INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/374

ARGENTINA

December 2018

SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT; FINANCING ASSURANCES REVIEW; AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERION—PRESS RELEASE; AND STAFF REPORT

In the context of the Second Review under the Stand-By Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 19, 2018, following discussions that ended on November 16, 2018, with the officials of Argentina on economic developments and policies underpinning the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on December 11, 2018.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Staff Statement** updating information on recent developments.

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

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

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

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Press Release No. 18/485
FOR IMMEDIATE RELEASE
December 19, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under Argentina's Stand-By Arrangement, Approves US$7.6 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the second review of Argentina's economic performance under the 36-month Stand-By Arrangement (SBA) that was approved on June 20, 2018. The completion of the review allows the authorities to draw the equivalent of SDR 5.50 billion (about US$ 7.6 billion), bringing total purchases since June to SDR 20.21 billion (about US$ 28.09 billion). In completing the review, the Executive Board also approved the authorities' request for modification of performance criterion.

Following the Executive Board discussion of Argentina's economic plan, Mr. David Lipton, the IMF's First Deputy Managing Director stated:

"There are early signs that the redesigned economic reform program, including a new monetary policy framework, is yielding results. The peso has stabilized and inflation, though still high, has started to decline, as the pass-through from past peso depreciation is waning. Nevertheless, the Argentine economy is still contracting and remains vulnerable to shifts in market sentiment. Economic activity is expected to start recovering in the second quarter of 2019.

"The passage of the 2019 budget with broad political support has helped to solidify confidence in the authorities' economic reform plan and policy continuity. Fiscal discipline created space for one-off payments that helped shield the most vulnerable from the burden of adjustment. Going forward, it will be critical to continue safeguarding fiscal targets against implementation challenges and weaker-than-expected revenue collection. Maintaining social spending should remain a key priority. Further progress is needed to improve the medium-term fiscal framework and debt management.

"Continued commitment to the zero growth in base money and to the market-determined exchange rate will further strengthen the credibility of the monetary policy framework, re-anchor inflation expectations, and enhance the economy's resilience to external shocks.

Preparations are ongoing to recapitalize the central bank and enhance its operational independence.

“As the economy stabilizes, it would be key to pivot the reform agenda toward boosting medium-term growth. In this context, structural reforms would help boost investment and productivity; increase the employability of women, youth, and lower-income workers; and provide greater support to those in poverty. Efforts could also be directed toward improving the efficiency of social spending while expanding the coverage of the social safety net. It would also be important to continue removing distortions in the tax system, improving labor market regulations, putting the pension system on a sustainable financial footing, and strengthening governance.

“Continued steadfast implementation of the stabilization plan will be essential to reassure domestic and international investors, solidify Argentina’s return to macroeconomic stability, and durably improve the living standards for all Argentines.”

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SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT, FINANCING ASSURANCES REVIEW, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERION

Context. The redesigned IMF-supported economic reform program is bearing early results. Financial markets have stabilized since end-September, following the adoption of the new monetary policy framework. After the appreciation of the currency in October, the peso has floated within the non-intervention zone. Short-term interest rates have fallen back to their end-September level. The passage of the 2019 Budget with broad political support has helped solidify confidence in the authorities' stabilization plan. As a result, demand for Argentine bonds has strengthened and sovereign risk premia have narrowed.

All quantitative performance criteria for end-October were met. The end-November structural benchmark to pass the 2019 budget was met and so was the end-December structural benchmark to provide resources to the Congressional Budget Office. The end-October structural benchmark to submit a three-year budget to Congress was delayed (the authorities submitted it to Congress in mid-November as a prior action for the completion of the second review). However, the passage of the wealth tax, that was part of the fiscal program and an end-November structural benchmark was approved with delay on December 5.

Focus of review. Discussions centered on the 2019 budget, the appropriate calibration of monetary policy, and steps to improve debt management.

Outlook and risks. Economic activity is expected to gradually recover in 2019 and inflation should fall over the next few months. However, a worsening of global financial conditions, a shift in confidence in Argentina's policy plans, and/or uncertainty associated to the 2019 electoral cycle could reignite capital account and budgetary financing pressures. Worsening economic activity and more persistent inflationary pressures could weaken public support for the government's policy framework in the months ahead. As such, the success of the program relies on the authorities' steadfast determination to implement their policy plan while continuing to take measures to mitigate the impact on the most vulnerable segments of the population. Clear and consistent communication efforts will be needed to guide expectations, maintain broad-based public support, and foster market confidence.

Approved By
Nigel Chalk (WHD) and Zuzana Murgasova (SPR)

A mission team visited Buenos Aires on November 8-16, 2018. The team consists of R. Cardarelli (head), D. Plotnikov, M. Shamloo, J. Wong (all WHD), M. Candia (COM), P. Dudine (FAD), J. Menkulasi (SPR), and R. Veyrune (MCM). The mission was aided by T. Alleyne (resident representative), A. Aghababyan, A. Diaz, J. Sarmiento-Monroy, and I. Sirbu. Mr. Lopetegui (OED) participated in most meetings.

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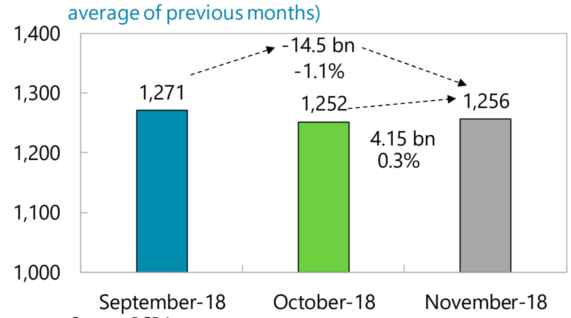
APPENDIX

STABILIZING THE ECONOMY

1. **The shift to zero growth in base money has tightened monetary conditions.** The BCRA comfortably met its target of zero-growth in base money in October and November. Base money in October and November was more than 1 percent below the average level in September. As the new monetary framework was introduced short-term interest rates rose (peaking at 73 percent in October) but they have subsequently fallen back to close to 60 percent. The option for banks to fulfill the reserve requirement on new term-deposits by holding LELIQs has fostered competition for term-deposits and increased the transmission from short-term rates to deposit and lending rates. In turn, the increase in term-deposits have boosted banks' demand for LELIQs and contributed to the decline of short-term interest rates in November.

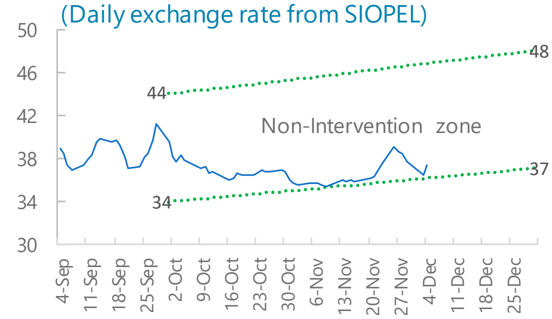
Monetary base
(Billions of pesos. Average up to November 30 vs average of previous months)



Source: BCRA.

2. **The tighter monetary stance has strengthened the peso.** The increase in interest rates fueled the demand for assets denominated in domestic currency, resulting in a 15 percent appreciation in October. After hovering close to the lower edge of the non-intervention zone for most of November, the peso depreciated sharply after the increase in liquidity caused by the LEBAC auction, only to appreciate again in early December. The still large inflation differential vis-a-vis trading partners has led to the average real effective exchange rate appreciating by about 7 percent during October. Even so, the real effective exchange rate at end-October was 31 percent more depreciated than at the end of 2017.

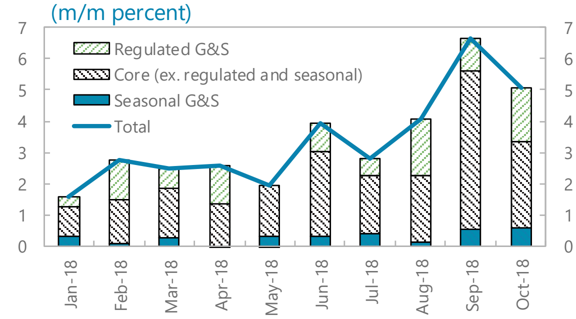
AR$/US$
(Daily exchange rate from SIOPEL)



Source: Bloomberg.

3. **Stability in the currency is contributing to a reduction in inflation.** The 30 percent depreciation of the peso in August and September fueled a 6.5 percent m/m inflation in September and another 5.4 percent in October (about 45 percent on an annual basis). Core inflation, however, fell from 7.6 percent m/m in September to 4.5 percent in October. In addition, the central bank November survey of market participants points to monthly inflation falling below 3 percent by the end of the year. Moreover, the average 12-month ahead expected inflation fell in November to 29 percent, from 32.9 in September.

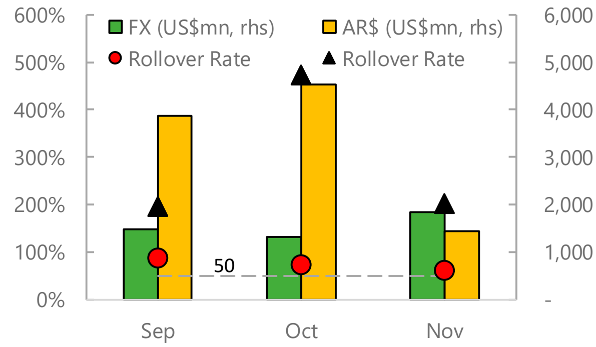
Inflation components
(m/m percent)



Source: BCRA.

4. Demand for sovereign debt has increased but spreads remain high. Private sector rollover of FX bonds averaged 75 percent in September-November, even as interest rates fell. In October and November, the Treasury issued more than twice the maturing peso debt even as interest rates on 3-month debt fell from 60 to 50 percent. The authorities have extended maturities on peso debt (with US$2.2 billion in 1-year LECAPs and US$740 million in 18-month LECAPs issued at interest rates of 49 and 52 percent, respectively). Nonetheless, sovereign spreads are high (with an EMBIG of 700 bps at early December) and there is relatively limited appetite for duration. Taking advantage of the higher-than-expected debt placements, the authorities reduced BCRA's net credit to government by not renewing AR$25 billion of maturing *Adelantos Transitorios* in September, and replenishing treasury deposits.

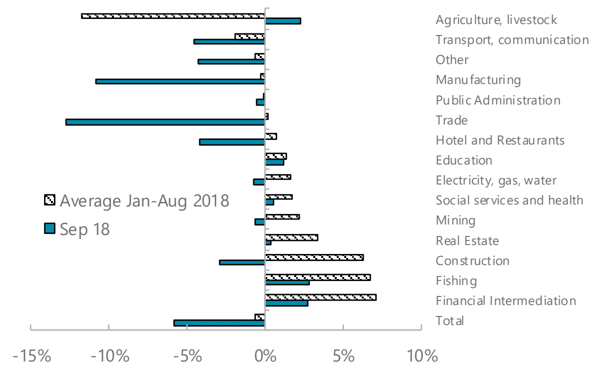
Total Debt Issuances



Sources: BCRA and IMF estimates.

5. The economic recession deepened in September. After falling by 4 percent in Q2, economic activity based on the monthy EMAE indicator contracted by 0.4 percent in Q3 (q/q seasonaly adjusted). As the effects of the drought on agriculture (the main drag on growth in Q2) waned, the economy rebounded slighly in July and August. However, activity in September fell almost 2 percent (m/m seasonally adjusted) and the contraction became more broad-based, with all sectors either declining or slowing. Manufacturing (driven by a large decline of automotive production) and trade showed the largest contractions (together, these two sectors account for about one-third of aggregate value added).

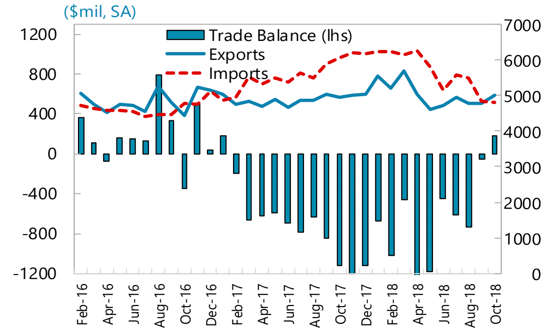
Economic activity growth by sector, year/year



Source: INDEC.

6. The recession and peso depreciation are quickly lowering the trade deficit. The trade balance in seasonally adjusted terms turned positive in October for the first time in almost two years, with the (cumulative) trade deficit June to October falling by 60 percent when compared to the same period last year. The adjustment mainly reflects lower imports, reflecting a contraction in consumption and investment. Export growth started to pick up in October driven by manufacturing exports, but results continue to be weighed down by agriculture. The current account deficit is financed primarily by net official capital inflows with private capital outflows continuing (as nonresidents are

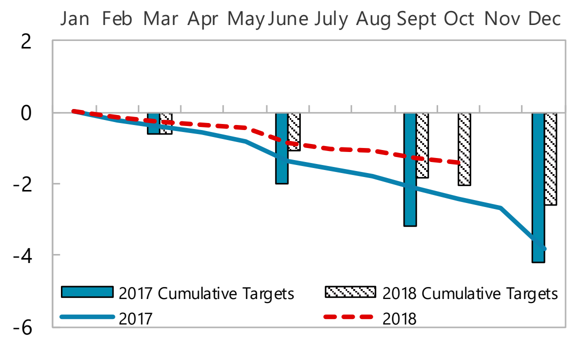
Merchandise trade
($mil, SA)



Source: INDEC.

reducing their holding of both federal and provincial debt). Nonetheless, there are some signs of a re-pesification of the system, as residents switch their portfolio from US$ to peso assets.

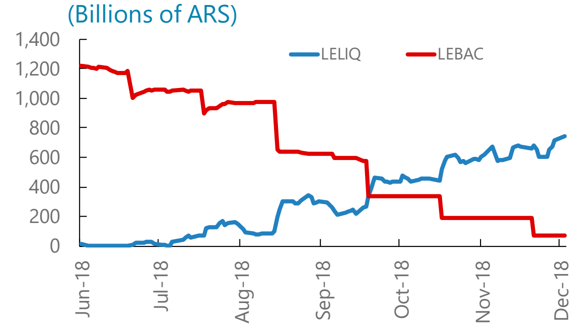
Federal Primary Balance
(Percent of GDP)



Source: IMF staff calculations and estimates.

7. **The federal primary deficit remains well below the program target.** The year-to-date primary deficit of the federal government was 1.4 percent of GDP in October, about 1 percent of GDP lower than the same period last year. Tax revenues have been broadly in line with projections with particular strength in VAT collections (due to the peso depreciation and improved compliance). Even with the one-off additional payment to beneficiaries of the universal child allowance in September, primary spending has fallen by 7 percent in real terms in the first 10 months of 2018 relative to last year, driven by a contraction (as a share of GDP) in transfers to provinces, capital spending, and wages and pensions. Energy subsidies, on the other hand, increased relative to 2017 as the depreciation of the peso increased the costs of imported energy.

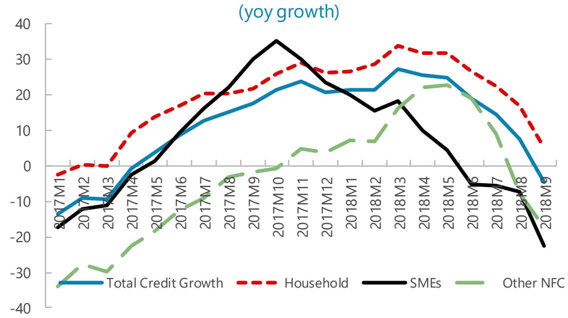
BCRA sterilization instruments
(Billions of ARS)



Source: BCRA.

8. **The BCRA has almost eliminated the outstanding stock of LEBACs.** In the November auction, AR$120 billion of the AR$160 billion in LEBACs that were coming due were rolled off. The injection of liquidity from the reduction in BCRA liabilities in October and November has been re-intermediated into bank deposits (the liquidity is then absorbed through both reserve requirements and additional issuances of LELIQs). The pressures on the exchange rate due to the November roll off did not lead to FX intervention because the peso was near the lower edge of the nonintervention zone. After the November auction, AR$70 billion in LEBACs remain outstanding, mostly held by households. These will be retired in December.

Real Credit to the Private Sector
(yoy growth)



Source: BCRA.

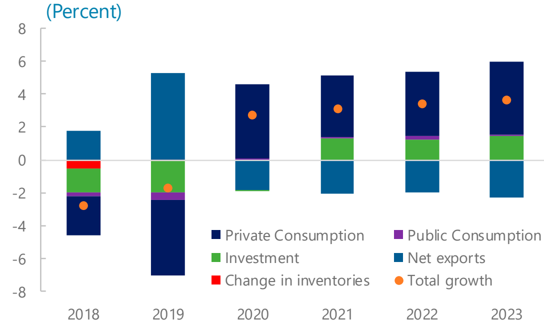
9. **The banking sector continues to perform well but private credit is slowing.** The banking sector is well capitalized (14.4 percent CET1 ratio as of September 2018), and enjoys a high leverage ratio (Tier 1 capital to total exposures) of 8.5. Despite the weakening of economic activity, the deterioration in credit quality has been modest (NPLs stand at 2.3 percent) and coverage ratios are high. The larger banks have seen improved

profitability from the re-intermediation of LEBAC holdings into deposits. Smaller banks have been somewhat more affected by the economic downturn. For both large and small banks the slowing of economic activity, attractive rates on LELIQs, and higher reserve requirements are reducing the willingness to lend, particularly to corporates and SMEs where credit growth has turned negative in real terms.

OUTLOOK AND RISKS

10. The economy is expected to start recovering in the second quarter of 2019. Weak domestic demand is likely to result in an economic contraction until the first quarter of 2019. However, in the second quarter, a rebound in agricultural production (expected to fully recover the 30 percent production lost in 2018 because of the drought) should lead to a gradual pickup in economic activity. The economy is expected to contract by 1¾ percent in 2019 but then grow in 2020 and beyond. Inflation is expected to end 2018 at around 47 percent but then fall to 20 percent by end-2019, underpinned by a more stable exchange rate, a large output gap, and moderation in the upcoming wage negotiations. Lower inflation and a slightly less restrictive monetary policy stance will allow nominal interest rates to gradually fall which, together with the fiscal adjustment, will help support private sector investment. The current account deficit is now projected to close the year at 5.2 percent of GDP but fall abruptly to 1.5 percent of GDP in 2019.

Contribution to GDP growth
(Percent)



Source: IMF calculations and estimates.

11. Downside risks are sizable. External risks are centered around an unanticipated tightening of global financial conditions, which could resurface concerns about Argentina's ability to meet its large gross financing needs. Greater than expected inertia in the inflation process may delay the expected easing of monetary policy and generate a greater economic loss during the needed disinflation. A deeper recession or more persistent inflation could generate a more forceful opposition to the policies underpinning the program and hinder their implementation. Uncertainty associated with the 2019 electoral cycle may trigger new rounds of financial market turbulence and capital account pressures. On the positive side, stronger demand from key trading partners (in particular Brazil) may bolster exports over the next few quarters.

PROGRAM IMPLEMENTATION

12. All end-October program targets were met. The end-September indicative target for the primary balance of the general government was met (AR$-73 billion against a floor of AR$-289 billion, including adjustors) and the primary deficit of the government was below-target in October. Net international reserves increased by US$5.3 billion in October and are about US$1.1 billion above the adjusted NIR floor. Net domestic assets were below the end-October target by AR$63 billion and the stock of non-deliverable forwards has been reduced by US$2 billion, to US$1.64 billion.

13. Good progress has been made in meeting program benchmarks:

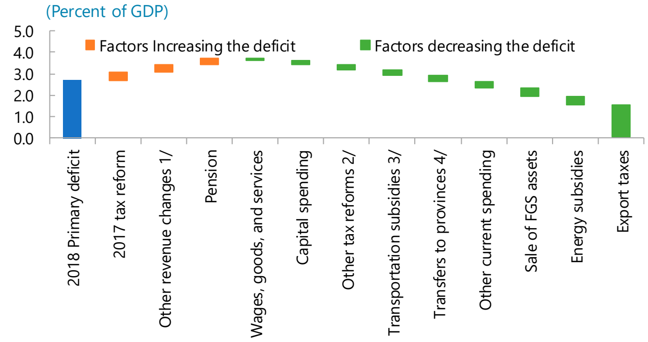
- Congress approved the 2019 budget on November 15 (*end-November structural benchmark)*, well ahead of the normal timing and with broad-based support in the Senate.
- The end-November structural benchmark for the passage of the wealth tax by congress was not met due to changes by the Senate which sent the wealth tax legislation back to the Lower House. The bill was passed on December 5.
- The submission of the three-year budget to Congress (*end-October structural benchmark)* was delayed but completed on November 21 as a prior action for the completion of the second review.
- Budgetary resources have been provided for the newly created Congressional Budget Office to meet its mandate *(end-December structural benchmark)*. The Congressional Budget Office has activated its website, completed its reports on the 2019 budget, and will complete its hiring plan by end-March 2019.
- An IMF technical assistance mission to improve tax compliance overlapped with the review mission and provided advice on the steps needed to meet the end-June 2019 structural benchmark on designing a tax compliance plan and risk mitigation strategy around tax payer segments, taxpayers obligations, and core taxes.
- A debt management strategy was prepared with input from Fund staff and will be published by end-December (*proposed end-December 2018 structural benchmark)*.

ENTRENCHING FISCAL DISCIPLINE

14. Additional spending on social assistance and wages at the end of 2018 is consistent with the end-year fiscal deficit target. Tight control of spending (in particular of transfers to provinces, goods and services, and capital spending), strong revenue performance, and higher inflation (around 50 percent of current spending is indexed to past inflation) have created some additional fiscal space at the end of 2018. The authorities have chosen to use this space to fund an end-year bonus to employees of the federal government and additional one-off payments to the beneficiaries of the Universal Child Allowance (AUH) and of the Employment Support program (*Apoyo al Empleo*), This will help soften the impact of the recession on the most vulnerable and contain the compression of purchasing power suffered by public-sector employees whose wages were set in June in nominal terms. Even with these additional outlays, the primary federal deficit is likely to close 2018 at (or slightly below) the authorities' 2.7 percent of GDP target.

15. The 2019 primary balance target remains feasible. The 2.7 percent of GDP adjustment in 2019 is split between higher revenue (export taxes add about 1.3 percent of GDP and the sale of the public pension fund assets account for 0.4 percent of GDP) and lower transfers to provinces (0.7 percent of GDP in part as responsibility for intra-provincial transport subsidies and social tariff on electricity is shifted to the provincial level), lower energy subsidies (0.3 percent of GDP), cuts in capital and other current spending (0.2 percent of GDP each). As inflation falls, spending on pensions (which is indexed to past inflation) is projected to increase 0.3 percent of GDP in 2019 (due to the backward-looking indexation of benefits).

Argentina. Changes in Primary Deficit to Reach Zero Primary Balance
(Percent of GDP)



Source: IMF staff calculations and estimates.
1/ It includes the effects of a slow down in economic activity on revenues.
2/ It includes the tax on the capital of cooperatives, and the increase in the wealth tax.
3/ It includes the transfers to provinces of the subsidies for intra-provincial public transport.
4/ It includes both automatic and discretionary transfers to provinces.

16. The 2019 budget contains modest buffers to absorb negative shocks. The Budget passed by Congress in November contains a few changes to the initial draft that are estimated to worsen the 2019 fiscal balance by 0.17 percent of GDP (text table). The authorities expect that these changes will not prevent them from reaching the zero-primary fiscal balance target for next year, as they will be absorbed by spending cuts in other areas (the under-execution of spending allocations,

Changes to the Original 2019 Budget Draft Sent to Congress
(estimated impact on primary balance, as a percent of GDP)

Maintain PIT exemptions on benefits and allowances for salaried workers	-0.02
Keep CIT exemptions for cooperatives and mutual organizations	-0.10
Introduce a tax on the capital of cooperatives and mutual organizations involved in financial and insurance activities	0.10
Retain higher pensions for beneficiaries living in Patagonia	-0.03
Increase transfers to provinces to finance the cost of the transportation subsidies transferred to them	-0.03
Increase transfers to provinces to finance the pension deficit of provincial social security systems	-0.03
Allocate resource for specific current spending items	-0.04
Introduce in the wealth tax a minimum non-taxable threshold for residential property	-0.02
Total impact	**-0.17**

creates a reserve of about 0.4 percent of GDP on annual basis). While their budgetary impact is minimal and can comfortably be absorbed, some of these changes do grant exemptions and favorable treatment to specific constituencies. Some additional revenues are also expected from the expansion of the wealth tax —the Senate introduced a minimum nontaxable threshold for residential houses—which should yield about 0.08 percent of GDP (included in the baseline).

17. It will be important to resist pressures to maintain energy subsidies and increase wages. Reducing energy subsidies remains an important component of the fiscal rebalancing. The 2019 Budget envisages a reduction of electricity subsidies by raising tariffs to 90 percent of production costs by the end of 2019.[1] The authorities will need to apply the regulatory framework to pass on the effects of the peso depreciation to electricity and gas consumers. The decision this year to prevent that pass-through resulted in an extra cost of 0.1 percent of GDP to the federal government (which will be paid to gas distributors from 2019-2021). The authorities recently agreed to wage increases for public sector employees in December, January, and February (effectively increasing nominal wages by 14 percent in the first half of 2019). Since the 2019 Budget has a 34 percent annual increase in wages, this will require limiting the next wage increase (from June 2019 to June 2020) at no more than 25 percent.

18. The medium-term budget presented to Congress on November 21 foresees a primary surplus of 1 percent of GDP in 2021. Revenues are projected to decline slightly over the medium term with the elimination of export taxes in 2021 partially offset by the rebound in economic activity. All the adjustment in 2020-21 (of 1 percent of GDP) is expected to come from cuts to energy and transportation subsidies, wages, goods and services, and discretionary current transfers to provinces. The 1 percent of GDP primary surplus is in line with reaching the estimated debt-stabilizing primary balance of 1.2 percent of GDP in 2023. The submission of the medium-term budget is an important step to strengthen fiscal planning and improve the predictability of fiscal policy. In the future, including a description of the policy measures to be implemented over the medium-term and submitting it to Congress alongside the annual budget would further strengthen the credibility of the medium-term budget process.

19. Staff will continue to explore with the authorities ways to improve the quality and sustainability of the fiscal consolidation effort. The tax on exports is a distortionary tax that the authorities intend to maintain as extraordinary measure only until the end of 2020. Deeper revenue reforms (including an expansion of the coverage of the PIT, a rationalization of VAT exemptions and a reform of the tax collection administration), and spending reform (including reform of the pension system and of public sector employment) will be needed to make fiscal policy more supportive of growth while still achieving the government's primary balance targets. Given the complexity of such reforms, and the need to reach a broad social consensus around them, it would be important to begin promptly the technical preparatory work for such policy changes (in the case of the pension reform, this would involve setting up the commission as mandated by 2016 legislation). Finally, to

[1] For gas, subsidies to consumption have been already eliminated, while subsidies to production under the latest Gas Plan (which guarantees higher-than-market prices for gas produced through new investment in the Neuquén basin) will be phased off gradually (leaving only the social tariff in place in 2021).

improve the transparency of fiscal policy, the budget should explicitly contain a reserve to absorb unexpected shortfalls in revenues or increases in non-discretionary spending.

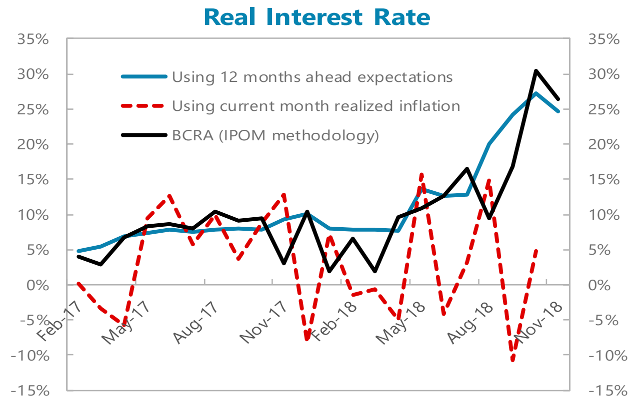
20. The authorities took a series of measures to alleviate the impact of the stabilization plan on the most vulnerable. About 27.3 percent of the population was living in poverty in the first half of 2018, 1.6 percent more than in 2017. With the economic downturn and high inflation, the poverty rate is expected to continue rising in the coming months. The supplemental transfers to the recipients of the child allowances and the employment support program will help counter this trend by increasing the annual benefit per recipient by almost 50 percent (in line with the increased cost of the basic nutrition basket). In addition, the 2019 budget increased spending on food support for the poor and on the purchases of medicines under the universal health coverage plan. The authorities have also expanded their effort to augment coverage of their social programs, mainly by providing administrative services to remote and secluded areas of the country through mobile stations (*Estado en Tu Barrio*). Finally, the authorities have established a single-window system to access public administrative services and have increased the number of provinces that automatically verify compliance with the education and health requirements for obtaining child allowances.

21. The authorities' agenda to promote equal gender opportunities is advancing. The 2019 budget expands public infant-care services to give wage-earning mothers the possibility not to interrupt work in order to care for a young child. The authorities are developing a voluntary system to score companies on their gender policies while providing recommendations on how best to ensure equal opportunities in the workplace. Legislation to equalize maternity and paternity leave will help level the playing field and should be put up for debate in Congress as soon as possible. The completion of the registry of gender balance in listed companies' executive boards and management positions by the *Comision Nacional de Valores* will enhance transparency and foster equity.

22. Going forward, further efforts are needed to strengthen the social safety net and remove gender inequalities. Measures should be identified to protect households and individuals that have no children, since this part of the population is insufficiently covered by the existing social safety net and is likely to be affected by any worsening of social conditions. In addition, there is room for a revision of the social tariffs system that would better protect the bottom deciles of the income distribution. On gender issues, legislation that eliminates the second-earner penalty in the current tax system will encourage participation of second-earners in the labor force: as the vast majority of second earners are women, this measure would boost female participation to the work force and contribute to economic growth (IMF 2017 Article IV Staff Report, Chapter 4 of the Selected Issues Papers). Staff will review the space for these reforms in the context of future reviews of the program.

BRINGING DOWN INFLATION

23. **The monetary policy stance appears to be well geared to lowering inflation and anchoring inflation expectations.** Lower LELIQ interest rates in November have contributed to slow peso appreciation pressures, showing the self-equilibrating tendencies of the new system. Inflation is beginning to fall, and inflation expectations are expected to continue to decline in the coming months. Nonetheless, ex-ante real interest rates are high (in the 20 to 30 percent range depending on how they are measured).

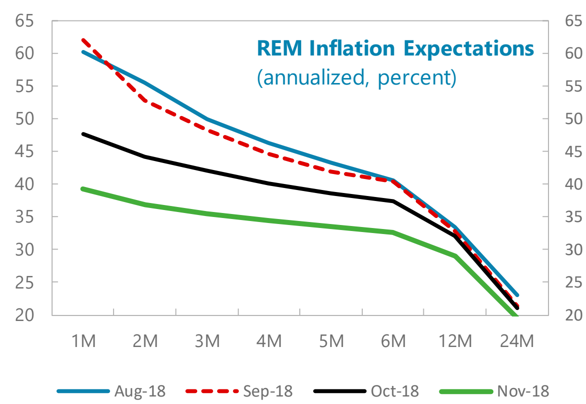


Source: BCRA, REM survey and staff calculations.

24. **Building on the early success of the new framework, the BCRA has implemented a few changes to ensure that monetary policy remains conducive to a rapid decline of inflation.**

- After the average 12-month ahead inflation expectations fell decisively (by a cumulative 4.4 percentage points) in the September, October, and November surveys, the BCRA has eliminated the 60 percent floor on the 7-day LELIQ rate.

- The BCRA announced that it intends to over-comply with the monetary base target for the month of December, by at least AR$16 billion (which would imply a 5 percent increase relative to the September average rather than the 6.2 percent announced in last September).



Source: REM survey, BCRA and staff calculations

25. **Staff agrees with both changes which are consistent with the new monetary policy framework announced.** The floor on interest rates was a safeguard against a scenario where a weak demand for pesos would cause a premature decline in interest rates. As this scenario did not materialize, and given first signals that inflation expectations are falling, the removal of the interest floor would ensure that, from now on, interest rates will be solely determined by the targeted growth in base money. The decision to lower the monetary base target for December de facto "builds in" the overperformance in October and November and serves to minimize the risk that the seasonal adjustment in December would cause an excessive relaxation of the monetary policy stance. Going forward, staff emphasized that the continued, steadfast implementation of the new monetary policy framework will be key to rebuild the credibility of the BCRA and underscore its commitment to lower inflation.

26. The BCRA also provided additional details on its FX intervention strategy should the peso move outside the non-intervention zone. In particular, if the peso were to appreciate beyond the stronger end of the non-intervention zone in December 2018, the authorities would undertake only limited, unsterilized, purchases of foreign currency (of up to US$ 50 million per day) to avoid an excessive deviation from the zero-base money growth target (the deviation from the monthly target would be capped at 2 percent). Staff agreed with the decision, noting that a proper calibration of unsterilized FX purchases will be needed to ensure that the monetary policy stance remains conducive to a rapid reduction of inflation and inflation expectations. A depreciation of the peso outside of the upper edge of non-intervention zone would signal an excessively loose stance of monetary policy and the Bank would react by selling up to US$ 150 million per day, as announced in September, withdrawing the equivalent amount of peso liquidity from the market.

27. The authorities announced they would maintain a symmetric update of the non-intervention zone in 2019Q1. The framework announced in September foresaw the increase of both edges of the zone at a pace of 3 percent per month until December 2018. The BCRA announced a monthly change for 2019Q1 of 2 percent per month, somewhat below the average expected inflation for the quarter (based on the latest bank survey of expectations). Staff agrees with the change, that will keep the width of the nonintervention zone at around 30 percent and help guard against the risk of over-or undershooting of the exchange rate during the first quarter of next year.

28. An overhaul of the reserve requirements framework is warranted. The current system of reserve requirements has built up over time to have multiple rates and exemptions creating distortions and making the reserve requirement framework costly to implement and to enforce. The BCRA is planning to reduce the number of reserve requirement rates while keeping the aggregate level of required reserves broadly unchanged in peso terms, consistent with the base money target. The provision to allow the fulfillment of reserve requirements on new time deposit with LELIQs, which was useful during the LEBAC reintermediation, will be eliminated after the last LEBAC roll off in December. These changes are expected to become effective on January 1, 2019.

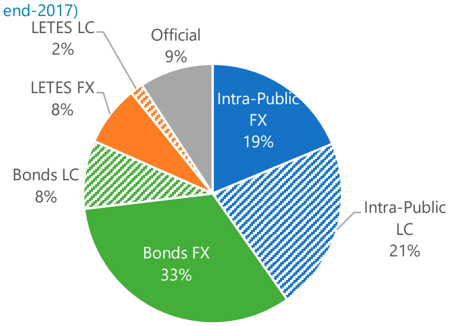
29. Looking forward, the BCRA is preparing the ground for a return to inflation targeting. Authorities have started drafting amendments to the BCRA Charter to strengthen its independence and operational autonomy (*end-March 2019 structural benchmark*), which will be a key step toward reestablishing inflation targeting once inflation expectations are durably re-anchored at a significantly lower level. The end of monetary financing of the fiscal deficit, the normalization of utility tariffs, and the full reintermediation of the LEBAC by end-2018 (which will reinforce the credit transmission channels of monetary policy) will also facilitate the transition back to inflation targeting.

IMPROVING TREASURY DEBT MANAGEMENT

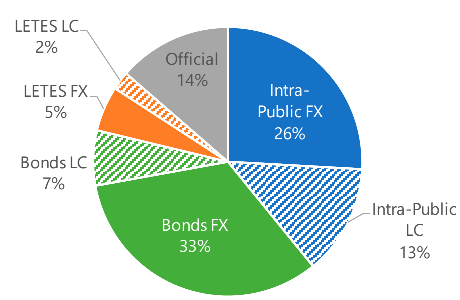
30. There is scope to improve the Treasury's debt management practices. Argentina's debt stock is heavily tilted towards FX debt, exposing the country to sizable exchange rate risks. The debt market is fragmented, instruments are not liquid, and peso-denominated issuances are disproportionately small as a share of outstanding debt. Since July 2017, the Treasury has introduced fixed rate, peso-denominated securities that capitalize interest (LECAPs). Although these instruments represent less than 2 percent of GDP, the Treasury is trying to concentrate issuances in this instrument to create a liquid benchmark. The Treasury has recently begun issuing 3-month, inflation-linked securities and intends, as market conditions allow, to gradually increase the maturities of new issuances. Nonetheless, several issues remain:

- The overall objective of the peso-denominated program in terms of currency and maturity composition, as well as outstanding amount and the program horizon, remains unclear to investors.
- In the absence of a published auction calendar, indicating the size and maturities of planned issuances, debt placements lack the predictability that would support the demand for peso-denominated securities.
- The large non-competitive allocation (which is allocated first) reduces the share of the issuance allocated to competitive bidders, thereby reducing the volumes in the segment of the market in which the price is formed by market forces.
- Secondary markets lack depth and liquidity due to among other issues the absence of established market-making agreements.

Argentina Debt Composition
(%total, end-2017)



Argentina Debt Composition
(%total, end-September 2018)



31. A clear and well-communicated federal debt management strategy will improve predictability, pricing, and liquidity of treasury instruments. A strategy for 2019 has been designed, with advice from Fund staff, and will be published in mid-December (this will be later reframed as a broader, medium-term debt strategy). This strategy aims to improve the predictability, pricing, and liquidity of the sovereign debt market. The goal of the strategy is to develop a liquid market for peso instruments and a yield curve based on three maturities (3, 6, and 18 months). The maturity of peso debt will be gradually lengthened as the appetite for duration increases. The strategy will also aim to:

- Give guidance on the intended currency composition objective for new debt issuances and rollovers, as well as the allotment method for the primary auctions.
- Define benchmark objectives around the size and maturity of new peso and FX debt issuance.
- Increase predictability, by publishing an auction calendar that includes (on a rolling basis) information on the instruments and key maturities to be sold on a given day.
- Determine a pricing reference for each issuance, as well as the allotment method for the primary auctions, factoring in short-term interest rate volatility and market pricing of credit risk, to facilitate pricing in the secondary market.
- Provide the standard incentives for market-making to those primary dealers that commit to provide two-way quotes in the secondary market on a continuous basis.

IMPROVING GOVERNANCE AND FIGHTING CORRUPTION

32. The authorities are stepping up their efforts to further strengthen Argentina's governance regime (Box 1). In light of recent scandals, the Office of Anti-Corruption (OA) developed an operational action plan to tackle corruption (*"Estrategia y Plan Nacional Anticorrupcion – 2019-2023"*). One of the areas of focus is on strengthening integrity, transparency and proper management of procurement activities, including within the state owned-enterprises. Progress has been achieved in enhancing the AML/CFT preventive regime among competent authorities, with collaboration agreements signed between the financial information unit (FIU) and both the BCRA and the OA to enhance collaboration on AML/CFT issues. The FIU has also expanded the scope and reach of their investigations abroad to identify and trace assets acquired with proceeds of criminal activities. Nonetheless, legislative change remains necessary to prevent or void any actions that could prejudice Argentina's ability to freeze, seize or recover assets resulting from proceeds of criminal activities, as well as reciprocity arrangements with other jurisdictions in line with the Financial Action Task Force (FATF) standard. The authorities have recognized the importance of these reforms and are committed to pushing forward necessary measures.

PROGRAM ISSUES

33. Financing Assurances. The program remains fully financed. Financing assumptions remain in line with those forecast at the time of the first review. Market rollovers have been higher than expected and the World Bank has approved US$500 million in budget support together with US$450 million in project financing, likely to be disbursed by end-2018. The InterAmerican Development Bank has also approved a US$900 million in support, of which, US$600 million will be disbursed by the end of 2018. An augmentation to the currency swap with China was signed in end-November, bringing the total line to US$18.7 billion.[2]

34. Argentina's capacity to repay the Fund is adequate, although subject to sizable risks. The Fund's exposure in terms of debt service metrics are at the higher end compared to other exceptional access cases, and the frontloaded disbursement schedule implies a considerable bunching of Argentina's repurchase obligations to the Fund. Nonetheless, international reserves are projected to remain adequate at the end of the program and throughout the repayment period. Sustained program implementation will be crucial for a successful IMF-supported program in Argentina, which would significantly reduce sovereign and balance of payments risks, result in lower spreads, increase access to global capital markets, and permit Argentina to successfully exit from Fund support.

35. Fiscal safeguards. A fiscal safeguards review (FSR) was completed in early-November. The mission found that Argentina has a sound Public Financial Management (PFM) system that provides broadly adequate safeguards for the use of Fund resources. The PFM system includes a comprehensive legal framework based on sound PFM principles, covering a robust budget execution framework, extensive control and audit functions, and an autonomous General Audit Office (AGN). However, there are areas for improvements. The mission found that the Treasury Single Account (TSA) at the *Banco de la Nacion Argentina* (BNA) is well-managed, follows good practices, and has adequate expenditure controls to provide safeguards on the use of Fund resources. However, the fact that the TSA resides in a state-owned commercial bank presents several risks from the Fund's perspective, including exposing the Fund's resources to credit risk, creating market distortions, and generating quasi-fiscal expenditures due to the cost of liquidity sterilization. The authorities are giving consideration to moving the TSA into the BCRA as recommended by the FSR. Other actions recommended by the FSR to strengthen Argentina's PFM include:

- Enhancing budget credibility by adopting a formal legislative procedure for modifying the budget with ex-ante Congressional approval; creating a contingency reserve in the budget for absorbing unexpected impact of macroeconomic shocks; limiting the use of emergency spending provisions; and by developing a more comprehensive fiscal risk report.

[2] The augmented swap is not accounted for in the tables, as it was still not reflected in the BCRA official reserve position at the time this staff report was finalized.

- Improving the medium-term elements in the budget with the aim of developing a full Medium-Term Budget Framework.

- Strengthening the oversight over entities outside the federal central administration, by establishing a central regulatory framework for fiscal oversight by the Ministry of Finance over transfers to provinces and other entities, and by improving reporting of arrears and outstanding liabilities of all extra-budgetary entities and state-owned enterprises.

- Increasing the quality of fiscal reports by carrying out reconciliation exercises, including of debt stocks and the annual outturn reports.

36. Safeguards assessment. A safeguards assessment of the BCRA was completed in October. There was broad agreement on the importance of recapitalizing the BCRA at an early stage. The submission of the revised BCRA charter (¶27) will be a key step at strengthening its independence.

37. Debt burden indicators have remained broadly unchanged since the first review. Federal Government debt is expected to peak at 78 percent of GDP by end-2018. The higher than expected appreciation of the AR$/US$ exchange rate since end-September, significantly higher overall rollover rates, and lower interest rates and CDS spreads appear to point to a return of market confidence. With timely implementation of agreed policies, market confidence should continue to strengthen, leading debt to stabilize to below 60 percent of GDP over the medium-term. Staff's assessment is that debt remains sustainable, but not with a high probability. Gross financing needs in the medium-term are high but remain below the risk-threshold of 15 percent of GDP and should be comfortably financed by private markets as the stabilization plan is implemented and confidence returns.

38. Program modalities. The prior action for submission of the medium-term budget to congress was completed. Modification is requested for end-December performance criterion for the primary balance of the federal government to align the target with the higher level of nominal GDP. New performance criteria are proposed for end-June 2019. A new structural benchmark for end-December 2018 is proposed for the publication of the debt management strategy. Currently, staff and authorities do not foresee the need for the Treasury to sell FX into the market until, at the earliest, March 2019. The modalities and amounts of such sale of Fund budget support will be revisited at the time of the third review mission (expected to take place in February 2019).

39. The authorities continue to make good faith efforts to resolve outstanding arrears to external private creditors. A total of around US$1.2 billion in principal (or US$3.2 billion including accrued interest) remains outstanding to private creditors. The authorities continue to make payments under the agreements executed. While there have been no new agreements since October, the authorities are in the final stages of approving and publishing the instructions for the procedure for settlement of claims under Argentine Law. The 2019 Budget law that was passed by Congress included a provision that should help bring in another wave of agreements for claims under Argentine Law out of a total of about US$90 million in original principal amounts eligible. The authorities maintain open discussions with creditors and all documentation to enter into agreements are available on the government's website. The terms offered are the same as those offered to the creditors who accepted in 2016. Litigation initiated by certain bondholders continues in several jurisdictions. Staff is of the view that, based on the authorities' actions, they are making good faith efforts as required under the Fund's Lending into Arrears policy.

40. There are limited outstanding arrears to official bilateral creditors. These arrears, of approximately US$30 million (in principal amount), claimed by the French export credit agency, relate to the building of a gas pipeline in the Tierra del Fuego region of Argentina by a French company in the late 1970s. The parties are currently in arbitration in the International Chamber of Commerce International Court of Arbitration.

EXCEPTIONAL ACCESS CRITERIA

41. Argentina continues to meet the criteria for exceptional access:

- ***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.*** The return of market confidence has been broadly as expected since the conclusion of the first review, albeit with somewhat better-than-expected rollovers. Nonetheless, under current assumptions, Argentina's sizable external financing need over the course of the arrangement cannot be met within the normal limits of access.

- ***Criterion 2. A rigorous and systematic analysis indicates that debt is sustainable but not with a high probability; exceptional access is justified as financing from sources other than the Fund improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*** Projected debt dynamics and risks remain in line with those at the first review. With public debt assessed as sustainable but not with a high probability, exceptional access requires the existence of non-Fund financing that improves debt sustainability and ensures sufficient safeguards for Fund resources. Staff judges that the required safeguards are in place. Notably, prospects for market access under the program are expected to continue strengthening and the long maturity of Argentina's privately-held foreign currency-denominated debt[3] improves the prospects of adequate private creditor exposure being maintained throughout the program.

- ***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.*** Argentina continues to maintain access to domestic financial markets, where resident and non-resident investors have continued to participate in recent peso- and US$-denominated bond placements. Rollover rates have

[3] As of end-September 2018, the stock of the federal government's privately-held foreign currency denominated debt is approximately US$120 billion, of which about one quarter is expected to mature by end-2020. Prior staff reports had used a broader definition for this context, i.e. of the federal government's foreign currency denominated debt excluding debt held by Argentina's social security sector, the BCRA and multilaterals (approx. $147 billion).

improved in September to November and non-residents have purchased nearly US$2.3 billion of peso-denominated LECAPs. Nonetheless, average yields on Argentina's external bonds remain high. Sustained implementation of Argentina's policy program, combined with support from the international community, will help reestablish Argentina's access to international capital markets on reasonable terms.

- ***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.*** The passage of the 2019 budget by Congress – both earlier than expected and with a wider-than-expected margin in the Senate – demonstrates a strong commitment to the policies underlying the Stand-By Arrangement and should help ensure policy continuity in 2019. Furthermore, this validates the authorities' efforts at building consensus across party lines for the need for reforms. Despite a complicated economic situation and a difficult history of IMF in Argentina, social opposition to the program remains subdued. On the monetary side, the central bank's implementation of the tighter monetary policy framework announced in late September has led to an initial large spike in short-term interest rates and an appreciation of the peso. In addition, the BCRA has not intervened in FX markets since announcement of the new framework, adhering to its transparent FX intervention rule. Although broader statements of support for the IMF-backed program have not been expressed by all political factions, there seems to be a widespread consensus that the financial assistance by the Fund is an essential element for regaining market confidence and pave the way for a new season of structural reforms. Strong, sustained and consistent policy implementation and broad societal ownership of the government's economic plan continue to be crucial for program success.

STAFF APPRAISAL

42. The redesigned program has reduced financial turmoil. The adoption of the new monetary policy framework has helped stabilize the peso and interest rates are on a downward path. Inflation remains high but the pass-through from the past depreciation of the currency is waning and there are early signs that inflation is diminishing. All performance criteria and indicative targets for end-October were met and structural reforms are progressing broadly on time. Authorities have also been laying the groundwork for upcoming structural benchmarks, including the full re-intermediation of LEBACs, the drafting of the BCRA charter, and the design of a new taxpayer compliance plan.

43. Continued efforts to restrain primary current spending will be key to achieving the fiscal targets. The passage of the 2019 budget, with significant support in the Senate, is an important development and signals a clear and broad-based political commitment to the government's policy plans. Nonetheless, fiscal targets will have to be safeguarded against policy implementation challenges and possible adverse effects of the weak economy on revenue collection.

44. More efforts are needed to make the fiscal consolidation sustainable and growth friendly. Reforms of the tax system and of the pension system would strengthen confidence on the sustainability of the fiscal consolidation process, remove important inequalities both among and across generations of Argentineans, and lower significant distortions that affects competitiveness and productivity. Given the complexity of these reforms, and the need to establish a broad societal consensus around them, it will be important to begin soon the technical and preparatory work, with a view to send legislation to Congress in late 2019. Strengthening the medium-term fiscal framework and submitting the multi-year budget at the same time as the annual budget documents will be crucial to improve decision making.

45. Sustained implementation of the monetary policy framework will be crucial to re-anchor inflation expectations and rebuild the credibility of the BCRA. The current monetary policy stance is appropriately calibrated and should contribute to a decline of both inflation and inflation expectations. The changes to the monetary policy framework announced by the BCRA respond to the need to fine tune the framework in line with evolving inflation and monetary conditions. Going forward, continued commitment to a tight monetary policy stance and to market-determined exchange rates will strengthen the credibility of the framework, solidify BCRA's reputation in fighting inflation, and enhance the economy's resilience to external shocks. A new charter that strengthens BCRA's independence and operational autonomy would also contribute to achieve these objectives.

46. The BCRA should continue to simplify its monetary policy framework to facilitate communication and manage expectations. A reform of the reserve requirement is needed that would make it simple, stable, and predictable, lowering the compliance costs for banks and BCRA's monitoring costs. A simpler regulatory framework will also support a clearer communication by the BCRA on monetary and exchange rate policy.

47. Publishing a clear debt management strategy will help guide market expectations and reduce the sovereign's exposure to exchange rate risks. The publication of an auction calendar, together with benchmark objectives around the size and maturity of new issuances would increase predictability for investors. Enhancing secondary market liquidity and facilitating pricing would support the development of a benchmark peso yield curve.

48. The agenda of structural reforms should continue. The policies being implemented by the authorities and underlying the program are necessary to stabilize financial markets, foster the return of market confidence, and pave the way for a rebound of economic activity and lower inflation. But boosting medium-term growth and ensure that it leads to lower poverty, more and better jobs, and a sustainable improvement in the living standards for Argentina's population will need a new impetus in the agenda of structural reforms. Priorities include a less distortionary tax system, a more balanced system of labor market regulations, greater competition in domestic product markets, less barriers to trade and foreign investment, and continued efforts to improve governance and confront corruption. More efforts are also needed to rationalize the social safety net and extend it to those currently not covered, and to increase the employability of all workers, particularly women, the young, and lower-income workers.

49. Steadfast implementation of the stabilization plan and continued building of political and public support around the authorities' reform program will be essential to reassure domestic and international investors and solidify Argentina's return to macroeconomic stability. In light of the authorities' implementation thus far and their future policy intentions, staff supports the authorities' request for completion of the second review under the SBA, the modification of the performance criterion under the program, and the completion of the financing assurances review.

Box 1. Improving Governance in Argentina

As discussed in the 2017 Article IV report, Argentina has made important efforts since 2016 at tackling corruption. Since then, authorities have continued to strengthen the legal framework and empowering anti-corruption and anti-money laundering and combating the financing of terrorism (AML/CFT) institutions such as the Office of Anti-Corruption (OA) and the Financial Information Unit (FIU).

In light of recent scandals, the Office of Anti-Corruption (OA) developed an operational action plan for tackling corruption. The OA is currently in the process of implementing the strategic objectives and measures of the plan. One of the areas of focus is on strengthening integrity, transparency and proper management of procurement activities, including within the state owned-enterprises (SOEs). It also aims to establish a set of guidelines for good corporate governance within SOEs. Furthermore, the authorities are working towards compliance with the OECD Anti-Bribery assessment, where shortcomings were identified. Going forward, the three branches of the Federal government will contribute to developing a national anti-corruption strategy, and each branch will develop an action plan to implement relevant parts of the strategy.

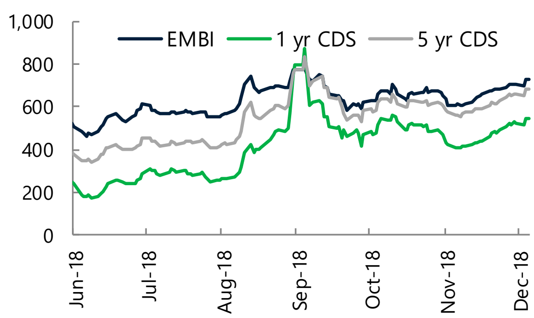
The Financial Information Unit (FIU) has progressed on enhancing the AML/CFT preventive regime but work remains. The FIU established a resolution with the Central Bank of Argentina establishing a framework for addressing regulation and supervision of financial institutions subject to AML/CFT obligation. Similarly, a memorandum of understanding was signed with the OA to assist investigations. The MOU has been effective in identifying and tracing the assets of individuals linked to corruption cases. However, the authorities need to establish a framework or mechanism that enables for the application of provisional measures (i.e. freezing and seizure) as well as confiscation of assets linked to or resulting from proceeds of illegal activities, including from corruption, as a predicate offense to money laundering. Recent and ongoing corruption cases have forced the authorities, the financial intelligence unit (FIU) in particular, to expand the scope and reach of their investigations abroad in order to identify and trace assets that have been acquired with proceeds of criminal activities. In carrying out their intelligence activities and with international cooperation, the FIU has identified and traced a considerable number of assets (including bank accounts, real estate properties, personal property, etc.) outside Argentina that are owned by and registered to many of the individuals that have confessed to paying bribes to government officials. However, the framework in place does not provide for reciprocity measures nor does it grant the FIU the powers to carry out immediate provisional measures to prevent any transfer or disposal of assets subject to confiscation. Legislative change should be put in place to prevent or void any actions that could prejudice Argentina's ability to freeze, seize or recover assets resulting from proceeds of criminal activities, as well as reciprocity arrangements with other jurisdictions in line with the FATF standard.

Additional efforts and resources are needed to provide for the sound and effective implementation of the recently established framework for strengthening the company registry ("*Fortalecimiento del Registro Publico de Sociedades*"). The new framework provides for basic information on corporate entities and legal arrangements operating in Argentina (i.e. name of the company, document(s) of incorporation, form and status, address, list of Directors, significant controllers, owners/shareholders, etc.) to be held in the company registry which will be publicly available. The registry will also capture information on the shareholders, the number of shares held by each shareholder and the categories of shares, as well as changes in ownership. The authorities are planning on starting the implementation process by targeting the largest provinces where many of these companies are established. The strengthening of the company registry will also positively impact the framework for maintaining up to date beneficial ownership (BO) information and facilitating to the authorities the ability to obtain in timely manner, accurate and updated BO information for their investigations.

Figure 1. Recent Market Developments

Sovereign and CDS spreads fell after peaking in September but have remained high.

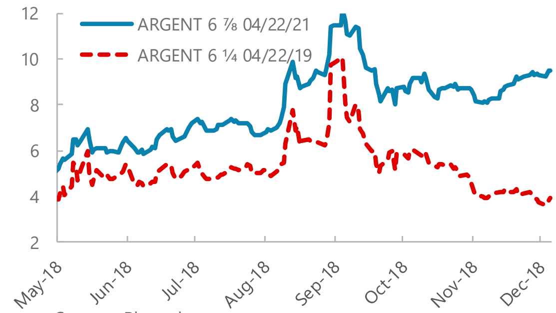
EMBI and CDS spreads
(Basis points)



Source: Bloomberg.

The widening gap between 2019 and 2021 bond yields may reflect electoral uncertainty.

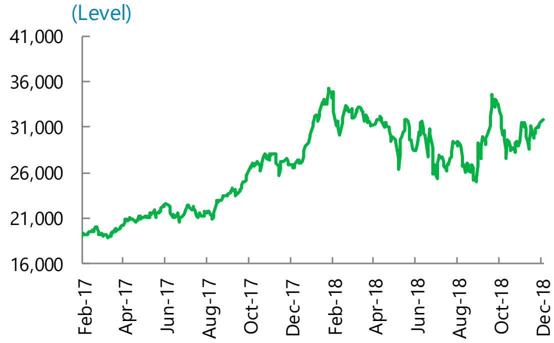
Yields on April 2019 vs April 2021 USD bond
(Percent)



Source: Bloomberg.

Equity markets have picked somewhat in November.

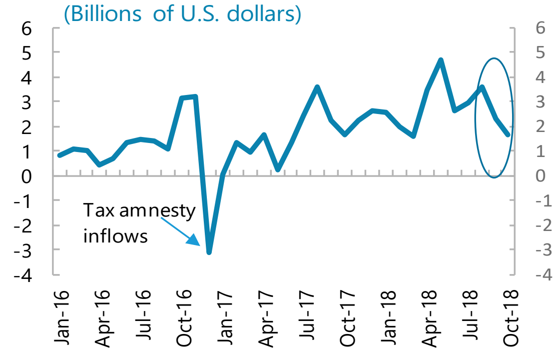
Merval Stock Index
(Level)



Source: Bloomberg.

The net private sector demand for foreign assets eased in October.

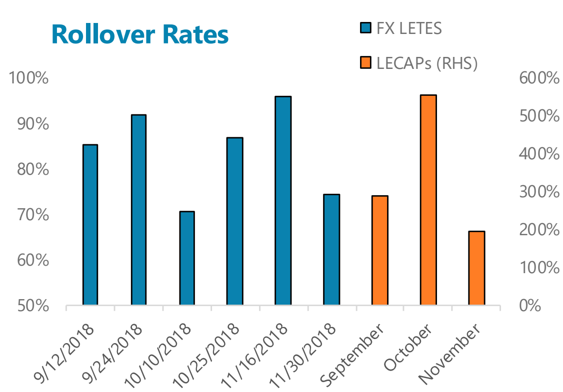
Capital Outflows
(Billions of U.S. dollars)



Sources: BCRA and Fund staff calculations.

Debt rollover rates were well above 50 percent in October and November.

Rollover Rates



Authorities have issued LECAPs regularly even with lower interest rates, with some progress in extending maturities.

AR$ LECAPs - Maturities and Rates

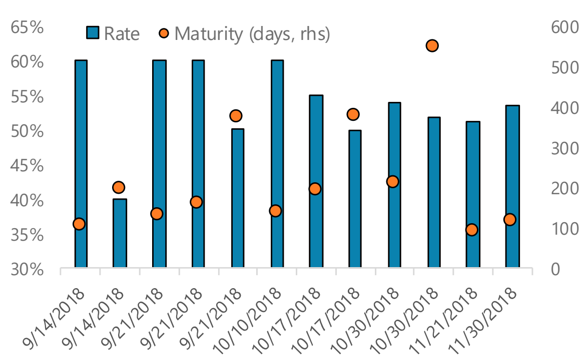
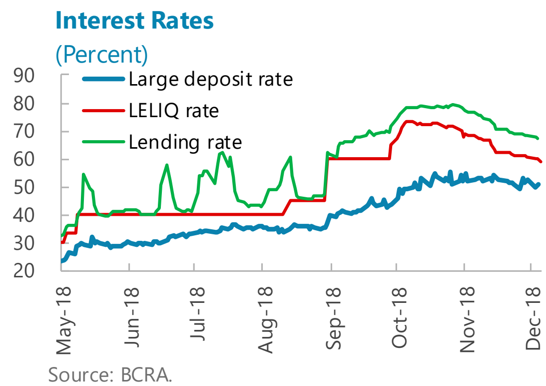
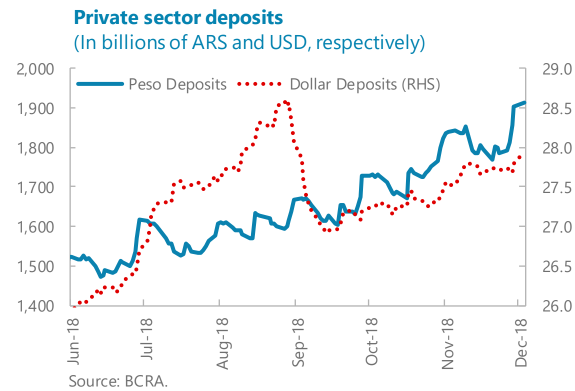


Figure 2. FX and Monetary Developments

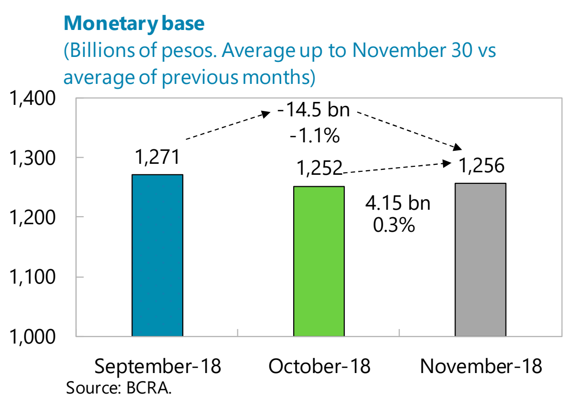
The LELIQ rate has fallen after the peak in October, but deposit rates remain high.



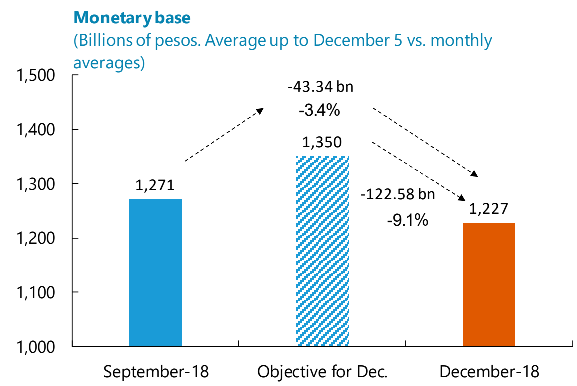
Peso time deposits have increased significantly as rates became more attractive.



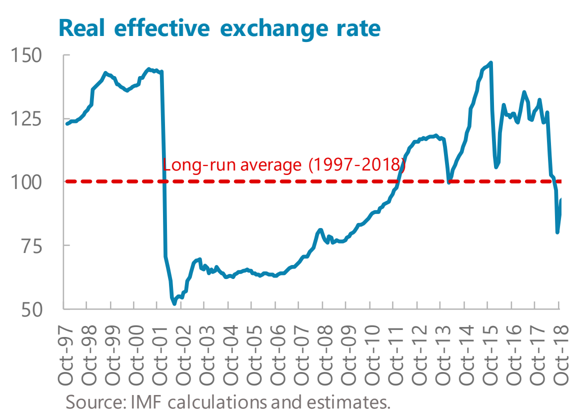
The monetary base at end-November was about 1 percent below the (average September) target



M0 started December well below target.



In real effective terms, the peso is about 30 percent more depreciated than at the end of 2017



Higher than expected rollovers and no intervention have helped slow the fall in gross international reserves

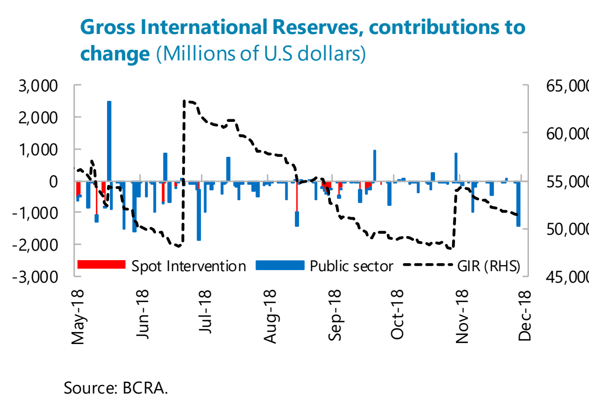


Table 1. Argentina: Selected Economic and Financial Indicators

	2015	2016	2017	*1st rev* *2018*	*1st rev* *2019*	Proj. 2018	2019	2020	2021	2022	2023
				(Annual percentage changes unless otherwise indicated)							
National income, prices, and labor markets											
GDP at constant prices	2.7	-1.8	2.9	-2.8	-1.7	-2.8	-1.7	2.7	3.1	3.4	3.6
Domestic demand	4.2	-1.3	6.3	-8.4	-5.0	-4.1	-6.5	4.4	4.9	5.0	5.5
Consumption	4.2	-0.8	3.3	-8.6	-4.1	-3.0	-5.8	5.5	4.5	4.8	5.1
Private	3.7	-1.0	3.5	-9.9	-4.6	-3.2	-6.3	6.5	5.2	5.3	5.9
Public	6.9	0.3	2.2	-1.5	-1.6	-1.8	-3.2	0.6	0.7	1.8	0.5
Investment	3.5	-4.9	11.0	-7.0	-9.5	-7.0	-9.6	-0.4	7.4	6.8	7.8
Exports	-2.8	5.3	0.4	5.9	7.7	-0.6	12.7	5.4	5.6	5.2	5.4
Imports	4.7	5.7	15.0	-17.8	-7.6	-6.4	-9.8	11.7	11.9	10.5	11.1
Change in inventories and stat. disc. (contribution to growth)	0.2	0.2	1.8	-0.3	0.0	-0.5	-0.1	0.0	0.0	0.0	0.0
Nominal GDP (billions of Argentine pesos)	5,955	8,189	10,556	13,629	17,872	14,054	18,553	21,971	25,074	27,649	30,062
Output gap (percent)	0.6	-1.6	-0.2	-4.8	-7.8	-4.8	-7.8	-7.1	-6.2	-4.9	-3.5
CPI inflation (eop, y/y percent change)	...	...	24.8	43.8	20.2	47.4	20.2	13.0	9.0	5.0	5.0
GDP deflator (y/y percent change)	26.5	40.2	25.2	33.4	32.5	37.7	34.3	15.5	10.7	6.7	4.9
Unemployment rate (percent)	...	8.5	8.4	9.8	10.9	9.8	10.9	10.8	10.6	10.3	10.0
				(Percent of GDP unless otherwise indicated)							
External sector											
Exports f.o.b. (goods, billions of U.S. dollars)	56.8	57.9	58.4	61.6	65.2	61.6	71.4	75.6	80.0	84.0	88.5
Imports f.o.b. (goods, billions of U.S. dollars)	57.6	53.5	64.0	58.3	53.0	63.1	58.4	65.2	73.1	80.6	89.3
Trade balance (goods, billions of U.S. dollars)	-0.8	4.4	-5.5	3.3	12.2	-1.6	13.0	10.4	6.8	3.4	-0.9
Trade balance (goods)	-0.1	0.8	-0.9	0.7	2.7	-0.3	2.8	2.0	1.2	0.6	-0.1
Terms of trade (percent change)	-4.4	6.0	-2.8	1.2	-1.5	1.8	0.7	0.5	-0.1	0.1	0.1
Total external debt	27.9	34.2	37.2	57.2	60.6	54.7	56.9	51.5	48.2	44.8	41.4
Savings-Investment balance											
Gross domestic investment	15.6	14.6	14.8	13.8	11.5	15.3	15.0	15.0	15.2	15.2	15.3
Private	11.9	11.2	11.2	10.4	8.5	11.9	11.8	11.7	11.8	11.7	11.7
Public	3.6	3.4	3.6	3.5	3.0	3.5	3.2	3.3	3.4	3.4	3.6
Gross national savings	12.8	12.0	9.9	9.7	10.0	10.2	13.5	12.5	12.7	12.6	12.8
Current account balance	-2.7	-2.7	-4.9	-4.2	-1.6	-5.2	-1.5	-2.4	-2.4	-2.6	-2.4
Public sector 1/											
Primary balance	-4.4	-4.7	-4.3	-2.5	0.1	-2.6	-0.1	1.0	1.1	1.3	1.4
of which : Federal government	-3.8	-4.2	-3.8	-2.7	0.0	-2.7	0.0	1.0	1.1	1.2	1.3
memo : Structural federal primary balance 2/	-4.1	-4.7	-4.0	-1.7	1.4	-1.7	1.2	2.0	2.0	1.9	1.8
Overall balance 5/	-6.0	-6.6	-6.8	-5.5	-4.4	-5.7	-3.7	-2.5	-2.6	-2.4	-2.6
of which : Federal government	-5.1	-5.8	-6.0	-5.3	-3.9	-5.5	-3.2	-2.1	-2.3	-2.3	-2.4
Revenues	35.4	35.0	34.8	35.7	36.8	35.0	36.5	36.7	36.1	35.6	34.9
Primary expenditure 3/	39.8	39.8	39.0	38.1	36.7	37.6	36.5	35.7	35.0	34.2	33.6
Total public debt (federal, % GDP)	52.6	53.3	57.1	81.2	72.2	78.0	67.9	64.5	62.4	60.2	59.2
Money and credit											
Monetary base (eop, y/y percent change)	34.9	31.7	21.8	34.8	13.5	34.8	13.5	24.5	18.1	13.3	12.1
M2 (percent change)	28.2	30.4	25.8	11.9	17.9	15.1	17.8	34.3	22.4	17.3	15.9
Credit to the private sector (eop, y/y percent change)	35.7	31.2	51.3	30.2	14.9	33.0	19.5	17.5	17.7	9.4	13.9
Credit to the private sector real (eop, y/y percent change)	...	...	21.2	-5.0	-4.4	-9.7	-0.6	3.9	8.0	4.2	8.5
Interest rate (eop) 4/	32.2	23.9	28.8	69.6	32.0	60.0	30.7	21.4	15.3	14.0	13.1
Real interest rate (eop), 12-m ahead y/y inflation 4/	...	...	10.1	37.2	16.8	29.5	15.7	11.4	9.8	8.6	7.8
Memorandum items											
Gross international reserves (billions of U.S. dollars)	25.6	39.3	55.1	56.4	53.5	57.3	54.4	60.4	65.7	70.1	74.6
Gross international reserves (percent of ARA)	39.4	73.0	92.0	89.3	84.8	91.0	86.3	93.1	96.0	99.0	101.3
Change in REER (eop, percent change)	5.3	-3.4	6.6	-30.3	6.2	-29.0	6.2	3.8	2.3	1.4	0.9

Sources: Ministerio de Hacienda y Finanzas Públicas, Banco Central de la República Argentina (BCRA), and Fund staff estimates.

1/ The primary balance excludes profit transfers from the central bank of Argentina. Interest expenditure is net of property income from the social security fund before 2016.

2/ Percent of potential GDP.

3/ Includes transfers to municipalities, but excludes municipal spending.

4/ Average of all LEBAC maturities before 2017 and midpoint of the repo corridor starting in 2017; ex ante real rates.

5/ Excludes overall balance of the BCRA.

Table 2. Argentina: Summary Balance of Payments

				1st rev	1st rev	Proj.					
	2015	2016	2017	*2018*	*2019*	2018	2019	2020	2021	2022	2023
					(Billions of U.S. dollars)						
Current account	**-17.6**	**-14.7**	**-31.3**	**-20.2**	**-7.0**	**-25.9**	**-7.0**	**-12.7**	**-13.7**	**-15.5**	**-15.9**
Trade balance in goods	-0.8	4.4	-5.5	3.3	12.2	-1.6	13.0	10.4	6.8	3.4	-0.9
Exports f.o.b.	56.8	57.9	58.4	61.6	65.2	61.6	71.4	75.6	80.0	84.0	88.5
Primary products	13.3	15.7	14.8	12.7	14.2	13.1	18.1	19.5	21.3	23.1	24.8
Manufactures of agricultural origin	23.3	23.3	22.6	21.8	22.2	23.3	24.9	25.6	26.7	27.7	28.7
Manufactures of industrial origin	18.0	16.9	18.6	22.7	24.0	20.9	23.8	24.7	25.6	26.2	26.9
Energy	2.3	2.0	2.5	4.4	4.9	4.2	4.6	5.8	6.4	7.0	8.0
Imports f.o.b.	57.6	53.5	64.0	58.3	53.0	63.1	58.4	65.2	73.1	80.6	89.3
Capital goods (includes parts and accessories)	23.4	22.4	26.6	23.6	20.8	24.3	22.8	25.5	28.7	31.7	35.1
Intermediate goods	17.3	14.8	17.1	16.6	15.7	18.7	17.1	19.3	21.1	23.2	25.7
Consumer goods	10.4	11.6	14.8	12.8	11.8	13.7	12.5	13.8	15.9	17.6	19.5
Fuels and lubricants	6.5	4.7	5.5	5.4	4.7	6.4	6.0	6.7	7.4	8.1	9.0
Trade balance in services	-5.8	-8.2	-9.9	-7.1	-3.1	-7.9	-3.9	-9.1	-9.0	-11.1	-7.3
Exports	13.2	12.8	14.2	12.0	10.6	14.3	16.3	13.4	15.7	18.3	21.3
Imports	19.0	21.0	24.1	19.0	13.6	22.3	20.3	22.5	24.7	29.4	28.6
Primary income, net	-12.1	-12.1	-16.3	-17.4	-17.1	-17.4	-17.0	-14.9	-12.5	-8.7	-8.6
Secondary income, net	1.1	1.2	0.5	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Capital Account	**0.1**	**0.4**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account	**13.6**	**28.8**	**45.7**	**-7.3**	**-20.3**	**-1.2**	**-20.7**	**13.6**	**20.6**	**34.1**	**38.8**
Foreign direct investment, net	10.9	1.5	10.4	5.1	2.0	5.1	2.0	4.5	7.3	9.9	12.3
Portfolio investment, net	0.4	35.3	35.9	-2.5	-15.0	-4.6	-18.6	5.7	15.2	23.0	23.5
Derivatives, net	0.0	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 1/	2.2	-7.7	-0.7	-9.8	-7.2	-1.6	-4.1	3.3	-1.9	1.2	3.0
Errors and Omissions	**-0.9**	**-0.2**	**0.0**	**-0.4**	**0.0**	**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-4.9**	**14.3**	**14.6**	**-27.7**	**-27.1**	**-27.3**	**-27.4**	**1.1**	**7.1**	**18.8**	**23.1**
Financing	**4.9**	**-14.3**	**-14.6**	**27.7**	**27.1**	**27.3**	**27.4**	**-1.1**	**-7.1**	**-18.8**	**-23.1**
Gross official reserves (increase: -)	4.9	-14.3	-14.6	-1.4	2.9	-2.3	2.9	-6.0	-5.2	-4.5	-4.5
Net use of IMF resources				28.1	21.5	28.1	21.5	2.0	-4.7	-22.5	-22.9
Official financing	0.0	0.0	0.0	1.0	2.8	1.6	3.0	2.9	2.9	8.1	4.3
World Bank/IDB				1.0	2.3	1.0	2.3	2.9	2.9	8.1	4.3
CAF					0.5	0.6	0.7				
					(Percent of GDP)						
Current account	**-2.7**	**-2.7**	**-4.9**	**-4.2**	**-1.6**	**-5.2**	**-1.5**	**-2.4**	**-2.4**	**-2.6**	**-2.4**
Trade balance in goods	-0.1	0.8	-0.9	0.7	2.7	-0.3	2.8	2.0	1.2	0.6	-0.1
Exports, f.o.b.	8.8	10.5	9.2	12.7	14.5	12.3	15.2	14.6	14.2	13.9	13.6
Imports f.o.b.	-9.0	-9.7	-10.0	-12.0	-11.8	-12.6	-12.4	-12.6	-13.0	-13.3	-13.8
Trade balance in services	-0.9	-1.5	-1.6	-1.5	-0.7	-1.6	-0.8	-1.8	-1.6	-1.8	-1.1
Exports	2.1	2.3	2.2	2.5	2.3	2.9	3.5	2.6	2.8	3.0	3.3
Imports	-3.0	-3.8	-3.8	-3.9	-3.0	-4.4	-4.3	-4.4	-4.4	-4.9	-4.4
Primary income, net	-1.9	-2.2	-2.6	-3.6	-3.8	-3.5	-3.6	-2.9	-2.2	-1.4	-1.3
Secondary income, net	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Capital Account	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	2.1	5.2	7.2	-1.5	-4.5	-0.2	-4.4	2.6	3.7	5.6	6.0
Foreign direct investment, net	1.7	0.3	1.6	1.0	0.4	1.0	0.4	0.9	1.3	1.6	1.9
Portfolio investment, net	0.1	6.4	5.6	-0.5	-3.3	-0.9	-4.0	1.1	2.7	3.8	3.6
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	0.3	-1.4	-0.1	-2.0	-1.6	-0.3	-0.9	0.6	-0.3	0.2	0.5
Errors and Omissions	-0.1	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	2.6	2.3	-5.7	-6.0	-5.4	-5.8	0.2	1.3	3.1	3.6
Financing	0.8	-2.6	-2.3	5.7	6.0	5.4	5.8	-0.2	-1.3	-3.1	-3.6
Gross official reserves (increase: -)	0.8	-2.6	-2.3	-0.3	0.6	-0.5	0.6	-1.2	-0.9	-0.7	-0.7
Net use of IMF resources				5.8	4.8	5.6	4.6	0.4	-0.8	-3.7	-3.5
Official financing	0.0	0.0	0.0	0.2	0.6	0.3	0.6	0.6	0.5	1.3	0.7
World Bank/IDB				0.2	0.5	0.2	0.5	0.6	0.5	1.3	0.7
CAF					0.1	0.1	0.1	0.0	0.0	0.0	0.0
Memorandum items:											
Exports volumes (percent change)	-1.6	6.8	-0.2	-0.5	5.0	-1.5	13.2	5.3	5.6	5.2	5.4
Imports volumes (percent change)	2.6	3.6	14.2	-11.5	-12.5	-5.6	-10.0	11.7	11.9	10.5	11.1
Gross international reserves (billions of U.S. dollars)	25.6	39.3	55.1	56.4	53.5	57.3	54.4	60.4	65.7	70.1	74.6
Gross international reserves (percent of ARA)	39.4	73.0	92.0	89.3	84.8	91.0	86.3	93.1	96.0	99.0	101.3
Net international reserves (billions of U.S. dollars)	-2.6	12.5	31.1	23.1	20.3	24.1	21.2	27.2	32.5	36.9	41.4
Net International Investment Position (percent of GDP)	8.8	9.3	3.6	2.8	3.1	-0.1	-0.4	-2.7	-4.5	-6.6	-8.3
Terms of Trade (Index, 2000 = 100)	506	536	521	528	520	530	534	537	536	537	538
Real effective exchange rate (percent change)	5.3	-3.4	6.6	-30.3	6.2	-29.0	6.2	3.8	2.3	1.4	0.9

Sources: INDEC, Fund staff estimates and projections.
1/ Includes currency swap transactions.

Table 3. Argentina: Consolidated Public Sector Operations

	2011	2012	2013	2014	2015	2016	2017	*1st rev* *2018*	*1st rev* *2019*	Proj. 2018	2019	2020	2021	2022	2023
								(Billions of Argentine pesos)							
Revenues	**700.7**	**891.7**	**1,150.1**	**1,584.4**	**2,105.9**	**2,868.9**	**3,670.1**	**4,859.0**	**6,570.0**	**4,916.3**	**6,757.8**	**8,056.5**	**9,056.3**	**9,835.2**	**10,504.3**
Tax revenues	489.2	613.6	792.1	1,095.7	1,429.9	1,952.8	2,454.3	3,262.6	4,525.1	3,343.3	4,661.8	5,574.4	6,279.1	6,759.3	7,158.1
Social security contributions	167.8	219.5	287.8	378.3	529.5	709.8	924.6	1,170.2	1,455.7	1,173.5	1,503.1	1,805.7	2,083.9	2,341.0	2,580.7
Other revenues	43.7	58.6	70.2	110.4	146.5	206.3	291.3	426.3	589.2	399.6	592.8	676.4	693.3	734.8	765.4
Primary Expenditures 1/	**735.3**	**936.4**	**1,238.5**	**1,744.6**	**2,368.9**	**3,255.5**	**4,120.1**	**5,197.0**	**6,558.1**	**5,278.6**	**6,771.4**	**7,839.5**	**8,781.1**	**9,463.0**	**10,096.4**
Wages	227.6	294.4	378.2	523.7	738.7	1,008.4	1,281.3	1,577.6	2,043.3	1,592.5	2,104.9	2,458.1	2,742.0	2,982.7	3,142.1
Goods and services	53.3	64.3	86.3	120.3	169.7	205.8	279.9	324.6	399.6	339.8	431.2	490.0	545.1	585.8	619.3
Transfers to the private sector	130.1	151.4	194.0	299.6	396.3	608.6	632.8	2,159.1	2,755.5	855.7	991.9	932.3	1,018.7	1,049.2	1,092.4
Of which: federal pensions	147.1	204.6	272.1	363.4	535.7	734.7	1,022.5	1,310.4	1,763.1	1,310.4	1,780.3	2,210.8	2,452.5	2,616.6	2,783.6
Capital spending	77.7	83.2	121.0	171.6	216.6	280.1	375.5	471.0	543.9	487.4	592.4	727.9	846.2	950.2	1,082.1
Other	61.1	86.8	120.5	176.6	187.5	244.0	295.4	664.8	815.9	389.3	457.7	527.3	627.1	691.4	751.7
Primary balance	**-34.6**	**-44.7**	**-88.4**	**-160.2**	**-263.0**	**-386.6**	**-450.0**	**-338.0**	**11.9**	**-362.3**	**-13.7**	**217.1**	**275.2**	**372.3**	**407.9**
Interest cash	25.2	34.9	20.6	34.5	94.2	155.7	262.8	406.0	779.0	440.5	675.8	767.5	934.3	1,026.8	1,194.2
Overall balance	**-59.8**	**-79.6**	**-108.9**	**-194.7**	**-357.3**	**-542.3**	**-712.7**	**-751.8**	**-782.0**	**-802.8**	**-689.5**	**-550.4**	**-659.1**	**-654.6**	**-786.4**
								(Percent of GDP unless otherwise indicated)							
Revenues	**32.2**	**33.8**	**34.3**	**34.6**	**35.4**	**35.0**	**34.8**	**35.7**	**36.8**	**35.0**	**36.5**	**36.7**	**36.1**	**35.6**	**34.9**
Tax revenues	22.4	23.3	23.7	23.9	24.0	23.8	23.3	23.9	25.3	23.8	25.2	25.4	25.0	24.4	23.8
Social security contributions	7.7	8.3	8.6	8.3	8.9	8.7	8.8	8.6	8.1	8.3	8.1	8.2	8.3	8.5	8.6
Other revenues	2.0	2.2	2.1	2.4	2.5	2.5	2.8	3.1	3.3	2.8	3.2	3.1	2.8	2.7	2.5
Primary expenditures 1/	**33.7**	**35.5**	**37.0**	**38.1**	**39.8**	**39.8**	**39.0**	**38.1**	**36.7**	**37.6**	**36.5**	**35.7**	**35.0**	**34.2**	**33.6**
Wages	10.4	11.2	11.3	11.4	12.4	12.3	12.1	11.6	11.4	11.3	11.4	11.2	10.9	10.8	10.5
Goods and services	2.4	2.4	2.6	2.6	2.8	2.5	2.7	2.4	2.2	2.4	2.3	2.2	2.2	2.1	2.1
Transfers to the private sector	14.5	15.5	15.9	16.4	17.7	18.5	17.9	15.8	15.4	17.6	17.2	16.6	16.0	15.4	15.0
Of which: federal pensions	6.8	7.8	8.1	7.9	9.0	9.0	9.7	9.6	9.9	9.6	9.9	10.4	10.2	10.0	9.9
Capital spending	3.6	3.2	3.6	3.7	3.6	3.4	3.6	3.5	3.0	3.5	3.2	3.3	3.4	3.4	3.6
Other	2.8	3.3	3.6	3.9	3.1	3.0	2.8	4.9	4.6	2.8	2.5	2.4	2.5	2.5	2.5
Primary balance	**-1.6**	**-1.7**	**-2.6**	**-3.5**	**-4.4**	**-4.7**	**-4.3**	**-2.5**	**0.1**	**-2.6**	**-0.1**	**1.0**	**1.1**	**1.3**	**1.4**
Interest cash	1.2	1.3	0.6	0.8	1.6	1.9	2.5	3.0	4.4	3.1	3.6	3.5	3.7	3.7	4.0
Overall balance	**-2.7**	**-3.0**	**-3.3**	**-4.3**	**-6.0**	**-6.6**	**-6.8**	**-5.5**	**-4.4**	**-5.7**	**-3.7**	**-2.5**	**-2.6**	**-2.4**	**-2.6**
Structural primary balance (General Government) 2/	**-2.6**	**-2.2**	**-3.4**	**-3.2**	**-4.8**	**-5.0**	**-4.3**	**-1.0**	**2.1**	**-1.1**	**1.9**	**2.7**	**2.6**	**2.5**	**2.2**
Structural primary balance (Federal) 2/	**-1.5**	**-1.6**	**-2.9**	**-3.3**	**-4.1**	**-4.7**	**-4.0**	**-1.7**	**1.4**	**-1.7**	**1.2**	**2.0**	**2.0**	**1.9**	**1.8**
Structural primary balance (Provinces) 2/	**-1.1**	**-0.6**	**-0.4**	**0.1**	**-0.7**	**-0.3**	**-0.3**	**0.7**	**0.7**	**0.6**	**0.7**	**0.7**	**0.6**	**0.6**	**0.4**

Sources: Ministerio de Economía y Finanzas Públicas and Fund staff calculations.

1/ Include transfers to municipalities, but exclude municipal spending.

2/ Percent of potential GDP.

Table 4. Argentina: Federal Government Operations

			1st rev	*1st rev*	Proj.					
	2016	2017	*2018*	*2019*	2018	2019	2020	2021	2022	2023
					(Billions of Argentine pesos)					
Revenues	**2,180.9**	**2,754.8**	**3,667.3**	**5,060.8**	**3,746.1**	**5,216.5**	**6,225.3**	**7,013.5**	**7,608.5**	**8,142.7**
Tax revenues	1,528.3	1,874.4	2,527.5	3,579.1	2,592.3	3,671.6	4,400.5	4,938.9	5,309.1	5,611.6
Social security contributions	558.1	727.3	915.5	1,139.5	924.9	1,175.3	1,417.0	1,640.1	1,851.7	2,048.8
Nontax revenues	94.6	153.2	224.3	342.2	228.9	369.7	407.8	434.5	447.7	482.2
Primary expenditures	**2,524.5**	**3,159.0**	**4,034.0**	**5,054.7**	**4,123.6**	**5,215.0**	**6,002.6**	**6,741.2**	**7,285.5**	**7,746.5**
Federal expenditures	1,835.0	2,232.8	2,835.6	3,517.6	2,851.7	3,588.7	4,045.4	4,479.2	4,823.4	5,175.4
Wages 1/	316.8	401.0	498.2	646.9	504.1	668.3	754.5	830.5	923.1	972.0
Goods and services 1/	91.8	121.3	125.8	150.6	127.0	154.3	166.9	184.0	196.9	207.4
Pensions	734.7	1,022.5	1,310.4	1,763.1	1,310.4	1,780.3	2,210.8	2,452.5	2,616.6	2,783.6
Current transfers to private sector	511.0	507.1	686.4	779.5	687.0	769.6	668.6	717.7	745.0	791.7
Social assistance	219.9	282.0	377.9	481.1	379.8	482.5	583.8	638.7	684.8	727.5
Energy 2/	209.2	125.7	202.7	210.9	201.4	200.4	51.2	61.1	41.5	45.1
Transport	80.2	90.5	103.1	84.0	103.0	83.0	33.6	18.0	18.7	19.2
Other	1.7	9.6	2.7	3.6	2.8	3.7	0.0	0.0	0.0	0.0
Capital spending	117.8	121.1	143.9	132.8	150.1	166.2	200.6	244.3	286.5	360.5
Other current primary spending	62.8	59.7	70.9	44.7	73.1	50.0	43.9	50.2	55.3	60.1
Transfers to provinces	689.5	926.2	1,198.4	1,537.2	1,271.8	1,626.2	1,957.2	2,262.0	2,462.1	2,571.1
Automatic	551.6	756.8	1,050.8	1,412.1	1,120.0	1,496.5	1,869.3	2,161.7	2,351.5	2,450.9
Discretionary	137.8	169.5	147.5	125.1	151.8	129.7	87.9	100.3	110.6	120.3
Capital	64.3	86.8	52.1	44.7	53.4	46.3	43.9	50.2	55.3	60.1
Current	73.6	82.7	95.4	80.4	98.4	83.4	43.9	50.2	55.3	60.1
Primary balance	**-343.5**	**-404.1**	**-366.7**	**6.0**	**-377.5**	**1.6**	**222.7**	**272.3**	**323.0**	**396.1**
Interest cash (net of ANSES and public sector)	131.3	224.9	361.4	694.3	393.8	600.0	693.4	856.8	946.0	1,105.7
Overall balance	**-474.8**	**-629.0**	**-728.1**	**-688.3**	**-771.3**	**-598.4**	**-470.6**	**-584.5**	**-622.9**	**-709.6**
Memorandum items:										
Capital spending, including capital transfers to provinces	182.0	207.9	196.0	177.5	203.5	212.5	244.6	294.4	341.8	420.6
Arrears and advances	-33.0	15.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-310.5	-419.1	-366.7	6.0	-387.5	1.6	222.7	272.3	323.0	396.1
Overall balance, accrual basis	-441.8	-644.0	-728.1	-688.3	-781.3	-598.4	-470.6	-584.5	-622.9	-709.6
Structural primary balance	-390.9	-419.4	-247.1	271.3	-253.6	244.2	487.2	530.8	547.5	570.0
					(Percent of GDP)					
Revenues	**26.6**	**26.1**	**26.9**	**28.3**	**26.7**	**28.1**	**28.3**	**28.0**	**27.5**	**27.1**
Tax revenues	18.7	17.8	18.5	20.0	18.4	19.8	20.0	19.7	19.2	18.7
Social security contributions	6.8	6.9	6.7	6.4	6.6	6.3	6.4	6.5	6.7	6.8
Nontax revenues	1.2	1.5	1.6	1.9	1.6	2.0	1.9	1.7	1.6	1.6
Primary expenditures	**30.8**	**29.9**	**29.6**	**28.3**	**29.3**	**28.1**	**27.3**	**26.9**	**26.3**	**25.8**
Federal expenditures	22.4	21.2	20.8	19.7	20.3	19.3	18.4	17.9	17.4	17.2
Wages 1/	3.9	3.8	3.7	3.6	3.6	3.6	3.4	3.3	3.3	3.2
Goods and services 1/	1.1	1.1	0.9	0.8	0.9	0.8	0.8	0.7	0.7	0.7
Pensions	9.0	9.7	9.6	9.9	9.3	9.6	10.1	9.8	9.5	9.3
Current transfers to private sector	6.2	4.8	5.0	4.4	4.9	4.1	3.0	2.9	2.7	2.6
Social assistance	2.7	2.7	2.8	2.7	2.7	2.6	2.7	2.5	2.5	2.4
Energy 2/	2.6	1.2	1.5	1.2	1.4	1.1	0.2	0.2	0.2	0.2
Transport	1.0	0.9	0.8	0.5	0.7	0.4	0.2	0.1	0.1	0.1
Other	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital spending	1.4	1.1	1.1	0.7	1.1	0.9	0.9	1.0	1.0	1.2
Other current primary spending	0.8	0.6	0.5	0.3	0.5	0.3	0.2	0.2	0.2	0.2
Transfers to provinces	8.4	8.8	8.8	8.6	9.0	8.8	8.9	9.0	8.9	8.6
Automatic	6.7	7.2	7.7	7.9	8.0	8.1	8.5	8.6	8.5	8.2
Discretionary	1.7	1.6	1.1	0.7	1.1	0.7	0.4	0.4	0.4	0.4
Capital	0.8	0.8	0.4	0.3	0.4	0.2	0.2	0.2	0.2	0.2
Current	0.9	0.8	0.7	0.5	0.7	0.4	0.2	0.2	0.2	0.2
Primary balance	**-4.2**	**-3.8**	**-2.7**	**0.0**	**-2.7**	**0.0**	**1.0**	**1.1**	**1.2**	**1.3**
Interest cash (net of ANSES and public sector)	1.6	2.1	2.7	3.9	2.8	3.2	3.2	3.4	3.4	3.7
Overall balance	**-5.8**	**-6.0**	**-5.3**	**-3.9**	**-5.5**	**-3.2**	**-2.1**	**-2.3**	**-2.3**	**-2.4**
Memorandum items:										
Capital spending, including capital transfers to provinces	2.2	2.0	1.4	1.0	1.4	1.1	1.1	1.2	1.2	1.4
Arrears and advances	-0.4	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-3.8	-4.0	-2.7	0.0	-2.8	0.0	1.0	1.1	1.2	1.3
Overall balance, accrual basis	-5.4	-6.1	-5.3	-3.9	-5.6	-3.2	-2.1	-2.3	-2.3	-2.4
Structural primary balance 3/	-4.7	-4.0	-1.7	1.4	-1.7	1.2	2.0	2.0	1.9	1.8

Sources: Ministerio de Economía y Finanzas Públicas and Fund staff calculations.

1/ It includes universities.

2/ It includes, in 2017, those obligations for subsidies under Plan Gas that will be settled starting in 2019.

3/ Percent of potential GDP.

Table 5a. Argentina: Summary Operations of the Central Bank

(end of period, unless otherwise indicated)

	2016	2017	*1st rev 2018*	*1st rev 2019*	Proj. 2018	2019	2020	2021	2022	2023
				In billions of Argentine pesos						
Net foreign assets	199	584	844	832	900	873	1,181	1,487	1,702	1,987
Net domestic assets	623	417	505	699	450	659	728	768	853	877
Credit to the public sector (net)	1,460	1,741	2,047	1,891	2,047	1,891	1,777	1,598	1,360	1,117
of which: Temporary advances to federal government	382	472	503	503	0	0	0	0	0	0
of which: Non-marketable government bonds	772	915	1,428	1,606	1,237	1,237	1,237	1,237	1,237	1,272
Credit to the financial sector (net)	-589	-681	-1,369	-1,815	-1,283	-1,611	-1,859	-2,105	-2,397	-2,662
of which: BCRA securities held by banks	-345	-441	-851	-1,167	-773	-984	-1,119	-1,247	-1,430	-1,531
BCRA securities held by non-banks (-)	-354	-719	0	0	0	0	0	0	0	0
Official capital and other items (net)	106	76	-173	624	-314	380	809	1,275	1,890	2,422
Monetary base	822	1,001	1,350	1,532	1,350	1,532	1,908	2,255	2,555	2,864
Currency issued	595	787	847	1,103	848	1,095	1,216	1,379	1,480	1,596
Bank deposits at the central bank (peso-denominated)	227	214	503	429	502	437	693	876	1,075	1,268
				As a percentage of GDP						
Net foreign assets	2.4	5.5	6.2	4.7	6.4	4.7	5.4	5.9	6.2	6.6
Net domestic assets	7.6	3.9	3.7	3.9	3.2	3.6	3.3	3.1	3.1	2.9
Credit to the public sector (net)	17.8	16.5	15.0	10.6	14.6	10.2	8.1	6.4	4.9	3.7
of which: Temporary advances to federal government	4.7	4.5	3.7	2.8	0.0	0.0	0.0	0.0	0.0	0.0
of which: Non-marketable government bonds	9.4	8.7	10.5	9.0	8.8	6.7	5.6	4.9	4.5	4.2
Credit to the financial sector (net)	-7.2	-6.5	-10.0	-10.2	-9.1	-8.7	-8.5	-8.4	-8.7	-8.9
of which: BCRA securities held by banks	-4.2	-4.2	-6.2	-6.5	-5.5	-5.3	-5.1	-5.0	-5.2	-5.1
BCRA securities held by non-banks (-)	-4.3	-6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary base	10.0	9.5	9.9	8.6	9.6	8.3	8.7	9.0	9.2	9.5
Currency issued	7.3	7.5	6.2	6.2	6.0	5.9	5.5	5.5	5.4	5.3
Bank deposits at the central bank (peso-denominated)	2.8	2.0	3.7	2.4	3.6	2.4	3.2	3.5	3.9	4.2
				Changes in monetary base (y/y, in AR$ billion)						
Change in monetary base	198	179	376	182	349	182	376	346	300	309
Foreign exchange purchases (net)	209	266	-163	-117	-303	-118	162	271	213	187
Operations with the public sector	151	143	-249	117	-144	118	80	-9	22	9
Sterilization (net) (-)	-177	-227	720	182	868	182	134	84	66	113
Other items (net)	14	-3	33	0	12	0	0	0	0	0
Memorandum items:										
Monetary base (yoy, percent change)	31.7	21.8	34.8	13.5	34.8	13.5	24.5	18.1	13.3	12.1
M2 (AR$ billions) 1/	1,372	1,726	1,933	2,278	1,987	2,340	3,143	3,848	4,514	5,232
M2 (yoy, percent change) 1/	30.4	25.8	11.9	17.9	15.1	17.8	34.3	22.4	17.3	15.9
Gross international reserves (US$ billions)	39.3	55.1	56.4	53.5	57.3	54.4	60.4	65.7	70.1	74.6
Policy interest rate (eop) 2/	23.9	28.8	69.6	32.0	60.0	30.7	21.4	15.3	14.0	13.1
Real interest rate (eop), 12-m ahead y/y inflation 2/	3.6	10.1	37.2	16.8	29.5	15.7	11.4	9.8	8.6	7.8

Sources: Banco Central de la República Argentina (BCRA) and Fund staff estimates.
1/ Currency in circulation outside banks plus peso-denominated deposits in checking and savings accounts.
2/ Average of all LEBAC maturities before 2017, midpoint of the repo corridor from 2017 to July 2018; 7-day LELIQ rate from August 2018.

Table 5b. Argentina: Summary Operations of the Banking Sector

(end of period, unless otherwise indicated)

	2016	2017	*1st rev 2018*	*1st rev 2019*	Proj. 2018	2019	2020	2021	2022	2023
					In billions of Argentine pesos					
Net foreign assets	33	-13	-82	-76	-46	-31	-26	-13	-2	4
Net domestic assets	1,482	1,973	3,176	3,817	2,979	3,556	4,569	5,493	6,368	7,413
Credit to the public sector (net)	-98	-121	-187	-118	-289	-281	-170	-147	-53	26
Gross credit to public sector	383	500	937	1,333	915	1,261	1,547	1,800	2,041	2,296
Deposits from the public sector	-482	-621	-1,124	-1,452	-1,205	-1,543	-1,717	-1,947	-2,094	-2,270
Claims on the central bank	883	980	1,972	2,375	1,898	2,195	2,714	3,165	3,671	4,143
Holdings of central bank securities	345	441	851	1,167	773	984	1,119	1,247	1,430	1,531
Reserves at central bank	473	455	1,021	1,076	1,012	1,064	1,434	1,734	2,044	2,399
Credit to the private sector	1,125	1,701	2,218	2,549	2,266	2,709	3,182	3,745	4,096	4,664
of which: Dollar denominated	154	292	634	757	630	739	832	919	985	1,093
of which: Peso denominated	970	1,409	1,584	1,791	1,637	1,970	2,349	2,826	3,110	3,570
Liabilities with the private sector (-)	-2,043	-2,662	-3,839	-4,713	-3,667	-4,473	-5,595	-6,674	-7,647	-8,799
Local currency deposits	-1,159	-1,464	-2,037	-2,401	-1,894	-2,230	-2,995	-3,668	-4,303	-4,987
Foreign currency deposits	-357	-496	-1,057	-1,340	-1,039	-1,295	-1,548	-1,813	-2,063	-2,431
expressed in billion US$	-22	-26	-29	-33	-28	-31	-35	-40	-45	-51
Net capital, reserves, and other assets	1,616	2,075	3,012	3,725	2,770	3,407	4,438	5,404	6,301	7,379
					As a percentage of GDP					
Net foreign assets	0.4	-0.1	-0.6	-0.4	-0.3	-0.2	-0.1	-0.1	0.0	0.0
Net domestic assets	18.1	18.7	23.3	21.4	21.2	19.2	20.8	21.9	23.0	24.7
Credit to the public sector (net)	-1.2	-1.1	-1.4	-0.7	-2.1	-1.5	-0.8	-0.6	-0.2	0.1
Gross credit to public sector	4.7	4.7	6.9	7.5	6.5	6.8	7.0	7.2	7.4	7.6
Deposits of the public sector	-5.9	-5.9	-8.2	-8.1	-8.6	-8.3	-7.8	-7.8	-7.6	-7.6
Claims on the central bank	10.8	9.3	14.5	13.3	13.5	11.8	12.4	12.6	13.3	13.8
Holdings of central bank securities	4.2	4.2	6.2	6.5	5.5	5.3	5.1	5.0	5.2	5.1
Reserves at central bank	5.8	4.3	7.5	6.0	7.2	5.7	6.5	6.9	7.4	8.0
Credit to the private sector	12.5	14.5	16.3	14.3	14.3	13.3	14.0	14.5	14.8	15.7
of which: Dollar denominated	1.9	2.8	4.7	4.2	4.5	4.0	3.8	3.7	3.6	3.6
of which: Peso denominated	10.6	11.7	11.6	10.0	9.8	9.3	10.2	10.9	11.2	12.1
Liabilities with the private sector (-)	-24.9	-25.2	-28.2	-26.4	-26.1	-24.1	-25.5	-26.6	-27.7	-29.3
Local currency deposits	-14.1	-13.9	-14.9	-13.4	-13.5	-12.0	-13.6	-14.6	-15.6	-16.6
Foreign currency deposits	-4.4	-4.7	-7.8	-7.5	-7.4	-7.0	-7.0	-7.2	-7.5	-8.1
Net capital, reserves, and other assets	19.7	19.7	22.1	20.8	19.7	18.4	20.2	21.6	22.8	24.5
Memorandum items:										
Credit to the private sector (eop, y/y percent change)	31.2	51.3	30.2	14.9	33.0	19.5	17.5	17.7	9.4	13.9
Credit to the private sector, real (eop, y/y percent change)	...	21.2	-5.0	-4.4	-9.7	-0.6	3.9	8.0	4.2	8.5
Interest rate on wholesale deposits (eop) 1/	20.0	23.3	64.1	30.0	49.7	28.7	19.4	13.3	12.0	11.1

Sources: Banco Central de la República Argentina (BCRA) and Fund staff estimates.
1/ BADLAR index of deposits over 1 million AR$.

Table 5c. Argentina: Summary Operations of the Central Bank (Monthly 2018)

(end of period, unless otherwise indicated)

	2018											
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
	In ARS billions											
Net foreign assets	677	768	758	680	629	788	651	590	646	765	705	900
Net domestic assets	289	235	237	319	391	256	416	618	604	390	450	450
Credit to the public sector (net)	1,813	1,858	1,841	1,897	2,202	2,041	1,743	2,066	2,079	2,070	2,060	2,047
of which: Temporary advances to federal government	496	496	507	519	530	542	530	524	503	503	0	0
of which: Non-marketable government bonds	957	980	982	1,009	1,217	1,409	1,025	1,217	1,448	1,237	1,237	1,237
Credit to the financial sector (net)	-809	-809	-785	-750	-777	-914	-904	-967	-1,008	-1,161	-1,412	-1,283
of which: BCRA securities held by banks	-493	-568	-531	-492	-496	-516	-528	-463	-475	-694	-922	-773
BCRA securities held by non-banks (-)	-802	-813	-853	-834	-719	-637	-603	-492	-323	-173	-13	0
Official capital and other items (net)	88	-1	35	6	-316	-234	181	11	-144	-346	-186	-314
Monetary base	966	1,003	995	999	1,020	1,044	1,067	1,208	1,250	1,155	1,155	1,350
Currency issued	765	763	755	743	731	755	763	761	753	739	758	848
Bank deposits at the central bank (peso-denominated)	201	240	240	256	289	288	304	447	496	416	397	502
	Changes in monetary base (m/m, ARS billions)											
Monetary base	-35	37	-7	4	21	23	23	141	41	-95	0	195
Foreign exchange purchases (net)	58	99	-41	-97	-134	-78	0	-128	-115	-37	0	171
Operations on behalf of the public sector	22	0	12	12	10	-9	-19	11	-14	1	1	-171
Sterilization (net) (-)	-114	-60	22	91	142	104	48	219	169	-35	88	195
Other items (net)	0	-2	1	-2	4	7	-6	39	1	-23	-4	0
Memorandum items:												
Monetary base (average)	1,027	1,029	1,022	1,020	1,024	1,066	1,111	1,197	1,271	1,252	1,256	1,350
Monetary base (average), m/m change	44	2	-7	-2	4	42	45	86	74	-19	4	94
Monetary base (average), m/m percent change	4.5%	0.2%	-0.6%	-0.2%	0.4%	4.1%	4.2%	7.8%	6.2%	-1.5%	0.3%	7.5%
Monetary base (eop) y/y percent change	16.7	23.1	31.9	25.6	34.8	25.3	28.2	44.1	44.0	32.8	31.2	34.8
Monetary base (eop) m/m percent change	-3.5	3.8	-0.7	0.4	2.1	2.3	2.2	13.3	3.4	-7.6	0.0	16.9
M2 (AR$ billions) 1/	1,645	1,623	1,663	1,641	1,725	1,876	1,724	1,895	1,827	1,723	1,712	1,987
M2 (yoy, percent change) 1/	26.6	28.9	31.2	27.5	33.9	33.7	22.9	33.1	26.7	18.3	14.7	15.1
Gross international reserves (US$ billions)	62.0	61.5	61.7	56.6	50.1	61.9	58.0	52.7	49.0	52.7	51.1	55.7
Policy interest rate (eop) 2/	28.0	27.3	27.3	27.4	39.3	40.0	40.0	60.0	65.0	71.8	62.0	60.0
Real interest rate (eop), 12-m ahead infl. Exp. 2/	8.0	7.8	7.9	7.7	13.7	12.6	12.8	20.0	24.2	32.4	27.8	29.5

Sources: Banco Central de la República Argentina (BCRA) and Fund staff estimates.
1/ Currency in circulation outside banks plus peso-denominated deposits in checking and savings accounts.
2/ Average of all LEBAC maturities before 2017, midpoint of the repo corridor from 2017 to July 2018; 7-day LELIQ rate from August 2018.

Table 5d. Argentina: Summary Operations of the Central Bank (Monthly 2019)

(end of period, unless otherwise indicated)

	2019											
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
	In ARS billions											
Net foreign assets	809	771	1,127	989	848	920	879	836	1,014	955	895	873
Net domestic assets	541	579	223	361	502	453	508	565	401	474	548	659
Credit to the public sector (net)	2,034	2,016	1,999	1,977	1,956	1,931	1,923	1,919	1,912	1,906	1,899	1,891
of which: Temporary advances to federal government	0	0	0	0	0	0	0	0	0	0	0	0
of which: Non-marketable government bonds	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237
Credit to the financial sector (net)	-1,328	-1,376	-1,424	-1,471	-1,518	-1,539	-1,567	-1,594	-1,619	-1,643	-1,665	-1,611
of which: BCRA securities held by banks	-810	-847	-883	-920	-956	-967	-986	-1,003	-1,019	-1,033	-1,047	-984
BCRA securities held by non-banks (-)	0	0	0	0	0	0	0	0	0	0	0	0
Official capital and other items (net)	-164	-61	-352	-146	64	62	152	239	107	211	315	380
Monetary base	1,350	1,350	1,350	1,350	1,350	1,373	1,387	1,401	1,415	1,429	1,443	1,532
Currency issued	858	874	894	951	971	1,002	982	963	951	971	987	1,095
Bank deposits at the central bank (peso-denominated)	492	476	456	399	379	371	405	437	463	458	456	437
	Changes in monetary base (m/m, ARS billions)											
Monetary base (eop)	0	0	0	0	0	23	14	14	14	14	14	89
Foreign exchange purchases (net)	-98	-48	345	-149	-151	64	-48	-49	172	-65	-66	-26
Operations with the public sector (net)	98	48	-345	149	151	-64	48	49	-172	65	66	26
Sterilization (net) (-)	0	0	0	0	0	23	14	14	14	14	14	89
Other items (net)	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Monetary base (average)	1,350	1,350	1,350	1,350	1,350	1,373	1,387	1,401	1,415	1,429	1,443	1,532
Monetary base (average), m/m change	0	0	0	0	0	23	14	14	14	14	14	89
Monetary base (average), m/m percent change	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%	1.0%	1.0%	1.0%	1.0%	1.0%	6.2%
Monetary base (eop) y/y percent change	39.7	34.6	35.6	35.1	32.3	31.6	30.0	15.9	13.2	23.7	24.9	13.5
Monetary base (eop) m/m percent change	0.0	0.0	0.0	0.0	0.0	1.7	1.0	1.0	1.0	1.0	1.0	6.2
M2 (AR$ billions) 1/	1,987	1,994	2,000	2,007	2,014	2,055	2,082	2,110	2,138	2,167	2,196	2,340
M2 (yoy, percent change) 1/	20.8	22.8	20.3	22.3	16.7	9.5	20.8	11.4	17.0	25.8	28.3	17.8
Gross international reserves (US$ billions)	53.1	51.9	60.9	57.0	53.2	54.8	53.6	52.4	56.6	55.0	53.4	52.8
Policy interest rate (eop) 2/	55.5	54.1	51.5	49.0	46.5	43.0	39.5	37.4	35.6	34.0	32.2	30.7
Real interest rate (eop), 12-m ahead infl. Exp. 2/	29.3	28.8	27.3	25.9	24.5	22.2	19.9	18.8	17.9	17.2	16.3	15.7

Sources: Banco Central de la República Argentina (BCRA) and Fund staff estimates.
1/ Currency in circulation outside banks plus peso-denominated deposits in checking and savings accounts.
2/ Average of all LEBAC maturities before 2017, midpoint of the repo corridor from 2017 to July 2018; 7-day LELIQ rate from August 2018.

Table 6. Argentina: External Debt

	2015	2016	2017	*1st rev* 2018	*1st rev* 2019	Proj. 2018	2019	2020	2021	2022	2023
					(Billions of U.S. dollars)						
Total external debt (gross; includes holdouts)	178.9	189.6	237.3	277.3	273.1	274.5	267.0	266.3	270.8	270.9	268.2
Percent of GDP	*27.9*	*34.2*	*37.2*	*57.2*	*60.6*	*54.7*	*56.9*	*51.5*	*48.2*	*44.8*	*41.4*
By type of creditor											
Debt to official creditors	46.0	50.3	55.5	83.6	103.9	83.2	103.7	108.3	101.1	82.8	63.1
Debt to banks	6.2	6.5	8.2	9.5	9.4	9.4	9.2	9.2	9.3	9.3	9.2
Debt to other private creditors	126.7	132.8	173.6	184.1	159.8	181.9	154.2	148.8	160.4	178.8	195.9
By type of debtor											
Official debt	113.2	130.2	164.1	197.6	187.2	195.1	181.4	175.4	174.7	169.5	160.0
Bank debt	5.3	5.3	8.9	10.2	11.4	10.5	11.7	12.9	14.1	15.3	16.5
Non-financial private sector	60.5	54.1	64.4	69.4	74.4	68.9	73.9	77.9	81.9	86.1	91.7

Sources: Instituto Nacional de Estadística y Censos (INDEC), Banco Central de la República Argentina (BCRA), and Fund staff estimates.

Table 7. Argentina: Public Debt

	2015	2016	2017	*1st rev 2018*	*1st rev 2019*	Proj. 2018	2019	2020	2021	2022	2023
					(Billions of Argentine pesos)						
Gross federal debt	3,130	4,366	6,025	11,062	12,911	10,961	12,606	14,168	15,651	16,645	17,803
By currency:											
In domestic currency	960	1,380	1,883	2,477	2,728	2,353	2,896	3,678	5,063	6,332	7,834
In foreign currency	2,170	2,986	4,143	8,585	10,182	8,608	9,710	10,490	10,588	10,313	9,969
					(Percent of GDP)						
Gross federal debt	52.6	53.3	57.1	81.2	72.2	78.0	67.9	64.5	62.4	60.2	59.2
By currency:											
In domestic currency	16.1	16.9	17.8	18.2	15.3	16.7	15.6	16.7	20.2	22.9	26.1
In foreign currency	36.4	36.5	39.2	63.0	57.0	61.3	52.3	47.7	42.2	37.3	33.2

Sources: Ministry of Finance and Fund staff estimates.

Table 8. Argentina: Federal Government Gross Financing Needs and Sources (US$mn)

	2018				2018 Sep-Dec		2019						2020[2/]	2021[2/]
	September	October	November	December			January	February	March	Q2	Q3	Q4		
	Actual	*Actual*	*Actual*			*1st Rev*								
Primary Balance	728	485	829	3,487	5,529	5,707	(610)	48	325	(1,008)	(740)	1,698	(5,560)	(6,482)
NCG payments	714													
Plan Gas Payments	-	-	-	-	-	-	600	-	-	-	-	-	600	300
Interest	1,109	1,776	1,368	2,671	6,925	6,694	1,499	477	1,412	6,176	2,715	5,305	22,842	23,876
FX	383	1,038	1,000	1,612	4,033	4,055	1,014	228	483	3,613	1,314	2,966	11,911	11,669
Non-Financial Public Sector	102	109	167	163	541	519	56	68	185	308	14	302	1,820	1,865
Financial Public Sector	4	26	9	629	668	666	60	11	3	656	73	656	1,650	1,611
IFI	117	52	187	95	451	452	84	146	114	564	336	314	1,396	1,278
Private	160	851	636	726	2,373	2,418	813	3	180	2,084	890	1,693	7,046	6,915
AR$	727	738	368	1,059	2,891	2,639	485	250	929	2,563	1,401	2,340	10,931	12,207
Non-Financial Public Sector	336	108	6	510	959	874	287	238	459	1,123	768	1,023	3,714	1,964
Financial Public Sector	115	29	102	196	441	386	55	0	145	208	204	200	3,647	4,410
Private	276	601	261	352	1,491	1,378	143	11	324	1,232	430	1,116	3,571	5,833
Amortizations	5,766	3,820	10,519	12,340	32,445	32,034	5,137	6,806	8,618	21,648	7,579	5,844	34,640	55,267
FX	2,343	2,228	6,912	4,384	15,868	15,926	2,193	2,972	5,147	11,332	1,886	1,487	12,839	29,560
Non-Financial Public Sector	194	108	3,090	54	3,447	3,471	321	640	2,268	316	214	0	307	271
Financial Public Sector	194	137	344	88	762	747	81	321	25	121	46	-	11	9,637
IFI	263	172	149	191	775	777	181	82	268	2,099	516	457	2,988	6,616
Private LETES	1,680	1,694	2,503	958	6,836	6,869	1,608	1,916	1,283	4,079	457	970	7,314	7,314
Private Other	12	116	826	3,093	4,048	4,062	1	14	1,303	4,718	653	59	2,220	5,722
AR$	3,422	1,592	3,607	7,956	16,577	16,108	2,945	3,835	3,471	10,316	5,693	4,357	21,800	25,707
Non-Financial Public Sector	297	13	20	2,303	2,633	2,821	1,186	134	320	1,881	1,636	3	2,856	3,377
Financial Public Sector	1,165	620	2,375	4,488	8,648	8,296	655	1,687	2,443	3,277	502	816	4,698	12,138
Private LETES	1,304	935	1,198	1,151	4,587	4,276	1,090	1,216	374	3,553	3,509	3,491	5,897	7,392
Private Other	656	24	14	15	709	714	13	798	334	1,605	47	46	8,349	2,799
IMF Debt Service	-	-	-	-	-	-	100	100	100	847	591	561	2,409	4,468
of which: Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	1,875
Total Needs	8,317	6,081	12,716	18,498	**45,612**	44,435	6,726	7,431	10,454	27,664	10,144	13,408	**54,930**	**77,430**
Deposit drawdown (- = accumulation)	691	(6,601)	3,218	(1,770)	(4,462)	(894)	2,782	2,372	(7,813)	6,103	(2,227)	6,186	(634)	(1,377)
IFIs	-	-	-	1,550	1,550	2,000	-	-	-	1,400	700	900	2,988	2,866
Public Sector 1/	2,287	1,095	6,002	7,605	16,989	16,729	2,588	3,087	5,701	7,026	3,179	2,144	13,406	29,253
Private Sector Issuances	5,339	5,847	3,496	3,413	18,095	13,160	1,356	1,972	1,646	7,675	3,032	3,197	35,251	44,727
FX LETES	1,479	1,310	1,840	479	5,108	3,435	805	965	1,293	4,838	721	721	7,314	7,314
Peso LECAPs	3,860	4,537	1,352	1,380	11,128	7,337	552	1,007	354	2,837	2,311	2,476	5,897	7,392
FX Other	-	-	-	1,547	1,547	2,031	-	-	-	-	-	-	6,609	17,722
Peso Other	-	-	304	8	311	357	-	-	-	-	-	-	15,431	12,299
Total Sources	8,317	341	12,716	10,798	**32,172**	30,995	6,726	7,431	(466)	22,204	4,684	12,428	**51,010**	**75,470**
Total Gap	0	**5,740**	0	**7,700**	**13,440**		**(0)**	**0**	**10,920**	**5,460**	**5,460**	**980**	**3,920**	**1,960**
FX	0	5,740	0	7,700	13,440		(0)	0	9,772	2,707	4,323	2,273	9,346	7,699
Peso	0	(0)	0	(0)	0		(0)	(0)	1,148	2,753	1,137	(1,293)	(5,426)	(5,739)
IMF Disbursements	-	**5,740**	-	**7,700**	**13,440**		**-**	**-**	**10,920**	**5,460**	**5,460**	**980**	**3,920**	**1,960**
Memo Items:														
Private Rollover Rates (FX)	87%	72%	50%	50%			50%	50%	50%	55%	65%	70%	146%	192%
Private Rollover Rates (AR$) 3/	197%	473%	113%	120%			50%	50%	50%	55%	65%	70%	150%	193%

1/ Assumes that both financial and non-financial public sector roll over 100 percent of amortizations. In addition, non-financial public sector capitalizes interest.

2/ Compared to the first review, these years were revised to include amortizations and interest payments of debt issued in 2018 and 2019, in line with assumptions used in the DSA.

3/ Includes new debt issuances in 2018. Rollover of existing amortizations assumed to be 50 percent.

Table 9. Argentina: External Gross Financing Needs and Sources (US$mn)

	2018		2018		2019				2019		2020	2021
	September	Q4		1st Rev	Q1	Q2	Q3	Q4		1st Rev		
Imports G&S	7,257	22,539	29,796	26,994	17,846	19,654	20,283	20,755	78,537	66,531	87,763	97,796
Debt Service	2,071	5,339	7,410	7,432	2,748	4,637	2,338	3,990	13,713	14,032	14,216	13,497
Public Sector	383	3,651	4,033	4,055	1,724	3,613	1,314	2,966	9,617	9,936	11,911	11,669
Private Sector	1,689	1,689	3,377	3,377	1,024	1,024	1,024	1,024	4,096	4,096	2,305	1,828
Amortizations	3,447	19,366	22,813	22,909	11,322	11,924	2,239	2,033	27,518	25,655	23,687	39,301
Public Sector	2,343	13,524	15,868	15,926	10,311	11,332	1,886	1,487	25,016	23,153	12,839	29,560
Private Sector	1,103	1,709	2,812	2,812	1,011	592	353	547	2,502	2,502	10,848	9,740
LEBAC to Non-Residents	-	4,133	4,133	4,171	0	0	0	0	-	-	-	-
Other outflows (net)	1,660	(5,651)	(3,991)	(3,085)	(776)	6,944	3,478	2,868	12,515	6,543	(9,696)	(16,178)
Total Needs	14,435	41,593	**56,028**	54,250	31,140	43,159	28,338	29,646	**132,283**	112,760	115,971	134,415
Exports G&S	6,072	18,215	24,287	23,536	20,787	23,945	21,927	21,050	87,710	75,768	89,060	95,646
FDI	96	2,670	2,767	2,767	370	325	231	1,033	1,959	1,959	4,535	7,321
IFIs	-	1,550	1,550	2,000	-	1,400	700	900	3,000	3,000	2,988	2,866
Private Sector Rollover and Issuances	2,533	3,039	5,572	5,572	1,126	1,126	1,126	1,126	4,506	4,506	7,594	6,818
LEBAC rollovers of Non-Residents	0	0	-	-	0	0	0	0	-	-	-	-
Public Sector Rollover and Issuances	1,479	10,898	12,377	10,664	3,062	4,838	721	721	9,342	9,054	13,923	25,036
Reserve Drawdown (- = accumulation)	4,255	(8,220)	(3,965)	1,593	(5,126)	6,065	(1,828)	3,835	2,946	(7,733)	(6,048)	(5,232)
Total Sources	14,435	28,153	**42,588**	46,133	20,220	37,699	22,878	28,666	**109,463**	86,553	112,051	132,455
Gap	-	13,440	**13,440**	8,117	10,920	5,460	5,460	980	**22,820**	26,208	**3,920**	**1,960**

Table 10. Argentina: Schedule of Reviews and Purchases

Available on or after	Amounts		Conditions 1/
	SDR millions	% Quota	
June 20, 2018	10,613.71	333%	Approval of Arrangement
October 26, 2018	4,100.00	129%	First Review and end-September 2018 performance criteria
December 15, 2018	5,500.00	173%	Second Review and end-October 2018 performance criteria
March 15, 2019	7,800.00	245%	Third Review and end-December 2018 performance criteria
June 15, 2019	3,900.00	122%	Fourth Review and end-March 2019 performance criteria
September 15, 2019	3,900.00	122%	Fifth Review and end-June 2019 performance criteria
December 15, 2019	700.04	22%	Sixth Review and end-September 2019 performance criteria
March 15, 2020	700.04	22%	Seventh Review and end-December 2019 performance criteria
June 15, 2020	700.04	22%	Eighth Review and end-March 2020 performance criteria
September 15, 2020	700.04	22%	Ninth Review and end-June 2020 performance criteria
December 15, 2020	700.04	22%	Tenth Review and end-September 2020 performance criteria
March 15, 2021	700.04	22%	Eleventh Review and end-December 2020 performance criteria
June 1, 2021	700.05	22%	Twelfth Review and end-March 2021 performance criteria
Total	40,714	1277%	

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

Table 11. Argentina: Quantitative Performance Criteria and Indicative Targets 1/2/

(In billions of Argentine pesos unless otherwise stated)

	2018								2019					
	end-Oct			end-Nov			end-Dec		end-Jan	end-Feb	end-Mar	end-Apr	end-May	end-Jun
	PC	Adjusted PC	Actual	IT	Adjusted	Actual	PC	Proposed Revised PC	IT	IT	PC	IT	IT	Proposed PC
Fiscal targets														
Performance Criteria														
1. Primary balance of the federal government (floor) 3/ 9/	-290.0	-299.1	-200.1	n.a.		n.a.	-370.0	-378.0	n.a.	n.a.	6.0	n.a.	n.a.	40.0
2. Federal government accumulation of external debt payment arrears (ceiling)	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	17.0		11.6	n.a.		n.a.	24.4	24.4	n.a.	n.a.	30.0	n.a.	n.a.	40.0
4. Social assistance spending (floor) 3/	144.0		148.8	n.a.		n.a.	173.0	173.0	n.a.	n.a.	60.0	n.a.	n.a.	110.0
Indicative targets														
5. Primary balance of the general government (floor) 3/ 9/	n.a.	n.a.	n.a.	n.a.		n.a.	-370.0	-378.0	n.a.	n.a.	-14.0	n.a.	n.a.	30.0
Monetary targets														
Performance Criteria														
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	3.7	4.3	5.3	2.1	1.4	2.2	7.1	7.1	4.1	2.9	12.5	8.0	4.2	5.8
7. Change in stock of non-deliverable FX forwards (ceiling) 6/ 11/	0.0		-2.0	0.0		-2.3	0.0	0.0	0.0	-0.7	-1.0	-1.2	-1.5	-1.7
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Central bank financing of the government (ceiling) 4/	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10. Change in net domestic assets of the central bank (ceiling) 8/ 9/	97.7	97.7	28.9	-55.7	-16.5	-121.6	-46.2	-46.2	-112.1	-36.0	-185.6	-300.3	-156.1	-101.5

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on September 28, 2018.
7/ The change is measured against the value on September 28, 2018, which stood at 2,592.86 billion pesos.
8/ The change is measured against the average value for September 2018, which was AR$ 571 billion.
9/ Targets subject to adjustors as defined in the TMU.
10/ Increases reflect IMF budget support disbursements, which increase NIR.
11/ Continuous performance criterion until end-December 2018. Thereafter, this will become a quarterly performance criterion with monthly indicative targets.

Table 12. Argentina: Structural Program Conditionality

	Prior Action	Timing	Implementation status
1	Present a three-year budget document to Congress, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program. The budget would include details on realistic and prudent macroeconomic assumptions underlying the medium-term budget.	2nd Review	Met
	Structural Benchmarks	**Timing**	**Implementation status**
1	Publish a regulation to introduce a foreign exchange auction for BCRA intervention in the spot and forward markets.	Jun-2018	Met
2	Establish a senior-level debt management coordinating committee between Treasury-Finance-BCRA that would meet weekly and coordinate activities linked to sterilization and debt issuance plans.	Sep-2018	Not met. Implemented with one day delay.
3	Present a three-year budget document to Congress, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program. The budget would include details on realistic and prudent macroeconomic assumptions underlying the medium-term budget.	Oct-2018	Not met. Implemented with delay.
4	Congress will pass the 2019 Budget targeting a zero primary balance.	Nov-2018	Met
5	Congress will pass the revenue legislation underpinning the 2019 fiscal plan, including the increase in rate and base of the wealth tax (Impuesto sobre los Bienes Personales)	Nov-2018	Not met. Implemented with delay.
6	Publish a debt management strategy with the goal of on increasing the predictability, pricing, and liquidity of treasury issuances	Dec-2018	Proposed
7	Provide sufficient resources to the newly created CBO (Oficina de Presupuesto del Congreso), so that it can effectively evaluate macroeconomic and budgetary forecasts (including those contained in the annual budget and MTFF), provide independent costing to Congress of new policy initiatives, assess the government's fiscal plans (including the annual budget), and monitoring public finances at the central level.	Dec-2018	Met
8	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Mar-2019	
9	Submit to Congress a new charter for the central bank that will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability	Mar-2019	
10	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	
11	Recapitalize the central bank to ensure it has the adequate level of capital as percent of the monetary base plus the outstanding stock of LEBACs.	Dec-2019	

Table 13. Argentina: Indicators of Fund Credit

(In millions of SDRs, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Existing and Prospective drawings (36 month SBA)	20,214	16,300	2,800	1,400	...	...	...	...	...
(in percent of quota)	634	511	88	44					
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/									
Amortization 1/	0.0	0.0	0.0	2,653.4	14,494.4	16,128.5	5,600.1	1,575.1	262.5
GRA charges and surcharges 1/	0.0	946.4	1,385.1	1,612.7	1,569.9	771.5	141.2	27.5	2.8
GRA service charge 1/	27.5	81.5	14.0	7.0	0.0	0.0	0.0	0.0	0.0
SDR assessments 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service 1/	27.5	1,027.9	1,399.1	4,273.2	16,064.3	16,900.0	5,741.4	1,602.6	265.4
(in percent of exports of G&S)	0.1	1.7	2.2	6.4	22.5	22.0	7.0	1.8	0.3
(in percent of GDP)	0.0	0.3	0.4	1.1	3.8	3.7	1.2	0.3	0.0
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/									
Outstanding stock 1/	20,213.7	36,513.8	39,313.9	38,060.6	23,566.2	7,437.7	1,837.6	262.5	0.0
(in percent of quota)	634.2	1,145.6	1,233.5	1,194.1	739.4	233.4	57.7	8.2	0.0
(in percent of GDP)	5.8	11.1	10.9	9.7	5.6	1.6	0.4	0.1	0.0
Memorandum items:									
Exports of goods and services (US$ mn)	75,897	87,710	89,060	95,646	102,280	109,773	117,814	126,444	135,706
Gross International Reserves (US$ mn)	57,336	54,390	60,438	65,670	70,141	74,613	81,571	89,177	97,493
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

Source: Fund staff estimates.

1/ Assumes that all purchases will be made.

Table 14. Argentina: External Debt Sustainability Framework

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
Baseline: External debt	27.3	30.2	27.9	34.2	37.2			**54.4**	**56.6**	**51.2**	**47.9**	**44.5**	**41.1**	**-2.5**
Change in external debt	-1.7	2.9	-2.4	6.4	3.0			17.2	2.2	-5.4	-3.3	-3.4	-3.4	
Identified external debt-creating flows (4+8+9)	-0.9	3.3	-2.7	6.6	-1.6			5.5	2.0	0.2	-0.3	-0.6	-1.0	
Current account deficit, excluding interest payments	1.5	0.9	2.2	1.8	3.7			2.7	-0.5	0.8	1.1	1.4	1.6	
Deficit in balance of goods and services	0.1	-0.2	1.0	0.7	2.4			1.9	-1.9	-0.2	0.4	1.3	1.2	
Exports	14.7	14.5	10.9	12.8	11.4			15.0	18.6	17.1	16.9	16.8	16.8	
Imports	14.8	14.4	11.9	13.4	13.8			16.9	16.7	16.9	17.3	18.1	18.1	
Net non-debt creating capital inflows (negative)	-1.5	-0.6	-1.7	-0.4	-2.1			-1.0	-0.4	-0.9	-1.3	-1.6	-1.9	
Automatic debt dynamics 1/	-0.9	3.0	-3.1	5.3	-3.2			3.7	3.0	0.2	-0.1	-0.4	-0.6	
Contribution from nominal interest rate	0.6	0.7	0.6	0.9	1.2			2.4	2.0	1.6	1.4	1.2	0.9	
Contribution from real GDP growth	-0.7	0.7	-0.7	0.6	-0.9			1.3	1.0	-1.4	-1.5	-1.5	-1.5	
Contribution from price and exchange rate changes 2/	-0.8	1.6	-3.0	3.8	-3.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.8	-0.4	0.3	-0.3	4.6			11.7	0.1	-5.6	-2.9	-2.8	-2.5	
External debt-to-exports ratio (in percent)	186.4	208.2	255.5	268.1	326.7			361.7	304.5	299.0	283.1	264.9	244.3	
Gross external financing need (in billions of US dollars) 4/	85.8	82.6	81.7	104.5	97.4			143.6	106.7	97.2	94.2	113.4	113.7	
in percent of GDP	14.0	14.7	12.7	18.9	15.3	10-Year	10-Year	28.4	22.6	18.7	16.7	18.6	17.4	
Scenario with key variables at their historical averages 5/								**54.4**	**47.7**	**42.1**	**38.1**	**33.9**	**29.8**	**-3.4**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.4	-2.5	2.7	-1.8	2.9	1.7	4.6	-2.8	-1.7	2.7	3.1	3.4	3.6	
GDP deflator in US dollars (change in percent)	3.0	-5.4	10.9	-12.1	11.7	7.1	10.8	-18.6	-4.9	7.3	5.3	4.2	3.5	
Nominal external interest rate (in percent)	2.3	2.4	2.2	2.7	4.2	2.5	0.6	5.1	3.4	3.2	2.9	2.6	2.1	
Growth of exports (US dollar terms, in percent)	-5.0	-8.7	-14.4	1.0	2.7	2.0	15.3	4.5	15.6	1.5	7.4	6.9	7.3	
Growth of imports (US dollar terms, in percent)	8.3	-10.4	-5.3	-2.8	18.2	7.0	20.8	-3.1	-7.9	11.6	11.4	12.5	7.2	
Current account balance, excluding interest payments	-1.5	-0.9	-2.2	-1.8	-3.7	-0.4	2.1	-2.7	0.5	-0.8	-1.1	-1.4	-1.6	
Net non-debt creating capital inflows	1.5	0.6	1.7	0.4	2.1	1.6	0.7	1.0	0.4	0.9	1.3	1.6	1.9	

Source: Fund staff calculations and estimates.

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

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

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

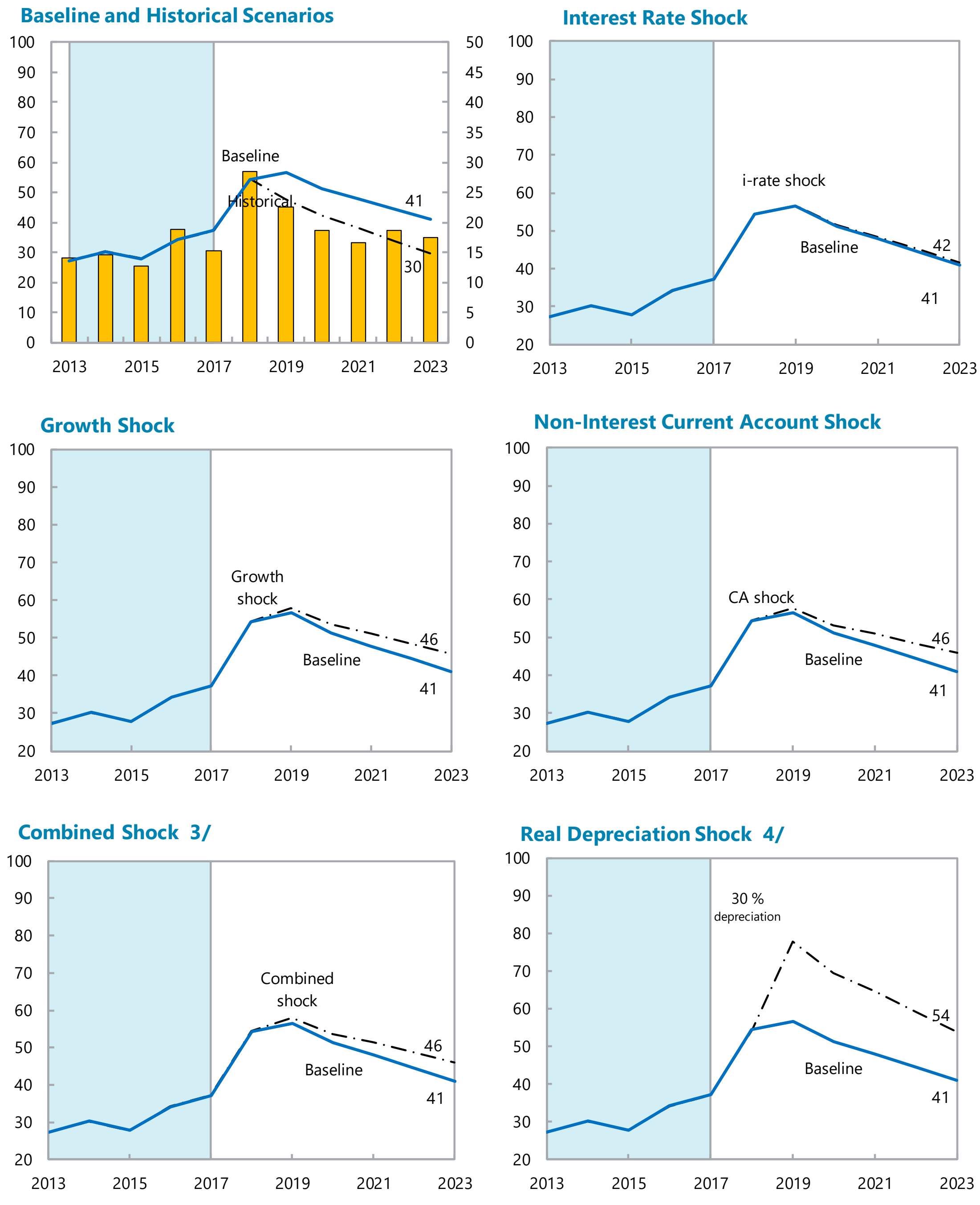
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Figure 3. External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



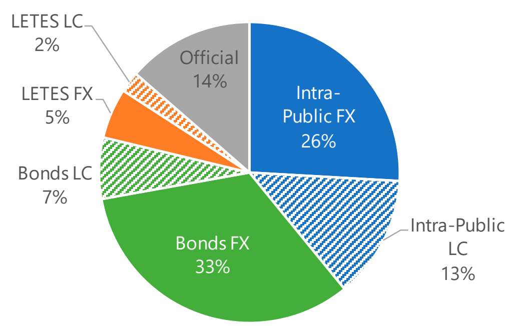
Source: Fund staff calculations and estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2018.

Annex I. Public Debt Sustainability Analysis

This debt sustainability analysis (DSA) provides an update to the findings in the [Argentina: First Review Under the Stand-By Arrangement](). Federal government debt is projected to rise to 78 percent in 2018 but start declining from 2019 and fall to below 60 percent of GDP by 2023. Important downside risks to this path remain, including, economic and financial conditions not improving as envisaged in the baseline; the structurally high share of foreign currency denominated debt; elevated fiscal and external financing needs; and potential contingent liabilities. The program remains fully financed. Staff's overall assessment is that Argentina's debt is sustainable, but not with a high probability.

A. Background

Argentina Debt Composition
(%total, end-September 2018)



1. Stock. By end-September 2018, gross federal government debt (including intra-public sector holdings) stood at US$316 billion, down from US$321 billion at end 2017. The drop was largely due to the depreciation of the peso, which was at AR$18.8/US$ at end-2017.

2. Currency Composition. The FX-denominated portion of debt has gone up from around 68 percent in end-2017 to about 78 percent by end-September, largely driven by the (i) the US$9 billion external bond placement in January 2018, (ii) the US$15 billion IMF disbursement in June 2018, and (iii) currency depreciation.

3. Maturity. The average maturity of total public debt at end-2017 stood at 7.7 years, with the average maturity of bonds standing at 9.4 years. The stock of short-term LETES in private hands is around US$24 billion, 70 percent of which are FX denominated.

4. Debt Holders. About 40 percent of the federal government's debt is held by other public-sector entities and provinces. Nearly two third of this intra-public-sector debt is denominated in US$, and within this, the majority are low-interest *Letras Intransferibles* held by the BCRA. Debt to IFIs (including the IMF) and bilateral creditors has increased from about 9 percent of total debt to 13 percent of total debt.

B. Baseline Scenario

5. Debt is expected to increase to 78 Percent of GDP in 2018 as a result of higher realized depreciation for the year and lower projected growth. Debt is expected to decline gradually toward 59 percent of GDP by 2023. Gross financing needs (GFN) are high but are expected to remain below the 15 percent of GDP high-risk threshold during the projection period. This projection is based on the following assumptions, which remain largely unchanged since the First Review under the SBA:

- ***Growth and Inflation***. Growth in 2018 is expected to decline to -2.8 percent, remain at -1.7 percent in 2019, and then rebound to 2.7 percent in 2020. Growth will then rise gradually to 3.6 percent by 2023. Inflation is expected to continue to erode the real value of long-maturity, peso-denominated debt.

- ***Primary Deficit.*** The fiscal consolidation throughout the period will help reduce the accumulation of debt going forward.

- ***Exchange Rate.*** The real peso depreciation in 2018 will worsen debt dynamics. Staff expects this excess real depreciation to unwind during the program period.

- ***Financing Assumptions.*** Continued rollover of intra-public-sector financing is assumed, together with the capitalization of interest payments. Statutory advances from the BCRA are set to zero from July 2018. No further international bond issuance is expected until 2020. The IMF will continue to play a key role in financing the federal government for the remainder of 2018 and 2019. Compared to the first review under the SBA, there is a new modest amount of LECAP issuances assumed for November/December 2018 (about US$1 billion).

C. Shocks and Stress Tests

Solvency Risks

- Given the high share of foreign currency denominated debt, a shock to the exchange rate remains a major vulnerability. The standard DSA stress test (50 percent real depreciation with 0.25 pass-through) shows that debt could jump to 95 percent of GDP in such a scenario. Debt is also vulnerable to a growth shock, which under the stress test could raise debt to 79 percent of GDP.

- Fiscal consolidation is critical to stabilizing the debt level. If the primary balance were to remain unchanged at its 2018 level (–2.7 percent of GDP), debt would remain largely flat, at 80 percent of GDP by 2023. A 'combined macro-fiscal' shock would cause debt to peak at 116 percent of GDP.[1]

Liquidity Risks

- A combined macro-fiscal shock will lead to GFN of 32 percent of GDP. In such a scenario, it may not be possible to finance this through market access on favorable terms.

[1] This involves: (i) a one-standard deviation shock to growth, with the corresponding automatic stabilizers and lower inflation; (ii) a 50 percent real depreciation, with 0.25 pass-through to inflation; and (iii) 200bps shock to interest rates.

D. Overall Assessment

6. Debt dynamics under the baseline remain benign. The fiscal adjustment, economic recovery, and lower real interest rates (as central bank credibility is established) will all work to place public debt-to-GDP on a steady downward trajectory from 2019 onwards. Debt would fall under the planned fiscal consolidation to below 60 percent of GDP by the end of 2023.

7. There are significant risks to debt sustainability. The most evident near-term risks are linked to:

- The size of the gross financing needs under a stressed scenario;
- The large (and potentially rising) share of foreign currency debt (which makes Argentina's debt dynamics susceptible to deviations from the programmed path of the real exchange rate);
- The large external financing needs of the economy, which in past emerging market crises has shown to be a strong predictor of a debt crisis;
- The fact that the proposed fiscal consolidation is ambitious relative to similar country situations (it is in the top 5 percent of the distribution of fiscal consolidations achieved by a broad sample of program countries);
- The DSA covers only federal government debt and so could understate the sustainability of general government debt. However, most provinces are running close to a balanced budget and provincial debt at end-2017 was projected to be around 6 percent of GDP;
- The national government faces contingent liabilities from needing to recapitalize the central bank, from loss-making publicly-owned corporations, and from unfunded pensions.

These risks are, however, mitigated by the high share of federal government debt that is held by other public-sector entities and the relatively long maturity of dollar-denominated debt issued on international markets.

Argentina Public DSA Risk Assessment

Heat Map

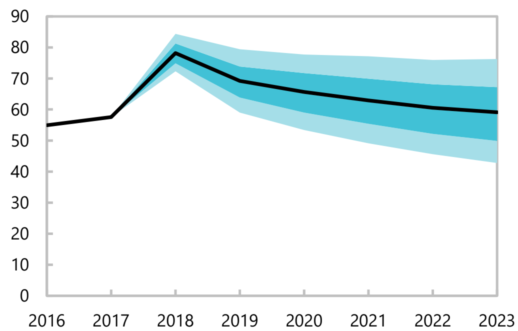
Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception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

Evolution of Predictive Densities of Gross Nominal Public Debt

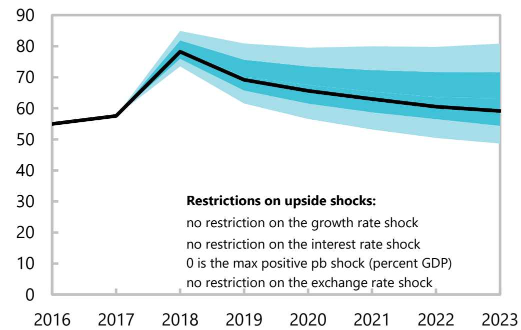
(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

Symmetric Distribution

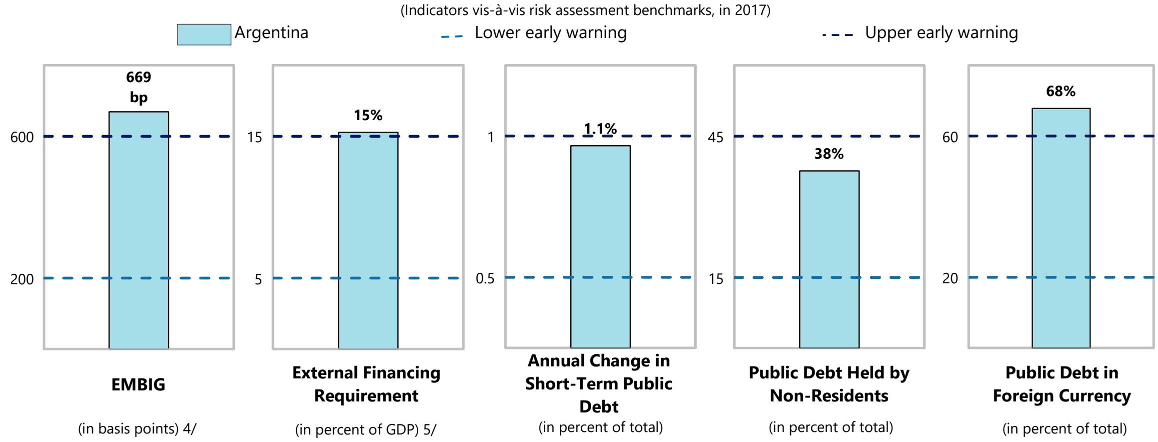


Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

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

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

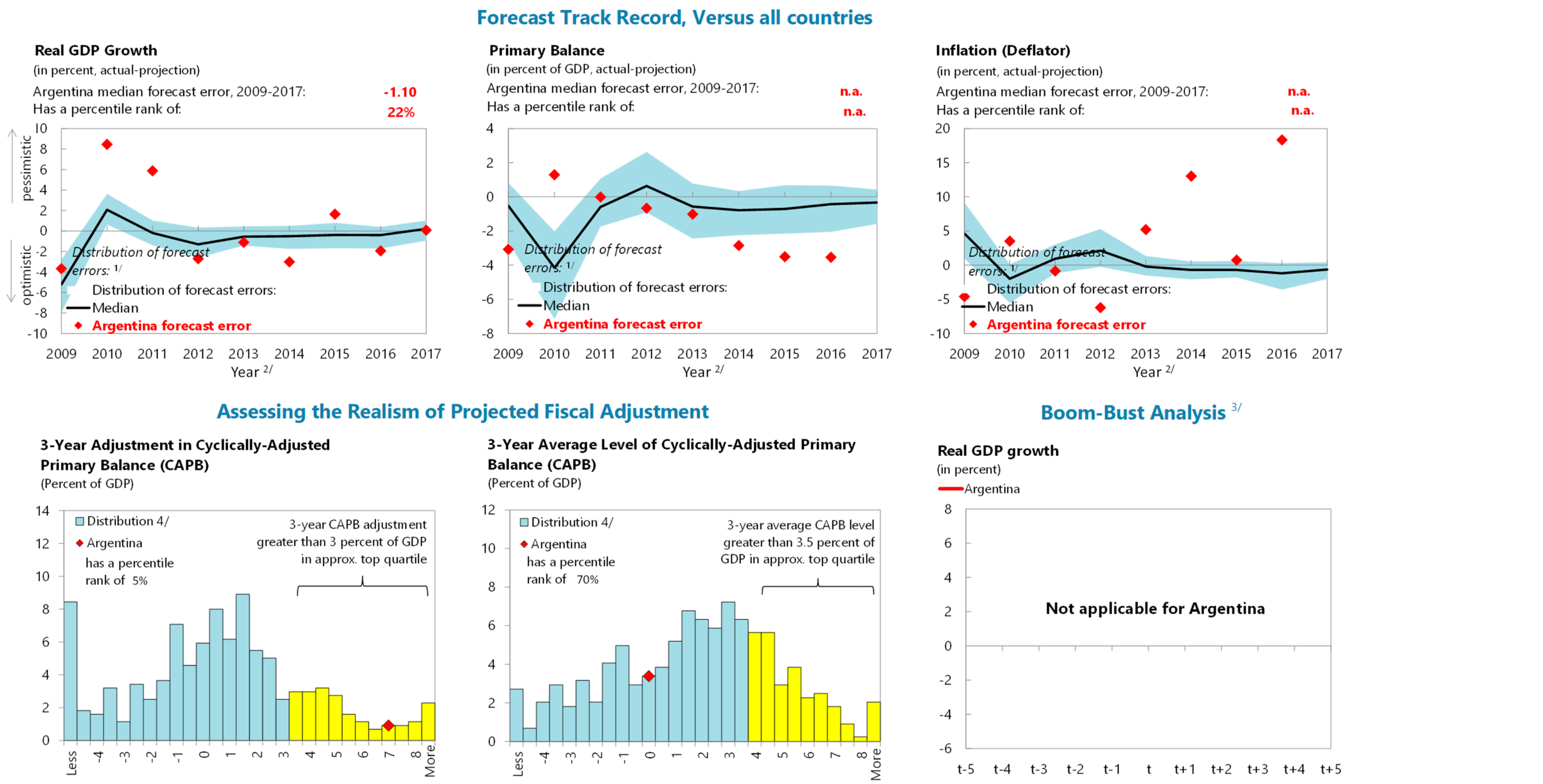
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ EMBIG, an average over the last 3 months, 02-Aug-18 through 31-Oct-18.

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

Argentina Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Argentina, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Argentina Public Sector Debt Sustainability Analysis (DSA)

(in percent of GDP unless otherwise indicated)

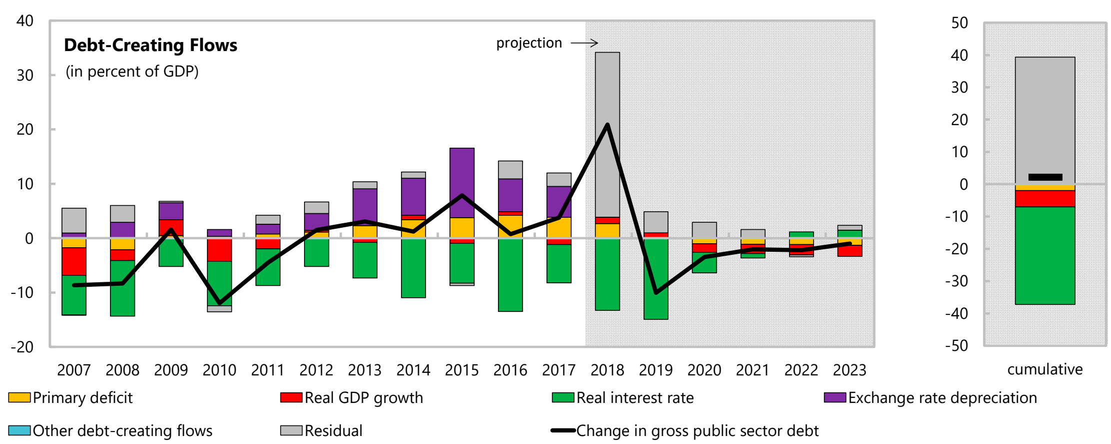
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	48.3	53.3	57.1	78.0	67.9	64.5	62.4	60.2	59.2
Public gross financing needs	9.5	12.5	13.3	13.2	13.1	9.7	13.8	14.1	14.0
Real GDP growth (in percent)	2.8	-1.8	2.9	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation (GDP deflator, in percent)	23.5	40.2	25.2	37.7	34.3	15.5	10.7	6.7	4.9
Nominal GDP growth (in percent)	26.8	37.5	28.9	33.1	32.0	18.4	14.1	10.3	8.7
Effective interest rate (in percent) [4/]	4.4	4.2	8.9	5.5	8.4	9.3	9.6	9.0	7.8

As of October 31, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		672
5Y CDS (bp)		611
Ratings	Foreign	Local
Moody's	B2	B2
S&Ps	B+	B+
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-2.0	0.8	3.8	20.9	-10.0	-3.5	-2.1	-2.2	-1.0	2.1	1.1
Identified debt-creating flows	-3.4	-2.5	1.3	-9.4	-13.9	-6.4	-3.7	-1.9	-1.9	-37.2	
Primary deficit	0.9	4.2	3.8	2.7	0.0	-1.0	-1.1	-1.2	-1.3	-1.9	
Primary (noninterest) revenue and grants	25.3	26.6	26.1	26.7	28.1	28.3	28.0	27.5	27.1	165.7	
Primary (noninterest) expenditure	26.2	30.8	29.9	29.3	28.1	27.3	26.9	26.3	25.8	163.7	
Automatic debt dynamics [5/]	-4.3	-6.7	-2.5	-12.1	-13.9	-5.4	-2.6	-0.8	-0.5	-35.2	
Interest rate/growth differential [6/]	-8.7	-12.8	-8.2	-12.1	-13.9	-5.4	-2.6	-0.8	-0.5	-35.2	
Of which: real interest rate	-7.5	-13.5	-7.0	-13.3	-14.9	-3.8	-0.8	1.2	1.5	-30.2	
Of which: real GDP growth	-1.2	0.7	-1.2	1.2	1.0	-1.6	-1.7	-1.9	-2.0	-5.1	
Exchange rate depreciation [7/]	4.4	6.0	5.7	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Government and Public Sector Finance: (	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.4	3.3	2.5	30.3	3.9	2.9	1.6	-0.3	0.9	39.3	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

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

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

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

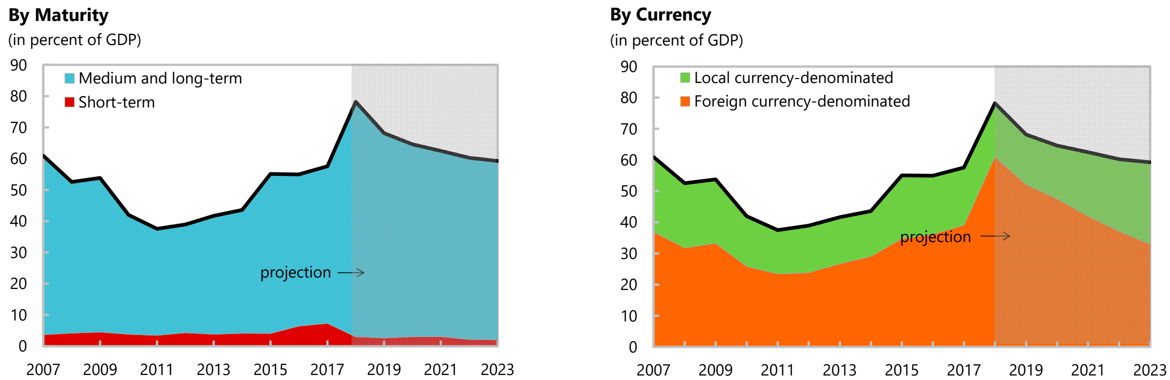
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

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

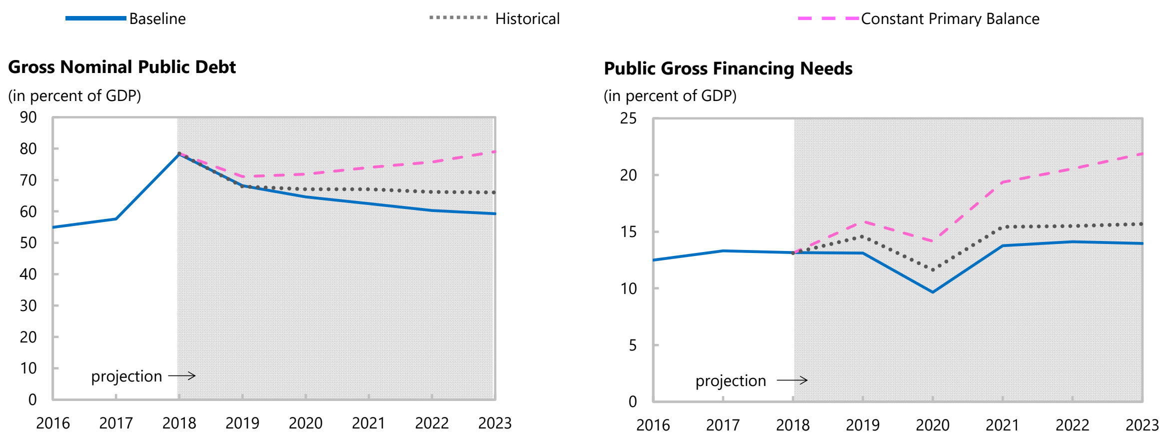
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Argentina Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

(in percent)

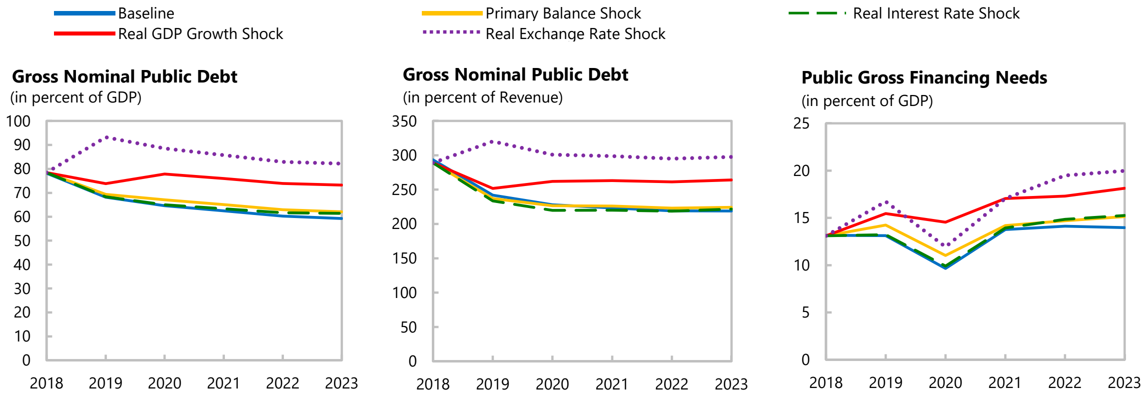
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	37.7	34.3	15.5	10.7	6.7	4.9
Primary Balance	-2.7	0.0	1.0	1.1	1.2	1.3
Effective interest rate	5.4	8.4	9.2	9.5	8.9	7.7
Constant Primary Balance Scenario						
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	37.7	34.3	15.5	10.7	6.7	4.9
Primary Balance	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Effective interest rate	5.4	8.5	9.4	10.0	9.3	7.9

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.8	1.7	1.7	1.7	1.7	1.7
Inflation	37.7	34.3	15.5	10.7	6.7	4.9
Primary Balance	-2.7	-1.8	-1.8	-1.8	-1.8	-1.8
Effective interest rate	5.4	8.5	7.4	6.6	4.5	2.0

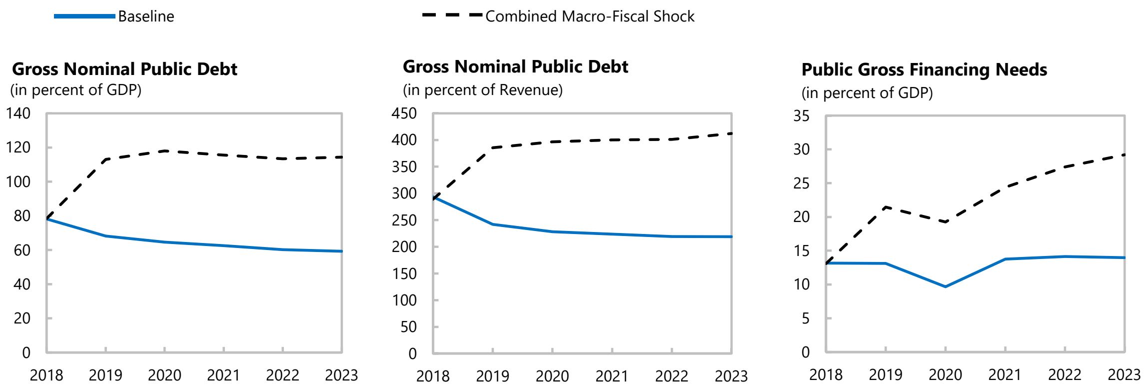
Source: IMF staff.

Argentina Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	37.7	34.3	15.5	10.7	6.7	4.9
Primary balance	-2.7	-1.0	0.0	1.1	1.2	1.3
Effective interest rate	5.4	8.5	9.4	9.8	9.1	7.9
Real Interest Rate Shock						
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	37.7	34.3	15.5	10.7	6.7	4.9
Primary balance	-2.7	0.0	1.0	1.1	1.2	1.3
Effective interest rate	5.4	8.5	9.7	10.2	9.9	9.0
Combined Shock						
Real GDP growth	-2.8	-6.3	-1.9	3.1	3.4	3.6
Inflation	37.7	33.1	14.3	10.7	6.7	4.9
Primary balance	-2.7	-1.5	-2.0	1.1	1.2	1.3
Effective interest rate	5.4	11.1	8.6	9.5	9.4	8.8

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.8	-6.3	-1.9	3.1	3.4	3.6
Inflation	37.7	33.1	14.3	10.7	6.7	4.9
Primary balance	-2.7	-1.5	-2.0	1.1	1.2	1.3
Effective interest rate	5.4	8.5	9.4	10.1	9.4	8.1
Real Exchange Rate Shock						
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	37.7	51.6	15.5	10.7	6.7	4.9
Primary balance	-2.7	0.0	1.0	1.1	1.2	1.3
Effective interest rate	5.4	11.1	8.2	8.6	8.3	7.4

Source: IMF staff.

Appendix I. Letter of Intent

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

December 11, 2018

Dear Madame Lagarde,

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic objectives and policies of the Government of Argentina that have changed since the time of the approval of the first review of the Stand-By Arrangement on October 26, 2018. Also attached is an addendum to the Technical Memorandum of Understanding.

The reformulated policy plan that our government implemented prior to the first review of the SBA is off to a good start. Markets have been relatively calm over the past few months, a sign of confidence in the policy program we are implementing. Passage of the administration's 2019 Budget with a large margin at the Senate shows the broad political support for eliminating the fiscal deficit as an essential foundation for inclusive growth and stability.

We continue to maintain a close policy dialogue with IMF staff. We remain committed to maintaining this close collaboration, including through the sharing of data and information that are needed to assess program implementation.

From the start, this economic program has been fully owned by the Argentine government. We will continue to work to build a broad consensus around its objectives and policies. We are certain that, as the dividends of macroeconomic stability become evident, public and political support for our policy plans will grow in the months ahead.

We believe that these policies and those set forth in the attached MEFP are adequate to achieve the macroeconomic and financial objectives of the program. But we will take any additional measures that may be appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation.

We are fully committed to transparency in our economic policy plans. As such, we consent to the publication of the Executive Board documents for the review as well as this letter and our memorandum of economic and financial policies.

Your sincerely,

/s/	/s/
Nicolas Dujovne	Guido Sandleris
Minister of Finance	President, Central Bank of Argentina

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

This memorandum supplements and updates the Memorandum of Economic and Financial Policies (MEFP) dated October 17, 2018.

The Economic Outlook

1. The recession currently affecting Argentina reflects the impact of the severe drought our country endured in the first half of 2018 as well as the tightening of external financial conditions that we have faced. Given the shifting financial conditions, it has been necessary to recalibrate both our fiscal and monetary policies to ensure macroeconomic stability. This will inevitably take a toll on the real economy over the near-term as inflation is brought down and we begin to live within our means. We are conscious of the shared burden this is placing on the Argentine people and we have put in place policies to support those that are most at risk (see below). However, we are convinced that these policies will lay a solid foundation for future growth and stability.

Fiscal Policy

2. We remain committed to the targets we have announced for reaching a primary balance in 2019. We are making steady progress toward this objective, including through the recent passage of the 2019 Budget by Congress. We stand ready, if needed, to implement additional measures to ensure that our target, of primary balance, is reached in 2019. The submission of the medium-term budget to congress was delayed but it was completed in mid-November as a prior action for the completion of the second review.

3. The Fund's budget support will be used solely to meet primary balance needs and the interest and amortization payments on the debt of the Treasury. We commit not to undertake FX sales through state-owned banks. At present, we have no intention to conduct FX sales of the Fund disbursements in the market for the remainder of the year. We may convert part of the disbursements into pesos through the BCRA to build buffers during 2018. A system for the orderly conversion and use of the disbursements for peso-denominated budgetary financing needs in 2019 will be worked out before such needs arise, and in the context of the next review.

Monetary Policy

4. The new monetary policy framework that we have put in place in October has been effective in stabilizing financial markets. The currency has appreciated and there are early signs that the disinflationary process is under way.

5. We remain committed to our goal of keeping the stock of base money unchanged in nominal terms from September 2018 to June 2019 with a seasonal adjustment for the spike in currency in circulation in December and in June 2019. The last data from the Central Bank survey showed that average 12-month inflation expectations has fallen for three consecutive months, with a cumulative decline of 4.4 pps between September and November. As a result, we have removed the 60 percent floor on the LELIQ interest rate, that is now fully determined by market forces.

6. Going forward, if the peso appreciates below the lower edge of the nonintervention zone, we will ensure that non-sterilized purchases of FX will be calibrated so that the monetary policy stance remains conducive to a rapid reduction of inflation and inflation expectations. Any such purchases will be clearly presented to the public in the BCRA's fortnightly review of monetary policy, separately from the base-money target.

7. We recognize that multiple rates and exemptions make the reserve requirement system relatively costly to implement for the banks. We therefore intend to simplify the reserve requirement regulation, but with no impact to the overall amount of reserves. We recognize that multiple rates and exemptions make the reserve requirement system relatively costly to implement for the banks. We therefore intend to simplify the reserve requirement regulation, in agreement with the IMF as specified in the TMU. The changes will have no impact to the overall amount of reserves.

8. We remain committed to a floating exchange rate, where the level of the peso will be determined by market forces, without intervention by the central bank. Outside of the non-intervention zone, we will be prepared to intervene in a transparent and fully anticipated way to prevent disorderly market conditions, in line with the announced monetary policy framework. Lastly, given the falling inflation expectations, the limits of the non-intervention zone will be adjusted daily at a monthly rate of 2 percent during the first quarter of 2019.

9. Once inflation has fallen toward single digits and inflation expectations are well-anchored, our intention is to return to an inflation targeting framework.

10. To strengthen the monetary policy framework and central bank governance, we will submit a draft of a new BCRA charter to Congress by end-March 2019, that will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability. We further commit to work towards obtaining the necessary approvals to permit an injection of peso denominated, interest-bearing marketable securities onto the central bank's balance sheet to achieve an adequate level of capital by end-December 2019. Lastly, we also commit to continue to opportunistically reduce the BCRA's net credit to government, financing conditions permitting.

Social Safety Net and Gender Equality

11. We remain committed to take all the necessary measures to protect the most vulnerable from the effect that the current conjuncture may have on their lives.

12. Higher inflation and weaker economic activity tend to affect especially families with children and parents that have an informal job. To support these families, we provided one-off payments in September and December to the beneficiaries of the Universal Child Allowance (AUH). With its emphasis on children education and health, this program plays a key role in reducing poverty among children. In addition, to support poor people without children, we have provided a one-off payment in December to the beneficiaries of the Employment Support Program (*Apoyo al Empleo*).

13. Income support alone is not enough, though. In a weak economy, the most vulnerable find it more difficult to satisfy basic needs and might have adverse consequences in terms of health and other outcomes. To prevent this from happening, in the 2019 Budget we have i) expanded by 50 percent (in nominal terms) programs that provide direct and indirect food assistance to the poor, ii) more than doubled the program of control and prevention of immune-preventable diseases, iii) increased in real terms the provision of medicines under the universal health coverage system, and, finally, iv) increased tenfold our spending aimed at expanding the provision of universal health coverage.

14. To make these benefits and services more accessible we have strengthened the program *El Estado en Tu Barrio*, through which mobile stations provide administrative services to those that live in the most remote parts of the country and established a one-window system that also allows the public administration to provide services more effectively (by crossing information on beneficiaries). Also, we made good progress in simplifying and standardizing the certification of the education and health requirements for the AUH, which reduces exclusion errors.

15. We will continue to work with the World Bank, the Inter-American Development Bank, and other international and regional organizations to explore ways to strengthen our social protection strategy.

16. We are also committed to ensuring that women have equal opportunities in the job market and in the society at large. To this end, we have

- established a national plan for equal opportunity
- designed a voluntary system to score companies on their gender policies and recommend improvements
- sent legislation to congress that equalize maternity and paternity leave
- strengthened the program to provide public infant care and give mothers the possibility to remain in the labor market.
- Finally, we are committed to publishing by end-March 2019 a public monitoring paper of the gender balance in executive boards and management positions at listed companies.

Debt Management

17. Over the past six months, we have eliminated most of the BCRA's LEBAC securities and alleviated an important vulnerability that faced the Argentine economy. We intend to strengthen our debt management strategy in the coming months to provide clear guidance to investors and offer a predictable approach to our budget financing operations. As such, we intend to publish a comprehensive debt management strategy that will outline our objectives and plans for 2019 by end-December 2018 (proposed end-December structural benchmark). In arriving at this strategy, we are coordinating closely with local financial institutions to provide incentives for institutions to become more effective market makers so as to increase the liquidity of the local markets.

Governance and AML/CFT

18. As the recent scandals have brought to light and recognizing the advances in new legislation and administrative measures taken recently, Argentina's governance regime needs to be strengthened, including through more resources devoted to anti-corruption and AML/CFT efforts. In 2019, we will begin implementing an action plan addressing, among other key topics, the integrity, transparency, and proper management of procurement activities, including within State Owned Enterprises (SOEs) (*"Estrategia y Plan Nacional Anticorrupcion – 2019-2023"*). In consultation with Fund staff, we also plan to finalize and publish the Executive´s National Anti-corruption strategy, and its respective action plan.

19. In the context of AML/CFT efforts, by end of February 2019, the Financial Intelligence Unit (FIU), in consultation with Fund staff, will propose amendments to the legal framework enabling the FIU, with immediate communication to a competent judge, to order the administrative freezing of funds and other assets identified in the context of money laundering suspicions, in line with international standards and best practices. These amendments to the legal framework will be implemented accordingly at a later stage.

20. In addition, we will redouble efforts to achieve the operational implementation of the company registry ("*Registro Nacional de Sociedades, Concursos y Quiebras*"), created by Law 27.444 in 2018, In 2019, it will be implemented using the register of the AFIP (Tax agency) which provides information on company name, single tax payer identification code, legal address, real address and representative to AFIP. Meanwhile, provincial registers will continue working on the digitalization and publishing online information. This last action is focused on the largest cities where more commercial activity is registered.

21. Furthermore, by May 2019, the Anti-Corruption Office, in collaboration with other relevant authorities and Fund staff, will pilot the new electronic system for submission of asset and interest declarations that has been developed following international good practices. The pilot will only comprise a small number of high-level officials from the Executive (i.e., President, Vice-president, Ministers and Secretaries of State) to test the tool before it is finalized for full implementation.

Table 1. Argentina: Schedule of Reviews and Purchases

Available on or after	Amounts		Conditions 1/
	SDR millions	% Quota	
June 20, 2018	10,613.71	333%	Approval of Arrangement
October 26, 2018	4,100.00	129%	First Review and end-September 2018 performance criteria
December 15, 2018	5,500.00	173%	Second Review and end-October 2018 performance criteria
March 15, 2019	7,800.00	245%	Third Review and end-December 2018 performance criteria
June 15, 2019	3,900.00	122%	Fourth Review and end-March 2019 performance criteria
September 15, 2019	3,900.00	122%	Fifth Review and end-June 2019 performance criteria
December 15, 2019	700.04	22%	Sixth Review and end-September 2019 performance criteria
March 15, 2020	700.04	22%	Seventh Review and end-December 2019 performance criteria
June 15, 2020	700.04	22%	Eighth Review and end-March 2020 performance criteria
September 15, 2020	700.04	22%	Ninth Review and end-June 2020 performance criteria
December 15, 2020	700.04	22%	Tenth Review and end-September 2020 performance criteria
March 15, 2021	700.04	22%	Eleventh Review and end-December 2020 performance criteria
June 1, 2021	700.05	22%	Twelfth Review and end-March 2021 performance criteria
Total	40,714	1277%	

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

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

(In billions of Argentine pesos unless otherwise stated)

	2018								2019					
	end-Oct			end-Nov			end-Dec		end-Jan	end-Feb	end-Mar	end-Apr	end-May	end-Jun
	PC	Adjusted PC	Actual	IT	Adjusted	Actual	PC	Proposed Revised PC	IT	IT	PC	IT	IT	Proposed PC
Fiscal targets														
Performance Criteria														
1. Primary balance of the federal government (floor) 3/ 9/	-290.0	-299.1	-200.1	n.a.		n.a.	-370.0	-378.0	n.a.	n.a.	6.0	n.a.	n.a.	40.0
2. Federal government accumulation of external debt payment arrears (ceiling)	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	17.0		11.6	n.a.		n.a.	24.4	24.4	n.a.	n.a.	30.0	n.a.	n.a.	40.0
4. Social assistance spending (floor) 3/	144.0		148.8	n.a.		n.a.	173.0	173.0	n.a.	n.a.	60.0	n.a.	n.a.	110.0
Indicative targets														
5. Primary balance of the general government (floor) 3/ 9/	n.a.	n.a.	n.a.	n.a.		n.a.	-370.0	-378.0	n.a.	n.a.	-14.0	n.a.	n.a.	30.0
Monetary targets														
Performance Criteria														
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	3.7	4.3	5.3	2.1	1.4	2.2	7.1	7.1	4.1	2.9	12.5	8.0	4.2	5.8
7. Change in stock of non-deliverable FX forwards (ceiling) 6/ 11/	0.0		-2.0	0.0		-2.3	0.0	0.0	0.0	-0.7	-1.0	-1.2	-1.5	-1.7
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9. Central bank financing of the government (ceiling) 4/	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10. Change in net domestic assets of the central bank (ceiling) 8/ 9/	97.7	97.7	28.9	-55.7	-16.5	-121.6	-46.2	-46.2	-112.1	-36.0	-185.6	-300.3	-156.1	-101.5

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on September 28, 2018.
7/ The change is measured against the value on September 28, 2018, which stood at 2,592.86 billion pesos.
8/ The change is measured against the average value for September 2018, which was AR$ 571 billion.
9/ Targets subject to adjustors as defined in the TMU.
10/ Increases reflect IMF budget support disbursements, which increase NIR.
11/ Continuous performance criterion until end-December 2018. Thereafter, this will become a quarterly performance criterion with monthly indicative targets.

Table 3. Argentina: Structural Program Conditionality

	Prior Action	Timing	Implementation status
1	Present a three-year budget document to Congress, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program. The budget would include details on realistic and prudent macroeconomic assumptions underlying the medium-term budget.	2nd Review	Met
	Structural Benchmarks	**Timing**	**Implementation status**
1	Publish a regulation to introduce a foreign exchange auction for BCRA intervention in the spot and forward markets.	Jun-2018	Met
2	Establish a senior-level debt management coordinating committee between Treasury-Finance-BCRA that would meet weekly and coordinate activities linked to sterilization and debt issuance plans.	Sep-2018	Not met. Implemented with one day delay.
3	Present a three-year budget document to Congress, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program. The budget would include details on realistic and prudent macroeconomic assumptions underlying the medium-term budget.	Oct-2018	Not met. Implemented with delay.
4	Congress will pass the 2019 Budget targeting a zero primary balance.	Nov-2018	Met
5	Congress will pass the revenue legislation underpinning the 2019 fiscal plan, including the increase in rate and base of the wealth tax (Impuesto sobre los Bienes Personales)	Nov-2018	Not met. Implemented with delay.
6	Publish a debt management strategy with the goal of on increasing the predictability, pricing, and liquidity of treasury issuances	Dec-2018	Proposed
7	Provide sufficient resources to the newly created CBO (Oficina de Presupuesto del Congreso), so that it can effectively evaluate macroeconomic and budgetary forecasts (including those contained in the annual budget and MTFF), provide independent costing to Congress of new policy initiatives, assess the government's fiscal plans (including the annual budget), and monitoring public finances at the central level.	Dec-2018	Met
8	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Mar-2019	
9	Submit to Congress a new charter for the central bank that will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability	Mar-2019	
10	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	
11	Recapitalize the central bank to ensure it has the adequate level of capital as percent of the monetary base plus the outstanding stock of LEBACs.	Dec-2019	

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the performance criteria (PCs), indicative targets (ITs), and consultation clauses, that will be applied under the Stand-by Arrangement, as specified in the Memorandum of Economic and Financial Policies (MEFP, Update) 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 September 28, 2018. Accordingly, the exchange rates for the purposes of the program are shown in Table 1.

Table 1. Argentina: Program Exchange Rates

Argentine Pesos to the US dollar 1/	41.25
Argentine Pesos to the SDR 1/	57.55
Argentine Pesos to the Euro 1/	47.90
Argentine Pesos to the Canadian dollar 1/	31.91
Argentine Pesos to the British pound 1/	53.79
Argentine Pesos to the Renminbi 1/	6.01
Gold prices (US$/ounce) 2/	1,190.88

1/ Rate published by the BCRA as of September 28, 2018.
2/ Spot price published by Bloomberg as of September 28, 2018.

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. 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.

4. Inflation expectations will be monitored for the purpose of the program based on the information reported in the survey of professional forecasters organized each month by the BCRA, which is called *the Relevamiento de Expectativas de Mercado* (REM). Unless otherwise indicated, the inflation expectation in program document will refer to the median of the forecasts included in the REM.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

5. **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.

Cumulative Floor of the Federal Government Primary Balance

6. **Definitions:** The primary balance of the Federal government is 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*), capital revenues (*ingresos de capital*), and imputed revenues associated with the 2008 nationalization of private pension assets. Revenues exclude financial transfers from the Central Bank (*Adelantos Transitorios*), interest income from intra-public sector holding of securities and debt obligations, and proceeds from the sale of other financial assets. Profit transfers from the central bank would, however, be regarded as revenues for program purposes.

7. 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, and capital spending on *Programa de Inversiones Prioritarias* currently recorded under "*Adelantos a Proveedores y Contratistas*".

8. The accounting of the revenues from pension assets held by the *Fondo de Garantía y Sustentabilidad* (FGS) as a result of the 2008 pension fund nationalization poses a complex methodological issue. While the budget reported an immediate increase in pension spending after 2008, it never reported the revenues (contributions) capitalized in the nationalized pension assets available in 2008. The authorities and staff agreed on an IMF technical assistance mission by June-2019, that will collect the necessary information and advise the authorities on the correct record keeping of the nationalization operation and of subsequent changes to the pension system that is consistent with sound statistical principles as embedded in the IMF's Government Finance Statistics. Should the mission's recommendations lead to any changes in the measurement of the budget balance, additional policy measures would be discussed in order to achieve the fiscal targets agreed under the IMF-supported program. For the time being, the value of pension fund assets seized in 2008 will be spread over time as revenue to partially offset future pension spending. In particular, the amount will be divided by the average life expectancy of contributors to those schemes at 2018, that is 20 years. The limit on the amount to be recognized as revenue shall be 0.4 percent of GDP per year.

9. 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).

10. 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.

11. All primary expenditures (including fines) that are directly settled with bonds or any other form of non-cash liabilities will be recorded as spending above-the-line and will therefore contribute to a decrease in the primary balance. This excludes the settlement of pension liabilities (in either cash or through non-cash liabilities) towards people enrolled in the federal pension system (the *Sistema Integrado de Pensiones y Jubilaciones*) incurred in the past and related to existing and pending court rulings, payments of arrears as per ICSID or similar arbitration rulings, and, starting in 2019, the repayment of liabilities incurred under Plan Gas, as determined by the Resolution 97/2018 of the former Ministry of Energy and Mining. For the purposes of the program, the economic transaction that gave rise to these latter liabilities will be recognized above the line in 2017.

12. 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.

13. **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.

Floor on Federal Government Spending on Social Assistance Programs

1. **Definition:** Social spending for the purpose of the program is computed as the sum of all federal government spending (both recurrent and capital) on a cash basis on the following social protection programs:[1]

- *Asignación Universal para Protección Social* which includes the following sub-programs: *Asignación Universal por Hijo, Asignación por Embarazo*, and *Ayuda Escolar Anual.*
- *Asignaciones Familiares Activos*, which includes the *Asignación Prenatal, por Adopción, por Hijo, por Hijo Discapacitado, por Maternidad, por Matrimonio, por Nacimiento,* and the *Ayuda Escolar Anual.*

[1] The floor on social spending in end-June 2018 was met, using an accrual basis. The TMU has been updated to clarify that going forward, this is to be measured on a cash basis.

- *Asignaciones Familiares Pasivos*, which includes the *Asignación Prenatal, por Cónyuge, por Hijo, por Hijo Discapacitado,* and *the Ayuda Escolar Anual*.

- *Asignaciones Familiares Sector Público Nacional*, which includes the *Asignación Prenatal, por Hijo, por Hijo Discapacitado, por Maternidad,* and *the Ayuda Escolar Anual.*

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

3. **Adjustor to the primary balance for social spending**: The floor on the primary balance of the federal government (cumulative since the beginning of the year) would be adjusted downward by an amount equivalent to the amount that expenditures, measured on a cash basis, in the Universal Allowances for Social Protection programs (*Asignación Universal para Protección Social*, which includes the *Asignación Universal por Hijo*, the *Asignación por Embarazo*, and the *Ayuda Escolar Anual*) exceed the programmed values defined in Table 2. The value of the adjustor would be capped at 14,000 million pesos in 2018, 37,000 million pesos in 2019, and the peso equivalent of 0.2 percent of GDP in each successive calendar year.

Table 2. Argentina: Social Spending Subject to Adverse Economic Conditions

(program baseline)

	AR$ millions 1/
end-June 2018	37,187
end-September 2018	55,368
end-October 2018	65,102
end-December 2018	74,836
end-March 2019	25,679
end-June 2019	47,735

1/ Cumulative from January 1 of each year.

4. **Adjustor for external financing projects:** The floor on the primary balance of the federal government (cumulative since the beginning of the year) will be adjusted up (down) by the shortfall (excess) in the expenditure, measured on a cash basis, financed by disbursements of external project loans by International Financial Institutions and bilateral partners, compared to the capital expenditures settled in the budget (Table 3). The value of the adjustor would be capped at cumulative 30,000 million pesos in 2018, 37,000 million pesos in 2019, and 0.2 percent of GDP in each successive calendar year. Starting in 2019 the benchmark will be the expenditure financed by disbursements of external project loans by IFIs and bilateral partners, as stated in the budget.

Table 3. Argentina: Multilateral/Bilateral Funded Capital Spending
(program baseline)

	AR$ millions 1/
end-June 2018	15,171
end-September 2018	20,025
end-October 2018	25,183
end-December 2018	30,341
end-March 2019	10,000
end-June 2019	20,000

1/ Cumulative from January 1 of each year.

Ceiling on Federal Government Accumulation of Domestic Arrears

5. **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 excludes intra-public transfers (*transferencias figurativas*) and includes primary spending for personnel (*gasto en personal*), acquisition of goods and services (*bienes y servicios*), non-professional services (*servicios no profesionales*), capital expenditures (*bienes de uso*), and transfers (t*ransferencias*).

6. **Measurement**: Arrears are measured daily. The program will cap the average of arrears during the three months prior and up to a test date at 0.5 percent of GDP, according to the path set in Table 2.

7. **Monitoring:** Data 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

8. **Definition of debt:** External debt is determined according to the residency criterion (and, as such, would encompass nonresident holdings of Argentine law peso and foreign currency debt). The term “debt”[2] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

[2] As defined in Guidelines on Public Debt Conditionality in Fund Arrangements, Decision No. 15688-(14/107).

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

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

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

9. **Definition of external arrears:** External debt payment arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after May 30, 2018 that have not been paid, considering the grace periods specified in contractual agreements. Under the definition of debt set out above, 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.

10. **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 May 30, 2018.

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

Floor on the Change in Non-Borrowed Net International Reserves

12. **Definitions:** Non-borrowed 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 as defined below. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the program exchange rates.

13. **Definition:** The foreign exchange auction is a mechanism through which the BCRA sells US dollars to banks in exchange for Argentine pesos. All banks in Argentina can participate in the auction. Bids are allotted solely based on the rate proposed by the counterparties, starting from highest peso per US dollar rate until the pre-announced amount is exhausted. The auction

weighted average rate, marginal rate, total bid amount, and the final allotment are published within one hour after the auction allotment.

14. **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, (iv) the reserve position in the IMF, and (v) holdings of fixed income instruments. 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, swaps and options), precious metals other than gold, assets in nonconvertible currencies and illiquid assets.

15. **Gross official liabilities** in foreign currencies include (i) all borrowed reserves, including foreign currency swaps, loans, and repo operations with all counterparties (domestic and foreign), regardless of maturity, ii) other foreign currency liabilities including deposits of financial institutions, (ii) the use of Fund resources for Balance of Payments support extended in the context of the exceptional financing package, (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. The Federal government's FX deposits at the BCRA are not considered gross foreign liabilities of the BCRA.

16. The change in non-borrowed net international reserves, starting with the end-October 2018 targets, will be measured as the change in the stock of non-borrowed NIR at each test date relative to the stock on September 28, 2018, which stood at US$15.788 billion.

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

18. **Adjustors**:

- **Adjustor for Multilateral loans.** The NIR targets will be adjusted upward (downward) by the surplus (shortfall) in program loan disbursements from the IMF and other multilateral institutions (the IBRD, IDB and CDB) and grants, relative to the baseline projection reported in Table 4. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are usable for the financing of the general government.

Table 4. Argentina: External Program Disbursements
(Baseline Projection)

Cumulative flows from end-September 2018	(In millions of US$)
Budget support loans from IMF	
end-October 2018	5,752
end-November 2018	5,752
end-December 2018	13,469
end-January 2019	13,469
end-February 2019	13,469
end-March 2019	24,412
end-April 2019	24,412
end-May 2019	24,412
end-June 2019	29,884
Budget support loans from other multilateral sources	
end-October 2018	0
end-November 2018	950
end-December 2018	1,550
end-January 2019	1,550
end-February 2019	1,550
end-March 2019	1,550
end-April 2019	1,550
end-May 2019	1,550
end-June 2019	2,950

- **Adjustor for FX intervention.** The NIR targets will be adjusted downward by the total amount of U.S. dollars sold via foreign exchange auctions, which are executed in accordance with the intervention rule described below.

  - **Definition of Intervention.** Foreign exchange interventions are defined as official foreign currency sales and purchases. Only the BCRA will be allowed to implement foreign exchange intervention. State-owned banks will not be allowed to engage in official FX sales on behalf of the government. In the context of the next review under the SBA a system for the orderly and transparent conversion and use of the Fund disbursements for peso-denominated budgetary financing needs in 2019 will be worked out.

  - **Exchange Rate:** The AR$/US$ exchange rate for the purpose of the intervention rule is the rate of the *Mercado Abierto Electrónico* (MAE). The MAE publishes continuous updates of the AR$/US$ exchange rate throughout the trading day and a daily fixing (see BCRA Communication A3500).

  - **Intervention rule:** The BCRA will have the option to sell U.S. dollars in the foreign exchange market only if the peso depreciates beyond the rate of 44 pesos per U.S. dollar and to buy U.S. dollars in the foreign exchange market only if the peso appreciates below the rate of 34 pesos per U.S. dollar. The limits above will be increased each calendar day by 0.10 percent until the end of 2018. Starting in 2019 and until end-March 2019, the limits will be adjusted daily by a 2 percent monthly growth.

- Beyond these limits, the BCRA could decide (but is not obligated) to sell or buy up to US$150 million per day as long as the exchange rate remains outside of this band. All foreign exchange sales and purchases are expected to be unsterilized. As such, the decrease (increase) in NIR will be matched by a decrease (increase) in the monetary base equal to the peso equivalent of the foreign exchange sales, with the stock of sterilization instruments remaining unchanged.

- **Monitoring.** Daily data on the amount and rate of the transactions between the BCRA and each of its counterparties will be provided to the Fund at the end of each day.

- **Adjustor the FX debt issuance.** The NIR targets will be adjusted upward by the surplus in total amount of proceeds from gross issuances of FX-denominated debt, relative to the baseline projection reported in Table 5.

  - **Monitoring.** Data on debt issuances and rollovers, by currency and counterparty, will be provided to the Fund after each issuance, with a lag of no more than two days.

Table 5. Argentina: Proceeds from FX Debt Issuances

(Baseline Projection)

Cumulative flows from end-September 2018	(In millions of US$)
end-October 2018	1,310
end-November 2018	2,975
end-December 2018	5,001
end-January 2019	5,805
end-February 2019	6,770
end-March 2019	8,063
end-April 2019	9,716
end-May 2019	11,368
end-June 2019	13,021

Ceiling on the Change in the BCRA's Stock of Non-Deliverable Forwards (NDF)

19. **Definitions.** The stock of non-deliverable forwards (NDF) will be defined as the sum of the U.S. dollar notional value of all contracts entered by the BCRA involving the Argentinian peso, either directly or through any institution they use as their financial agent.

20. **Monitoring.** Daily data will be provided to the Fund at the end of each day.

21. **Continuous Performance Criterion:** Until December 31, 2018, the change in the stock of NDF will be continuously measured as the change in the stock of NDF relative to the stock on September 28, 2018, which stood at US$3.6 billion.

22. **Quarterly Performance Criterion:** From January 1, 2019, the change in the stock of NDF will be measured as the change in the stock of NDF at each test date (i.e. at end-March 2019, with indicative targets in end-January 2019 and end-February 2019) relative to the stock on September 28, 2018, which stood at US$3.6 billion.

Continuous Stop to BCRA's Financing of the Government

23. **Definitions.** Central bank (BCRA) financing to the government includes overdraft transfers from the BCRA to the Federal Government (line *Adelantos Transitorios* in the summary account of the BCRA, as published on its web site), advance distribution of unrealized profits, and the acquisition of government debt on the primary market or by purchase from public institutions. The BCRA will extend zero net financing to the government for the duration of the program.

24. **Monitoring.** Daily data will be provided to the Fund within two days. This target will be monitored on a continuous basis.

Ceiling on the Change in the BCRA's Net Domestic Assets

25. **Definitions.** Net Domestic Assets (NDA) of the BCRA are defined as the difference between base money and non-borrowed NIR measured at program exchange rates. Base money is equal to the sum of banknotes and coins issued by the BCRA plus banks' accounts at the BCRA denominated in pesos. The reserve requirement is defined as the peso-denominated reserves on account at the BCRA that banks are required to keep by regulation on average each month. The securities that have been made eligible to fulfill the requirement would be considered as part of a sterilization security holding requirement, different from the reserve requirement.

26. The ceiling applies to the monthly average of NDA. The change will be calculated with respect to the average stock of NDA during the month of September 2018 which was AR$557 billion.

27. **Monitoring:** Data will be provided to the Fund on a monthly basis with a lag of no more than 10 days.

28. **Adjustor for Multilateral loans.** The NDA targets will be adjusted downward (upward) by the surplus (shortfall) in program loan disbursements from multilateral institutions (the IBRD, IDB and CAF) and grants, relative to the baseline projection reported in Table 4. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are usable for the financing of the general government. There are no other adjustors for the NDA targets.

29. **Clarification:** All foreign exchange sales and purchases are expected to be unsterilized, meaning that the decrease (increase) in NIR will be matched by a decrease (increase) in the

monetary base equal to the peso equivalent of the foreign exchange sales, while the stock of sterilization instruments should remain unchanged.

30. **Change in the reserve requirements:** The BCRA will reach agreement with IMF staff prior to making any changes to the levels or structure of reserve requirements.

Ceiling on Central Bank Credit to the Government

31. **Definitions.** Central bank (BCRA) credit to the government is defined as the sum of the stock of government securities held by the BCRA (line *Títulos Públicos* in the summary account of the BCRA, as published on its web site) and overdraft transfers from the BCRA to the Federal Government (line *Adelantos Transitorios* in the summary account of the BCRA, as published on its web site). Any decrease in the claim shall reflect cash payments of this amount in pesos by the Treasury to the BCRA; variation in the value of the claim due to changes in exchange rates or accounting practices are excluded.

32. **Monitoring.** Daily data will be provided to the Fund within two days.

33. The change in the stock of net credit to government will be measured relative to the stock on September 28, 2018, which stood at AR$ 2,592.86 billion.

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

Cumulative Floor on Primary Balance of the General Government

34. **Definition:** The general government is defined as the federal government (as defined above) plus the aggregate position of the provincial governments (defined for purposes of this TMU as the 23 provinces plus the Autonomous City of Buenos Aires).

35. **Definition:** The primary balance of the general government will include the primary balance of the federal government (as defined above, including adjustors) plus revenues of the provincial governments (including transfers from the federal government) less cash expenditures of the provincial governments. Total expenditures of the provincial government will include wages, goods and services, transfers and subsidies, capital spending and transfers to municipalities from the provincial government. Expenditures of municipalities and municipal revenues are excluded. The result of the provincial governments will be measured from above-the-line, with expenditure defined according to the information provided by the *Secretaría de Hacienda*.

36. **Adjustor to the primary balance for social spending:** The floor on the primary balance of the general government (cumulative since the beginning of the year) would be adjusted downward by an amount equivalent to the amount that expenditures, measured on a cash basis, in the Universal Allowances for Social Protection programs (*Asignación Universal para Protección Socia*l, which includes the *Asignación Universal por Hijo*, the *Asignación por Embarazo*, and the

Ayuda Escolar Anual) exceed the programmed values defined in Table 2. The value of the adjustor would be capped at 14,000 million of pesos in 2018, 37,000 million pesos in 2019, and 0.2 percent of GDP in each successive calendar year.

37. **Adjustor for external financing projects:** The floor on the primary balance of the general government (cumulative since the beginning of the year) will be adjusted up (down) by the shortfall (excess) in the expenditure, measured on a cash basis, financed by disbursements of external project loans by International Financial Institutions and bilateral partners, compared to the capital expenditures settled in the budget (Table 3). The value of the adjustor would be capped at cumulative 30,000 million pesos in 2018, 37,000 million pesos in 2019, and 0.2 percent of GDP in each successive calendar year. Starting in 2019 the benchmark will be the expenditure financed by disbursements of external project loans by IFIs and bilateral partners, as stated in the budget.

38. **Reporting:** Data, as available to the *Consejo Federal de Responsabilidad Fiscal*, will be provided to the Fund with a lag of no more than 60 calendar days after the end of each quarter. Estimates will be provided for the provinces of La Pampa and San Luis.

PERFORMANCE CRITERION ON THE INTRODUCTION OR MODIFICATION OF MULTIPLE CURRENCY PRACTICES

39. The performance criterion on the introduction or modification of multiple currency practices (MCP) excludes multiple currency practices arising from any modification to the multiple-price foreign exchange auction system introduced in June 2018

SPOT AND FORWARD FX SALES

40. **Definitions.** Spot and deliverable foreign currency sales can be carried out by the BCRA either directly or through any institution they use as their financial agent.

41. **Monitoring.** Daily data will be provided to the Fund at the end of each day.

OTHER INFORMATION REQUIREMENTS

42. In addition to the data needed to monitor program conditionality, the authorities will also provide the following data so as to ensure adequate monitoring of economic variables:

A. Daily

- Nominal exchange rates; interest rates on domestic debt instruments including LETES (at different maturities), LEBAC (at different maturities), LELIQs, and BOTES; total currency issued by the BCRA; deposits held by financial institutions at the BCRA; required reserves of the banking sector in local and foreign currency; total liquidity assistance to banks through normal BCRA operations, including overdrafts; interest rates on overnight deposits and on 7-day repurchase and reverse repurchase agreements.

- Individual banks' gross foreign exchange positions by currencies.

- Individual banks' foreign currency accounts with the BCRA.

B. Weekly

- BCRA balance sheet.

- Daily balances of all bank accounts of the national treasury.

- Analysis on the use of IMF budget support in accordance with the Memorandum of Understanding between the Treasury and the BCRA.

- FX operations of Banco Nacion on a weekly basis.

C. 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). On Federal and Provincial Debt:

    - The expected monthly federal government and provincial government debt amortization and repayments (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, include the name of the guaranteed individual/institution.

    - Federal government and provincial 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.

- 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.

- 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.

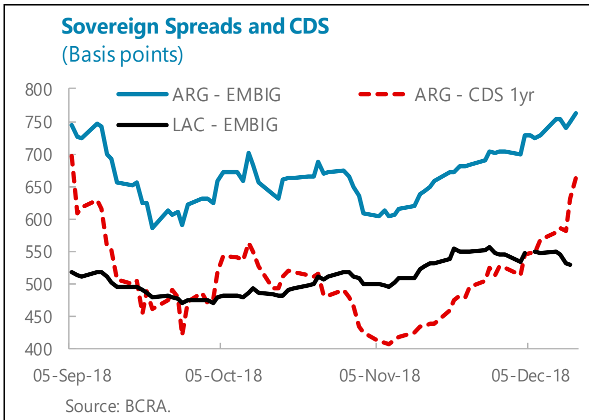
- Balance sheets of other financial corporations (non-deposit taking), including holdings of federal and provincial debt and of the BCRA instruments within one month after month end.

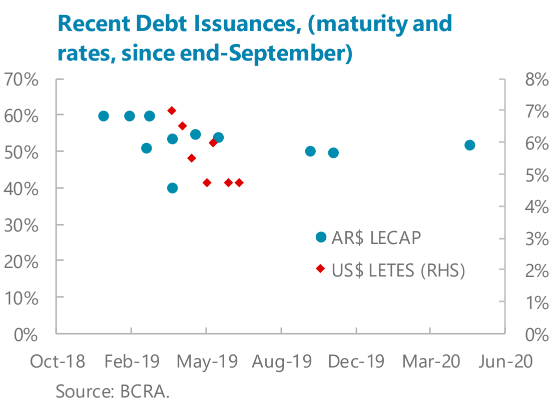
- Data on the total loans value of all new federal government-funded public private partnerships.

Statement by Staff Representative on Argentina
December 18, 2019

1. This statement provides additional information that has become available since the Staff Report (EBS/18/123) was circulated to the Executive Board on December 11, 2018. The information does not alter the thrust of the staff appraisal.

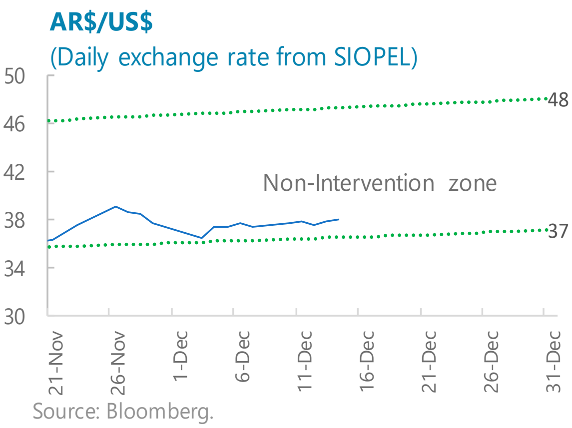
2. The roll-over rate on maturing domestic debt in December remained high although spreads on international law debt have increased. Spreads have risen across LAC countries during the first half of November. For Argentina, the EMBIG spread reached 750bps in mid-December and 1-year CDS spreads are above 650bps (levels last observed during the height of market turbulence three months ago), possibly reflecting increasing political uncertainty. Despite this, the December 14 maturity of FX LETES (US$1 billion in the hands of the private sector) was 66 percent rolled over by the private sector into a June 2019 maturity, at an interest rate of 4.75 percent (same as the last two actions).

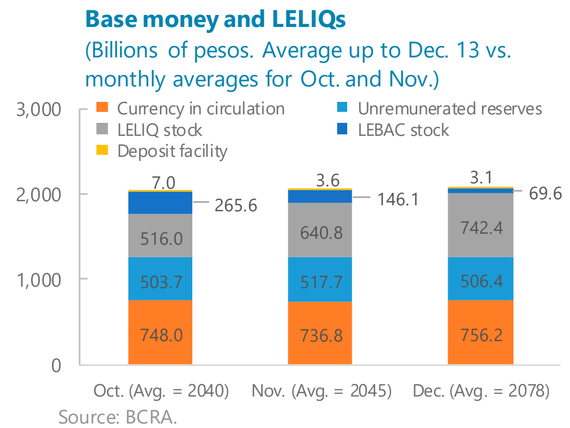


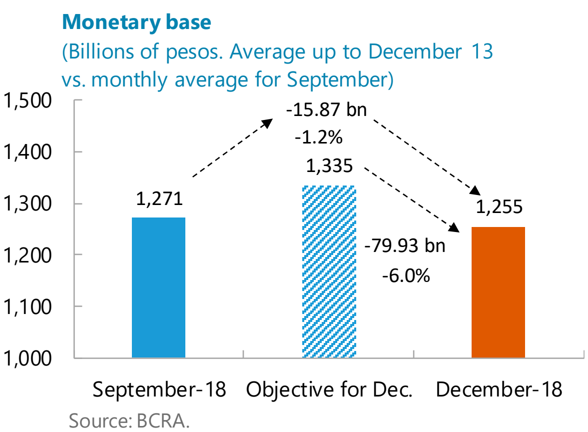


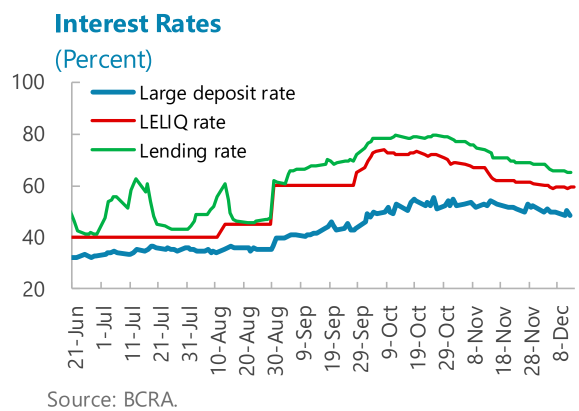
3. On December 17, gross reserves increased by US$8.7bn, reflecting the activation of the augmented BCRA swap with the People's Bank of China. The augmentation, which was signed during the recent G20, brings the total amount of freely available resources under the swap to US$18.7 billion. Gross international reserves moved up to US$58.6 billion.

4. LELIQ rates have remained at around 60 percent. The LELIQ weighted average rate has been around 59 percent since the floor on LELIQ rates was eliminated on December 5. There has been relatively soft demand for LELIQs as banks appear to be building up liquidity buffers to meet their December unremunerated reserve requirement. Base money has increased in line with the central bank's targets (which are designed to accommodate a seasonal demand for currency in circulation). The peso remains within the non-intervention zone and authorities are on track to meet their end-December monetary base target.

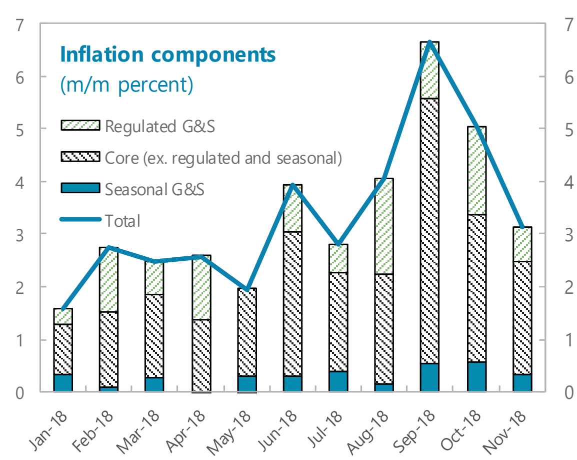








5. **Inflation fell in November**. Headline inflation was 3.2 percent m/m nsa in November, continuing a downward path since the surge of inflation in September. Core inflation fell from 7.6 percent in September to 2.2 percent in November. The November outcome was slightly above staff forecasts but broadly in line with the October survey of market expectations (3.1 percent median and 3.3 percent average). The lower pace of price increases appears broad based across different items in the CPI basket suggesting that the decline in inflation is likely to be persistent. On an y/y basis, the CPI rose to 48.5 percent. 15 percentage points of this increase was accounted for by transportation and utilities reflecting a series of tariff adjustments implemented during the course of the year as well as the pass through of the large peso depreciation.



6. On December 18, the Supreme Court ruled in favor of pensioneers on a case about the calculation of pension benefits. The Supreme Court ruled that a different wage inflation index (one that delivers a greater pension) should be used to calculate the first pensions for those retirees (between 100,000 and 150,000 people) that still have pending judicial claims against the Social Security Agency (and didn't settle after the passage of the *Ley de Reparacion Historica*). It also ruled that Congress will have to legislate on the wage inflation index to be used for the calculation of future initial benefits. The fiscal implications of the decision are uncertain and depend on how many retirees will take advantage of the ruling—initial estimates by authorities point to a cost of about 0.2 percent of 2020 GDP (of which about 0.15 is represented by one-off retroactive payments that will begin not before mid-2020).