INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/99

ARGENTINA

April 2019

THIRD REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF APPLICABILITY OF PERFORMANCE CRITERIA, FINANCING ASSURANCES REVIEW, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE AND STAFF REPORT

In the context of the Third 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 April 5, 2019, following discussions 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 March 26, 2019.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Staff Supplement** 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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International Monetary Fund
Washington, D.C. 20431 USA

Press Release No. 19/107
FOR IMMEDIATE RELEASE
April 5, 2019

IMF Executive Board Completes Third Review Under Argentina's Stand-By Arrangement, Approves US$10.8 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the third 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 7.8 billion (about US$10.8 billion), bringing total purchases since June 2018 to SDR 28.01371 billion (about US$38.9 billion).

Following the Executive Board discussion of Argentina's economic plan, Ms. Christine Lagarde, the IMF's Managing Director stated:

"The authorities' policies that underly the Fund-supported arrangement are bearing fruit. The high fiscal and current account deficits - two major vulnerabilities that led to the financial crisis last year - are falling. Economic activity contracted in 2018 but there are signs that the recession has bottomed out, and a gradual recovery is expected to take hold in the coming quarters. Inflation however remains high with inflation expectations rising and inflation inertia proving difficult to break.

"The Argentine government demonstrated its resolve to put the public debt-to-GDP ratio on a sustainable path by reducing the 2018 primary deficit below the program target. However, in light of weaker-than expected tax revenues in the first half of the year, continued prudence in the execution of spending plans and further steps to strengthen revenues, will be key to bring the 2019 fiscal position to a primary balance. Further effort is needed to improve the medium-term fiscal framework and debt management.

"After a few months of relative stability, financial volatility has picked up in recent weeks, as global financial conditions have become less favorable and as inflation outcomes have disappointed. The BCRA reacted to these developments by recalibrating its monetary policy, maintaining zero growth in the monetary base until the end of the year. A new central bank charter has been sent to Congress and, if passed into law, will strengthen the credibility of monetary policy.

“Protecting the most vulnerable from the impact of the recession and from high inflation remains a key priority. The authorities have taken a series of actions to improve the coverage of the social safety net and to provide greater resources to the poor. Continued work will be needed to address the remaining gaps in coverage of the social safety net and to make social programs more effective in reducing poverty.

“Favorable market conditions have allowed the government to fully rollover maturing debt over the past few months. The interest rate paid on that debt has fallen and the authorities are deepening their efforts to extend maturities on newly-issued debt. The authorities are also implementing policies to develop domestic currency debt markets.

“Supply-side reforms are essential in achieving strong, sustainable, and equitable growth and to raise living standards for Argentina’s population. Priorities include further efforts to designing a less distortionary tax system, encouraging greater competition in domestic product markets, removing barriers to trade and foreign investment, strengthening governance and confronting corruption, and fostering gender equity.

“The success of the authorities’ policy plans relies on its continued steadfast implementation. This will require the building of broad-based support for policies that will lessen economic vulnerabilities, raise Argentina’s growth potential, and foster market confidence.”

INTERNATIONAL MONETARY FUND

ARGENTINA

March 26, 2019

THIRD REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF APPLICABILITY OF PERFORMANCE CRITERIA, FINANCING ASSURANCES REVIEW, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

Context. The Argentina economy continues to contract, albeit at a modestly slower pace than had been expected under the program. After a brief period of falling monthly inflation, price pressures and inflation expectations are again rising. Financial conditions improved in January, with declining sovereign spreads and a rally in the local equity market, but have since then erased much of those gains, with rising volatility in both currency and interest rates in March. Nonetheless, the central government has fully rolled over its amortizing obligations over the past three months. Since the introduction of the new monetary framework in October, the central bank has maintained the growth rate of the monetary base below its targets and, in January and February, has purchased US$1 billion in FX reserves.

Program performance. All end-March performance criteria – Net International Reserves, Net Domestic Assets, Non-Deliverable Forwards, and all fiscal targets are expected to be met. Waivers of applicability are being requested for the end-March fiscal targets. The end-December and end-March structural benchmarks for publishing a debt strategy and eliminating the stock of LEBACs have been met and the submission to the Congress of a new charter for the BCRA is expected to take place by end-March. The end-December primary deficit of the federal government was 2.6 percent of GDP, below the program target. Social spending was above the program floor.

Focus of review. Discussions centered on the risks to the fiscal position, how best to counter the rise in inflation and inflation expectations, how best to mitigate debt rollover risks, and what more can be done to mitigate the impact of the economic downturn on the most vulnerable.

Risks ahead. The upcoming national elections represent an important uncertainty. Political uncertainties have, in the past, created a shift in investor preferences away from peso assets and put pressure on the currency and the capital account. The elections could raise doubts over the government's ability to achieve its fiscal targets. Mitigating these risks will require steadfast execution of the government's policy plan and clear communication with both financial markets and the general public. Given Argentina's large gross financing needs, it will be important to insure against market uncertainties by extending debt maturities and rebuilding cash buffers.

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

A mission team visited Buenos Aires on February 12-22, 2019. The team consists of R. Cardarelli (head), D. Plotnikov, M. Shamloo, J. Wong (all WHD), T. Alleyne (Resident Representative) and F. Amui (Local Economist), M. Candia (COM), P. Dudine (FAD), F. Figueroa (LEG), J. Menkulasi (SPR), and R. Veyrune (MCM). The mission was aided by A. Aghababyan, A. Diaz, and J. Sarmiento-Monroy. Mr. Lopetegui (OED) participated in most meetings.

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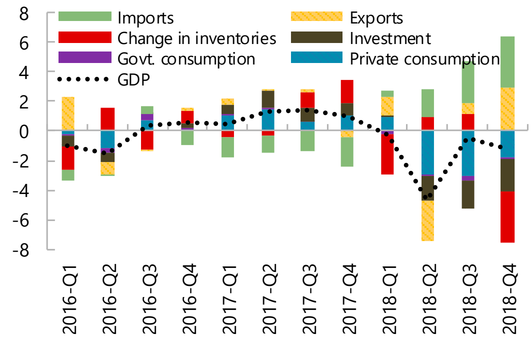
RECENT DEVELOPMENTS

1. **Economic activity contracted during all quarters of 2018.** For the year as a whole, GDP fell by 2.5 percent, driven by strong compression in private consumption and investment. The recession accelerated in the last quarter of 2018, although at a slower pace than staff had anticipated at the time of the last review, with virtually all sectors shrinking (some at double-digit rates on a y/y basis) except agriculture (which has benefited from a record-high wheat harvest). Labor market conditions softened in 2018, with about 200k formal jobs lost during the year, and unemployment rate ending the year at 9.1 percent, versus an average 8.4 percent the year before. Some high frequency indicators, however (including industrial production, cement sales, and consumer confidence) point to a slowing pace of contraction in early 2019, and the decline in real wages appears to be bottoming out (real wages fell by about 8 percent on average last year) mainly thanks to a series of revisions to the 2018 collective wage contracts.

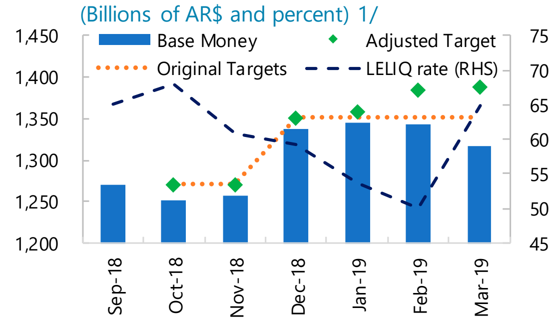
Contribution to GDP Growth - Demand Side
(Percent change, q/q; saar)



Sources: INDEC and IMF staff calculations.

2. **The monetary base has been kept well below target in 2019Q1 even as financial market volatility picked up.** During January and early February, the peso traded below the lower edge of the non-intervention zone, allowing the BCRA to buy close to US$1 billion from the market under its rules-based monetary framework. The monetary base was below the BCRA's target by 0.5 and 3 percent in January and February respectively. During this period, favorable global financial conditions, a stable currency, and high interest rates drew investors into peso assets, causing a rapid decline in LELIQ interest rate and appreciation pressures on the peso. To limit the short-term carry trade flows from residents and non-residents, the BCRA announced on February 8 that banks could hold no more than 65 percent of their deposits or 100 percent of their capital (whichever is higher) in LELIQs. In March, rising inflation and inflation expectations and less favorable global financial conditions reversed flows into peso assets causing a weakening of the currency and a rapid rise in short-term interest rates.

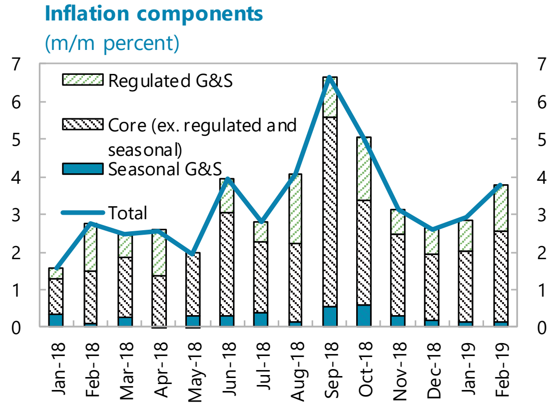
Base money and LELIQ rate
(Billions of AR$ and percent) 1/



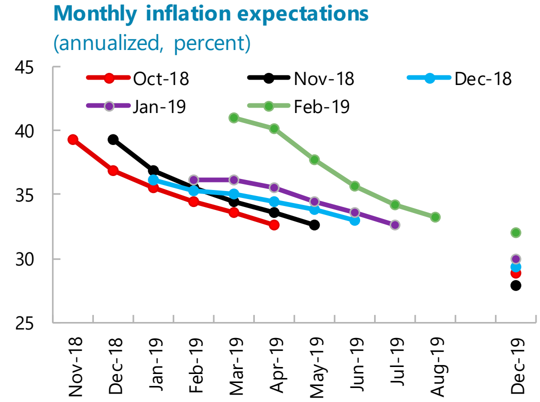
Source: BCRA. 1/ Base money (average) and LELIQ rate (end of period). Adjusted targets account for FX interventions. Preliminary data for March.

3. **After three months of consecutive decline, inflation rose in January and February.** In February, monthly headline inflation surged to 3.8 percent, and annual inflation reached 51.3 percent. While a new round of adjustment in utility tariffs played an important role in February (when regulated prices contributed 1.3pps to headline inflation), the increase in core inflation (to

3.9 percent) reflects more generalized inflationary pressures. Higher inflation outturns, alongside the announcement of tariff increases in the first half of the year, have also shifted upward the expected path for future inflation.



Source: INDEC.



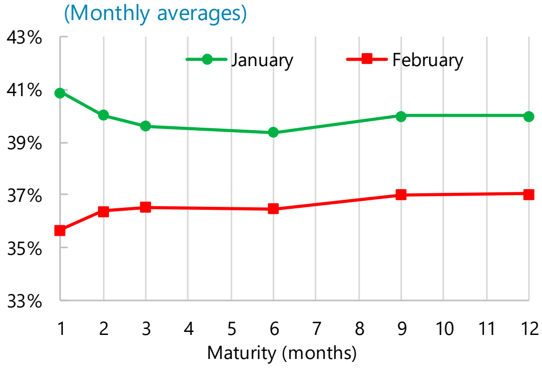
Source: REM survey, BCRA and staff calculations

4. To counter inflationary pressures, the BCRA announced a tightening of its stance through a series of measures:

- The zero-growth in monetary base will be extended, setting the average February monetary base outturn as the target until November.
- The change in the slope of the non-intervention zone will be reduced from 2 percent to 1¾ percent per month in Q2.
- FX purchases when the exchange rate is outside the non-intervention zone will be capped at US$50 million a day in March and April (from US$75 million per day in February). Such purchases will be no more than 2 percent of the monetary base target.

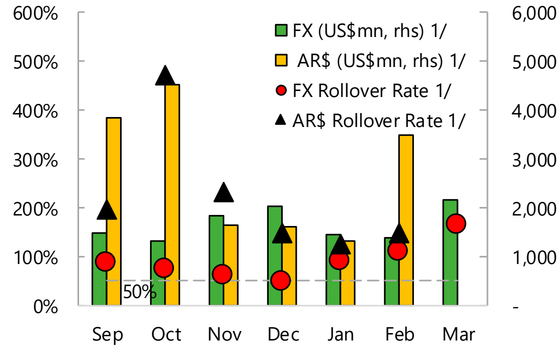
5. Sovereign spreads tightened in January but have since retraced much of those gains. Strengthening demand for Argentine debt has kept rollover rates at 100 percent on average over the last 5 months, even as the cost of financing has fallen, and the average maturity of new issuances has lengthened (from 5 months in December to over 7 months in January/February). The government has placed AR$23 billion in inflation-linked bonds and has increased the share of peso debt. However, in March, sovereign spreads retraced more than one-half of the gains in the early part of the year.

LECAP rates in the Secondary Market
(Monthly averages)



Source: BCRA.

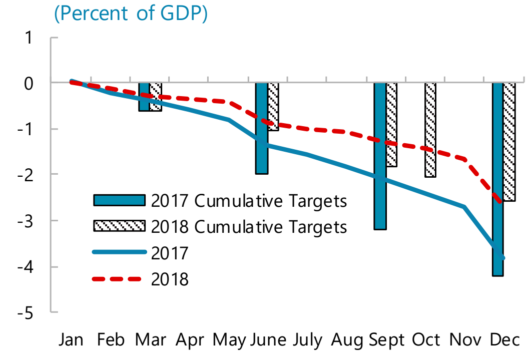
Total Debt Issuances



Sources: BCRA and IMF staff estimates.
1/ Data up to March 10.

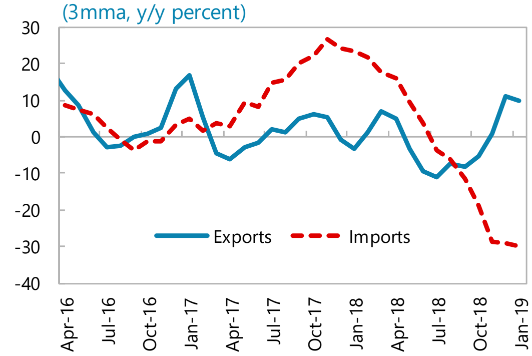
6. **The primary federal government deficit was 2.6 percent of GDP in 2018, a significant reduction from the 3.8 percent of GDP deficit in 2017**. Primary spending fell by 7.3 percent in real terms even though energy subsidies remained flat as a share of GDP (with tariff increases offset by a weaker peso). However, toward the end of the year revenue performance weakened due to some administrative changes,[1] a slowing economy, and a shortfall in the collection of export taxes (particularly on services which were introduced with a delay). Provinces ran a 0.4 percent of GDP primary surplus in 2018, benefiting from higher revenues and lower growth in current primary spending (as required by the Fiscal Responsibility Law). Fiscal outcomes during the first two months of the year (a cumulative surplus of AR$23 billion or 0.1 percent of GDP) suggest the end-March target is likely to be met, thanks to continued restraints in primary spending.

Argentina. Federal Primary Balance
(Percent of GDP)



Source: IMF staff calculations and estimates.

Export and Import Volumes
(3mma, y/y percent)



Sources: INDEC and IMF staff calculations.

7. **The economic downturn and a more competitive exchange rate are contributing to a reduction in the current account deficit.** The trade balance moved to a surplus of US$2.6 billion in 2018Q4. There was a broad-based, 20 percent y/y fall in import volumes in 2018Q4 and there are signs of a

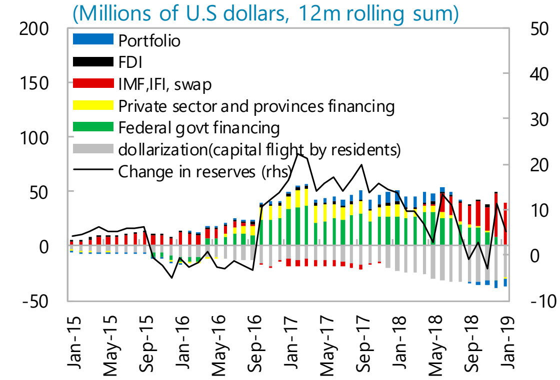
[1] The authorities removed the requirement that importers should anticipate the payment of the VAT that is due once imported goods are sold in the domestic market. The change in VAT administration is estimated to imply a reduction in 2018 revenues of 0.1 percent of GDP.

pick-up in agricultural exports as the effects of the drought wane. Nonetheless, the 2018 current account deficit remained high (at 5.4 percent of GDP).

8. Official sector inflows have offset continuing net outflows of private capital. Gross international reserves rose to US$65.8 billion at end-2018 with higher official flows (from the Fund, World Bank and an increase in the swap with the People's Bank of China)[2] able to finance both the current account deficit and private outflows. Argentine households continued purchasing foreign currency in 2018Q4, albeit at a much slower pace than earlier in the year, and non-residents continued to reduce their exposure to Argentine assets.

Capital flows, Currency basis

(Millions of U.S dollars, 12m rolling sum)

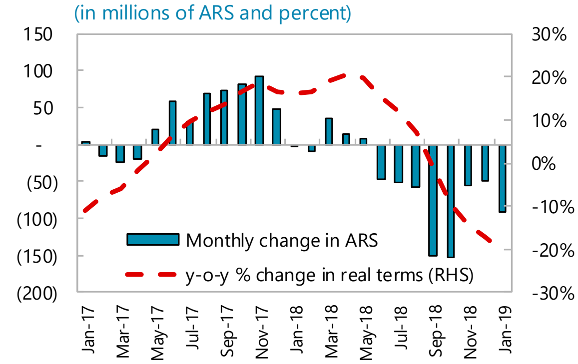


Source: BCRA.

9. Domestic currency credit to the private sector shrank, in real terms, by 18 percent (y/y) in December. FX loans grew by 1.8 percent (y/y) well below the 110 percent expansion in 2017 and loans to SMEs and the issuance of corporate bonds have dried up. The credit contraction is driven by both demand and supply (with banks substituting into high yielding LELIQs). The economic downturn has raised credit risks and spreads on new loans have doubled from 12 to 23 percent.[3]

Change in stock of credit to the private sector

(in millions of ARS and percent)

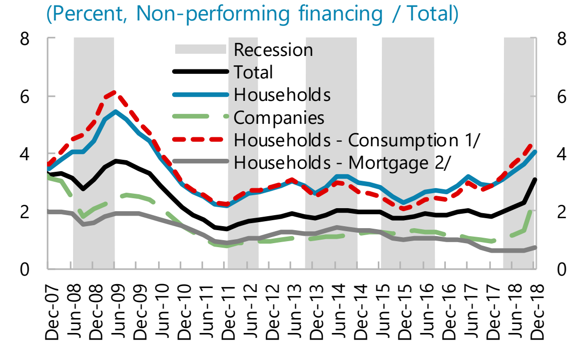


Source: BCRA.

10. The banking system remains resilient. Provisioning is at high levels (specific provisions to NPLs stand at 87 percent) and liquidity is ample due to high remunerated and unremunerated reserve requirements and a shrinking loan portfolio (the liquid assets to deposits ratio has risen to more than 50 percent). The system-wide Tier 1 capital ratio is 14.2 percent. Private sector NPLs are rising but were only 3.0 percent in December, mostly concentrated in revolving credit to households and loans to construction firms. Mortgage defaults remain at very low levels (0.3 percent).

Private sector non-performing financing

(Percent, Non-performing financing / Total)



Source: BCRA. 1/ Includes credit cards + personal loans and 2/ Takes into account pledge-backed loans.

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[2] The swap line matures in 2020 and is extendable by mutual consent.

[3] In response, the authorities announced in late February a number of measures to support lending to SMEs, including subsidized interest rates loans and subsidized pre-financing of exports (staff estimates the fiscal cost of this measure to be small, under AR$1 billion in 2019).

OUTLOOK AND RISKS

11. Staff forecasts of growth and inflation have been revised upward. Growth in 2018 recorded a less abrupt contraction than had been expected at the time of the Second Review, creating a smaller carry-over drag for 2019. A gradual recovery is expected to be seen beginning in the second quarter this year, with private consumption supported by rising real disposable income (following wage increases and the indexation of pensions and social benefits to past inflation) and exports benefitting from a rebound in agricultural production after last year's drought. Growth in 2019 has been revised from -1.7 to -1.2 percent. Higher nominal wages, planned tariff increases, and rising inflation expectations are expected to result in inflation at 30 percent by end-2019, 10 percent higher than projected at the time of the Second Review. The current account deficit is expected to shrink by 3 percent of GDP in 2019 due to a normalization in agricultural output, a weaker real exchange rate, stronger growth in Brazil, and continued import compression.

12. There are sizable downside risks ahead. October's national elections represent the most visible near-term risk. Presidential candidates will be announced in June, kicking off the start of electoral races and the polling of voter intentions. This could raise market anxiety, potentially fueling greater-than-expected dollarization and capital outflows which, in turn, would weaken the peso and create renewed concerns about debt dynamics and the sources of budgetary financing. A deeper-than expected recession, or an inability to bring down inflation, could weaken public support for the adjustment program and catalyze opposition to the monetary and fiscal policies that underpin it. This sentiment could, in turn, feed into electoral dynamics. Finally, worsening global sentiment toward emerging markets could reinforce market pressures.

PROGRAM IMPLEMENTATION

13. Since consideration by the Executive Board will take place in April, the binding targets for the review will be the end-March ones. The end-March target for NDA is expected to be met due to over-performance of NIR and lower target for money base. The NIR has overperformed the (adjusted) target by US$3 billion, as of March 15. On the same day, the stock of NDFs was at US$600 million, below the end-March target. While information will not be available to assess the end-March fiscal targets at the time of the Executive Board consideration of the Third Review, data for January and February and preliminary information indicates that they will all likely be met.

14. All-but-one end-December program targets have been met. The federal primary balance closed at -2.6 percent of GDP, meeting, with a large margin, the adjusted target of -2.8 percent of GDP. Social spending exceeded program targets and the targeted primary balance of the general government has also been met with a large margin. Net international reserves (NIR) increased by nearly US$7 billion in the fourth quarter (about US$600 million above the adjusted NIR floor). The

NDA target for December was missed due to technical factors.[4] Non-deliverable forwards rolled-off in the fourth quarter, eliminating the outstanding stock by end-December (keeping the stock below the continuous performance criterion under the program).

15. All end-December and end-March structural benchmarks were met. In December, authorities published a debt management strategy. By end-March, the outstanding stock of LEBACs was eliminated, removing an important vulnerability in the Argentine economy, and the holding of LELIQs has been limited to domestic banks. The Ministry of Finance will submit a draft of the central bank's new charter to Congress by end-March, meeting the structural benchmark.

MAINTAINING FISCAL DISCIPLINE

16. Tax revenue projections for 2019 have been revised downward. Disappointing tax revenues over the last few months suggest that weak economic activity and administration difficulties are reducing tax buoyancy (especially in the first half of 2019) making previous revenue forecasts optimistic. The revenue forecast for 2019 has been lowered by 1.7 percent of GDP relative to the forecast that underpinned the Second Review. While most of the revenue losses from export taxes are estimated to be permanent, other revenue losses are expected to be recovered as growth pick up in 2020 (and losses on VAT revenues could be recouped later this year through administrative measures).

17. The lower revenues will be offset by a combination of higher inflation, better growth, and discretionary expenditure reductions. Higher-than-projected inflation in 2019 will reduce pension spending and wages as a share of GDP (by ¾ percent of GDP) and planned changes in the natural gas industry (following the introduction of auctions between gas producers and distributors), together with planned increases in tariffs, should reduce subsidies.[5] In addition, lower revenues will reduce automatic transfers to provinces under the *co-participation* revenue sharing formula (by about 0.3 percent of GDP). The authorities reiterated their commitment to meet the zero-primary deficit target and noted that they intend to close the remaining fiscal shortfall (of 0.4 percent of GDP) by reductions in capital spending and efficiency savings in lower priority social assistance spending (that is not covered by the program floor).

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[4] The original NDA target was set using end-of period NIR rather than an average over the month, that resulted in an unintentionally low value for the end-December PC. Furthermore, IFIs disbursements were received later in December than was expected by staff, resulting in higher-than-expected average NDA in the early part of the month.

[5] Energy tariffs have continued to converge toward production cost recovery in 2019, with electricity tariffs up by about 30 percent on average in February (another 5 percent increase is scheduled for May and August) and gas tariffs scheduled to increase in April.

Federal Government Balance
(in percent of GDP)

	2018	2019		
	Actual	Budget	II Review (IMF)	Current (IMF)
Total revenue	**25.3**	**28.3**	**28.1**	**26.4**
Taxes	**17.2**	**19.7**	**19.8**	**18.2**
of which: VAT (net of devolutions)	7.3	7.8	7.6	7.4
of which: Export taxes	0.8	2.4	2.5	1.7
of which: Import taxes	0.7	1.0	0.8	0.7
Social security contributions	**6.2**	**6.6**	**6.3**	**6.0**
Non-tax revenue	**1.9**	**2.1**	**2.0**	**2.2**
Primary spending	**27.9**	**28.3**	**28.1**	**26.4**
Federal	**19.4**	**19.5**	**19.4**	**18.0**
Wages	3.4	3.6	3.6	3.3
Goods and services	1.0	0.9	0.8	0.8
Pensions	8.9	9.7	9.6	9.2
Social spending under the program 1/	1.3	1.3	1.3	1.4
Other social assistance 1/	1.3	1.3	1.3	0.9
Subsidies	1.9	1.6	1.5	1.4
Capital	1.3	0.9	0.9	0.8
Other	0.4	0.3	0.3	0.2
Transfers to provinces	**8.5**	**8.8**	**8.8**	**8.4**
Automatic	7.4	8.1	8.1	7.8
Discretionary	1.1	0.7	0.7	0.6
Memorandum item:				
GDP, in billion of pesos	14,567	18,415	18,532	20,175

Sources: Ministerio de Finanzas and IMF staff calculations.

Note:

1/ The set of social spending programs considered towards the program floor on social spending changed between the second and third program review.

18. **Given lower revenues, there is a need to modify the quarterly profile of the primary balance performance criteria.** Delays in introducing the export tax on services, lower tax buoyancy, and the more persistent effect of administrative change in VAT on imports will lower revenues particularly during the first half of 2019. The authorities are, therefore, requesting that the primary surplus target for end-June be reduced by about 0.1 percent of GDP relative to that originally envisaged, while maintaining the zero-primary balance target for end-year. Still, achieving the new target for Q2 will require a more frontloaded cut in primary spending than envisaged at the time of the Second Review, particularly for capital spending. Greater cuts in capital spending mean that

achieving the zero-primary fiscal target will imply a slightly more negative fiscal impulse for the whole year than assumed in the Second Review.

19. Staff recommended contingency revenue measures in case of additional revenue shortfalls. Authorities noted that, given limited room to maneuver during the election year, reductions in capital spending are likely the only option**.** Staff cautioned that any reduction in capital spending should safeguard the highest quality projects and recommended that other potential contingency measures should be identified to underpin the credibility of the authorities' fiscal efforts. These could include (i) deeper reductions in economic subsidies; (ii) the elimination of a range of tax exemptions; (iii) an increase in the concessional VAT rates that apply to selected goods and services; and (iv) improving tax compliance.[6] The authorities, however, regard revenue measures that require changes in legislation as unrealistic in an electoral year.

20. The new measures being considered by the tax administration authority are expected to improve tax compliance over the medium term. The design of a tax compliance improvement plan is a structural benchmark for June 2019 and should include measures to address the most salient shortcomings in tax administration (Box 1), including:

- Reducing the VAT compliance gap and lessening taxpayer compliance costs.
- Undertaking an assessment to identify those taxpayers that are incorrectly registered under the simplified tax regime (*Monotributo*).[7] There is also a need to examine the *Monotributo* system from a generalized tax policy perspective, and its relationship to the Personal Income Tax regime. An important first step will be the implementation of an integrated auditing action plan for the *Monotributo* covering 20 percent of taxpayers under this regime (proposed structural benchmark).
- Expanding the coverage of the Large Taxpayer Office in Buenos Aires to administer/monitor the compliance of all large taxpayers nation-wide.
- Working towards integrating the currently fragmented IT systems to provide better support to the tax administration's core operations.

[6] In the next few months, AFIP will (i) speed up collection of revenue in arrears and strictly enforce the agreed payment plans; (ii) press with improvements in VAT compliance using the advice in the latest IMF TA report; (iii) strengthen control over compliance with transfer pricing regulations; and (iv) broaden the use of third-party data to identify and address non-compliance with corporate and personal income tax.

[7] There is also the need to examine the transition from the simplified to the general tax regime, which may result in a significant increase in the effective tax rate as firms grow (with negative implications for tax compliance and investment decisions).

Box 1. Shortcomings in Revenue Administration

- *VAT compliance gap:* At an estimated 33 percent (one of the highest in the region), the VAT compliance gap translates into 3.7 percent of GDP in foregone revenue. Reducing this gap by one-third in five years (which would make it comparable to VAT gap levels of other countries in Latin America that have improved VAT compliance in recent years) would yield 1.2 percent of GDP in extra tax revenues. Further analysis is needed to calculate a more granular estimate of the VAT gap, which will help identify the largest sources of revenue loss.

- *Abuse of the simplified tax regime:* About 3.5 million taxpayers are registered under a simplified tax regime (*Monotributo*). Originally designed to incorporate informal sector workers into the tax system, the large difference in tax rates between the general and the simplified regime has, over time, incentivized taxpayers to register under the simplified regime, creating horizontal and vertical inequity and resulting in significant revenue losses.

- *Administrative fragmentation*: Different units in the tax administration are responsible for administering different taxes although these have the same base (e.g., social security contributions and the personal income tax). Thus, there is considerable room to improve coordination and to exploit taxpayer-related information from different sources more effectively to raise tax compliance levels. In addition, there are large taxpayers that the regional branches of the tax agency currently administer; these taxpayers, and their files, should be administered by the national Large Taxpayer Office.

21. The Fiscal Safeguards Review identified the need to develop a more comprehensive fiscal risks report; improve medium-term budgeting; and strengthen the quality of fiscal reports. The authorities plan to improve the coordination among units in charge of assessing the macroeconomic and fiscal impact of new policy measures, to better analyze fiscal risks, and to improve the reporting of arrears and contingent liabilities. In addition, the Review found that the Executive's discretionary powers to modify the approved annual budget undermines the Budget's credibility as a tool for fiscal policy.[8] The authorities should adopt a formal legislative procedure for modifying the annual Budget law (for example, through a supplementary budget) that would require ex-ante Congressional approval of any additional spending needs. It would also help to introduce an explicit contingency reserve in the budget to absorb the unexpected impact of macroeconomic shocks. Finally, in line with the recommendation of the Review, by September 2019, the authorities will finalize a time-bound plan for transferring the Treasury Single Account (TSA) to the BCRA in June 2020 (proposed structural benchmark), with support of technical assistance from the Fund. This timeline will allow authorities to fully prepare for the transition in order to ensure continuity in their cash management practices.

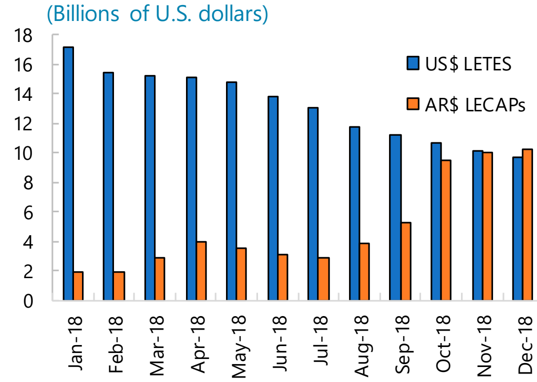
[8] Changes to the Budget can be done through two mechanisms: i) emergency decrees, and ii) a legal authorization to incur expenditures (not included in the Budget law) in cases of emergency, requiring only ex-post Congressional approval.

DEBT MANAGEMENT

22. The authorities are using the current favorable market environment to extend maturities and build cash buffers. They intend to increase their reliance on peso debt with maturities over 12 months and plan to maintain rollover rates close to 100 percent for peso and FX debt. This should allow a build-up of a cash buffer – indeed higher rollover rates have already enabled the accumulation of significant cash buffers – that will provide important insurance against potential market volatility. Furthermore, given recent strong demand for peso-denominated debt, authorities will continue reducing the share of the debt denominated in foreign currency, including by continuing moving from US$ LETES into LECAPs, as started in 2018. The authorities also recently increased their repo with international banks and placed an inflation-linked bond that matures in 2021, which should help achieve a sizable maturity extension in March, in line with program projections. While the authorities still plan to completely phase out repos, they intend to do this more gradually than previously expected. The authorities noted that they would be prepared to temporarily pay higher interest costs in order to lengthen maturities, if needed, noting that this would provide important buffers and only have a modest effect on the debt-to-GDP path.

Private Sector LETES and LECAPs

(Billions of U.S. dollars)



Source: Fund staff calculations.

23. Staff welcomes the ongoing changes to debt management.

- The December strategy document helped guide market expectations, reduced the minimum threshold for noncompetitive bids, and no longer allowed investors to purchase foreign currency debt with pesos. The government intends to build liquid benchmark issues by concentrating peso issuance in 3- and 18-month maturities.

- They plan to introduce a market maker program in April which will help increase secondary market liquidity and increase the demand for domestic instruments, particularly from mutual funds. In addition, there is scope for introducing a securities lending facility provided by the ministry, to support smooth market functioning and help market makers discharge their responsibilities.

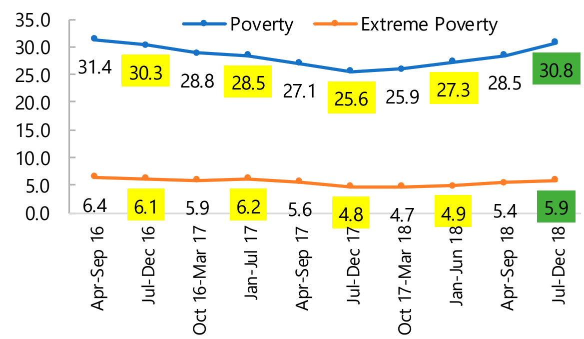
- Managing the large financing needs in 2020-21 will require greater reliance on private financing at longer maturities (including beyond 2022-23), and continued reduction of FX risk in debt composition. The size of the GFN at end-2022 will be influenced by the choice of the debt management strategy, including currency and maturity composition of financing sources. Extending debt maturity beyond 2022-23 would help smooth out the debt redemption profile. Reducing refinancing risk remains a priority and will require concerted efforts to diversify the investors base.

- There is scope to improve the governance of debt management, to strengthen the capacity of the debt management office, and to improve debt transparency and communication.[9] In addition, authorities should continue to extend maturities on their benchmark issuances, and build a yield curve, market conditions permitting.

PROTECTING THE VULNERABLE AND SUPPORTING GENDER EQUITY

24. The ongoing recession and high inflation is having a negative social impact. The World Bank estimates that the poverty rate reached 31 percent in the second semester of 2018, an increase of 5 percentage points from the previous year (official data will be available in late March). Extreme poverty is estimated to have increased by 1.1 percentage points. These increases were driven largely by falling real wages and job losses associated with the downturn. The most vulnerable households are those with young children, larger families, and with younger heads of household.

Poverty and Extreme Poverty Rates



Source: World Bank estimates based on INDEC data. 1/ Numbers with yellow highlight denote officially published numbers. The number with green highlight denotes *nowcast* estimation.

25. Staff welcomes the increase in universal child allowance (AUH) benefits starting in March. The AUH provides income support for those in the informal sector or without a job and covers almost two-thirds of poor households (comprising 3.9 million children) although benefits are relatively low (at 5 percent of the average wage per child) and has been an effective tool to reach those families in need. Over 80 percent of program spending is received by the bottom 40 percent of the income distribution.[10] World Bank simulations suggest that doubling the benefit (at a cost of around 0.5 percent of GDP) would have fully prevented the increase in extreme poverty that was experienced in 2018. Recognizing the importance of the AUH, the government paid additional child allowances in both September and December (which helped avoid an erosion of benefits in real terms) and have announced a 45 percent increase in AUH benefits starting in March (front-loading the indexation formula for the entire year).[11] This measure has an annual cost of AR$15 billion which will be accommodated through a larger program adjustor for social spending.

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[9] Authorities are also implementing the Medium-Term Debt Management Strategy (MTDS) formulation for the debt management office, including the use of the analytical tool, which will improve the forward-looking analysis of Argentina's debt.

[10] Cetrángolo, O., Curcio J., Goldschmidt, A. and Maurizio, R. 2017. "Caracterización general, antecedentes y costo fiscal de eventuales reformas de la AUH", In Análisis y propuestas de mejoras para ampliar la Asignación Universal por Hijo, edited by Cetrángolo O., and Curcio J., UNICEF-ANSES-Ministerio de Desarrollo Social, Buenos Aires.

[11] Contributory family allowances will continue to grow according to the benefit indexation formula.

26. Staff believes that the authorities' plan to address coverage gaps and expanding health services and nutrition support for the vulnerable will strengthen the social safety net. To achieve this, the authorities plan to increase spending on (i) selected health programs, including the provision of medicines in public health centers whose users often lack other health coverage, (ii) active labor market programs, and (iii) direct food and cooking gas (*garrafa social*) assistance. The authorities have requested an expansion of the definition of the social expenditure floor and the coverage of the social expenditure adjustor to include these programs and an increase in the cap on the adjustor on social spending (from 0.2 to 0.3 percent of GDP). To better understand the gaps in coverage, the authorities will work with the World Bank to improve the questions in the household survey so as to provide relevant data.

27. Reforms to level the playing field for women and working mothers can improve female labor force participation and should be pursued.

- With IDB support, the authorities are improving the quality and availability of the country's system of childcare centers for lower income families, to better fit working parents' schedules. The National Council for Coordination of Social Policies is conducting an impact evaluation of the program *Primeros Años* (which provides one-to-one support to new lower income parents) with a view to potentially expand its duration from 3 to 6 months. These are important first steps towards improving the availability of child care and should help support increased levels of maternal labor force participation rates.
- A time-use survey will be rolled out by 2020 which will provide important information on women's care activities. The data, once available, will help inform policies to support women participate in the labor market.
- In addition, a swift passage of the legislation to increase the duration of paternity leave (which remains dormant in Congress) will help level the playing field between working fathers and working mothers and make growth more inclusive. In the meantime, the City of Buenos Aires has put in place a 45-day paternity leave for public employees.
- The government will publish by end-March a stock-taking of gender balance in executive board and management positions in listed companies and identify steps to address imbalances in such positions.

Staff continued to advocate the need to eliminate tax disincentives for female participation in the labor force, particularly the high marginal tax for second earners. A gradual phasing out of the spouse allowance as household taxable income increases could be accomplished at a negligible fiscal cost. Authorities agreed with the importance of the reform but noted that there would likely be no legislative space to put this in place in the short term.

MONETARY AND EXCHANGE RATE POLICIES

28. The new monetary framework has created a more predictable framework for policy, significantly reducing volatility in financial markets and the currency. The volatility in interest rates observed since the beginning of this year (the 7-day LELIQ declined from 59 to 44 percent over the space of a few weeks but then retraced its way up to 63 percent as the demand for peso assets diminished) was an expected consequence of moving to a quantity targeting regime (where interest rates are determined endogenously by market forces). The BCRA has appropriately exercised the modest discretion it has at its disposal, within the limits of the framework, including by keeping the monetary base below the BCRA's target ceiling and by adjusting the pace of change in the non-intervention zone. Those changes have usefully kept monetary conditions tight while leaving the interest rate to be determined by market forces. With the peso outside the non-intervention zone in January and early February, the BCRA opted to undertake smaller purchases of FX than were originally envisaged under the framework, allowing the stronger peso to contribute to the BCRA's disinflation effort. Finally, in late February and March, as pressures on the exchange rate built and inflation outturns came in above-expectations, the BCRA further constrained the monetary base to ensure monetary conditions remained tight. These modest adjustments were fully consistent with the base money targeting framework and have helped mitigate unnecessary volatility in the peso and in short-term interest rates. Any further recalibrations to the framework should be clearly communicated in order to eliminate any potential uncertainty around the monetary policy stance and the BCRA's commitment to its policy goals.

29. Both staff and the authorities agreed that reducing inflation will be a protracted process. The recent rise in inflation has been driven by a combination of several factors, including rising utility tariffs, stronger-than-expected increases in wages, and a rebuilding of margins by producers and retailers. Increases in utility tariffs and a continued decompression of margins are expected to sustain inflationary pressures over the next few months.

30. Staff believes that the BCRA's recently announced measures will contribute to gradually reducing inflation and inflation expectations. The extension of the zero-monetary base growth target to November 2019 and the lower rate of change of the non-intervention zone will signal a tight monetary policy stance for a longer period and strengthen the credibility of BCRA's framework. Nonetheless, lowering inflation will be a protracted process, requiring a conservative monetary and fiscal policy for as long as is necessary to anchor inflation expectations and reduce the backward-looking setting of wages and prices. In the event of a stronger-than-expected demand for peso assets, the exchange rate should appreciate outside of the non-intervention zone, triggering unsterilized FX purchase and an automatic increase in the monetary base.

31. While the Fund considers the BCRA's recent measure to limit the holdings of LELIQ constitutes as a Capital Flow Management Measure (CFM), staff deems it as consistent with the Fund's Institutional View. The measure – limiting the banks in their LELIQ holdings to 65 percent of their deposits or 100 percent of their capital (whichever is higher) – is designed to limit capital flows and thus constitutes a CFM. Since the measure does not substitute or avoid macroeconomic adjustments envisaged under the program, the measure is warranted and consistent with the IMF's Institutional View.

32. Revisions to the BCRA charter would strengthen the central bank's independence and operational autonomy. The authorities have made good progress in designing amendments to the central bank law that establish price stability as the first and fundamental mandate of the BCRA, prohibits monetary financing of the government, and allows the remuneration of commercial bank accounts held at the BCRA. The objectives of the new charter are to improve governance, internal oversight and decision-making structures, and to commit the central bank to international standards of transparency and accountability. The authorities intend to submit the revisions to the charter to the Congress by end-March, meeting the program structural benchmark). The new charter will provide a solid foundation for an eventual return to inflation targeting.

FINANCIAL STABILITY

33. Despite a generally resilient banking system, there is room to strengthen supervisory practices. The BCRA conducts regular stress tests on the banking system, yet the credit risk models are suited to assess large universal banks' exposure to shocks. However, work is underway to fine tune stress testing models to better customize capital and liquidity requirements for smaller institutions, taking into account their funding structure and activities. These smaller institutions are non-systemic, accounting for 1.1 percent of total banking sector assets and with a very small share of retail deposits (relying instead on wholesale funding and term deposits).[12]

SUPPLY SIDE REFORMS

34. Trade restrictions in Argentina remain high. Argentina has free trade relations with countries representing only about 10 percent of global GDP (including the bilateral agreements via Mercosur) which compares poorly to other economies in the region (Chile and Peru have agreements with countries that make up 70-80 percent of global GDP). Mercosur imposes a common external tariff system for most trade which is high by international standards (9 percent for capital goods and around 6 percent for intermediate goods). Argentina also continues to have a significant amount of non-tariff barriers (even though non-automatic import licenses have been scaled back and a range of restrictions to FDI have been eliminated). The authorities are examining improvements to Mercosur´s common external tariff and are working to simplify and reduce administrative costs (through a single window for importer/exporters). The authorities are also working within Mercosur to negotiate free-trade agreements with Canada, the EU, and the European Free Trade Association. Staff also see scope to unilaterally reduce tariffs on goods that are not subject to the common external tariffs.

[12] As of December 2018, 18 private institutions, accounting for 2.7 percent of banking sector assets, had less than 10 percent of their total funding coming from private sector deposits. For banks accounting for 70 percent of banking sector assets, over half of their funding was from private deposits.

35. Barriers to entry and administrative burdens remain high and competition is low. The government recently opened a number of sectors, including the airline industry, to private sector competition. Nonetheless, more needs to be done to strengthen private sector activity. Argentina ranks poorly in nearly all dimensions of product market regulation according to assessments by the OECD and the World Bank. The passing of the Competition Law in May 2018 has improved the legal framework by establishing a new independent competition authority, introducing new thresholds for mergers and acquisitions, raising fines for cartels, and encouraging greater disclosure. However, the competition authority has scarce resources, allowing it to pursue only a small number of antitrust investigations at a time.

36. There is a need to take a panoramic view of the tax system and replace the existing distortionary system with a more efficient structure. The 2017 tax reform and the 2018 Fiscal Pact correctly aimed at promoting investment and job creation by lowering the corporate income tax burden, turnover taxes, and the effective tax on labor income for lower-income workers. However, there is an overreliance on distortionary taxes (including the financial transactions tax and export taxes until at least 2020) and a need to further reduce direct taxes on labor and new investment. Given the fiscal position, tax reform should, at a minimum, be revenue-neutral with tax reductions offset by broader coverage of the personal income tax (currently paid only by about the top 10 percent of wage earners), a removal of VAT exemptions, and higher consumption taxes. The authorities have indicated that a tax reform would not garner sufficient support in Congress and will be infeasible prior to the elections.

TACKLING CORRUPTION

37. Staff welcomes the government intention to introduce an electronic system for the declaration of assets and interests by high-ranking officials. The system will enhance transparency, support the existing AML/CFT regime, and provide input to criminal investigations. Regulatory changes are also being put in place by end June, to ensure the availability of adequate, accurate, and timely information on the ultimate beneficial owner(s) and control structure of legal persons. This will provide important information to the Financial Intelligence Unit and to law enforcement agencies to support their investigations. The launch of the system is awaiting approval from the Ministry of Justice.

38. The authorities are taking steps to allow for the seizure and recovery of assets resulting from proceeds of criminal activities in accordance with the Constitution and international standards. The anti-money laundering law will be amended to provide for appropriate safeguards for the financial intelligence unit to freeze assets when there are suspicions of money laundering, terrorism financing, corruption, or other crimes.

PROGRAM ISSUES

39. The program remains fully financed. Financing assumptions remain in line with the forecasts at the time of the Second Review. Market rollovers have been higher than expected and the World Bank and IDB have disbursed US$589 million and US$429 million, respectively, in budget support up to end-2018.

40. Argentina's capacity to repay remains adequate although subject to sizable risks. The Fund's exposure in terms of debt service metrics is at the higher end compared to other exceptional access cases. The frontloaded disbursement schedule implies a considerable bunching of Argentina's repurchase obligations to the Fund. International reserves are projected to remain adequate throughout the program and during the repayment period. However, sustained program implementation will be crucial to reduce sovereign and balance of payments risks, lower spreads, increase access to global capital markets, and allow Argentina to smoothly exit from Fund financial support.

41. Safeguards. The safeguards assessment completed in October 2018 made recommendations to strengthen central bank independence which were incorporated into amendments to the Charter. The BCRA has also adopted a plan to implement international financial reporting standards by 2020. There has, however, been limited progress in providing weekly analysis on the use of IMF resources and in strengthening the compilation of monetary data.

42. While the projected debt trajectory is less favorable relative to the Second Review, staff still assesses debt to be sustainable, but not with high probability. The public debt was at about 86 percent of GDP at end-2018, up from 58 percent of GDP at end-2017 and about 9 percent of GDP higher than projected at the Second Review.[13] Debt is expected to begin declining in 2019 and to stabilize below 60 percent of GDP over the medium-term. Gross financing needs (GFNs), now projected to exceed 15 percent of GDP – above the high-risk threshold – in 2019, will be met from a mix of issuance to public and private residents, deposit drawdowns, and Fund financing. Nonetheless, tighter-than-expected market conditions, including exchange rate movements, and contingent liabilities continue to constitute important risk factors for debt and GFNs.

43. Monetary target. The authorities expressed their desire that the program adopts their target for a ceiling on changes in monetary base, replacing the current ceiling on changes in NDA in the program. Staff agrees with this change, noting that the change has no economic significance and will improve the comparability of the authorities' target and program monitoring. The monetary base target will apply from April onwards.

[13] Compared to the Second Review, the 8 percent of GDP debt revision for end-2018 was driven by the inclusion of the (i) fiscal pact bonds for provinces, (ii) new guarantees on SOE debt issued around year-end, (iii) capitalized interest on LECAPs, (iv) higher-than-expected debt issuance to build larger deposits buffers; and (iv) intra-year valuation adjustments, including in the context of high exchange rate volatility. The sizable revision in 2018 is not likely to repeat in the future, as staff and the authorities put in place more rigorous methods to track intra-public sector debt and guarantees, and better account for capitalized interest and exchange rate valuation changes.

44. Treasury's FX conversion in pesos. The Treasury does not expect to need to convert the proceeds of Fund budget support into pesos until mid-April. To ensure a smooth and neutral conversion of this FX, on April 15, the BCRA intends to begin auctioning US$60 million per day on behalf of the Treasury. These daily auctions will continue until end-November, at the same time of the day, unless interrupted (announced with at least 20 calendar days in advance). Sales of FX will total US$9.6 billion which have been incorporated into the program's macro-framework. These sales have been preannounced, and set at a sufficiently low level, so as to minimize their impact on the exchange rate. In the event that the peso is below the non-intervention zone, the Treasury's FX will be sold directly to the BCRA at the reference rate of the day, in the amount consistent with the central bank's monetary policy stance. Pesos received from these conversions will remain deposited at the BCRA until needed for fiscal purposes. The authorities are proposing new adjustors to NIR targets to accommodate the sales of Treasury FX to the market (following the modalities described above).

45. Program modalities. Staff is proposing the following modifications:

- The end-March and the end-June performance criteria for the federal government primary balance target. The former is to reflect the new definition of the social spending adjustor and the latter is to accommodate the revised quarterly pattern for the fiscal accounts.
- The end-March and end-June targets for the floor on social spending. The end-March change reflects the new definition of social spending, and the end-June takes into account projections under the new definition.
- The end-June target for domestic arrears to take into account higher inflation.
- The elimination of the ceiling on changes in net domestic assets from June onwards (with monthly ITs eliminated beginning end-April).
- The introduction of a ceiling on changes in the monetary base from June onwards, (with monthly ITs beginning end-April), which will remain at zero until end-September, consistent with the authorities' commitment to maintain zero growth in the monetary base until November.
- The introduction of an adjustor for FX sales and to accommodate Treasury FX sales in NIR targets.
- The setting of end-September QPCs.
- The setting of structural benchmarks for end-September 2019 and end-December 2019, respectively, for finalizing a time-bound plan for the transfer of the Treasury Single Account from *Banco Nación* to the BCRA and implementing an integrated audit plan covering 20 percent of the taxpayers in the Simplified Taxpayer Regime (*Monotributo*).

Lastly, waivers of applicability are requested for end-March fiscal targets, as the relevant data, in accordance with the TMU, will only be available after the scheduled date for Executive Board consideration of the Third Review.

46. The authorities continue to make good faith efforts to resolve outstanding arrears to external private creditors. New agreement to settle and dismiss totaling US$26 million have been reached since the completion of the Second Review. In a Bondholders Meeting on February 22, the majority of bondholders of remaining defaulted Japanese Yen Bonds accepted the Standard Offer in line with the February 2016 settlement proposal, making it applicable to all outstanding Japanese Yen Bonds. Currently, a total of around US$1.1 billion in principal (or US$3.2 billion including accrued interest) remains outstanding to private creditors. 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, but discussions continue to advance. 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.

47. There are limited outstanding arrears to official bilateral creditors. Arrears of approximately US$30 million (in principal amount) are claimed by the French export credit agency and relate to the building of a gas pipeline in the province of Tierra del Fuego by a French company in the late 1970s. Discussions have continued to progress since the Second Review. Official arrears to Paraguay (totaling US$120 million), which arose from the energy sharing Treaty of Yacyreta, have been resolved.

EXCEPTIONAL ACCESS CRITERIA

48. 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 somewhat better than expected since the conclusion of the Second Review. In fact, rollovers of most maturing debt in 2019 so far has been near or over 100 percent. Nonetheless, under current assumptions, Argentina's large external financing needs 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.*** The starting position for the debt ratio is weaker (due to the large upward revision to the end-2018 level), and financing needs are also more elevated than at the Second Review. However, as before, debt is projected to remain on a downward path and fall below 60 percent by 2024. With public debt assessed as sustainable, albeit 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 improves the prospects of adequate private creditor exposure being maintained throughout the program.[14]

- ***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 with both resident and non-resident (institutional) investors continuing to participate in recent peso- and US$-denominated bond placements.[15] Rollover rates have improved, and non-residents have purchased over US$2 billion of peso-denominated LECAPs in the past five months. Nonetheless, average yields on Argentina's external bonds remain elevated. Sustained implementation of Argentina's policy program, combined with support from the international community, will help restore Argentina's full 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 – demonstrated a strong commitment to the policies underlying the Stand-By Arrangement and will help ensure policy continuity in 2019. Furthermore, the congressional approval validates the authorities' efforts at building consensus across party lines. Despite a complicated economic situation and a difficult history of the IMF in Argentina, social opposition to the program remains subdued. On the monetary side, the central bank's implementation of the monetary policy framework announced in late September is supporting a path to disinflation. In addition, the BCRA has adhered to its transparent FX intervention rule, purchasing FX in limited amounts once the peso moves outside the strong side of the non-intervention zone. During the last two missions, staff held meetings with members of the opposition. These discussions revealed a broad consensus that the financial assistance by the Fund will remain an essential element for regaining market confidence. Strong, sustained and consistent policy implementation and broad societal ownership of the government's economic plan continue to be crucial for program success.

[14] As of end-2018, the stock of the federal government's privately-held foreign currency denominated debt is approximately US$112 billion, of which about one quarter is expected to mature by June 2021 (the expiry of the SBA).

[15] Argentina has never lost access to foreign institutional investors, not even at the height of last year's financial crisis.

STAFF APPRAISAL

49. The authorities' policies are helping to stabilize the macroeconomy. The adoption of the new monetary policy framework has brought stability to the peso. However, inflation is increasing and is likely to remain at high levels throughout the year reflecting planned increases in utility tariffs as well as buoyant nominal wage growth. Inflation is likely to end the year around 30 percent y/y. Higher real wages and a rebound in agricultural production should underpin a recovery in economic activity starting in the second quarter. The end-December and end-March structural benchmarks for publishing a debt strategy and eliminating the stock of LEBACs have been met and the submission to the Congress of a new charter for the BCRA is expected to take place by end-March, meeting the structural benchmark.

50. Weaker tax revenues require additional expenditure restraint to achieve the 2019 fiscal targets. Contingency plans are in place to allow the government to achieve a zero-primary deficit by the end of the year. Nonetheless, risks to the fiscal outlook are sizable. Efforts to restrain primary spending in the first half of the year will be key to achieving the full-year fiscal target.

51. Greater effort is needed to protect the most vulnerable from the impact of the economic recession. The deep recession and high inflation are pushing up the poverty rate, calling for expedited action to improve the conditional cash transfer program and to address gaps in the coverage of the social safety net (particularly for families without children and the elderly without pension). The authorities' frontloading of the increase in AUH benefits for the year should help preserve the purchasing power of beneficiaries and the authorities should take full advantage of the larger program adjustor to increase spending on high-impact social programs.

52. Allowing the monetary policy framework to fully operate will be crucial to re-anchoring inflation expectations and rebuilding BCRA credibility. The commitment to extend the zero-monetary base growth through November, together with the announcement of a reduced rate of change in the limits of the non-intervention zone, signal the BCRA's determination to counter inflationary pressures. A new charter which strengthens the BCRA's independence and improves operational autonomy should increase confidence in the central bank's nominal anchor.

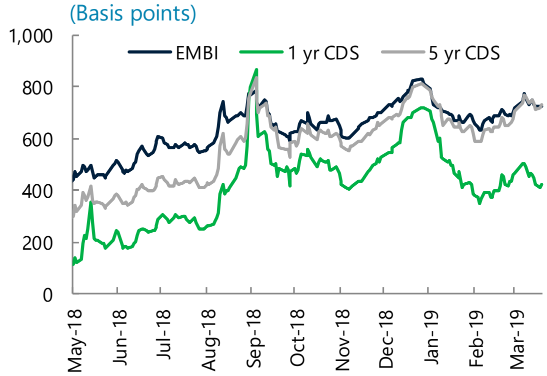
53. A sustained improvement in the living standards for Argentina's population will need a new impetus in the agenda of structural reforms. Priorities include a less distortionary tax system, greater competition in domestic product markets, the removal of barriers to trade and foreign investment, and continued efforts to improve governance and confront corruption.

54. Steadfast implementation of the authorities' economic plan will be essential to reassure financial markets and solidify Argentina's return to macroeconomic stability. Staff supports the authorities' request for completion of the Third Review under the Stand-By Arrangement, the modifications of the performance criteria under the program, waivers of applicability, and the completion of the financing assurances review.

Figure 1. Recent Market Developments

Sovereign and CDS spreads are below last year's peaks

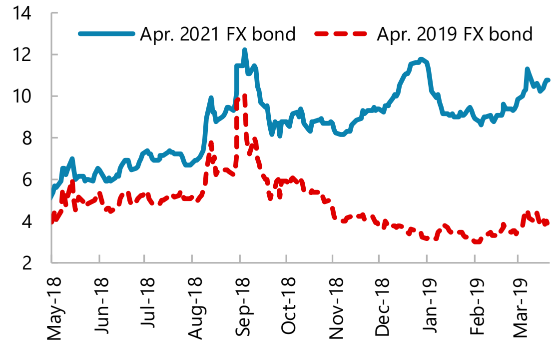
EMBI and CDS spreads
(Basis points)



Source: Bloomberg.

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

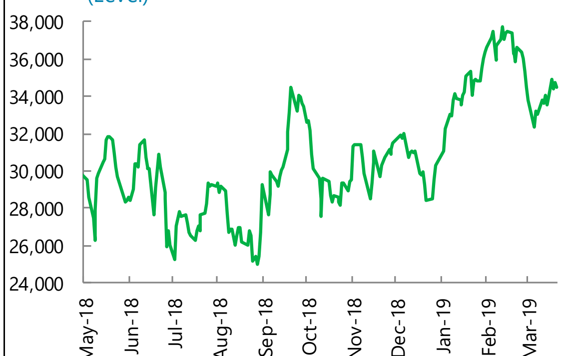
Yields on Apr. 2019 vs Apr. 2021 USD bond
(Percent)



Source: Bloomberg.

Stock markets reversed some of the gains of the January rally

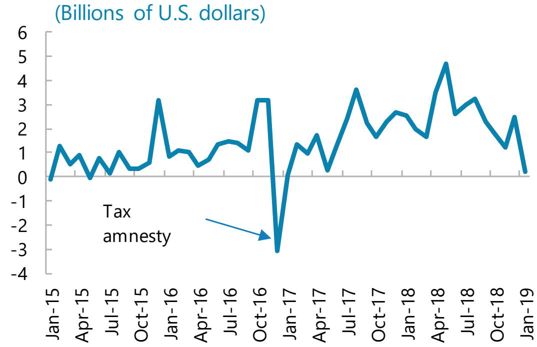
Merval Stock Index
(Level)



Source: Bloomberg.

The net private sector demand for foreign assets has fallen

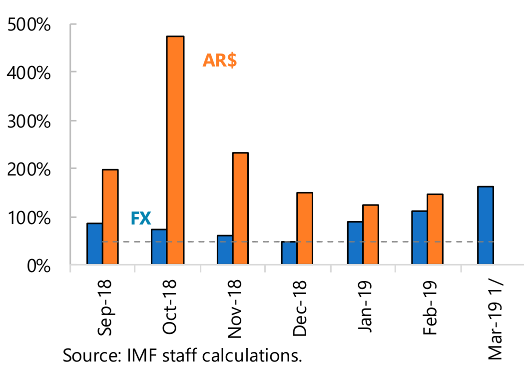
Capital Outflows
(Billions of U.S. dollars)



Sources: BCRA and Fund staff calculations.

Debt rollover rates have remained well over 50 percent in 2019...

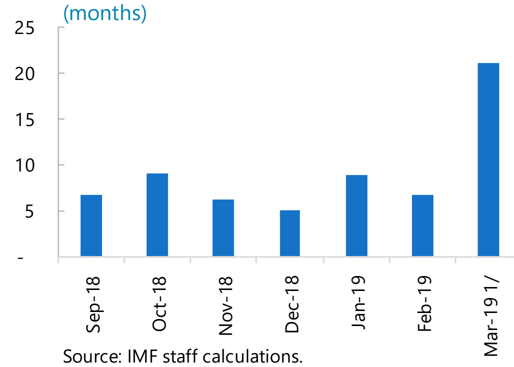
Rollover Rates, FX and AR$



Source: IMF staff calculations.
1/ Data up to March 10.

.... while average maturities have been extended since December.

Average Maturity of New Issuances,
(months)

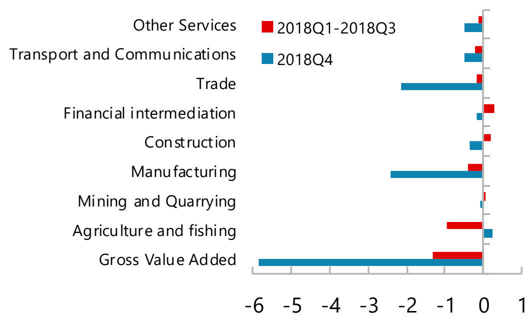


Source: IMF staff calculations.
1/ Data up to March 10.

Figure 2. Real Sector

Agriculture switched from being a drag on growth in Q1-Q3 to be the only sector growing in Q4

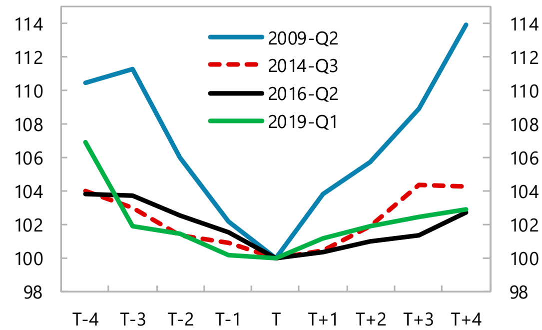
Contribution to GDP Growth - Supply Side
(Percent change, y/y; saar)



Sources: INDEC and Fund staff calculations.

Staff expect the recovery to begin in Q2 and be relatively slow compared to recent recessions

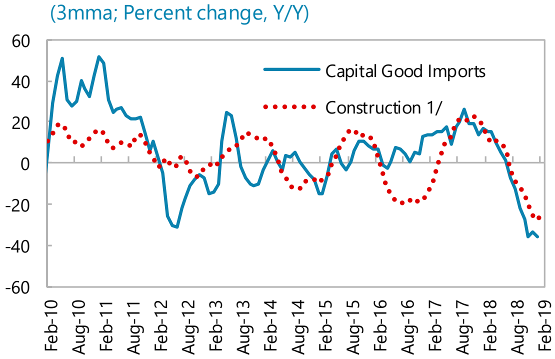
GDP level in the last recessions
(quarterly, 100 = trough)



Source: IMF staff calculations.

Investment will remain weak at least in the beginning of 2019, as import compression continues...

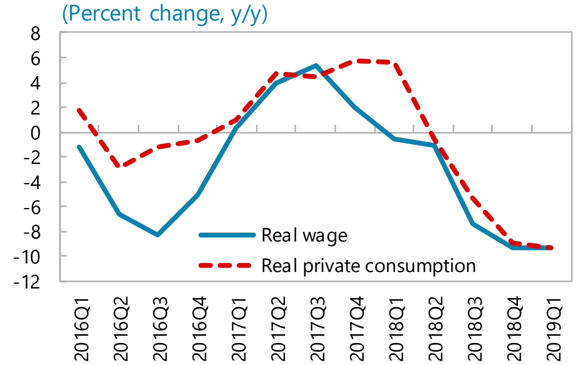
Investment Indicators
(3mma; Percent change, Y/Y)



Sources: INDEC and IMF staff calculations. 1/ Construction Activity Index (Grupo Construya).

...while consumption is expected to be sustained by a recovery in real wages

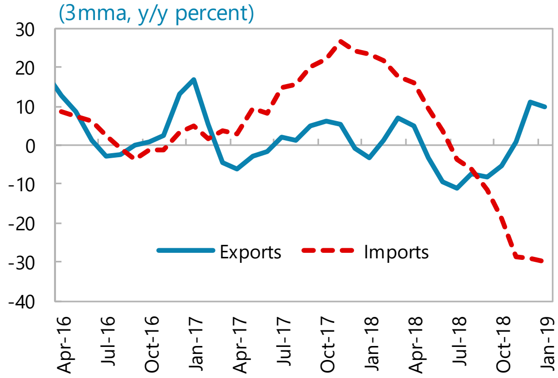
Consumption Indicators
(Percent change, y/y)



Sources: INDEC and IMF staff calculations.

As in 2018Q4, net exports are expected to positively contribute to 2019 growth

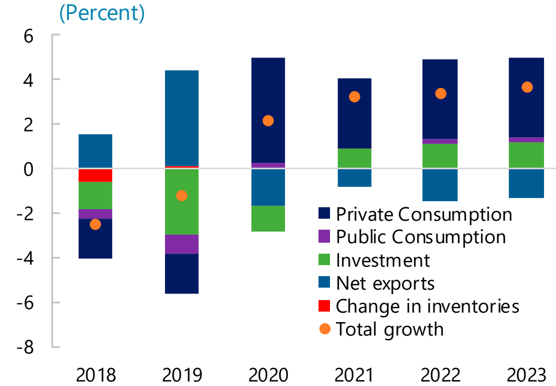
Export and Import Volumes
(3mma, y/y percent)



Sources: INDEC and IMF staff calculations.

The economy is expected to start growing in annual terms in 2020 and reach about 3.5 percent in the medium term

Contribution to GDP growth
(Percent)

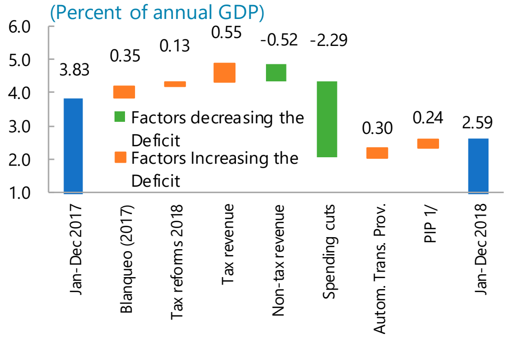


Source: IMF staff calculations and estimates.

Figure 3. Fiscal Outlook

The lower primary deficit in 2018 reflects mainly lower spending, but also greater non-tax revenues.

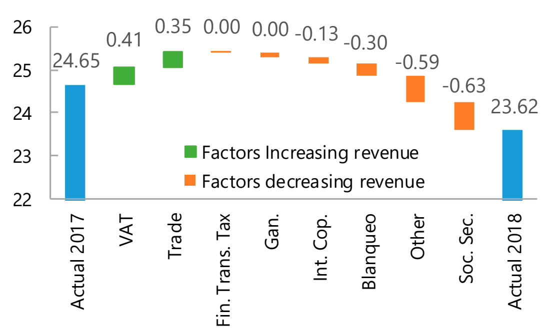
Cumulative Primary Deficit, 2018 vs 2017
(Percent of annual GDP)



Source: IMF staff calculations. 1/ Capital spending under PIP projects used to be recorded below the line until 2017.

VAT did well, while social security contributions fell owing to both the 2017 reform and lower wages and employment.

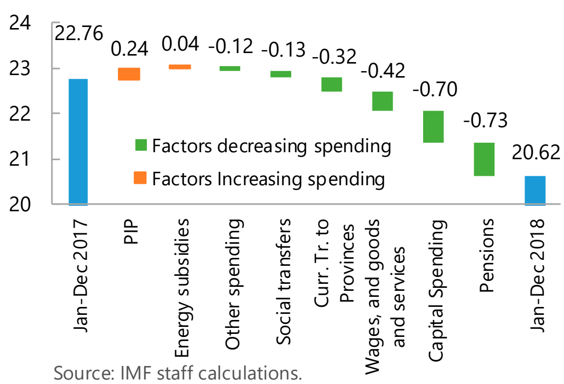
Total Tax Revenue Jan-Dec: actual, including prov. share
(Percent of annual GDP)



Source: IMF staff calculations.

High inflation eroded spending on pensions and wages, but cuts in other spending were also significant.

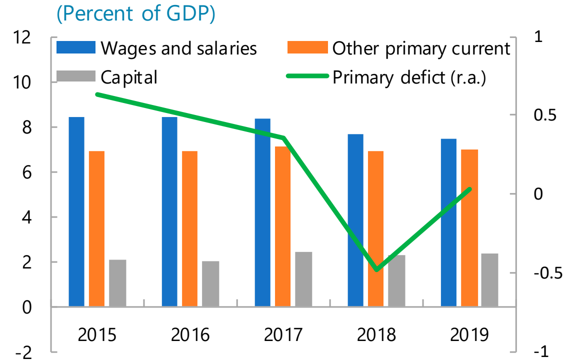
Primary spending, excluding automatic transfers to provinces (Percent of GDP)



Source: IMF staff calculations.

Provinces reduced spending on wages and salaries, preserved capital spending, and reached primary surplus.

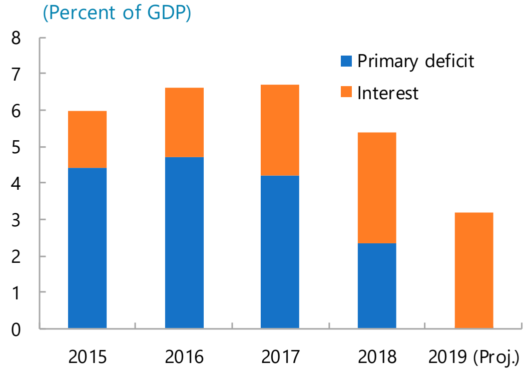
Provinces, Consolidated
(Percent of GDP)



Source: Ministry of the Treasury, and IMF staff calculations.

The overall general government deficit fell in 2018, with the reduction in the primary deficit offsetting higher interests.

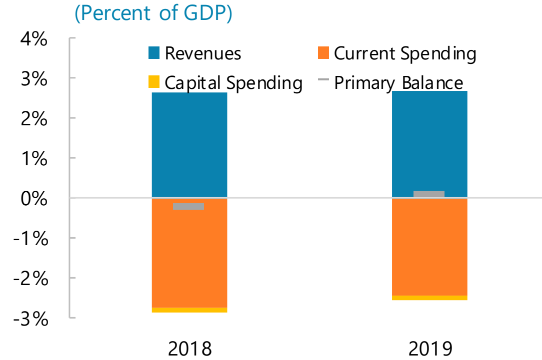
General Government Overall Deficit
(Percent of GDP)



Source: IMF staff calculations.

The fiscal adjustment is continuing in 2019, largely through expenditure restraint.

Cumulative Primary Balance end-February
(Percent of GDP)

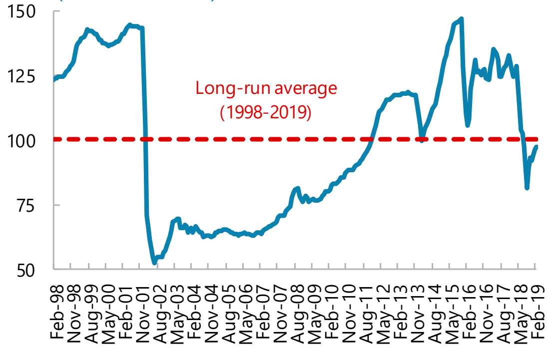


Source: IMF staff calculations.

Figure 4. External Sector

The REER appreciated since October 2018 but it's still below its long-run average

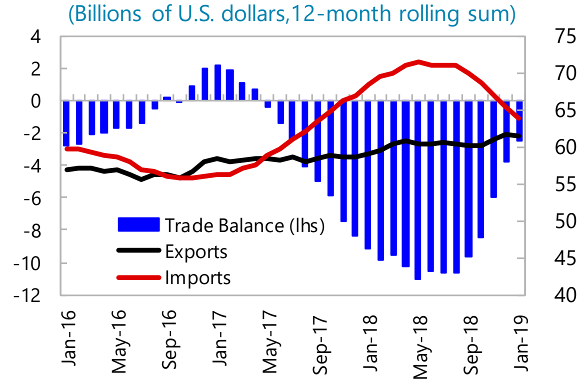
Real effective exchange rate
(CPI based index)



Source: IMF staff calculations and estimates.

The external adjustment has been sharp in both goods…

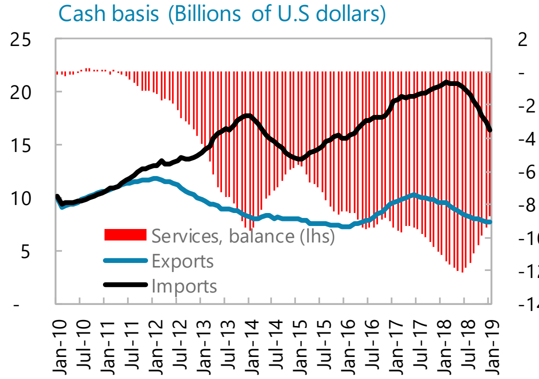
Trade balance
(Billions of U.S. dollars,12-month rolling sum)



Source: IMF staff calculations.

…as well as services.

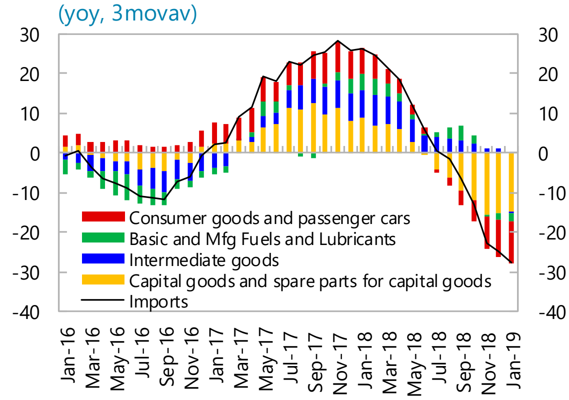
Services
Cash basis (Billions of U.S dollars)



Source: BCRA.

The contraction in imports has been broad based.

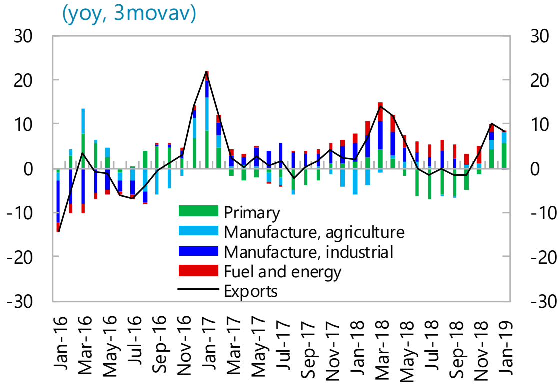
Contribution to import growth
(yoy, 3movav)



Source: IMF staff calculations.

The normalization in agriculture production helped exports in 2018:Q4

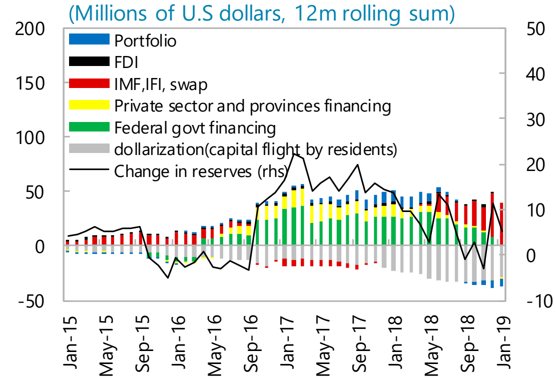
Contribution to export growth
(yoy, 3movav)



Source: IMF staff calculations.

Dollarization slowed in 2018:Q4, while portfolio investors continued to wind down their peso asset positions.

Capital flows, Currency basis
(Millions of U.S dollars, 12m rolling sum)

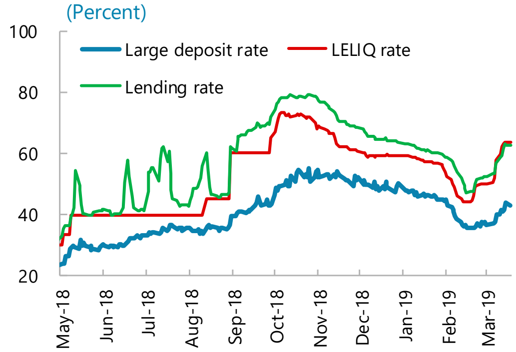


Source: BCRA.

Figure 5. FX and Monetary Developments

The LELIQ rate fell sharply between October and February, but have risen since…

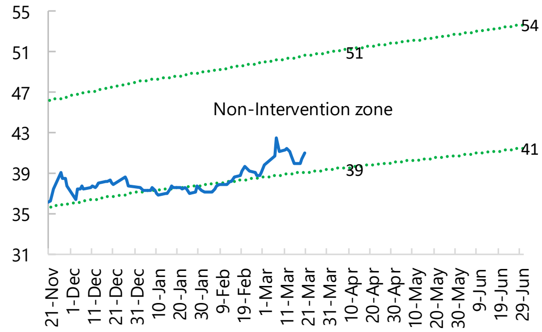
Interest Rates
(Percent)



Source: BCRA.

Peso volatility picked up in March, with the currency moving more widely within the NIZ

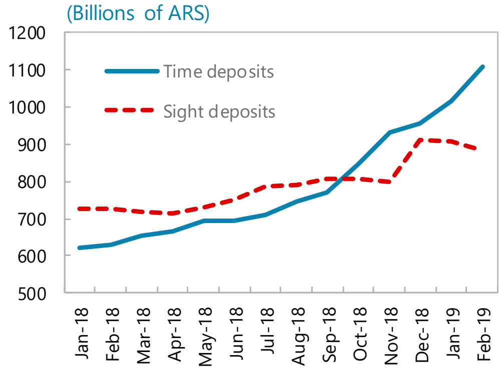
AR$/US$
(Daily exchange rate from SIOPEL)



Source: Bloomberg.

Time deposits have continued to outgrow sight deposits…

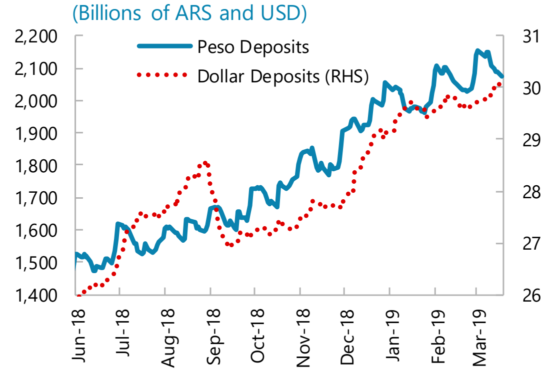
Private Sector Deposits: Sight and Time
(Billions of ARS)



Source: BCRA.

…and deposit growth has held up well in general, in pesos and dollars.

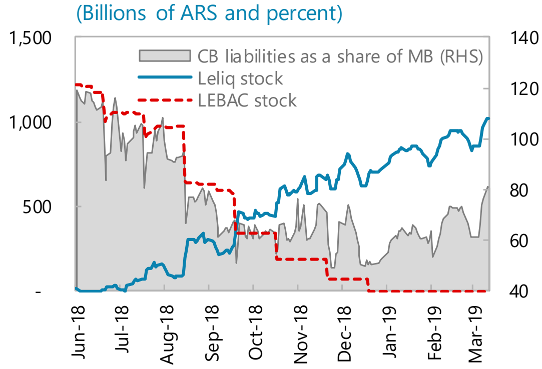
Private sector deposits
(Billions of ARS and USD)



Source: BCRA.

Central bank liabilities have shrunk significantly as a share of monetary base.

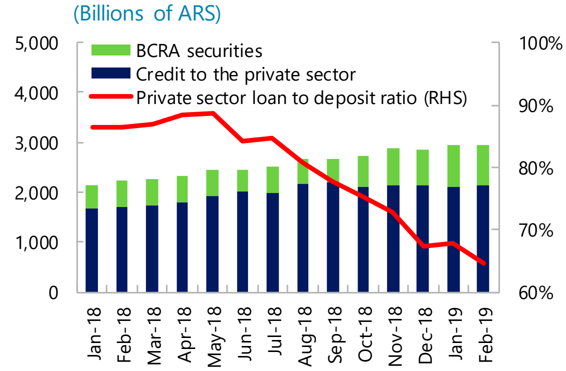
Central Bank Liabilities
(Billions of ARS and percent)



Source: BCRA.

Growing holdings of BCRA securities and lower demand for loans have led to a rapid decline of loan-to-deposit ratio

Financial Institutions Balance Sheet
(Billions of ARS)



Source: BCRA.

Table 1. Argentina: Selected Economic and Financial Indicators

				2nd rev	*2nd rev*				Proj.			
	2015	2016	2017	*2018*	*2019*	2018	2019	2020	2021	2022	2023	2024
				(Annual percentage changes unless otherwise indicated)								
National income, prices, and labor markets												
GDP at constant prices	2.7	-2.1	2.7	-2.8	-1.7	-2.5	-1.2	2.2	3.2	3.4	3.6	3.6
Domestic demand	4.2	-1.6	6.0	-4.1	-6.5	-3.7	-5.1	3.7	3.9	4.6	4.6	4.4
Consumption	4.2	-0.7	3.8	-3.0	-5.8	-2.5	-2.9	5.8	3.6	4.3	4.5	3.9
Private	3.7	-0.8	4.0	-3.2	-6.3	-2.4	-2.3	6.6	4.1	4.6	4.8	4.4
Public	6.9	-0.5	2.7	-1.8	-3.2	-3.3	-6.4	1.7	0.3	2.2	2.1	1.1
Investment	3.5	-5.8	12.2	-7.0	-9.6	-5.8	-14.5	-6.9	5.5	6.7	5.7	6.8
Exports	-2.8	5.3	1.7	-0.6	12.7	0.0	9.5	3.5	6.0	5.6	7.0	5.8
Imports	4.7	5.8	15.4	-6.4	-9.8	-5.1	-8.3	9.3	7.8	9.4	9.5	7.8
Change in inventories and stat. disc. (contribution to growth)	0.2	0.1	0.8	-0.5	-0.1	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0
Nominal GDP (billions of Argentine pesos)	5,955	8,228	10,645	14,054	18,553	14,567	20,175	25,458	31,107	36,270	40,703	44,322
Output gap (percent)	0.9	-1.5	-0.1	-4.8	-7.8	-4.2	-7.0	-6.7	-5.6	-4.3	-2.8	-1.3
CPI inflation (eop, y/y percent change)	...	...	24.8	47.4	20.2	47.6	30.5	21.2	16.3	10.1	7.0	5.0
GDP deflator (y/y percent change)	26.5	41.2	25.8	37.7	34.3	41.0	39.6	23.6	18.4	12.8	8.3	5.2
Unemployment rate (percent)	...	8.5	8.4	9.8	10.9	9.2	9.9	9.9	9.7	9.4	9.1	8.8
				(Percent of GDP unless otherwise indicated)								
External sector												
Exports f.o.b. (goods, billions of U.S. dollars)	56.8	58.0	58.6	61.6	71.4	61.6	70.0	73.4	78.0	82.2	87.9	92.9
Imports f.o.b. (goods, billions of U.S. dollars)	57.6	53.5	64.1	63.1	58.4	62.6	57.2	62.5	67.6	73.7	80.6	86.7
Trade balance (goods, billions of U.S. dollars)	-0.8	4.4	-5.5	-1.6	13.0	-0.9	12.8	11.6	10.8	9.3	8.2	7.2
Trade balance (goods)	-0.1	0.8	-0.8	-0.3	2.8	-0.2	2.7	2.1	1.8	1.4	1.1	0.9
Terms of trade (percent change)	-4.4	6.0	-2.8	1.8	0.7	1.9	3.2	1.4	-0.1	0.1	0.1	0.1
Total external debt	27.9	34.1	36.9	54.7	56.9	55.8	59.8	55.7	52.9	48.8	45.2	46.5
Savings-Investment balance												
Gross domestic investment	15.6	14.3	15.0	15.3	15.0	14.4	14.3	13.7	14.2	14.3	14.4	14.4
Private	11.9	10.9	11.5	11.9	11.8	10.8	11.2	10.5	10.9	10.9	11.1	11.1
Public	3.6	3.4	3.5	3.5	3.2	3.6	3.1	3.2	3.2	3.3	3.3	3.3
Gross national savings	12.8	11.6	10.1	10.2	13.5	9.0	12.3	11.2	11.6	11.8	11.9	11.9
Current account balance	-2.7	-2.7	-4.9	-5.2	-1.5	-5.4	-2.0	-2.5	-2.5	-2.5	-2.5	-2.5
Public sector 1/												
Primary balance	-4.4	-4.7	-4.2	-2.6	-0.1	-2.2	0.0	1.1	1.2	1.3	1.3	1.6
of which : Federal government	-3.8	-4.2	-3.8	-2.7	0.0	-2.6	0.0	1.0	1.0	1.0	1.1	1.3
memo : Structural federal primary balance 2/	-4.2	-4.7	-4.0	-1.7	1.2	-1.7	1.0	1.9	1.8	1.6	1.5	1.5
Overall balance 5/	-6.0	-6.6	-6.7	-5.7	-3.7	-5.2	-2.7	-1.5	-1.4	-1.1	-0.9	-0.5
of which : Federal government	-5.1	-5.8	-5.9	-5.5	-3.2	-5.2	-2.5	-1.4	-1.4	-1.2	-0.9	-0.7
Revenues	35.4	34.9	34.5	35.0	36.5	33.8	34.8	35.3	34.9	34.8	34.4	34.4
Primary expenditure 3/	39.8	39.6	38.7	37.6	36.5	36.0	34.8	34.2	33.7	33.5	33.1	32.9
Total public debt (federal, % GDP)	52.6	53.1	57.1	78.0	67.9	86.3	75.9	69.0	65.1	62.8	60.7	59.5
Money and credit												
Monetary base (monthly average, y/y percent change)	40.5	26.6	24.7	34.8	13.5	36.0	6.8	27.2	22.8	17.3	12.9	17.7
M2 (percent change)	28.2	30.4	25.8	15.1	17.8	22.5	-1.8	43.1	36.1	21.8	15.1	20.5
Credit to the private sector (eop, y/y percent change)	35.6	31.0	51.3	33.0	19.5	36.7	15.8	24.9	33.0	23.2	15.0	10.5
Credit to the private sector real (eop, y/y percent change)	...	...	21.2	-9.7	-0.6	-7.4	-11.2	3.1	14.3	11.9	7.5	5.2
Interest rate (eop) 4/	32.2	23.9	28.8	60.0	30.7	59.3	41.0	30.7	18.3	14.0	13.1	13.1
Real interest rate (eop), 12-m ahead y/y inflation 4/	...	...	10.0	29.5	15.7	23.4	14.2	10.8	9.8	8.6	7.8	7.8
Memorandum items												
Gross international reserves (billions of U.S. dollars)	25.6	39.3	55.1	57.3	54.4	65.8	62.2	68.3	74.9	79.1	83.7	91.7
Gross international reserves (percent of ARA)	39.4	73.0	92.0	91.0	86.3	101.6	97.0	103.2	106.7	109.6	112.0	118.7
Change in REER (eop, percent change)	5.3	-3.4	6.9	-29.0	6.2	-30.6	5.8	4.0	2.3	1.4	0.9	0.7

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.

5/ Excludes overall balance of the BCRA.

Table 2. Argentina: Summary Balance of Payments

				2nd rev	*2nd rev*	Proj.						
	2015	2016	2017	*2018*	*2019*	2018	2019	2020	2021	2022	2023	2024
						(Billions of U.S. dollars)						
Current account	**-17.6**	**-15.1**	**-31.6**	**-25.9**	**-7.0**	**-27.7**	**-9.4**	**-12.8**	**-14.1**	**-15.0**	**-16.0**	**-16.7**
Trade balance in goods	-0.8	4.4	-5.5	-1.6	13.0	-0.9	12.7	10.9	10.3	8.5	7.3	6.2
Exports f.o.b.	56.8	58.0	58.6	61.6	71.4	61.6	70.0	73.4	78.0	82.2	87.9	92.9
Primary products	13.3	15.7	14.8	13.1	18.1	14.0	19.9	19.4	21.1	23.0	25.0	27.1
Manufactures of agricultural origin	23.3	23.3	22.6	23.3	24.9	22.9	23.6	24.8	25.8	26.9	28.0	29.2
Manufactures of industrial origin	18.0	16.9	18.8	20.9	23.8	20.3	21.5	23.0	24.2	24.8	25.6	26.3
Energy	2.2	2.0	2.5	4.2	4.6	4.5	4.9	6.2	6.8	7.5	9.4	10.3
Imports f.o.b.	57.6	53.5	64.1	63.1	58.4	62.6	57.2	62.5	67.6	73.7	80.6	86.7
Capital goods (includes parts and accessories)	23.4	22.5	26.6	24.3	22.8	23.6	22.2	24.4	26.6	29.2	32.1	34.6
Intermediate goods	17.3	14.8	17.1	18.7	17.1	19.2	17.8	19.3	20.7	22.5	24.4	26.2
Consumer goods	10.5	11.6	14.8	13.7	12.5	13.9	12.4	13.7	14.8	16.1	17.6	18.9
Fuels and lubricants	6.4	4.7	5.6	6.4	6.0	5.9	4.9	5.2	5.5	6.0	6.5	7.0
Trade balance in services	-5.8	-8.5	-10.1	-7.9	-3.9	-9.2	-6.2	-8.0	-10.2	-10.3	-10.3	-10.2
Exports	13.2	13.4	14.8	14.3	16.3	14.5	14.2	13.6	14.3	15.0	16.7	18.5
Imports	19.0	21.9	24.9	22.3	20.3	23.8	20.4	21.6	24.5	25.3	27.0	28.7
Primary income, net	-12.1	-12.2	-16.4	-17.4	-17.0	-18.7	-17.1	-16.8	-15.3	-14.2	-14.1	-13.9
Secondary income, net	1.1	1.1	0.4	0.9	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Capital Account	**0.1**	**0.4**	**0.1**	**0.2**	**0.2**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account	**13.6**	**28.3**	**45.8**	**-1.2**	**-20.7**	**7.8**	**-19.9**	**11.9**	**19.5**	**31.2**	**38.8**	**28.2**
Foreign direct investment, net	10.9	1.5	10.4	5.1	2.0	7.9	2.0	4.5	7.3	9.9	12.3	12.8
Portfolio investment, net	0.4	35.3	35.9	-4.6	-18.6	1.9	-15.3	6.6	15.2	24.7	25.0	22.1
Derivatives, net	0.0	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 1/	2.2	-8.2	-0.6	-1.6	-4.1	-2.0	-6.6	0.7	-3.1	-3.4	1.5	-6.7
Errors and Omissions	**-0.9**	**0.8**	**0.2**	**-0.4**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-4.9**	**14.3**	**14.6**	**-27.3**	**-27.4**	**-19.5**	**-29.2**	**-0.8**	**5.5**	**16.4**	**22.9**	**11.6**
Financing	**4.9**	**-14.3**	**-14.6**	**27.3**	**27.4**	**19.5**	**29.2**	**0.8**	**-5.5**	**-16.4**	**-22.9**	**-11.6**
Gross official reserves (increase: -)	4.9	-14.3	-14.6	-2.3	2.9	-10.5	3.3	-6.1	-6.6	-4.2	-4.6	-8.0
Net use of IMF resources				28.1	21.5	28.4	22.9	3.9	-1.8	-20.3	-22.6	-7.9
Official financing	0.0	0.0	0.0	1.6	3.0	1.6	3.0	2.9	2.9	8.1	4.3	4.3
World Bank/IDB				1.0	2.3	1.0	2.3	2.9	2.9	8.1	4.3	4.3
CAF				0.6	0.7	0.6	0.7					
						(Percent of GDP)						
Current account	**-2.7**	**-2.7**	**-4.9**	**-5.2**	**-1.5**	**-5.4**	**-2.0**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**
Trade balance in goods	-0.1	0.8	-0.8	-0.3	2.8	-0.2	2.7	2.1	1.8	1.4	1.1	0.9
Exports, f.o.b.	8.8	10.4	9.1	12.3	15.2	11.9	14.6	14.3	13.9	13.6	13.6	13.8
Imports f.o.b.	-9.0	-9.6	-10.0	-12.6	-12.4	-12.1	-12.0	-12.1	-12.1	-12.2	-12.4	-12.9
Trade balance in services	-0.9	-1.5	-1.6	-1.6	-0.8	-1.8	-1.3	-1.6	-1.8	-1.7	-1.6	-1.5
Exports	2.1	2.4	2.3	2.9	3.5	2.8	3.0	2.6	2.5	2.5	2.6	2.8
Imports	-3.0	-3.9	-3.9	-4.4	-4.3	-4.6	-4.3	-4.2	-4.4	-4.2	-4.2	-4.3
Primary income, net	-1.9	-2.2	-2.5	-3.5	-3.6	-3.6	-3.6	-3.3	-2.7	-2.4	-2.2	-2.1
Secondary income, net	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital Account	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	2.1	5.1	7.1	-0.2	-4.4	1.5	-4.2	2.3	3.5	5.2	6.0	4.2
Foreign direct investment, net	1.7	0.3	1.6	1.0	0.4	1.5	0.4	0.9	1.3	1.6	1.9	1.9
Portfolio investment, net	0.1	6.3	5.6	-0.9	-4.0	0.4	-3.2	1.3	2.7	4.1	3.8	3.3
Derivatives, net	0.0	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	-1.5	-0.1	-0.3	-0.9	-0.4	-1.4	0.1	-0.5	-0.6	0.2	-1.0
Errors and Omissions	-0.1	0.1	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	2.6	2.3	-5.4	-5.8	-3.8	-6.1	-0.1	1.0	2.7	3.5	1.7
Financing	0.8	-2.6	-2.3	5.4	5.8	3.8	6.1	0.1	-1.0	-2.7	-3.5	-1.7
Gross official reserves (increase: -)	0.8	-2.6	-2.3	-0.5	0.6	-2.0	0.7	-1.2	-1.2	-0.7	-0.7	-1.2
Net use of IMF resources				5.6	4.6	5.5	4.8	0.8	-0.3	-3.4	-3.5	-1.2
Official financing	0.0	0.0	0.0	0.3	0.6	0.3	0.6	0.6	0.5	1.3	0.7	0.6
World Bank/IDB				0.2	0.5	0.2	0.5	0.6	0.5	1.3	0.7	0.6
CAF				0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Exports volumes (percent change)	-1.6	6.8	-0.2	-1.5	13.2	-2.1	10.2	3.6	6.0	5.6	7.1	5.8
Imports volumes (percent change)	2.6	3.6	14.2	-5.6	-10.0	-6.1	-8.9	9.4	7.7	9.5	9.5	7.8
Gross international reserves (billions of U.S. dollars)	25.6	39.3	55.1	57.3	54.4	65.8	62.2	68.3	74.9	79.1	83.7	91.7
Gross international reserves (percent of ARA)	39.4	73.0	92.0	91.0	86.3	101.6	97.0	103.2	106.7	109.6	112.0	118.7
Net international reserves (billions of U.S. dollars)	-2.6	12.5	31.1	24.1	21.2	22.8	19.2	25.3	31.9	36.1	40.7	48.7
Net International Investment Position (percent of GDP)	8.8	8.6	2.7	-0.1	-0.4	0.3	-0.2	-2.3	-3.6	-6.0	-7.9	-8.6
Terms of Trade (Index, 2000 = 100)	506	536	521	530	534	531	548	556	556	556	557	557.6
Real effective exchange rate (percent change)	5.3	-3.4	6.9	-29.0	6.2	-30.6	5.8	4.0	2.3	1.4	0.9	0.7

Sources: INDEC, Fund staff estimates and projections.

1/ Includes currency swap transactions.

Table 3. Argentina: Consolidated Public-Sector Operations

								2nd rev	2nd rev	Proj.						
	2011	2012	2013	2014	2015	2016	2017	*2018*	*2019*	2018	2019	2020	2021	2022	2023	2024
								(Billions of Argentine pesos)								
Revenues	**700.7**	**891.7**	**1,150.1**	**1,584.4**	**2,105.9**	**2,868.9**	**3,670.1**	**4,916.3**	**6,757.8**	**4,929.9**	**7,018.6**	**8,990.6**	**10,844.1**	**12,629.7**	**13,983.7**	**15,262.1**
Tax revenues	489.2	613.6	792.1	1,095.7	1,429.9	1,952.8	2,454.3	3,343.3	4,661.8	3,298.3	4,781.1	6,269.5	7,549.3	8,714.2	9,565.5	10,539.2
Social security contributions	167.8	219.5	287.8	378.3	529.5	709.8	924.6	1,173.5	1,503.1	1,157.3	1,551.7	1,969.9	2,447.9	2,961.1	3,346.5	3,643.6
Other revenues	43.7	58.6	70.2	110.4	146.5	206.3	291.3	399.6	592.8	474.3	685.8	751.2	846.9	954.5	1,071.7	1,079.3
Primary Expenditures 1/	**735.3**	**936.4**	**1,238.5**	**1,744.6**	**2,368.9**	**3,255.5**	**4,120.1**	**5,278.6**	**6,771.4**	**5,245.7**	**7,011.1**	**8,710.4**	**10,483.4**	**12,167.2**	**13,462.2**	**14,561.1**
Wages	227.6	294.4	378.2	523.7	738.7	1,008.4	1,281.3	1,592.5	2,104.9	1,587.6	2,163.5	2,730.2	3,242.4	3,748.1	4,152.5	4,441.6
Goods and services	53.3	64.3	86.3	120.3	169.7	205.8	279.9	339.8	431.2	359.1	455.5	552.2	657.4	747.1	815.1	869.2
Transfers to the private sector	315.6	407.8	532.4	752.4	1,056.4	1,517.3	1,888.0	855.7	991.9	2,416.3	3,276.2	4,003.1	4,828.3	5,622.8	6,212.0	6,822.0
Of which: federal pensions	147.1	204.6	272.1	363.4	535.7	734.7	1,022.5	1,310.4	1,780.3	1,291.7	1,848.8	2,447.9	2,965.7	3,460.1	3,834.4	4,208.5
Capital spending	77.7	83.2	121.0	171.6	216.6	280.1	375.5	487.4	592.4	517.9	631.8	821.6	1,008.8	1,215.0	1,346.4	1,453.3
Other	61.1	86.8	120.5	176.6	187.5	244.0	295.4	389.3	457.7	364.7	484.2	603.4	746.6	834.2	936.2	975
Primary balance	**-34.6**	**-44.7**	**-88.4**	**-160.2**	**-263.0**	**-386.6**	**-450.0**	**-362.3**	**-13.7**	**-315.8**	**7.5**	**280.2**	**360.7**	**462.5**	**521.5**	**701.0**
Interest cash	25.2	34.9	20.6	34.5	94.2	155.7	262.8	440.5	675.8	434.9	549.5	653.0	798.6	869.0	900.3	943.6
Overall balance	**-59.8**	**-79.6**	**-108.9**	**-194.7**	**-357.3**	**-542.3**	**-712.7**	**-802.8**	**-689.5**	**-750.7**	**-542.0**	**-372.8**	**-438.0**	**-406.4**	**-378.8**	**-242.6**
								(Percent of GDP unless otherwise indicated)								
Revenues	**32.2**	**33.8**	**34.3**	**34.6**	**35.4**	**34.9**	**34.5**	**35.0**	**36.5**	**33.8**	**34.8**	**35.3**	**34.9**	**34.8**	**34.4**	**34.4**
Tax revenues	22.4	23.3	23.7	23.9	24.0	23.7	23.1	23.8	25.2	22.6	23.7	24.6	24.3	24.0	23.5	23.8
Social security contributions	7.7	8.3	8.6	8.3	8.9	8.6	8.7	8.3	8.1	7.9	7.7	7.7	7.9	8.2	8.2	8.2
Other revenues	2.0	2.2	2.1	2.4	2.5	2.5	2.7	2.8	3.2	3.3	3.4	3.0	2.7	2.6	2.6	2.4
Primary expenditures 1/	**33.7**	**35.5**	**37.0**	**38.1**	**39.8**	**39.6**	**38.7**	**37.6**	**36.5**	**36.0**	**34.8**	**34.2**	**33.7**	**33.5**	**33.1**	**32.9**
Wages	10.4	11.2	11.3	11.4	12.4	12.3	12.0	11.3	11.4	10.9	10.7	10.7	10.4	10.3	10.2	10.0
Goods and services	2.4	2.4	2.6	2.6	2.8	2.5	2.6	2.4	2.3	2.5	2.3	2.2	2.1	2.1	2.0	2.0
Transfers to the private sector	14.5	15.5	15.9	16.4	17.7	18.4	17.7	17.6	17.2	16.6	16.2	15.7	15.5	15.5	15.3	15.4
Of which: federal pensions	6.8	7.8	8.1	7.9	9.0	8.9	9.6	9.6	9.9	8.9	9.2	9.6	9.5	9.5	9.4	9.5
Capital spending	3.6	3.2	3.6	3.7	3.6	3.4	3.5	3.5	3.2	3.6	3.1	3.2	3.2	3.3	3.3	3.3
Other	2.8	3.3	3.6	3.9	3.1	3.0	2.8	2.8	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.2
Primary balance	**-1.6**	**-1.7**	**-2.6**	**-3.5**	**-4.4**	**-4.7**	**-4.2**	**-2.6**	**-0.1**	**-2.2**	**0.0**	**1.1**	**1.2**	**1.3**	**1.3**	**1.6**
Interest cash	1.2	1.3	0.6	0.8	1.6	1.9	2.5	3.1	3.6	3.0	2.7	2.6	2.6	2.4	2.2	2.1
Overall balance	**-2.7**	**-3.0**	**-3.3**	**-4.3**	**-6.0**	**-6.6**	**-6.7**	**-5.7**	**-3.7**	**-5.2**	**-2.7**	**-1.5**	**-1.4**	**-1.1**	**-0.9**	**-0.5**
Structural primary balance (General Government) 2/	**-2.6**	**-2.3**	**-3.5**	**-3.4**	**-5.0**	**-5.1**	**-4.3**	**-1.1**	**1.9**	**-0.9**	**1.8**	**2.7**	**2.5**	**2.3**	**1.9**	**1.9**
Structural primary balance (Federal) 2/	**-1.5**	**-1.7**	**-3.1**	**-3.5**	**-4.2**	**-4.7**	**-4.0**	**-1.7**	**1.2**	**-1.7**	**1.0**	**1.9**	**1.8**	**1.6**	**1.5**	**1.5**
Structural primary balance (Provinces) 2/	**-1.1**	**-0.6**	**-0.5**	**0.1**	**-0.7**	**-0.3**	**-0.3**	**0.6**	**0.7**	**0.8**	**0.7**	**0.7**	**0.6**	**0.7**	**0.4**	**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

			2nd rev	*2nd rev*				Proj.			
	2016	2017	*2018*	*2019*	2018	2019	2020	2021	2022	2023	2024
					(Billions of Argentine pesos)						
Revenues	**2,180.9**	**2,754.8**	**3,746.1**	**5,216.5**	**3,690.7**	**5,320.8**	**6,920.6**	**8,405.1**	**9,747.5**	**10,828.2**	**11,958.3**
Tax revenues	1,528.3	1,874.4	2,592.3	3,671.6	2,504.8	3,661.8	4,908.1	5,948.1	6,810.9	7,511.0	8,346.3
Social security contributions	558.1	727.3	924.9	1,175.3	901.9	1,218.1	1,548.9	1,933.5	2,361.4	2,673.5	2,910.8
Nontax revenues	94.6	153.2	228.9	369.7	284.0	440.8	463.6	523.5	575.2	643.7	701.2
Primary expenditures	**2,524.5**	**3,159.0**	**4,123.6**	**5,215.0**	**4,065.0**	**5,326.3**	**6,671.5**	**8,091.9**	**9,390.8**	**10,369.4**	**11,391.1**
Federal expenditures	1,835.0	2,232.8	2,851.7	3,588.7	2,832.8	3,640.9	4,399.4	5,276.1	6,143.6	6,809.5	7,436.1
Wages 1/	316.8	401.0	504.1	668.3	498.7	664.6	804.4	937.2	1,079.9	1,200.3	1,298.0
Goods and services 1/	91.8	121.3	127.0	154.3	146.2	161.8	186.7	220.2	249.3	270.9	287.7
Pensions	734.7	1,022.5	1,310.4	1,780.3	1,291.7	1,848.8	2,447.9	2,965.7	3,460.1	3,834.4	4,208.5
Current transfers to private sector	511.0	507.1	687.0	769.6	654.5	767.7	693.8	813.0	937.2	1,012.3	1,119.3
Social assistance	219.9	282.0	379.8	482.5	373.3	480.2	613.6	725.6	839.2	927.0	1,008.0
Of which: social spending under the program 2/	108.2	141.6	182.2	235.3	184.9	290.0	383.0	460.9	538.4	599.9	662.0
Energy 3/	209.2	125.7	201.4	200.4	177.9	202.8	44.3	66.7	75.2	61.1	85.7
Transport	80.2	90.5	103.0	83.0	102.1	82.7	35.9	20.6	22.8	24.3	25.6
Other	1.7	9.6	2.8	3.7	1.2	2.0	0.0	0.0	0.0	0.0	0.0
Capital spending	117.8	121.1	150.1	166.2	182.9	157.6	223.4	277.8	344.5	410.2	433.9
Other current primary spending	62.8	59.7	73.1	50.0	58.8	40.4	43.3	62.2	72.5	81.4	88.6
Transfers to provinces	689.5	926.2	1,271.8	1,626.2	1,232.1	1,685.4	2,272.1	2,815.8	3,247.2	3,559.9	3,955.1
Automatic	551.6	756.8	1,120.0	1,496.5	1,074.7	1,564.3	2,175.3	2,691.4	3,102.1	3,397.0	3,777.8
Discretionary	137.8	169.5	151.8	129.7	157.4	121.1	96.7	124.4	145.1	162.8	177.3
Capital	64.3	86.8	53.4	46.3	78.2	38.3	50.9	62.2	72.5	81.4	88.6
Current	73.6	82.7	98.4	83.4	79.3	82.7	45.8	62.2	72.5	81.4	88.6
Primary balance	**-343.5**	**-404.1**	**-377.5**	**1.6**	**-374.3**	**-5.5**	**249.1**	**313.2**	**356.7**	**458.8**	**567.1**
Interest cash (net of ANSES and public sector)	131.3	224.9	393.8	600.0	388.9	490.0	594.2	739.4	808.3	843.6	886.8
Overall balance	**-474.8**	**-629.0**	**-771.3**	**-598.4**	**-763.2**	**-495.4**	**-345.1**	**-426.2**	**-451.6**	**-384.8**	**-319.7**
Memorandum items:											
Capital spending, including capital transfers to provinces	182.0	207.9	203.5	212.5	261.0	196.0	274.3	340.0	417.1	491.6	522.5
Arrears and advances	-33.0	15.0	10.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-310.5	-419.1	-387.5	1.6	-384.3	-5.5	249.1	313.2	356.7	458.8	567.1
Overall balance, accrual basis	-441.8	-644.0	-781.3	-598.4	-773.2	-495.4	-345.1	-426.2	-451.6	-384.8	-319.7
Structural primary balance	-394.9	-424.2	-253.6	244.2	-266.6	227.5	529.3	602.1	613.6	639.8	657.2
						(Percent of GDP)					
Revenues	**26.5**	**25.9**	**26.7**	**28.1**	**25.3**	**26.4**	**27.2**	**27.0**	**26.9**	**26.6**	**27.0**
Tax revenues	18.6	17.6	18.4	19.8	17.2	18.2	19.3	19.1	18.8	18.5	18.8
Social security contributions	6.8	6.8	6.6	6.3	6.2	6.0	6.1	6.2	6.5	6.6	6.6
Nontax revenues	1.1	1.4	1.6	2.0	1.9	2.2	1.8	1.7	1.6	1.6	1.6
Primary expenditures	**30.7**	**29.7**	**29.3**	**28.1**	**27.9**	**26.4**	**26.2**	**26.0**	**25.9**	**25.5**	**25.7**
Federal expenditures	22.3	21.0	20.3	19.3	19.4	18.0	17.3	17.0	16.9	16.7	16.8
Wages 1/	3.9	3.8	3.6	3.6	3.4	3.3	3.2	3.0	3.0	2.9	2.9
Goods and services 1/	1.1	1.1	0.9	0.8	1.0	0.8	0.7	0.7	0.7	0.7	0.6
Pensions	8.9	9.6	9.3	9.6	8.9	9.2	9.6	9.5	9.5	9.4	9.5
Current transfers to private sector	6.2	4.8	4.9	4.1	4.5	3.8	2.7	2.6	2.6	2.5	2.5
Social assistance	2.7	2.6	2.7	2.6	2.6	2.4	2.4	2.3	2.3	2.3	2.3
Of which: social spending under the program 2/	1.3	1.3	1.3	1.3	1.3	1.4	1.5	1.5	1.5	1.5	1.5
Energy 3/	2.5	1.2	1.4	1.1	1.2	1.0	0.2	0.2	0.2	0.2	0.2
Transport	1.0	0.9	0.7	0.4	0.7	0.4	0.1	0.1	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	0.0
Capital spending	1.4	1.1	1.1	0.9	1.3	0.8	0.9	0.9	0.9	1.0	1.0
Other current primary spending	0.8	0.6	0.5	0.3	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Transfers to provinces	8.4	8.7	9.0	8.8	8.5	8.4	8.9	9.1	9.0	8.7	8.9
Automatic	6.7	7.1	8.0	8.1	7.4	7.8	8.5	8.7	8.6	8.3	8.5
Discretionary	1.7	1.6	1.1	0.7	1.1	0.6	0.4	0.4	0.4	0.4	0.4
Capital	0.8	0.8	0.4	0.2	0.5	0.2	0.2	0.2	0.2	0.2	0.2
Current	0.9	0.8	0.7	0.4	0.5	0.4	0.2	0.2	0.2	0.2	0.2
Primary balance	**-4.2**	**-3.8**	**-2.7**	**0.0**	**-2.6**	**0.0**	**1.0**	**1.0**	**1.0**	**1.1**	**1.3**
Interest cash (net of ANSES and public sector) 4/	1.6	2.1	2.8	3.2	2.7	2.4	2.3	2.4	2.2	2.1	2.0
Overall balance	**-5.8**	**-5.9**	**-5.5**	**-3.2**	**-5.2**	**-2.5**	**-1.4**	**-1.4**	**-1.2**	**-0.9**	**-0.7**
Memorandum items:											
Capital spending, including capital transfers to provinces	2.2	2.0	1.4	1.1	1.8	1.0	1.1	1.1	1.1	1.2	1.2
Arrears and advances	-0.4	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-3.8	-3.9	-2.8	0.0	-2.6	0.0	1.0	1.0	1.0	1.1	1.3
Overall balance, accrual basis	-5.4	-6.1	-5.6	-3.2	-5.3	-2.5	-1.4	-1.4	-1.2	-0.9	-0.7
Structural primary balance 5/	-4.7	-4.0	-1.7	1.2	-1.7	1.0	1.9	1.8	1.6	1.5	1.5

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

1/ It includes universities.

2/ It includes the one-off payments in September and December 2018. It does not include the 15,000 million pesos increase in AUH announced in early March 2019.

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

4/ Compared with the second review staff report, this line now excludes all interest paid to other public sector entities, in line with authorities' definition. In the second review, interest paid to financial public sector was still included.

5/ Percent of potential GDP.

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

(end of period, unless otherwise indicated)

	2016	2017	2nd rev 2018	2nd rev 2019	2018	2019	2020	Proj. 2021	2022	2023	2024
	In billions of Argentine pesos										
Net foreign assets	469	837	1,774	1,656	2,031	1,482	1,783	2,150	2,400	2,688	3,217
Net domestic assets	353	164	-438	-140	-622	-8	88	161	307	377	377
Credit to the public sector (net)	1,456	1,603	2,047	1,891	1,632	1,761	1,957	2,285	3,066	3,905	4,306
of which: Temporary advances to federal government	382	472	503	503	503	503	503	503	503	503	503
of which: Non-marketable government bonds	772	915	1,428	1,606	1,137	1,527	1,730	1,920	2,036	2,124	2,222
Credit to the financial sector excluding securities	-246	-241	-522	-654	-537	-734	-929	-1,149	-1,357	-1,589	-1,979
BCRA securities	-699	-1,160	-851	-1,167	-735	-989	-1,314	-1,607	-1,719	-1,903	-2,185
Official capital and other items (net)	-158	-38	-1,112	-210	-982	-44	374	631	317	-36	235
Monetary base	822	1,001	1,350	1,532	1,409	1,474	1,871	2,311	2,707	3,064	3,594
Currency issued	595	787	848	1,095	860	1,020	1,247	1,504	1,700	1,880	1,881
Bank deposits at the central bank (peso-denominated)	227	214	502	437	549	454	624	807	1,007	1,184	1,713
	As a percentage of GDP										
Net foreign assets	5.7	7.9	12.6	8.9	13.9	7.3	7.0	6.9	6.6	6.6	7.3
Net domestic assets	4.3	1.5	-3.1	-0.8	-4.3	0.0	0.3	0.5	0.8	0.9	0.9
Credit to the public sector (net)	17.7	15.1	14.6	10.2	11.2	8.7	7.7	7.3	8.5	9.6	9.7
of which: Temporary advances to federal government	4.6	4.4	3.6	2.7	3.5	2.5	2.0	1.6	1.4	1.2	1.1
of which: Non-marketable government bonds	9.4	8.6	10.2	8.7	7.8	7.6	6.8	6.2	5.6	5.2	5.0
Credit to the financial sector (net)	-3.0	-2.3	-3.7	-3.5	-3.7	-3.6	-3.6	-3.7	-3.7	-3.9	-4.5
BCRA securities	-8.5	-10.9	-6.1	-6.3	-5.0	-4.9	-5.2	-5.2	-4.7	-4.7	-4.9
Official capital and other items (net)	-1.9	-0.4	-7.9	-1.1	-6.7	-0.2	1.5	2.0	0.9	-0.1	0.5
Monetary base	10.0	9.4	9.6	8.3	9.7	7.3	7.3	7.4	7.5	7.5	8.1
Currency issued	7.2	7.4	6.0	5.9	5.9	5.1	4.9	4.8	4.7	4.6	4.2
Bank deposits at the central bank (peso-denominated)	2.8	2.0	3.6	2.4	3.8	2.3	2.5	2.6	2.8	2.9	3.9
	Changes in monetary base (y/y, in AR$ billion)										
Change in monetary base	198	179	349	182	408	65	397	440	396	358	530
Foreign exchange purchases (net)	209	266	-303	-118	-430	-234	301	367	250	288	529
Operations with the public sector	151	143	-144	118	21	2	0	0	0	0	0
Sterilization (net) (-)	-177	-227	868	182	801	296	96	73	146	70	1
Other items (net)	14	-3	12	0	16	2	0	0	0	0	0
Memorandum items:											
Monetary base (eop, yoy, percent change)	31.7	21.8	34.8	13.5	40.7	4.6	26.9	23.5	17.1	13.2	17.3
Monetary base (monthly average, yoy, percent change)	26.6	24.7	37.4	13.5	36.0	6.8	27.2	22.8	17.3	12.9	17.7
M2 (AR$ billions) 1/	1,372	1,726	1,987	2,340	2,115	2,076	2,971	4,044	4,926	5,669	6,829
M2 (yoy, percent change) 1/	30.4	25.8	15.1	17.8	22.5	-1.8	43.1	36.1	21.8	15.1	20.5
Gross international reserves (US$ billions)	39.3	55.1	57.3	54.4	65.8	62.2	68.3	74.9	79.1	83.7	91.7
Interest rate (eop) 2/	23.9	28.8	60.0	30.7	59.3	41.0	30.7	18.3	14.0	13.1	13.1
Real interest rate (eop), 12-m ahead y/y inflation 2/	3.6	10.0	29.5	15.7	23.4	14.2	10.8	9.8	8.6	7.8	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.
/ Average interest rate for 1-month time deposits over AR$1 million in private banks.

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

(end of period, unless otherwise indicated)

	2016	2017	*2nd rev* *2018*	*2nd rev* *2019*	2018	2019	2020	Proj. 2021	2022	2023	2024
					In billions of Argentine pesos						
Net foreign assets	33	-13	-46	-31	76	77	226	278	319	357	354
Net domestic assets	1,482	1,973	2,979	3,556	3,108	3,874	5,195	6,879	8,336	9,686	11,925
Credit to the public sector (net)	-97	-119	-289	-281	-242	-127	-1	61	101	163	90
Gross credit to public sector	385	502	915	1,261	807	1,209	1,630	2,024	2,322	2,624	2,844
Deposits from the public sector	-482	-621	-1,205	-1,543	-1,048	-1,336	-1,631	-1,963	-2,221	-2,461	-2,754
Claims on the central bank	883	980	1,898	2,195	1,919	2,316	3,037	3,767	4,315	4,933	6,133
Holdings of central bank securities	345	441	773	984	720	989	1,314	1,607	1,719	1,903	2,185
Reserves at central bank	473	455	1,012	1,064	1,083	1,189	1,553	1,956	2,365	2,774	3,692
Credit to the private sector	1,125	1,701	2,266	2,709	2,326	2,693	3,365	4,475	5,515	6,343	7,007
of which: Dollar denominated	154	292	630	739	605	799	962	1,131	1,270	1,411	1,562
of which: Peso denominated	970	1,409	1,637	1,970	1,721	1,895	2,403	3,344	4,245	4,932	5,445
Net capital, reserves, and other assets	-429	-589	-896	-1,067	-894	-1,009	-1,206	-1,424	-1,595	-1,753	-1,305
Liabilities with the private sector	1,515	1,960	2,933	3,525	3,184	3,951	5,421	7,157	8,655	10,042	12,279
Local currency deposits	1,159	1,464	1,894	2,230	2,089	2,425	3,471	4,724	5,755	6,623	7,977
Foreign currency deposits	357	496	1,039	1,295	1,095	1,526	1,949	2,433	2,900	3,420	4,302
expressed in billion US$	22	26	28	31	29	33	37	42	47	53	64
					As a percentage of GDP						
Net foreign assets	0.4	-0.1	-0.3	-0.2	0.5	0.4	0.9	0.9	0.9	0.9	0.8
Net domestic assets	18.0	18.5	21.2	19.2	21.3	19.2	20.4	22.1	23.0	23.8	26.9
Credit to the public sector (net)	-1.2	-1.1	-2.1	-1.5	-1.7	-0.6	0.0	0.2	0.3	0.4	0.2
Gross credit to public sector	4.7	4.7	6.5	6.8	5.5	6.0	6.4	6.5	6.4	6.4	6.4
Deposits of the public sector	-5.9	-5.8	-8.6	-8.3	-7.2	-6.6	-6.4	-6.3	-6.1	-6.0	-6.2
Claims on the central bank	10.7	9.2	13.5	11.8	13.2	11.5	11.9	12.1	11.9	12.1	13.8
Holdings of central bank securities	4.2	4.1	5.5	5.3	4.9	4.9	5.2	5.2	4.7	4.7	4.9
Reserves at central bank	5.7	4.3	7.2	5.7	7.4	5.9	6.1	6.3	6.5	6.8	8.3
Credit to the private sector	13.7	16.0	16.1	14.6	16.0	13.4	13.2	14.4	15.2	15.6	15.8
of which: Dollar denominated	1.9	2.7	4.5	4.0	4.2	4.0	3.8	3.6	3.5	3.5	3.5
of which: Peso denominated	11.8	13.2	11.6	10.6	11.8	9.4	9.4	10.7	11.7	12.1	12.3
Net capital, reserves, and other assets	-5.2	-5.5	-6.4	-5.8	-6.1	-5.0	-4.7	-4.6	-4.4	-4.3	-2.9
Liabilities with the private sector	18.4	18.4	20.9	19.0	21.9	19.6	21.3	23.0	23.9	24.7	27.7
Local currency deposits	14.1	13.8	13.5	12.0	14.3	12.0	13.6	15.2	15.9	16.3	18.0
Foreign currency deposits	4.3	4.7	7.4	7.0	7.5	7.6	7.7	7.8	8.0	8.4	9.7
Memorandum items:											
Credit to the private sector (eop, y/y percent change)	31.0	51.3	33.0	19.5	36.7	15.8	24.9	33.0	23.2	15.0	10.5
Credit to the private sector, real (eop, y/y percent change)	…	21.2	-9.7	-0.6	-7.4	-11.2	3.1	14.3	11.9	7.5	5.2
Interest rate on wholesale deposits (eop) 1/	20.0	23.3	49.7	28.7	48.6	30.8	21.5	9.1	4.8	4.0	4.0

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	1,011	1,021	1,025	949	928	1,424	1,252	1,501	1,513	1,524	1,494	2,031
Net domestic assets	-45	-18	-30	50	92	-380	-185	-292	-263	-369	-255	-622
Credit to the public sector (net)	1,816	1,866	1,848	1,911	2,206	2,045	1,746	1,978	2,267	1,777	1,945	1,632
of which: Temporary advances to federal government	496	496	507	519	530	542	530	524	503	503	503	503
of which: Non-marketable government bonds	957	980	982	1,009	1,217	1,409	1,025	1,217	1,448	1,237	1,283	1,137
Credit to the financial sector excluding securities	-317	-243	-255	-258	-282	-400	-378	-507	-535	-469	-502	-537
BCRA securities	-1,295	-1,380	-1,384	-1,326	-1,215	-1,153	-1,131	-955	-798	-889	-833	-735
Official capital and other items (net)	-249	-260	-239	-276	-617	-872	-422	-809	-1,197	-788	-865	-982
Monetary base	966	1,003	995	999	1,020	1,044	1,067	1,208	1,250	1,155	1,239	1,409
Currency issued	765	763	755	743	731	755	763	761	753	739	734	860
Bank deposits at the central bank (peso-denominated)	201	240	240	256	289	288	304	447	496	416	504	549
	Changes in monetary base (m/m, ARS billions)											
Change in monetary base	-35	37	-7	4	21	23	23	141	41	-95	84	170
Foreign exchange purchases (net)	58	99	-41	-97	-134	-78	0	-128	-115	-37	0	44
Operations with the public sector	22	0	12	12	10	-9	-19	11	-14	1	1	-6
Sterilization (net) (-)	-114	-60	22	91	142	104	48	219	169	-35	88	128
Other items (net)	0	-2	1	-2	4	7	-6	39	1	-23	-4	4
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	1,337
Monetary base (average), m/m change	44	2	-7	-2	4	42	45	86	74	-19	4	81
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	6.4
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	40.7	40.7
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	7.3	13.7
M2 (AR$ billions) 1/	1,645	1,623	1,663	1,641	1,725	1,876	1,724	1,895	1,827	1,723	1,778	2,115
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	19.2	22.5
Gross international reserves (US$ billions)	62.0	61.5	61.7	56.6	50.1	61.9	58.0	52.7	49.0	54.0	65.8	65.8
Interest rate (eop) 2/	28.0	27.3	27.3	27.4	39.3	40.0	40.0	60.0	65.0	68.0	60.8	59.3
Real interest rate (eop), 12-m ahead infl. Exp. 2/	8.0	7.8	7.8	7.7	13.6	12.6	12.8	19.9	24.2	27.2	24.6	23.4

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	1,700	1,752	2,119	1,973	1,741	1,869	1,762	1,666	1,792	1,680	1,566	1,482
Net domestic assets	-347	-349	-811	-632	-419	-517	-447	-335	-464	-368	-245	-8
Credit to the public sector (net)	2,297	1,867	1,706	1,761	1,802	1,720	1,750	1,787	1,691	1,724	1,748	1,761
of which: Temporary advances to federal government	503	503	503	503	503	503	503	503	503	503	503	503
of which: Non-marketable government bonds	1,240	1,271	1,310	1,348	1,376	1,400	1,420	1,445	1,463	1,485	1,502	1,527
Credit to the financial sector excluding securities	-521	-565	-587	-607	-624	-640	-656	-672	-687	-703	-719	-734
BCRA securities	-744	-825	-1,366	-1,250	-1,091	-1,233	-1,211	-1,145	-1,317	-1,266	-1,186	-989
Official capital and other items (net)	-779	-825	-564	-536	-506	-364	-330	-304	-151	-122	-88	-44
Monetary base	1,353	1,403	1,308	1,341	1,323	1,351	1,316	1,331	1,327	1,312	1,321	1,474
Currency issued	807	806	824	869	886	921	939	943	940	932	928	1,020
Bank deposits at the central bank (peso-denominated)	546	597	485	471	436	430	377	388	388	381	392	454
	Changes in monetary base (m/m, ARS billions)											
Change in monetary base	-56	50	-95	32	-18	29	-36	15	-3	-15	8	154
Foreign exchange purchases (net)	21	16	367	-146	-231	127	-106	-97	126	-111	-114	-84
Operations with the public sector	4	-2	0	0	0	0	0	0	0	0	0	0
Sterilization (net) (-)	-78	32	-461	178	213	-98	71	112	-129	97	123	237
Other items (net)	-3	5	0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Monetary base (average)	1,346	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,343	1,428
Monetary base (average), m/m change	9	-2	0	0	0	0	0	0	0	0	0	85
Monetary base (average), m/m percent change	0.7	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.3
Monetary base (eop) y/y percent change	40.0	39.9	31.4	34.1	29.6	29.5	23.3	10.1	6.2	13.6	6.6	4.6
Monetary base (eop) m/m percent change	-4.0	3.7	-6.7	2.5	-1.3	2.2	-2.6	1.1	-0.3	-1.1	0.6	11.6
M2 (AR$ billions) 1/	1,834	1,831	1,828	1,827	1,805	1,872	1,817	1,846	1,851	1,834	1,853	2,076
M2 (yoy, percent change) 1/	11.5	12.8	9.9	11.3	4.7	-0.2	5.4	-2.6	1.3	6.4	4.2	-1.8
Gross international reserves (US$ billions)	66.8	77.0	77.0	70.9	70.9	70.9	69.0	69.0	69.0	62.2	62.2	62.2
Interest rate (eop) 2/	53.7	50.1	63.9	55.5	52.0	48.5	47.0	46.0	44.0	42.3	40.9	41.0
Real interest rate (eop), 12-m ahead infl. Exp. 2/	19.4	16.6	17.4	17.9	16.9	15.5	15.5	15.6	14.8	14.2	13.6	14.2

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	*2nd rev* 2018	*2nd rev* 2019	2018	2019	2020	Proj. 2021	2022	2023	2024
	(Billions of U.S. dollars)											
Total external debt (gross; includes holdouts)	178.9	189.6	237.3	274.5	267.0	289.3	285.5	286.9	296.9	295.1	293.0	313.1
Percent of GDP	*27.9*	*34.1*	*36.9*	*54.7*	*56.9*	*55.8*	*59.8*	*55.7*	*52.9*	*48.8*	*45.2*	*46.5*
By type of creditor												
Debt to official creditors	46.0	50.3	55.5	83.2	103.7	84.6	107.3	113.3	111.5	87.6	64.9	57.8
Debt to banks	6.2	6.5	8.2	9.4	9.2	10.0	9.8	9.9	10.2	10.2	10.1	10.8
Debt to other private creditors	126.7	132.8	173.6	181.9	154.2	194.7	168.4	163.8	175.2	197.4	217.9	244.5
By type of debtor												
Official debt	113.2	130.2	164.1	195.1	181.4	210.2	202.0	199.0	203.8	192.8	181.4	192.3
Bank debt	5.3	5.3	8.9	10.5	11.7	10.5	11.7	12.9	14.1	15.3	16.5	17.7
Non-financial private sector	60.5	54.1	64.4	68.9	73.9	68.7	71.9	75.1	79.1	87.1	95.1	103.1

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	*2nd rev 2018*	*2nd rev 2019*	2018	2019	2020	Proj. 2021	2022	2023	2024
	(Billions of Argentine pesos)											
Gross federal debt	3,130	4,366	6,079	10,961	12,606	12,569	15,313	17,577	20,264	22,775	24,696	26,379
By currency:												
In domestic currency	960	1,380	1,937	2,353	2,896	2,971	3,251	3,796	4,899	6,246	7,643	9,674
In foreign currency	2,170	2,986	4,143	8,608	9,710	9,598	12,062	13,781	15,366	16,529	17,053	16,705
	(Percent of GDP)											
Gross federal debt	52.6	53.1	57.1	78.0	67.9	86.3	75.9	69.0	65.1	62.8	60.7	59.5
By currency:												
In domestic currency	16.1	16.8	18.2	16.7	15.6	20.4	16.1	14.9	15.7	17.2	18.8	21.8
In foreign currency	36.4	36.3	38.9	61.3	52.3	65.9	59.8	54.1	49.4	45.6	41.9	37.7

Sources: Ministry of Finance and Fund staff estimates.

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

	2018				2019								2019	2020	2021
	September	October	November	December	Jan	Feb	Mar	Apr	May	Jun	Q3	Q4			
	Actual	Actual	Actual	Actual	Actual										
Primary Deficit (with adjustors)	687	497	789	3,695	(445)	33	293	(103)	(884)	882	(1,142)	2,335	968	(4,889)	(5,468)
Without adjustors					(445)	(7)	242	(165)	(956)	787	(1,624)	1,807	(360)	(5,016)	(5,624)
NCG payments	714	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plan Gas Payments	-	-	-	-	-	-	150	50	50	50	150	150	600	600	300
Interest	1,068	1,664	1,196	2,546	1,305	526	1,410	1,705	2,536	2,539	3,366	6,362	19,748	19,258	20,846
FX	383	963	871	1,579	1,041	160	435	996	1,103	1,596	1,441	3,380	10,151	10,227	10,085
Non-Financial Public Sector	102	109	167	163	-	-	95	109	249	161	14	522	1,149	1,068	1,095
Financial Public Sector	4	26	9	629	84	60	12	26	116	626	255	875	2,055	2,137	2,104
IFI (non-IMF)	117	52	187	95	88	39	122	52	360	105	242	238	1,247	1,222	1,342
Private	160	775	508	692	869	61	206	809	378	703	930	1,745	5,701	5,800	5,543
AR$	686	701	325	967	264	366	975	709	1,433	943	1,925	2,982	9,597	9,031	10,761
Non-Financial Public Sector	317	102	5	466	74	111	476	85	387	516	739	814	3,203	3,543	4,158
Financial Public Sector	108	27	90	179	28	244	160	38	771	117	757	1,099	3,214	2,659	2,705
Private	261	571	230	322	162	12	338	586	274	310	429	1,069	3,180	2,829	3,898
Amortizations	5,573	3,740	9,697	11,470	5,331	7,408	9,932	10,708	10,035	5,735	8,829	13,704	71,681	48,220	52,667
FX	2,343	2,228	6,912	4,384	2,198	2,297	5,150	5,992	5,920	1,851	4,733	3,252	31,392	18,822	26,203
Non-Financial Public Sector	194	108	3,090	54	347	553	2,139	105	508	44	214	0	3,910	2,425	139
Financial Public Sector	194	137	344	88	89	304	144	318	103	162	48	-	1,167	293	9,630
IFI (non-IMF)	263	172	149	191	186	82	271	132	1,802	168	525	460	3,626	3,011	2,998
Private LETES	1,680	1,694	2,503	958	1,575	1,344	1,292	1,860	1,737	1,477	3,293	2,624	15,202	7,792	7,792
Private Other	12	116	826	3,093	1	14	1,303	3,578	1,770	0	653	168	7,488	5,302	5,644
AR$	3,229	1,512	2,785	7,086	3,132	5,111	4,782	4,715	4,116	3,884	4,096	10,452	40,288	29,398	26,464
Non-Financial Public Sector	280	12	18	2,104	1,074	132	1,263	1,266	15	757	2	1,858	6,367	1,942	541
Financial Public Sector	1,099	589	2,095	4,100	799	1,717	2,420	745	895	1,339	580	6,377	14,873	10,863	11,723
Private LETES	1,231	888	660	868	1,245	2,463	832	2,690	3,192	421	3,466	2,170	16,479	9,216	12,507
Private Other	619	23	12	14	15	799	267	14	14	1,366	48	46	2,570	7,377	1,693
IMF Debt Service	-	-	-	-	-	207	-	-	-	243	525	500	1,475	2,011	6,038
of which: Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,715
Total Needs	**8,042**	**5,902**	**11,682**	**17,711**	**6,190**	**8,173**	**11,785**	**12,360**	**11,738**	**9,449**	**11,728**	**23,051**	**94,472**	**65,200**	**74,383**
Deposit drawdown (- = accumulation)	518	(6,743)	2,467	(1,636)	1,031	479	(8,153)	5,155	5,788	(2,286)	(978)	8,094	9,129	(2,417)	(497)
IFIs	-	-	-	1,017	-	-	533	-	-	1,400	700	900	3,533	3,011	2,998
Public Sector 1/	2,186	1,058	5,719	6,974	2,382	2,817	6,538	2,627	2,158	2,979	1,596	9,571	30,668	20,133	27,287
Private Sector Issuances	5,339	5,847	3,496	3,656	2,777	4,877	1,947	4,578	3,792	1,895	4,949	3,506	28,322	40,553	42,635
FX LETES	1,479	1,310	1,840	660	1,441	1,397	646	1,023	955	812	2,141	1,837	10,252	7,792	7,792
Peso LECAPs/LECER	3,860	4,537	1,352	1,628	1,336	3,480	416	1,480	1,755	232	2,253	1,519	12,471	9,216	12,507
FX Other	-	-	-	1,368	-	-	651	1,968	974	0	424	118	4,135	9,537	17,644
Peso Other	-	-	304	-	-	-	234	108	107	852	131	32	1,464	14,008	4,693
Total Sources	**8,042**	**162**	**11,682**	**10,011**	**6,190**	**8,173**	**865**	**12,360**	**11,738**	**3,989**	**6,268**	**22,071**	**71,652**	**61,280**	**72,423**
Total Gap	0	5,740	(0)	7,700	**0**	**(0)**	**10,920**	**0**	**(0)**	**5,460**	**5,460**	**980**	**22,820**	**3,920**	**1,960**
FX	(0)	5,740	0	7,700	0	0	10,920	(0)	(0)	1,520	4,663	(3,888)	13,214	9,191	2,307
Peso	0	0	(0)	0	0	(0)	(0)	0	0	3,940	797	4,868	9,606	(5,271)	(347)
Memo Items:															
IMF Disbursements	-	5,740	-	7,700	-	-	10,920	-	-	5,460	5,460	980	22,820	3,920	1,960
Deposit Stock (total)	4,521	8,318	8,049	8,026	8,565	8,527	16,596	11,398	5,607	7,913	8,849	767	767	3,134	1,140
Private Rollover Rates	151%	215%	87%	74%	98%	50%	50%	55%	55%	55%	65%	70%	60%	137%	154%

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

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

	2018		2018 (Sep-Dec)		2019				2019		2020	2021
	September	**Q4**		*2nd Rev*	**Q1**	**Q2**	**Q3**	**Q4**		*2nd Rev*		
Imports G&S	7,337	22,787	30,123	29,796	17,621	19,406	20,027	20,493	77,547	78,537	84,152	92,152
Debt Service	2,071	5,101	7,173	7,410	2,866	4,962	2,990	4,904	15,722	13,713	14,543	14,236
Public Sector	383	3,413	3,796	4,033	1,842	3,938	1,966	3,880	11,626	9,617	12,238	12,408
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	10,656	14,354	5,086	3,798	33,895	27,518	29,670	39,658
Public Sector	2,343	13,524	15,868	15,926	9,645	13,763	4,733	3,252	31,392	25,016	18,822	29,918
of which: to private creditors	1,693	9,191	10,884	10,884	5,529	10,422	3,946	2,792	22,689	17,060	13,093	13,436
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	4,133	-	-	-	-	-	-	-	-
Other outflows (net)	1,522	(11,903)	(10,381)	(3,991)	(5,636)	4,452	4,863	3,826	7,505	12,515	(11,019)	(15,861)
Total Needs	14,376	35,351	**49,727**	56,028	25,507	43,174	32,967	33,021	**134,669**	132,283	117,347	130,185
Exports G&S	6,092	18,277	24,370	24,287	19,947	22,977	21,041	20,199	84,165	87,710	87,056	92,260
FDI	151	4,192	4,343	2,767	370	325	231	1,033	1,959	1,959	4,535	7,321
IFIs	-	1,017	1,017	1,550	533	1,400	700	900	3,533	3,000	3,011	2,998
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
Public Sector Rollover and Issuances	1,479	11,327	12,806	12,377	4,142	5,732	2,565	1,954	14,394	9,342	17,328	25,436
Reserve Drawdown (- = accumulation)	4,096	(15,916)	(11,820)	(3,965)	(11,532)	6,154	1,843	6,828	3,293	2,946	(6,097)	(6,608)
Total Sources	14,351	21,937	**36,288**	42,588	14,587	37,714	27,506	32,041	**111,849**	109,463	113,427	128,224
Gap	25	13,414	**13,440**	13,440	10,920	5,460	5,460	980	**22,820**	22,820	**3,921**	**1,960**

Table 10. Argentina: Schedule of Reviews and Purchases

	Amounts		
Available on or after	SDR millions	% Quota	Conditions 1/
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-Dec			end-Jan		end-Feb		end-Mar			end-Apr	end-May	end-Jun		end-Jul	end-Aug	end-Sep
	PC	Adjusted	Actual	IT	Actual	IT	Actual	PC	Adjusted	Actual	IT	IT	PC	Proposed Revised PC	IT	IT	Proposed PC
Fiscal targets																	
Performance Criteria																	
1. Primary balance of the federal government (floor) 3/ 9/	-378.0	-404.4	-374.3	n.a.	n.a.	n.a.	n.a.	6.0	n.a.	n.a.	n.a.	n.a.	40.0	20.0	n.a.	n.a.	60.0
2. Federal government accumulation of external debt payment arrears (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	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	24.4		11.9	n.a.	n.a.	n.a.	n.a.	30.0		n.a.	n.a.	n.a.	40.0	45.0	n.a.	n.a.	53.2
4. Social assistance spending (floor) 3/	173.0		184.9	n.a.	n.a.	n.a.	n.a.	60.0		n.a.	n.a.	n.a.	110.0	132.0	n.a.	n.a.	205.0
Indicative targets																	
5. Primary balance of the general government (floor) 3/ 9/	-378.0	-404.4	-303.2	n.a.	n.a.	n.a.	n.a.	-14.0	n.a.	n.a.	n.a.	n.a.	30.0	10.0	n.a.	n.a.	80.0
Monetary targets																	
Performance Criteria																	
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	7.1	6.5	7.2	4.1	7.4	2.9	8.8	12.5	2.7	6.4	9.0	6.2	5.8	9.0	8.4	8.2	13.1
7. Change in stock of non-deliverable FX forwards (ceiling) 6/ 11/	0.0		-3.6	0.0	-3.6	-0.7	-3.6	-1.0		-3.0	-1.2	-1.5	-1.7	-1.7	-2.0	-2.3	-2.6
8. Change in central bank credit to government (ceiling) 7/	0.0		-432.3	0.0	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	0.0	0.0	0.0
10. Change in net domestic assets of the central bank (ceiling) 8/ 9/	-46.2	-10.6	24.5	-112.1	-157.5	-36.0	-177.5	-185.6	-154.5	-208.2	-	-	-101.5	-	-	-	-
11. Change in monthly average monetary base (ceiling) 12/	-	-	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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$ 574 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 is a quarterly performance criterion with monthly indicative targets.
12/ The change is measured against the average value for February 2019, which was AR$1,343 billion.

Table 12. Argentina: Structural Program Conditionality

	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	Met
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	Met
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	Finalize a time-bound plan for transferring the Treasury Single Account (TSA) from Banco Nacion to the BCRA in June 2020. The plan will include all operational details of the new TSA at the BCRA, the timeline for the transfer process, and a deleveraging plan for Banco Nacion.	Sep-2019	Proposed
12	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	
13	Implement an integrated auditing action plan for the Simplified Taxpayer Regime (Monotributo), covering 20 percent of taxpayers under this regime.	Dec-2019	Proposed

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/	110.1	971.1	1,422.3	1,652.5	1,604.6	790.4	146.8	28.8	3.0
GRA service charge 1/	101.1	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/	211.2	1,052.6	1,436.3	4,313.0	16,099.0	16,918.9	5,746.9	1,603.9	265.5
(in percent of exports of G&S)	0.4	1.8	2.4	6.7	23.7	23.1	7.3	1.9	0.3
(in percent of GDP)	0.1	0.3	0.4	1.1	3.8	3.7	1.2	0.3	0.0
(in percent of GIR)	0.5	2.4	3.0	8.2	29.1	28.9	9.0	2.3	0.3
(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)	5.6	10.9	10.9	9.7	5.6	1.6	0.4	0.1	0.0
(in percent of GIR)	44.0	84.0	82.3	72.7	42.6	12.7	2.9	0.4	0.0
Memorandum items:									
Exports of goods and services (US$ mn)	76,156	84,165	87,056	92,260	97,226	104,611	112,558	121,108	130,307
US$/SDR exchange rate	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Gross International Reserves (US$ mn)	65,806	62,217	68,314	74,922	79,097	83,686	91,716	100,517	110,163
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	34.1	36.9			**55.6**	**59.8**	**55.6**	**52.9**	**48.8**	**45.1**	**-3.1**
Change in external debt	-1.7	2.9	-2.4	6.2	2.9			18.7	4.1	-4.1	-2.7	-4.1	-3.7	
Identified external debt-creating flows (4+8+9)	-0.9	3.3	-2.7	6.5	-1.7			5.0	2.3	0.4	-0.4	-0.8	-1.1	
Current account deficit, excluding interest payments	1.5	0.9	2.2	1.8	3.7			2.9	-0.2	1.0	1.5	1.9	2.1	
Deficit in balance of goods and services	0.1	-0.2	1.0	0.7	2.4			2.0	-1.4	-0.6	0.0	0.3	0.5	
Exports	14.7	14.5	10.9	12.8	11.4			14.6	17.6	16.9	16.4	16.1	16.1	
Imports	14.8	14.4	11.9	13.5	13.8			16.6	16.2	16.3	16.4	16.4	16.6	
Net non-debt creating capital inflows (negative)	-1.5	-0.6	-1.7	-0.4	-2.1			-1.5	-0.4	-0.9	-1.3	-1.6	-1.9	
Automatic debt dynamics 1/	-0.9	3.0	-3.1	5.1	-3.3			3.5	2.9	0.3	-0.6	-1.1	-1.3	
Contribution from nominal interest rate	0.6	0.7	0.6	0.9	1.2			2.4	2.2	1.5	1.0	0.6	0.3	
Contribution from real GDP growth	-0.7	0.7	-0.7	0.7	-0.8			1.1	0.7	-1.2	-1.6	-1.7	-1.7	
Contribution from price and exchange rate changes 2/	-0.8	1.6	-3.0	3.6	-3.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.8	-0.4	0.3	-0.3	4.5			13.7	1.8	-4.5	-2.3	-3.3	-2.6	
External debt-to-exports ratio (in percent)	186.4	208.2	255.5	265.7	323.4			379.9	339.3	329.6	321.8	303.5	280.1	
Gross external financing need (in billions of US dollars) 4/	85.8	82.6	81.7	104.9	97.7			147.6	114.7	103.2	100.7	122.3	122.6	
in percent of GDP	14.0	14.7	12.7	18.8	15.2	10-Year	10-Year	28.4	24.0	20.0	17.9	20.2	18.9	
Scenario with key variables at their historical averages 5/								**55.6**	**49.1**	**43.8**	**40.4**	**35.9**	**31.8**	**-3.5**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.4	-2.5	2.7	-2.1	2.7	1.6	4.7	-2.5	-1.2	2.2	3.2	3.4	3.6	
GDP deflator in US dollars (change in percent)	3.0	-5.4	10.9	-11.4	12.3	7.2	10.7	-17.0	-7.0	5.6	5.4	4.3	3.6	
Nominal external interest rate (in percent)	2.3	2.4	2.2	2.7	4.2	2.5	0.6	5.2	3.6	2.7	2.0	1.2	0.7	
Growth of exports (US dollar terms, in percent)	-5.0	-8.7	-14.4	1.9	2.8	2.1	15.3	3.8	10.5	3.4	6.0	5.4	7.6	
Growth of imports (US dollar terms, in percent)	8.3	-10.4	-5.3	-1.6	18.0	7.1	20.7	-3.0	-10.1	8.4	9.5	7.5	8.6	
Current account balance, excluding interest payments	-1.5	-0.9	-2.2	-1.8	-3.7	-0.4	2.1	-2.9	0.2	-1.0	-1.5	-1.9	-2.1	
Net non-debt creating capital inflows	1.5	0.6	1.7	0.4	2.1	1.6	0.7	1.5	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.

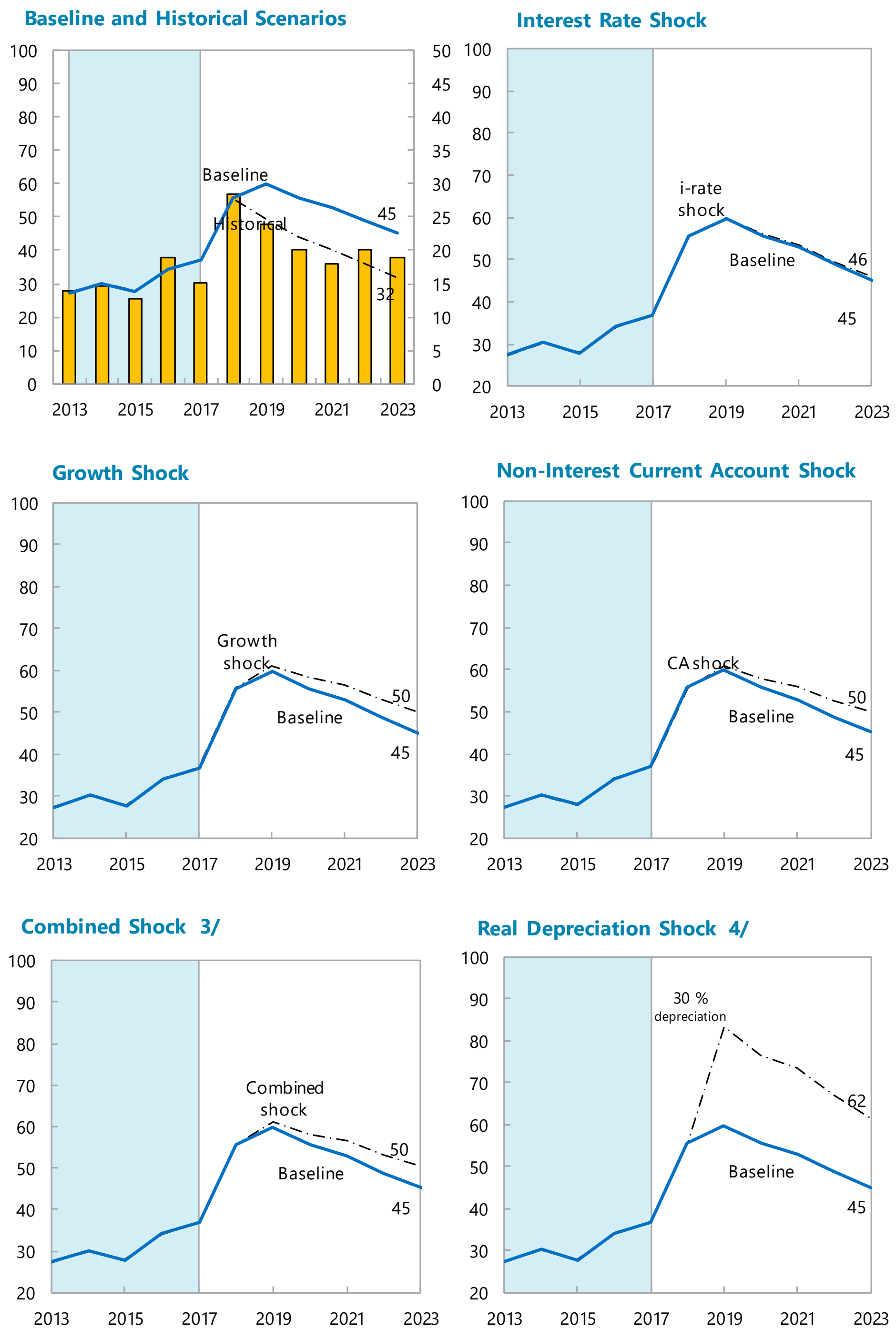
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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 6. External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



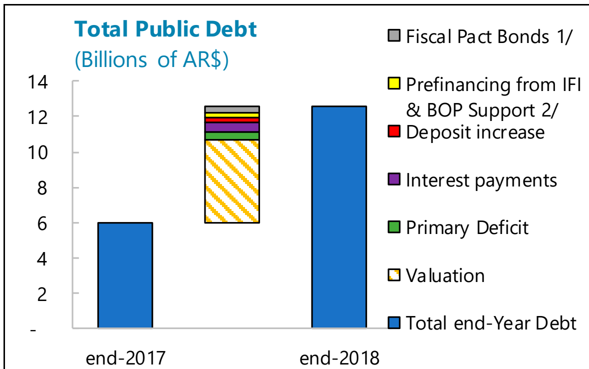
Source: Fund staff calculations and estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average 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

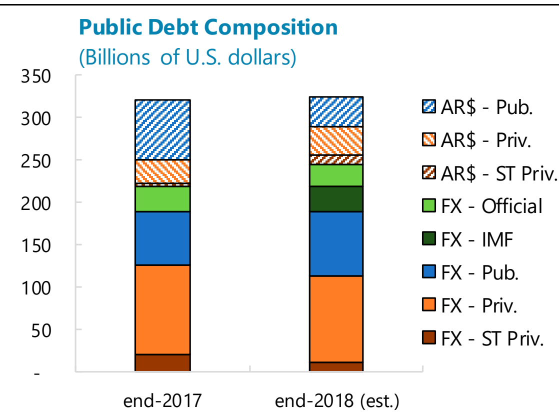
This debt sustainability analysis (DSA) provides an update to the findings in the Argentina: Second Review Under the Stand-By Arrangement. Federal government debt is estimated to have reached 86 percent in 2018, largely driven by the sharp depreciation, but is projected to start declining from 2019 and fall to around 60 percent of GDP in the medium term. 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

1. Stock. By end-December 2018, gross federal government debt (including intra-public-sector holdings) stood at an estimated AR$12,560 billion (US$332 billion), up from AR$6,030 billion (US$321 billion) at end 2017. In percent of GDP, federal government debt increased from 58 percent in 2017 to 86 percent by end-2018. Over two-thirds of this increase was driven by the depreciation of the peso, which ended 2018 at AR$37.8/US$ while it was at AR$18.8/US$ at end-2017). Other drivers of the increase in debt include: the issuance of the fiscal pact bonds for provinces, boosting of reserves using IMF BOP support, and deposit accumulation.



Source: IMF Staff calculations. 1/ It also includes Capitalizations and Letras en Garantia. 2/ Includes disbursements from IFIs that pre-finance primary expenditures in the year after and US$7.5 of IMF BOP support.



Source: IMF staff calculations.

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-2018, driven by the (i) the US$9 billion external bond placement in January 2018, (ii) about US$28 billion in IMF disbursements, and (iii) currency depreciation. The stock of short-term treasury bills in private hands is around US$23 billion, 42 percent of which are FX denominated.

3. Maturity. The average weighted maturity of federal public debt at end-2018 stood at 9.0 years. Among privately held debt, the weight average maturity is higher, at 12.9 years.

4. Debt Holders. About 35 percent of the federal government's debt is held by other public-sector entities and provinces. Nearly 70 percent 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 17 percent of total debt.

B. Baseline Scenario

5. Debt is expected to decline to around 76 percent of GDP in 2019 as a result of projected appreciation as the currency unwinds some of the overshooting in 2018 and somewhat less negative growth. Debt is expected to decline gradually to below 60 percent of GDP by 2024. Gross financing needs (GFN) are expected to breach 15 percent of GDP in 2019 but remain below the threshold during the rest of the projection period. This projection is based on the following assumptions:

- ***Growth and Inflation.*** Growth in 2019 is expected to be at -1.2 percent – somewhat less negative than in 2018 as the economy begins to recover – and then rebound to 2.2 percent in 2020. Growth will then rise gradually to 3.6 percent by 2023 and remain there in 2024. 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 projected real peso appreciation in 2019 will improve debt dynamics. Staff expects that the excess real depreciation in 2018 will continue to unwind during the program period.

- ***Financing Assumptions.*** Continued rollover of intra-public-sector financing is assumed, together with the capitalization of interest payments by non-financial public sector. Statutory advances from the BCRA are zero. No international bond issuance is expected until 2020. The IMF will continue to play a key role in financing the federal government in 2019. Higher than expected rollovers in Q4 2018 and Q1 2019, together with the projected repayment for a credit line with Banco Nación in December, have increased financing needs for 2019 and 2020. Nonetheless, under the baseline scenario, these continue to be fully financed.

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 above 110 percent of GDP in such a scenario. Debt is also vulnerable to a growth shock, which under the stress test could raise debt to nearly 80 percent of GDP.

- Fiscal consolidation is critical to stabilizing the debt level. If the primary balance were to remain unchanged at its 2018 level, debt would remain largely flat, at 83 percent of GDP by 2024. A combined macro-fiscal' shock would cause debt to peak at over 150 percent of GDP.[1]

Liquidity Risks

- A combined macro-fiscal shock will lead to GFN of 35 percent of GDP. In such a scenario, it may not be possible to finance this through market access on favorable terms.

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 maintain 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 end-2024.

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 fiscal consolidation path 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 and unfunded pensions. For 2019, the national government also faces contingent liabilities from court settlements with provinces in the context of the Fiscal Pact (potentially around 0.2 percent of GDP).

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.

[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.

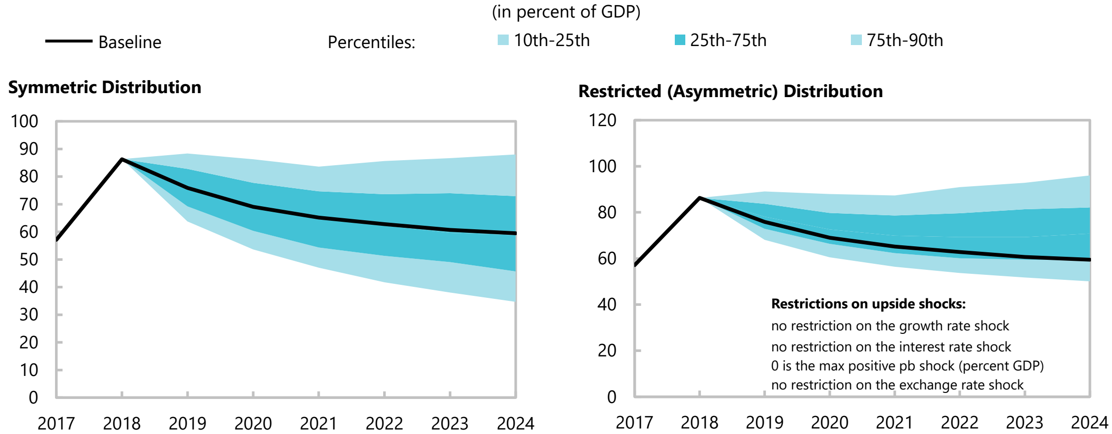
Figure 1. Argentina Public DSA Risk Assessment

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

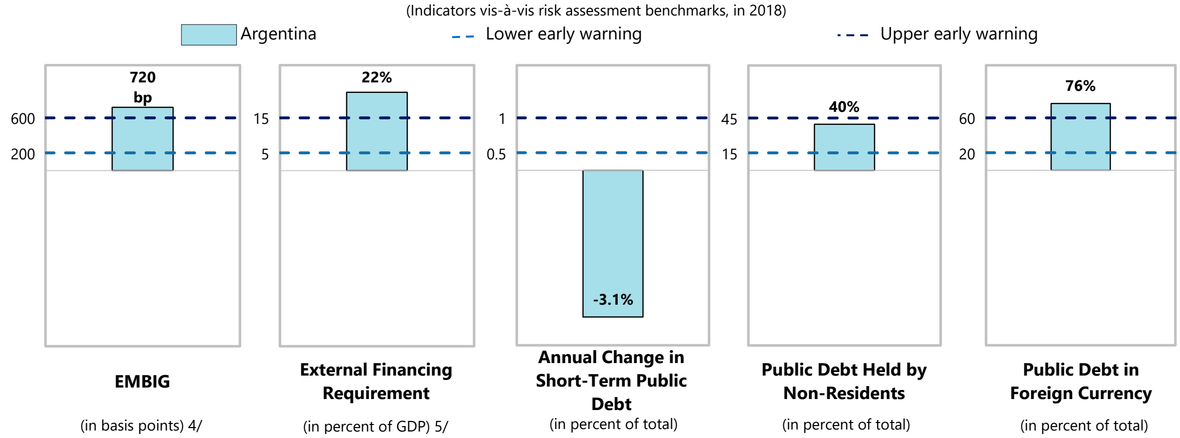
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



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.

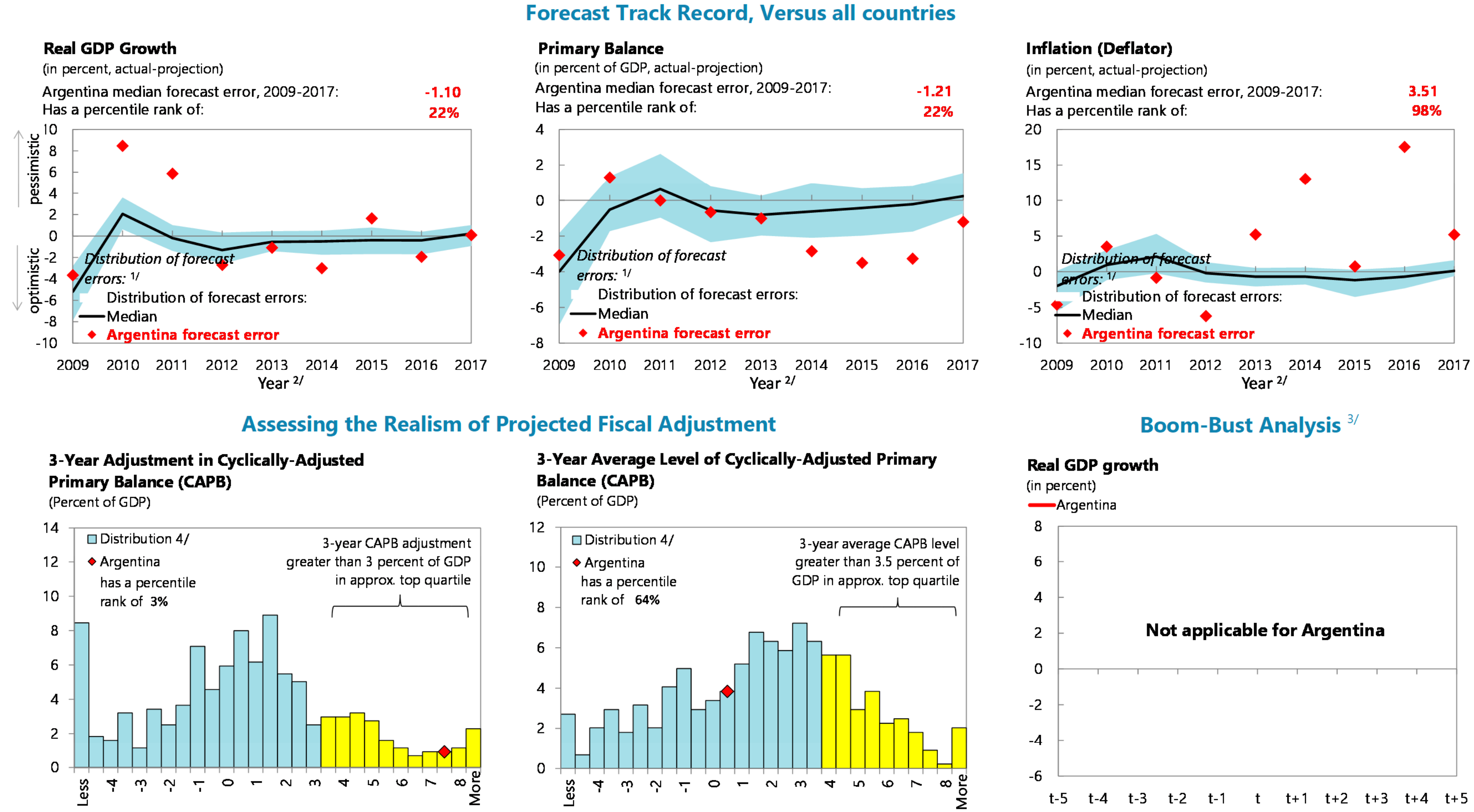
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, 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, 30-Nov-18 through 28-Feb-19.

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.

Figure 2. 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.

Figure 3. Argentina Public Sector Debt Sustainability Analysis (DSA)

(in percent of GDP unless otherwise indicated)

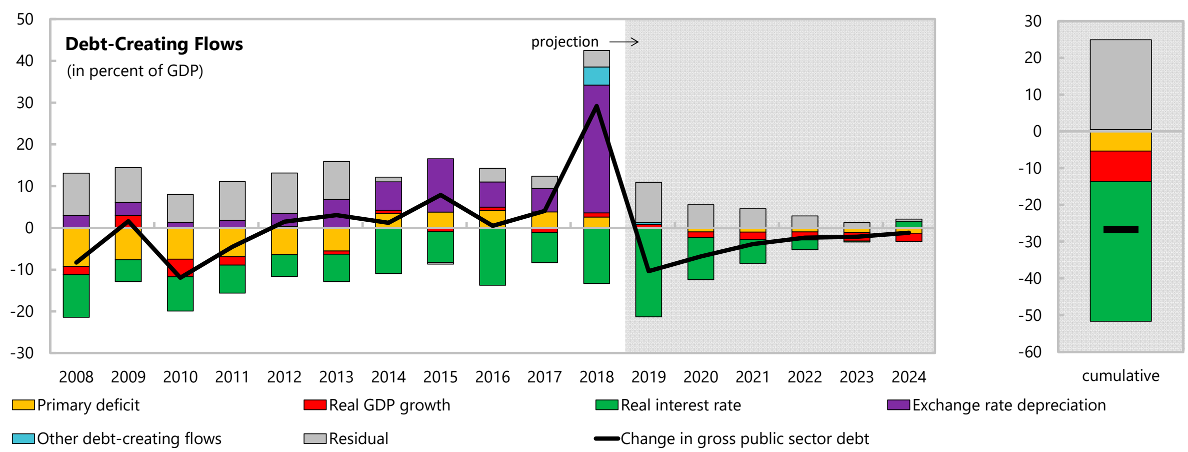
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	47.3	57.1	86.3	75.9	69.0	65.1	62.8	60.7	59.5
Public gross financing needs	5.2	13.3	13.5	15.5	10.9	10.3	12.0	11.6	12.1
Real GDP growth (in percent)	1.5	2.7	-2.5	-1.2	2.2	3.2	3.4	3.6	3.6
Inflation (GDP deflator, in percent)	26.4	25.8	41.0	39.6	23.6	18.4	12.8	8.3	5.2
Nominal GDP growth (in percent)	28.2	29.4	36.8	38.5	26.2	22.2	16.6	12.2	8.9
Effective interest rate (in percent) [4/]	4.5	8.9	9.1	5.1	7.3	8.9	9.0	8.2	8.2

As of February 28, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		700
5Y CDS (bp)		677
Ratings	Foreign	Local
Moody's	B2	B2
S&Ps	B	B
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.0	4.1	29.2	-10.4	-6.9	-3.9	-2.4	-2.1	-1.2	-26.8	
Identified debt-creating flows	-7.4	1.1	25.2	-20.0	-12.4	-8.5	-5.2	-3.4	-1.7	-51.2	
Primary deficit	-3.6	3.8	2.6	0.0	-1.0	-1.0	-1.0	-1.1	-1.3	-5.3	1.3
Primary (noninterest) revenue and grants	25.7	25.9	25.3	26.4	27.2	27.0	26.9	26.6	27.0	161.0	
Primary (noninterest) expenditure	22.1	29.7	27.9	26.4	26.2	26.0	25.9	25.5	25.7	155.7	
Automatic debt dynamics [5/]	-3.8	-2.7	18.3	-20.6	-11.4	-7.5	-4.3	-2.2	-0.4	-46.3	
Interest rate/growth differential [6/]	-8.8	-8.3	-12.3	-20.6	-11.4	-7.5	-4.3	-2.2	-0.4	-46.3	
Of which: real interest rate	-8.2	-7.2	-13.3	-21.3	-10.1	-5.7	-2.4	-0.2	1.6	-38.1	
Of which: real GDP growth	-0.6	-1.1	1.0	0.8	-1.3	-1.8	-1.9	-2.0	-2.0	-8.3	
Exchange rate depreciation [7/]	5.0	5.6	30.6	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	4.4	0.5	0.0	0.0	0.0	0.0	0.0	0.5	
Privatization receipts (negative)	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	2.5	0.5	0.0	0.0	0.0	0.0	0.0	0.5	
Prefinancing from IFIs and BOP Support [10/]	0.0	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	6.4	2.9	3.9	9.6	5.5	4.6	2.9	1.2	0.5	24.4	



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

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

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

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

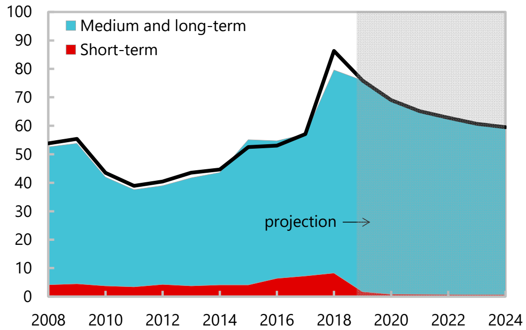
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

10/ Includes disbursements from IFIs that pre-finance primary expenditures in the year after and US$7.5 of IMF BOP support.

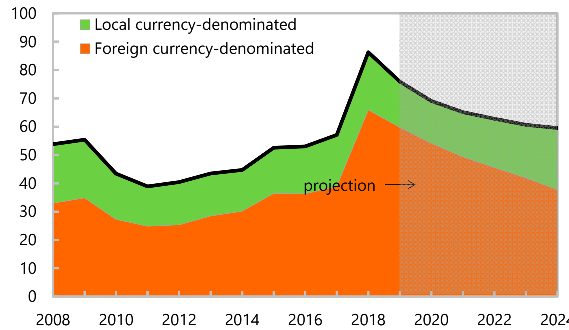
Figure 4. Argentina Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



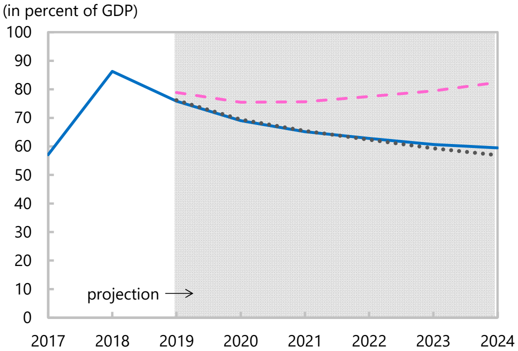
By Currency
(in percent of GDP)



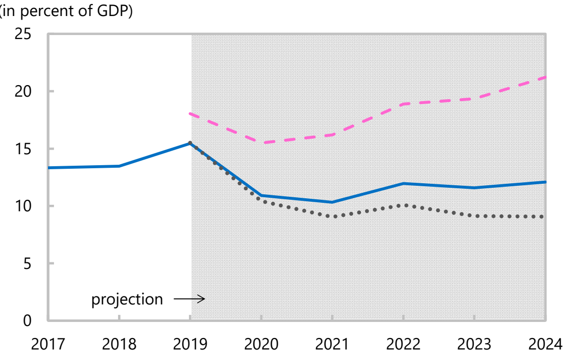
Alternative Scenarios

Baseline Historical Constant 2018 Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

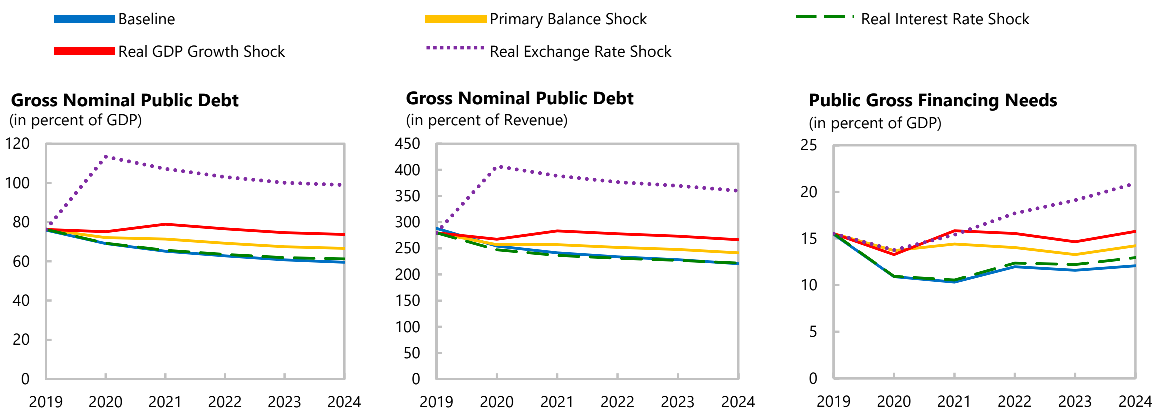
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-1.2	2.2	3.2	3.4	3.6	3.6
Inflation	39.6	23.6	18.4	12.8	8.3	5.2
Primary Balance	0.0	1.0	1.0	1.0	1.1	1.3
Effective interest rate	5.1	7.3	8.9	9.0	8.2	8.2
Constant Primary Balance Scenario						
Real GDP growth	-1.2	2.2	3.2	3.4	3.6	3.6
Inflation	39.6	23.6	18.4	12.8	8.3	5.2
Primary Balance	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Effective interest rate	5.1	7.5	9.8	9.8	9.0	8.8

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-1.2	1.0	1.0	1.0	1.0	1.0
Inflation	39.6	23.6	18.4	12.8	8.3	5.2
Primary Balance	0.0	1.6	1.6	1.6	1.6	1.6
Effective interest rate	5.1	7.3	7.4	6.7	4.7	3.8

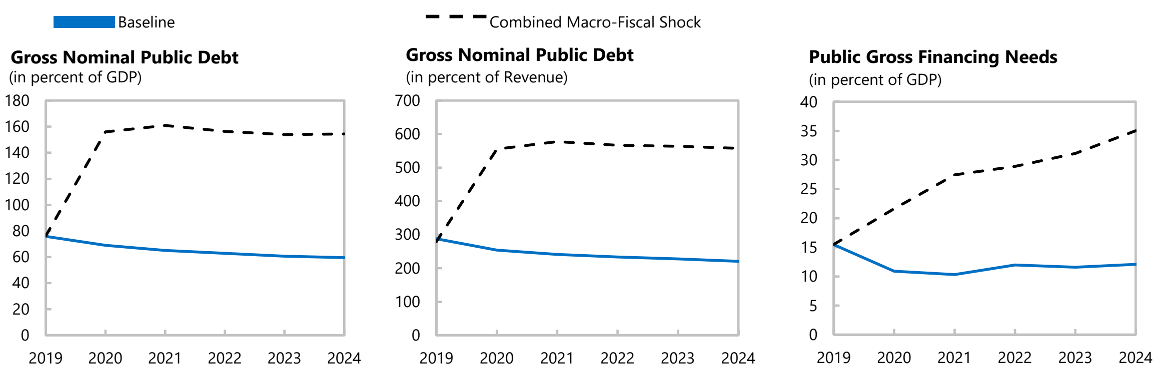
Source: IMF staff.

Figure 5. Argentina Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	-1.2	2.2	3.2	3.4	3.6	3.6
Inflation	39.6	23.6	18.4	12.8	8.3	5.2
Primary balance	0.0	-1.8	-1.7	1.0	1.1	1.3
Effective interest rate	5.1	7.3	9.4	9.6	8.9	8.7
Real Interest Rate Shock						
Real GDP growth	-1.2	2.2	3.2	3.4	3.6	3.6
Inflation	39.6	23.6	18.4	12.8	8.3	5.2
Primary balance	0.0	1.0	1.0	1.0	1.1	1.3
Effective interest rate	5.1	7.3	9.2	9.5	9.0	9.2
Combined Shock						
Real GDP growth	-1.2	-2.6	-1.5	3.4	3.6	3.6
Inflation	39.6	22.4	17.2	12.8	8.3	5.2
Primary balance	0.0	-1.8	-2.2	1.0	1.1	1.3
Effective interest rate	5.1	11.6	7.5	8.1	8.3	8.7

Real GDP Growth Shock	2019	2020	2021	2022	2023	2024
Real GDP growth	-1.2	-2.6	-1.5	3.4	3.6	3.6
Inflation	39.6	22.4	17.2	12.8	8.3	5.2
Primary balance	0.0	-0.7	-2.2	1.0	1.1	1.3
Effective interest rate	5.1	7.3	9.2	9.4	8.7	8.6
Real Exchange Rate Shock						
Real GDP growth	-1.2	2.2	3.2	3.4	3.6	3.6
Inflation	39.6	57.4	18.4	12.8	8.3	5.2
Primary balance	0.0	1.0	1.0	1.0	1.1	1.3
Effective interest rate	5.1	11.6	7.0	7.3	7.2	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

March 25, 2019

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 Second Review of the Stand-By Arrangement on December 19, 2018. Also attached is an addendum to the Technical Memorandum of Understanding.

The reformulated policy plan that our government began implementing in October 2018 continues to yield results. So far in 2019, spreads have moderated, the stock market has rebounded, and public debt rollovers have been higher than expected. A strong peso has allowed us to build the BCRA's reserves while modestly loosening financing conditions. Inflation has fallen from the high monthly rates experienced in the second half of last year, although it is still elevated. The external imbalance is undergoing a significant correction. The fiscal and monetary policy targets have been over-complied.

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. Due to timing, we would request waivers of applicability for the end-March 2019 performance criteria on the primary balance of the federal government, domestic arrears, and social assistance spending, as the final data will not be available at the time of the Executive Board consideration.

This economic program has been from the outset and remains fully owned by the Argentine government. We continue to work to build a broad consensus around its objectives and policies. We are certain that, as the dividends of macroeconomic stability continue to yield, public and political support for our policy plans will grow in the months ahead. Consolidating macroeconomic stabilization will allow us to advance our agenda of structural reforms to foster stronger, sustainable, and inclusive growth.

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 (Update)

This memorandum supplements and updates the Memorandum of Economic and Financial Policies (MEFP) dated December 11, 2018.

Recent Developments and Outlook

1. The economic performance during the first half year of the program reflected a challenging environment, but there are signs that important macroeconomic imbalances are being corrected. Argentina entered an economic recession last year, as a result of the severe drought as well as the high financial turbulence. However, stronger real wage growth, the rebound of agricultural production, and buoyant export growth should help sustain economic activity in 2019. Monthly inflation fell from the peak experienced last year, and although it remains high, driven by high inertia and continued normalization of tariffs, it is expected to decline more rapidly in the second half of the year. An important external adjustment is underway, with the trade balance recording a surplus in the last 4 months of 2018 and first month of 2019, and the current account deficit expected to narrow significantly in 2019.

2. We have comfortably met our fiscal target for 2018, solidifying our commitment to ensure that Argentina no longer lives beyond its means. Most importantly, we achieved this target without putting social spending at risk. Expenditures to protect the most vulnerable were scaled up and we expect to continue expanding them as needed in the year ahead. We remain conscious of the shared burden that the necessary reforms are placing on the Argentine people, however, we are convinced that these policies will lay a solid foundation for future growth and stability.

Fiscal Policy

3. We remain strongly committed to implementing the 2019 Budget and achieving a zero-primary deficit for this year. We revised our revenue projections due to stronger-than-expected effects from the economic recession on tax revenues. However, higher-than-expected inflation will help offset some of the revenue loss in the second part of the year, while we have also identified additional measures that will allow us to achieve our zero-primary deficit target for 2019. These will include both revenue measures (including from changes in revenue administration) and spending cuts (including further rationalization of expenditure on goods and services and lower-priority capital spending).

4. The revenue loss will be particularly acute during the first half of the year. For that reason, we have requested that the end-June target be revised downwards to a smaller surplus of AR$20 billion. Even achieving this revised target will require additional effort in managing capital spending, but we are confident that we will strike the right balance between fiscal prudence and continued support to growth-enhancing investments. By end-September, we will have accumulated a surplus of AR$60 billion, which will cover the deficit in the last quarter.

5. We intend to improve the efficiency of tax collection, to ensure that the tax burden is equitably distributed across the Argentine society. We continue to enhance the efficiency of VAT collection and use third-party information to cross-check corporate tax returns. We have launched a program to reduce the abuse of the *monotributo* regime and strengthen the large-taxpayers' central office. By December 2019, we will implement an integrated auditing action plan for the Simplified Taxpayer Regime, covering 20 percent of taxpayers under this regime (*proposed structural benchmark)*.

6. We will continue to improve Public Financial Management. We plan to strengthen our macro-fiscal unit at the Ministry of Finance so that it can support decision making by assessing and informing about the costs and benefits of new policy measures. We also plan to improve the coordination among units in charge of assessing the macroeconomic and fiscal impact of new policy measures, and to analyze fiscal risks. To strengthen the Federal government's monitoring over provinces' adherence to the Fiscal Responsibility law, we are improving our integrated information system for the reporting of all provincial fiscal outturns. Lastly, we commit to move the Treasury Single Account (TSA) from *Banco Nación* to the BCRA by June 2020. In preparation, by September 2019, we will finalize a plan that will include all operational details of the new TSA at the BCRA, the timeline for the transfer process, and a deleveraging plan for *Banco Nación* (*proposed structural benchmark)*.

Debt Management

7. During the first half year of the program, we have expanded the issue of short-term peso-denominated government securities from a low base. We have also published, in December, a debt management strategy that lays the foundation for a medium-term view of the government's financing and debt reduction. This included an auction calendar, a statement on the intention to continue increasing the share of peso debt, and a clear description of the allotment method. We also no longer permit investors to purchase dollar denominated securities with pesos. In January 2019, we unveiled a market makers program, which will help increase the liquidity of the local markets. In the coming months, we intend to continue strengthening our medium-term debt management procedures to provide clear guidance to investors and offer a predictable approach to our budget financing operations.

8. We commit to continue extending the maturities of government debt, with a view of lowering rollover risks and safeguarding government financing against an unanticipated erosion of market sentiment. We will continue to build liquidity buffers during the first half of 2019 and replace some of the callable debt with standard debt, as market conditions permit, to lessen vulnerabilities.

9. 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. FX sales of the Fund disbursements into the market will only be undertaken if a peso funding need arises and in agreement with IMF staff. Any such sales will be a cash management operation and take place through pre-announced daily auctions.

10. We do not envisage a need to sell IMF budget support FX to the market until mid-April. On April 15, the BCRA will commence the conversion of IMF budget support from FX into pesos, on behalf of the Treasury, through transparent and predictable pre-announced daily FX auctions into the market.

- The daily amounts will be constant at US$60 million per day.
- Auctions will take place daily until end-November at a same time of the day, unless interrupted (announced with at least 20 calendar days in advance). This will imply a total of US$9.6 billion sold.
- To ensure a coordinated approach with monetary policy, in the case that the exchange rate moves below the non-intervention zone during the pre-announced auction period, Treasury will sell its pre-announced daily amount to the BCRA at the reference rate of the day up to the daily limit defined by the BCRA in accordance to its monetary stance. These purchases, similarly to any FX purchases by the BCRA outside of the non-intervention zone, will not be sterilized and will count towards the BCRA's daily purchase limit.
- To ensure traceability of these funds, we commit to maintaining the peso proceeds from these auctions at the BCRA until their use.

Monetary Policy

11. During the first half year of the program, we have eliminated the BCRA's LEBAC securities and alleviated an important vulnerability in the Argentine economy. Since the introduction of the new monetary policy framework that targets money supply, we have maintained a cautious approach by keeping the growth of the monetary base below the levels announced in October. As the currency appreciated beyond the non-intervention zone in January and February, we began purchasing FX from the market, which allowed for a modestly faster growth in the monetary base. These purchases have been clearly presented in the BCRA's fortnightly review of monetary policy, separately from the monetary base target.

12. While monthly inflation has come down from the very high levels of last September, recent data suggests that reducing inflation and inflation expectations will be a gradual process. In this context, we intend to continue with our cautious monetary policy stance and therefore committed to maintain until end-November the level of monetary base as of February 2019 (AR$ 1,343 billion pesos net of potential FX purchases), consistent with a 3 percent overcompliance relative to the original March target and 10.5 percent relative to end-November.

13. 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 remain prepared to intervene in a transparent and fully anticipated way to prevent disorderly market conditions, in line with the announced monetary policy framework. We will continue to calibrate the amount of the non-sterilized FX purchases outside the non-intervention zone to ensure that the monetary policy stance remains conducive to a rapid reduction of inflation and inflation expectations. The limits of the non-intervention zone will be adjusted daily at a monthly rate of 1.75 percent during the second quarter of 2019, lower than inflation expectations.

14. 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 enshrine the autonomy of the central bank, establish price stability as the first and fundamental mandate of the BCRA, restrict monetary financing of the public deficit, enhance decision-making structures, and buttress transparency and accountability. We commit to continue work towards achieving an adequate level of capital for the BCRA by end-December 2019.

Financial Stability

15. The banking sector remains healthy in the face of the economic recession and financial turmoil experienced last year. Yet, we remain vigilant against risks from a more protracted and deeper recession, particularly for a number of small banks that enhance financial inclusion by serving segments of the population with no other banking alternatives. These banks, due to their size and lack of reliance on retail deposits, do not pose risks to financial stability. Nevertheless, we intend to fine-tune our stress test models to be better suited to monitoring their activities and adjust their capital requirements accordingly.

Social Safety Net

16. We remain committed to take all the necessary measures to protect the most vulnerable from the risks they face in the current economic conditions. We provided one-off payments in September and December to the beneficiaries of the Universal Child Allowance (AUH) such that the real value of benefits in 2018 was higher than in 2017. In addition, to also support poor people without children, we provided a one-off payment in December to nearly 520,000 beneficiaries of the Employment Support Program (*Apoyo al Empleo and Proyectos Productivos Comunitarios*). On March 1, we decided to front-load to March all the increases in AUH benefits implied by the indexation formula for 2019. This implies a 45 percent increase in benefit levels starting in March, which will help shelter beneficiaries from erosion in purchasing power.

17. In a weak and high inflation economy, the most vulnerable find it more difficult to satisfy basic needs and might have adverse consequences in terms of health and other outcomes. In agreement with the IMF, we have expanded the definition of the social spending adjustor under the program to include selected programs, including the provision of medicines in public health centers whose users often lack other health coverage; active labor market programs; and direct food support. We thus stand ready to increase spending on these programs above their 2019 budget allocation. To accommodate additional expenditures, the cap on the social spending adjustor will be increased from 0.2 percent of GDP to 0.3 percent of GDP.

18. To better support working families and foster female labor force participation, we commit to achieve the passage of legislation to increase the duration of paternity leave. Access to high quality childcare is essential to help women achieve their full potential in the labor market. With IDB support, we will continue to improve the quality and availability of our system of childcare centers for low-income mothers, including by expanding their hours to better fit working parents' schedules. The *Consejo Nacional de Coordinacion de Politicas Sociales* is also working on an impact study of the program *Primeros Años* (which provides one-to-one support to new parents of low income levels). To better understand women's care duties and support higher female labor force participation, we will roll out a time-use survey across Argentina by 2020. A public monitoring paper of the gender balance in executive board and management positions in listed companies will be published by end-March.

Growth Enhancing Structural Reforms

19. As the macroeconomic environment stabilizes, we will begin refocusing on structural reforms to generate the growth and job creation that are needed to raise the standards of living of all Argentines. Our recent measure to provide subsidized loans to Small and Medium Enterprises (SMEs) will play a key role in supporting businesses in a tight monetary environment while having a relatively low fiscal impact.

20. We will continue our efforts to lower barriers to trade and foreign investment. In the short run we will continue with ongoing trade liberalization negotiations with the EU, EFTA and Canada. Furthermore, we will continue to analyze improvements to Mercosur´s common external tariff that could enhance competitiveness and keep working to simplify and reduce import and export administrative costs through our single window (VUCE) program.

21. To improve domestic competition and ease of doing business, we will (i) simplify entry regulations and coordinate information across relevant parts of government to reduce the administrative burden on new firms; (ii) examine the scope for phasing out regulatory protection of state-owned enterprises and private sector incumbents, as well as residual forms of price controls; (iii) continue strengthening financial and institutional independence of the competition authority; and (iv) clarify and improve regulatory framework in network industries. We will also continue to reduce the administrative burden of paying taxes and aim to reduce the current time needed significantly in the next five years.

Tackling Corruption

22. We continue to undertake efforts to further strengthen the anti-corruption framework with the adoption and effective implementation of the Executive Branch Anti-Corruption National Strategy. The strategy highlights core pillars and action plans for enhancing transparency and integrity and bolstering the prevention, investigations and sanctions of corruption. An executive order will approve the strategy by end-June 2019, with implementation of some pillars commencing shortly afterwards. Responsibility for monitoring the effectiveness of this national strategy will remain with the Office of Anti-corruption and the Secretary for Institutional Strengthening at the Chief of Cabinet Office.

23. We will take the necessary steps to expedite the testing of the system for electronic declaration (e-declaration) of assets and interests by high ranking officials within the Executive branch by June 2019, immediately after receiving approval from the Minister of Justice. In this respect, we have empowered the Office of Anti-Corruption to monitor the exercise and provide progress reports on the results of the testing and shortly thereafter, to fully implement the e-declaration system, which will further enhance transparency and support the existing AML/CFT regime and ongoing criminal investigations.

24. To support the effective implementation of the company registry (*Registro Nacional de Sociedades, Concursos y Quiebras*), we will ensure that the required modifications to Resolution No. 6 are adopted by the competent authority by end-June 2019. The revised resolution, when adopted and implemented, will ensure that there is adequate, accurate, and timely information on the beneficial ownership and control structure of legal (including foreign) persons that can be obtained or accessed in a timely fashion by competent authorities like the financial intelligence unit and law enforcement agencies.

25. To give full autonomy and independence to the Office of Anti-Corruption (OA), by end-March 2019, we will present to Congress amendments to the Ethics in Public Service Law to establish the framework for granting the OA the necessary authority, powers, roles, responsibilities, and sanctions to more effectively fight corruption and further engage in anti-corruption activities with other competent authorities.

26. Furthermore, by end-September 2019, we will submit to congress amendments to the AML law to incorporate provisional measures with appropriate safeguards for the freezing of funds and other assets by the Financial Intelligence Unit when there are suspicions of money laundering or terrorism financing in the context of an investigation when such funds or assets are linked to corruption or other crimes.

Table 1. Argentina: Schedule of Reviews and Purchases

	Amounts		
Available on or after	SDR millions	% Quota	Conditions 1/
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-Dec			end-Jan		end-Feb		end-Mar			end-Apr	end-May	end-Jun		end-Jul	end-Aug	end-Sep
	PC	Adjusted	Actual	IT	Actual	IT	Actual	PC	Adjusted	Actual	IT	IT	PC	Proposed Revised PC	IT	IT	Proposed PC
Fiscal targets																	
Performance Criteria																	
1. Primary balance of the federal government (floor) 3/ 9/	-378.0	-404.4	-374.3	n.a.	n.a.	n.a.	n.a.	6.0	n.a.	n.a.	n.a.	n.a.	40.0	20.0	n.a.	n.a.	60.0
2. Federal government accumulation of external debt payment arrears (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	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	24.4		11.9	n.a.	n.a.	n.a.	n.a.	30.0		n.a.	n.a.	n.a.	40.0	45.0	n.a.	n.a.	53.2
4. Social assistance spending (floor) 3/	173.0		184.9	n.a.	n.a.	n.a.	n.a.	60.0		n.a.	n.a.	n.a.	110.0	132.0	n.a.	n.a.	205.0
Indicative targets																	
5. Primary balance of the general government (floor) 3/ 9/	-378.0	-404.4	-309.1	n.a.	n.a.	n.a.	n.a.	-14.0	n.a.	n.a.	n.a.	n.a.	30.0	10.0	n.a.	n.a.	80.0
Monetary targets																	
Performance Criteria																	
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	7.1	6.5	7.2	4.1	7.4	2.9	8.8	12.5	2.7	[6.4]	9.0	6.2	5.8	9.0	8.4	8.2	13.1
7. Change in stock of non-deliverable FX forwards (ceiling) 6/ 11/	0.0		-3.6	0.0	-3.6	-0.7	-3.6	-1.0		[-3]	-1.2	-1.5	-1.7	-1.7	-2.0	-2.3	-2.6
8. Change in central bank credit to government (ceiling) 7/	0.0		-432.3	0.0	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	0.0	0.0	0.0
10. Change in net domestic assets of the central bank (ceiling) 8/ 9/	-46.2	-10.6	24.5	-112.1	-157.5	-36.0	-177.5	-185.6	-154.5	[-208.2]	-	-	-101.5	-	-	-	-
11. Change in monthly average monetary base (ceiling) 12/	-	-	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU. 0.76
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$ 574 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 is a quarterly performance criterion with monthly indicative targets.
12/ The change is measured against the average value for February 2019, which was AR$1,343 billion.

Table 3. Argentina: Structural Program Conditionality

	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	Met
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	Met
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	Finalize a time-bound plan for transferring the Treasury Single Account (TSA) from Banco Nacion to the BCRA in June 2020. The plan will include all operational details of the new TSA at the BCRA, the timeline for the transfer process, and a deleveraging plan for Banco Nacion.	Sep-2019	Proposed
12	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	
13	Implement an integrated auditing action plan for the Simplified Taxpayer Regime (Monotributo), covering 20 percent of taxpayers under this regime.	Dec-2019	Proposed

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 79,000 million pesos in 2019 (equivalent to 0.4 percent of 2019 GDP) and 0.4 percent of GDP per year afterwards.

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 to provinces of Mendoza, San Luis and Santa Fe related to Supreme court cases that became definite before June 19, 2018, but for which the amount to be paid and the terms of such payments were not determined; 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.

14. **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) will be adjusted downward by an amount equivalent to the amount that expenditures, measured on a cash basis, exceed the programmed values defined in Table 2, in the following programs:

- *Asignación Universal para Protección Social*, under the jurisdiction of the Social Security Administration (ANSES, program 19, subprogram 03).
- *Hacemos Futuro*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 38, activity 40, *Hacemos Futuro Juntas*, and 41, *Hacemos Futuro*).

- *Proyectos Productivos Comunitarios*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 50).

- *Políticas Alimentarias*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 26).

- *Prevención y Control de Enfermedades Inmunoprevenibles*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Health (Program 20).

- *Cobertura Universal de Salud, Medicamentos*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Health (Program 29).

- *Hogares con Garrafas,* under the jurisdiction of the Ministry of the Treasury, secretary of Energy (Program 73, Subprogram 02, activity 40).

The value of the adjustor will be capped at 59,400 million pesos in 2019. The value of the adjustor will be capped at the equivalent of 0.3 percent of GDP in each successive calendar year.

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

(program baseline)

	AR$ millions 1/
end-March 2019	33,201
end-June 2019	68,568
end-September 2019	110,172
end-December 2019	163,211

1/ Cumulative from January 1 of each year.

15. 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 39,600 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-March 2019	10,000
end-June 2019	14,700
end-September 2019	21,000
end-December 2019	29,417

1/ Cumulative from January 1 of each year.

Floor on Federal Government Spending on Social Assistance Programs

16. 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]

- *Asignaciones Familiares Activos*, under the jurisdiction of the Social Security Admnistration (ANSES) which includes the *Asignación Prenatal, por Adopción, por Hijo, por Hijo Discapacitado, por Maternidad, por Matrimonio, por Nacimiento,* and the *Ayuda Escolar Anual.*

- *Asignaciones Familiares Pasivos*, under the jurisdiction of the Social Security Admnistration (ANSES) which includes the *Asignación Prenatal, por Cónyuge, por Hijo, por Hijo Discapacitado,* and *the Ayuda Escolar Anual.*

- *Asignaciones Familiares Sector Público Nacional*, under the jurisdiction of the Social Security Admnistration (ANSES) which includes the *Asignación Prenatal, por Hijo, por Hijo Discapacitado, por Maternidad,* and *the Ayuda Escolar Anual.*

- *Asignación Universal para Protección Social*, under the jurisdiction of the Social Security Admnistration (ANSES) which includes the following sub-programs: *Asignación Universal por Hijo, Asignación por Embarazo*, and *Ayuda Escolar Anual.*

- *Hacemos Futuro*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 38, activity 40, *Hacemos Futuro Juntas*, and 41, *Hacemos Futuro*).

- *Proyectos Productivos Comunitarios*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 50).

[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.

- *Políticas Alimentarias*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 26).
- *Prevención y Control de Enfermedades Inmunoprevenibles*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Health (Program 20).
- *Cobertura Universal de Salud, Medicamentos*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Health (Program 29).
- *Hogares con Garrafas,* under the jurisdiction of the Ministry of the Treasury, secretary of Energy (Program 73, Subprogram 02, activity 40).

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

Ceiling on Federal Government Accumulation of Domestic Arrears

18. 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*).

19. 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.

20. 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

21. 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;

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

these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

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

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

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

22. 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.

23. 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.

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

Floor on the Change in Non-Borrowed Net International Reserves

25. 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.

26. 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.

27. **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.

28. **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.

29. 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$15.680 billion.

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

31. **Adjustors:**

- **Adjustor for Multilateral loans.** The NIR targets will be adjusted upward (downward) by the surplus (shortfall) in disbursements from the IMF and other multilateral institutions (the IBRD, IDB and CDB) and grants, relative to the baseline projection reported in Table 4. Budget support 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, all new disbursements are assumed to take place on the 15th of each month)

Cumulative flows from end-September 2018	(In millions of US$)
Budget support disbursements from IMF	
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
end-July 2019	29,884
end-August 2019	29,884
end-September 2019	35,356
Budget support loans from other multilateral sources	
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
end-July 2019	2,950
end-August 2019	2,950
end-September 2019	3,650

- **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.

  - **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 upper limit of the non-intervention zone published in the BCRA website (https://www.bcra.gob.ar/PublicacionesEstadisticas/Zona-no-intervencion.asp)

- 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-January 2019	5,805
end-February 2019	6,770
end-March 2019	8,063
end-April 2019	11,054
end-May 2019	12,983
end-June 2019	13,795
end-July 2019	14,092
end-August 2019	15,051
end-September 2019	15,889

- **Adjustor for Treasury FX sales.** The NIR targets will be adjusted downward by the total amount of dollars sold by the Treasury to the market to meet the peso obligations of the government. FX sales will be implemented by the BCRA on behalf of Treasury starting on April 15, via an auction organized each business day at the same time of the day. Daily amounts will be constant at US$60 million per day and auctions will continue until end-November. This adjustor will be capped at US$9.6 billion for 2019.

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

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

33. Monitoring. This PC will be monitored on a quarterly basis, with monthly indicative targets. Data will be provided to the Fund at the end of each day.

34. Quarterly Performance Criterion: The change in the stock of NDFs 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

35. 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.

36. 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 Monetary Base

37. Definition. Monetary Base (MB) is defined as the sum of currency in circulation, itself a sum of cash held by public, cash in bank vaults and settlement checks, and the current account balances of the banks at the BCRA and is measured in peso. The definition is consistent with the measure of MB published daily on the BCRA website in its *Daily Monetary Report* and monitored as part of the new monetary program.

38. The ceiling applies to the monthly average of MB. The change will be calculated with respect to the average of the month of February 2019 which was AR$1,343 billion. The ceilings shall be consistent with MB targets adopted by the BCRA in line with their monetary framework and communicated publicly on the BCRA website in the biweekly *Report on Monetary Base Target*, plus (less) any adjustments as outlined below.

39. Monitoring. Data will be provided to the Fund on a daily basis with a lag of no more than 2 days.

40. Adjustor for FX sales and purchases. In line with the monetary framework, any FX sales or purchases (from the market or the treasury) when the peso is outside the non-intervention zone will be unsterilized. Thus, the MB target will be adjusted downward (upward) by the FX sales (purchases), relative to the original targets, taking into account the date of the sales (purchases).

41. 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.

<u>Ceiling on Central Bank Credit to the Government</u>

42. 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.

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

44. 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

<u>Cumulative Floor on Primary Balance of the General Government</u>

45. 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).

46. 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*.

47. 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) will be adjusted downward by an amount equivalent to the amount that expenditures, measured on a cash basis, exceed the programmed values defined in Table 2 in the following programs:

- *Asignación Universal para Protección Social*, under the jurisdiction of the Social Security Administration (ANSES, program 19, subprogram 03).
- *Hacemos Futuro*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 38, activity 40, *Hacemos Futuro Juntas*, and 41, *Hacemos Futuro*).

- *Proyectos Productivos Comunitarios*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 50).
- *Políticas Alimentarias*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Social Development (Program 26).
- *Prevención y Control de Enfermedades Inmunoprevenibles*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Health (Program 20).
- *Cobertura Universal de Salud, Medicamentos*, under the jurisdiction of the Ministry of Health and Social Development, Secretary of Health (Program 29).
- *Hogares con Garrafas,* under the jurisdiction of the Ministry of the Treasury, secretary of Energy (Program 73, Subprogram 02, activity 40)

The value of the adjustor for will be capped at 59,400 million pesos. The value of the adjustor will be capped at the equivalent of 0.3 percent of GDP in each successive calendar year.

48. 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 38,000 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.

49. 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

50. 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

OTHER INFORMATION REQUIREMENTS

51. 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.

- Individual banks' reserve positions at the BCRA.

- The BCRA's outstanding stock of non-deliverable forwards (long and short positions).

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* Nación 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.

INTERNATIONAL MONETARY FUND

ARGENTINA

April 3, 2019

THIRD REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVERS OF APPLICABILITY OF PERFORMANCE CRITERIA, FINANCING ASSURANCES REVIEW, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION

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

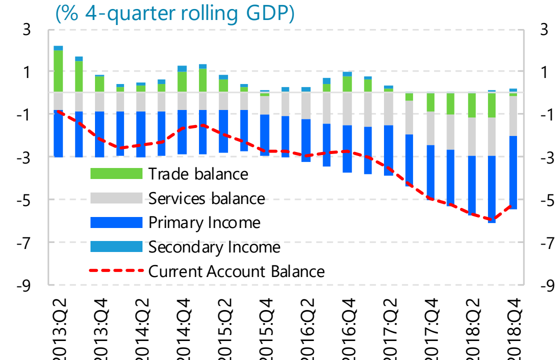
Prepared by the Western Hemisphere Department in consultation with other Departments

This supplement provides additional information that has become available since the Staff Report (EBS/19/17) was circulated to the Executive Board on March 26, 2019. The information does not alter the thrust of the staff appraisal.

1. Economic activity in January was stronger than expected. The monthly proxy GDP increased 0.6 percent (m/m sa) which was above staff's forecast of 0.2 percent. Almost all sectors expanded on a monthly basis, in contrast with the December outcome, with manufacturing and construction rebounding strongly. In y/y terms, the economy contracted by 5.7 percent in January, compared to a 6.6 percent contraction in December.

2. Current account and trade data confirmed the external adjustment is under way. The current account balance posted a US$2.3 billion deficit in 2018Q4, well below the US$7.5 billion deficit in the previous quarter and the US$9.4 billion deficit in 2017Q4. The current account deficit for the whole 2018 closed at 5.2 percent of GDP (slightly below staff's 5.4 percent of GDP forecast). In February, the trade balance recorded another surplus (the sixth in a row), as imports continue to contract (by about 22 percent y/y). In February, private capital outflows were 51 percent lower compared to a month earlier.

Current Account
(% 4-quarter rolling GDP)

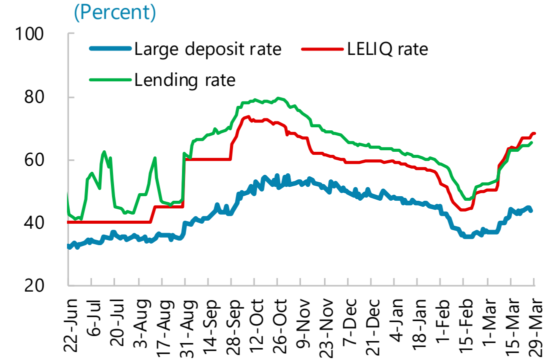


Source: IMF staff calculations and estimates.

3. Poverty increased in the second half of 2018. Despite the authorities' efforts to expand coverage and increase the level of social assistance benefits, the share of the population living in poverty rose to 32 percent (from 27.3 percent in 2018H1). The share of the population living in extreme poverty also rose, to 6.7 percent from 4.9 percent in 2018H1.

4. The BCRA announced a floor on LELIQ rates of 62.5 percent for the month of April. Since the circulation of the Staff Report, LELIQ rates have risen slightly, to around 68 percent. However, the spread between the LELIQ rate and banks' time deposit rate has increased, raising concerns about the monetary policy transmission from short-term rates to interest rates on term deposits. In an effort to increase the pass-through from short term rates to those on term deposits, the central bank decided to provide greater certainty on the prospects for short-term interest rates in the coming month. Specifically, the BCRA has committed to manage its liquidity operations in order to maintain the LELIQ rate above 62.5 percent during April.

Interest Rates
(Percent)



Source: BCRA.

5. NDA, NIR and NDF stock overperformed their quarterly performance criteria for end-March. End-March NIR was US$21.2 billion, US$1.1 billion above the adjusted program target. The NDA outturn was AR$362 billion, AR$58.1 billion above target. The stock of net NDF position decreased by US$3.3 billion relative to end-September level, meeting the target. An updated QPC table is included.

6. The government has submitted the draft BCRA charter to Congress (meeting the structural benchmark under the program). The draft law, inter alia, (i) establishes price stability as the priority mandate of the BCRA, (ii) prohibits any forms of monetary financing of the government by the BCRA, (iii) allows for remuneration of commercial banks' accounts that are held at the BCRA, (iv) strengthens the appointment procedure of the BCRA president and members of the Board, (v) improves the decision-making structure of the central bank by establishing an Oversight Board with an Audit Committee, and (vi) provides the legal basis for establishing IFRS as the accounting standard for the BCRA. The draft law considerably strengthens the BCRA's operational mandate, its decision-making structures, as well as autonomy, transparency and accountability at the central bank.

7. Tax revenues continue to be moderately weaker than projected. In March, tax revenue increased by 37.3 percent (y/y), a 10 percent contraction in real terms. There was a AR$10 billion gap relative to staff projections, mainly reflecting lower revenues from export taxes, although income taxes, property tax, and fuel taxes were also modestly below staff forecasts.

8. On March 26 the Supreme Court ruled in favor of a plaintiff that contested having to pay income taxes on her pension. The court affirmed that levying income tax on the claimant constitutes an unfair tax burden on a vulnerable person and, as such, is unconstitutional (since the constitution protects retirees as a vulnerable group). The ruling has no immediate implications for income tax payments by other pensioners, but the court did ask Congress to pass legislation to extend the same exemption for all pensioners who are in vulnerable conditions. In the event all taxable pensioners were to be exempted, the fiscal cost could be about 0.04 percent of GDP per year and possibly more if extended retroactively.

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

(In billions of Argentine pesos unless otherwise stated)

	2018			2019														
	end-Dec			end-Jan		end-Feb		end-Mar				end-Apr	end-May	end-Jun		end-Jul	end-Aug	end-Sep
	PC	Adjusted	Actual	IT	Actual	IT	Actual	PC	Adjusted	Actual	Status	IT	IT	PC	Proposed Revised PC	IT	IT	Proposed PC
Fiscal targets																		
Performance Criteria																		
1. Primary balance of the federal government (floor) 3/ 9/	-378.0	-404.4	-374.3	n.a.	n.a.	n.a.	n.a.	6.0	n.a.	n.a.		n.a.	n.a.	40.0	20.0	n.a.	n.a.	60.0
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0		0.0	0.0	0.0	0.0	0.0	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	24.4		11.9	n.a.	n.a.	n.a.	n.a.	30.0		n.a.		n.a.	n.a.	40.0	45.0	n.a.	n.a.	53.2
4. Social assistance spending (floor) 3/	173.0		184.9	n.a.	n.a.	n.a.	n.a.	60.0		n.a.		n.a.	n.a.	110.0	132.0	n.a.	n.a.	205.0
Indicative targets																		
5. Primary balance of the general government (floor) 3/ 9/	-378.0	-404.4	-303.2	n.a.	n.a.	n.a.	n.a.	-14.0	n.a.	n.a.		n.a.	n.a.	30.0	10.0	n.a.	n.a.	80.0
Monetary targets																		
Performance Criteria																		
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	7.1	6.5	7.2	4.1	7.4	2.9	8.8	12.5	4.4	5.5	Met	9.0	6.2	5.8	9.0	8.4	8.2	13.1
7. Change in stock of non-deliverable FX forwards (ceiling) 6/ 11/	0.0		-3.6	0.0	-3.6	-0.7	-3.6	-1.0		-3.3	Met	-1.2	-1.5	-1.7	-1.7	-2.0	-2.3	-2.6
8. Change in central bank credit to government (ceiling) 7/	0.0		-432.3	0.0	0.0	0.0	0.0	0.0		0.0	Met	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	Met	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/	-46.2	-10.6	24.5	-112.1	-157.5	-36.0	-177.5	-185.6	-154.5	-212.6	Met	-	-	-101.5	-	-	-	-
11. Change in monthly average monetary base (ceiling) 12/	-	-	-	-	-	-	-	-	-	-		0.0	0.0	0.0	0.0	0.0	0.0	0.0

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$ 574 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 is a quarterly performance criterion with monthly indicative targets.
12/ The change is measured against the average value for February 2019, which was AR$1,343 billion.