank, 2020–2028

(End of Period, Unless Otherwise Indicated)

			SR (Dec.)	Proj.	SR (Dec.)			Proj.			
	2020	2021	2022	2022	2023	2023	2024	2025	2026	2027	2028
	(In billions of Argentine pesos)										
Net foreign assets	**1,390**	**1,665**	**3,740**	**4,027**	**6,927**	**6,837**	**12,774**	**21,367**	**32,076**	**43,607**	**56,740**
Gross foreign assets	3,314	4,075	7,286	7,900	12,676	12,964	21,771	34,328	49,162	65,254	83,109
Gross foreign liabilities	1,925	2,410	3,546	3,872	5,749	6,128	8,997	12,961	17,086	21,646	26,369
Net domestic assets	**1,081**	**1,989**	**1,239**	**1,177**	**2,633**	**2,885**	**2,303**	**198**	**-1,919**	**-3,054**	**-3,865**
Credit to the public sector (net)	6,351	8,783	15,575	15,736	25,033	26,688	38,171	53,345	69,985	88,748	108,640
of which: Temporary advances to federal government	1,260	2,173	2,827	2,793	3,710	3,676	3,676	3,676	3,676	3,676	3,676
of which: Non-marketable government bonds	4,491	5,909	10,871	10,942	18,705	18,359	27,731	40,757	54,441	69,886	86,263
of which: Other credit and gvt. deposits (net)	599	701	1,876	2,001	2,618	4,653	6,764	8,912	11,868	15,185	18,701
Credit to the financial sector, excl. securities	-914	-1,240	-2,041	-2,136	-3,679	-3,713	-5,477	-7,805	-9,320	-10,256	-9,372
BCRA securities	-2,942	-5,045	-10,204	-10,483	-14,808	-16,665	-23,699	-31,971	-43,559	-55,653	-70,108
Official capital and other items	-1,414	-510	-2,091	-1,940	-3,913	-3,426	-6,692	-13,371	-19,025	-25,893	-33,025
Monetary base	**2,470**	**3,654**	**4,979**	**5,204**	**9,559**	**9,721**	**15,078**	**21,565**	**30,156**	**40,554**	**52,875**
Currency issued	1,898	2,691	3,755	4,095	6,835	7,406	11,135	15,592	21,340	28,778	37,418
Bank deposits at the BCRA (peso-denominated)	572	963	1,224	1,109	2,724	2,315	3,943	5,973	8,816	11,776	15,457
	(Percent of GDP)										
Net foreign assets	**5.1**	**3.6**	**4.6**	**4.8**	**4.7**	**4.4**	**5.5**	**6.4**	**6.9**	**7.0**	**7.0**
Gross foreign assets	12.1	8.8	8.9	9.4	8.5	8.4	9.4	10.3	10.6	10.4	10.2
Gross foreign liabilities	7.0	5.2	4.3	4.6	3.9	4.0	3.9	3.9	3.7	3.5	3.2
Net domestic assets	**3.9**	**4.3**	**1.5**	**1.4**	**1.8**	**1.9**	**1.0**	**0.1**	**-0.4**	**-0.5**	**-0.5**
Credit to the public sector	23.1	19.0	19.1	18.8	16.8	17.3	16.5	16.1	15.1	14.2	13.4
of which: Temporary advances to federal government	4.6	4.7	3.5	3.3	2.5	2.4	1.6	1.1	0.8	0.6	0.5
of which: Non-marketable government bonds	16.3	12.8	13.3	13.0	12.6	11.9	12.0	12.3	11.7	11.2	10.6
of which: Other credit and gvt. deposits (net)	2.2	1.5	2.3	2.4	1.8	3.0	2.9	2.7	2.6	2.4	2.3
Credit to the financial sector, excl. securities	-3.3	-2.7	-2.5	-2.5	-2.5	-2.4	-2.4	-2.4	-2.0	-1.6	-1.2
BCRA securities	-10.7	-10.9	-12.5	-12.5	-10.0	-10.8	-10.2	-9.6	-9.4	-8.9	-8.6
Official capital and other items	-5.1	-1.1	-2.6	-2.3	-2.6	-2.2	-2.9	-4.0	-4.1	-4.1	-4.1
Monetary base	**9.0**	**7.9**	**6.1**	**6.2**	**6.4**	**6.3**	**6.5**	**6.5**	**6.5**	**6.5**	**6.5**
Currency issued	6.9	5.8	4.6	4.9	4.6	4.8	4.8	4.7	4.6	4.6	4.6
Bank deposits at the BCRA (peso-denominated)	2.1	2.1	1.5	1.3	1.8	1.5	1.7	1.8	1.9	1.9	1.9
Memorandum items:											
NFA (billions of USD)	16.5	16.2	21.9	22.7	25.1	24.4	31.0	36.0	41.0	44.0	47.0
Quasi-fiscal deficit (percent of GDP)	2.8	3.3	4.5	4.2	3.4	4.0	3.2	2.6	2.4	2.1	1.8

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

Table 5b. Argentina: Summary Operations of the Banking Sector, 2020–2028

(End of Period, Unless Otherwise Indicated)

	2020	2021	SR (Dec.) 2022	Proj. 2022	SR (Dec.) 2023	2023	2024	Proj. 2025	2026	2027	2028
				(In billions of Argentine pesos)							
Net foreign assets	**240**	**314**	**606**	**778**	**1,317**	**1,453**	**2,253**	**3,223**	**4,506**	**6,058**	**7,898**
Net domestic assets	**6,273**	**9,551**	**16,244**	**18,532**	**28,398**	**31,851**	**47,591**	**67,163**	**92,704**	**120,204**	**151,261**
Credit to the public sector	152	462	601	2,399	812	2,498	2,757	2,982	3,286	3,687	4,287
Gross credit to public sector	1,594	2,821	5,600	6,140	9,817	8,116	13,287	17,795	23,872	31,889	43,903
Deposits from the public sector	-1,442	-2,359	-4,999	-3,740	-9,006	-5,618	-10,531	-14,813	-20,586	-28,202	-39,615
Claims on the central bank	4,686	7,521	13,858	14,109	21,919	23,369	34,136	47,174	63,646	80,316	98,359
Holdings of central bank securities	2,942	5,045	10,204	10,483	14,808	16,665	23,699	31,971	43,559	55,653	70,108
Reserves at central bank	1,488	2,202	3,268	3,254	6,405	6,029	9,421	13,779	18,137	22,033	24,831
Other	256	274	387	372	705	675	1,016	1,424	1,950	2,630	3,420
Claims on the private sector	3,762	5,357	8,561	9,077	16,663	17,344	27,863	41,576	60,298	82,737	108,482
US$ denominated	478	441	712	688	1,225	1,156	1,802	2,756	3,857	5,188	6,710
AR$ denominated	3,284	4,917	7,849	8,389	15,438	16,188	26,061	38,820	56,441	77,549	101,772
Net capital, reserves, and other assets	-2,327	-3,789	-6,776	-7,054	-10,995	-11,360	-17,165	-24,570	-34,526	-46,536	-59,867
Liabilities with the private sector	**6,513**	**9,865**	**16,850**	**19,310**	**29,716**	**33,304**	**49,844**	**70,385**	**97,210**	**126,262**	**159,160**
Local currency deposits	5,170	8,245	14,284	16,413	25,258	28,391	42,915	61,733	86,291	116,530	150,973
Foreign currency deposits	1,343	1,621	2,565	2,896	4,458	4,913	6,930	8,653	10,919	9,732	8,187
in US$ billions	16.0	15.8	15.0	16.4	16.1	17.5	16.8	14.6	14.0	9.8	6.8
				(Percent GDP)							
Net foreign assets	**0.9**	**0.7**	**0.7**	**0.9**	**0.9**	**0.9**	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**
Net domestic assets	**22.8**	**20.6**	**19.9**	**22.1**	**19.1**	**20.6**	**20.5**	**20.2**	**20.0**	**19.2**	**18.6**
Credit to the public sector (net)	0.6	1.0	0.7	2.9	0.5	1.6	1.2	0.9	0.7	0.6	0.5
Gross credit to public sector	5.8	6.1	6.9	7.3	6.6	5.3	5.7	5.4	5.1	5.1	5.4
Deposits of the public sector	-5.2	-5.1	-6.1	-4.5	-6.1	-3.6	-4.5	-4.5	-4.4	-4.5	-4.9
Claims on the central bank	17.1	16.3	17.0	16.8	14.8	15.1	14.7	14.2	13.7	12.8	12.1
Holdings of central bank securities	10.7	10.9	12.5	12.5	10.0	10.8	10.2	9.6	9.4	8.9	8.6
Reserves at central bank	5.4	4.8	4.0	3.9	4.3	3.9	4.1	4.2	3.9	3.5	3.1
Other	0.9	0.6	0.5	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Credit to the private sector	13.7	11.6	10.5	10.8	11.2	11.2	12.0	12.5	13.0	13.2	13.3
of which: Dollar denominated	1.7	1.0	0.9	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8
of which: Peso denominated	12.0	10.6	9.6	10.0	10.4	10.5	11.2	11.7	12.2	12.4	12.5
Net capital, reserves, and other assets	-8.5	-8.2	-8.3	-8.4	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4	-7.4
Liabilities with the private sector	**23.7**	**21.3**	**20.6**	**23.0**	**20.0**	**21.6**	**21.5**	**21.2**	**21.0**	**20.2**	**19.6**
Local currency deposits	18.8	17.8	17.5	19.6	17.0	18.4	18.5	18.6	18.6	18.6	18.6
Foreign currency deposits	4.9	3.5	3.1	3.5	3.0	3.2	3.0	2.6	2.4	1.6	1.0
Memorandum items:											
M3 (AR$ billions)	8,094	12,167	19,419	22,647	33,458	39,643	59,332	83,782	115,713	150,295	189,454
M3 (percent of GDP)	29.5	26.3	23.8	27.0	22.5	25.7	25.6	25.3	24.9	24.0	23.3
M3 (as a ratio of monetary base)	3.3	3.3	3.9	4.4	3.5	4.1	3.9	3.9	3.8	3.7	3.6
Credit to the private sector, real (eop, y/y percent change)	-2.2	-5.6	-18.4	-13.0	21.6	19.4	11.6	6.6	7.4	5.5	4.9

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

Table 6. Argentina: Summary Public and External Debt, 2019–2028 1/

			Est.	Proj.						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(in billions of U.S. dollars, unless otherwise stated)									
Federal Government Debt										
Gross federal debt	**323.4**	**335.7**	**364.5**	**394.1**	**397.7**	**408.7**	**408.8**	**417.2**	**425.0**	**436.3**
(in percent of GDP)	*88.8*	*102.8*	*80.9*	*83.2*	*72.2*	*72.5*	*73.0*	*70.3*	*67.3*	*64.7*
By creditor:										
Official sector	73.4	76.6	72.8	78.3	80.8	80.9	82.9	83.8	81.6	76.7
IMF	44.1	46.0	41.0	45.7	44.5	43.1	43.1	42.0	38.0	31.4
Other IFIs	23.9	25.1	27.1	28.0	31.5	33.1	35.2	37.2	38.9	40.7
Other official	5.4	5.5	4.8	4.7	4.9	4.7	4.6	4.6	4.6	
Private sector 2/	133.1	138.3	151.5	157.3	151.6	165.6	166.3	173.6	181.4	193.0
of which: Holdouts 3/	2.4	2.4	2.6	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other public entities	116.9	120.9	140.3	158.5	165.3	162.1	159.5	159.8	162.0	166.5
of which: BCRA	81.9	85.7	97.0	109.0	108.7	105.2	102.6	101.9	103.1	105.8
By currency:										
Domestic currency	323.4	79.3	109.3	131.2	131.5	141.2	138.3	142.5	147.6	155.8
Foreign currency	0.0	256.4	255.3	262.9	266.2	267.5	270.5	274.7	277.4	280.5
of which: held by private sector	94.1	92.2	96.5	92.5	92.7	92.4	91.7	93.1	96.0	101.6
By residency:										
Non residents	155.9	152.6	146.8	145.9	147.6	146.6	146.2	146.6	144.9	143.6
of which: private non residents	82.5	76.1	74.0	67.6	66.8	65.7	63.3	62.9	63.4	66.9
Residents	167.5	183.1	217.8	248.2	250.0	262.0	262.6	270.5	280.1	292.6
Memorandum items										
Federal Gov't, excl. debt held by public entities	**206.5**	**214.9**	**224.3**	**235.7**	**232.4**	**246.6**	**249.3**	**257.4**	**263.0**	**269.7**
(in percent of GDP)	*56.7*	*65.8*	*49.8*	*49.8*	*42.2*	*43.7*	*44.5*	*43.4*	*41.6*	*40.0*
BCRA Debt (Leliqs and Pases)	**17.8**	**35.0**	**49.1**	**59.2**	**59.5**	**57.6**	**53.9**	**55.7**	**56.2**	**58.1**
(in percent of GDP)	*4.9*	*10.7*	*10.9*	*12.5*	*10.8*	*10.2*	*9.6*	*9.4*	*8.9*	*8.6*
Combined Federal Gov't and BCRA	**224.3**	**249.8**	**273.4**	**294.8**	**291.8**	**304.2**	**303.2**	**313.1**	**319.2**	**327.9**
(in percent of GDP)	*61.6*	*76.5*	*60.7*	*62.3*	*53.0*	*54.0*	*54.2*	*52.7*	*50.5*	*48.6*
Overall External Debt										
Gross external debt (includes holdouts)	**278.5**	**271.4**	**266.7**	**276.6**	**279.2**	**283.5**	**289.1**	**295.8**	**299.2**	**302.8**
(in percent of GDP)	*76.5*	*83.1*	*59.2*	*58.4*	*50.7*	*50.3*	*51.7*	*49.8*	*47.4*	*44.9*
By debtor										
Public sector	197.4	193.8	190.5	198.2	197.5	196.5	196.8	198.3	197.9	197.6
Federal government	155.9	152.6	146.8	145.9	147.6	146.6	146.2	146.6	144.9	143.6
Other public sector 4/	41.5	41.1	43.7	52.2	49.9	49.9	50.6	51.6	52.9	54.0
Private sector	81.1	77.7	76.2	78.4	81.7	86.9	92.2	97.5	101.3	105.2
Financial	8.8	6.5	5.7	5.3	5.5	6.8	8.1	9.4	10.8	12.2
Non-financial	72.3	71.2	70.5	73.1	76.2	80.1	84.1	88.1	90.5	93.0
By creditor										
Debt to official creditors	95.6	76.6	72.8	81.3	81.1	81.2	83.2	84.1	81.0	76.0
Debt to banks	16.7	13.9	7.8	7.4	7.6	8.9	10.3	11.6	12.9	14.3
Debt to other private creditors	166.2	181.0	186.1	187.8	190.5	193.3	195.5	200.1	205.2	212.6
By maturity										
Long-term	207.1	222.6	216.3	223.7	224.8	227.5	231.4	236.5	238.8	241.4
Of which: Public sector	29.4	27.1	28.3	30.0	30.0	30.0	30.0	30.0	30.0	30.0

Sources: National authorities and Fund staff estimates and projections.

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

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

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

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

Table 7. Argentina: Federal Government Gross Financing Needs and Sources, 2020–2028

(In Millions of U.S. Dollars)

		Est.	Est.	2023									
	2020	2021	2022	Q1	Q2	Q3	Q4	Full Year	2024	2025	2026	2027	2028
Primary fiscal deficit	**24,455**	**14,636**	**14,854**	**1,918**	**3,179**	**4,134**	**3,533**	**12,765**	**5,896**	**75**	**-5,158**	**-9,053**	**-9,303**
Interest	**6,422**	**5,848**	**10,431**	**1,843**	**2,580**	**3,896**	**2,900**	**11,219**	**15,296**	**12,215**	**15,588**	**18,046**	**19,990**
External	1,840	1,201	1,703	946	417	1,015	412	2,790	3,443	3,628	3,637	3,639	3,782
Official (non-IMF)	671	624	655	332	396	410	394	1,532	1,693	1,713	1,754	1,790	1,823
Private	1,169	577	1,048	615	21	605	17	1,259	1,750	1,915	1,883	1,849	1,959
Domestic	4,583	4,647	8,728	897	2,163	2,881	2,488	8,429	11,852	8,587	11,951	14,407	16,208
Public entities 1/	445	246	409	221	144	591	562	1,519	2,546	2,297	3,142	4,813	5,853
Private 2/	4,138	4,401	8,319	676	2,018	2,290	1,926	6,910	9,306	6,290	8,808	9,593	10,354
Amortizations	**42,190**	**61,835**	**64,050**	**24,467**	**20,242**	**17,416**	**8,572**	**70,697**	**60,570**	**66,673**	**39,322**	**28,686**	**35,660**
External	2,388	4,883	4,602	1,112	1,120	1,278	474	3,984	3,457	6,050	5,919	6,364	7,589
Official (non-IMF)	2,163	2,434	2,416	828	415	846	435	2,524	2,725	2,837	2,696	2,685	2,665
Private	225	2,449	2,186	284	705	432	38	1,460	732	3,212	3,223	3,679	4,924
Domestic	39,802	56,953	59,448	23,355	19,122	16,138	8,098	66,713	57,114	60,624	33,403	22,322	28,071
Public entities 3/	16,267	28,271	21,405	11,687	4,116	3,413	3,356	22,573	29,092	26,906	13,080	10,206	7,599
Private 2/	23,535	28,682	38,043	11,668	15,005	12,725	4,742	44,141	28,022	33,718	20,324	12,116	20,472
IMF Debt Service	**1,471**	**5,128**	**18,759**	**6,043**	**6,086**	**4,360**	**4,342**	**20,830**	**7,672**	**3,141**	**4,283**	**7,776**	**9,480**
of which: Amortization	0	3,780	16,880	5,305	5,305	3,541	3,541	17,692	4,564	0	1,128	4,763	6,872
Total Needs	**74,538**	**87,448**	**108,094**	**34,272**	**32,086**	**29,806**	**19,347**	**115,511**	**89,434**	**82,104**	**54,035**	**45,455**	**55,826**
Treasury deposits (+, drawdown) 4/	-989	-1,820	-5,545	-7,074	6,838	4,076	2,180	6,021	2,690	0	0	0	0
IMF 5/	0	4,335	0	0	0	0	0	0	0	0	0	0	0
Official (not IMF)	3,335	3,506	4,334	430	1,380	1,298	968	4,076	4,218	4,833	4,674	4,424	4,477
Public entities 6/	50,220	50,226	27,973	16,305	5,704	5,603	5,840	33,451	33,208	30,411	18,025	17,308	16,390
Private sector issuances 2/	28,559	41,837	61,557	19,291	14,175	15,504	7,034	56,004	46,089	46,860	31,336	23,723	34,959
of which: international market issuance	0	0	0	0	0	0	0	0	0	2,000	4,000	6,000	10,000
Other 7/	-6,588	-10,636	-3,773	0	0	0	0	0	0	0	0	0	0
Total Sources	**74,538**	**87,448**	**84,546**	**28,952**	**28,097**	**26,481**	**16,022**	**99,553**	**86,205**	**82,104**	**54,035**	**45,455**	**55,826**
Total Gap	**0**	**0**	**23,548**	**5,319**	**3,990**	**3,325**	**3,325**	**15,958**	**3,229**	**0**	**0**	**0**	**0**
IMF Disbursements	0	0	23,548	5,319	3,990	3,325	3,325	15,958	3,229	0	0	0	0
Memorandum Items													
Deposit stock	2,117	3,937	9,482	16,556	9,718	5,641	3,461	3,461	771	771	771	771	771
Private (domestic) debt service	27,673	33,083	46,361	12,344	17,024	15,016	6,668	51,051	37,328	40,008	29,132	21,709	30,826
Private rollover rates (percent)	120	134	153	165	92	126	117	123	160	127	133	150	138
Primary fiscal deficit (percent of GDP)	6.4	3.0	2.3	0.3	0.5	0.6	0.6	1.9	0.9	0.0	-0.8	-1.3	-1.3
BCRA monetary financing (net)	28,855	17,886	4,740	0	1,004	1,306	1,490	3,799	0	0	0	0	0

Sources: National authorities and Fund staff estimates and projections.

1/ Includes BCRA.

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

3/ Includes BCRA and FGS.

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

5/ Includes SDR allocation in 2021.

6/ Assumes additional net financing of around 0.6 percent of GDP in 2023, as part of the new domestic financing strategy. Thereafter, BCRA and FGS are assumed to 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, 2022–2028

(In Millions of U.S. Dollars)

	2022	2023					2024	2025	2026	2027	2028
		Q1	Q2	Q3	Q4	Year					
Imports G&S	96,954	20,115	24,922	24,492	20,328	89,857	93,742	96,470	99,657	104,284	109,463
FDI payments	2,070	421	430	441	452	1,743	1,562	1,599	1,606	1,616	1,652
Interest federal government	1,793	694	694	694	694	2,774	3,490	3,690	3,884	4,208	4,859
to IFIs (excl IMF)	655	383	383	383	383	1,532	1,693	1,713	1,754	1,790	1,823
to private creditors FX	866	302	302	302	302	1,208	1,731	1,919	2,073	2,362	2,968
to private creditors AR$	272	9	9	9	9	35	66	58	57	56	68
Interest provincial government	710	447	126	259	119	951	1,008	943	834	764	475
Amortization federal government	5,731	1,028	1,028	1,028	1,028	4,112	3,927	6,549	6,584	7,165	8,551
to IFIs (excl IMF)	2,416	631	631	631	631	2,524	2,725	2,837	2,696	2,685	2,665
to private creditors FX	0	0	0	0	0	0	641	3,176	3,325	3,902	5,392
to private creditors AR$	3,316	397	397	397	397	1,588	561	536	564	578	494
Amortization provincial government	274	297	289	209	279	1,074	1,558	2,225	2,193	2,165	1,099
Debt service to IMF	18,759	6,090	6,090	4,325	4,325	20,830	7,672	3,141	4,289	7,776	9,480
of which interest and charges	1,880	785	785	785	785	3,139	3,107	3,141	3,155	3,013	2,608
Other outflows (net)	15,216	4,479	2,804	1,519	3,300	12,102	10,504	15,382	21,014	23,906	26,907
of which NFA formation (incl. tourism outflows)	12,611	1,838	7,236	4,143	3,240	16,457	15,603	13,709	15,387	16,197	4,400
of which private sector net debt payments	170	-239	-239	-239	-239	-957	-4,581	-2,638	-2,614	-2,673	0
of which trade credits	2,344	0	0	164	276	440	1,331	927	832	995	0
Total Needs	**141,508**	**33,571**	**36,382**	**32,966**	**30,525**	**133,443**	**123,462**	**129,998**	**140,061**	**151,884**	**162,485**
Exports G&S	102,154	21,759	32,161	25,757	24,339	104,017	109,108	112,746	119,011	125,775	133,093
FDI Inflows	15,670	2,038	2,401	2,221	2,183	8,843	11,919	13,186	14,699	15,390	16,106
Borrowing of federal government	6,366	853	1,803	1,721	1,391	5,768	5,070	8,054	10,086	11,959	16,286
from IFIs (excl IMF)	4,334	430	1,380	1,298	968	4,076	4,218	4,833	4,674	4,424	4,477
from private creditors FX	49	17	17	17	17	69	224	2,627	4,792	6,900	11,247
from private creditors AR$	1,983	406	406	406	406	1,623	627	594	620	634	562
Borrowing of provincial government	689	77	103	180	147	507	786	1,012	1,265	1,761	0
Reserve Drawdown (- = accumulation)	-6,918	3,524	-4,076	-238	-860	-1,650	-6,649	-5,000	-5,000	-3,000	-3,000
Memo item: adjusted reserve drawdown (- = accumulation) 1/	-6,918	-13,341	-5,391	-454	-1,076	-20,263	-7,985	-5,000	-6,134	-3,000	-3,000
Total Sources	**117,961**	**28,251**	**32,392**	**29,641**	**27,200**	**117,485**	**120,234**	**129,998**	**140,061**	**151,884**	**162,485**
Total Gap	**23,547**	**5,319**	**3,990**	**3,325**	**3,325**	**15,958**	**3,229**	**0**	**0**	**0**	**0**
IMF Disbursements	23,547	5,319	3,990	3,325	3,325	15,958	3,229	0	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, 2015–2022 1/

	2015	2016	2017	2018	2019	2020	2021	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**	**394.1**
Debt held by Official and Private Creditors	**102.9**	**129.3**	**165.1**	**206.0**	**206.5**	**214.9**	**224.3**	**235.7**
Official Sector	*29.0*	*28.1*	*29.6*	*57.9*	*73.4*	*76.6*	*72.8*	*78.3*
Multilateral	19.8	20.2	21.3	51.0	68.0	71.1	68.0	73.7
IMF	-	-	-	28.3	44.1	46.0	41.0	45.7
Other IFIs	19.8	20.2	21.3	22.8	23.9	25.1	27.1	28.0
Bilateral	9.3	7.9	8.3	6.9	5.4	5.5	4.8	4.7
Paris Club 2/	7.5	6.0	5.5	3.7	2.1	2.4	1.9	2.0
Non-Paris Club	1.7	1.8	2.8	3.2	3.3	3.1	2.9	2.7
Private Sector 3/	*74.0*	*101.3*	*135.5*	*148.0*	*133.1*	*138.3*	*151.5*	*157.3*
Foreign Law	25.0	46.5	67.2	64.9	66.6	68.5	67.7	66.2
Bonds with new contractual clauses	-	21.9	41.3	40.4	41.2	43.5	42.8	41.3
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	69.8	81.2	88.8
FX denominated	19.3	25.6	41.1	45.4	27.6	21.2	26.2	24.0
ARS denominated	11.7	20.7	24.4	34.8	36.5	48.5	55.0	64.8
Pending Restructuring from 2005/10 4/	18.0	8.5	2.9	2.8	2.4	2.5	2.6	2.3
Debt Held by the Public Sector 5/	**137.7**	**146.1**	**155.8**	**126.2**	**116.9**	**120.9**	**140.3**	**158.5**
				(Percent of GDP)				
Total Gross Federal Government Debt	**52.6**	**53.1**	**56.5**	**85.2**	**88.8**	**102.8**	**80.9**	**84.5**
Debt held by Official and Private Creditors	**22.5**	**24.9**	**29.1**	**52.8**	**56.7**	**65.8**	**49.8**	**50.5**
Official Sector	*6.3*	*5.4*	*5.2*	*14.9*	*20.2*	*23.4*	*16.2*	*16.8*
Multilateral	4.3	3.9	3.8	13.1	18.7	21.8	15.1	15.8
IMF	-	-	-	7.2	12.1	14.1	9.1	9.8
Other IFIs	4.3	3.9	3.8	5.8	6.6	7.7	6.0	6.0
Bilateral	2.0	1.5	1.5	1.8	1.5	1.7	1.1	1.0
Paris Club	1.6	1.2	1.0	1.0	0.6	0.7	0.4	0.4
Non-Paris Club	0.4	0.3	0.5	0.8	0.9	0.9	0.6	0.6
Private Sector 3/	*16.2*	*19.5*	*23.9*	*38.0*	*36.6*	*42.3*	*33.6*	*33.7*
Foreign Law	5.5	9.0	11.8	16.7	18.3	21.0	15.0	14.2
Bonds with new contractual clauses	-	4.2	7.3	10.4	11.3	13.3	9.5	8.8
Bonds with old contractual clauses	5.5	4.7	4.6	6.3	6.7	7.6	5.5	5.3
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	21.4	18.0	19.0
FX denominated	4.2	4.9	7.2	11.7	7.6	6.5	5.8	5.1
ARS denominated	2.6	4.0	4.3	8.9	10.0	14.9	12.2	13.9
Pending Restructuring from 2005/10 4/	3.9	1.6	0.5	0.7	0.7	0.8	0.6	0.5
Debt Held by the Public Sector 4/	**30.1**	**28.1**	**27.4**	**32.4**	**32.1**	**37.0**	**31.1**	**34.0**
Memorandum items:								
FX-Denominated Debt held by private and official sector	91.2	108.6	140.7	171.1	170.0	168.8	169.2	170.8
(percent of GDP)	19.9	20.9	24.8	43.9	46.7	51.7	37.6	36.6
Debt held by private sector nonresidents	34.6	63.9	100.0	103.2	82.5	76.1	74.0	66.5
(percent of GDP)	7.6	12.3	17.6	26.5	22.7	23.3	16.4	14.2
Provincial Debt	20.7	28.4	35.6	29.1	26.6	26.6	26.9	…
(percent of GDP)	4.5	5.5	6.3	7.5	7.3	8.1	6.0	…

Source: National authorities.

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

2/ Includes the revised Paris Club debt stock agreed as part of the restructuring deal in October 2022.

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

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

5/ Public sector include BCRA and FGS.

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

	In millions of US dollars					In percent of GDP				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Net IIP	**17,332**	**65,630**	**113,155**	**121,925**	**122,247**	**2.7**	**12.6**	**25.7**	**32.1**	**25.4**
Direct Investment	-39,770	-30,362	-27,630	-44,386	-57,438	-6.3	-5.8	-6.3	-11.7	-11.9
Equity and Investment Fund Shares	-15,976	-6,626	-4,697	-12,505	-25,150	-2.5	-1.3	-1.1	-3.3	-5.2
Debt Instruments	-23,794	-23,735	-22,933	-31,881	-32,288	-3.7	-4.5	-5.2	-8.4	-6.7
Portfolio Investment	-97,130	-52,404	-2,548	11,641	18,685	-15.3	-10.0	-0.6	3.1	3.9
Equity and Investment Fund Shares	13,039	22,433	31,840	37,919	47,267	2.1	4.3	7.2	10.0	9.8
Debt Securities	-110,169	-74,838	-34,388	-26,278	-28,581	-17.3	-14.3	-7.8	-6.9	-5.9
Financial Derivatives	-3,451	-1,296	-543	-128	-397	-0.5	-0.2	-0.1	0.0	-0.1
Other Investment	102,628	83,906	99,028	115,411	121,735	16.2	16.1	22.5	30.4	25.3
Other Equity	2,806	3,074	3,223	3,364	3,520	0.4	0.6	0.7	0.9	0.7
Debt Instruments	99,823	80,832	95,805	112,047	118,215	15.7	15.5	21.7	29.5	24.6
Reserve Assets	55,055	65,786	44,848	39,387	39,662	8.7	12.6	10.2	10.4	8.2
Assets	**337,123**	**377,521**	**397,180**	**399,135**	**417,768**	**53.1**	**72.2**	**90.1**	**105.1**	**86.8**
Direct Investment	40,930	42,228	42,828	40,985	42,452	6.4	8.1	9.7	10.8	8.8
Equity and Investment Fund Shares	40,930	42,228	42,828	40,985	42,452	6.4	8.1	9.7	10.8	8.8
Debt Instruments	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Portfolio Investment	59,405	60,789	69,294	70,388	80,693	9.4	11.6	15.7	18.5	16.8
Equity and Investment Fund Shares	38,806	33,370	39,500	41,676	51,600	6.1	6.4	9.0	11.0	10.7
Debt Securities	20,599	27,419	29,794	28,712	29,093	3.2	5.2	6.8	7.6	6.0
Financial Derivatives	0	13	11	17	0	0.0	0.0	0.0	0.0	0.0
Other Investment	181,733	208,705	240,198	248,358	254,961	28.6	39.9	54.5	65.4	53.0
Other Equity	2,806	3,074	3,223	3,364	3,520	0.4	0.6	0.7	0.9	0.7
Debt Instruments	178,927	205,631	236,975	244,994	251,441	28.2	39.4	53.8	64.5	52.2
Reserve Assets	55,055	65,786	44,848	39,387	39,662	8.7	12.6	10.2	10.4	8.2
Liabilities	**319,791**	**311,891**	**284,026**	**277,210**	**295,521**	**50.3**	**59.7**	**64.5**	**73.0**	**61.4**
Direct Investment	80,700	72,589	70,458	85,371	99,890	12.7	13.9	16.0	22.5	20.8
Equity and Investment Fund Shares	56,906	48,854	47,525	53,490	67,602	9.0	9.3	10.8	14.1	14.0
Debt Instruments	23,794	23,735	22,933	31,881	32,288	3.7	4.5	5.2	8.4	6.7
Portfolio Investment	156,535	113,193	71,842	58,747	62,008	24.6	21.7	16.3	15.5	12.9
Equity and Investment Fund Shares	25,767	10,937	7,661	3,757	4,333	4.1	2.1	1.7	1.0	0.9
Debt Securities	130,768	102,257	64,182	54,990	57,674	20.6	19.6	14.6	14.5	12.0
Financial Derivatives	3,451	1,309	554	145	397	0.5	0.3	0.1	0.0	0.1
Other Investment	79,105	124,799	141,170	132,947	133,226	12.5	23.9	32.0	35.0	27.7
Other Equity	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Debt Instruments	79,105	124,799	141,170	132,947	133,226	12.5	23.9	32.0	35.0	27.7
Memorandum items										
Debt liabilities	233,667	250,791	228,286	219,818	223,189	36.8	48.0	51.8	57.9	46.4

Sources: National authorities and Fund staff estimates.

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

	2015	2016	2017	2018	2019	2020	2021	2022*
				(Percent, end-of-period)				
Financial System								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	13.3	16.7	15.6	16.0	17.5	24.2	25.6	29.6
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.4	15.2	14.1	14.2	15.5	22.3	24.1	28.6
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-3.2	-2.5	-3.0	-2.4	0.3	-4.4	-1.2	-1.5
Non-performing Loans to Total Gross Loans	1.7	1.8	1.8	3.1	5.7	3.9	4.3	3.1
Earnings and Profitability								
Return on Assets	4.1	3.6	2.7	4.1	5.4	2.4	1.1	2.0
Return on Equity	32.4	29.6	23.4	36.1	46.4	16.4	6.9	11.4
Liquidity								
Liquid Assets to Total Assets (Liquid Asset Ratio)	34.3	36.4	30.0	41.8	43.2	48.0	50.6	52.7
Liquid Assets to Short Term Liabilities	53.4	54.0	45.5	60.1	62.0	69.2	74.1	80.3
Net Open Position in Foreign Exchange Capital	21.8	18.6	11.1	9.4	8.0	12.4	11.7	27.1
Private Banks								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	13.7	15.1	15.3	16.8	19.5	25.5	27.0	31.4
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.8	13.4	13.4	14.4	16.9	23.0	25.1	30.1
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-3.5	-2.9	-2.4	-0.6	-2.1	-6.2	-2.6	-2.0
Non-performing Loans to Total Gross Loans	1.5	1.6	1.8	3.1	4.4	2.2	2.9	1.8
Earnings and Profitability								
Return on Assets	4.1	3.7	3.2	4.2	7.5	2.7	1.3	1.7
Return on Equity	31.2	29.4	26.6	35.6	60.3	2.7	1.3	1.7
Public Banks								
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	12.3	19.5	16.2	14.7	13.6	21.9	23.2	27.0
Regulatory Tier 1 Capital to Risk-Weighted Assets	11.6	18.7	15.4	14.1	13.0	21.3	22.6	26.6
Assets Quality								
Non-performing Loans Net of Provisions to Capital	-2.9	-2.4	-4.7	-6.3	4.9	-0.7	1.3	-0.6
Non-performing Loans to Total Gross Loans	2.0	2.2	1.6	2.7	7.8	6.6	6.5	5.3
Earnings and Profitability								
Return on Assets	4.0	3.5	2.0	4.0	2.0	2.1	0.9	2.6
Return on Equity	34.8	30.3	18.5	38.6	20.2	17.2	6.4	16.9

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

Table 12. Argentina: Indicators of Fund Credit, 2023–2032

(In Millions of SDRs, unless otherwise specified)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total (2023-2032)
Existing and Prospective drawings (30-month EFF)	12,000.0	2,414.00	...	...	...	...	...	...	...	...	
(in percent of quota)	376.5	75.7									
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/											
Amortization 1/	11,328.4	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	44,566.9
GRA charges 1/	1,088.5	1,428.0	1,442.2	1,440.2	1,369.6	1,190.6	956.3	716.7	476.3	239.0	10,347.2
GRA surcharges 1/	591.4	768.2	777.8	776.4	729.6	610.7	455.4	296.3	136.7	11.0	5,153.4
of which level-based	394.2	512.1	518.5	517.6	486.4	407.1	303.6	197.5	91.2	7.4	3,435.6
time-based	197.1	256.1	259.3	258.8	243.2	203.6	151.8	98.8	45.6	3.7	1,717.8
GRA service charge 1/	60.0	12.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	72.1
SDR assessments and charges 1/	85.3	115.1	115.0	115.0	115.0	115.1	115.0	115.0	115.0	115.1	1,120.6
Total debt service 1/	13,153.7	5,735.8	2,334.9	3,164.9	5,714.2	6,966.4	6,845.6	6,446.9	6,047.0	4,850.7	61,260.2
(in percent of exports of G&S)	17.2	7.2	2.9	3.7	6.5	7.6	7.1	6.4	5.8	4.6	
(in percent of GDP)	2.8	1.2	0.5	0.7	1.1	1.3	1.2	1.1	1.0	0.8	
(in percent of GIR)	38.7	15.3	5.7	7.1	12.2	14.2	11.7	9.3	7.9	6.0	
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/											
Outstanding stock 1/	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)	1,032.6	1,001.3	1,001.3	975.1	865.3	706.9	540.0	373.1	206.2	65.5	
(in percent of GDP)	6.9	6.7	6.8	6.5	5.5	4.3	3.1	2.1	1.1	0.3	
(in percent of GIR)	96.9	85.1	77.7	69.6	58.9	46.0	29.4	17.2	8.6	2.6	
Memorandum items:											
Exports of goods and services (US$ mn)	106,509	110,285	113,218	117,368	122,010	128,055	134,399	141,058	144,396	147,814	
Gross International Reserves (US$ mn)	47,237	52,123	57,123	62,123	65,123	68,123	81,274	96,055	106,570	112,771	
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	

Source: Fund staff estimates and projections.

1/ Assumes that all purchases will be made.

Table 13. Argentina: Schedule of Reviews and Purchases

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

Sources: Fund staff calculations.

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

Annex I. External Sector Assessment

Overall Assessment: *The external position in 2022 remained weaker than the level implied by medium-term fundamentals and desirable policies, an assessment based holistically on elevated external debt vulnerabilities, precariously low international reserves, and lack of access to international capital markets.* Despite the impact of the severe drought, it remains critical to continue to implement prudent macroeconomic policies that strengthen the external current account and reserve coverage to secure stability and external sustainability. This ESA assessment is preliminary. The final assessment will be presented in the 2023 External Sector Report .

Potential Policy Responses: Growth-friendly fiscal consolidation, combined with tight monetary policy and a more streamlined and less distortionary FX regime, remains essential to moderate domestic demand growth, strengthen the trade balance, rebuild international reserves, regain market access, and ensure fiscal/external debt sustainability. In addition, structural reforms to boost Argentina's export capacity and encourage FDI are required. As stability and confidence are reestablished, a gradual conditions-based easing of CFM measures, exchange restrictions, and MCPs will need to be considered.

<table>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="5">Background. Argentina's external gross liabilities stood at 48.5 percent of GDP at the end of Q3:2022, similar to the levels at end-2017. That said, the NIIP became more positive, reaching 18.2 percent of GDP in Q3:2022 (up 16 percentage points since end-2017), driven by continued private capital outflows and deleveraging by firms, despite tight CFM measures.

Assessment. In 2020, Argentina restructured US$82 billion (21.4 percent of GDP) in domestic and foreign law sovereign FX debt held by the private sector, with cash flow relief of US$34 billion during 2020–30. Additional relief was achieved during 2021, as provincial governments restructured US$13 billion of foreign-law FX debt obligations, with total cash flow savings estimated at around US$6.5 billion for 2021–27. Gross debt and debt service obligations remain substantial and meeting these obligations over the medium term will depend on implementation of a strong economic reform plan that restores market access.</td></tr>
<tr><td>2022(% GDP)</td><td>NIIP: 18.2</td><td>Gross Assets: 66.7</td><td>Res. Assets: 6.0</td><td>Gross Liab.: 48.5</td><td>Debt Liab.: 31.1</td></tr>
<tr><td>Current Account</td><td colspan="5">Background. The CA is estimated to have reached a deficit of 0.6 percent of GDP in 2022 down from surplus of 1.4 percent in 2021, on account of a strong expansion of goods import volumes and a widening services deficit. Terms of trade played a more minor role as higher grain export prices largely offset higher import prices on energy and intermediate goods. The CA balance is projected to reach a surplus of 1 percent of GDP in 2023, mainly on account of moderating domestic demand and imports, and higher interest income on private Argentine assets abroad. The evolution of the severe drought introduces a high level of uncertainty to these projections.

Assessment. The EBA CA cyclically adjusted balance is projected to reach a deficit of -0.3 percent of GDP in 2022, compared with an EBA CA norm surplus of 0.2 percent of GDP. The transitory impact of the COVID-19 crisis is estimated at -0.2 percent for travel services (including tourism) and 0.4 percent for transport sectors, with a narrow impact of 0.2 percent on the cyclically adjusted CA. Furthermore, consistent with the need to bring down external debt service to more manageable levels and pave the way for market access, the IMF staff judges the near- to medium-term CA norm to be closer to 1 percent of GDP,</td></tr>
</table>

<table>
<tr><td></td><td colspan="6">implying an adjustment to the norm of 0.8 percent of GDP. As such, the IMF staff assesses the CA gap to be -1.3 ±1 percent of GDP[1].</td></tr>
<tr><td>2022(% GDP)</td><td>CA: -0.6</td><td>Cycl. Adj. CA: -0.3</td><td>COVID-19 Adj.: 0.2</td><td>EBA Norm: 0.2</td><td>Other Adj.: 0.8</td><td>Staff Gap: -1.3</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The average REER, after depreciating by over 35 percent between 2017 and 2019, appreciated by over 25 percent during 2020-22 as the rate of crawl lagged headline inflation during most of this period. The REER has remained generally unchanged since end-2022.

Assessment. The IMF staff CA gap implies a REER gap of around 16 percent in 2022 (applying an estimated elasticity of -0.12). The EBA REER index model suggests a REER gap of 25.4 percent, while the EBA REER level model estimates a gap of 10.8 percent, albeit surrounded by significant uncertainty. Overall, the IMF staff assesses the 2022 REER gap to be in the range of 10 to 25 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. Strict CFM and MCP measures were introduced in late 2019 to contain capital outflows. In the context of continued FX pressures (the gap between the parallel and official exchange rate remains around 90-100 percent) and challenges in accumulating reserves, these measures have been intensified during 2022, including through: (i) incentives to encourage the liquidation of soy exports; ii) tax measures on tourism inflows and outflows to reduce the services deficit; and (iii) financing requirement on imports to limit short-term FX demand(see Box 4 for more details).

Assessment. CFM and MCP measures have helped to contain capital outflows yet have introduced distortions that discourage trade and foreign investment. Importantly, these measures are not a substitute for sound macroeconomic policies. While CFMs are needed in the near term as imbalances are being addressed, import controls and MCPs should be avoided and development of a conditions-based easing of CFMS, exchange restrictions and MCPs will be necessary, especially to encourage FDI.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. At end-2022, gross international reserves reached US$ 44.6 billion. Meanwhile, net international reserves (NIR), after excluding swap lines with other central banks, reserve requirements on domestic US dollar deposits, and deposit insurance, reached US$ 8.8 billion, US$ 3.6 billion lower than end-2019 levels. Despite CFMs and new MCPs, reserve accumulation continues to be challenged by FX misalignment, and more recently the drought. Since end-2022, NIR has fallen by more than 5 billion.

Assessment. Gross international reserves are estimated under 70 percent of the IMF's composite metric at end-2022, 4 months of imports (after excluding swap lines). Tighter fiscal and monetary policies are necessary to secure the projected trade surpluses and improve reserve coverage, which in turn is essential to pave the way for market access and the easing of CFM measures over the medium term. Given reserve scarcity, FX sales (in the official or parallel market) should be consistent with reserve accumulation goals, while taking into account variability coming from seasonal factors and temporary bouts of excessive volatility.</td></tr>
</table>

[1] A band of ±1 percent of GDP (two standard errors of the CA norm) is applied to account for the elevated country-specific uncertainty in the context of external vulnerabilities.

Annex II. Application of the Sovereign Risk and Debt Sustainability Framework

Table 1. Argentina: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	High	Despite moderate risk signal at the medium-term horizon, the exceptional level of current uncertainty and risks around the necessary eventual re-entry to international markets indicate that overall risks of sovereign stress continue to be high.
Near term 1/	n.a	n.a	Not applicable.
Medium term	Moderate	Moderate	Staff concurs with the mechanical signal. While there is substantial uncertainty around the baseline debt trajectory, the 2020 restructuring and implementation of the program should help contain financing risks.
Fanchart	Moderate	…	
GFN	Moderate	…	
Stress test	Cont. Liab.	…	
Long term	…	High	Given Argentina's susceptibility to adverse shocks, need to maintain tight fiscal policy, and re-enter international debt markets after the program, there are relevant risks of a renewed episode of sovereign stress over the longer term. Full implementation of the program will help contain these risks.
Sustainability assessment 2/	…	Sustainable but not with high probability	There are good prospects for debt stabilization and acceptable rollover risks, consistent with debt sustainability. However, substantial uncertainty around the baseline indicates high risks to this assessment.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

The Sovereign Risk and Debt Sustainability Framework (SRDSF) tools indicate that debt is sustainable but not with high probability, although overall risks of sovereign stress are high.

At a medium-term horizon, staff assesses risks to be moderate, unchanged from the third review. The GFN module continues to show moderate risk, including because vulnerabilities are contained somewhat by the 2020 restructuring and expectations of financing from less risky creditors. Notably, the updated baseline incorporates significantly lower gross financing needs over the forecast period, reflecting the impact of the authorities' new financing strategy, including the recent bond exchange and the planned long-term extension of public sector peso debt maturities. The debt fanchart signal also indicates moderate risk, as at the third review. Importantly, the continued high/moderate borderline result is largely due to the very wide fan chart, reflecting Argentina's history of high volatility.

Over the longer-term, 10-year fanchart analysis points to debt sustainability (albeit with substantial risks) and there are high risks of a renewed round of sovereign stress as Argentina needs to re-enter international debt markets. While projected long-term private debt service metrics are now somewhat lower than at the third review, reflecting the new financing strategy, they remain above the targets set out in the March 2020 Technical Note on Debt Sustainability (consistent at the time with sustainable debt with high probability), indicating that buffers remain limited.

Risks to the updated baseline are exceptionally high, reflecting Argentina's exposure to shocks, significant uncertainty around the evolution of the drought and external conditions, and policy implementation risks, including with respect to the new financing strategy. In this context, the assessment of moderate risk of sovereign distress in the medium term still hinges critically on the steadfast implementation of macroeconomic and structural policies under the Fund program. Notably, failure to successfully implement the new financing strategy, would imply greater near-term financing pressures, and higher gross financing needs over the medium- to long-term. In this context, contingency planning and agile policy making remain indispensable to improve the likelihood of program success, with additional policy tightening and FX policy adjustments potentially required.

Latent structural vulnerabilities remain including: the low and undiversified export base, thin domestic capital markets, high shares of foreign currency and non-resident debt, and contingent liabilities from provinces' FX debt and central bank balance sheet weaknesses. In this context, sustained fiscal consolidation, including beyond the program, along with efforts to deepen domestic capital markets and boost exports and productivity, remain essential to mobilize domestic saving, strengthen reserves, and improve prospects of international market access, which in turn would strengthen debt-servicing capacity. Importantly, measures (i.e., debt buybacks or foreign-financed repos) that compromise reserves and add to near-term external debt service must be avoided.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

A. Assessment of Debt Sustainability

1. Staff assesses that Argentina's debt remains "sustainable, but not with high probability". This assessment is based on four tools: (i) a Debt Fanchart analysis that provides information on the prospects for debt stabilization: (ii) a GFN Financeability module which indicates whether rollover risks are at acceptable levels; (iii) a crisis prediction model which gives a probability of unsustainable debt (e.g., events involving sovereign default and restructuring); and (iv) contingent liability analysis to illustrate potential debt surprises from outside the current central government debt perimeter. Staff's judgment is also informed by other important elements which, in this case, includes the results of a 10-year Debt Fanchart, and an updated assessment of whether federal government debt and debt service (excluding intra-public sector debt obligations to the central bank (BCRA) and the social security trust fund (FGS)) remains manageable over the medium to long term, despite rising near-term challenges.[1] The assessment is predicated on the steadfast implementation of a stronger package macroeconomic of policies included in the baseline, consistent with an improvement in domestic debt market conditions, a gradual recovery in reserves and resumption of international market access starting in 2025 and a conditions-based unwinding of capital flow measures, including recent measures that have resulted in multiple currency practices.

B. Medium-Term Risk Analysis

2. The GFN Financeability Module continues to point to moderate risk. While near-term rollover risks remain elevated, baseline GFNs average around 10 percent of GDP over the 2023–28 period, somewhat below the level at the third review, reflecting the assumed implementation of the authorities' new near-term financing strategy, which includes a maturity extension beyond this period for debt held by the public sector (see Annex Box 1). More generally, the medium-term debt strategy continues to envisage a gradual shift towards longer-maturity instruments as uncertainties are reduced (following the 2023 elections), stability is strengthened, and disinflation takes hold. At end-2022, banks' exposures to government debt remained moderate at around 15 percent of banking system assets, which in the context of a broadly unchanged GFN index, suggests banks have continued space to finance the government, including in stressed conditions.[2] However, Argentina's banking system remains small (assets of 40 percent of GDP), and despite strong capital buffers and low NPLs, its ability to further absorb government debt securities, in case of stress, may be complicated by its exposure to the broader public sector, which, after including central bank securities (LELIQs) stands at around 50 percent of total assets. Argentina's low export base, high dollarization and weak policy credibility are also key vulnerabilities for absorbing GFNs.[3] In the near to medium term, these risks are especially large, including because of the evolving drought, political

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

[2] In the stress scenario, the domestic banking sector would have to absorb additional issuances, equivalent to 19 percent of assets.

[3] Historical volatility, largely due to weak fundamentals, has tended to translate into large macroeconomic shocks.

uncertainties ahead of the 2023 Presidential elections, even if they are partially mitigated by the large share of FX debt held by IFIs, the large share of overall debt held by the public sector, and strict capital controls. Financing needs and risks could increase further if the drought intensifies, the new financing strategy proves unsuccessful (i.e., the favorable structure of new debt issuances in the baseline fails to materialize), global financial conditions tighten at a faster-than-anticipated pace, and efforts to tackle inflation and reverse recent reserve losses prove unsuccessful.

3. The debt fanchart module points to a moderate risk of sovereign stress, although it remains close to the border with high risk. Gross public debt reached around 83 percent of GDP at end-2022, around 4 percent of GDP higher than projected at the third review, reflecting various factors including higher-than-projected gross issuance (with greater accumulation of government deposits) and somewhat weaker-than-anticipated end of period real exchange rate. Debt is still projected to decline to below 65 percent of GDP by end–2028, and the probability of debt stabilization under the baseline continues to be high (above 99 percent).[4] Uncertainty as proxied by the fanchart width has increased somewhat to around 70 percent (from around 60 percent at the third review), still indicating a strong possibility that the debt trajectory could diverge significantly from the baseline. As a result, the fanchart index has increased from 1.9 to around 2 but remains below the moderate-high threshold.

4. The overall medium-term index (MTI), which aggregates the debt fanchart and GFN modules, continues to indicate moderate risks. The MTI index is 0.37, consistent with the third review. At this level, predictions of stress events will result in false alarms with a 16 percent probability, while predictions of no stress will result in missed crises with a 27 percent probability. Thus, the mechanical signal continues to be of moderate sovereign stress risk, reflecting the effects of the 2020 debt restructuring and assumed implementation of program policies. Importantly, the staff assessment is subject to high uncertainties and continues to depend on the steadfast implementation of program policies. More generally, it also remains the case that the high probability of debt stabilization may be distorted by the model's estimated negative real interest rates, which partly reflects the current situation of strict capital controls and the assumed gradual reduction of inflation from high levels (notwithstanding the prevalence of inflation-linked debt).

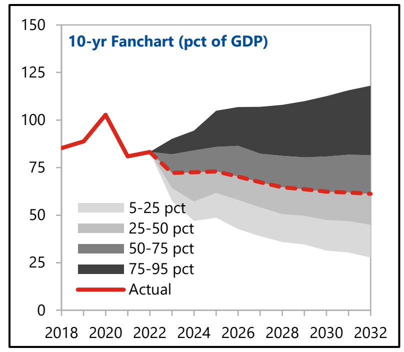
5. Contingent liability analysis also remains consistent with moderate medium-term risks of sovereign stress. The illustrative contingent liability shock scenario illustrates the potential risks of debt surprises coming from outside the current central government debt perimeter. The shock is tailored for Argentina's circumstances by simulating a one-off debt materialization of 6 percent of GDP, equivalent to the total stock of provincial debt. In this scenario, public debt would rise by around 6 percent of GDP by end-2024 and remain at just over 70 percent of GDP by 2028, while GFNs would remain somewhat elevated at around 10 percent of GDP by 2028. Even so, debt would remain below the 75th percentile in the debt fanchart. Moreover, staff does not assess provincial debt to have a high risk of becoming a contingent liability to the central government, as

[4] Projected institutions-adjusted median debt level in 2026 remains around 45 percent of GDP, with only a modest contribution to the overall risk index.

demonstrated by the non-bailout approach taken by the government during the 2020 provincial debt restructuring. Given the contained risk and modest impact if realized, based on this analysis, staff continues to judge that the moderate medium-term risk assessment remains appropriate after considering contingent liability risks.

C. Longer-Term Risk Analysis

6. A long-term fanchart analysis points to debt sustainability, albeit with substantial risks. The probability of debt stabilization in a fanchart ending in 2032 is close to 80 percent, lower than at the 5-year horizon but sufficiently high to be consistent with debt sustainability, although with substantial risks. In the long term, Argentina will need to refinance maturing debt obligations from the 2020 debt restructuring as well as Fund repurchases, likely at less favorable financing terms. Capacity to repay will depend on successful implementation of the IMF supported program, an improvement in domestic debt market conditions, and the re-access of international private credit markets.



7. Moreover, while debt (and debt service) held by the official and private sectors is projected to remain manageable in the medium- to long-term, buffers remain very limited. The March 2020 Technical Note set indicative targets, which were set consistent at the time with an assessment of sustainable debt with high probability. Federal debt (excluding debt held by the BCRA and FGS) would fall close to the 40 percent of GDP threshold. *FX debt service* would stabilize at around 3 percent of GDP during 2025-30, consistent with cashflow relief from the 2020 restructuring and the extension of maturities under the current IMF program. While projected debt and FX debt service remain close to the respective thresholds, overall *GFNs* between 2025-2030 are projected to be somewhat lower than at the third review, reflecting the impact of the new financing strategy, but still well above the 5 percent of GDP March Technical Note target. With buffers nearly exhausted, large and sustained domestic financing will be required going forward, with improvements in the maturity structure to ensure a gradual conditions-based easing of capital flow measures. In this context, it remains critical to adhere to the fiscal consolidation plan while continuing to strengthen domestic debt management. Initiatives like debt buybacks and foreign-financed repos should be avoided as they can undermine reserve coverage and near-term debt service capacity.

Annex II Box 1. SRDSF Key Macroeconomic and Financing Assumptions

The SRDSF reflects the updated program baseline, and the core objectives of fiscal consolidation, reserve accumulation, domestic debt market development, and eventual easing of CFMs with re-access to international capital markets. Assumptions remain contingent on the tightening of macroeconomic policies to entrench stability, successful implementation of the new financing strategy, and growth-enhancing reforms.

Macroeconomic Assumptions

- *Real GDP growth* is projected to continue moderating from an estimated 5.4 percent in 2022 to 2 percent in 2023 and 2024, reflecting the programmed policy tightening and moderation in domestic demand. Potential growth remains at 2 percent, in line with average growth in the past 20 years.
- *Inflation (eop)* is projected to fall from 94.8 percent in 2022 to around 60 percent in 2023 and 45 percent in 2024, consistent with the third review, although average inflation is expected to increase from around 72 percent in 2022 to around 80 percent in 2023.
- The unwinding of *REER* misalignment is projected to continue gradually, with smooth depreciation through 2025, consistent with medium-term fundamentals.
- The *primary fiscal deficit* path is projected to fall steadily from 2.3 percent of GDP in 2022 to 0.9 percent of GDP in 2024, with further consolidation required to reach a 1.3 percent of GDP surplus by 2027.
- *Capital flow management measures (*CFMs) are assumed to remain in place through the program (albeit with targeted easing in key sectors), limiting outflows and supporting the balance of payments. CFMs could be eased gradually, as reserve coverage and domestic financing conditions improve, facilitating a return to international markets in 2025. Similarly, measures leading to multiple currency practices will be unwound as conditions permit.

Financing Assumptions

- *External official financing*. Annual official net financing remains unchanged relative to the third review, with average annual contributions of 0.25 percent of GDP from MDBs, through 2024 and beyond. Projected repayments to the Paris Club reflect the October 2022 joint declaration, stretching out to 2028, consistent with program reserve accumulation and debt sustainability goals.
- *External private sector financing*. Debt service on FX-denominated debt to foreign private creditors is assumed to follow the 2020 restructuring schedule, with modest new issuance in international markets from 2025 onwards. No foreign-financed debt buybacks or repo operations are assumed.
- *Monetary financing of the fiscal deficit*. In line with the program ceiling, BCRA transfers are projected to fall from 0.7 percent of GDP in 2022 to 0.6 percent of GDP in 2023, and to zero from 2024 onwards.
- *Domestic market financing*. Net domestic market financing is projected to average around 2.75 percent of GDP during the program, consistent with ambitious average annual rollover rates of around 145 percent (above the 2020-21 average of 125 percent). The baseline assumes the successful implementation of the authorities' new financing strategy in 2023, including the recent exchanges that extended around 60 percent of peso maturities coming due in Q2 beyond the elections into 2024-25, along with further liability management operations with public entities aimed at raising up to 0.6 percent of GDP in net financing and pushing peso maturities coming due in Q3:2023 out over the long term. The medium-term debt strategy continues to assume a gradual strengthening of the domestic debt market underpinned by a proactive market-oriented financing strategy. The assumed successful implementation of the new financing strategy is expected to mitigate election-related uncertainties and facilitate a reduction in real interest rates in the second half of the year. Rates are expected to remain positive from 2024 onwards, with a gradual rise to 4½ percent by 2028, consistent with a gradual unwinding of capital controls and the cost of accessing international markets. From 2024, the strategy shifts to reliance on longer term CER-linkers, and fixed rate issuances over the medium to long-term. Risks to this financing strategy remain especially large in the near to medium term, including because of political uncertainties ahead of the Presidential elections.

Figure 1. Argentina: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	
2. Subsectors included in the chosen coverage in (1) above:						
Subsectors captured in the baseline					Inclusion	
CPS / NFPS / GG: expected / CG — 1 Budgetary central government					Yes	
2 Extra budgetary funds (EBFs)					No	Not applicable
3 Social security funds (SSFs)					No	Excludes FGS/ANSES liabilities
4 State governments					No	Excludes state govt liabilities
5 Local governments					No	Excludes local govt liabilities
6 Public nonfinancial corporations					No	
7 Central bank					No	
8 Other public financial corporations					No	
3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:	Basis of recording		Valuation of debt stock			
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:		Consolidated		Non-consolidated		

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

Reporting on Intra-government Debt Holdings

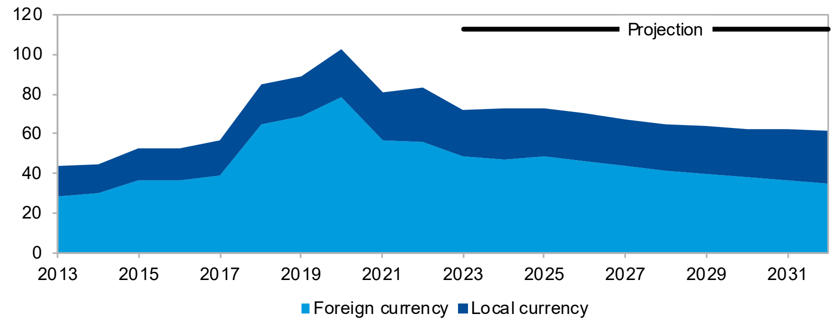
Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

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

Commentary: The coverage in this SRDSA is gross federal (central government) debt held by the private, official and public sectors. The DSA does not include GDP warrants, debt of the provinces or municipalities, or debt of the central bank. Staff does not judge the exclusion of provincial debt as a signifcant contingent liability risk, as demonstrated by the federal government's non-bailout approach to the recent provincial debt restructuring. Under the risk-based approach (see SM/20/169), the drawn amount of one central bank bilateral fx swap is below the 1 percent of GDP de minimis threshold and thus not included in public debt for DSA purposes. Nevertheless, the central bank's weak balance sheet is a key contingent liability, necessitating a strategy to strengthen both its finances and governance.

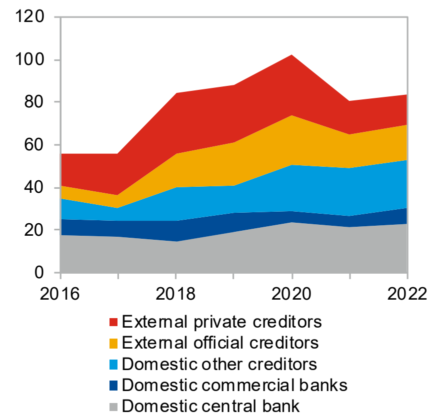
Figure 2. Argentina: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



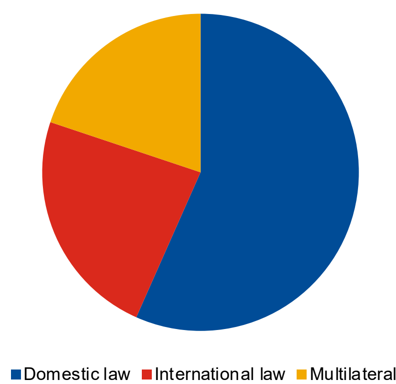
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



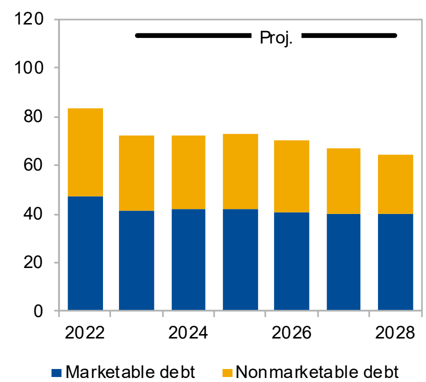
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2022 (percent)



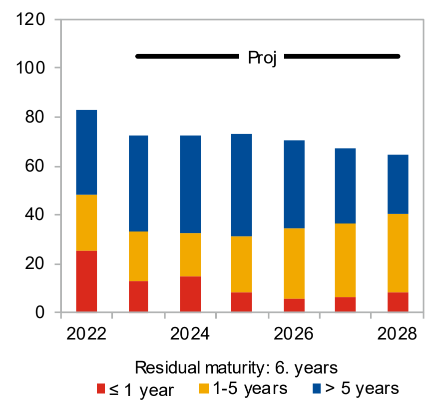
Note: The perimeter shown is central government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is central government.

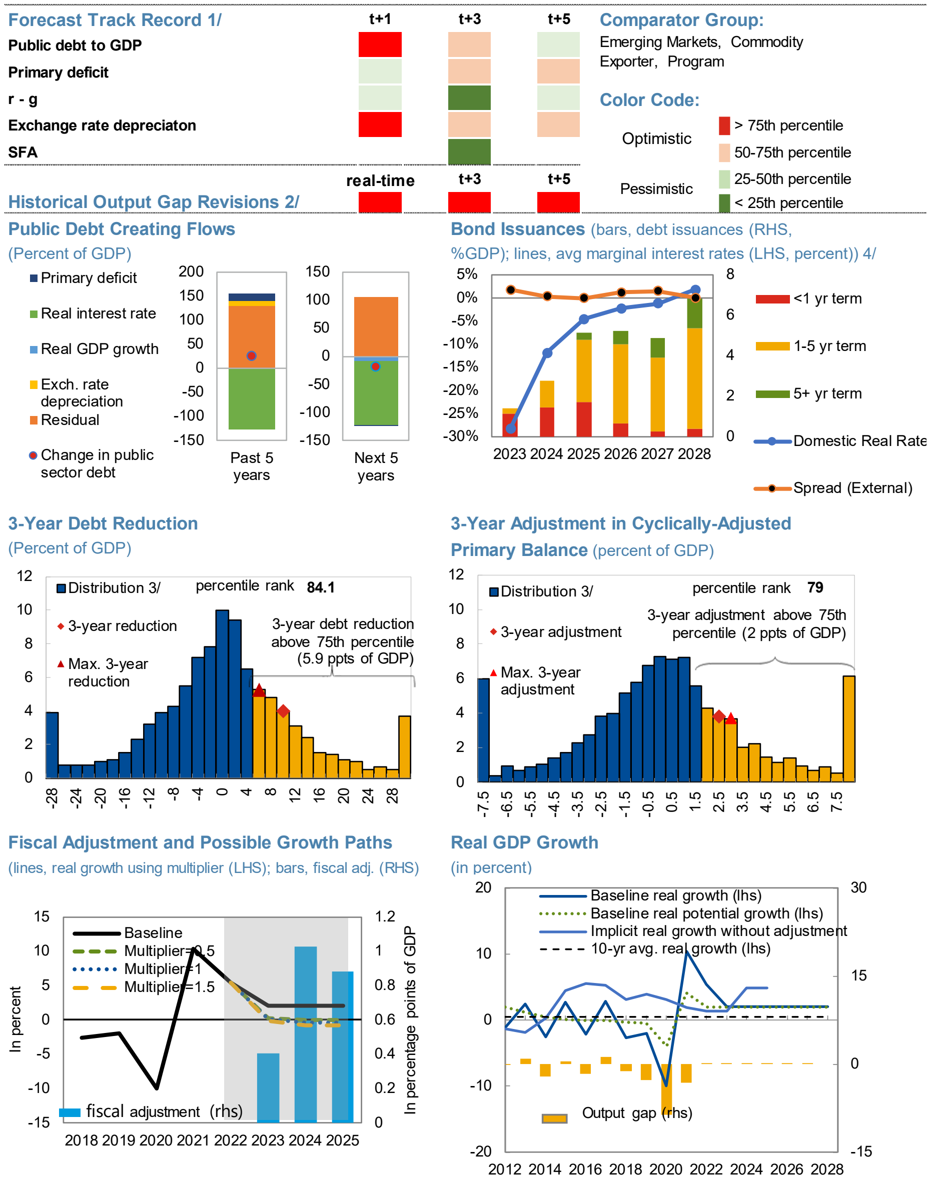
Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is central government.

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

Figure 3. Argentina: Realism of Baseline Assumptions



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

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

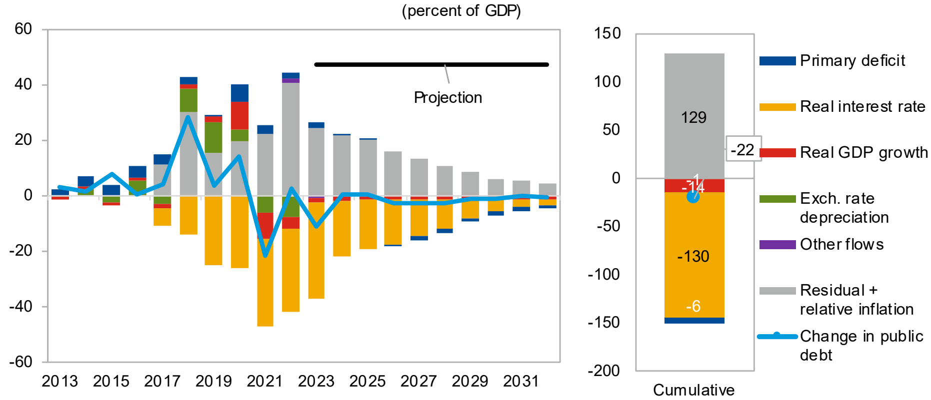
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ Bond issuances include all bonds (external and domestic). Real interest rates on domestic issuances are calculated by subtracting GDP deflator growth from nominal marginal interest rates on issuances. For external issuances, spreads with the 10-year US Treasury rates are calculated.

Table 2. Argentina: Baseline Scenario
(Percent of GDP, Unless Indicated Otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	83.2	72.2	72.5	73.0	70.3	67.3	64.7	63.6	62.3	62.0	61.2
Change in public debt	2.3	-11.0	0.3	0.5	-2.8	-3.0	-2.6	-1.1	-1.3	-0.4	-0.8
Contribution of identified flows	-17.3	-12.4	-6.9	-6.9	-6.6	-5.9	-4.8	-3.2	-2.0	-1.3	-1.2
Primary deficit	2.3	1.9	0.9	0.0	-0.8	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Noninterest revenues	25.5	24.7	25.8	26.6	27.4	27.7	27.7	27.7	27.7	27.7	27.7
Noninterest expenditures	27.8	26.6	26.6	26.6	26.6	26.5	26.5	26.5	26.5	26.5	26.5
Automatic debt dynamics	-21.2	-13.5	-7.4	-6.9	-5.9	-4.6	-3.5	-1.9	-0.7	0.0	0.1
Int. rate-growth differential	-34.4	-36.5	-21.6	-19.4	-17.7	-14.8	-12.0	-8.1	-5.7	-4.2	-3.5
Real interest rate	-30.3	-34.8	-20.2	-18.0	-16.3	-13.4	-10.7	-6.8	-4.5	-3.0	-2.3
Real growth rate	-4.1	-1.6	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	-1.2	-1.2	-1.2
Real exchange rate	-7.6	…	…	…	…	…	…	…	…	…	…
Relative inflation	20.9	23.0	14.2	12.5	11.9	10.2	8.5	6.2	5.0	4.1	3.7
Other identified flows	1.5	-0.8	-0.5	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	0.0
Other transactions	1.5	-0.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	19.6	1.4	7.2	7.4	3.9	2.9	2.3	2.1	0.7	1.0	0.4
Gross financing needs	16.4	15.0	12.3	12.8	8.4	6.8	8.2	10.7	10.6	12.8	12.6
of which: debt service	14.1	13.1	11.4	12.8	9.1	8.1	9.5	12.0	11.9	14.1	13.9
Local currency	9.0	7.5	7.2	8.5	6.1	4.4	5.1	6.8	6.9	6.5	6.5
Foreign currency	5.1	5.6	4.2	4.3	3.0	3.7	4.4	5.3	5.0	7.6	7.4
Memo:											
Real GDP growth (percent)	5.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	71.1	80.5	47.6	40.8	37.2	32.2	27.5	20.8	17.3	15.0	13.9
Nominal GDP growth (percent)	81.2	84.0	50.3	43.0	39.8	34.8	30.0	23.2	19.6	17.3	16.2
Effective interest rate (percent)	3.6	3.4	5.6	5.2	5.9	6.5	6.9	7.8	8.8	9.4	9.6

Contribution to Change in Public Debt
(percent of GDP)



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

Table 3. Argentina: Medium-term Risk Analysis

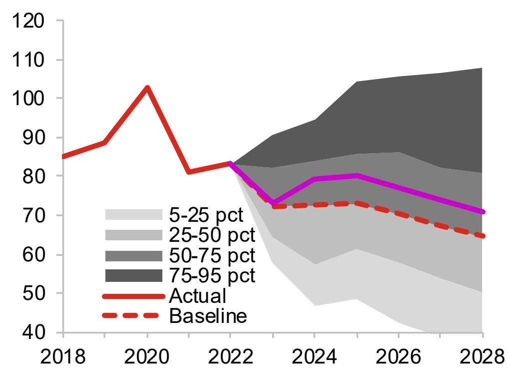
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

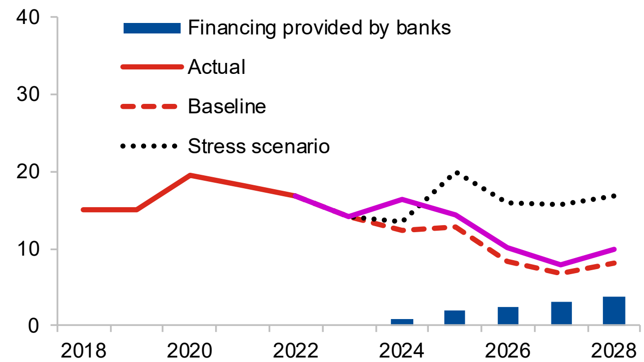
Module	Indicator	Value	Risk index	Risk signal	Emerging Markets, Commodity Exporter, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	72.3	1.0	…	
	Probability of debt not stabilizing (pct)	0.69	0.0	…	
	Terminal debt level x institutions index	45.2	1.0	…	
	Debt fanchart index	**…**	**2.04**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	10.5	3.6	…	
	Bank claims on government (pct bank assets)	15.0	4.9	…	
	Chg. in claims on govt. in stress (pct bank assets)	19.3	6.4	…	
	GFN financeability index	**…**	**14.9**	**Moderate**	

Legend: Interquartile range; Argentina

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

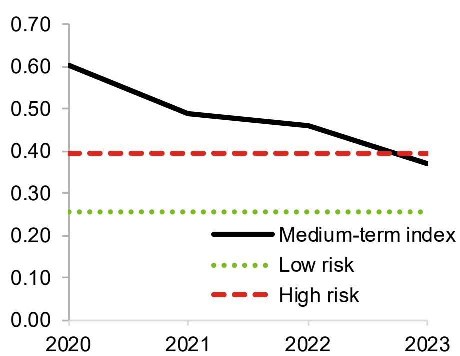


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

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

Prob. of missed crisis, 2023-2028 (if stress not predicted): 27.3 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 15.9 pct.

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

Table 4. Argentina: Decomposition of Public Debt and Debt Service by Creditor, 2022–2024 1/

	Debt Stock (end of period)			Debt Service					
	31-Dec-22			2022[6]	2023	2024	2022	2023	2024
	(In US$ bn)	*(Percent total debt)*	*(Percent GDP)*		*(In US$ bn)*			*(Percent GDP)*	
Total	**394.10**	100.00	83.23	**90.18**	**130.07**	**47.11**	19.05	23.63	8.36
External	144.44	36.65	30.50	25.03	26.61	12.49	5.29	4.83	2.22
Multilateral creditors[2,3]	75.44	19.14	15.93	20.93	22.91	8.98	4.42	4.16	1.59
IMF	45.71	11.60	9.65	18.37	19.96	5.93	3.88	3.63	1.05
World Bank	9.20	2.33	1.94	0.49	0.67	0.69	0.10	0.12	0.12
CAF	3.93	1.00	0.83	0.69	0.74	0.72	0.15	0.13	0.13
ADB/AfDB/IADB	20.35	5.16	4.30	2.04	2.25	2.33	0.43	0.41	0.41
FONPLATA	0.48	0.12	0.10	0.05	0.07	0.09	0.01	0.01	0.02
BEI	0.21	0.05	0.04	0.01	0.02	0.02	0.00	0.00	0.00
BCIE	0.09	0.02	0.02	0.00	0.01	0.01	0.00	0.00	0.00
Other Multilaterals	0.18	0.05	0.04	0.02	0.02	0.02	0.00	0.00	0.00
OFID	0.14	0.04	0.03	0.02	0.02	0.02	0.00	0.00	0.00
FIDA	0.04	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.00
o/w: list largest two creditors									
list of additional large creditors									
Bilateral Creditors[2]	5.09	1.29	1.07	0.69	0.89	0.90	0.15	0.16	0.16
Paris Club	1.97	0.50	0.42	0.17	0.36	0.40	0.04	0.07	0.07
list of additional large creditors									
Non-Paris Club	3.11	0.79	0.66	0.52	0.53	0.49	0.11	0.10	0.09
o/w: China	2.54	0.65	0.54	0.33	0.35	0.34	0.07	0.06	0.06
T-Bills	0.78	0.20	0.16	1.74	0.78	0.00	0.37	0.14	0.00
Bonds	63.00	15.99	13.30	1.66	2.02	2.60	0.35	0.37	0.46
Commercial creditors	0.08	0.02	0.02	0.01	0.02	0.02	0.00	0.00	0.00
o/w: list largest two creditors									
list of additional large creditors									
Other international creditors									
o/w: list largest two creditors									
list of additional large creditors									
Domestic	249.66	63.35	52.72	65.16	103.46	34.62	13.76	18.79	6.14
T-Bills	98.40	24.97	20.78	38.56	41.75	11.66	8.14	7.58	2.07
Held by: central bank									
local banks									
local non-banks									
Bonds	129.11	32.76	27.27	12.26	44.14	20.79	2.59	8.02	3.69
Held by: central bank									
local banks									
local non-banks									
Loans	19.86	5.04	4.19	13.98	17.22	2.05	2.95	3.13	0.36
Held by: central bank									
local banks									
local non-banks									
Memo items:	2.29	0.58	0.48	0.35	0.35	0.13			
Collateralized debt[4]	0.83	0.21	0.17	0.04	0.04	0.04			
o/w: Related									
o/w: Unrelated									
Contingent liabilities	1.46	0.37	0.31	0.31	0.31	0.08			
o/w: Public guarantees									
o/w: Other explicit contingent liabilities[5]									

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

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

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 preliminary actual results, whereas 2023 and 2024 are projections.

Appendix I. Letter of Intent

Buenos Aires, Argentina
March 20, 2023

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

Dear Ms. Georgieva,

Despite the increasingly challenging global and domestic environment, including notably the negative impact of the drought, the war in Ukraine, and tighter global financial conditions, we continue to implement strong macroeconomic policies to safeguard stability and improve Argentina's external position. Our decisive program implementation enabled us to meet the end-2022 program targets with margins, by restoring fiscal order, bolstering the trade balance, and improving reserve coverage. Specifically, last year, the primary fiscal deficit narrowed to 2.3 percent of GDP (compared to a 2.5 percent of GDP target) and net international reserves (NIR) rose by US$5.4 billion, US$ 400 million above the target. With the economic situation now becoming even more complex, we remain committed to strengthen macroeconomic policies to deliver the objectives of our program, which remains a vital anchor for the economy. Importantly, we are focused on enhancing Argentina's resilience and medium-term growth potential by promoting investments and exports in key sectors like energy, mining, and the knowledge economy.

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from March 20, 2023, we outline the policies and objectives of the economic program supported by an IMF arrangement under the Extended Fund Facility (EFF), under our pillars of fiscal order and reserve accumulation. Specifically, we are committed to:

- **Fiscal.** Achieve the 2023 primary deficit target of 1.9 percent of GDP through measures aimed at mobilizing revenues, strengthening budget management controls, and improving the effectiveness and targeting of subsidies and social assistance, while providing space to priority social and infrastructure spending. Importantly, the quarterly fiscal targets will remain unchanged as efforts are underway to offset revenue losses resulting from the drought. Despite the unforeseen approval of the pension amnesty law, we are committed to prudently manage pension spending and ensure adherence to our fiscal targets through high-quality revenue and expenditure measures. In this regard, the Executive together with the social security agency (ANSES), the tax authorities (AFIP), and other relevant agencies plan to issue a new decree and regulations to ensure appropriate targeting of the amnesty law on those with the greatest need.

- **Energy.** Advance our multipronged energy strategy through efforts to (i) boost domestic production, transportation, and distribution; (ii) reduce costs and reliance on imported energy; and (iii) improve the targeting and increase the progressivity of energy subsidies, so that higher income sectors do not benefit unfairly. On the latter, we have raised tariffs for high-income residential consumers and commercial users significantly since February 2022. For high-income residential users, subsidies will be eliminated by May, subject to a cap over the peak consumption months. For commercial users, we will implement additional frontloaded tariff increases during the course of the year.

- **Financing.** Undertake a proactive domestic debt management strategy to extend forthcoming domestic peso maturities, especially during the second and third quarters, mobilize domestic net financing, and improve local debt and FX market functioning, while reducing uncertainties without adding to vulnerabilities. Meanwhile, we will continue to mobilize official financing from multilateral and bilateral sources, including by finalizing technical understandings with a few remaining Paris Club creditors.

- **Monetary and FX policy.** Continue to ensure policy rates remain positive in real terms and secure a gradual improvement in external competitiveness. This, together with our fiscal commitments, financing strategy (including to address the large monetary expansion that occurred in 2020 and 2021), and strengthened wage-price coordination, should support a gradual reduction in inflation and lessen the need for monetary financing of the fiscal deficit in line with program targets. Consistent with our reserve accumulation goals (see below), we will refrain from interventions (either by the BCRA or Treasury) in the financial FX markets that require use of international reserves.

- **Reserve coverage.** Mobilize international reserves and reverse recent trends. In addition to the continued implementation of strong macroeconomic policies, we plan to enhance our current system of FX controls and incentives to improve their effectiveness. A modification of the NIR accumulation target is being requested, however, to partially accommodate the large and unforeseen impact of the drought, while also recognizing the role offsetting policies will play in strengthening coverage and stability. Specifically, the NIR target for the first quarter of 2023 is now projected at US$1.9 billion, with accumulation reaching US$8.0 billion over 2022 and 2023, below the US$9.8 billion target under the original program. The NIR target through end-2024 is unchanged at US$15 billion.

On the basis of the policy actions that we have already taken and commitments going forward, **we request completion of the fourth review, with a disbursement in the amount of SDR 4,000 million**. We also request the modification of all quarterly 2023 targets for net international reserves to partially accommodate the impact of the drought, and the floors for the primary balance in the second semester to account for nominality. In addition, we request an extension of Executive Board approval which was granted on March 25, 2022, with regards to the exchange restrictions and multiple currency practices that were in place at the time of the approval, on grounds that these measures continue to be maintained for balance of payments reasons and are temporary and non-discriminatory in nature. Finally, we request completion of the financing assurances review, recognizing the need for continued steadfast efforts to mobilize domestic and external financing.

The program will continue to be monitored through quarterly reviews, quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU). We are confident that our policies are suitable to achieve the economic, financial, and social objectives and targets of the program and will take any additional measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of any revision contained in the MEFP, in accordance with the Fund's policies on such consultation and will refrain from any policy that would not be consistent with the program's objectives and commitments herein. Underscoring our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Yours sincerely,

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

Attachment I. Memorandum of Economic and Financial Policies Update

March 20, 2023

I. Context

8. Despite an increasingly challenging global and domestic environment, including notably the negative impact of the ongoing drought, tighter macroeconomic policies have supported macroeconomic stability. Our economic program, focused on strengthening fiscal order and reserve accumulation, started to yield results in the second half of 2022. Inflation moderated from a peak of 7.4 percent in July (m/m), although it remained high and pressures persist, and the trade balance strengthened on the back of a slowdown in import volume growth, although the improvement slowed more recently on account of the drought. Similarly, while the central bank accumulated over US$5.4 billion in reserves (net) during 2022, supported also by our efforts to mobilize official financing, more recent developments have hampered reserve accumulation. Despite the more challenging external and domestic environment, we remain committed—using our economic program as a policy anchor—to continue to pursue strong policy actions to safeguard stability and set the basis for more sustainable and inclusive growth.

II. Recent Developments and Program Performance

9. Economic activity is converging towards potential, along with some moderation in inflation. The economy is estimated to have expanded by 5.4 percent in 2022, although growth momentum has been moderating, supported by a slowdown in domestic demand and imports. In fact, the goods trade balance strengthened to US$4.4 billion in Q4:2022 thanks to the persistent moderation of imports, although this improvement has paused more recently on account of the effects of the drought (deficit of US$0.5 billion in January). In addition, headline inflation has fallen from earlier peaks, although underlying price pressures remain strong, with core inflation reaching 6.5 percent m/m in January/February. These trends were supported by the decisive implementation of tight fiscal and monetary policies, including strong expenditure restraint, and positive real policy interest rates, complemented by a series of administrative measures.

10. However, conditions are increasingly challenging. After declining from a peak of over 150 percent in July, the gap between the parallel and official rates continues to hover around 90 percent, in part impacted by less favorable external conditions. Our proactive debt management efforts helped secure net domestic private financing of 1.2 percent of GDP between August and December 2022, the refinancing of obligations falling due in Q1:2023 and a reduction of maturities falling due between March and June of 2.8 percent of GDP (¶15). That said, central bank intervention in the secondary bond market was necessary to ensure adequate market liquidity and functioning, although it has come down substantially from earlier levels (¶20). Meanwhile, a limited and temporary debt buyback operation in early 2023, aimed at improving debt sustainability and reducing sovereign debt yields, helped to support FX and debt market conditions. Continued steadfast policy implementation will remain critical going forward to safeguard stability and program objectives.

11. Despite a more challenging backdrop, our strong policy implementation from H2 2022 onwards has kept the program on track (Table 1), and some changes are proposed for 2023. All quantitative performance criteria (PCs) and indicative targets (ITs) through end-December 2022 were met and preliminary data suggest good prospects for meeting most end-March 2023 targets. However, the growing impact of the drought is increasingly challenging the targets on reserve accumulation and the primary fiscal deficit, as it is significantly eroding projected exports proceeds and related tax revenues. In light of this we will implement a strong and ambitious policy package to address this shock. While our fiscal targets remain unchanged, reflecting our stronger policy actions, a modification of the NIR target for 2023 is needed to partially accommodate the impact of the drought, in line with the updated macroeconomic framework.

- **Fiscal targets:** The primary fiscal deficit for 2022 reached 2.3 percent of GDP, significantly below the program target of 2.5 percent of GDP. Meanwhile, the quarterly average stock of arrears was contained at ARS 616 billion and social assistance spending was protected at ARS 818 billion, also well within program parameters for end-2022. Latest available data suggest that all end-March 2023 program fiscal targets remain achievable.

- **Monetary targets:** Net international reserve (NIR) rose by US$5.4 billion in 2022, well above the program floor of US$5.0 billion. Furthermore, from August through end-2022, we refrained from recourse to direct central bank financing of the fiscal deficit, allowing such financing to remain capped at ARS 620 billion (below the program ceiling of ARS 654 billion). The stock of non-deliverable futures (NDF) narrowed to under US$ 0.6 billion (significantly below the program ceiling of US$9 billion). Most end-March monetary targets remain achievable, but the NIR target is proposed to be revised down to US$1.9 billion for end-March, reflecting the severe drought that has affected our harvest in the first quarter and the frontloading of energy imports to take advantage of more favorable prices. Nevertheless, we remain committed to make every effort to strengthen reserve coverage and in this context commit to lock in any reserve accumulation overperformance throughout the year (TMU, ¶18).

12. Efforts on the macroeconomic policy front are being supported by the implementation of our structural agenda (Table 2). In particular, steps continue to be taken to strengthen revenue administration, public financial management, the efficiency of the energy sector and the BCRA's financial reporting, including with support from IFI technical assistance.

III. Policy Framework and Economic Program

13. The baseline macroeconomic framework remains broadly unchanged, but has been updated to reflect recent domestic and global developments.

- **Real GDP growth** is now estimated to have exceeded 5.0 percent in 2022—against 4.6 percent at the time of the third review—largely driven by stronger-than-expected activity in manufacturing and retail sectors. Growth is expected to moderate to 2 percent this year (generally consistent with estimates of Argentina's medium-term growth potential), reflecting the impact of the drought, a slowdown in global demand and the ongoing tightening of policies.

- **Inflation** this year is projected to moderate over the year from 6.3 percent m/m in January/ February to around 3 percent m/m by end-2023, supported by a combination of tighter fiscal policies, sustained positive real monetary policy rates (and some recovery in money demand), improved wage-price coordination, and softer global commodity prices. The decline in inflation is expected to be gradual, given high inflation inertia and the need to continue to improve the targeting of subsidies and ensure competitiveness.

- On the **external side**, the goods trade surplus is projected to increase from about 1.8 percent of GDP in 2022 to around 2.8 percent in 2023, despite challenging conditions, mainly on the back of tighter macroeconomic policies, lower energy imports due to the completion of the first stage of the Nestor Kirchner pipeline and falling global energy prices. This improvement is consistent with an NIR accumulation objective of US$8.0 billion during 2022-23, somewhat below the objective of US$9.8 billion established at the time of the third review given challenges posed by the drought.

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

	2021	Est. 2022	Proj. 2023	Proj. 2024
GDP growth (avg, %)	10.4	5.4	[1.5 - 2.5]	[1.5 - 2.5]
Inflation (eop, %)	50.9	94.8	[55 - 65]	[40 - 48]
Primary fiscal balance (% of GDP)	-3.0	-2.3	-1.9	-0.9
Current account balance (% GDP)	1.4	-0.6	1.0	0.8
Change in net int'l reserves (US$bn) 1/	-1.5	5.4	2.6	7.0
Monetary base (% of GDP)	7.9	6.2	6.3	6.5
Monetary financing (% GDP)	3.7	0.7	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.

14. Policies will need to continue to adapt to evolving external and domestic conditions. The outlook is subject to important external downside risks, including from a sharp slowdown in key advanced and emerging economies, tighter global financial conditions, an intensification of the war in Ukraine and a sudden worsening in terms of trade. Domestic risks also remain elevated, including a further worsening of the drought—the precise impact of which remains uncertain. In this context, we are proactively adapting our policies to ensure macroeconomic stability and continued adherence to program objectives. We stand ready to act further as needed.

A. Fiscal Policy

15. We remain committed to our multi-year fiscal consolidation path and to improving the underlying structure of the budget. After policy slippages in the first half of 2022, our firm and sustained efforts to restore fiscal order are bearing fruit. In 2022, we limited the primary fiscal deficit to 2.3 percent of GDP, while reducing average Q4 domestic arrears to 0.7 percent of GDP, successfully overperforming against the corresponding program targets. Notably, our continued implementation of strict expenditure controls helped deliver a 10 percent y/y contraction in real spending during August-December 2022, supported by our efforts to reduce energy, transport, and water subsidies. Furthermore, close monitoring and reprioritization of spending enabled us to achieve our consolidation plans, while also increasing priority capital spending from 2021 levels and protecting key social assistance for the most vulnerable.

16. Our priority now is to implement the 2023 budget and deliver the 1.9 percent of GDP primary deficit target. Consolidation is being underpinned by our continued efforts to strengthen revenue mobilization (¶11), improve the targeting of energy, transport, and water subsidies (at least 0.6 percent of GDP) (¶27-29) and streamline social assistance (around 0.7 percent of GDP) (¶12). Meanwhile, we are continuing to monitor and maintain tight monthly cash and budget management controls in key areas, including: (i) public sector wages, which will remain broadly unchanged as a share of GDP, supported by the ongoing hiring freeze and enhanced monthly reporting; (ii) pensions (¶10), and (iii) transfers to trust funds, government agencies and state-owned enterprises, including through limits on financing for entities with available funds. In the near-term, we remain committed to capping the primary deficit at 0.3 percent of GDP in Q1:2023 and 0.8 percent of GDP by June 2023 to support stability and policy credibility. Lower export duties, resulting from the drought, are expected to be offset by stronger social security contributions and non-tax revenues, consistent with recent trends, but additional efforts are also underway to reprioritize and improve the efficiency of current spending. The latter will help maintain fiscal space to complete the gas pipelines by end-June, which is critical to reduce costly energy imports/subsidies in the second half of the year and support fiscal consolidation over the medium term.

17. To achieve our fiscal consolidation goals, we are committed to prudently manage pension spending, including the costs of the recently-approved new pension amnesty to ensure its proper targeting. Pension spending will continue to evolve in line with the indexation formula, while also incorporating new beneficiaries from the pension amnesty (*Plan de Pago de Deuda Previsional*) approved by Congress on February 28, 2023. The latter aims to improve pension coverage for individuals who are short of the minimum 30-year contribution period, in particular women aged 60-65. While the current budget envelope of the social security agency (ANSES) is expected to accommodate the cost of the moratorium in 2023, additional efforts will be needed to ensure its appropriate targeting on those with greatest need and contain its fiscal costs over the medium term. In this regard, the Executive together with ANSES, the tax authorities (AFIP) and other relevant agencies will issue a new decree and specific regulations consistent with the objectives of the Law 27705 to (i) support strong means-testing by targeting access to those more vulnerable (according to wealth and income), (ii) include a step-up structure in interest rates according to the number of installments, (iii) establish a qualifying mechanism to ensure access will be granted only for those who have previously made some contributions to the pension system, and (iv) allow entry only to those withdrawing from certain social benefits and foregoing access to the '*dolar solidario*' (***Prior Action***). Moreover, to secure the medium-term fiscal targets any additional fiscal costs from this initiative in 2024 and beyond will need to be covered through high-quality revenue and expenditure measures.

18. Achieving our multi-year fiscal consolidation plan requires redoubling revenue mobilization efforts. We completed a tax compliance action plan for 2023-2025 to support revenue mobilization, with support from IMF technical assistance (**end-December 2022, SB**), and will accelerate its implementation during 2023, including through the development of specific compliance improvement plans based on a comprehensive assessment of compliance gaps for various taxes **(mid-December 2023, new SB)**. In tandem, we have made progress on (i) completing a comprehensive evaluation of tax expenditures **(end-June 2023, SB)**; (ii) strengthening information exchange and international cooperation to combat tax evasion; and (iii) improving personal wealth taxation (*bienes personales*). The latter will require enhancing the federal tax database, by connecting provincial cadasters and property tax registers with federal taxpayers' identification numbers (CUIT/CUIL), starting with the AMBA region **(end-March 2023, SB)**. Important progress is being made in this area, with around 75 percent of CUIT/CUILs linked to the relevant property in the AMBA region as of end-January. In addition, the *Organismo Federal de Valuaciones de Inmuebles* (OFEVI), is developing a unified methodology for property valuations, so that future valuations (for purposes of *bienes personales*) are based on the greater of either (i) the provincial valuation; or (ii) the OFEVI unified methodology valuation.

19. In addition to reducing subsidies (¶27-29), efforts continue to improve the effectiveness and targeting of social expenditures.

- *Social assistance*. The Ministry of Social Development is working towards strengthening the targeting and governance of our income support programs (**end-March 2023, SB**). Specifically, the closing of *Potenciar Trabajo* social program to new entrants was announced in November 2022. In addition, an audit of *Potenciar Trabajo* recipients was recently completed, with the goal of reducing ineligible claims. Claimants had until March 15th to verify their eligibility. So far, the audit identified close to 97,000 ineligible claimants, who have been suspended, and who will be permanently removed if their eligibility is not verified. Based on this, the total number of beneficiaries fell from around 1,365,000 (January 2023) to 1,268,000 at the end of February 2023. The focus now is to ensure that the remaining beneficiaries register to improve their education or begin training to re-enter the labor market. In addition, we are working on regulations to reduce potential disincentives to re-enter the labor market. Most of the savings from the reduction of transfers will be used to strengthen human capital through the delivery of tools or financing of *polos productivos*.

- *Pensions*. The Ministry of Labor, in collaboration with the University of Buenos Aires, completed its focused study on the special pension regimes (**end-December 2022, SB**) to help determine options for strengthening the equity and sustainability of the system, including reducing fragmentation. In this context, the studies have been submitted to the Congressional Commissions on Pensions and Social Security.

20. Improvements in public financial management continue with the aim of strengthening transparency and public spending controls. Efforts are underway to (i) enhance the financial and budget reporting of the entities of the national public sector other than the National Administration; and (ii) strengthen the monitoring and governance of investment projects. A general framework to implement and control transfers from the Treasury to public corporations, trust funds, and other entities has been put in place (Decree 712) which will facilitate the publication of enhanced quarterly reports for public corporations and trust funds (**end-March 2023, SB**). Shortly after, the reports will be further enhanced to include information on major investment projects financed by federal transfers and earmarked taxes.

B. Financing Policy

21. In the context of challenging conditions, we continued to mobilize financing and mitigate vulnerabilities. A proactive, market-oriented, debt management approach helped secure net domestic market financing of 3.8 percent of GDP last year, with net flows reaching ARS 700 billion in December 2022 and more than ARS 400 billion in January and February 2023. Crucially, we have started to implement a comprehensive financing strategy to extend peso maturities beyond 2023 and secure net financing for the year (¶15). On the external front, our efforts to boost official sector financing is paying dividends, with US$ 1.5 billion of disbursements in December to February, supported by multilateral budget support and bilateral project financing, consistent with comparability of treatment commitments with the Paris Club. Meanwhile, we have begun to sign bilateral agreements with Paris Club creditors to restructure US$ 1.97 billion of legacy of debt, which we expect to finalize soon with remaining creditors consistent with the October 2022 joint declaration.

22. Our domestic financing strategy is focused on mobilizing net financing and addressing amortizations falling due in 2023. A comprehensive strategy has been announced to extend maturities while improving refinancing effectiveness and containing associated financing costs and vulnerabilities. In this context, we implemented a voluntary exchange of maturities that reduced vulnerabilities and financing pressures in Q2. In particular, we successfully extended maturities of ARS 4.3 trillion (2.8 percent of GDP) coming due between March and June into 2024 and 2025. In doing so, we achieved broad participation, especially from the banking sector (84 percent), while minimizing reliance on USD-linked debt, supported by accompanying measures to incentivize investor participation. In addition, we will implement a liability management operation with public entities aimed at raising net financing of up to 0.6 percent of GDP in 2023 and extend maturities for most of the remaining peso debt held by the public sector. Drawing on the recently completed medium-term debt strategy (MTDS) (***end-December 2022, SB***), new mechanisms are also being considered to enhance the transparency and stability of the government securities market. Importantly, we will continue to rely on strong coordination between MECON and BCRA.

23. We are also continuing our efforts to mobilize official sector support. New financing of over US$ 4.5 billion has been secured through 2023 to support our investments in priority water/sanitation, transport, and energy sectors projects. Critically, the majority of financing for the second phase of the Kirchner pipeline and "reversion Norte" (US$ 2.5 billion) has been identified and is expected to be disbursed by mid-2024. We will redouble our efforts to secure additional financing, while continuing to work with our partners to ensure that official creditors meet their program financing commitments, which will be vital to limit monetary financing of the fiscal deficit to 0.6 percent of GDP in 2023 and help support reserve accumulation.

C. Monetary and Exchange Rate Policies

24. We remain firmly committed to continue to implement our enhanced monetary and exchange framework to address persistent high inflation and rebuild reserves. To this effect, we have raised the policy rate by 600 basis points to 113.3 percent in annual effective terms, above actual inflation (102.5 percent y/y in February) and forward-looking measures of monthly core inflation. In addition, we raised the rate on our overnight facility (further narrowing the interest rate corridor), and finalized the simplification of the reserves requirement regime in an effort to improve monetary policy transmission. We are also enhancing our system of FX controls to reduce complexity and support reserve accumulation (see ¶20).

Monetary and FX Policies

25. Positive real monetary policy rates and enhancements in the policy transmission mechanism are essential to encourage peso demand. We remain committed to keeping real monetary policy rates firmly in positive territory. To this end, we will maintain nominal interest rates unchanged until inflation and inflation expectations are on a clear downward path. Rates on short-term government paper will remain consistent with the monetary policy rate to continue to support the demand for peso assets and government securities. Higher policy rates may need to be considered if inflation pressures rebound or FX pressures intensify.

26. Proactive and well-calibrated FX policies remain essential. To strengthen competitiveness and encourage reserve accumulation, we will ensure that the official rate of crawl more consistently remains above inflation (and below the policy interest rates). Following their earlier unwinding, BCRA interventions in the non-deliverable futures market will be limited to addressing disorderly FX market conditions and supporting the crawling peg regime. Relatedly, and consistent with our reserve accumulation goals, we will refrain from interventions (either by the BCRA or Treasury) in the financial FX markets that require use of international reserves.

27. Meanwhile, we are streamlining the system of FX controls to enhance effectiveness and reduce distortions. While FX controls remain necessary to secure reserve targets as imbalances are addressed, we are working to enhance their effectiveness, minimize unintended distortionary consequences, and ensure their consistency with our broader macroeconomic goals, and compliance with the Fund's policies. In this context, we will streamline FX controls and FX incentives to reduce complexity and support reserve accumulation, while further enhancing monitoring and enforcement of existing regulation, in particular for services imports. A draft of the revised Foreign Exchange Criminal Law has been prepared and will soon be submitted to Congress (end-March, SB; **proposed to be reset to end-May 2023, SB**), which will make the sanctioning framework more efficient and reduce incentives for circumvention by introducing the use of administrative fines.

28. The framework of FX controls is being further revised over time as conditions allow. We have taken initial steps to reduce restrictions in key sectors for the economy, for example through a gradual reduction in surrender requirements for the knowledge economy and easing of prefinancing and administrative requirements for critical imports related to health, education and exporting sectors. As reserve coverage strengthens and conditions permit, further steps will be taken to ease restrictions. In this context, a conditions-based liberalization roadmap of FX controls will be prepared (**end-June 2023, SB**), for which we requested IMF technical assistance.

Financial Stability and Central Bank Balance Sheet

29. The BCRA will continue to pursue policies within its mandate to entrench financial stability. Central bank purchases of government securities in the secondary market will remain limited to ensuring market functioning and financial stability and will be conducted at market prices and sterilized to support the disinflation process. A gradual tapering of these peso securities purchased by the BCRA will be considered, as market conditions allow.

30. A gradual strengthening of the central bank's balance sheet is also necessary for broader disinflation efforts. We shared a first draft of our strategy to gradually strengthen the BCRA's financial position with Fund staff for comments and are currently finalizing it to submit it to the BCRA board shortly **(end-December 2022, SB)**. The strategy is importantly anchored on the planned elimination of monetary financing of the fiscal deficit, the eventual unwinding of government securities, as well as the gradual and appropriate adoption of IFRS. To this effect, we are making progress in enhancing financial disclosures towards compliance with IFRS-7 (**end-May 2023, SB**), have been updating the information technology infrastructure to allow for the removal of the forward leg of repo transactions for the 2023 financial statements and have already modified the accounting for currency swap bilateral arrangements with central banks as per IFRS at end-December 2022. We have also clarified functional reporting lines of the Internal Audit Department (IAD) and strengthened its reporting and review functions, and are working in this regard with our Risk Management Department.

Income Policies

31. Given high inflation inertia, voluntary wage-price coordination agreements are complementing broader macro-policy driven disinflation efforts. Voluntary price agreements (*Precios Justos*) with firms which originally covered food, beverage and cleaning staples, have been extended through June 2023 and expanded to cover other goods and services, including apparel, medicines, education, and construction materials. These voluntary agreements aim to support the disinflation process by limiting monthly price increases to 3.2 percent for 50,000 products (prices of 2000 products will also remain frozen). Negotiations have also advanced with wholesale agents to ensure that lower prices also feed into smaller neighborhood shops and new technologies are being used to ensure compliance with the agreements. The agreements will continue to be revisited after end-June depending on inflation and other developments.

D. Energy Policies

32. Improving the efficiency, equity, and sustainability of Argentina's energy sector remains a key priority. We are advancing the multipronged strategy aimed at (i) boosting domestic energy production, transportation, and distribution; and (ii) reducing energy costs and reliance on imported energy, while promoting the overall sustainability of the sector through decreasing production costs, promoting end-user prices that better reflect production costs and improvements in the targeting and progressivity of energy subsidies. On the latter, since February 2022, high-income residential consumers have moved towards cost recovery, seeing increases of over 380 percent y/y in both PEST and PIST, while commercial users have seen increases of around 350 percent y/y in PEST and 140 percent y/y in PIST.

33. On the supply side, actions are underway to boost energy production and reduce costly energy imports.

- **Energy imports.** Our arrangements to import gas from Bolivia and through Chile, and our recently signed MOU with Brazil for electricity imports will help secure energy supplies at favorable rates during the 2023 winter and reduce reliance on more costly imports of LNG. Recently we have been able to secure, through strategic purchases of LNG, prices well below those assumed in the 2023 budget for most of the LNG supply needed for 2023.

- **Gas pipelines**. Construction of the Nestor Kirchner gas pipeline is moving forward. Already as of February, we have completed around 40 percent of the first stage, which is expected to be finished by end-June 2023. This will support an increase in the daily supply of domestically produced gas to 11 million cubic meters by June and to 22 million cubic meters by September, following the installation of compressors. Construction of the second stage is expected to begin in July 2023 and be completed by June 2024. Meanwhile, the flow reversal of the North pipeline will further reduce costly imports and increase export potential. To harness the pipeline's benefits of additional transportable capacity for domestic gas, a new Plan Gas was launched in November, which aims to incentivize domestic production (and exports, especially to Chile) by extending current producer price agreements to 2028. In 2023, the completion of the Kirchner pipeline is projected to reduce energy imports by about US$2 billion and increase exports by about US$ 0.45 billion. Once the production capacity of the Vaca Muerta gas fields reaches its full potential in 2025, the Kirchner pipeline will help achieve energy imports savings of over US$ 8 billion and increase exports by about US$ 2.5 billion.

- **Other opportunities**. Completion of a series of projects for crude transportation and field development could also boost crude exports by US$8 billion over the medium term. Meanwhile, numerous mining projects (lithium, gold, silver, and copper) underway could also add to Argentina's export capacity, with the potential of expanding opportunities in battery production and the electro-mobility sectors. In addition, prospects for LNG exports are being explored and will require significant time and investment. All of these initiatives, including the pipelines, will not only expand our productive capacity and enhance external resilience, but also contribute to global energy security and climate goals.

34. Elimination of subsidies. Our policy is, through segmentation, to reduce regressivity in energy subsidies by gradually bringing high-income residential and 'other' commercial users with the greatest payment capacity to cost recovery while protecting low- and middle-income consumers. This will help keep the energy subsidy bill below 1.6 percent of GDP in 2023, consistent with our fiscal targets.

- **Large non-residential users will continue to pay 100 percent of the cost of electricity and gas.**

- For residential consumers with the greatest payment capacity and other commercial users, following the price increases announced and implemented in January and February (Resolutions 6/23 and 54/23 respectively), a new resolution will be issued in April to implement further electricity price increases in May (***end-April 2023, SB***), with additional resolutions issued ahead of the subsequent price increases for other commercial users:

    - *Residential consumers with the greatest payment capacity (Level 1)* will see a further electricity price increase in May that will ensure an immediate move to the monomic price of May (around 85-90 percent). Subsequent price changes for this group will evolve with the monomic price over time, subject to a cap during peak consumption months.

    - *Other commercial users* will see further rounds of electricity price increases in May (31 percent), August (17 percent), and November (7 percent), with the aim that prices for these consumer groups gradually reach their respective cost-recovery levels. To protect small commercial users that are subject to contracts below 10 kW power, electricity consumption will be further subsidized with a lower electricity price applying to consumption up to 800 kWh per month, which is estimated for example to benefit approximately 74 percent of commercial users and 22 percent of total consumption by commercial users of the AMBA region (as of May, these lower tariffs will no longer apply to municipal streetlighting, which will pay the same price as 'other' commercial users).

35. In addition, prices for middle- and low-income residential users are being raised to better reflect energy costs. For middle income consumers, the subsidized reference price of electricity (PEST) was raised by 28 percent in February and the price of natural gas (PIST) was raised by the same amount in March. For low-income consumers, the prices were left unchanged. These updates are fully consistent with our policy commitment to anchor updates in energy costs and the regulated price of distribution (Valor Agregado de Distribución, VAD) on past average wage growth and cap the overall increase in the electricity and natural gas bill at 40 percent and 80 percent of growth in the wage index, for low- and middle-income consumers, respectively. For middle-income consumers, subsidized electricity consumption will be subject to a cap (400KWh), above which consumption will be priced at the same rate paid by residential consumers with the highest payment capacity. For natural gas, the cap will continue to be set at 70 percent of average consumption over the past 5 years.

36. Efforts are also underway to improve the finances of the electricity distribution sector. Tariff agreements with electricity distributors for the metropolitan region of Buenos Aires were updated in February 2023. The updates also included an agreement to address distributors' arrears to the state-owned electricity dispatch operator (CAMMESA) and hence alleviate the pressures on government finances. Since the second half of 2022, CAMMESA has reached agreement on repayment plans covering more than 90 percent of distributors' outstanding debt.

37. A comprehensive strategy to improve the efficiency and financial sustainability of the energy sector has been published (end-December 2022, SB). To build consensus among key stakeholders for the planned reforms, we have launched a consultation process through the *Consejo Federal de Energia* and we expect to have an implementation action plan and timetable developed by end-June 2023. The strategy, which was prepared with World Bank technical assistance, includes planned actions to improve:

(i) *Energy efficiency.* Including by conducting an analysis of technical and non-technical losses; expanding education programs for efficient energy use; developing a national registry of energy efficiency auditors for the industrial sector, and modifications to the household survey to help better inform the design of energy efficiency initiatives.

(ii) *Electricity generation.* Including an analysis of remuneration criteria for different generators to reduce costs; completing a survey of existing hydroelectric concessions, and; an analysis of alternative generation and supply for non-residential demand.

(iii) *Electricity distribution and transmission.* Promoting good practices and the standardization of regulatory criteria across provinces; developing actions for compliance.

(iv) *Subsidy segmentation scheme.* Including by strengthening targeting through improving the quality of the information in the RASE database and improving the estimation of energy needs for the most vulnerable households.

E. Transparency and Governance Policies

38. We are committed to enhancing transparency and governance. Ahead of the Financial Action Task Force (FATF) evaluation scheduled for March 2024, we identified reforms related to terrorist financing, role and responsibility of the financial intelligence unit (FIU), sanctioning regime, and non-government organizations. As a result of the AML/CFT gap analysis conducted against the FATF's 40 Recommendations, we identified virtual assets service providers (VASPs) as an additional key item where reforms are needed. The VASPs reforms are currently being incorporated into the amended AML/CFT legislation or other relevant legislation. Meanwhile, the FIU is already preparing the necessary regulations/resolutions to facilitate prompt and full implementation of the amended legislation once approved. Work on finalizing COVID spending audits is underway (**end-June 2023, SB**).

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

	2022											
	end-Mar				end-June				end-Sept			
	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status
Fiscal targets												
Performance Criteria												
1. Cumulative floor on the federal government primary balance 3/ 8/	-222.3	-210.9	-192.7	Met	-874.4	-848.6	-800.7	Met	-1156.8	-1136.0	-1096.1	Met
2. Ceiling on the federal government stock of domestic arrears 4/	535.9	...	336.2	Met	612.2	...	489.4	Met	654.0	...	589.7	Met
Continuous Performance Criterion												
3. Non-accumulation of external debt payments arrears by the federal government	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
Indicative Targets												
4. Cumulative floor on real federal government revenues 3/ 5/	2417.3	...	2566.0	Met	5179.7	...	5169.6	Not met	...	...	...	...
5. Cumulative floor on social assistance spending (Asignación Universal para Protección Social, Tarjeta, Progresar) 3/	151.9	...	164.2	Met	332.2	...	343.4	Met	565.3	...	562.4	Not Met
Monetary targets												
Performance Criteria												
6. Cumulative floor on the change in net international reserves of BCRA 6/ 8/	1.200	1.245	1.568	Met	3.450	2.950	2.703	Not met	4.100	3.600	4.591	Met
7. Cumulative ceiling on central bank financing of the federal government 3/	236.8	...	122.0	Met	475.8	...	435.1	Met	665.4	...	620.1	Met
Indicative Target												
8. Ceiling on the central bank stock of non-deliverable futures 7/	6.000	...	1.249	Met	7.000	...	4.358	Met	9.000	...	3.131	Met

Sources: National authorities and Fund staff estimates and projections.
1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Flows from January 1 through December 31.
4/ Includes intra-public sector transfers (transferencias figurativas).
5/ Rebased assuming CPI=100 at end-2021. This target is no longer be part of program conditionality after June 2022.
6/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021 of US2.277 billion. It excludes payments to Paris Club from September 2022 onwards.
7/ In billions of U.S. dollars. The stock of non-deliverable futures on December 31, 2021 stood at US$ 4.185 billion, as defined in the TMU.
8/ Targets subject to adjustors as defined in the TMU.

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

(In billions of Argentine pesos unless otherwise stated)

	2022				2023						Indicative Targets	
	end-Dec				end-Mar		end-Jun		end-Sep		end-Dec	
	Target	Adjusted	Actual	Status	CR 22/388	Proposed	CR 22/388	Proposed	CR 22/388	Proposed	Program IT CR 22/388	Proposed
Fiscal targets												
Performance Criteria												
1. Cumulative floor on the federal government primary balance 3/ 8/	-2015.7	-2017.2	-1955.1	Met	-441.5	-441.5	-1181.4	-1181.4	-2064.4	-2145.4	-2798.3	-2970.2
2. Ceiling on the federal government stock of domestic arrears 4/	654.0	...	615.5	Met	1177.4	1177.4	1177.4	1177.4	1177.4	1177.4	1177.4	1177.4
Continuous Performance Criterion												
3. Non-accumulation of external debt payments arrears by the federal government	0.0	...	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets												
4. Cumulative floor on real federal government revenues 3/ 5/	...	...	...	...	...	...	...	...	...	...	...	...
5. Cumulative floor on social assistance spending (Asignación Universal para Protección Social, Tarjeta, Progresar) 3/	810.8	...	817.6	Met	239.3	239.3	500.4	500.4	823.8	823.8	1199.7	1199.7
Monetary targets												
Performance Criteria												
6. Cumulative floor on the change in net international reserves of BCRA 6/ 8/	5.000	5.036	5.426	Met	5.500	1.900	8.600	6.800	8.700	7.200	9.800	8.000
7. Cumulative ceiling on central bank financing of the federal government 3/	654.0	...	620.1	Met	139.3	139.3	372.8	372.8	651.4	651.4	883.0	883.0
Indicative Target												
8. Ceiling on the central bank stock of non-deliverable futures 7/	9.000	...	0.587	Met	9.000	9.000	9.000	9.000	9.000	9.000	9.000	9.000

Sources: National authorities and Fund staff estimates and projections.
1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Flows from January 1 through December 31.
4/ Includes intra-public sector transfers (transferencias figurativas).
5/ This target is no longer be part of program conditionality after June 2022.
6/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021 of US2.277 billion. It excludes payments to Paris Club from September 2022 onwards.
7/ In billions of U.S. dollars. The stock of non-deliverable futures on December 31, 2021 stood at US$ 4.185 billion, as defined in the TMU.
8/ Targets subject to adjustors as defined in the TMU.

Table 2. Argentina: Structural Benchmarks

Proposed Prior Action	Sector	Status	Completion date
Issue new decree and specific regulations consistent with the objectives of the Law 27705 to (i) support strong means-testing by targeting access to those more vulnerable (according to wealth and income), (ii) include a step-up structure in interest rates according to the number of installments, (iii) establish a qualifying mechanism to ensure access will be granted only for those who have previously made some contributions to the pension system, and (iv) allow entry only to those withdrawing from certain social benefits and foregoing access to the '*dolar solidario*'.	Fiscal Structural		
Proposed New/Modified Structural Benchmark			
1. Issue a new resolution to update electricity prices (PEST) in May equivalent to: an increase for level 1 residential consumers to ensure an immediate move to the monomic price in May (85-90 percent); and a 31 percent increase for 'other' commercial users (and small commercial users for consumption above 800 Kwh), as defined in the TMU. For municipal streetlighting, prices in May will be raised to the level of 'other' commercial users.	Fiscal Structural		end-Apr. 2023
2. Develop in consultation with Fund staff, compliance improvement plans for key individual taxes (VAT, CIT, PIT, Customs).	Fiscal Structural		December 15, 2023
Current Structural Benchmark			
1. Avoid additional taxes on financial transactions.	Fiscal Structural		Continuous
2. Conduct a study outlining options and recommendations to strengthen the equity and long-term sustainability of the pension system, focused on the special pensions regimes (set forth by Law 27.546) (Modified from previous SB#12).	Fiscal Structural	Met	end-Dec., 2022
3. Develop in consultation with Fund staff, a strategy to durably improve the BCRA financial position, drawing on recommendations from the Fund's Safeguard Assessment (Modified from previous SB#13).	Monetary/ FX Policy	Not Met (Progress is Ongoing)	end-Dec., 2022
4. Issue new resolutions, subject to legal requirements, to update energy prices for February–April 2023 to ensure meeting the fiscal targets and the sustainability of the segmentation scheme. Updated electricity prices will fully eliminate subsidies for level 1 residential and commercial users, subject to a price increase cap during peak consumption months. For level 2 and 3 subsidized residential consumers, the updates for the peak consumption months will be consistent with 40% and 80% of the average wage growth in 2022 (coeficiente de variación salarial, CVS, as established by Law 27.443). For natural gas prices, the regulatory authority will issue a resolution setting natural gas prices for commercial users and level 1 residential users to achieve cost recovery starting February, subject to a price increase cap during peak consumption months.	Fiscal Structural	Not Met	February 15, 2023
5. Publish 2022 financial statements of the BCRA that enhance financial disclosures towards compliance with IFRS-7	Monetary/ FX Policy		end-May, 2023
6. Complete a comprehensive evaluation of tax expenditures on the basis of enhanced technical criteria, in consultation with IMF staff.	Fiscal Structural		end-June, 2023

Table 2. Argentina: Structural Benchmarks (continued)			
Current Structural Benchmark	**Sector**	**Status**	**Completion date**
7. 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	Met	end-Dec., 2022
8. Secretary of energy will publish a) a medium-term energy sector strategy, with the technical support of the World Bank and for consultation with key stakeholders, focusing on improvements to: i) energy efficiency, ii) generation cost management, iii) distribution and transmission, iv) targeting of subsidies; and (v) the overall financial sustainability of the sector; and b) a detailed plan to improve the implementation of the subsidy segmentation scheme (Modified from previous SB#11).	Fiscal Structural	Met	end-Dec., 2022
9. Modify and submit to congress legislation—Foreign Exchange Criminal Law—to improve the penalty framework, including by introducing authorization of administrative fines, to make the sanctioning framework more efficient and enhance the timeliness of enforcement	Monetary /FX Policy		end-March, 2023; Reset to end-May 2023
10. Prepare, in consultation with Fund staff, a medium-term debt management strategy (MTDS).	Financing	Met	end-Dec., 2022
11. Conduct and publish, working with development partners, a comprehensive evaluation of social support programs and strategy to identify options for policy improvements.	Fiscal Structural		end-March, 2023
12. Enhance the AFIP database by connecting with provincial cadasters and provincial property registers, and assigning a federal taxpayer identification number (CUIT/CUIL) to each property. In the first stage, this initiative will cover the AMBA region (Modified from previous SB#10).	Fiscal Structural		end-March, 2023
13. Publish first enhanced quarterly report for public corporations and trust funds including a breakdown of assets and liabilities, based on 2022 data and quarterly data through 2022Q4.	Fiscal Structural		end-March, 2023
14. Develop and publish a roadmap, in consultation with Fund staff, for the gradual easing of FX controls outlining the necessary conditions and objectives.	Monetary/ FX Policy		end-June, 2023
15. Publication of an external ex-post audit on COVID spending that took place of at least during 2020	Governance /Structural		end-June, 2023
Previous Structural Benchmarks			
1. Modify the current Budget Law to be in line with the 2022 primary fiscal deficit target agreed under the program.	Fiscal Structural	Met	April 15, 2022

Table 2. Argentina: Structural Benchmarks (continued)			
Previous Structural Benchmarks	**Sector**	**Status**	**Completion date**
2. Call a public hearing on a proposal to update wholesale energy tariffs effective June 1, 2022. For residential users, the updates will be anchored on the average wage growth (*coeficiente de variación salarial*) as established by Law 27.443. For GUDIs, energy tariffs will reflect full cost recovery; the rest of non-residential users will have their tariff revised according to the proposal defined in the hearing.	Structural	Met	end-April, 2022
3. Submit to congress amended AML/CFT Legislation (Law 25.246), in accordance with the international standard, and considering inputs from experts, academics, relevant civil society institutions, and Fund staff, for its consideration by congress in the course of 2022.	Financial Integrity	Met	end-May, 2022
4. Prepare a proposal with an action plan by the Secretary of Treasury, in consultation with Fund staff, to enhance financial and budget reporting of the entities of the national public sector other than the National Administration according to Law 25.917, Art 3.	Fiscal Structural	Met	end-June, 2022
5. Modify the SEPIPyPPP 1/2021 Resolution to enable an annual regulation that sets investment projects prioritization and selection criteria. Criteria will prioritize ongoing projects and, among major projects, those with pre-feasibility or feasibility studies. On this basis, a regulation will be adopted to determine prioritization and selection criteria for projects to be included in the 2023 Budget.	Fiscal Structural	Met	end-June, 2022
6. Publish a time-bound plan to streamline the reserve requirement system and improve the transmission of monetary policy.	Monetary/ FX Policy	Met	end-June, 2022
7. Publication of semi-annual investor relations presentation to advance the investors relation program.	Financing	Met	end-July, 2022
8. Develop, in consultation with Fund staff, a detailed and time-bound action plan focused on identifying compliance gaps and improving compliance risk management of key domestic taxes and customs duties.	Fiscal Structural	Not Met	end-Aug., 2022 Reset to end-Dec., 2022
9. Publish a National AML/CFT Strategy with recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.	Financial Integrity	Met	end-Sep., 2022
10. Complete, in close coordination with provincial governments, the process of updating property valuations at the federal level so that they can begin to go into effect for fiscal year 2022.	Fiscal Structural	Not Met	end-Sep., 2022 Modified and Reset to end-March, 2023

Table 2. Argentina: Structural Benchmarks (concluded)

Previous Structural Benchmarks	Sector	Status	Completion date
11. Develop and publish a medium-term plan, with technical and financial support of international development partners, to further reduce energy subsidies, with specific cost recovery targets, and improve the efficiency of the energy matrix, while ensuring the quality of energy services and the affordability of access for more vulnerable households.	Structural	Not Met	end-Sep., 2022 Modified and Reset to end-Dec., 2022
12. Conduct and publish a study outlining options and recommendations to strengthen the equity and long-term sustainability of the pension system, focused on the special pensions regime (set forth by Law 27.546), and on mechanisms to encourage voluntarily prolonging working lives.	Fiscal Structural	Modified	end-Dec., 2022
13. Develop and publish in consultation with Fund staff, a strategy to durably improve the BCRA financial position, drawing on recommendations from the Fund's Safeguard Assessment.	Monetary/ FX Policy	Modified	end-Dec., 2022
14. Issue final energy price resolutions (PEST and PIST) to reach full cost recovery for electricity and gas residential consumers nationwide with the greatest payment capacity.	Fiscal Structural	Modified	end-Jan., 2023 Reset to Feb. 15, 2023

Attachment II. Technical Memorandum of Understanding Update

March 20, 2023

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

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on March 2, 2022. Accordingly, the exchange rates for the purposes of the program are shown in Text Table 1. For the purpose of setting program PCs and ITs, inflation is based on a point estimate of 95.9 percent in 2022 and 60 percent in 2023 (end of period), within the revised program inflation range.

Text Table 1. Program Exchange Rates

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

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

3. Any variable that is mentioned herein for the purpose of monitoring a PC or IT and that is not explicitly defined, is defined in accordance with the Fund's standard statistical methodology, such as the Government Finance Statistics Manual 2014 and the Public Sector Debt Statistics Guide. For any variable or definition that is omitted from the TMU but is relevant for program targets, the authorities of Argentina shall consult with the staff on the appropriate treatment to reach an understanding based on the Fund's standard statistical methodology.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Cumulative Floor on the Federal Government Primary Balance

4. Definitions: The Federal government (*Sector Público Nacional No Financiero*) for the purposes of the program consists of the central administration, the social security institutions, the decentralized institutions (*Administración Nacional*), and PAMI, fiduciary funds, and other entities and enterprises of the federal government.

5. Definitions:

- The primary balance of the federal government is measured above-the-line and defined in accordance with the monthly and annual reporting of the "*Esquema IMIG*". This is equivalent to total revenues (*ingresos totales*, according to "Esquema IMIG") minus primary spending (*gastos primarios*). Revenues are recorded on a cash basis and include tax revenues (*ingresos tributarios*), revenue income (*rentas de la propiedad*), other current revenues (*otros ingresos corrientes*), and capital revenues (*ingresos de capital*). For the purposes of assessing the floor of the primary deficit, revenues exclude any type of financial transfers from the Central Bank (including *Utilidades* and *Adelantos Transitorios*), interest income from intra-public sector holding of securities and debt obligations, proceeds from the sale of financial assets, and special drawing rights (SDRs) allocated by the Fund or received bilaterally from other IMF members. In addition, revenue income from the issuance of government debt that is part of non-tax revenues (*resto rentas de la propiedad*) will be capped at 0.28 percent of GDP[1] in 2022 and will be excluded from revenues in 2023 for calculation of the primary fiscal deficit under the program.

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

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

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

- All primary expenditures (including fines) that are directly settled with bonds or any other form of non-cash liabilities will be recorded as spending above-the-line and will therefore contribute

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

to a decrease in the primary balance. This only excludes the settlement of liabilities related to pensions, revenue sharing and expenditure allocation, with the provinces and the Autonomous City of Buenos Aires, associated with court proceedings that are either finalized or pending as of March 3, 2022, payments of arrears as per ICSID or similar arbitration rulings and payments to the BCRA for losses incurred from export incentive schemes in September and December 2022.

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

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

8. **Adjustor for external project financing disbursements**: The target for the primary balance of the federal government will be adjusted up (down) by the shortfall (excess) in the disbursements of project loans from multilateral and bilateral partners, compared to the project loans in the program baseline (Text Table 2)[2]. The value of the adjustor would be capped at cumulative 0.2 percent of GDP in 2022 and 2023 (163,511 million pesos and 308,609 million pesos respectively).

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

	AR$ millions 1/
end-March 2022	27,028
end-June 2022	78,423
end-September 2022	122,201
end-December 2022	232,354
end-March 2023	44,293
end-June 2023	102,430
end-September 2023	201,235
end-December 2023	294,359

1/ Cumulative from January 1 of each year.

Ceiling on Federal Government Accumulation of Domestic Arrears

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

[2] The upward adjustment to the primary balance would exclude already executed expenditures linked to projects with temporary delays on their associated external disbursements up to a maximum of ARS30,000 million in 2022 and ARS55,000 in 2023.

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

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

11. Monitoring: Daily data on the stock of arrears (and underlying spending on an accrual and cash basis), recorded at daily frequency will be provided to the Fund with a lag of no more than 25 calendar days after the end of each month.

Federal Government Non-Accumulation of External Debt Payments Arrears

12. Definitions:

- **Debt** [4] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

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

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

    iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the

[3] *Transferencias figurativas* were excluded from the definition of domestic arrears for the purposes of measurement against the end-March 2022 performance criterion. The TMU of IMF Country Report No. 22/192 was updated to clarify that, starting from the end-June 2022 performance criterion, *transferencias figurativas* will be included in the definition of domestic arrears.

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

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

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

- **External debt.** Only for the purposes of this program, and consistent with the definition set out in the IMF's Balance of Payments Manual, external debt is determined according to the residency criterion, (and, as such, would encompass nonresident holdings of Argentine law peso and foreign currency debt).

- **External arrears**: External debt payment arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after March 3, 2022, that have not been paid, considering the grace periods specified in contractual agreements.

13. Coverage: This performance criterion covers the federal government. This performance criterion does not cover (i) arrears on trade credits, (ii) arrears on debt subject to renegotiation or restructuring; and (iii) arrears resulting from the nonpayment of commercial claims that are the subject of any litigation initiated prior to March 3, 2022.

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

Cumulative Floor on the Change in Net International Reserves of BCRA

15. Definitions:

- **Net international reserves (NIR)** of the BCRA are equal to the balance of payments concept of NIR defined as the U.S. dollar value of gross official reserves of the BCRA minus gross official liabilities. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the program exchange rates.

- **Gross official reserves** are defined consistently with the Sixth Edition of the Balance of Payments Manual and International Investment Position Manual (BPM6) as readily available claims on nonresidents denominated in foreign convertible currencies. They include the (i) monetary claims, (ii) free gold, (iii) holdings of SDRs, including all Fund disbursements since March 25, 2022 (iv) the reserve position in the IMF, (v) holdings of fixed income instruments and (vi) net cash balances within the Latin American Trade Clearing System (ALADI). Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency vis-à-vis domestic currency (such as futures, forwards, and options), precious metals other than gold, assets in nonconvertible currencies and illiquid assets.

- **Gross official liabilities** in foreign currencies include (i) foreign currency liabilities with original maturity of one year or less, (ii) Fund cumulative disbursements, except for the net financing component of the program (SDR 3.166 billion), net of cumulative Fund payments that have taken place from March 25, 2022 onwards[5], (iii) any deliverable forward foreign exchange (FX) liabilities on a net basis defined as the long position minus the short position payable in foreign currencies directly undertaken by the BCRA or by any other financial institutions on behalf of the BCRA. Neither the Federal government's foreign liabilities, nor its FX deposits at the BCRA are considered as gross foreign liabilities of the BCRA. The foreign currency swap with the People's Bank of China and with the BIS, the foreign exchange bank reserve requirements, SEDESA, ALADI and other non-resident deposits would be considered, for program purposes, as a foreign exchange liability of the BCRA with a maturity of one year or less.

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

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

18. Adjustors:

- **Official non-project loans and grants**: The NIR targets will be adjusted upward (downward) by the surplus (shortfall) in program loan disbursements and grants from multilateral institutions (including the BCIE, EIB, IBRD, IDB and CAF) and bilateral partners, relative to the baseline projection reported in Text Table 3. The value of the downward adjustor, i.e., in the event of a shortfall of loans and grants, would be capped at a cumulative of US$750 million in each calendar year. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements and IMF budget support) from official creditors for the financing of the general government.

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

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

	(In millions of US$) 1/
end-March 2022	55
end-June 2022	62
end-September 2022	543
end-December 2022	2,181
end-March 2023	20
end-June 2023	861
end-September 2023	1,244
end-December 2023	1,349

1/ Cumulative from January 1 of each year.

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

- **Accumulation overperformance**: The quarterly NIR targets in 2023 constitute a lower bound. For end-June, end-September and end-December 2023 performance criteria, cumulative NIR accumulation targets will be adjusted upwards by the full amount of any overperformance at the prior test dates of 2023. Adjusted quarterly targets are capped by the cumulative NIR targets set in the third review (IMF Country Report No. 22/388).

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

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

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

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

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

Continuous Performance Criteria

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

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

Cumulative Floor on Real Federal Government Revenues

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

25. **Measurement**: "Real" federal government revenues will be measured as nominal monthly revenues deflated by the corresponding monthly headline consumer price index published by INDEC (*nivel general del Índice de precios al consumidor (IPC)*). Real federal government revenues at each quarterly test date, will be measured on a cumulative basis starting from the beginning of the calendar year, and compared with the program baseline projection. After June 2022, this target is no longer part of program conditionality.

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

Cumulative Floor on Federal Government Spending on Social Assistance Programs

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

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

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

Ceiling on the BCRA's Stock of Non-Deliverable Futures

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

30. Measurement: The net stock of non-deliverable futures will be measured at each test date as the value of all short position contracts minus the value of all long position contracts and will be capped at US$9 billion by end-2022 and at US$9 billion by end-2023.

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

OTHER DEFINITIONS RELEVANT FOR PROGRAM CONDITIONALITY

Wage Growth

32. Definition. Average wage growth, used to determine adjustments to energy bills for residential consumers (excluding those subject to the subsidy segmentation scheme), will be defined by the Salary Variation Coefficient (*Coeficiente de Variacion Salarial (CVS)*), as established by the vetoed Law 27.443. This coefficient index is published by INDEC and estimates the evolution of salaries paid, covering the registered private sector, the unregistered private sector and the public sector.

Energy Prices and User Categories

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

- For electricity and natural gas, the universe of users will cover all users supplied at the regulated prices (PEST and PIST, respectively), separated into the following categories: (i) high-income residential users and those who did not apply for the subsidy *(Nivel 1)*; (ii) low-income residential users *(Nivel 2*); (iii) middle income residential users (*Nivel 3*); (iv) small commercial users (with power of less than 10 kW,); (v) 'other' commercial users defined as having power contracts above 10 kW and below 300 kW and; (vi) large non-residential users with a power demand above 300 Kw (GUDIs) (the differentiation for non-residential users applies in the case of electricity only).

- We will further differentiate prices based on energy consumption levels for the following categories: (i) for middle income residential users (Nivel 3) electricity consumed above/below 400 kWh, (ii) for small commercial electricity users electricity consumed above/below 800 kWh, and (iii) for middle income residential users (Nivel 3) natural gas consumed above/below a cap set at 70 percent of average consumption over the past 5 years

- For program purposes, the energy price will be measured as weighted averages of the actual PESTs/PISTs charged to different categories of users, with the weights based on estimates of energy consumption.

- For program purposes, commercial electricity users comprise all non-residential users other than large industrials (GUDIs), public hospitals, educational entities, welfare entities, and social clubs.

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

OTHER INFORMATION REQUIREMENTS

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

Daily

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

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

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

- Data on BCRA position of non-deliverable futures by maturity, to be provided within two working days.

Weekly

- BCRA balance sheet.

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

- Daily data on BCRA-issued securities by type of security and interest rate.

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

- Daily data on Treasury deposits in SDRs at the BCRA.

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

Fortnightly

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

Monthly

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

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

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

- Data on the stock of domestic arrears by ministry or agency.
- Fiscal financing sources (below-the-line), including BCRA transfers, issuance of domestic public securities, financing from within the non-financial public sector, external financing, and other financing schemes. Data to be provided with a lag of no more than 25 days after the closing of each month. Detailed quarterly financing plan for the coming twelve months, including the aforementioned sources, to be provided one month in advance.
- External financing received and projections for the coming four quarters, with loans and grants categorized by program and project. Data to be provided with a lag of no more than 25 days after the closing of each month.
- On federal debt:

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

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

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

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

- Required and excess reserves of the banking sector in local and foreign currency.
- Deposits in the banking system: current accounts, savings, and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.
- Balance sheets of other financial corporations (non-deposit taking), including holdings of federal and provincial debt and of the BCRA instruments within one month after month end.
- Data on the total loans value of all new federal government-funded public private partnerships.
- Monthly data on number of entrants into the new pension moratorium scheme, broken down into those at retirement age and those within ten years of retirement.

Semi-Annual

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

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

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

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

INTERNATIONAL MONETARY FUND

ARGENTINA

March 30, 2023

FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

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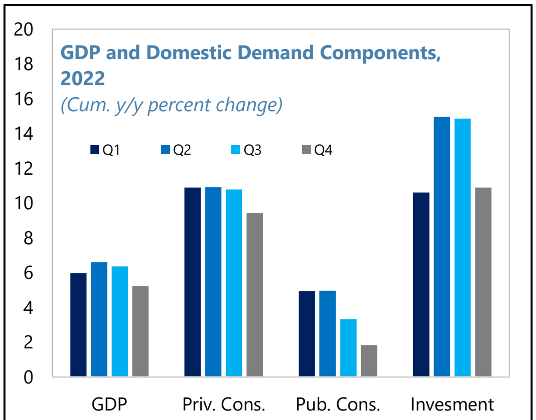
Prepared by the Argentina team of the Western Hemisphere Department

This supplement provides an update on developments since the issuance of the Staff Report (EBS/23/25) circulated to the Executive Board on March 20, 2023. Specifically, it provides details on recent economic developments and outlook, along with an update on program performance, including critical policy actions for this review. The thrust of the staff appraisal remains unchanged.

RECENT DEVELOPMENTS AND OUTLOOK

1. **Recently released national accounts data, confirm robust economic growth in 2022, with an important moderation in the last quarter.** Real GDP expanded by 5.2 percent in 2022, driven mainly by a robust increase in private consumption (9.4 percent) and overall investment (10.9 percent), with net exports contributing negatively. That said, domestic demand growth decelerated in Q4:2022, partly on account of tighter macroeconomic policies, with public consumption contracting (0.3 percent q/q). Relative to the third quarter, private consumption and overall investment fell by 1.5 percent and 7.2 percent, respectively, consistent with the 8.6 percent contraction in real imports. The relatively strong performance of private consumption in 2022 was underpinned by a fairly healthy labor market, as unemployment fell to 6.3 percent in Q4:2022 (from 7.0 percent in Q4:2021), its lowest level in over a decade, albeit with rising informality.

GDP and Domestic Demand Components, 2022
(Cum. y/y percent change)



Sources: MECON and Fund staff calculations.

2. **The impact of the drought on the external accounts has been larger than anticipated even a couple of weeks ago**. Recently released trade data shows that in the first two months of the year, export volumes fell sharply (15 percent y/y), driven by a marked contraction in agricultural exports (40 percent y/y), on account of the drought, and likely exacerbated by hoarding behavior of exporters and certain policy delays. This export shock has been only partly offset by a broad-based decline in import volumes (6 percent y/y), especially of capital goods (17 percent y/y). The lower trade balance has led to an even weaker-than-anticipated net international reserves (NIR) position, which according to data as of March 23, 2023, stood about US$1 billion below the proposed program target for end-March 2023 (Figure 1). The prospective FX measures will be critical to reverse the recent trends (see ¶7).

Net International Reserves, Jan-Mar 2023 (USD billions; cash basis)

	3rd review	4th review	Prelim 1/
NIR accumulation (program definition)	**0.5**	**-3.5**	**-4.4**
Goods trade balance	5.3	2.6	1.3
Exports	20.6	15.1	11.3
Imports	-15.3	-12.5	-10.0
Services trade balance	-1.9	-2.2	-2.2
Interest payments	-2.8	-2.9	-2.5
of which IMF	-0.6	-0.7	-0.7
Net amortization flows	-0.6	-1.6	-1.4
IMF 2/	0.0	0.0	0.0
Other IFIs and private creditors	-0.6	-1.6	-1.4
of which debt buyback	0.0	-0.6	-0.6
Other 3/	0.5	0.6	0.4

Sources: BCRA and Fund staff calculations.
1/ Data available as of March 23, 2023.
2/ Assumes IMF disbursement in March.
3/ Includes FDI, other private financial account flows and valuation and buffer contributions.

3. **Meanwhile, renewed efforts to control spending are helping to contain the fiscal deficit, although challenges persist.** The monthly primary fiscal deficit was limited to 0.15 percent of GDP in February 2023, as declines in real revenues (8 percent y/y), mainly on account of falling export duties, were met with a broad-based contraction in real expenditure (4 percent y/y), reversing spending slippages in January. With the cumulative primary fiscal deficit reaching 0.28 percent of GDP in the first two months of the year, achieving the end-March program target (0.3 percent of GDP) will be challenging and will require even tighter expenditure controls and revenue mobilization

efforts, especially on the trade side (Figure 1). To help finance the fiscal deficit, the central bank recently transferred ARS$130 billion to the Treasury, remaining below the end-March program ceiling (ARS$139 billion or 0.1 percent of GDP).

4. Given the rapidly evolving economic situation, revision to the outlook will be necessary, although large uncertainties remain. In light of the sharper-than-anticipated growth slowdown in Q4:2022, and the even more severe impact of the drought on activity, inflation, and the balance of payments, revisions the macroeconomic framework will be required. Importantly, policies will need to be adapted to safeguard macroeconomic stability and program objectives (consistent with the contingency planning outlined in the Staff Report, ¶8 and ¶42).

PROGRAM POLICIES

5. To safeguard fiscal consolidation and address policy setbacks, the authorities have undertaken important actions in key areas, including:

- **Pensions.** A decree will be issued by Friday March 31, to contain the fiscal impact of the recently approved pension moratorium ***(prior action)***. The decree, and associated implementing regulations, seek to ensure strong means-testing and limit access to the scheme to individuals who have made prior contributions to the pension system, are not receiving other social benefits, and who forego access to the *"Dolar Solidario"* (USD at the official exchange rate).[1] Strong monitoring and prudent implementation will be of the essence to ensure proper targeting and could result in savings of about 0.2 percent of GDP per year.
- **Energy.** The authorities publicly announced their plan to bring tariffs for high-income residential consumers to full cost recovery effective May. Tariff adjustments for high-income residentials will subsequently follow cost recovery (subject to a cap during winter months); while for other commercial users, additional price increases will be implemented in August and November to achieve full cost recovery. In this regard, a resolution is expected to be issued in April defining the tariff increases that would apply to high-income residential users, as well as other commercial users and municipal streetlighting (***proposed end-April 2023, structural benchmark***).

6. Efforts to mobilize domestic financing continues, although care will need to be taken to protect debt sustainability and avoid future vulnerabilities.

- **Auction**. In the latest March auction, the authorities rolled over maturities of 0.25 percent of GDP, securing a modest amount of net financing (rollover rate of around 115 percent). Participation was mostly from the private sector (74 percent), with one-quarter of issuances maturing after the elections in 2024.

[1] The Decree is not expected to include a step-up interest rate structure on installments for contribution shortfalls, as specified in the prior action. Staff deems that this is no longer a critical element given that the required instalment payments for entry are more onerous than initially anticipated.

- **Intra-public sector debt operation.** In an effort to seek net domestic financing and provide a tool to help stabilize the parallel FX markets, the authorities announced on March 22 a liability management operation allowing the retirement of US$4 billion of foreign-law USD-denominated bonds and the sale of Argentine-law USD-denominated bonds (up to 0.8 percent of GDP at market value) held by the social security agency (FGS).[2] Initial market reaction has been negative—Fitch and S&P downgraded Argentina's foreign currency debt (from CCC- to C and from CCC+ to CCC-, respectively) and foreign-law bonds have fallen by around 3 percent since the announcement, reportedly due to debt sustainability concerns. While efforts should continue to focus on extending maturities and mobilizing domestic financing, they should be conducted in a manner that safeguards market stability, protects debt sustainability, and avoids a buildup of vulnerabilities.

7. To support external stability and boost reserves, the authorities are set to announce a set of FX measures. A timetable for their implementation is being developed, with initial measures on export promotion going into effect in early April. Specifically, the prospective actions will seek to: (i) strengthen the trade balance, through the application of a differential exchange rate for a limited period (April-June) for a select set of primary exports (including soy and other agricultural commodities) and imports, especially tourism and transport services; and (ii) improve the administration and enforcement of imports to limit over invoicing, stockpiling, and other irregularities, especially on the services front.[3] The timely implementation of these measures will critically support reserve accumulation and associated program targets, although continued efforts will be required to reduce distortions over time. Staff will assess whether these prospective measures give rise to a new Multiple Currency Practices (MCP) or exchange restriction, subject to Fund approval under Article VIII, Section 2(a), and 3. If so, they should not be a substitute for sound macroeconomic policies and their elimination should take place over the arrangement period as conditions allow.

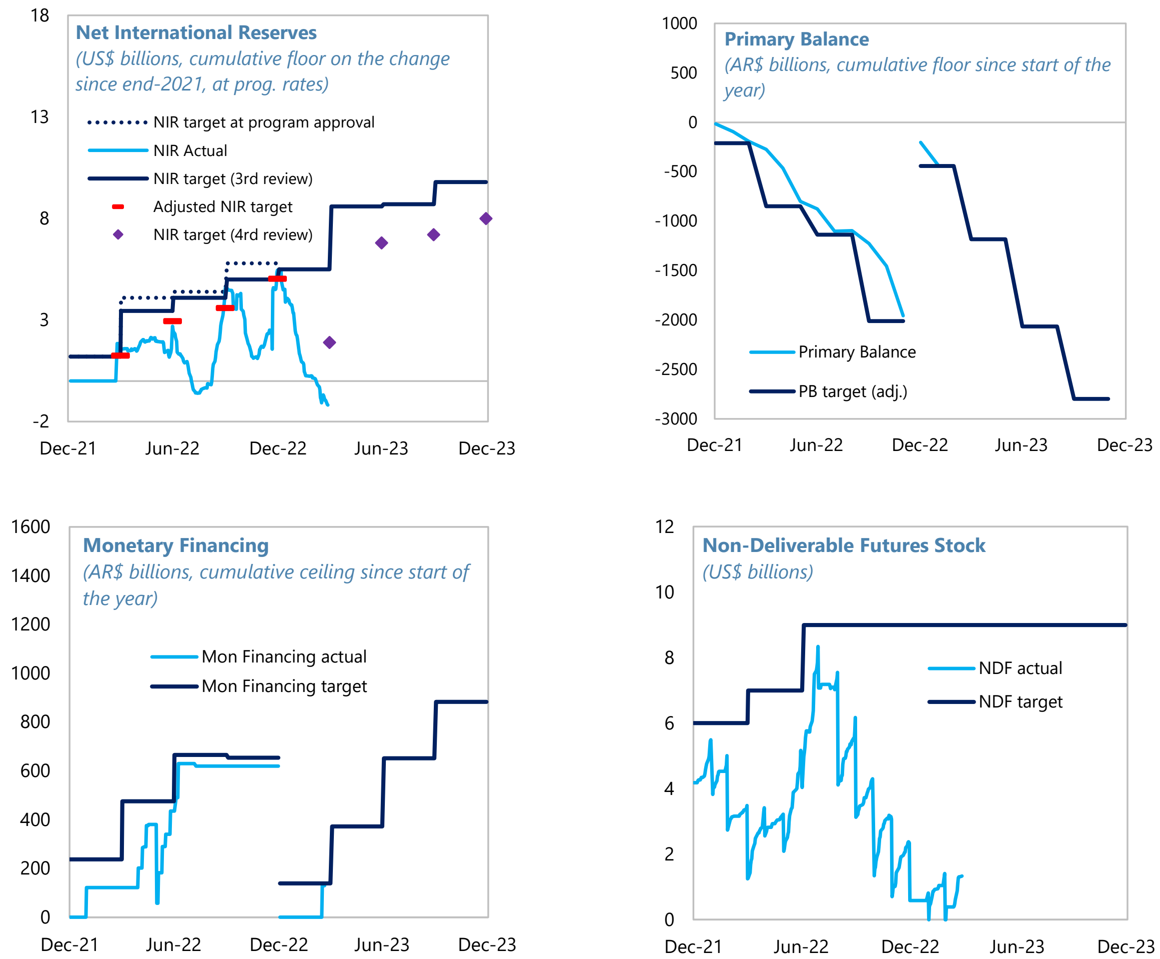
8. Changes were made to capital flow management (CFMs) regime during 2022. Most of these modifications aimed at: (i) easing surrender requirement for service exporters, (ii) easing limitations on access to the official FX market (MULC) for financial account transactions; and (ii) tightening restrictions on participation in securities markets (MEP/CCL).[4]

[2] The announcement was accompanied by several regulatory changes to increase the attractiveness of Argentine-law bonds—these new securities can be used to participate in the parallel FX market and for the payment of dividends.

[3] A resolution was recently issued suspending the ability of large importers to bypass the payment of withholding VAT and income taxes on imports (using exclusion certificates) through end-2023. The measure will help to limit imports while boosting fiscal revenues. Staff has assessed that this measure does not give rise to a MCP or an exchange restriction, as it does not apply to exchange transactions.

[4] New measures introduced in 2023, along with a few others adopted in 2022, are being assessed by staff as to whether they constitute new or intensified CFMs, according to the Fund's Institutional View.

Figure 1. Performance Relative to Key Program Targets 1/



Sources: National authorities and Fund staff calculations.
1/ Targets are set on an end-quarter basis. Data as of March 28, 2023 for Non-Deliverable Futures; as of March 23, 2023 for Net International Reserves; as of March 21, 2023 for Monetary Financing; and as of February 31, 2023 for Fiscal Primary Balance.

INTERNATIONAL MONETARY FUND

ARGENTINA

April 3, 2023

FOURTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—FURTHER SUPPLEMENTARY INFORMATION

Prepared By Western Hemisphere Department

This statement provides an update on the prior action related to the issuance of a decree to contain the fiscal impact of the pension moratorium.

1. A decree was issued today to contain the fiscal impact of the pension moratorium, as called for in the prior action. The decree, and associated implementing regulations, seek to ensure strong means-testing (based on both income and wealth) and allow access to the scheme only to individuals who forego other social benefits as well as access to the "Dolar Solidario" (200 US dollars per month at the official exchange rate). The latter restriction on official FX market access has also been announced by the BCRA and implemented through a resolution. Such measure gives rise to a Multiple Currency Practice (MCP) and an exchange restriction subject to Fund jurisdiction, also occasioning nonobservance of the performance criteria against the introduction or modification/intensification of exchange restrictions or MCPs.

2. The authorities requested a waiver of nonobservance of the PCs and approval of the temporary retention of the MCP and exchange restriction. Staff assess that the criteria for approval are met and recommends a waiver.

3. The decree does not include a step-up interest rate structure on installments for contribution shortfalls or limit access only to those who have made prior contributions to the pension system, as specified in the prior action. And therefore these elements of the prior action were not met. *However, Management and staff deem the objective of the prior action has been met, given that these elements are no longer critical as the required instalment payments for entry into the moratorium are larger than initially anticipated.*

Statement by Mr. Chodos on Argentina
March 31, 2023

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

Notwithstanding an ever-increasing complex scenario, we continue to take the necessary steps to ensure program implementation and adapt to changing and challenging circumstances. We emphasize again that the Program policies are a key anchor for our economy. Thus, we remain relentlessly committed to the Program implementation.

Our commitment and decisive policy implementation allowed us to over perform the end December 2022 targets. In effect, the primary fiscal deficit narrowed to 2.3 percent of GDP (vis-à-vis a 2.5 percent of GDP target), while net international reserves rose above target reaching USD 5.4 billion.

Let us recall that the Argentine economy is facing -particularly during this summer- a major hardship stemming from an unprecedented draught, with negative effects that are not yet clear. Granted, this draught is having a strong impact on our external position (which warrants the modified Program NIR target path), but it also has significant repercussions on the economy more broadly and in the social fabric, with effects as wide as straining the fiscal and building inflationary pressures. These effects compound the already severe consequences of the war in Ukraine that sharply increased the cost of imported energy in 2022.

However, the new economic has strong implementation capabilities and a great sense of ownership. This is evident not only in meeting and over complying the relevant targets, but also in the broader general ability to commit to and implement measures that help compensate the shocks, be them external shocks, supply shocks like the draught or Congressional priorities in the form of the pension moratorium. The notable success of the domestic debt market operations including the voluntary swaps are also a testament to such capabilities.

Despite the increased difficulties and against all the odds, the program remains on track. We face ever more significant challenges, but we remain confident, and we will be able to take the necessary steps to attain a strong, inclusive, resilient, and sustainable economy.

As mentioned, all end-December indicative targets were met, and we made steady progress in complying with the relevant structural benchmarks.

On the fiscal front, while recognizing that we are not yet fully cognizant of the final impact that the draught might entail, our authorities remain committed to consolidation within the yearly Program deficit target of 1.9 percent of GDP through measures to ensure an appropriate targeting and prioritization of the benefits of the pension moratorium, improving the effectiveness and targeting of energy subsidies and social assistance; all this while maintaining space to prioritize social and infrastructure spending. We are also committed to effective and quality revenue mobilization measures.

On energy, the Government is hastily improving the progressivity of the subsidies scheme by removing the most regressive components, such as subsidies received by highest income residential consumers. In fact, since February 2022 tariffs have been significantly raised for high income residential users and commercials above certain consumption level. And, by May we will eliminate subsidies for high income residential consumers. Importantly, the boosting of domestic energy production, transportation, and distribution, remain on schedule and one of the main priorities, as is the reduction of reliance on imports.

On the financing front the authorities will continue to undertake proactive domestic debt management schemes to extend peso maturities. They will also continue to mobilize domestic net financing and improve local debt and FX markets stability.

Ensuring that real interest rates remain in positive terrain in real terms continues to be a key element of the Program and keeps being thoroughly implemented. This key factor joins the fiscal commitments and the financing strategy and the well calibrated wage price coordination in being the elements that underscore what our authorities see as the path of inflation reduction and lessened need for the central bank's financing assistance to the Treasury (in line with program targets).

As for the reserve coverage, the authorities are facing an unprecedented challenge due to the most severe draught Argentina has ever suffered. Facing such challenge, the authorities are implementing a multi-pronged strategy to mitigate, as much as feasible, and halt and reverse the effects on reserves accumulation that mostly stem from the draught. This includes mobilization of international reserves through international financing, the reaffirmation of a strong macro-economic framework, the enhancement of the effectiveness of our FX control schemes and the improvement of the incentive's alignment.

In spite of all the policies and meaningful efforts, Argentina needs to request a modification of the NIR target to partially offset the unforeseen impact the unprecedented draught is generating. Specifically, the NIR target for the first quarter of 2023 is set at USD 1.9 billion, with accumulation reaching USD 8 billion over 2023. The end 2024 NIR target remains at USD 15 billion as prospects for the 2023/2024 agricultural campaign return to normal and current energy infrastructure investments will notoriously improve Argentina's international energy balance.

We have taken critical actions to restore fiscal order through enhanced budget management, including a combination of stricter expenditure controls, improved targeting of subsidies and strengthened revenue compliance. We have strengthened the implementation of monetary policy, by limiting the central bank's monetary financing to the Treasury to levels below program targets, while we have made extraordinary efforts to mobilize domestic financing. Since Q4 2022, we have taken actions to address the challenges imposed by the drought and built a resilient base of international reserves, through targeted actions aimed at improving the trade balance and catalyzing external support from private and official sources.

These actions were complemented by a consistent and forceful application of the monetary policy framework to ensure sufficiently positive real interest rates. Also, the 2023 Budget Law represents a key stone for macroeconomic stability. We will continue to take the necessary actions to address underlying imbalances and secure more sustainable and inclusive growth.

Program Performance

We remain as committed as ever to the program. All quantitative performance criteria and indicative targets through end-December were met with margins. A feat that highlights both, our commitment, and our ability to deliver. Cognizant of the challenges ahead, our authorities are confident in continuing the path of performance.

Specifically, the primary fiscal deficit for 2022 reached 2.3 percent of GDP, significantly below the program target of 2.5 percent of GDP. The quarterly average stock of arrears was contained at ARS 616 billion and social assistance spending was protected at ARS 818 billion, also well within program parameters for end-2022.

Central bank financing of the fiscal deficit was limited to ARS 620 billion through end-December, below the program cap of ARS 665 billion for 2022. Reserve accumulation reached USD 5.4 billion, above the program floor of USD 5 billion.

Monetary policy Interest rates remain clearly positive, currently standing in effective terms at more than 113 percent. Importantly, rates are also above the rate of currency crawl.

Significantly, the stock of central bank non-deliverable forwards was down to USD 350 million, well below the July 2022 peak of USD 8 billion.

We are also strongly improving the quality and targeting of social assistance. This was highlighted by the clarifying auditing process we undertook on our flagship social assistance *Potenciar Trabajo,* which is highly successful in helping beneficiaries re insert themselves in registered private sector jobs.

Also, we maintain our commitment and determination towards our AML obligations and workstreams.

On the structural side, we met most of our structural benchmarks. A few were re calibrated to ensure the maximum possible depth and thoroughness. Additionally, we added a structural benchmark for end April regarding the improvement of the progressivity of energy subsidies and generating a faster path towards cost recovery. We also added for December a structural benchmark for specific improvement tax compliance, building on the technical assistance and joint work already executed in the tax area.

The Macroeconomic Framework

Economic activity remained robust throughout 2022 and GDP grew at an annual rate of 5.2 percent, taking real GDP well above pre-pandemic levels, while unemployment fell to 6.3 percent a record low, with employment levels standing at 44.6 percent. Capacity utilization is currently at 63.8 percent.

On the inflation front, -while due to a set of supply shocks- inflation reached an annual rate of 102 percent in February - we are continuing to take all action to tackle it decisively. Our policy mix of the curbing of the fiscal, the limit on the monetary financing, and the interest rate and exchange rate policy show a relentless commitment to addressing this problem. We are confident that a path of gradual but consistent disinflation will ensue. This is not a demand driven dynamic.

As to the fiscal challenges posed by the pension moratorium it is important to bear in mind that this year's cost is estimated at 0.2 percent of GDP. The Government is fully prepared to address it through both; regulation to have a fair targeting of beneficiaries, and compensatory measures ranging from transfers to energy subsidies. We will accommodate this source of expenditure within our fiscal target.

As to the financing strategy, we have been successful in both; our domestic liability operations including the recent domestic debt swap to extend maturities beyond the elections (currently non-bank private holders of short term maturities stand at a very manageable 1.5 percent of GDP), as well as in ensuring net financing from external official sources (in December and January it amounted to more than USD 1.5 billion in the aggregate).

These elements are coupled by the containment of central bank financing and even by the very slim purchases of the central bank in the secondary market this year (0.1 percent of GDP).

Final considerations

Our authorities have shown steadfast commitment to the Program. Both in achieving a very solid overperformance of the targets by end 2022, and by adapting to extraordinary challenges and setbacks to swiftly put in place the required corrective actions.

In the current circumstances that commitment and implementation capabilities require that the Program itself as per its own design also adapts to the reality we face. This in turn will help us renew and strengthen our own capabilities of execution.

As for context, it is important to realize that the current unprecedented challenges facing the program stem from a climate change related issue. In effect, such is the case of the draught. This challenge, by its magnitude and externalities exceeds the effect on the Argentine Program targets. Draughts such as this one are also an issue of food security. Global food security. We firmly believe that addressing the challenges posed by food insecurity is a global public good.

Such are the reasons that underpin our request for approval of the fourth review and for the partial modification of the NIR target.