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ARGENTINA

July 2019

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

In the context of the Fourth 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 July 12, 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 July 3, 2019.
- 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*
Supplement to the Letter of Intent*
*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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July 12, 2019

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Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under Argentina's Stand-By Arrangement, Approves US$5.4 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the fourth 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 SDR 3.9 billion (about US$5.4 billion), bringing total disbursements since June 2018 to SDR 31.91371 (about US$44.1 billion).

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

"The Argentine authorities continue to show a strong commitment to their economic policy program, meeting all the applicable targets under the Fund-supported program. While it has taken time, these policy efforts are starting to bear fruit. Financial markets have stabilized, the fiscal and external positions are improving, and the economy is beginning a gradual recovery from last year's recession. The Fund is strongly supportive of these important policy efforts.

"Although inflation is still high, it is now on a downward path that is expected to continue in the coming months. The BCRA's prudent management of monetary policy remains an essential anchor for both the exchange rate and the disinflation process.

"The Argentine government has consistently demonstrated its commitment to fiscal discipline and has well-exceeded its fiscal targets for March and June. The authorities have asked the IMF to support raising the end-September primary balance target as a signal of their priority of ensuring that Argentina's debt-to-GDP ratio is placed decisively on a downward path.

"The government was able to meet its fiscal targets while also protecting social programs and using fiscal tools to shield the most vulnerable from the effects of the recession. The authorities have also requested the IMF to support an expansion of the social spending floor to incorporate assistance programs targeted at adults without children and low-income working mothers. These commendable efforts will both expand coverage of the social safety net and help improve gender equity.

“The authorities’ efforts to increase rollover rates on public debt and to lengthen the maturity of new debt issuance should help mitigate financing risks in the period ahead. Ongoing efforts to improve the functioning of local sovereign debt markets will help improve market liquidity and lower financing costs.

“Steadfast implementation of the policies underlying the IMF-supported program will be critical for continued progress. As macroeconomic stability becomes more entrenched, policy efforts will need to focus more on reinvigorating plans for structural reforms. The recent MERCOSUR-EU trade agreement is an important step in that direction. Further efforts are needed to redesign the tax system; increase competition in domestic product markets; and deepen efforts to strengthen governance and confront corruption. Such reforms have significant potential to raise Argentina’s growth potential, create jobs, reduce poverty, and improve the standard of living for all Argentineans.”

ARGENTINA

July 3, 2019

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

Context. Financial markets stabilized in May and June after a period of turmoil in late April prompted by political uncertainties and a significant increase in inflation and inflation expectations. High interest rates, seasonal dollar inflows from the agricultural sector, greater clarity on the candidates in the October election, and the BCRA's announcement that it may intervene to support the peso in the event of disorderly market conditions have helped better anchor the exchange rate. Modest exchange rate appreciation and continued fiscal and monetary policy restraint have supported a decline in monthly inflation in April and May. In addition, the fiscal position has been helped by higher-than-expected inflation (boosting nominal tax revenues) and a cautious approach to spending. Economic activity weakened further in Q1, but the recession is likely to have ended, with sequential growth expected to be positive in the coming quarters. Sovereign spreads remain high and, while rollover rates for federal government liabilities have been in line with program assumptions, average debt maturities have shortened, increasing gross financing needs in the months leading up to the election.

Program performance. End-June performance criteria for net international reserves, base money, and non-deliverable forwards have been met. Fiscal performance criteria for end-March were met and are on track to be complied with in June (although waivers of applicability are being requested due to data unavailability). All other end-March program performance criteria were met. The government also implemented the end-June structural benchmark on designing a compliance improvement plan and risk mitigation strategies for the tax administration.

Focus of review. With very high inflation and an increase in gross financing needs in the coming months, discussions centered on how best to mitigate risks to the program, bolster market confidence, and calibrate monetary policy to continue bringing down inflation. The authorities have revamped their debt management strategy to support higher rollovers and an extension of average maturity of new issuance to the degree permitted by market conditions. The authorities have maintained a cautious approach to expenditure authorization in order to safeguard their program's fiscal targets. The central bank has recalibrated the parameters of the monetary program to accommodate an increased seasonal demand for currency in July but to quickly unwind that seasonal adjustment in the subsequent months in order to maintain interest rates at a level sufficient to steadily lower month-on-month inflation rates. Finally, the authorities have taken steps to strengthen social outcomes by improving the coverage of social assistance programs for adults without children, and by providing more resources to support gender equity.

Risks ahead. Risks to the program are elevated, with the most challenging election period still ahead. The potential risks to the program were clearly demonstrated in the market volatility that occurred in April. Gross financing needs are high and a wavering in market confidence can quickly translate into higher sovereign spreads, difficulty meeting fiscal financing needs, a shift in investor preferences away from peso assets, and pressures on the exchange rate (which directly feed back into the debt dynamics given the large share of the debt in foreign currency). In the coming months, these risks may potentially be exacerbated by market reactions to the political uncertainties associated with the upcoming elections, notwithstanding publicly announced support for the broad objectives of the program by the main opposition presidential candidates. Furthermore, the shortening of maturities over the past few months have added to the financing needs in the months immediately before the elections. It will, therefore, be important to take every opportunity to extend debt maturities, raise debt rollover rates, and build cash buffers to lessen these risks. More broadly, a continued steadfast commitment to the government's policy plan as well as clear communication remain the best strategy to maintain both market confidence and societal support for the program as the election approaches.

Approved By
Nigel Chalk (WHD) and Martin Mühleisen (SPR)

A mission team visited Buenos Aires from May 11-22, 2019. The team consists of R. Cardarelli (head), C. Jones, D. Plotnikov, M. Shamloo, J. Wong, J Yepez (all WHD), F. Amui, T. Alleyne (both resident representative office), M. Candia (COM), V. Crispolti, R. Monteiro (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 (Executive Director) participated in most meetings.

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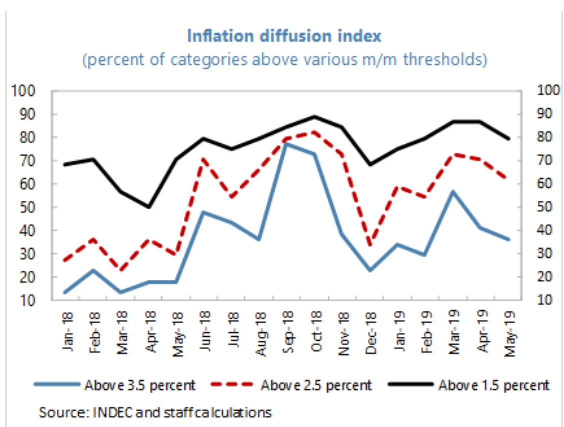
RECENT DEVELOPMENTS

1. **After a sell-off of Argentine assets in April, financial markets improved in May and June, albeit with higher sovereign spreads than at the time of the third review.** Higher-than-expected March inflation and increased political uncertainty led to a sharp sell-off in Argentine assets in the last week of April. Sovereign spreads rose to more than 1000bps and the 1-year CDS peaked at 1850 bps. However, the sale of dollars from commodity exporters, changes to the monetary policy and FX intervention framework, and a shifting assessment of election-related risks contributed to calmer market sentiment in May and June. Since the peak of the sell-off in April, the peso has appreciated by around 8 percent against the U.S. dollar, the stock market has rebounded, sovereign spreads fell (but remain high, with the EMBIG now around 850 bps), and the state-owned oil and gas company successfully issued a 10-year global bond. It is notable that the difference between 1-year and 5-year CDS spreads has narrowed significantly, indicating a lower assessment of near-term risks. Private-sector rollover rates have rebounded again in May and June after suffering in April. Argentina's 2021 U.S. dollar bond yield has compressed by 350 basis points since the all-time high reached on June 3. While the market volatility has to a large extent dissipated it has, nonetheless, left a more lasting legacy with the average maturity of public debt having shortened and gross financing needs in the coming months higher than forecast at the time of the third review.

2. **The political coalitions and presidential candidates for the October 2019 general elections were announced in June.** President Macri chose Miguel Pichetto (co-founder of *Alternativa Federal*) as vice-presidential candidate to form the umbrella of *Juntos por el Cambio*. Former president Cristina Fernández de Kirchner announced that she would run in the upcoming elections as a vice presidential candidate to Alberto Fernández, a former chief of staff to President Nestor Kirchner in 2003-2008. Alberto Fernández will lead an electoral list (*Frente de Todos*) that includes Sergio Massa, another co-founder of *Alternativa Federal*. Finally, Roberto Lavagna will run as the candidate for *Consenso Federal 2030*, with Juan Urtubey as his vice president.

3. **Inflation has fallen but remains high.** Inflation peaked at 4.7 percent m/m in March driven by a weaker peso, continued increases in regulated prices, and the recovery in nominal incomes boosting consumer demand. Subsequently, there has been a broad-based fall in inflation to 3.1 percent m/m in May due to a freeze in planned increases in utility tariffs (regulated prices still had a small, but positive contribution of 0.8pp, reflecting mostly an increase in water and gas tariffs), a tight monetary policy stance, and lower volatility in the nominal exchange rate. These factors also contributed to a better anchoring of expectations and a reduction in core inflation from 4.6 percent in March to 3.2 percent in May.). The staff's diffusion index declined since March, suggesting that disinflation might be broadening. Despite declining monthly inflation, the



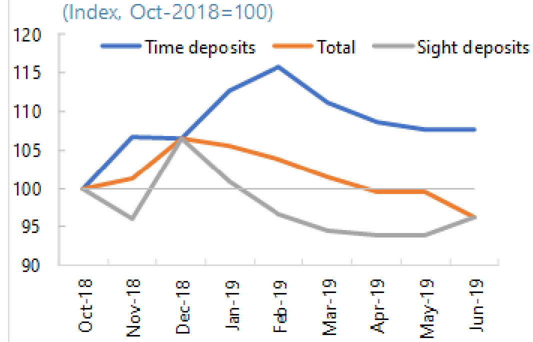
cumulated annual inflation in May reached a new high of 57.3 percent y/y and inflation expectations for end-2019 have risen to 40.3 percent (although 12-month ahead inflation expectations fell in May, for the first time since January).

4. The contraction in economic activity moderated in the first quarter of 2019. Lower household real income (due to higher-than-expected inflation and a deterioration in labor market conditions) has weighed on private consumption. At the same time, uncertainty associated with the economy and the elections, as well as tighter monetary and financial conditions, have taken a toll on investment. On the supply side, a contraction in services was partly offset by growth in agriculture, construction, and manufacturing. Monthly indicators suggest sequential quarter-on-quarter growth is likely to turn positive in the second quarter.

5. Poverty increased in the second half of 2018. Despite the authorities' efforts to expand coverage and increase social assistance benefits, the share of the population living in poverty rose to 32 percent in 2018H2 up from 27 percent in 2018H1. The share of the population living in extreme poverty also rose, to nearly 7 percent from about 5 percent in 2018H1. Due to these increases, according to a study by the Catholic University, nearly 52 percent of children and teens were living in poverty in 2018 (up from 44 percent in 2017) although healthcare coverage for children has improved.

6. Despite still high real interest rates, there has been an erosion in the demand for peso deposits since December. Following the financial turmoil at end-April, LELIQ (7-day) rates peaked in early May (at 74.1 percent). However, as market volatility subsided, short-term rates have fallen (by almost 1200 bps in June) and measures introduced in April to strengthen bank competition[1] have helped increase the pass-through of money market rates to deposit rates (Box 1). Nonetheless, concerns about currency depreciation have led to a real reduction in private sector peso deposits since the beginning of the year. Dollar deposit growth, however, remains stable.

Peso private sector deposits in real terms
(Index, Oct-2018=100)



Sources: BCRA and IMF staff estimations.

7. Bank credit to the private sector continues to shrink. The stock of credit to the private sector contracted in April by over 30 percent in real terms relative to a year ago, with a 40 percent real reduction in loans to corporations which contributed to the slump in investment and growth. Credit quality, particularly for revolving credit to households, is worsening with nonperforming loans at 4.2 percent at end April. Bank profitability remains healthy for the sector as a whole (ROE of

[1] On April 5th, the BCRA announced the launch of a product allowing depositors to make time deposits at the bank that offers the best interest rate, whether or not they are a client of the bank. Banks needed to adopt the necessary IT changes to implement the product by end April.

39 percent, and ROA of 4 percent), although public banks registered losses in April. Banks remain well capitalized (Tier 1 capital for the sector is 13.9 percent compared to 14.1 percent a year ago).

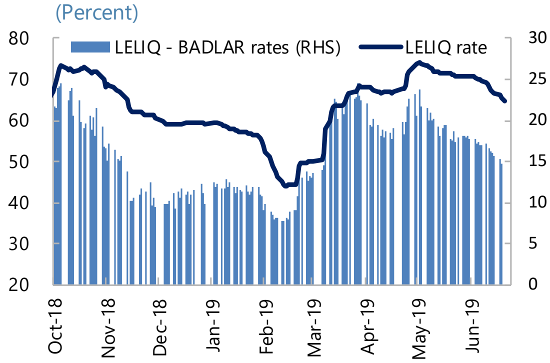
Box 1. The Transmission of Short-Term Interest Rates to Rates on Bank Time Deposits

Banks are assumed to set their 30-day deposit rate as a fixed mark-up over the compounded short-term (7-day LELIQ) rate expected for the coming month, taking into account that they face an average 17 percent unremunerated reserve requirement on deposits.[1] The spread between deposit (r_t^d) and LELIQ rates (r_t^L) can be expressed as:

$$r_t^d - r_t^L = \alpha + \beta(1 - urr)\mathrm{E}_t r_{t+30}^L - r_t^L + e'_t$$

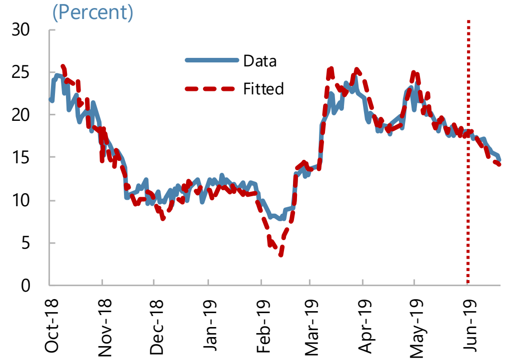
Where *urr* is the average unremunerated reserve requirement and $\mathrm{E}_t r_{t+30}^L$ is the compounded LELIQ rate expected for the following 30 days.

Spread between LELIQ and BADLAR rates
(Percent)



Source: Bloomberg.

Spread between LELIQ and BADLAR rates
(Percent)



Sources: BCRA and IMF staff calculations.

An estimated model (based on data until end-May) — where changes in deposit rates depend on changes in LELIQ expectations (formed in a backward-looking manner), as well as the volatility of LELIQ rates in April — fits well the actual behavior of the spread between time deposit and LELIQ rates. Using that model, out-of-sample forecasts for June indicate that the spread is reacting with the normal lags to the changes in the LELIQ rate. As such, while there are normal lags in the pass-through from short-term rates to time deposit rates (of around 10 days for 50 percent pass through), the current transmission of monetary policy is behaving as it has done since the BCRA shifted to a base money targeting framework.

Furthermore, the empirical analysis indicates that recent measures introduced to improve competition among banks have led to an increase in deposit rates by about 3.4 percentage points (based on introducing a dummy in the estimated model for the period after the competition measures were introduced).

[1] Time deposits are also subject to a 5 percent reserve requirement that can be met by holding BOTES and a further 13 percent met by holding LELIQs.

8. **The BCRA distributed a dividend of AR$77 billion to the Treasury in May (largely from realized gains from FX sales in 2018)**. This dividend continues to be held in Treasury FX deposits at the central bank and so did not have an impact on monetary conditions or FX reserves. On June 21st, the Treasury sold US$400 million to the BCRA in a cash management operation to meet peso fiscal needs (which the BCRA fully sterilized). In April, Treasury began daily FX sales of

US$60 million, to convert IMF financial support into pesos in line with its projected peso needs for the next few months.

9. The BCRA has responded to higher inflation and market volatility by adapting its FX intervention strategy. On April 16th the BCRA reduced the monthly rate of change of the reference zone from 1.75 to zero percent and committed not to buy FX in the event the currency appreciates, undertaking unsterilized FX sales only if the currency depreciates above AR$51.5 per US$. The increased prospects for a stronger peso would, in turn, support the central bank's disinflation efforts. The BCRA also introduced a floor of 62.5 percent on LELIQ rates which was maintained in May and June. Finally, on April 29th the BCRA indicated a willingness to sell FX in the event of disorderly market conditions such that:

- *If the* exchange r*ate is below AR$51.5 per US$* the BCRA would be prepared to sell dollars in an amount and manner that would depend on market dynamics.

- *If the exchange rate is above AR$51.5 per US$:* the BCRA would be prepared to sell up to US$250 million (an increase from the previously announced US$150 daily limit) and may undertake additional interventions to counteract episodes of excessive volatility.

All FX sales would be unsterilized which would lead to a reduction in the monetary base, further tightening the monetary stance. After that announcement, the peso appreciated by 3.5 percent, was broadly stable in May, and appreciated 5½ percent in June (despite forward interventions by the BCRA to moderate the pace of appreciation), also thanks to high interest rates, the seasonal dollar inflows from the agricultural sector, and greater clarity on the candidates in the October election.

10. In late June and early July, the BCRA also introduced changes to its reserve requirement regime. The changes aimed at helping liquidity planning by the banks, and at accommodating for the seasonal increase in the demand for currency in circulation:

- The reserve requirements for each month will be based on the average level of deposit of the previous month.

- The reserve requirement in July-August and December-January will be computed based on the average of deposits of the previous two months to offset the seasonality experienced in those months.

- Banks will exclude from the calculation of their reserve requirement the deposits that are held to pay retailers for purchases made with credit and debit cards (to incentivize payment by credit and debit cards).

- To accommodate the seasonal increase in demand for currency in circulation (CiC) in July, the unremunerated reserve requirements (URR) on time deposits was reduced by 3 percent on July 1. The base money targets in August-October will be lowered to unwind this temporary seasonal effect, so that the target in October will be the current one less the estimated injection of liquidity from the lower URR in July (about AR$45 billion). To avoid that this change will result in looser monetary conditions, the authorities have announced that they will maintain a floor on the LELIQ rate of 58 percent until end-July (which should allow the real ex-ante interest rate to remain at levels close to its end-June level).

11. During March-May, the authorities' introduced a series of policies to support the economy:

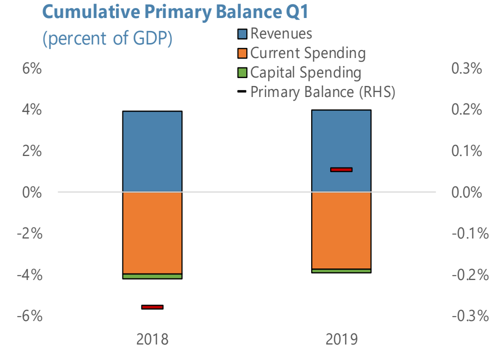
- *Freezing utility tariffs for the rest of 2019*. Scheduled increases in electricity tariffs in May and August were canceled and the government committed to no further gas tariff increases in 2019.
- *Measures to contain price increases for basic products for the vulnerable*. The *precios cuidados* program (a voluntary agreement between the government and producers/retailers) was expanded to cover 60 basic foods items (prices for those goods will remain unchanged from April-October, in addition to the existing agreements that covered 580 products). Discounts were agreed with meat wholesalers on certain cuts of beef. Providers of pre-paid cell phone plans agreed to freeze their rates until September.
- *Discounts and subsidized loans.* Pensioners and beneficiaries of social transfers were offered by retailers discounts on groceries, clothing, home appliances and certain other purchases. Households receiving the universal child allowance will be eligible for discounts on certain medicines. In addition, the government will expand a subsidized loan program for buying a first home and pensioners and recipients of the universal child allowance will be eligible for low-cost loans (that are repaid out of future pensions and allowances). Lastly, the government announced subsidies to the purchase of cars.
- *Measures to support SMEs* include more favorable payment plans for tax debt, regulatory improvements for banking services, and the elimination of export taxes for companies that are exporting more in 2019 than in 2018 (and which export less than US$50 million per year).
- *Interest-free payment plans for consumer goods.* The interest rates on payment plans (ranging from 3 to 18 months) for purchases of many durable goods has been reduced to zero. The cost of this measure (the *Ahora 12* program) will be absorbed by banks and retailers, with banks reducing interest rates from 40 to 20 percent and participating retailers absorbing the remaining cost.

To cover the cost of these measures, the authorities have (i) re-instated the imposition of the double VAT rate for imports (that is fully creditable against sales) and (ii) increased the "statistical" tax on imports (from an effective rate of 0.14 percent to 2.3 percent) while also removing several exemptions, including for imports from MERCOSUR countries. Moreover, the authorities have intensified their efforts to improve revenue collections.

12. On June 28, Mercosur reached a free-trade agreement with the EU establishing a framework to negotiate tariff and non-tariff barriers for specific products. The agricultural sector (63 percent of Argentina exports to the EU) will be the main beneficiary of the agreement in Argentina. The EU has offered a full and immediate liberalization for 80 percent of Argentina industrial exports to the EU (primarily those produced by small and medium enterprises). The agreement also simplifies and eliminates several import compliance regulations, thereby reducing non-tariff barriers for Argentina exporters. In return, Mercosur agreed to gradually remove tariff barriers for EU exports (for the EU priorities are industrial exports, especially cars, and wine and cheese) over the next 10-15 years. The EU also aims to compete in public tenders and increased market access, potentially incentivizing FDI into Argentina.

13. **The primary federal fiscal balance remained in surplus up to May.** The primary federal balance from January-May totaled 0.2 percent of GDP, compared to -0.3 percent of GDP during the same period in 2018. Tax revenues have been partly boosted by higher-than-projected inflation and export tax receipts recovered somewhat in May. Primary expenditures fell by 0.7 percent of GDP when compared to the first five months of 2018, driven by broad-based reductions across all expenditure categories (except for energy subsidies).

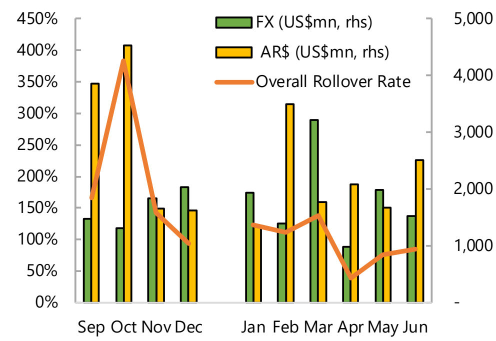
Cumulative Primary Balance Q1
(percent of GDP)



Sources: IMF staff calculations and estimates.

14. **On average, domestic rollovers in Q2 have remained above program forecasts although the average maturity of the federal debt has shortened**. Since the third review, rollover rates for privately-held debt have remained above program assumptions. However, new debt has been issued at short maturities and at higher yields, increasing financing needs for the next several months. To smooth out a US$2 billion AR$ denominated dual-currency bond (DUO) maturing in June, the authorities exchanged US$1 billion of the issuance for new FX-linked bonds (amortizing in August, September, and October, and November) and rolled the remaining into either FX or interest rate linked bonds.

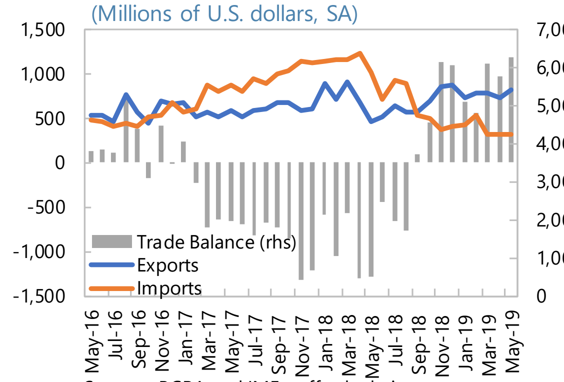
Total Debt Issuances



Sources: BCRA and IMF staff estimates

15. **The trade surplus in the first four months of 2019 was US$4.5 billion (compared to a deficit of the same magnitude in the same period last year).** The shift in the trade balance was driven by falling imports (down 29 percent in the first 5 months of 2019 relative to the same period last year). Exports have responded little to last year's depreciation in the real exchange rate (stronger commodity exports have been offset by lower overseas sales of manufacturing goods). Private sector capital outflows persisted in the first five months of the year but are 30 percent lower than in the same period in 2018. The current

Merchandise trade,
(Millions of U.S. dollars, SA)



Sources: BCRA and IMF staff calculations.

account deficit fell to 3.4 percent of GDP in the 12 months ending in 2019Q1 (from 5.9 percent of GDP in 2018Q3). The real exchange rate appreciated 13 percent between end-September and end-May (for 2018 as a whole the peso is judged to be around 10 percent weaker than the level consistent with medium-term fundamentals and desired policies, in line with the end-2018 EBA assessment (although this estimate is subject to significant uncertainty).

OUTLOOK AND RISKS

16. **The 2019-20 growth forecast has been revised down**. The revision in 2019 (to - 1.3 percent) reflects the weak growth outturn (especially in domestic demand and imports) in the first quarter and downward growth revisions to regional trading partners (Brazil in particular). The recovery of agricultural production and a gradual rebuilding of salaries' real purchasing power after the sharp compression last year should help support a return to positive sequential growth beginning in the second quarter. However, with inflation proving to be more persistent, real interest rates will need to remain higher for longer, again affecting domestic demand and imports and resulting in a downward revision to growth in 2020 (from 2.2 to 1.1 percent). The higher interest rates and lower growth have contributed to raising the medium-term debt levels to exactly 60 percent of GDP by 2024.

17. **Inflation is expected to end the year at around 40 percent (well above the 30.5 percent forecast at the time of the third review) due to rising nominal wages and a significant increase in inflation expectations**. Higher taxes on imports are expected to more-than-offset the inflationary impact of the freeze on utility tariffs and the expansion of the *precios cuidados* program. As a result, the end-year inflation has been revised up from 30.5 percent at the time of the Third Review Nonetheless, continued monetary and fiscal restraint, together with lower exchange rate volatility and a better anchoring of exchange rate expectations, are expected to contribute to a gradual decline in month-on-month inflation going forward. The need to maintain a tighter monetary stance for longer has meant higher interest rates, which, together with authorities' continued efforts at extending maturities, have generated higher interest costs and somewhat increased debt levels.

18. **The program faces significant downside risks.** The main risk remains a protracted shift in portfolio preferences away from Argentine assets as a result of increased uncertainties about the future political landscape. This could manifest as increased dollarization which will trigger depreciation pressures, passing through to inflation and leading to an increase in the debt-GDP ratio and greater loss of FX reserves than projected in the baseline. This is likely to be combined with a reluctance to roll over both peso and FX debt which, given the high rollover rates needed in the baseline, could create a budgetary financing gap and deepen concerns over the liquidity, and possibly solvency, of the sovereign. A shift out of pesos and increased concerns about debt sustainability are likely to feed on each other. It is of concern, then, that the recent shortening of maturities has increased short-term financing needs and exacerbated rollover risks in the run-up to the election. Notwithstanding significant risks from volatility and uncertainty, continued implementation of the debt management strategy as market conditions allow will help mitigate risks

in the election period. Over the medium term, debt sustainability remains highly vulnerable to shocks, particularly negative growth surprises. Beyond these financial risks, it is possible that inflation will remain stuck at very high levels or the expected recovery in activity could be delayed. This would lead to worsening social outcomes, rising poverty, and an erosion in public support for the government's policy program.

PROGRAM IMPLEMENTATION

19. All end-March performance criteria and the end-June performance criteria for which data is available have been met. The end-June money base ended at AR$1,342 billion, AR$1 billion below the target. Net international reserves overperformed the end-June target by US$3.3 billion and non-deliverable forwards was at US$3.6 billion about US$6,6 billion above the target. While information will not be available to assess the end-June fiscal targets at the time of the Executive Board consideration of the Fourth Review, data for April and May and preliminary information indicated that they will all likely be met. All end-March performance criteria were met. Social spending exceeded the floor by AR$12 billion and the primary balance in Q1 was AR$10.3 billion, comfortably meeting the program target of AR$6 billion. The indicative target for the primary balance of the general government was exceeded.

20. The end-June structural benchmark was met. The authorities have developed a tax compliance improvement plan for 2019 based on the tax administration's Strategic Plan for 2019-2023 and Action Plan for 2019. Their priorities include reducing the VAT gap; lowering taxpayer compliance costs; undertaking risk-based tax audits; and reducing the scope for abuse of the simplified tax regime. Detailed compliance improvement programs—including for large taxpayers, high net wealth individuals, and small taxpayers—are being deployed to increase compliance levels and boost revenues.

MAINTAINING FISCAL DISCIPLINE

21. The 2019 primary deficit is expected to be 0.3 percent of GDP, within the program target after the adjustors for social and capital spending are applied. The main changes to the fiscal outlook since the third review include:

- The policy measures announced in the first four months of the year add 0.2 percent of GDP to spending.[2]
- Weaker tax collection in real terms is likely to lower revenues by around 1 percent of GDP. This revision is driven by a broad-based weak real growth in taxes, with the largest downward revisions being in income taxes (0.3 percent of GDP), VAT (0.2 percent of GDP), and in financial

[2] These include bringing forward increases in child allowances, raising the minimum income threshold for payroll taxes, providing interest free payment plans for gas consumption to mitigate the impact of tariff increases (by allowing the consumer to spread the costs from winter to summer months when bills are typically lower).

transaction taxes (0.1 percent of GDP), where the latter two remain affected by weak activity while the former reflects labor market weakness and shifts in to the informal sector.

- The reinstatement of a higher rate of VAT on imports (which is creditable against invoiced sales by those importers) and higher import tariffs boost revenues by around 0.1 percent of GDP in 2019. Clearly an increase in import tariffs is contrary to staff's recommendation to increase openness and remove obstacles to free trade. Furthermore, the higher tariffs are likely to pass directly into inflation. However, the authorities face important constraints in implementing more high-quality fiscal measures since they would require congressional approval in the run-up to national and state-level elections.
- Higher inflation will erode wages and pension spending by around 0.2 and 0.5 percent of GDP, respectively (even after accounting for the 30 percent wage increase that will be phased in from June 2019-June 2020). Although higher inflation has benefitted the fiscal accounts in this again represents a low-quality means to achieve the needed fiscal adjustment and will increase fiscal risks in 2020 (when backward indexation will kick-in and boost expenditure-GDP).
- On balance, the federal government primary deficit target remains subject to risks. The ongoing recession is taking a heavy toll on income and consumption tax receipts, and the recent recovery in export taxes is still tentative. Moreover, the decisions to freeze utility tariffs until end-2019 and provide generous tax incentives to SMEs are creating additional fiscal uncertainties. These risks are alleviated by the existing buffer in capital spending, which can offset unexpected revenue weakness or higher than expected current spending.

22. The authorities continue to expand their funding for certain social programs that support gender equity and shield the vulnerable. These are expected to cost less than 0.1 percent of GDP and will be accommodated within the headroom provided by the social spending adjustor.

- Expanding the *Primera Infancia* program which supports low income and vulnerable families through a network of government-run childcare centers that are designed to care for children aged 0-3 years old and help women with small children return to the labor force. The IDB has been working with the government to improve the quality of services at these centers.
- Increasing spending on unemployment insurance, scholarship programs for students from low-income families, formulation and implementation of public policy programs to support gender equity, and comprehensive support programs for mothers, children, and teens.

In order to ensure that expenditures on these additional programs are protected, the authorities have requested that the definition of the floor and the adjustor on social spending under the program be expanded to incorporate these programs. In the medium term, authorities continue to work with the World Bank on improving data gathering (e.g. household survey and the roll out of a time-use survey). Lastly, congressional approval of legislation to increase paternity leave and legal changes to eliminate tax disincentives for female labor force participation will be key to level the playing field for women.

23. Recent court rulings and newly implemented measures have added to the federal government's fiscal obligations.

- A court ruling found that the province of San Luis should be compensated by the federal government for insufficiently sharing "co-participated" fiscal revenues between 2006 and 2010. A similar ruling is pending for the province of Santa Fe. The combined cost to the federal government from these court decisions is expected to be around 0.3-0.5 percent of GDP but payments are likely be distributed across several years, starting in 2020.
- In March 2019, the Supreme Court ruled that it was unconstitutional for vulnerable retirees to pay income tax. The ruling appears to have no immediate fiscal implication but, if Congress extends this exemption to all retirees, the estimated fiscal cost could be about 0.04 percent of GDP per year.

Federal Government Balance, in percent of GDP

	2018	2019		
	Actual	II Review (IMF)	III Review (IMF)	IV Review (IMF)
Total revenue	**25.3**	**28.1**	**26.4**	**25.5**
Taxes	**17.2**	**19.8**	**18.2**	**17.2**
of which: VAT (net of devolutions)	7.3	7.6	7.4	7.2
of which: Export taxes	0.8	2.5	1.7	1.7
of which: Import taxes	0.7	0.8	0.7	0.7
Social security contributions	**6.2**	**6.3**	**6.0**	**6.1**
Non-tax revenue	**1.9**	**2.0**	**2.2**	**2.2**
Primary spending	**27.9**	**28.1**	**26.4**	**25.9**
Federal	**19.4**	**19.4**	**18.0**	**18.2**
Wages	3.4	3.6	3.3	3.2
Goods and services	1.0	0.8	0.8	0.8
Pensions	8.9	9.6	9.2	8.8
Social spending under the program 1/	1.3	1.3	1.4	1.4
Other social assistance 1/	1.3	1.3	0.9	1.0
Subsidies	1.9	1.5	1.4	1.6
Capital	1.3	0.9	0.8	1.2
Other	0.4	0.3	0.2	0.1
Transfers to provinces	**8.5**	**8.8**	**8.4**	**7.7**
Automatic	7.4	8.1	7.8	7.2
Discretionary	1.1	0.7	0.6	0.5
Primary Balance	**-2.6**	**0.0**	**0.0**	**-0.3**
Memorandum item:				
GDP, in billion of pesos	14,567	18,532	20,175	21,226

Sources: Ministerio de Finanzas and IMF staff calculations.

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

- Moreover, the significant tax exemptions for the software, biotechnology, and other sectors recently passed by Congress create important risks to the medium-term fiscal objectives which will require careful examination.

24. The plan to expand Public-Private Partnerships (PPPs) has the potential to add to the Federal government's contingent liabilities. There is a need to strengthen the governance surrounding PPP projects—which largely takes place through trust funds and off-budget operations—and improve the analysis and management of the fiscal risks associated with such projects.

MONETARY AND EXCHANGE RATE POLICIES

25. The monetary policy framework introduced last October has led short-term interest rates to respond flexibly to changing demand for peso assets. If there is a shift in portfolio preferences away from the peso that leads to disorderly movements in the currency, the BCRA would respond with sales of FX which would lead to a contraction of the money supply, raise interest rates, and create the conditions for the system to self-equilibrate. Similarly, if there is an increase in demand for the peso, the central bank would be able to purchase up to US$150 million per day in FX (if needed) and expand the money supply to meet this shift toward pesos.[3] Finally, if the peso were to be relatively stable, then sustained implementation of the BCRA's targets on the monetary base will provide a robust nominal anchor, help rebuild central bank credibility, and bring down inflation (countering the considerable backward-looking inertia in the wage and price-setting process in Argentina).

26. The recent changes to the monetary policy framework are expected to improve its operation and address seasonal cash demand without leading to a loosening in the monetary stance. The reduction of URR in July is appropriate to address the seasonal increase for money demand in that month, and the reduction in the monetary base target in August, September and October fully accounts for the reversal of this seasonality. Furthermore, the changes in regulation that link the reserve requirement to the deposits of the previous month are in line with best international practices and will provide certainty about the size of the reserve positions and facilitate banks' liquidity management. These are technical fine-tuning of the framework to prevent undue volatility in short-term interest rates and are not intended to alter the monetary stance. The maintenance of a minimum rate for the LELIQs until end-July that is adjusted in line with inflation expectations will ensure that ex-ante real interest rates will remain close to their currently high levels.

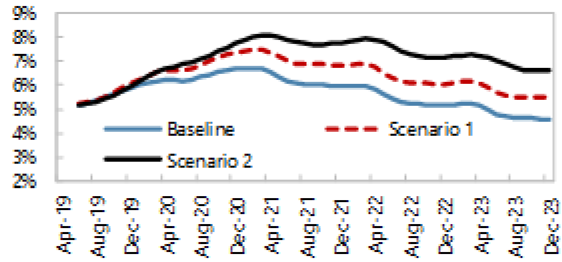
27. The stock of central bank liabilities (LELIQs) has risen above AR$1,000 billion but remains well below its Q1 2018 peak as a share of either GDP or the monetary base. Over the medium-term, the stock of LELIQs is expected to grow broadly in line with nominal GDP, even as real interest rates remain at high levels for a protracted period.

[3] While BCRA's decision in April to forego FX purchases from the market has been extended to July, in future months the BCRA could announce that it would begin purchasing FX again in the event that this was judged to be necessary.

DEBT MANAGEMENT

28. The government is prioritizing toward longer maturities. In April and May, given the steepness in the yield curve and a diminished appetite for duration, the authorities issued mostly shorter maturities (LECAPS at 3 months and LETES at 2 to 3 months) to maximize rollovers and build cash buffers. This, however, has increased the needed rollover rate for rest of the year to ensure the program remains fully financed (to 75 percent, from 65/70 percent in Q3/Q4 at the time of the third review). Going forward, the authorities intend to continue to take advantage of improving market conditions to reverse the shortening of maturities and maintain rollover rates above that assumed in the program's revised baseline. In particular, market conditions permitting, authorities will re-double efforts at placing at least 50 percent of issuances into bonds that mature in 2020 while also targeting the build-up of a cash buffer before the elections. Newly introduced measures (¶29) will help support these efforts.

LELIQs as a share of GDP



Sources: BCRA and IMF staff calculations. Scenario 1 assumes interest rates higher than 10 and 5 percentage points in 2019 and 2020, respectively. Scenario 2 assumes higher interest rates of 15, 10, and 5 percentage points in 2019, 2020, and 2021, respectively.

29. The authorities continue to make efforts at improving their debt issuance strategy. To encourage a reallocation of demand towards longer-date securities, authorities changed the allotment strategy on June 25, by allocating new issuances first to longer-term securities and meeting the demand for shorter-maturity bonds only in the event of a shortfall in demand for longer duration bonds. At the same time, the authorities have also placed longer term debt at higher interest rates (with the spread between 3 and 6-month FX debt rising by 70 bps) over the past two weeks. To improve secondary market liquidity in domestic markets, the government has rolled out a market-maker program which should help bolster demand for domestic law instruments, particularly from mutual funds. In a similar vein, the Treasury is expected to institute a new securities-lending facility to support market functioning, allow market makers to better discharge their responsibilities, and support secondary market liquidity. Staff will continue engaging with authorities on possible opportunities, including from mini-tenders of existing instruments based on reverse inquiries from investors and refinancing mechanisms to smooth out spikes in coupons or amortizations (as was done with the DUO in May).

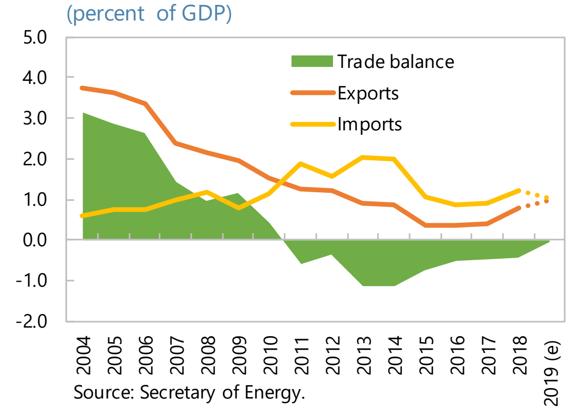
BOOSTING GROWTH

30. Reducing trade restrictions will be key for reigniting growth. The recent trade agreement between Mercosur and the European Union and modifications to the free trade agreement with Chile (which incorporates new guidelines and procedures for investment as well as measures to facilitate trade in services, telecommunications and e-commerce) are important steps forward. Although Mercosur membership limits Argentina's capacity to unilaterally lower tariffs (which are high by international standards) there is significant scope to continue lowering a range of non-tariff barriers. For instance, despite important reductions in the use of non-automatic import licenses (such as intermediate goods in the automotive and agricultural sectors), there is still room for improvement in this area. The authorities continue to examine improvements to Mercosur´s common external tariff and are also working within Mercosur to negotiate free-trade agreements with Canada and the European Free Trade Association. There is also scope to unilaterally reduce tariffs on goods that are not subject to the common external tariffs. Finally, more can be done to eliminate FDI restrictions.

31. A holistic reform of the tax system is needed to reduce distortions and improve efficiency. The 2017 tax reform and the 2018 Fiscal Pact brought about a welcome reduction in the tax burden on enterprises, provided relief to low-income workers, and lessened provincial-level turnover taxes. However, several distortionary taxes remain in place (e.g., notably the financial transaction tax and reliance on export taxes) and the combined taxation of labor income remains high by international comparison. A comprehensive overhaul of the tax system is urgently needed to phase out distortionary taxes, broaden coverage of the personal income tax, scale back VAT exemptions and reduced rates, and increase revenues from consumption taxes.

32. The energy sector holds untapped potential to boost GDP growth, create jobs, and strengthen the trade balance. After a substantial decline of production between 2003 and 2018, conventional oil and gas is now growing rapidly. In 2018, unconventional (shale) production of both oil and natural gas increased by 48 percent from the previous year and now constitute 17 percent and 40 percent of total production, respectively. Renewables share in electricity production has increased markedly and is expected to account for 12 percent of total consumption by year-end. The combined effect has increased the energy trade balance from a sizable deficit to close to balance. The government has also instituted an electronic auction system to increase transparency and competition in the market for natural gas. Further improvements in the regulatory and legal framework for energy investments, ensuring that tariffs fully reflect international energy prices, would boost investments in upstream and downstream infrastructure. This would help ensure the Argentine energy sector becomes an important contributor to growth and job creation in the coming years.

Energy trade balance
(percent of GDP)



Source: Secretary of Energy.

TACKLING CORRUPTION

33. The government has been making important advances to improve governance and transparency.

- An executive order launched and approved the 2019-2023 National Anti-Corruption Plan in April 2019. The plan focuses on prioritizing institutional strengthening, modernization of the state, including improving transparency, integrity, and investigations/sanctions. An advisory committee composed of civil society, private sector, and other experts, will be established in the coming months to monitor the implementation of the Plan.
- The authorities also submitted to Congress the amendments to the Ethics in Public Service Law which grants the Office of Anti-corruption the necessary authority, powers, roles, responsibilities, and sanctions to more effectively fight corruption and further engage in anti-corruption activities with other competent authorities.
- In April 2019, the Minister of Justice approved the implementation of the e-declaration system, on a trial basis. Full implementation will further enhance transparency and support the existing AML/CFT regime and ongoing criminal investigations.
- The authorities have begun implementing and verifying the company registry making information available on-line for all companies that are established and incorporated in Argentina.

34. Legislation is being prepared to strengthen the Anti-Money Laundering Law. By end-September 2019, the authorities will submit to Congress amendments to this law which will include a process for the Financial Intelligence Unit to freeze funds and other assets when there are suspicions of money laundering, terrorism financing, or evidence that such funds or assets are linked to corruption or other crimes.

PROGRAM ISSUES

35. The program remains fully financed and Argentina's capacity to repay remains adequate, albeit subject to heightened risks. Financing assumptions have been revised to take into account the shortening of maturities but, at a higher average rollover rate, the program remains fully financed. The Fund's exposure in terms of debt service metrics remain at the higher end compared to other exceptional access cases, and the frontloaded disbursement schedule implies a considerable bunching of Argentina's repurchase obligations to the Fund. Indicators of Fund credit have also deteriorated since the third review, for instance, with Fund debt service peaking at nearly 25 percent of exports (versus 23.7 percent before). Outstanding credit to the Fund as percent of GDP has also increased by 2022. Nonetheless, international reserves, which have been boosted by FX purchases, the augmented China swap, and the building of Treasury cash buffers, are projected to remain adequate throughout the program and the repayment period. Financing from other multilateral sources has also been disbursing broadly in line with original program assumptions.

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.

36. Elevated public debt and financing needs, and high sensitivity to market movements, pose debt sustainability risks for Argentina. Public debt stood at 87 percent of GDP at end-2018, following a large upward revision at the third review, and 2019 gross financing needs exceed 15 percent of GDP. These metrics, combined with Argentina's large share of foreign currency-denominated debt, relatively low export-to-GDP ratio, and comparably small domestic banking system, imply debt vulnerabilities. In addition, there is political uncertainty ahead of the elections, as demonstrated by the market sell-off in late April which increased sovereign spreads above levels prevailing at the time of the third review. Nonetheless, the peso depreciation and decline in rollover rates have unwound in May and June, demonstrating Argentina's ability to rebound from a temporary erosion in confidence. With continued adherence to the program through the election period and beyond, this normalization in market conditions would be expected to continue. In addition, a large portion of Argentina's debt is held by classes of investors, including domestic financial institutions, retail investors and other public entities, whose rollover rates are expected to remain high. Public debt-to-GDP is expected to decline to 77 percent by end-2020 and is still projected to fall to 60 percent in the medium-term, reflecting the implementation of the programmed fiscal consolidation. This trajectory remains subject to downside risks related to the exchange rate, interest rates, economic growth, and contingent liabilities. Moreover, the higher gross financing needs arising from the recent shortening of maturities pose liquidity risk in the coming months. Notwithstanding these heightened vulnerabilities, Argentina's debt is assessed as sustainable but not with a high probability.

37. Safeguards. The authorities have begun to submit a weekly analysis of the use of IMF budget support and have initiated preparations to assess the recapitalization needs of the BCRA. Congressional passage of the recently-submitted charter for the central bank is expected to occur only after the national elections have concluded. Staff is following up on the implementation of other safeguards recommendations to strengthen the internal audit function and controls on compilation of monetary data.

38. Fiscal Safeguards. Preparations are underway for a plan to transfer the Treasury Single Account from *Banco Nación* (BN) to the BCRA (*an end-September structural benchmark*). The authorities remain committed to concluding the transfer by June 2020.

39. Program conditionality. The authorities request the following modifications to program targets:

- The end-September ceiling for non-deliverable forwards is increased from US$1 to US$3.6 billion.
- The end-September performance criterion for the primary balance of the federal government is increased from AR$60 billion to AR$70 billion.

- The end-September performance criteria for the Base Money target will be lowered to AR$1,311 from AR$1,343 billion to reflect a reversal of the changes in URR in July to accommodate a seasonal increase in currency demand.
- Expanding the definition of the social assistance adjustor to the primary balance and the floor on social spending and increasing the end-September social spending floor to take into account this new definition.
- Introducing an adjustor to the NIR target to incorporate the changes to the BCRA's policy for potential FX sales to counter disorderly market conditions.

New quantitative performance criteria are proposed for end-December.

40. Multiple currency practice. Staff supports the authorities' request that the Executive Board grant temporary approval (i.e. an additional 12 months) of the retention of the multiple currency price auction put in place in June 2018 that staff has assessed gives rise to the multiple currency practice. Approval was initially granted upon approval of the arrangement for a twelve-month period but has since expired. Staff continues to assess that the conditions for approval are met, as the measure is (i) maintained for non-balance of payment reasons; (ii) temporary; (iii) does not harm the interests of other members; and (iv) does not discriminate between Fund members.

41. The authorities continue to make good faith efforts to resolve US$1.2 billion in principal (or US$3.2 billion including accrued interest) in outstanding arrears to external private creditors. The authorities continue to make payments under the agreements executed. Since the third review, authorities have made payment to the Japanese intermediary banks on the holdouts agreement and as a result, there are now no more Japanese claims on Argentina of any type. Authorities continue to work on a potential agreement to eliminate Argentina's official arrears to the French export credit agency (approximately US$30 million in principal) which are related to construction of a gas pipeline by a French company in the late 1970s.

EXCEPTIONAL ACCESS CRITERIA

42. 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.*** Still fragile market confidence implies that Argentina's sizable external financing needs (which are largely driven by the interest and amortization obligations of the federal government) 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.*** With public debt assessed as sustainable, but not with a high probability, exceptional access requires the existence of non-Fund financing that improves debt sustainability and ensures sufficient safeguards for Fund resources. Despite risks to debt sustainability from the high levels of gross (and external) financing needs and large share of FX debt, staff judges that the required safeguards are in place. Argentina maintains access to domestic markets and continues to issue new liabilities to both resident and non-resident investors. A significant share of liabilities is held by classes of investors, including domestic financial institutions, retail investors and other public entities, who are expected to continue investing in Argentine debt even amid stressed conditions. Also, 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.[4]

- ***Criterion 3. Staff judges that the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund***. Argentina continues to maintain access to domestic financial markets, where resident and non-resident investors have continued to participate in peso- and US$-denominated bond placements. Also, in June, the state-owned oil and gas company successfully issued a 10-year global bond. After averaging over 100 percent in Q1, private sector rollover rates fell in April (reflecting market volatility and the non-rollover of the Global 2019 bond) but have since rebounded in May/June. While average yields on Argentina's external bonds remain elevated, the sustained implementation of Argentina's policy program, combined with support from the international community, will help ensure Argentina has full access to private capital markets, on reasonable terms and on a scale that will allow Argentina to meet its obligations to the Fund as they fall due.

- ***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 authorities' implementation of the policy plan supported by the Stand-By Arrangement confirms their commitment to restore fiscal discipline and macroeconomic stability. The central bank has fully implemented the monetary policy framework announced last October which will serve to lower inflation, restore macroeconomic stability, and rebuild the central bank's credibility. Furthermore, the passage of the BCRA charter will help in these efforts. Contacts with key members of the opposition revealed clear support for the objectives of the program including reducing the fiscal deficit, lowering inflation, returning Argentina to robust and sustained growth, and protecting the vulnerable. Nonetheless, candidates were critical of the achievements of the Macri administration and indicated that, if elected, the Fund program would need to continue but that they would want to renegotiate the details of the Stand-By Arrangement to be more consistent with their own policy plans. The opposition candidates showed support for structural reforms to support stronger and more sustainable growth (although there were different views on the details and appropriate sequencing of such reforms).

[4] Of the outstanding stock of the federal government's foreign currency debt held by the private sector (US$117 billion), only about one quarter is expected to mature by June 2021 (the expiry of the SBA).

STAFF APPRAISAL

43. **The authorities continue to steadfastly implement their policy program.** Fiscal targets have been met and the central bank has consistently adhered to its target of zero growth in base money. However, breaking Argentina's considerable inflation inertia will take time and a consistent implementation of the authorities' policy framework. Economic activity is expected to start to show renewed growth in the second quarter of this year but the recovery from the recession is likely to be protracted.

44. **However, risks to the program are high, with the most challenging election period still ahead.** Financial markets have stabilized since April, but Argentina remains exposed to the possibility of bouts of market volatility in the coming months, largely linked to the uncertainty surrounding the upcoming elections. The shortening of maturities over the past few months have added to the financing needs in the months immediately before the elections. A wavering in market confidence can quickly translate into higher sovereign spreads and difficulty meeting fiscal financing needs and could impact debt sustainability. A shift in investor preferences away from peso assets could put pressures on the exchange rate (which directly feed back into the debt dynamics given the large share of the debt in foreign currency) and lead to a greater loss of reserves than projected in staff baseline.

45. **The 2019 fiscal targets appear within reach, though risks remain.** Higher than anticipated inflation and conservative execution of spending have offset a weakening of tax revenue performance. The building of buffers in capital expenditures for the later part of the year further protect fiscal targets against additional revenue underperformance. The authorities' request to raise the September primary balance target demonstrates their strong commitment to fiscal discipline and should help secure fiscal gains going into the last quarter. The freeze in utility tariffs has delayed the authorities' objective to sharply reduce the attendant subsidies, but this delay is expected to be overcome during the remainder of the program.

46. **Recent changes to the FX intervention framework have reassured investors and helped reduce volatility of the peso.** The BCRA's willingness to undertake unsterilized FX sales in the event of disorderly market conditions have contributed to a better anchoring of exchange rate expectations, supporting a lowering of monthly inflation outcomes in the remainder of this year. Continued adherence to the BCRA's monetary policy framework will foster macroeconomic stabilization and a gradual reduction of inflation as well as allow for a self-equilibration of the system in the event of a shift in portfolio preferences either to, or away from, peso-denominated assets.

47. **The authorities should look for opportunities to increase rollover rates and lengthen the average maturity of government debt**. This may involve temporarily incurring a higher cost to place longer maturity government liabilities, but this will provide a significant benefit in reducing gross financing needs in the coming months and avoiding a bunching of maturities and thus reducing financing risks. The authorities' efforts to improve the structure of local sovereign debt

markets, including strengthening the functioning of market makers, will help improve market liquidity and ultimately lessen financing costs.

48. Prioritizing and expanding social programs is an essential component of the authorities' policy plans. The authorities' social protection strategy continues to be aimed at protecting key spending and improving efficiency, while allowing for flexibility to best shield the vulnerable from the effect of the economic downturn. The expansion of the social spending floor to additional programs continues to protect key spending, particularly for programs that support adults without children (who may fall outside the conditional cash transfer perimeter) and low-income working mothers. The adjustment of the floor reflects important efforts to close coverage gaps and improve gender equity. Going forward, the authorities should redouble ongoing efforts with the World Bank and the IDB in areas such as data gathering (including improvements in the household survey and the roll out of time-use survey) and improved childcare provision. In addition, congressional approval of legislation to increase paternity leave and legal changes to eliminate tax disincentives for female labor force participation should remain at the forefront of the legislative agenda.

49. Authorities should continue with their efforts to open Argentina to international trade and should reinvigorate their plans for structural reforms. The authorities' measures to continue improving the supportive environment for SMEs and trade facilitation are important ongoing initiatives. In particular, the MERCOSUR-EU trade agreement should help remove the remaining barriers to trade and obstacles to investment. But the sustained improvement in the living standards for Argentina's population will need a new impetus in other areas, including by putting in place a less distortionary tax system; increasing competition in domestic product markets; strengthening the financial position of the public pension system, and deepening efforts to strengthen governance and confront corruption.

50. 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 Fourth 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. Lastly, staff also supports the authorities' request for the temporary approval, for another twelve months, of the retention of the measure that gives rise to the multiple currency practice.

Figure 1. Recent Market Developments

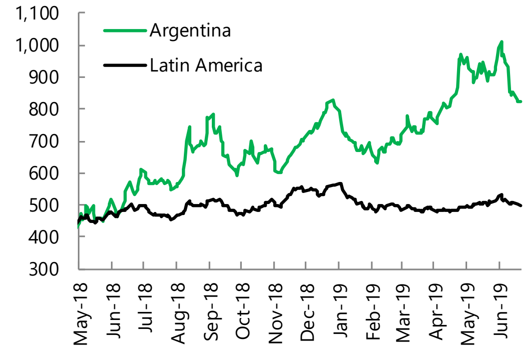
1-year CDS spreads have fallen from the peak in April.

Credit Default Swaps
(Basis points)

Source: Bloomberg.

Sovereign spreads also fell at end June but remain high.

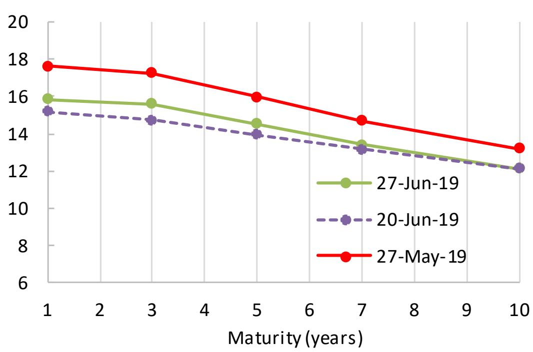
EMBI
(Basis points)



Source: Bloomberg.

FX debt yield curve remains strongly inverted…

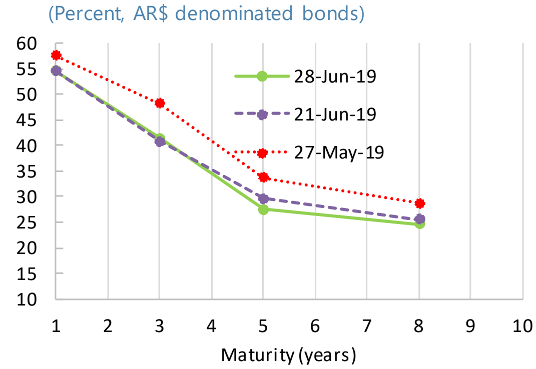
Argentina Sovereign Curve - AR Law
(Percent, US$ denominated bonds)



Source: Bloomberg.

… and the peso yield curve continues to shift downward.

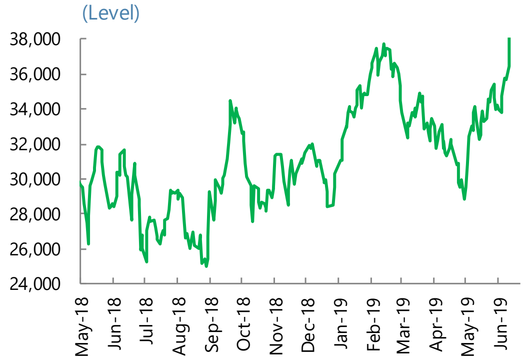
Argentina Sovereign Curve
(Percent, AR$ denominated bonds)



Source: Bloomberg.

The stock market has recovered the losses since February.

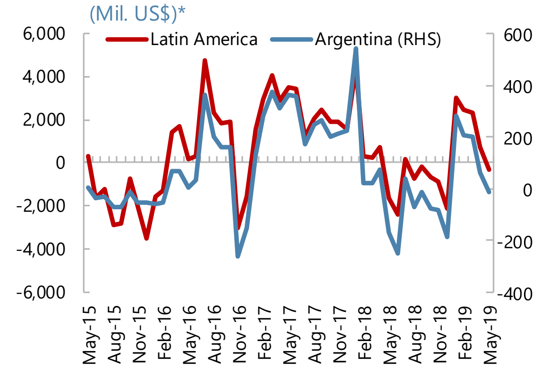
Merval Stock Index
(Level)



Source: Bloomberg.

Portfolio flows fell in May in line with less favorable conditions for the region.

Bond Country Inflows: ETFs/Mutual Funds
(Mil. US$)*

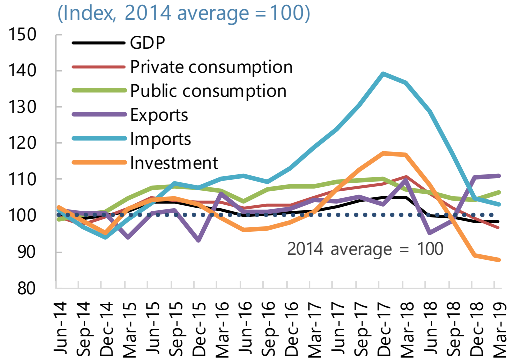


Source: EPFR.

Figure 2. Real Sector

As of 2019Q1, most GDP components are around their 2014 levels.

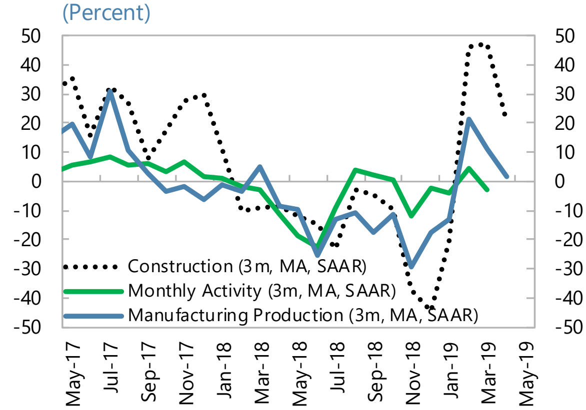
Real GDP components
(Index, 2014 average = 100)



Source: Bloomberg.

Although in 2019Q1 growth is likely to be weaker than expected...

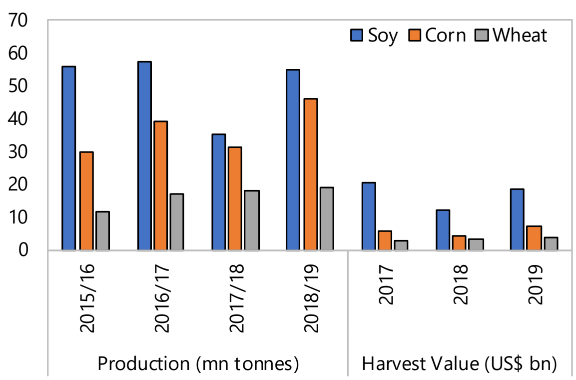
High frequency indicators growth
(Percent)



Source: INDEC

... starting in 2019Q2 economic activity will be supported by a recovery in the agricultural sector.

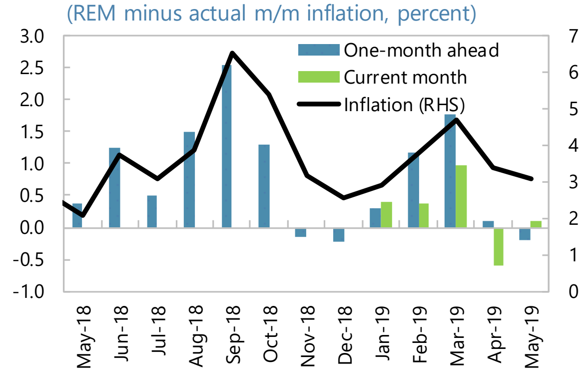
Agro Harvest and Value



Source: Buenos Aires grain exchange.

Inflation, while still high, has receded from the 2019 peak

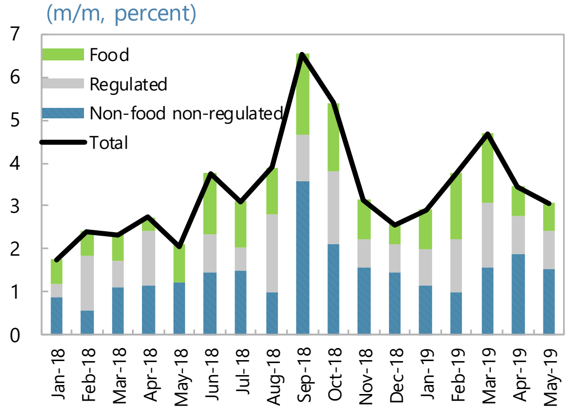
Inflation surprise
(REM minus actual m/m inflation, percent)



Sources: BCRA and IMF staff calculations.

... explained in part by the freeze in utility tariffs...

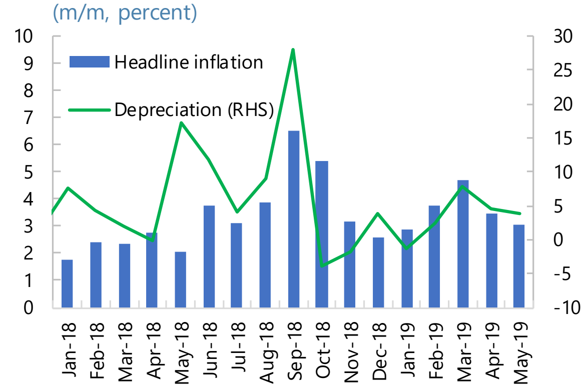
CPI Inflation
(m/m, percent)



Sources: INDEC and IMF staff calculations.

... and lower volatility in the nominal exchange rate.

Headline inflation and Exchange rate
(m/m, percent)

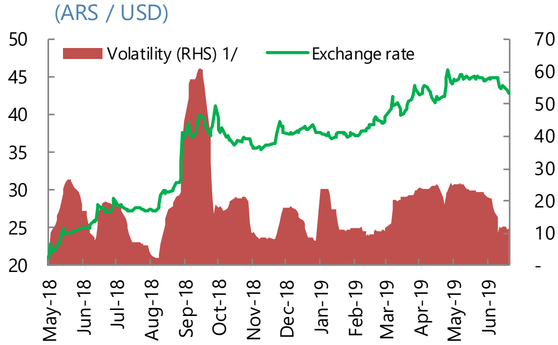


Source: BCRA.

Figure 3. FX and Monetary Developments

Exchange rate volatility fell in June…

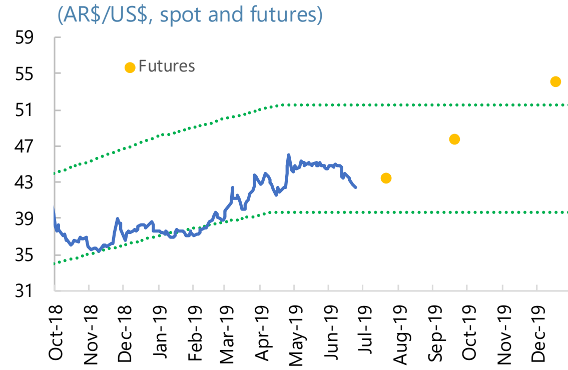
Exchange Rate
(ARS / USD)



Source: Bloomberg. 1/ Annualized volatility of the relative price change for the 30 most recent days.

… but markets have not yet validated the new reference zone…

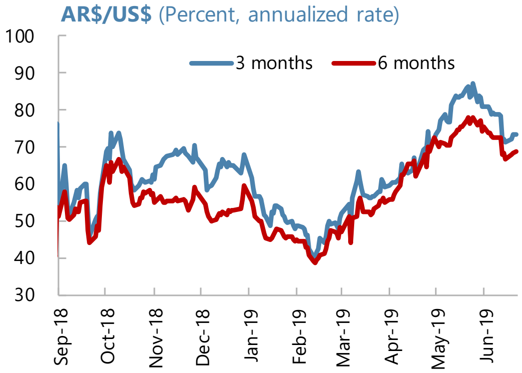
Exchange rate
(AR$/US$, spot and futures)



Source: Bloomberg.

Implicit depreciation from futures declined in June.

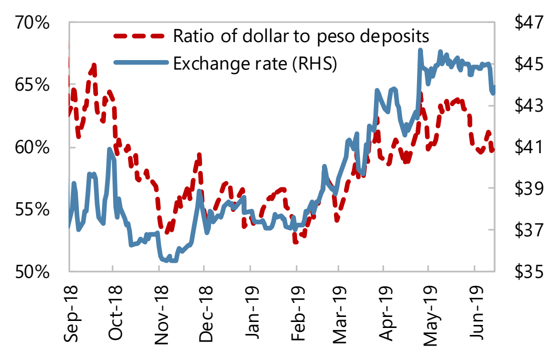
Implicit depreciation from futures on AR$/US$ (Percent, annualized rate)



Source: Bloomberg.

There has been some dollarization pressure on deposits so far in 2019.

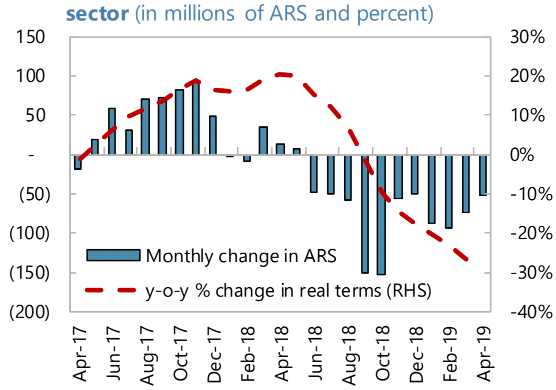
Ratio of Dollar to Peso Deposits



Source: BCRA.

The shrinking of private sector credit has accelerated….

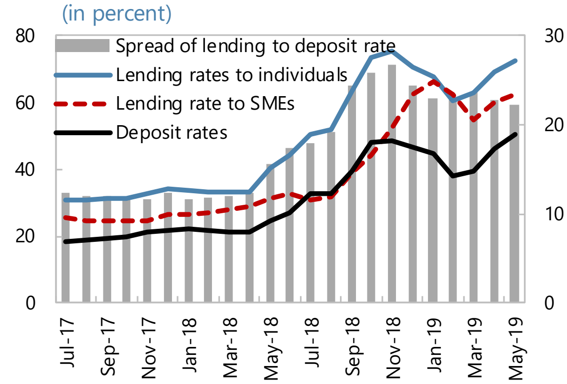
Change in stock of credit to the private sector (in millions of ARS and percent)



Source: BCRA.

… consistent with the rising lending rates.

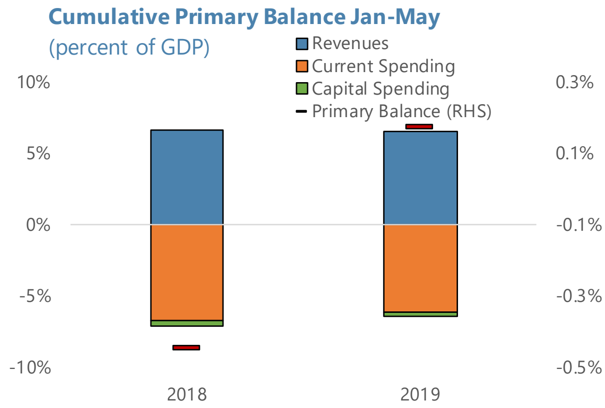
Lending and Deposit Rates
(in percent)



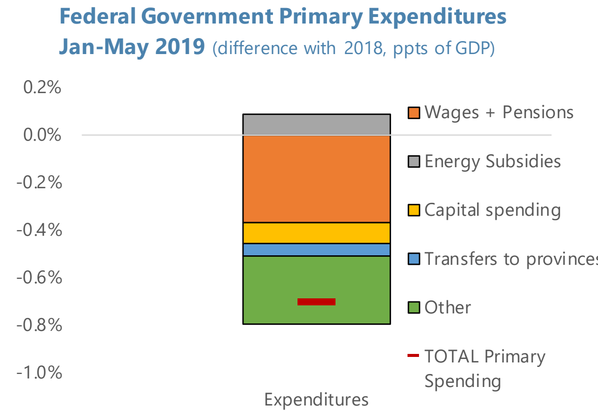
Sources: BCRA and IMF staff calculations.

Figure 4. Fiscal and Financing

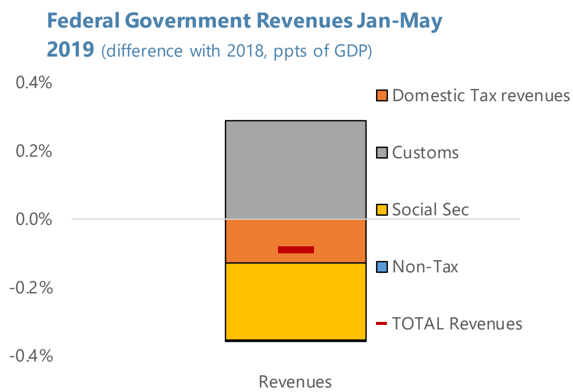
The fiscal accounts have been in surplus for five months…



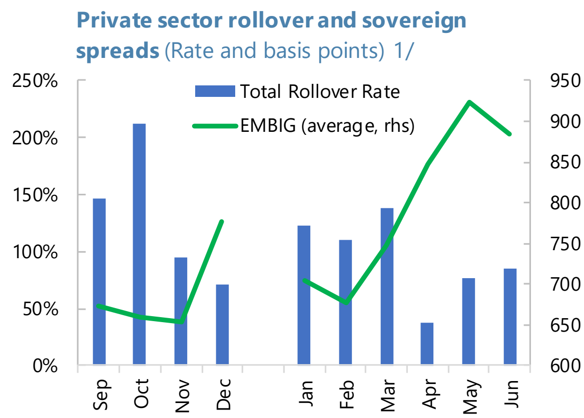
… relying largely on expenditure restraint…



… to compensate for soft revenues.

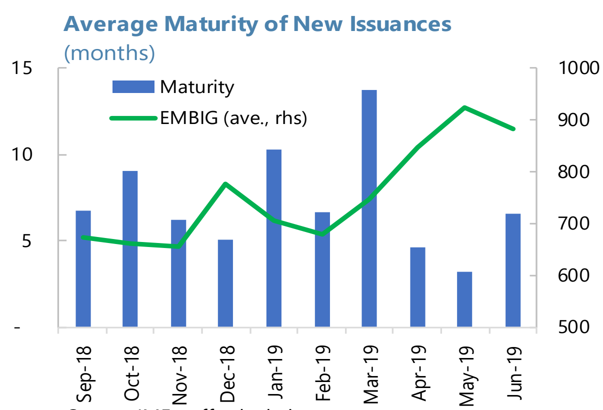


Market volatility in April had a detrimental effect on rollover rates…



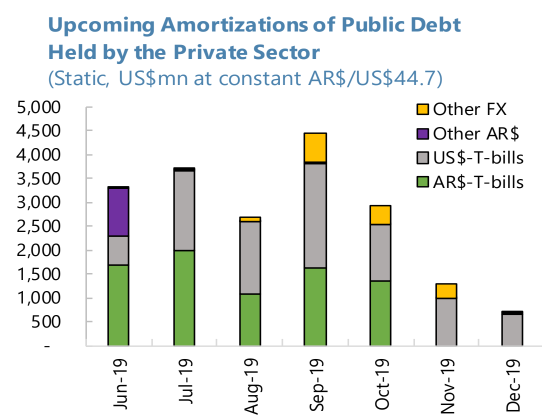
Sources: Bloomberg and IMF staff calculations.

… and led to a shortening of maturities



Source: IMF staff calculations.

Nonetheless, maturities remain relatively manageable in the second half of the year.

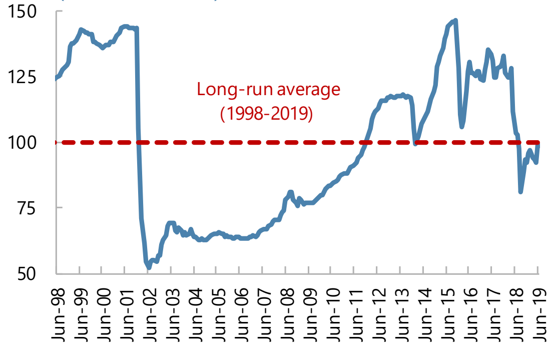


Source: IMF staff calculations as of June 14.

Figure 5. External Sector

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

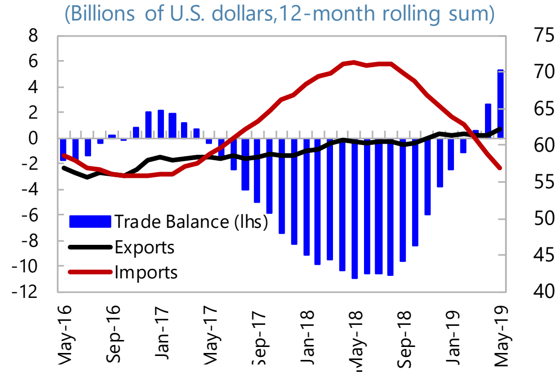
Real effective exchange rate
(CPI based index)



Source: IMF staff calculations and estimates.

The external adjustment continued in May, both for goods…

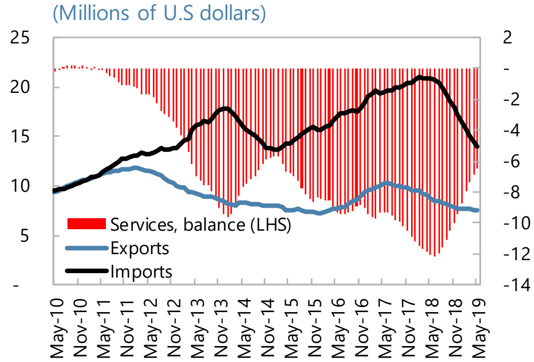
Trade balance
(Billions of U.S. dollars,12-month rolling sum)



Source: IMF staff calculations.

…and services.

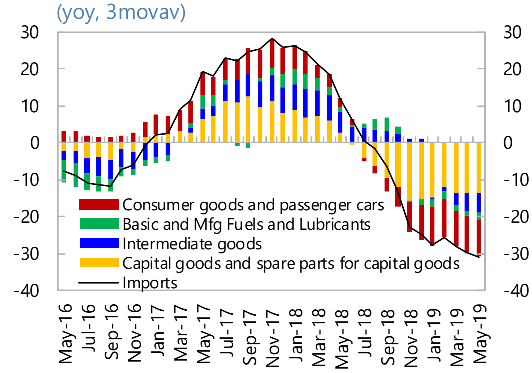
Services, cash basis
(Millions of U.S dollars)



Source: BCRA.

The contraction in imports was largest for capital goods.

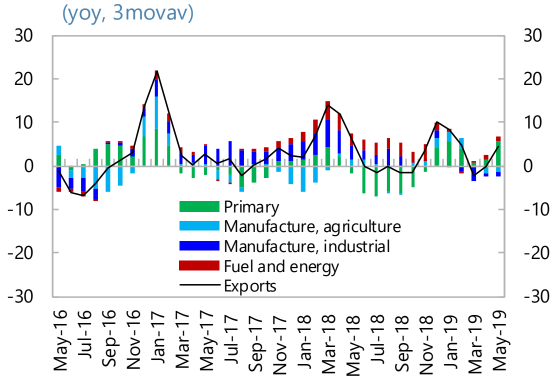
Contribution to import growth
(yoy, 3movav)



Source: IMF staff calculations.

Strong agriculture production boosted exports.

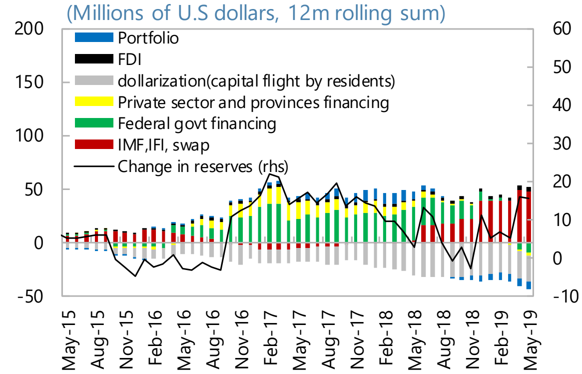
Contribution to export growth
(yoy, 3movav)



Source: IMF staff calculations.

Dollarization picked up during March-May and portfolio investors continued to wind down their peso asset positions

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



Source: BCRA.

Table 1. Argentina: Selected Economic and Financial Indicators

				Est.	*3rd rev*	*3rd rev*	Proj.					
	2015	2016	2017	2018	*2019*	*2020*	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	-2.5	-1.2	2.2	-1.3	1.1	2.6	3.4	3.6	3.6
Domestic demand	4.2	-1.6	6.0	-3.4	-5.1	3.7	-6.8	0.8	3.1	5.9	4.5	4.8
Consumption	4.2	-0.7	3.8	-2.5	-2.9	5.8	-4.4	0.8	2.9	5.6	4.1	4.9
Private	3.7	-0.8	4.0	-2.4	-2.3	6.6	-4.8	1.3	3.5	6.2	4.5	5.5
Public	6.9	-0.5	2.7	-3.3	-6.4	1.7	-2.5	-1.6	-0.6	2.2	1.3	1.1
Investment	3.5	-5.8	12.2	-5.7	-14.5	-6.9	-17.5	0.4	4.5	7.9	7.3	4.9
Exports	-2.8	5.3	1.7	-0.7	9.5	3.5	9.5	2.5	4.5	3.6	6.6	5.3
Imports	4.7	5.8	15.4	-4.7	-8.3	9.3	-14.2	1.0	6.4	13.5	9.3	9.4
Change in inventories and stat. disc. (contribution to growth)	0.2	0.1	0.8	-0.4	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Nominal GDP (billions of Argentine pesos)	5,955	8,228	10,645	14,606	20,175	25,458	21,232	28,841	36,874	43,304	48,497	52,825
Output gap (percent)	0.8	-1.6	-0.2	-4.2	-7.0	-6.7	-7.1	-7.8	-7.3	-6.0	-4.5	-3.0
CPI inflation (eop, y/y percent change)	...	...	24.8	47.6	30.5	21.2	40.2	32.1	19.2	10.1	7.0	5.0
GDP deflator (y/y percent change)	26.5	41.2	25.8	41.3	39.6	23.6	46.8	34.5	24.5	13.6	8.0	5.0
Unemployment rate (percent)	...	8.5	8.4	9.2	9.9	9.9	10.0	10.1	10.0	9.8	9.4	9.1
	(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	70.0	73.4	66.6	69.4	72.9	75.8	81.1	85.9
Imports f.o.b. (goods, billions of U.S. dollars)	57.6	53.5	64.1	62.5	57.2	62.5	53.1	54.1	58.6	64.9	71.5	79.0
Trade balance (goods, billions of U.S. dollars)	-0.8	4.4	-5.5	-0.9	12.7	10.9	13.5	15.2	14.2	10.9	9.6	6.9
Trade balance (goods)	-0.1	0.8	-0.9	-0.2	2.7	2.1	2.9	3.0	2.5	1.8	1.5	1.0
Terms of trade (percent change)	-4.4	6.0	-2.8	1.2	3.2	1.4	0.1	0.3	-0.4	-0.5	-0.5	-0.6
Total external debt	27.9	34.1	37.0	52.2	59.8	55.7	58.7	52.3	49.9	47.1	44.1	44.5
Savings-Investment balance												
Gross domestic investment	15.6	14.3	15.0	14.4	14.3	13.7	14.1	14.1	14.2	14.4	14.6	14.6
Private	11.9	10.9	11.5	10.9	11.2	10.5	10.5	10.4	10.2	10.1	10.4	10.3
Public	3.6	3.4	3.5	3.6	3.1	3.2	3.6	3.7	4.0	4.3	4.2	4.3
Gross national savings	12.8	11.6	10.1	9.2	12.3	11.2	12.3	12.5	12.4	12.4	12.5	12.2
Current account balance	-2.7	-2.7	-4.9	-5.2	-2.0	-2.5	-1.8	-1.6	-1.8	-2.0	-2.1	-2.4
Public sector 1/												
Primary balance (incl. adjustors)	-4.4	-4.8	-4.2	-2.2	0.0	1.1	-0.4	1.4	1.4	1.6	1.7	1.8
of which: Federal government (incl.adjustors)	-3.8	-4.2	-3.8	-2.7	0.0	1.0	-0.3	1.0	1.0	1.0	1.1	1.3
memo: Structural federal primary balance 2/	-4.2	-4.8	-4.0	-1.9	1.0	1.9	0.8	2.1	2.0	1.9	1.8	1.8
Overall balance (incl. adjustors) 3/	-6.0	-6.7	-6.7	-5.2	-2.7	-1.5	-3.5	-2.1	-1.9	-1.8	-1.5	-1.3
of which: Federal government (incl. adjustors)	-5.1	-5.8	-5.9	-5.3	-2.5	-1.4	-3.2	-2.2	-2.2	-2.2	-1.9	-1.7
Revenues	35.4	34.9	34.5	33.7	34.8	35.3	34.1	35.4	35.4	36.1	36.1	36.1
Primary expenditure 4/	39.8	39.6	38.7	35.9	34.8	34.2	34.4	34.0	34.0	34.5	34.4	34.3
Total public debt (federal, % GDP)	52.6	53.1	57.1	86.1	75.9	69.0	76.9	70.1	64.6	62.6	61.3	60.0
Money and credit												
Monetary base (monthly average, y/y percent change)	40.5	26.6	24.7	36.0	6.8	27.2	3.2	14.2	28.3	18.0	13.4	21.8
M2 (percent change)	28.2	30.4	25.8	22.5	-1.8	43.1	-1.9	28.0	38.0	22.5	15.6	24.7
Credit to the private sector (eop, y/y percent change)	35.6	31.0	51.3	36.6	15.8	24.9	7.8	16.8	26.8	19.8	10.8	12.0
Credit to the private sector real (eop, y/y percent change)	...	...	21.2	-7.5	-11.2	3.1	-23.1	-11.6	6.4	8.8	3.6	6.7
Interest rate (eop) 5/	32.2	23.9	28.8	59.3	41.0	30.7	55.8	38.0	19.5	14.0	13.1	13.1
Real interest rate (eop), 12-m ahead y/y inflation 5/	...	...	10.0	23.4	14.2	10.8	17.6	12.1	9.8	8.6	7.8	7.8
Memorandum items												
Gross international reserves (billions of U.S. dollars)	25.6	39.3	55.1	65.8	62.2	68.3	59.7	65.9	72.1	77.6	83.7	90.0
Gross international reserves (percent of ARA)	39.4	73.0	92.0	94.4	97.0	103.2	93.5	101.5	108.7	119.1	130.9	142.1
Change in REER (eop, percent change)	5.3	-3.4	6.9	-30.6	5.8	4.0	6.0	3.7	2.5	1.6	1.1	0.9

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

1/ The primary balance excludes profit transfers from the central bank of Argentina. Interest expenditure is net of property income from the social security fund before 2016.
2/ Percent of potential GDP.
3/ Excludes overall balance of the BCRA.
4/ Includes transfers to municipalities, but excludes municipal spending.
5/ Average of all LEBAC maturities before 2017 and midpoint of the repo corridor starting in 2017; 7-day LELIQ rate from August 2018.

Table 2. Argentina: Summary Balance of Payments

	2015	2016	2017	Est. 2018	*3rd rev 2019*	*3rd rev 2020*	Proj. 2019	2020	2021	2022	2023	2024
						(Billions of U.S. dollars)						
Current account	**-17.6**	**-15.1**	**-31.6**	**-28.0**	**-9.4**	**-12.8**	**-8.4**	**-8.2**	**-10.1**	**-12.1**	**-13.6**	**-16.2**
Trade balance in goods	-0.8	4.4	-5.5	-0.9	12.7	10.9	13.5	15.2	14.2	10.9	9.6	6.9
Exports f.o.b.	56.8	58.0	58.6	61.6	70.0	73.4	66.6	69.4	72.9	75.8	81.1	85.9
Primary products	13.3	15.7	14.8	14.0	19.9	19.4	17.0	16.4	18.7	19.9	21.5	23.3
Manufactures of agricultural origin	23.3	23.3	22.6	22.9	23.6	24.8	24.1	25.6	26.0	26.6	27.6	28.7
Manufactures of industrial origin	18.0	16.9	18.8	20.4	21.5	23.0	21.3	22.2	22.4	23.0	23.9	24.9
Energy	2.2	2.0	2.5	4.3	4.9	6.2	4.1	5.1	5.7	6.4	8.1	9.0
Imports f.o.b.	57.6	53.5	64.1	62.5	57.2	62.5	53.1	54.1	58.6	64.9	71.5	79.0
Capital goods (includes parts and accessories)	23.4	22.5	26.6	23.3	22.2	24.4	20.1	20.5	22.3	24.9	27.7	30.9
Intermediate goods	17.3	14.8	17.1	19.5	17.8	19.3	16.9	17.2	18.5	20.4	22.3	24.5
Consumer goods	10.5	11.6	14.8	13.4	12.4	13.7	10.6	11.0	11.9	13.2	14.6	16.1
Fuels and lubricants	6.4	4.7	5.6	6.2	4.9	5.2	5.5	5.5	5.9	6.4	6.9	7.5
Trade balance in services	-5.8	-8.5	-10.1	-9.7	-6.2	-8.0	-6.1	-8.3	-10.9	-10.6	-10.7	-10.7
Exports	13.2	13.4	14.8	14.1	14.2	13.6	14.2	13.7	14.3	15.0	16.7	18.5
Imports	19.0	21.9	24.9	23.8	20.4	21.6	20.3	22.0	25.2	25.6	27.4	29.2
Primary income, net	-12.1	-12.2	-16.4	-18.7	-17.1	-16.8	-17.2	-16.5	-14.9	-13.8	-13.9	-13.9
Secondary income, net	1.1	1.1	0.4	1.3	1.1	1.1	1.4	1.4	1.4	1.4	1.4	1.4
Capital Account	**0.1**	**0.4**	**0.1**	**0.1**	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**	**0.2**	**0.1**	**0.1**
Financial Account	**13.6**	**28.3**	**45.8**	**9.7**	**-19.9**	**11.9**	**-23.7**	**7.5**	**15.0**	**29.6**	**37.9**	**26.0**
Foreign direct investment, net	10.9	1.5	10.4	10.3	2.0	4.5	7.6	8.7	9.9	11.3	12.8	14.2
Portfolio investment, net	0.4	35.3	35.9	6.6	-15.3	6.6	-22.3	6.2	14.7	23.1	25.4	13.5
Derivatives, net	0.0	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 1/	2.2	-8.2	-0.6	-7.3	-6.6	0.7	-9.1	-7.5	-9.5	-4.7	-0.4	-1.7
Errors and Omissions	**-0.9**	**0.8**	**0.2**	**-0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-4.9**	**14.3**	**14.6**	**-18.7**	**-29.2**	**-0.8**	**-32.0**	**-0.6**	**5.0**	**17.7**	**24.4**	**9.9**
Financing	**4.9**	**-14.3**	**-14.6**	**18.7**	**29.2**	**0.8**	**32.0**	**0.6**	**-5.0**	**-17.7**	**-24.4**	**-9.9**
Gross official reserves (increase: -)	4.9	-14.3	-14.6	-11.3	3.3	-6.1	6.1	-6.2	-6.2	-5.5	-6.1	-6.3
Net use of IMF resources				28.4	22.9	3.9	22.9	3.9	-1.8	-20.3	-22.6	-7.9
Official financing	0.0	0.0	0.0	1.6	3.0	2.9	3.0	2.9	2.9	8.1	4.3	4.3
World Bank/IDB				1.0	2.3	2.9	2.3	2.9	2.9	8.1	4.3	4.3
CAF				0.6	0.7		0.7					
						(Percent of GDP)						
Current account	**-2.7**	**-2.7**	**-4.9**	**-5.2**	**-2.0**	**-2.5**	**-1.8**	**-1.6**	**-1.8**	**-2.0**	**-2.1**	**-2.4**
Trade balance in goods	-0.1	0.8	-0.9	-0.2	2.7	2.1	2.9	3.0	2.5	1.8	1.5	1.0
Exports, f.o.b.	8.9	10.4	9.1	11.5	14.6	14.3	14.4	13.5	13.0	12.6	12.6	12.8
Imports f.o.b.	-9.0	-9.6	-10.0	-11.6	-12.0	-12.1	-11.5	-10.5	-10.5	-10.8	-11.1	-11.8
Trade balance in services	-0.9	-1.5	-1.6	-1.8	-1.3	-1.6	-1.3	-1.6	-1.9	-1.8	-1.7	-1.6
Exports	2.1	2.4	2.3	2.6	3.0	2.6	3.1	2.6	2.6	2.5	2.6	2.8
Imports	-3.0	-3.9	-3.9	-4.4	-4.3	-4.2	-4.4	-4.3	-4.5	-4.3	-4.2	-4.4
Primary income, net	-1.9	-2.2	-2.6	-3.5	-3.6	-3.3	-3.7	-3.2	-2.7	-2.3	-2.1	-2.1
Secondary income, net	0.2	0.2	0.1	0.2	0.2	0.2	0.3	0.3	0.3	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	1.9	-4.2	2.3	-4.9	1.4	2.7	4.9	5.8	3.9
Foreign direct investment, net	1.7	0.3	1.6	1.9	0.4	0.9	1.7	1.7	1.8	1.9	2.0	2.1
Portfolio investment, net	0.1	6.3	5.6	1.2	-3.2	1.3	-4.8	1.2	2.6	3.8	3.9	2.0
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	-1.4	-1.4	0.1	-1.9	-1.4	-1.7	-0.8	-0.1	-0.3
Errors and Omissions	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	2.6	2.3	-3.6	-6.1	-0.1	-6.6	-0.1	0.9	2.9	3.8	1.5
Financing	0.8	-2.6	-2.3	3.6	6.1	0.1	6.6	0.1	-0.9	-2.9	-3.8	-1.5
Gross official reserves (increase: -)	0.8	-2.6	-2.3	-2.2	0.7	-1.2	1.3	-1.2	-1.1	-0.9	-0.9	-0.9
Net use of IMF resources				5.5	4.8	0.8	4.8	0.8	-0.3	-3.4	-3.5	-1.2
Official financing	0.0	0.0	0.0	0.3	0.6	0.6	0.6	0.6	0.5	1.4	0.7	0.6
World Bank/IDB				0.2	0.5	0.6	0.5	0.6	0.5	1.4	0.7	0.6
CAF				0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Exports volumes (percent change)	-1.6	6.8	-0.2	-0.6	10.2	3.6	8.7	2.8	4.7	3.6	6.5	5.3
Imports volumes (percent change)	2.6	3.6	14.2	-5.6	-8.9	9.4	-14.8	1.1	7.4	9.7	9.1	9.3
Gross international reserves (billions of U.S. dollars)	25.6	39.3	55.1	65.8	62.2	68.3	59.7	65.9	72.1	77.6	83.7	90.0
Gross international reserves (percent of ARA)	39.4	73.0	92.0	94.4	97.0	103.2	93.5	101.5	108.7	119.1	130.9	142.1
Net international reserves (billions of U.S. dollars)	-2.6	12.5	31.1	22.8	19.2	25.3	11.9	18.2	24.3	29.8	35.9	42.2
Net International Investment Position (percent of GDP)	8.8	8.6	2.7	12.5	-0.2	-2.3	13.9	13.1	12.6	11.2	9.3	7.7
Terms of Trade (Index, 2000 = 100)	506	536	521	528	548	556	528	530	528	525	523	520
Real effective exchange rate (percent change)	5.3	-3.4	6.9	-30.6	5.8	4.0	6.0	3.7	2.5	1.6	1.1	0.9

Sources: INDEC, Fund staff estimates and projections.

1/ Includes currency swap transactions.

Table 3. Argentina: Consolidated Public-Sector Operations

							Est.	*3rd rev*	*3rd rev*	Proj.					
	2012	2013	2014	2015	2016	2017	2018	*2019*	*2020*	2019	2020	2021	2022	2023	2024
								(Billions of Argentine pesos)							
Revenues	**891.7**	**1,150.1**	**1,584.4**	**2,105.9**	**2,868.9**	**3,670.1**	**4,918.0**	**7,018.6**	8,990.6	**7,228.7**	**10,211.7**	**13,044.6**	**15,611.0**	**17,476.8**	**19,050.4**
Tax revenues	621.0	802.3	1,109.3	1,439.9	1,960.1	2,454.1	3,285.0	4,781.1	6,269.5	4,831.8	6,976.7	8,797.3	10,461.2	11,804.9	12,782.9
Social security contributions	219.5	287.8	378.3	529.5	709.8	924.6	1,158.0	1,551.7	1,969.9	1,643.9	2,353.8	3,147.3	3,886.1	4,249.7	4,717.2
Other revenues	51.2	60.0	96.8	136.5	199.0	291.5	475.0	685.8	751.2	753.0	881.3	1,100.0	1,263.7	1,422.2	1,550.3
Primary Expenditures 1/	**936.4**	**1,238.5**	**1,744.7**	**2,368.9**	**3,260.8**	**4,120.9**	**5,246.3**	**7,011.1**	8,710.4	**7,312.0**	**9,799.6**	**12,515.7**	**14,935.5**	**16,662.7**	**18,089.7**
Wages	294.4	378.2	523.7	738.7	1,008.4	1,281.3	1,586.1	2,163.5	2,730.2	2,176.7	2,987.9	3,788.7	4,494.4	4,995.2	5,379.0
Goods and services	64.3	86.3	120.4	169.7	205.8	280.0	359.1	455.5	552.2	485.9	628.6	788.1	910.1	992.0	1,057.6
Transfers to the private sector	407.8	532.4	752.4	1,056.4	1,517.3	1,888.6	2,416.8	3,276.2	4,003.1	3,402.4	4,427.9	5,607.4	6,651.1	7,481.9	8,155.4
Of which: federal pensions	204.6	272.1	363.4	535.7	734.7	1,022.5	1,291.7	1,848.8	2,447.9	1,868.4	2,581.3	3,318.8	4,060.6	4,582.9	5,003.3
Capital spending	83.2	121.0	171.6	216.6	280.1	375.5	518.8	631.8	821.6	758.8	1,077.9	1,465.4	1,862.8	2,054.5	2,256.9
Other	86.8	120.5	176.6	187.5	249.3	295.4	365.5	484.2	603.4	488.2	677.4	866.1	1,017.1	1,139.1	1,241
Primary balance (incl. adjustors)	**-44.7**	**-88.4**	**-160.3**	**-263.1**	**-391.8**	**-450.8**	**-328.3**	**7.5**	280.2	**-83.2**	**412.1**	**528.9**	**675.6**	**814.1**	**960.7**
Interest cash	34.9	20.6	34.5	94.2	155.7	262.8	434.9	549.5	653.0	669.8	1,005.8	1,245.1	1,443.7	1,534.0	1,653.2
Overall balance (incl. adjustors)	**-79.6**	**-108.9**	**-194.7**	**-357.3**	**-547.6**	**-713.5**	**-763.2**	**-542.0**	-372.8	**-753.0**	**-593.7**	**-716.2**	**-768.2**	**-719.9**	**-692.5**
								(Percent of GDP unless otherwise indicated)							
Revenues	**33.8**	**34.3**	**34.6**	**35.4**	**34.9**	**34.5**	**33.7**	**34.8**	**35.3**	**34.1**	**35.4**	**35.4**	**36.1**	**36.1**	**36.1**
Tax revenues	23.5	24.0	24.2	24.2	23.8	23.1	22.5	23.7	24.6	22.8	24.2	23.9	24.2	24.4	24.2
Social security contributions	8.3	8.6	8.3	8.9	8.6	8.7	7.9	7.7	7.7	7.7	8.2	8.5	9.0	8.8	8.9
Other revenues	1.9	1.8	2.1	2.3	2.4	2.7	3.3	3.4	3.0	3.5	3.1	3.0	2.9	2.9	2.9
Primary expenditures 1/	**35.5**	**37.0**	**38.1**	**39.8**	**39.6**	**38.7**	**35.9**	**34.8**	**34.2**	**34.4**	**34.0**	**34.0**	**34.5**	**34.4**	**34.3**
Wages	11.2	11.3	11.4	12.4	12.3	12.0	10.9	10.7	10.7	10.3	10.4	10.3	10.4	10.3	10.2
Goods and services	2.4	2.6	2.6	2.8	2.5	2.6	2.5	2.3	2.2	2.3	2.2	2.1	2.1	2.0	2.0
Transfers to the private sector	15.5	15.9	16.4	17.7	18.4	17.7	16.5	16.2	15.7	16.0	15.4	15.2	15.4	15.4	15.4
Of which: federal pensions	7.8	8.1	7.9	9.0	8.9	9.6	8.8	9.2	9.6	8.8	9.0	9.0	9.4	9.5	9.5
Capital spending	3.2	3.6	3.7	3.6	3.4	3.5	3.6	3.1	3.2	3.6	3.7	4.0	4.3	4.2	4.3
Other	3.3	3.6	3.9	3.1	3.0	2.8	2.5	2.4	2.4	2.3	2.4	2.4	2.4	2.4	2.4
Primary balance (incl. adjustors)	**-1.7**	**-2.6**	**-3.5**	**-4.4**	**-4.8**	**-4.2**	**-2.2**	**0.0**	**1.1**	**-0.4**	**1.4**	**1.4**	**1.6**	**1.7**	**1.8**
Interest cash	1.3	0.6	0.8	1.6	1.9	2.5	3.0	2.7	2.6	3.2	3.5	3.4	3.3	3.2	3.1
Overall balance (incl. adjustors)	**-3.0**	**-3.3**	**-4.3**	**-6.0**	**-6.7**	**-6.7**	**-5.2**	**-2.7**	**-1.5**	**-3.5**	**-2.1**	**-1.9**	**-1.8**	**-1.5**	**-1.3**
Structural primary balance (General Government) 2/	**-2.3**	**-3.5**	**-3.4**	**-5.0**	**-5.1**	**-4.3**	**-1.0**	**1.8**	**2.7**	**1.4**	**3.3**	**3.2**	**3.1**	**2.8**	**2.6**
Structural primary balance (Federal) 2/	**-1.7**	**-3.0**	**-3.5**	**-4.2**	**-4.8**	**-4.0**	**-1.9**	**1.0**	**1.9**	**0.8**	**2.1**	**2.0**	**1.9**	**1.8**	**1.8**
Structural primary balance (Provinces) 2/	**-0.6**	**-0.5**	**0.1**	**-0.7**	**-0.3**	**-0.3**	**0.9**	**0.7**	**0.7**	**0.6**	**1.2**	**1.1**	**1.2**	**1.0**	**0.8**

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

			Est.	3rd rev	3rd rev	Proj.					
	2016	2017	2018	*2019*	*2020*	2019	2020	2021	2022	2023	2024
					(Billions of Argentine pesos)						
Revenues	**2,188.2**	**2,754.7**	**3,675.3**	**5,320.8**	**6,920.6**	**5,421.8**	**7,697.5**	**9,751.3**	**11,610.4**	**13,040.6**	**14,216.1**
Tax revenues	1,535.6	1,874.2	2,489.3	3,661.8	4,908.1	3,654.3	5,319.9	6,605.3	7,757.2	8,825.0	9,537.1
Social security contributions	558.1	727.3	901.9	1,218.1	1,548.9	1,292.9	1,877.1	2,537.9	3,170.5	3,448.2	3,844.2
Nontax revenues	94.6	153.2	284.0	440.8	463.6	474.5	500.5	608.1	682.7	767.4	834.8
Primary expenditures	**2,537.0**	**3,159.6**	**4,065.0**	**5,326.3**	**6,671.5**	**5,489.9**	**7,412.8**	**9,397.5**	**11,193.7**	**12,524.4**	**13,522.1**
Federal expenditures	1,840.3	2,233.6	2,832.8	3,640.9	4,399.4	3,862.3	5,047.6	6,439.6	7,710.8	8,609.5	9,378.6
Wages 1/	316.8	401.0	498.7	664.6	804.4	673.5	890.9	1,106.9	1,307.0	1,456.3	1,574.0
Goods and services 1/	91.8	121.5	146.2	161.8	186.7	180.3	215.3	267.5	307.6	333.9	354.5
Pensions	734.7	1,022.5	1,291.7	1,848.8	2,447.9	1,868.4	2,581.3	3,318.8	4,060.6	4,582.9	5,003.3
Current transfers to private sector	511.0	507.7	654.5	767.7	693.8	858.8	916.4	1,091.8	1,146.7	1,272.5	1,377.9
Social assistance	219.9	282.0	373.3	480.2	613.6	517.1	675.2	836.6	997.7	1,111.1	1,202.9
Of which: social spending under the program 2/	108.2	141.6	184.9	290.0	383.0	300.7	393.1	500.7	610.2	690.2	757.8
Energy 3/	209.2	125.7	177.9	202.8	44.3	237.7	220.9	230.7	121.6	132.3	144.2
Transport	80.2	90.5	102.1	82.7	35.9	101.8	20.3	24.6	27.4	29.2	30.8
Other	1.7	9.6	1.2	2.0	0.0	2.1	0.0	0.0	0.0	0.0	0.0
Capital spending	117.8	121.1	182.9	157.6	223.4	260.0	400.5	599.3	824.0	891.2	989.8
Other current primary spending	68.0	59.7	58.8	40.4	43.3	21.2	43.2	55.3	64.9	72.7	79.2
Transfers to provinces	696.8	926.0	1,232.1	1,685.4	2,272.1	1,627.6	2,365.2	2,957.9	3,482.9	3,914.9	4,143.5
Automatic	558.9	756.6	1,074.7	1,564.3	2,175.3	1,521.5	2,307.5	2,884.2	3,396.4	3,817.9	4,037.9
Discretionary	137.8	169.5	157.4	121.1	96.7	106.1	57.7	73.7	86.6	96.9	105.6
Capital	64.3	86.8	78.2	38.3	50.9	31.8	28.8	36.9	43.3	48.5	52.8
Current	73.6	82.7	79.3	82.7	45.8	74.3	28.8	36.9	43.3	48.5	52.8
Primary balance (incl. adjustors)	**-348.8**	**-404.9**	**-389.7**	**-5.5**	**249.1**	**-68.1**	**284.7**	**353.8**	**416.6**	**516.2**	**694.0**
Interest cash (net of non-financial public sector) 4/	131.3	224.9	388.9	490.0	594.2	602.5	922.2	1,160.4	1,357.2	1,458.3	1,586.9
Overall balance (incl. adjustors)	**-480.1**	**-629.8**	**-778.6**	**-495.4**	**-345.1**	**-670.6**	**-637.4**	**-806.6**	**-940.5**	**-942.1**	**-892.9**
Memorandum items:											
Total gross interest spending	131.3	389.0	513.9	911.7	1,112.2	709.4	1,055.5	1,286.7	1,467.7	1,683.6	1,849.0
Capital spending, including capital transfers to provinces	182.0	207.9	261.0	196.0	274.3	291.9	429.3	636.1	867.3	939.6	1,042.6
Arrears and advances	-33.0	15.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-315.8	-419.9	-399.7	-5.5	249.1	-68.1	284.7	353.8	416.6	516.2	694.0
Overall balance, accrual basis	-447.1	-644.8	-788.6	-495.4	-345.1	-670.6	-637.4	-806.6	-940.5	-942.1	-892.9
Structural primary balance	-401.9	-427.1	-292.4	227.5	529.3	175.2	657.8	807.6	874.9	895.4	973.7
						(Percent of GDP)					
Revenues	**26.6**	**25.9**	**25.2**	**26.4**	**27.2**	**25.5**	**26.7**	**26.4**	**26.8**	**26.9**	**26.9**
Tax revenues	18.7	17.6	17.0	18.2	19.3	17.2	18.4	17.9	17.9	18.2	18.1
Social security contributions	6.8	6.8	6.2	6.0	6.1	6.1	6.5	6.9	7.3	7.1	7.3
Nontax revenues	1.1	1.4	1.9	2.2	1.8	2.2	1.7	1.6	1.6	1.6	1.6
Primary expenditures	**30.8**	**29.7**	**27.8**	**26.4**	**26.2**	**25.9**	**25.7**	**25.5**	**25.8**	**25.8**	**25.6**
Federal expenditures	22.4	21.0	19.4	18.0	17.3	18.2	17.5	17.5	17.8	17.8	17.8
Wages 1/	3.9	3.8	3.4	3.3	3.2	3.2	3.1	3.0	3.0	3.0	3.0
Goods and services 1/	1.1	1.1	1.0	0.8	0.7	0.8	0.7	0.7	0.7	0.7	0.7
Pensions	8.9	9.6	8.8	9.2	9.6	8.8	9.0	9.0	9.4	9.4	9.5
Current transfers to private sector	6.2	4.8	4.5	3.8	2.7	4.0	3.2	3.0	2.6	2.6	2.6
Social assistance	2.7	2.6	2.6	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Of which: social spending under the program 2/	1.3	1.3	1.3	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Energy 3/	2.5	1.2	1.2	1.0	0.2	1.1	0.8	0.6	0.3	0.3	0.3
Transport	1.0	0.9	0.7	0.4	0.1	0.5	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	1.3	0.8	0.9	1.2	1.4	1.6	1.9	1.8	1.9
Other current primary spending	0.8	0.6	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Transfers to provinces	8.5	8.7	8.4	8.4	8.9	7.7	8.2	8.0	8.0	8.1	7.8
Automatic	6.8	7.1	7.4	7.8	8.5	7.2	8.0	7.8	7.8	7.9	7.6
Discretionary	1.7	1.6	1.1	0.6	0.4	0.5	0.2	0.2	0.2	0.2	0.2
Capital	0.8	0.8	0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Current	0.9	0.8	0.5	0.4	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Primary balance (incl. adjustors)	**-4.2**	**-3.8**	**-2.7**	**0.0**	**1.0**	**-0.3**	**1.0**	**1.0**	**1.0**	**1.1**	**1.3**
Interest cash (net of non-financial public sector) 4/	1.6	2.1	2.7	2.4	2.3	2.8	3.2	3.1	3.1	3.0	3.0
Overall balance (incl. adjustors)	**-5.8**	**-5.9**	**-5.3**	**-2.5**	**-1.4**	**-3.2**	**-2.2**	**-2.2**	**-2.2**	**-1.9**	**-1.7**
Memorandum items:											
Total gross interest spending	1.6	3.7	3.5	4.3	3.8	3.3	3.7	3.5	3.4	3.5	3.5
Capital spending, including capital transfers to provinces	2.2	2.0	1.8	1.0	1.1	1.4	1.5	1.7	2.0	1.9	2.0
Arrears and advances	-0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-3.8	-3.9	-2.7	0.0	1.0	-0.3	1.0	1.0	1.0	1.1	1.3
Overall balance, accrual basis	-5.4	-6.1	-5.4	-2.5	-1.4	-3.2	-2.2	-2.2	-2.2	-1.9	-1.7
Structural primary balance 5/	-4.8	-4.0	-1.9	1.0	1.9	0.8	2.1	2.0	1.9	1.8	1.8

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/ Includes interest payments to private, official, and financial public sector.
5/ Percent of potential GDP.

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

(end of period, unless otherwise indicated)

			Est.	*3rd rev*	*3rd rev*	Proj.					
	2016	2017	2018	*2019*	*2020*	2019	2020	2021	2022	2023	2024
					(In billions of Argentine pesos)						
Net foreign assets	469	837	1,704	1,482	1,783	1,552	1,899	2,305	2,702	3,160	3,654
Net domestic assets	353	164	-295	-8	88	-127	-276	-211	-236	-355	-248
Credit to the public sector (net)	1,456	1,603	1,632	1,761	1,957	1,842	2,206	2,605	3,501	4,473	4,918
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	1,137	1,527	1,730	1,392	1,724	1,957	2,070	2,156	2,252
Credit to the financial sector excluding securities	-246	-241	-537	-734	-929	-767	-1,061	-1,342	-1,585	-1,856	-2,312
BCRA securities	-699	-1,160	-735	-989	-1,314	-1,096	-1,987	-2,629	-3,081	-3,657	-4,064
Official capital and other items (net)	-158	-38	-655	-44	374	-106	565	1,155	930	684	1,211
Monetary base	822	1,001	1,409	1,474	1,871	1,425	1,623	2,094	2,467	2,804	3,406
Currency issued	595	787	860	1,020	1,247	1,014	1,329	1,653	1,875	2,078	2,105
Bank deposits at the central bank (peso-denominated)	227	214	549	454	624	411	294	441	592	727	1,302
					(As a percentage of GDP)						
Net foreign assets	5.7	7.9	11.7	7.3	7.0	7.3	6.6	6.3	6.2	6.5	6.9
Net domestic assets	4.3	1.5	-2.0	0.0	0.3	-0.6	-1.0	-0.6	-0.5	-0.7	-0.5
Credit to the public sector (net)	17.7	15.1	11.2	8.7	7.7	8.7	7.6	7.1	8.1	9.2	9.3
of which: Temporary advances to federal government	4.6	4.4	3.4	2.5	2.0	2.4	1.7	1.4	1.2	1.0	1.0
of which: Non-marketable government bonds	9.4	8.6	7.8	7.6	6.8	6.6	6.0	5.3	4.8	4.4	4.3
Credit to the financial sector (net)	-3.0	-2.3	-3.7	-3.6	-3.6	-3.6	-3.7	-3.6	-3.7	-3.8	-4.4
BCRA securities	-8.5	-10.9	-5.0	-4.9	-5.2	-5.2	-6.9	-7.1	-7.1	-7.5	-7.7
Official capital and other items (net)	-1.9	-0.4	-4.5	-0.2	1.5	-0.5	2.0	3.1	2.1	1.4	2.3
Monetary base	10.0	9.4	9.6	7.3	7.3	6.7	5.6	5.7	5.7	5.8	6.4
Currency issued	7.2	7.4	5.9	5.1	4.9	4.8	4.6	4.5	4.3	4.3	4.0
Bank deposits at the central bank (peso-denominated)	2.8	2.0	3.8	2.3	2.5	1.9	1.0	1.2	1.4	1.5	2.5
					(Changes in monetary base (y/y, in AR$ billion))						
Change in monetary base	198	179	408	65	397	16	198	471	373	338	602
Foreign exchange purchases (net)	209	266	-430	-234	301	-398	348	406	397	457	494
Operations with the public sector	151	143	21	2	0	4	0	0	0	0	0
Sterilization (net) (-)	-177	-227	801	296	96	411	-150	65	-24	-119	107
Other items (net)	14	-3	16	2	0	-2	0	0	0	0	0
Memorandum items:											
Monetary base (eop, yoy, percent change)	31.7	21.8	40.7	4.6	26.9	1.1	13.9	29.0	17.8	13.7	21.5
Monetary base (monthly average, yoy, percent change)	26.6	24.7	36.0	6.8	27.2	3.2	14.2	28.3	18.0	13.4	21.8
M2 (AR$ billions) 1/	1,372	1,726	2,115	2,076	2,971	2,075	2,655	3,664	4,489	5,188	6,472
M2 (yoy, percent change) 1/	30.4	25.8	22.5	-1.8	43.1	-1.9	28.0	38.0	22.5	15.6	24.7
Gross international reserves (US$ billions)	39.3	55.1	65.8	62.2	68.3	59.7	65.9	72.1	77.6	83.7	90.0
Interest rate (eop) 2/	23.9	28.8	59.3	41.0	30.7	55.8	38.0	19.5	14.0	13.1	13.1
Real interest rate (eop), 12-m ahead y/y inflation 2/	3.6	10.0	23.4	14.2	10.8	17.6	12.1	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.

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

(end of period, unless otherwise indicated)

	2016	2017	Est. 2018	3rd rev 2019	3rd rev 2020	Proj. 2019	2020	2021	2022	2023	2024
	(In billions of Argentine pesos)										
Net foreign assets	33	-13	88	77	226	59	89	134	172	207	201
Net domestic assets	1,482	1,973	3,097	3,874	5,195	3,949	5,225	6,960	8,414	9,791	12,302
Credit to the public sector (net)	-97	-119	-239	-127	-1	40	100	250	312	402	317
Gross credit to public sector	385	502	809	1,209	1,630	1,235	1,847	2,419	2,776	3,138	3,414
Deposits from the public sector	-482	-621	-1,048	-1,336	-1,631	-1,195	-1,747	-2,169	-2,463	-2,736	-3,097
Claims on the central bank	883	980	1,919	2,316	3,037	2,414	3,526	4,641	5,518	6,528	7,970
Holdings of central bank securities	345	441	720	989	1,314	1,096	1,987	2,629	3,081	3,657	4,064
Reserves at central bank	473	455	1,083	1,189	1,553	1,179	1,355	1,784	2,177	2,583	3,614
Credit to the private sector	1,125	1,701	2,324	2,693	3,365	2,504	2,924	3,708	4,442	4,923	5,514
of which: Dollar denominated	154	292	605	799	962	860	1,129	1,356	1,518	1,684	1,861
of which: Peso denominated	970	1,409	1,719	1,895	2,403	1,644	1,795	2,352	2,924	3,239	3,653
Net capital, reserves, and other assets	-429	-589	-907	-1,009	-1,206	-1,008	-1,324	-1,638	-1,858	-2,062	-1,500
Liabilities with the private sector	1,515	1,960	3,185	3,951	5,421	4,008	5,314	7,094	8,586	9,997	12,504
Local currency deposits	1,159	1,464	2,090	2,425	3,471	2,377	3,042	4,199	5,144	5,945	7,416
Foreign currency deposits	357	496	1,095	1,526	1,949	1,630	2,272	2,896	3,442	4,052	5,088
expressed in billion US$	22	26	29	33	37	33	37	42	47	53	64
	(As a percentage of GDP)										
Net foreign assets	0.4	-0.1	0.6	0.4	0.9	0.3	0.3	0.4	0.4	0.4	0.4
Net domestic assets	18.0	18.5	21.2	19.2	20.4	18.6	18.1	18.9	19.4	20.2	23.3
Credit to the public sector (net)	-1.2	-1.1	-1.6	-0.6	0.0	0.2	0.3	0.7	0.7	0.8	0.6
Gross credit to public sector	4.7	4.7	5.5	6.0	6.4	5.8	6.4	6.6	6.4	6.5	6.5
Deposits of the public sector	-5.9	-5.8	-7.2	-6.6	-6.4	-5.6	-6.1	-5.9	-5.7	-5.6	-5.9
Claims on the central bank	10.7	9.2	13.1	11.5	11.9	11.4	12.2	12.6	12.7	13.5	15.1
Holdings of central bank securities	4.2	4.1	4.9	4.9	5.2	5.2	6.9	7.1	7.1	7.5	7.7
Reserves at central bank	5.7	4.3	7.4	5.9	6.1	5.6	4.7	4.8	5.0	5.3	6.8
Credit to the private sector	13.7	16.0	15.9	13.4	13.2	11.8	10.1	10.1	10.3	10.2	10.4
of which: Dollar denominated	1.9	2.7	4.1	4.0	3.8	4.1	3.9	3.7	3.5	3.5	3.5
of which: Peso denominated	11.8	13.2	11.8	9.4	9.4	7.7	6.2	6.4	6.8	6.7	6.9
Net capital, reserves, and other assets	-5.2	-5.5	-6.2	-5.0	-4.7	-4.7	-4.6	-4.4	-4.3	-4.3	-2.8
Liabilities with the private sector	18.4	18.4	21.8	19.6	21.3	18.9	18.4	19.2	19.8	20.6	23.7
Local currency deposits	14.1	13.8	14.3	12.0	13.6	11.2	10.5	11.4	11.9	12.3	14.0
Foreign currency deposits	4.3	4.7	7.5	7.6	7.7	7.7	7.9	7.9	7.9	8.4	9.6
Memorandum items:											
Credit to the private sector (eop, y/y percent change)	31.0	51.3	36.6	15.8	24.9	7.8	16.8	26.8	19.8	10.8	12.0
Credit to the private sector, real (eop, y/y percent change)	…	21.2	-7.5	-11.2	3.1	-23.1	-11.6	6.4	8.8	3.6	6.7
Interest rate on wholesale deposits (eop) 1/	20.0	23.3	48.6	30.8	21.5	41.9	27.1	13.9	9.9	9.3	9.3

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 2019)

(end of period, unless otherwise indicated)

	2019											
							Proj					
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
	In ARS billions											
Net foreign assets	1,689	1,823	1,950	2,223	1,915	2,003	1,885	1,751	1,866	1,715	1,582	1,552
Net domestic assets	-336	-420	-598	-820	-627	-653	-569	-438	-571	-447	-306	-127
Credit to the public sector (net)	1,821	1,843	1,920	1,526	1,812	1,735	1,776	1,822	1,742	1,795	1,838	1,842
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	1,306	1,293	1,179	1,266	1,211	1,240	1,272	1,305	1,342	1,372	1,392
Credit to the financial sector excluding securities	-521	-535	-669	-705	-744	-652	-667	-684	-704	-728	-748	-767
BCRA securities	-867	-856	-948	-948	-982	-1,238	-1,222	-1,155	-1,348	-1,293	-1,216	-1,096
Official capital and other items (net)	-768	-872	-901	-692	-673	-499	-457	-420	-261	-222	-180	-106
Monetary base	1,353	1,403	1,352	1,403	1,356	1,350	1,315	1,313	1,295	1,268	1,276	1,425
Currency issued	807	806	805	818	824	857	882	895	901	905	913	1,014
Bank deposits at the central bank (peso-denominated)	546	597	547	585	532	492	434	418	394	363	364	411
	Changes in monetary base (m/m, ARS billions)											
Change in monetary base	-56	50	-52	51	-46	-7	-34	-3	-18	-26	8	148
Foreign exchange purchases (net)	21	16	0	0	0	17	-118	-134	115	-150	-133	-31
Operations with the public sector	4	-2	-2	5	-41	40	0	0	0	0	0	0
Sterilization (net) (-)	-78	32	-48	57	-6	-72	84	132	-133	124	141	179
Other items (net)	-3	5	-1	-11	1	7	0	0	0	0	0	0
Memorandum items:												
Monetary base (average)	1,346	1,343	1,314	1,325	1,343	1,343	1,343	1,325	1,310	1,298	1,298	1,380
Monetary base (average), m/m change	9	-2	-29	10	18	0	0	-18	-15	-12	0	82
Monetary base (average), m/m percent change	0.7	-0.2	-2.1	0.8	1.3	0.0	0.0	-1.3	-1.1	-0.9	0.0	6.3
Monetary base (eop) y/y percent change	40.0	39.9	35.8	40.4	32.9	29.3	23.3	8.6	3.6	9.8	3.0	1.1
Monetary base (eop) m/m percent change	-4.0	3.7	-3.7	3.8	-3.3	-0.5	-2.5	-0.2	-1.4	-2.0	0.6	11.6
M2 (AR$ billions) 1/	1,834	1,831	1,897	1,950	1,956	1,919	1,878	1,891	1,864	1,834	1,854	2,075
M2 (yoy, percent change) 1/	11.5	12.8	14.1	18.9	13.4	2.3	9.0	0.1	2.0	6.5	4.2	-1.9
Gross international reserves (US$ billions)	66.8	68.0	66.2	71.7	65.2	67.3	65.7	62.7	65.2	63.1	60.3	59.7
Interest rate (eop) 2/	53.7	50.1	68.2	73.9	70.7	62.6	59.7	56.8	56.6	56.3	56.0	55.8
Real interest rate (eop), 12-m ahead infl. Exp. 2/	19.4	16.6	28.8	31.2	29.6	22.3	20.1	18.0	17.9	17.8	17.7	17.6

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 2020)

(end of period, unless otherwise indicated)

	2020											
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
	In ARS billions											
Net foreign assets	1,578	1,604	1,631	1,659	1,687	1,716	1,745	1,775	1,805	1,836	1,867	1,899
Net domestic assets	-219	-228	-278	-264	-322	-330	-377	-382	-394	-444	-447	-276
Credit to the public sector (net)	1,877	1,918	1,934	1,975	2,016	2,030	2,070	2,111	2,122	2,160	2,199	2,206
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	1,416	1,445	1,474	1,502	1,531	1,560	1,588	1,617	1,644	1,671	1,698	1,724
Credit to the financial sector excluding securities	-789	-813	-836	-860	-885	-910	-935	-960	-985	-1,010	-1,036	-1,061
BCRA securities	-1,239	-1,303	-1,410	-1,456	-1,575	-1,646	-1,757	-1,827	-1,905	-2,020	-2,092	-1,987
Official capital and other items (net)	-67	-31	34	78	121	195	244	294	373	426	481	565
Monetary base	1,359	1,376	1,354	1,395	1,365	1,386	1,368	1,393	1,411	1,392	1,420	1,623
Currency issued	1,052	1,083	1,107	1,136	1,136	1,166	1,187	1,194	1,193	1,195	1,201	1,329
Bank deposits at the central bank (peso-denominated)	307	293	247	259	228	220	182	200	218	197	220	294
	Changes in monetary base (m/m, ARS billions)											
Change in monetary base	-66	17	-23	41	-30	21	-18	25	18	-19	28	202
Foreign exchange purchases (net)	26	27	27	28	28	29	29	30	30	31	31	32
Operations with the public sector	0	0	0	0	0	0	0	0	0	0	0	0
Sterilization (net) (-)	-92	-9	-50	14	-58	-8	-47	-5	-12	-50	-3	171
Other items (net)	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Monetary base (average)	1,380	1,380	1,380	1,380	1,380	1,380	1,394	1,408	1,422	1,436	1,450	1,575
Monetary base (average), m/m change	0	0	0	0	0	0	14	14	14	14	14	125
Monetary base (average), m/m percent change	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0	8.6
Monetary base (eop) y/y percent change	0.4	-1.9	0.2	-0.6	0.6	2.7	4.0	6.1	9.0	9.7	11.3	13.9
Monetary base (eop) m/m percent change	-4.6	1.3	-1.7	3.1	-2.2	1.6	-1.3	1.8	1.3	-1.4	2.0	14.3
M2 (AR$ billions) 1/	1,999	2,045	2,032	2,115	2,090	2,143	2,136	2,196	2,245	2,236	2,302	2,655
M2 (yoy, percent change) 1/	9.0	11.7	7.1	8.5	6.8	11.7	13.7	16.1	20.4	21.9	24.2	28.0
Gross international reserves (US$ billions)	60.2	60.7	61.3	61.8	62.3	62.8	63.3	63.9	64.4	64.9	65.4	65.9
Interest rate (eop) 2/	53.8	51.4	50.9	50.1	49.0	47.7	46.3	44.7	42.3	41.4	40.5	38.0
Real interest rate (eop), 12-m ahead infl. Exp. 2/	16.4	14.9	15.0	15.0	14.9	14.6	14.3	13.9	12.9	13.1	13.2	12.1

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	Est. 2018	*3rd rev 2019*	*3rd rev 2020*	Proj. 2019	2020	2021	2022	2023	2024
	(Billions of U.S. dollars)											
Total external debt (gross; includes holdouts)	178.9	189.6	237.3	280.7	285.5	286.9	270.8	269.8	279.2	283.8	284.7	298.1
Percent of GDP	*27.9*	*34.1*	*37.0*	*52.2*	*59.8*	*55.7*	*58.7*	*52.3*	*49.9*	*47.1*	*44.1*	*44.5*
By type of creditor												
Debt to official creditors	46.0	50.3	55.5	82.6	107.3	113.3	105.4	109.3	107.5	93.5	73.6	68.3
Debt to banks	6.2	6.5	8.2	9.7	9.8	9.9	9.3	9.3	9.6	9.8	9.8	10.3
Debt to other private creditors	126.7	132.8	173.6	188.4	168.4	163.8	156.1	151.2	162.1	180.5	201.4	219.6
By type of debtor												
Official debt	113.2	130.2	164.1	200.1	202.0	199.0	185.0	178.8	183.0	182.4	174.1	178.4
Bank debt	5.3	5.3	8.9	9.6	11.7	12.9	10.8	12.0	13.2	14.4	15.6	16.8
Non-financial private sector	60.5	54.1	64.4	71.0	71.9	75.1	75.0	79.0	83.0	87.0	95.0	103.0

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	Est. 2018	*3rd rev 2019*	*3rd rev 2020*	Proj. 2019	2020	2021	2022	2023	2024
	(Billions of Argentine pesos)											
Gross federal debt	3,130	4,366	6,079	12,569	15,313	17,577	16,320	20,230	23,828	27,113	29,710	31,720
By currency:												
In domestic currency	960	1,380	1,937	2,971	3,251	3,796	3,340	4,247	5,683	7,177	8,975	11,217
In foreign currency	2,170	2,986	4,143	9,598	12,062	13,781	12,979	15,983	18,145	19,936	20,736	20,503
	(Percent of GDP)											
Gross federal debt	52.6	53.1	57.1	86.1	75.9	69.0	76.9	70.1	64.6	62.6	61.3	60.0
By currency:												
In domestic currency	16.1	16.8	18.2	20.3	16.1	14.9	15.7	14.7	15.4	16.6	18.5	21.2
In foreign currency	36.4	36.3	38.9	65.7	59.8	54.1	61.1	55.4	49.2	46.0	42.8	38.8

Sources: Ministry of Finance and Fund staff estimates.

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

	2019										2019	2020	2021
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Q4			
	Actual	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*							
Primary Deficit (with adjustors)	(445)	(175)	315	(12)	(511)	669	(204)	(868)	19	2,385	1,173	(4,853)	(5,433)
Without adjustors	(445)	(7)	231	(155)	(884)	774	(777)	(801)	2	1,685	(376)	(4,997)	(5,618)
NCG payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Plan Gas Payments	-	-	150	50	50	50	50	50	50	150	600	600	300
Interest	1,246	100	1,285	1,687	1,391	1,607	1,956	201	1,144	5,659	16,277	19,139	19,658
FX	977	82	377	998	880	770	1,517	87	452	3,103	9,243	9,863	9,777
Non-Financial Public Sector	-	-	89	114	122	14	150	-	14	424	927	1,067	1,094
Financial Public Sector	84	16	12	57	1	49	661	16	13	655	1,564	1,625	1,592
IFI (non-IMF)	88	40	122	52	356	105	85	35	122	239	1,244	1,221	1,340
Private	805	27	153	775	401	602	621	36	303	1,786	5,508	5,950	5,750
AR$	270	18	908	688	511	838	439	114	693	2,556	7,033	9,276	9,881
Non-Financial Public Sector	78	5	448	98	46	424	189	4	348	1,214	2,855	3,528	3,272
Financial Public Sector	32	0	149	33	209	38	82	108	40	303	994	3,636	3,751
Private	159	12	311	557	256	376	168	2	304	1,039	3,184	2,112	2,858
Amortizations	5,571	8,446	8,839	10,046	10,368	7,474	5,101	2,806	6,157	18,043	82,851	58,402	58,711
FX	2,197	2,296	4,392	6,149	5,979	2,540	2,192	1,701	3,143	6,608	37,198	22,695	29,449
Non-Financial Public Sector	347	553	2,138	208	628	222	277	96	111	301	4,882	2,429	144
Financial Public Sector	88	303	145	312	103	307	59	-	-	-	1,317	293	9,630
IFI (non-IMF)	186	82	271	132	1,777	168	186	66	273	460	3,601	2,996	2,990
Private LETES	1,575	1,344	1,292	1,941	1,750	1,843	1,668	1,503	2,197	5,283	20,398	10,273	10,273
Private Other	1	14	546	3,555	1,720	-	1	35	562	564	7,001	6,703	6,413
AR$	3,373	6,150	4,447	3,897	4,389	4,934	2,909	1,106	3,014	11,436	45,654	35,708	29,262
Non-Financial Public Sector	1,313	151	1,317	1,293	107	1,020	23	29	90	1,733	7,074	2,771	1,131
Financial Public Sector	795	2,236	2,010	904	909	1,161	867	1	242	5,942	15,069	12,162	12,596
Private LECAP/LECER/LELINK	1,245	2,463	832	1,683	2,861	1,724	1,988	1,071	2,660	3,716	20,243	14,048	14,048
Private Other	20	1,300	289	16	512	1,029	31	4	22	45	3,267	6,727	1,487
IMF Debt Service	-	207	-	-	272	-	-	367	-	367	1,212	2,011	6,038
of which: Amortization	-	-	-	-	-	-	-	-	-	-	-	-	3,715
Total Needs	**6,372**	**8,578**	**10,589**	**11,771**	**11,570**	**9,800**	**6,903**	**2,556**	**7,371**	**26,605**	**102,113**	**75,299**	**79,274**
Deposit drawdown (- = accumulation)	473	440	13	(4,799)	5,527	(3,087)	1,971	465	(3,855)	7,905	5,054	(3,446)	(764)
IFIs	-	-	533	-	470	250	500	-	880	900	3,533	2,996	2,990
Public Sector 1/	2,621	3,248	6,147	2,930	1,916	3,148	1,565	131	805	9,614	32,124	22,250	27,868
Private Sector Issuances	3,277	4,889	3,897	2,720	3,656	4,029	2,866	1,960	4,081	7,206	38,581	49,579	47,220
FX LETES	1,941	1,397	964	979	1,977	1,525	1,251	1,128	1,648	3,962	16,772	10,273	10,273
Peso LECAPs/LECER/LELINK	1,336	3,491	683	1,741	1,679	2,504	1,491	803	1,995	2,787	18,510	14,048	14,048
FX Other	-	-	2,250	-	-	-	1	27	422	423	3,123	10,868	18,413
Peso Other	-	-	-	-	-	-	123	3	16	34	176	14,391	4,487
Total Sources	**6,371**	**8,577**	**10,589**	**851**	**11,569**	**4,340**	**6,903**	**2,556**	**1,911**	**25,625**	**79,292**	**71,379**	**77,314**
Total Gap	**0**	**0**	**0**	**10,920**	**0**	**5,460**	**0**	**0**	**5,460**	**980**	**22,820**	**3,920**	**1,960**
FX	0	(0)	(0)	10,920	(0)	2,622	0	0	4,841	(3,388)	14,996	9,927	2,266
Peso	0	0	0	0	0	2,838	(0)	(0)	619	4,368	7,826	(6,007)	(306)
Memo Items:													
IMF Disbursements	-	-	-	10,920	-	5,460	-	-	5,460	980	22,820	3,920	1,960
Deposit Stock (total)	8,565	7,479	6,331	10,363	6,305	9,499	7,405	6,823	10,542	2,398	2,398	5,329	5,379
Private Rollover Rates	122%	111%	114%	38%	53%	88%		75%			81%	131%	147%

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**		*3rd Rev*	**Q1**	**Q2**	**Q3**	**Q4**		*3rd Rev*		
Imports G&S	7,339	22,794	30,133	30,123	16,658	18,346	18,933	19,373	73,311	77,547	76,127	83,803
Debt Service	2,071	5,101	7,173	7,173	2,441	4,986	2,828	3,728	13,984	15,722	15,756	16,370
Public Sector	383	3,413	3,796	3,796	1,642	2,920	2,422	3,470	10,455	11,626	11,874	12,100
Private Sector	1,689	1,689	3,377	3,377	799	2,066	406	258	3,529	4,096	3,882	4,270
Amortizations	3,447	19,366	22,813	22,813	22,691	23,379	9,095	7,834	62,999	33,895	51,914	61,902
Public Sector	2,343	13,524	15,868	15,868	8,886	14,668	7,036	6,608	37,198	31,392	22,695	33,164
of which: to private creditors	1,693	9,191	10,884	10,884	4,773	10,810	5,968	5,847	27,398	22,689	16,976	16,685
Private Sector	1,103	1,709	2,812	2,812	13,805	8,711	2,059	1,226	25,801	2,502	29,219	28,738
LEBAC to Non-Residents	-	4,133	4,133	4,133	-	-	-	-	-	-	-	-
Other outflows (net)	1,532	(11,537)	(10,005)	(10,381)	96	7,880	6,114	5,676	19,766	7,505	1,627	(4,500)
Total Needs	14,389	35,725	**50,113**	49,727	41,886	54,592	36,970	36,611	**170,059**	134,669	145,423	157,575
Exports G&S	6,061	18,184	24,245	24,370	19,137	22,044	20,187	19,380	80,749	84,165	83,024	87,172
FDI	195	5,412	5,607	4,343	1,440	1,265	899	4,024	7,628	1,959	8,714	9,911
IFIs	-	1,017	1,017	1,017	533	720	1,380	900	3,533	3,533	2,996	2,990
Private Sector Rollover and Issuances	2,533	3,039	5,572	5,572	14,604	10,778	2,465	1,484	29,330	4,506	33,101	33,008
LEBAC rollovers of Non-Residents	0	0	-	-	0	0	0	0	-	-	-	-
Public Sector Rollover and Issuances	1,479	11,327	12,806	12,806	6,552	4,481	4,476	4,385	19,895	14,394	19,895	28,685
Reserve Drawdown (- = accumulation)	4,096	(16,670)	(12,574)	(11,820)	(381)	(1,076)	2,103	5,458	6,104	3,293	(6,228)	(6,152)
Total Sources	14,364	22,310	**36,673**	36,288	41,886	38,212	31,510	35,631	**147,239**	111,849	141,503	155,614
Gap	25	13,415	**13,440**	13,440	(0)	16,380	5,460	980	**22,820**	22,820	**3,920**	**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)

	2019																	
	end-Mar			end-Apr		end-May		end-Jun				end-Jul	end-Aug	end-Sep		end-Oct	end-Nov	end-Dec
	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/	6.0	6.0	10.5	n.a.	n.a.	n.a.	n.a.	20.0		n.a.		n.a.	n.a.	60.0	70.0	n.a.	n.a.	0.0
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/	30.0		5.6	n.a.	n.a.	n.a.	n.a.	45.0		n.a.		n.a.	n.a.	53.2	53.2	n.a.	n.a.	58.5
4. Social assistance spending (floor) 3/	60.0		72.7	n.a.	n.a.	n.a.	n.a.	132.0		n.a.		n.a.	n.a.	205.0	223.5	n.a.	n.a.	325.0
Indicative targets																		
5. Primary balance of the general government (floor) 3/ 9/	-14.0	-14.0	78.0	n.a.	n.a.	n.a.	n.a.	10.0		n.a.		n.a.	n.a.	80.0	95.0	n.a.	n.a.	30.0
Monetary targets																		
Performance Criteria																		
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	12.5	4.4	5.5	9.0	10.5	6.2	3.8	9.0	0.7	4.0	Met	8.4	8.2	13.1	13.1	11.5	10.5	9.8
7. Change in stock of non-deliverable FX forwards (ceiling) 6/	-1.0		-3.3	-1.2	-2.6	-1.5	-5.2	-1.7		-6.6	Met	0.0	0.0	-2.6	0.0	0.0	0.0	0.0
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	0.0	0.0	0.0	0.0	0.0		0.0	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/	-185.6	-154.5	-212.6	-	-	-	-	-	-	-		-	-	-	-	-	-	-
11. Change in monthly average monetary base (ceiling) 11/	-	-	-	0.0	-18.4	0.0	-0.6	0.0		-1.1	Met	0.0	-18.0	0.0	-33.0	-45.0	-45.0	38.0

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 which stood at US$3.6 billion.
7/ The change is measured against the value on September 28, 2018, which stood at 2,592.86 billion pesos.
8/ The change is measured against the average value for September 2018, which was AR$ 574 billion.
9/ Targets subject to adjustors as defined in the TMU.
10/ Increases reflect IMF disbursements, which increase NIR.
11/ 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	Met
10	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	Met
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	
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	

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	13,031.9	16,128.5	7,062.6	1,575.1	262.5
GRA charges and surcharges 1/	110.1	580.3	1,392.5	1,620.7	1,585.4	797.7	152.8	27.7	2.9
GRA service charge 1/	101.1	42.5	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	622.7	1,406.6	4,281.2	14,617.3	16,926.3	7,215.5	1,602.9	265.4
(in percent of exports of G&S)	0.4	1.1	2.4	7.0	23.0	24.8	9.8	2.0	0.3
(in percent of GDP)	0.1	0.2	0.4	1.1	3.5	3.7	1.5	0.3	0.0
(in percent of GIR)	0.5	1.5	3.1	8.5	26.9	28.9	11.2	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	25,028.7	8,900.2	1,837.6	262.5	0.0
(in percent of quota)	634.2	1,145.6	1,233.5	1,194.1	785.3	279.2	57.7	8.2	0.0
(in percent of GDP)	5.6	10.9	10.9	9.7	5.9	2.0	0.4	0.1	0.0
(in percent of GIR)	44.0	87.5	85.3	75.5	46.1	15.2	2.9	0.4	0.0
Memorandum items:									
Exports of goods and services (US$ mn)	75,766	80,749	83,024	87,172	90,859	97,801	105,274	113,317	121,975
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	59,702	65,930	72,082	77,610	83,712	91,782	100,630	110,331
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					10-Year	10-Year	Projections						
	2014	2015	2016	2017	2018	Historical Average	Standard Deviation	2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	30.3	27.9	34.1	37.0	52.2			**58.7**	**52.3**	**49.9**	**47.1**	**44.1**	**44.5**	**-3.5**
Change in external debt	1.3	-2.4	6.2	2.9	15.2			6.5	-6.4	-2.5	-2.8	-3.0	0.4	
Identified external debt-creating flows (4+8+9)	3.5	-2.7	6.5	-1.7	12.0			0.8	-0.6	-1.2	-1.4	-1.5	-1.2	
Current account deficit, excluding interest payments	0.9	2.2	1.8	3.7	2.9			-0.3	0.3	1.1	1.7	2.0	2.5	
Deficit in balance of goods and services	-0.2	1.0	0.7	2.4	2.0			-1.6	-1.3	-0.6	0.0	0.2	0.6	
Exports	14.5	10.9	12.8	11.4	14.1			17.5	16.1	15.6	15.1	15.1	15.6	
Imports	14.4	11.9	13.6	13.9	16.1			15.9	14.8	15.0	15.0	15.3	16.1	
Net non-debt creating capital inflows (negative)	-0.6	-1.7	-0.4	-2.1	-1.8			-1.7	-1.7	-1.8	-1.9	-2.0	-2.1	
Automatic debt dynamics 1/	3.2	-3.1	5.1	-3.3	11.0			2.8	0.7	-0.5	-1.3	-1.5	-1.6	
Contribution from nominal interest rate	0.8	0.6	0.9	1.2	2.4			2.0	1.3	0.7	0.3	0.1	-0.1	
Contribution from real GDP growth	0.8	-0.7	0.7	-0.8	1.1			0.8	-0.6	-1.3	-1.6	-1.6	-1.5	
Contribution from price and exchange rate changes 2/	1.7	-3.0	3.6	-3.7	7.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-2.2	0.3	-0.3	4.6	3.2			5.7	-5.7	-1.2	-1.3	-1.5	1.6	
External debt-to-exports ratio (in percent)	208.2	255.5	265.7	323.4	370.5			335.3	324.9	320.3	312.3	291.1	285.6	
Gross external financing need (in billions of US dollars) 4/	85.8	82.6	81.7	104.9	97.7			108.3	91.9	89.5	111.1	114.1	117.1	
in percent of GDP	15.3	12.9	14.7	16.3	18.2			24.8	22.8	20.7	23.8	22.6	21.6	
Scenario with key variables at their historical averages 5/								**60.5**	**56.8**	**56.6**	**55.8**	**54.4**	**54.6**	**-2.5**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	-2.5	2.7	-2.1	2.7	-2.5	1.0	4.7	-2.5	-1.3	1.1	2.6	3.4	3.6	
GDP deflator in US dollars (change in percent)	-5.4	10.9	-11.4	12.3	-16.8	3.4	11.8	-16.8	-6.5	6.3	5.3	4.4	3.6	
Nominal external interest rate (in percent)	2.4	2.2	2.7	4.2	5.2	2.8	1.1	5.2	3.6	2.4	1.5	0.7	0.3	
Growth of exports (US dollar terms, in percent)	-8.7	-14.4	1.9	2.8	3.2	0.0	13.3	3.2	6.6	2.8	5.0	4.2	7.6	
Growth of imports (US dollar terms, in percent)	-10.4	-5.3	-1.6	18.0	-3.0	4.0	19.6	-3.0	-15.0	3.7	10.1	8.1	9.2	
Current account balance, excluding interest payments	-0.9	-2.2	-1.8	-3.7	-2.9	-0.9	2.0	0.3	-0.3	-1.1	-1.7	-2.0	-2.5	
Net non-debt creating capital inflows	0.6	1.7	0.4	2.1	1.8	1.6	0.8	1.7	1.7	1.8	1.9	2.0	2.1	

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.

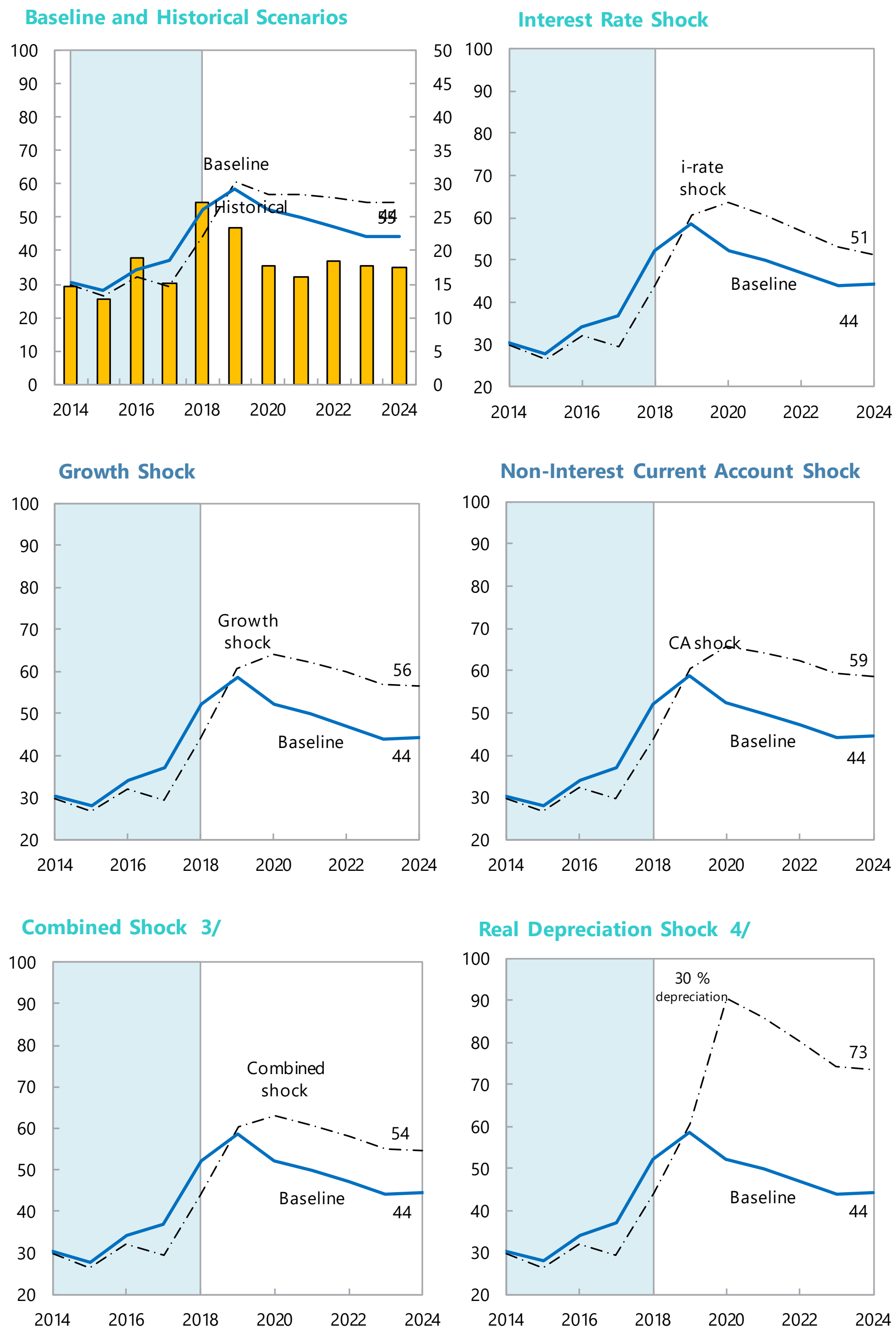
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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)



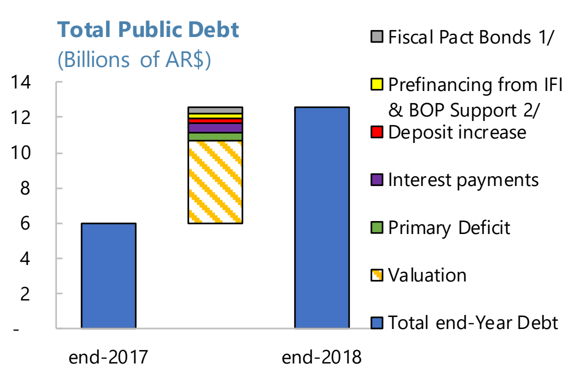
Source: Fund staff calculations and estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average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

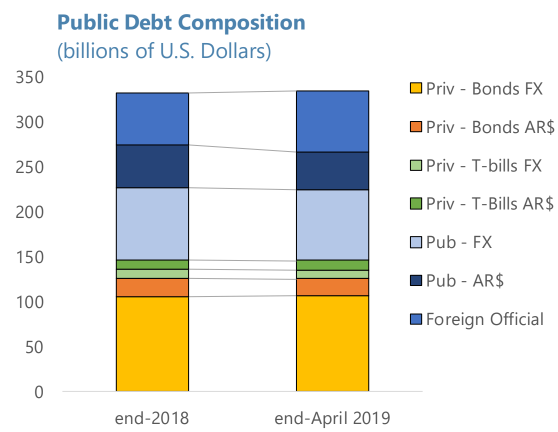
This debt sustainability analysis (DSA) provides an update to the findings in the [Argentina: Third Review Under the Stand-By Arrangement](). After reaching 86 percent of GDP in 2018, federal government debt is projected to start declining from 2019 and fall to around 60 percent of GDP in the medium term. Important downside risks to this path remain, including, economic and financial conditions not improving as envisaged in the baseline; the increased possibility of market turbulence in the pre-election period; 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. Preliminary debt estimates for end-April 2019 point to gross federal government debt having remained broadly constant in the first 4 months of the year (at around US$334 billion).



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.



2. Currency Composition. The FX-denominated portion of debt has gone up from around 68 percent in end-2017 to about 76 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. Between end-2018 and end-April 2019, debt held by the private sector remained broadly constant at US$146 billion.

B. Baseline Scenario

5. Debt is expected to decline to around 77 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 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 -1.3 percent – somewhat less negative than in 2018 as the economy begins to recover – and then grow by 1.1 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 real depreciation in 2018 will continue to unwind during the program period.

6. The financing assumptions for 2019 underlying the program have been revised due to shortening of maturities.

- Higher than expected rollovers in Q4 2018 and Q1 2019 at less than 1-year maturities, recent shortening of maturities in April/May (LECAPS at 3 months and LETES at 2 to 3 months), together with the projected repayment for a credit line with Banco Nación in December, have increased financing needs for 2019 and 2020. In order to ensure that the program remains fully financed, rollover rates for the remainder of 2019 have been raised to 75 percent, under the baseline assumptions which are in line with authorities' debt strategy for 2019 (¶28/29).

- 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.

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 115 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 84 percent of GDP by 2024. A 'combined macro-fiscal' shock would cause debt to peak at 160 percent of GDP.[1]

Liquidity Risks

- A combined macro-fiscal shock will lead to GFN of 36 percent of GDP. In such a scenario, it may not be possible to finance this through market access on favorable terms.

D. Overall Assessment

7. 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 60 percent of GDP by end-2024.

8. 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, which have increased in the short term due to the shortening of maturities in April and May;

- The possibility of bouts of market turbulence in the pre-election period which could translate into higher sovereign spreads and a depreciation of the peso;

- The large share of foreign currency debt (which makes Argentina's debt dynamics sensitive to real exchange rate movements);

- 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;

[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.

- 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. 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 classes of investors, including domestic financial institutions, retail investors and other public-sector entities, who are expected to continue investing in Argentina debt even amid stressed conditions; the relatively long maturity of dollar-denominated debt issued on international markets; and Argentina's demonstrated ability to recover from temporary shifts in market confidence, as evidenced by the rebound in rollover rates and maturities in June, after the market tantrum in April.

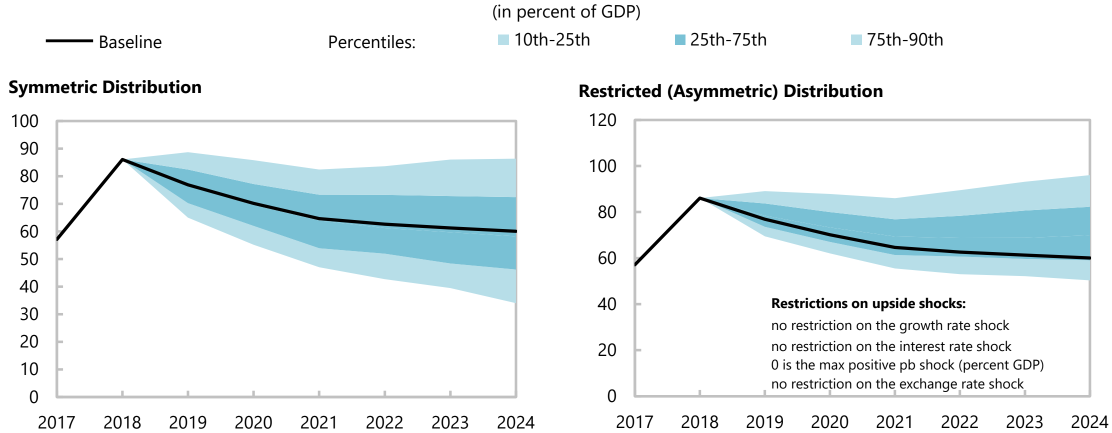
Figure 1. Argentina: Public DSA Risk Assessment

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

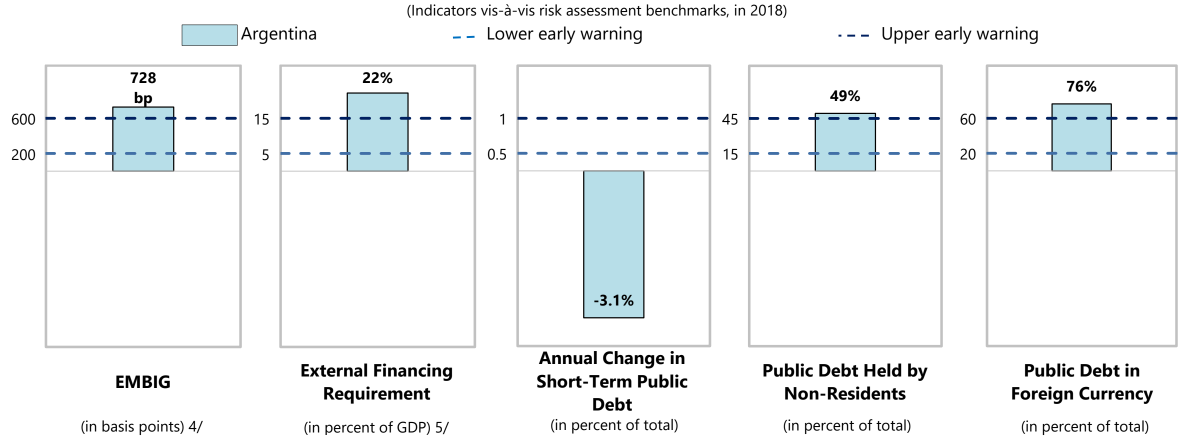
Evolution of Predictive Densities of Gross Nominal Public Debt

(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:

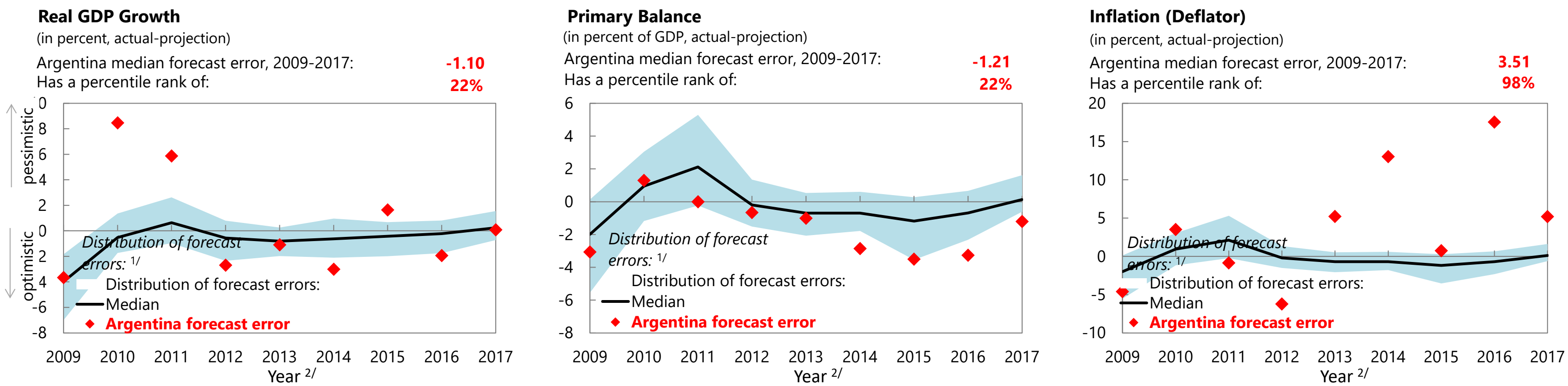
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 18-Jan-19 through 18-Apr-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.

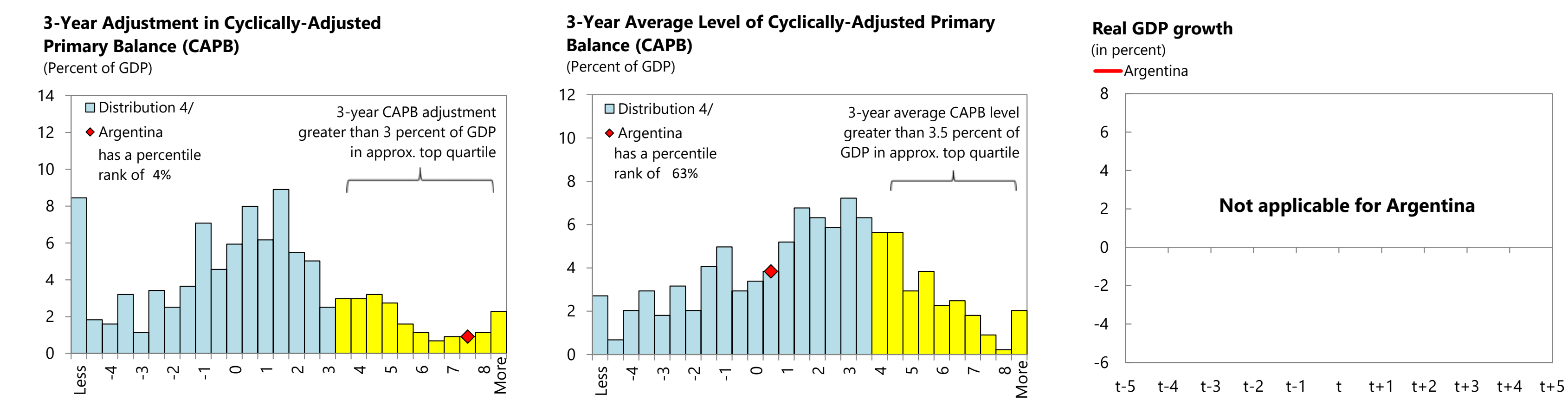
Figure 2. Argentina: Public DSA - Realism of Baseline Assumptions

Forecast Track Record, Versus all countries



Assessing the Realism of Projected Fiscal Adjustment

Boom-Bust Analysis 3/



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)

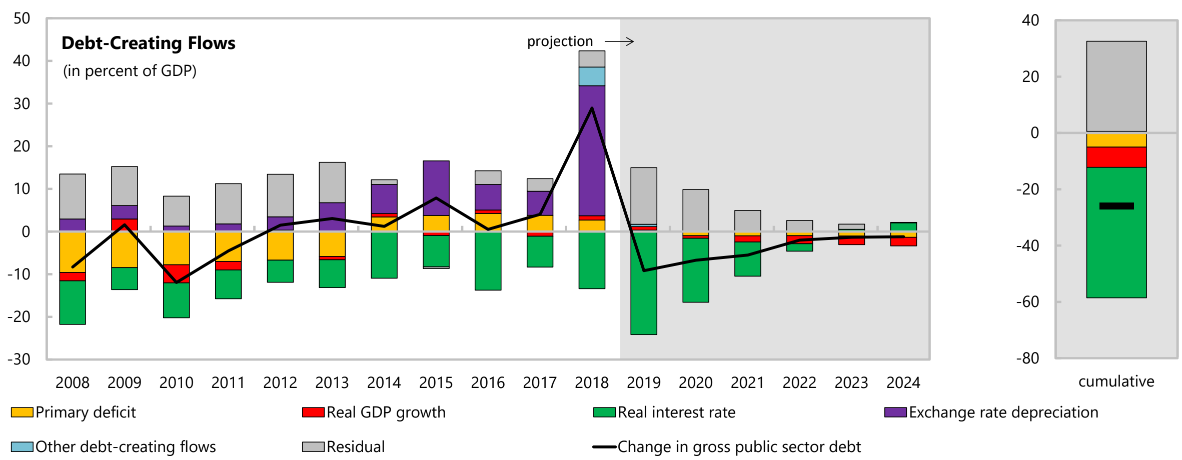
Debt, Economic and Market Indicators [1/]

	Actual			Est.	Projections				
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	47.3	57.1	86.1	76.9	70.1	64.6	62.6	61.3	60.0
Public gross financing needs	5.0	13.3	13.5	15.8	12.6	11.6	12.9	12.6	12.6
Real GDP growth (in percent)	1.5	2.7	-2.5	-1.3	1.1	2.6	3.4	3.6	3.6
Inflation (GDP deflator, in percent)	26.4	25.8	41.3	46.8	34.5	24.5	13.6	8.0	5.0
Nominal GDP growth (in percent)	28.2	29.4	37.2	45.4	35.8	27.9	17.4	12.0	8.9
Effective interest rate (in percent) [4/]	4.5	8.9	10.8	5.5	8.3	10.6	10.9	9.3	8.8

As of July 01, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		811
5Y CDS (bp)		971
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	28.9	-9.2	-6.7	-5.5	-2.0	-1.3	-1.2	-26.0	
Identified debt-creating flows	-7.6	1.1	25.1	-22.5	-16.6	-10.5	-4.6	-2.6	-1.3	-58.0	
Primary deficit	-3.8	3.8	2.7	0.3	-1.0	-1.0	-1.0	-1.0	-1.4	-5.0	1.7
Primary revenue and grants	26.0	25.9	25.2	25.4	26.6	26.3	26.6	26.4	26.6	157.9	
Primary (noninterest) expenditure	22.2	29.7	27.8	25.7	25.6	25.3	25.6	25.4	25.3	152.8	
Automatic debt dynamics [5/]	-3.8	-2.7	18.1	-23.4	-15.6	-9.5	-3.6	-1.5	0.0	-53.5	
Interest rate/growth differential [6/]	-8.8	-8.3	-12.4	-23.4	-15.6	-9.5	-3.6	-1.5	0.0	-53.5	
Of which: real interest rate	-8.2	-7.2	-13.4	-24.2	-15.0	-8.0	-1.7	0.5	2.1	-46.3	
Of which: real GDP growth	-0.6	-1.1	1.0	0.8	-0.6	-1.4	-1.9	-2.0	-2.0	-7.2	
Exchange rate depreciation [7/]	5.0	5.6	30.5	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	4.4	0.6	0.0	0.0	0.0	0.0	0.0	0.6	
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	0.6	0.0	0.0	0.0	0.0	0.0	0.6	
Prefinancing from IFIs and BOP Support [10/]	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	6.6	2.9	3.8	13.3	9.9	4.9	2.6	1.2	0.1	32.0	



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.

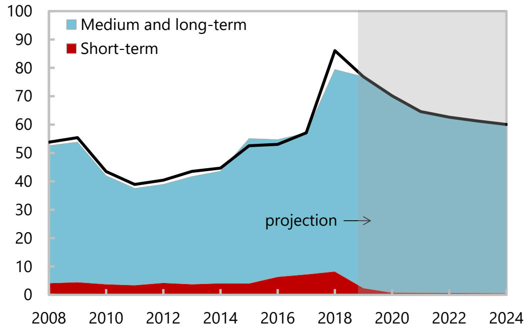
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

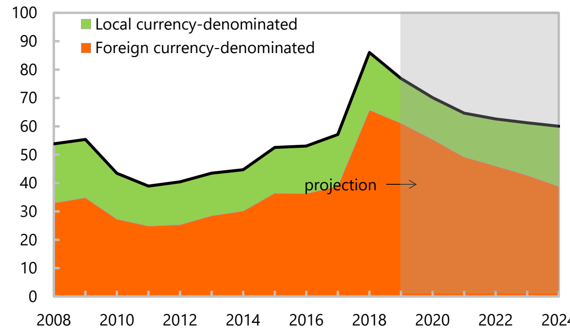
Figure 4. Argentina: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



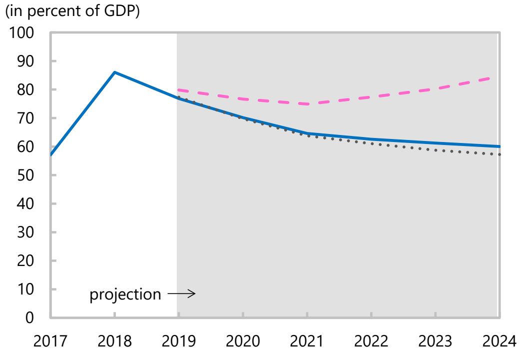
By Currency
(in percent of GDP)



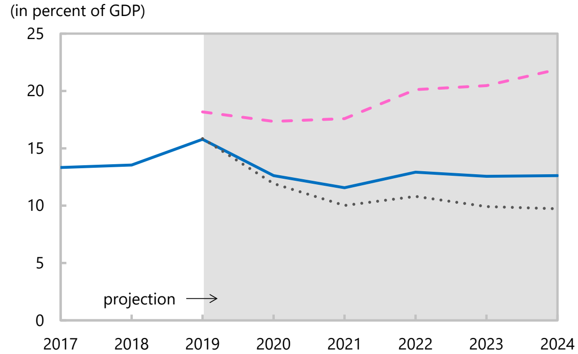
Alternative Scenarios

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)

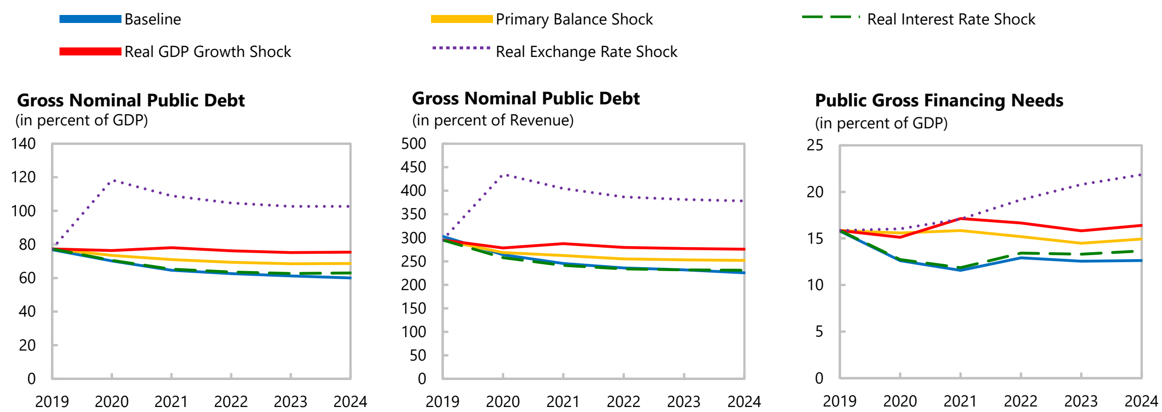
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-1.3	1.1	2.6	3.4	3.6	3.6
Inflation	46.8	34.5	24.5	13.6	8.0	5.0
Primary Balance	-0.3	1.0	1.0	1.0	1.0	1.4
Effective interest rate	5.5	8.3	10.6	10.9	9.3	8.8
Constant 2018 Primary Balance Scenario						
Real GDP growth	-1.3	1.1	2.6	3.4	3.6	3.6
Inflation	46.8	34.5	24.5	13.6	8.0	5.0
Primary Balance	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Effective interest rate	5.5	8.7	11.6	11.9	10.0	9.3

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-1.3	1.0	1.0	1.0	1.0	1.0
Inflation	46.8	34.5	24.5	13.6	8.0	5.0
Primary Balance	-0.3	1.8	1.8	1.8	1.8	1.8
Effective interest rate	5.5	8.4	9.1	8.7	6.1	5.0

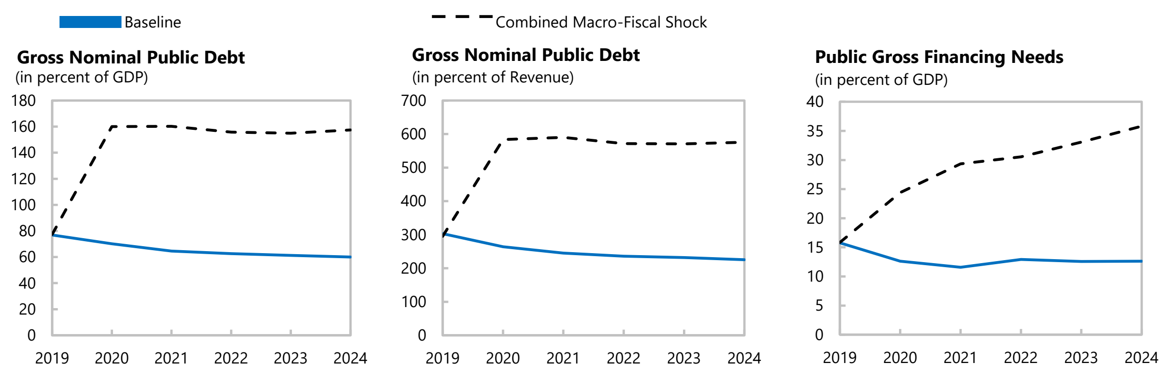
Source: IMF staff.

Figure 5. Argentina: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2019	2020	2021	2022	2023	2024
Primary Balance Shock						
Real GDP growth	-1.3	1.1	2.6	3.4	3.6	3.6
Inflation	46.8	34.5	24.5	13.6	8.0	5.0
Primary balance	-0.3	-1.9	-1.8	1.0	1.0	1.4
Effective interest rate	5.5	8.4	11.2	11.7	10.1	9.4
Real Interest Rate Shock						
Real GDP growth	-1.3	1.1	2.6	3.4	3.6	3.6
Inflation	46.8	34.5	24.5	13.6	8.0	5.0
Primary balance	-0.3	1.0	1.0	1.0	1.0	1.4
Effective interest rate	5.5	8.4	11.0	11.5	10.2	9.9
Combined Shock						
Real GDP growth	-1.3	-3.6	-2.1	3.4	3.6	3.6
Inflation	46.8	33.3	23.3	13.6	8.0	5.0
Primary balance	-0.3	-1.9	-2.1	1.0	1.0	1.4
Effective interest rate	5.5	12.9	8.6	9.6	9.2	9.1

	2019	2020	2021	2022	2023	2024
Real GDP Growth Shock						
Real GDP growth	-1.3	-3.6	-2.1	3.4	3.6	3.6
Inflation	46.8	33.3	23.3	13.6	8.0	5.0
Primary balance	-0.3	-0.6	-2.1	1.0	1.0	1.4
Effective interest rate	5.5	8.4	10.9	11.5	9.8	9.3
Real Exchange Rate Shock						
Real GDP growth	-1.3	1.1	2.6	3.4	3.6	3.6
Inflation	46.8	68.3	24.5	13.6	8.0	5.0
Primary balance	-0.3	1.0	1.0	1.0	1.0	1.4
Effective interest rate	5.5	12.9	8.0	8.6	8.0	7.8

Source: IMF staff.

Appendix I. Letter of Intent

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

July 3, 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 completion of the Third Review under the Stand-By Arrangement on April 5, 2019. Also attached is an addendum to the Technical Memorandum of Understanding.

We are continuing in our steadfast implementation of the reformulated policy plan supported by the IMF Stand-By Arrangement. After a supportive financial environment at the start of 2019, Argentina once again was subject to considerable market volatility in March/April, as markets reacted to stubbornly high inflation and rising political uncertainty.

In line with the understandings reached with the IMF, we have continued to meet these challenges and adapted our policies to the new conditions. First, we announced a few changes to the monetary policy framework that tightens the policy stance, including freezing the rate of the crawl of the reference zone and committing not to purchase FX when the peso appreciates outside of the zone. Then, as pressures continued to build, we announced a new FX intervention strategy, which allows the BCRA to respond to disorderly market conditions by selling FX even with the peso inside the reference zone. We have also increased the size of FX intervention to lean against a depreciation of the peso outside of the reference zone. We believe these changes have been successful to anchor exchange rate expectations and will facilitate a gradual decline of inflation in the months ahead.

We have continued our efforts at achieving a balanced budget while ensuring that the most vulnerable are protected against the costs of the adjustment. The primary federal fiscal balance has been in surplus for the first five months of 2019 and we are well positioned to meet the fiscal targets under the program. Not only have the program's fiscal and monetary targets been over-complied so far this year, but the external imbalance also continues to undergo a significant correction.

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-June 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. Furthermore, we would like to request changes to end-September quantitative performance criteria for (i) the social spending floor, (ii) non-deliverable forwards, (iii) monetary base, and (iv) the primary balance target. The latter serves to further lock in our commitment to fiscal discipline. Lastly, we would also request the setting of end-December quantitative performance criteria and the board's temporary approval for another twelve months of the retention of the measure that gives rise to the multiple currency practice.

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 March 25, 2019.

Recent Developments and Outlook

1. Economic activity remained weak in Q1 but there are signs that the recession may have reached its bottom in the first quarter of the year. Agriculture has benefited from a historically strong soy harvest and there are signs that the wheat and corn harvest later in the year will also be particularly favorable. Activity will be sustained by buoyant export growth and some rebuilding of real disposable incomes, as wages and social transfers recoup part of their 2018 losses. The trade balance is recording a surplus and the current account deficit is expected to narrow significantly in 2019.

2. Nonetheless, monthly inflation remained stubbornly high, reflecting the impact of the tariff increases implemented earlier in the year and the peso depreciation experienced in March. After the better-than-expected fall of inflation in April, we remain confident that inflation will continue to decelerate in the next few months, consistent with market expectations.

3. We have sustained five months of accumulated primary surpluses so far in 2019, for the first time in 8 years. We have also comfortably met our fiscal target for 2019Q1, continuing the path to fiscal prudence. At the same time, we continued to protect social spending and ensuring that the most vulnerable do not bear the brunt of the burden of adjustment. We are conscious of the sacrifices that the Argentine people continue to make to support the policies that are necessary to ensure economic stability and future growth.

Fiscal Policy

4. We remain strongly committed to implementing the 2019 Budget and achieving our fiscal targets for this year, without jeopardizing social and growth-enhancing capital spending. With the latter goals in mind, we expect to make full use of the ½ percent of GDP in adjustors built into the program to accommodate these high-priority expenditures. While higher-than-expected inflation has bolstered revenues, we have also proactively introduced revenue measures on imports to safeguard the achievement of the fiscal targets under the program. Higher interest revenues and dividend income has also created more space for growth-enhancing capital spending, which we plan to use conservatively over the next few months, as revenues permit.

5. Given the improved outlook, and to further solidify our commitment to fiscal prudence, we have requested that the end-September target for the primary balance of the federal government be revised upward to AR$70 billion (from AR$60 billion). This will allow us to lock-in upside gains in the fiscal accounts and ensure that the deficit in the last quarter is comfortably covered.

6. 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. We have finalized a compliance improvement plan and risk mitigation strategies in line with the end-June structural benchmark. By December 2019, we will implement an integrated auditing action plan for the Simplified Taxpayer Regime, covering 20 percent of taxpayers under this regime.

7. We continue to improve Public Financial Management (PFM). We are working to strengthen our macro-fiscal unit at the Ministry of Finance and improving the coordination among the units that are in charge of assessing the macroeconomic and fiscal impact of new policy measures. We will request IMF technical support for a fiscal transparency evaluation in 2020, in line with best practices and following other Latin American economies. The findings will provide an important roadmap for our PFM reforms going forward. We remain committed to move the Treasury Single Account (TSA) from *Banco Nación* to the BCRA by June 2020 and we have started to work on 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*.

8. We are committed to improve the governance and risk-management practices of the existing Public-Private Partnership (PPP) framework. To reduce possible conflicts of interest and clarify responsibilities, PPP project evaluation was assigned to a new Sub-secretary under the Public Investment Secretary (facilitating the integration of PPPs in the general public investment management), while the evaluation of costing and fiscal risk management was transferred to the Ministry of Finance. At the same time, the support to sectoral ministries on PPP-structuring was concentrated at *Banco de Inversión y Comercio Exterior* (BICE), a publicly-owned development bank. Going forward, we are committed to continue strengthening the fiscal-risk management function at the Ministry of Finance, including by establishing a unique structure responsible for assessing the fiscal costs and risks potentially arising from all infrastructure projects—including PPPs, concessions, and power-purchase agreements (PPA). In addition, we intend to enhance our PPP fiscal-risk assessment by collaborating with the Fund and the World Bank and adopting their PFRAM model.

Debt Management

9. We continue to expand the issue of peso-denominated government securities from a low base to develop domestic debt markets. Our newly unveiled market makers program will help increase the liquidity of the local markets. We have also introduced a securities lending facility to support market makers. 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.

10. Given heightened levels of market volatility in April, we focused on maximizing rollover volumes to safeguard the financial program and rebuild market confidence. Nonetheless, we remain committed to continue extending the maturities of government debt and building liquidity buffers, as market conditions permit. We will also continue to take advantage of market conditions to proactively smooth the liquidity impact of bulky amortizations, as we have done with the June maturity of the dual currency bond, which we successfully rolled-over the full amount.

11. 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.

12. On April 15, the BCRA commenced 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 have been and will remain constant at US$60 million per day.
- Auctions will take place daily until end-November at the 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 traceability of these funds, we commit to maintaining the peso proceeds from these auctions at the BCRA until their use.

Monetary Policy

13. Higher than expected inflation so far in 2019 suggests that reducing inflation and inflation expectations will be a gradual process. The best contribution we can give to this process is continuing with our cautious monetary policy stance. We have therefore committed to maintain the level of monetary base constant since February 2019 until end-July at AR$ 1343 billion and lower it gradually to reach a level of AR$ 1298 billion in October.

14. In July, we have lowered our unremunerated reserve requirements in order to accommodate the seasonal demand for currency in circulation. However, mindful of the need to maintain a sufficiently high interest rate, we have introduced a floor on nominal rates for July of 58 percent and we will reverse the impact of the lower reserve requirements during August to October as the seasonality reverses.

15. In line with the announced monetary policy framework, we remain committed to a floating exchange rate, where the level of the peso will be determined by market forces, with intervention by the central bank limited to avoid excessive day-to-day volatility that could challenge the orderly functioning of the foreign exchange market with an adverse influence on inflation.

16. In April, and in response to higher than expected inflation in Q1, we have announced that we will maintain the limits of the reference zone unchanged until end-year and have committed not to purchase FX at least until end-July 2019. These steps are expected to provide the needed tightening in the monetary stance to bring inflation and inflation expectations down.

17. We submitted a draft of a new BCRA charter to Congress in March, which will strengthen the monetary policy framework and central bank governance. The charter 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 continue to work towards achieving an adequate level of capital for the BCRA by end-December 2019.

Social Safety Net

18. We remain committed to protecting the most vulnerable from the risks they face in the current economic conditions. The front-loading in March of all the increases in AUH benefits implied by the indexation formula for 2019 provided an important shelter to beneficiaries from erosion in purchasing power. The expansion of the social spending adjustor at the third review has also played an important role in ensuring adequate provision of medicines in public health centers; continued food support; and active labor market programs. To further support job market entrants during a difficult economic environment, we propose that the programs including unemployment insurance, scholarship programs for students from low-income families and researchers, formulation and implementation of public policy programs to support gender equity, and comprehensive support programs for mothers, children, and teens be added to the social spending adjustor and the social protection floor under the program.

19. To better support working families and foster female labor force participation, we propose that the program *Primera Infancia* (childcare centers for low-income and vulnerable women) also be added to the social spending adjustor and the social protection floor under the program. 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. To level the playing field, we also remain committed to achieving the passage of legislation to increase the duration of paternity leave. Work is ongoing for the roll-out of a time-use survey across Argentina by 2020, to better understand women's care duties and support higher female labor force participation.

Growth Enhancing Structural Reforms

20. 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 recently unveiled measures to support Small and Medium Enterprises (SMEs), including more favorable payment plans for tax debt, regulatory improvements for banking services, and the elimination of export taxes for some small exporters will play a key role in supporting businesses in a tight monetary environment while having a relatively low fiscal impact.

21. The recent landmark agreement on a trade deal between MERCOSUR and the EU will bring together almost a quarter of the world's GDP and more than US$110 billion in trade of goods and services. Once finalized and ratified (expected in the next two years), the agreement will phase-in the elimination of tariffs on 93 percent of Mercosur exports to the EU and give preferential treatment to the remainder 7 percent. The EU will eliminate tariffs on 82 percent of agricultural imports from Mercosur and give preferential treatment and quotas on most of the remaining products.

22. We will continue our efforts to lower barriers to trade and foreign investment We continue to simplify and reduce import and export administrative costs through our single window (VUCE) program. We are also working to improve domestic competition and ease of doing business, including by simplifying entry regulations and reducing the administrative burden on firms. 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

23. An executive order launched and approved the 2019-2023 National Anti-Corruption Plan in April 2019. The next phase will include the implementation of the core pillars as described in the Plan. The text of the Executive Order mandates the creation of an advisory Committee (*Consejo Asesor*), to be composed from civil society, private sector, and other well-known experts in the field, to monitor the implementation of the Plan. The Committee is expected to be established later this year.

24. In April 2019, the Minister of Justice approved and cleared the process for conducting the implementation of the e-declaration system for assets and interests by high ranking officials within the Executive branch, on a trial basis. The implementation exercise will be under the responsibility of the *Ministerio de Modernización* and monitored by the Office of Anti-Corruption. Full implementation of this e-declaration system will further enhance transparency and support the existing AML/CFT regime and ongoing criminal investigations.

25. The implementation of the company registry (*Registro Nacional de Sociedades, Concursos y Quiebras*) is currently taking place. With assistance provided by the Tax Revenue Authority (*Administración Federal de Ingresos Públicos – AFIP*) information is available on-line for all companies established and incorporated in Argentina. In this respect, we will continue the process for verifying that information contained in this registry is accurate and updated.

26. In March 2019, we submitted to Congress the amendments to the Ethics in Public Service Law which establishes the framework for granting the Office of Anti-corruption the necessary authority, powers, roles, responsibilities, and sanctions to more effectively fight corruption and further engage in anti-corruption activities with other competent authorities. We continue to monitor progress with respect to the discussion and/or approval of this law by end-August 2019.

27. We continue to enhance the AML Law and anticipate that by end-September 2019, we will submit to Congress the amendments to this law, which includes 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

Available on or after	Amounts: SDR millions	Amounts: % 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)

	2019																	
	end-Mar			end-Apr		end-May		end-Jun				end-Jul	end-Aug	end-Sep		end-Oct	end-Nov	end-Dec
	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/	6.0	6.0	10.5	n.a.	n.a.	n.a.	n.a.	20.0		n.a.		n.a.	n.a.	60.0	70.0	n.a.	n.a.	0.0
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/	30.0		5.6	n.a.	n.a.	n.a.	n.a.	45.0		n.a.		n.a.	n.a.	53.2	53.2	n.a.	n.a.	58.5
4. Social assistance spending (floor) 3/	60.0		72.7	n.a.	n.a.	n.a.	n.a.	132.0		n.a.		n.a.	n.a.	205.0	223.5	n.a.	n.a.	325.0
Indicative targets																		
5. Primary balance of the general government (floor) 3/ 9/	-14.0	-14.0	78.0	n.a.	n.a.	n.a.	n.a.	10.0		n.a.		n.a.	n.a.	80.0	95.0	n.a.	n.a.	30.0
Monetary targets																		
Performance Criteria																		
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	12.5	4.4	5.5	9.0	10.5	6.2	3.8	9.0	0.7	4.0	Met	8.4	8.2	13.1	13.1	11.5	10.5	9.8
7. Change in stock of non-deliverable FX forwards (ceiling) 6/	-1.0		-3.3	-1.2	-2.6	-1.5	-5.2	-1.7		-6.6	Met	0.0	0.0	-2.6	0.0	0.0	0.0	0.0
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	0.0	0.0	0.0	0.0	0.0		0.0	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/	-185.6	-154.5	-212.6	-	-	-	-	-	-	-		-	-	-	-	-	-	-
11. Change in monthly average monetary base (ceiling) 11/	-	-	-	0.0	-18.4	0.0	-0.6	0.0		-1.1	Met	0.0	-18.0	0.0	-33.0	-45.0	-45.0	38.0

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 which stood at US$3.6 billion.
7/ The change is measured against the value on September 28, 2018, which stood at 2,592.86 billion pesos.
8/ The change is measured against the average value for September 2018, which was AR$ 574 billion.
9/ Targets subject to adjustors as defined in the TMU.
10/ Increases reflect IMF disbursements, which increase NIR.
11/ 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	Met
10	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	Met
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	
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	

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.

<u>Cumulative Floor of the Federal Government Primary Balance</u>

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.

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 80,000 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).
- *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).
- *Apoyo al Empleo,* under the jurisdiction of the Ministry of Health and Social Development, Secretary for Social Development (Program 38).
- *Formulación e implementación de políticas públicas de la mujer* under the jurisdiction of the National Women's Institute (Program 17)
- *Promoción y asistencia a espacios de primera infancia, Acciones para la Promoción y Protección Integral de los Derechos de Niños, Niñas y Adolescentes, Atención de la Madre y el Niño, Desarrollo de la Salud Sexual y la Procreación Responsable,* under the jurisdiction of the Ministry of Health and Social Development (Programs 47, 44, 17, and 25, respectively).
- *Formación de recursos humanos* under the jurisdiction of the National Council for Scientific and Technical Innovations (Program 16)
- *Gestión y Asignación de Becas a Estudiantes (Act. 40- PROGRESAR)* under the Minsitry of Education, Culture, Science and Technology (program 49, activity 40)
- *Seguro de desempleo* under the jurisdiction of ANSES (program 18)

The value of the adjustor will be capped at 63,900 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	133,988
end-December 2019	198,586

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 42,500 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.*

- *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).
- *Apoyo al Empleo,* under the jurisdiction of the Ministry of Health and Social Development, Secretary for Social Development (Program 38).
- *Formulación e implementación de políticas públicas de la mujer* under the jurisdiction of the National Women's Institute (Program 17)
- *Promoción y asistencia a espacios de primera infancia, Acciones para la Promoción y Protección Integral de los Derechos de Niños, Niñas y Adolescentes*, *Atención de la Madre y el Niño, Desarrollo de la Salud Sexual y la Procreación Responsable,* under the jurisdiction of the Ministry of Health and Social Development (Programs 47, 44, 17, and 25, respectively).
- *Formación de recursos humanos* under the jurisdiction of the National Council for Scientific and Technical Innovations (Program 16)
- *Gestión y Asignación de Becas a Estudiantes (Act. 40- PROGRESAR)* under the Minsitry of Education, Culture, Science and Technology (program 49, activity 40)
- *Seguro de desempleo* under the jurisdiction of ANSES (program 18)

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; 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

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

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.

<u>Floor on the Change in Non-Borrowed Net International Reserves</u>

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-July 2019	29,884
end-August 2019	29,884
end-September 2019	35,356
end-October 2019	35,356
end-November 2019	35,356
end-December 2019	36,338
Budget support loans from other multilateral sources	
end-July 2019	2,950
end-August 2019	2,950
end-September 2019	3,830
end-October 2019	3,830
end-November 2019	3,830
end-December 2019	4,730

- **Adjustor for FX sales**. 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. This amount excludes the daily US$ 60mn sold by the BCRA on behalf of Treasury.
    - **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.

- o **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).

  - o **Intervention rule:**

    Interventions are defined as below, consistent with BCRA communique of April 29th, 2019.[3] The sale of foreign currency would aim at countering disorderly market conditions, preventing such movements from unduly affecting the exchange rate and contributing to the correct functioning of FX market.

    - *If the exchange rate is below the upper limit of the reference zone (below $51.5)* the BCRA would be prepared to sell dollars.

    - *If the exchange rate is above the upper limit of the reference zone (exceeds AR$51.5 per US$):* the BCRA would be able to sell up to US$250 million. The BCRA may undertake additional interventions above this US$250 million limit to counteract episodes of excessive exchange rate volatility.

- o All foreign exchange sales and purchases are expected to be unsterilized.

- o **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 for 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.

  - o **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.

[3] http://www.bcra.gob.ar/Noticias/Comunicado-290419.asp

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	14,997
end-August 2019	16,138
end-September 2019	18,298
end-October 2019	19,872
end-November 2019	21,176
end-December 2019	22,153

- **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 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), 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. MB 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 BCRA's 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. Adjustors:

- **Adjustor for FX sales.** The base money target will decrease by the peso equivalent of FX sales, which are executed in accordance with the intervention rule described below

    - **Intervention rule:**

        Interventions are defined as below, consistent with BCRA communique of April 29th, 2019.[4] The sale of foreign currency would aim at countering disorderly market conditions, preventing such movements from unduly affecting the exchange rate and contributing to the correct functioning of FX market.

        - *If the exchange rate is below the upper limit of the reference zone (below $51.5)* the BCRA would be prepared to sell dollars.

        - *If the exchange rate is above the upper limit of the reference zone (exceeds AR$51.5 per US$):* the BCRA would be able to sell up to US$250 million, the BCRA may undertake additional interventions above this US$250 million limit to counteract episodes of excessive exchange rate volatility.

[4] http://www.bcra.gob.ar/Noticias/Comunicado-290419.asp

- The target will be reduced at the pro rata of the remaining days in the month for the month during which the intervention happened and by the full amount for the following month. For instance, assuming a month of 30 days, the base money target will be reduced by AR$ 50 if the BCRA sells the equivalent of AR$ 100 on the 15th for the current month and by AR$ 100 for the following months.

- **Adjustor for FX purchases.** In line with the monetary framework, FX purchases (from the market or the treasury) when the peso is below the reference zone will be unsterilized. The MB target will be adjusted upward by the FX purchases, relative to the original targets, at the pro rata of the remaining days in the month for the month during which the purchase happened and by the full amount for the following month. For instance, assuming a month of 30 days, the base money target will be increased by AR$50 if the BCRA buys the equivalent of AR$ 100 on the 15th for the current month and by AR$ 100 for the following months.

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.

Ceiling on Central Bank Credit to the Government

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

Cumulative Floor on Primary Balance of the General Government

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).
- *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)
- *Apoyo al Empleo,* under the jurisdiction of the Ministry of Health and Social Development, Secretary for Social Development (Program 38).
- *Formulación e implementación de políticas públicas de la mujer* under the jurisdiction of the National Women's Institute (Program 17)
- *Promoción y asistencia a espacios de primera infancia, Acciones para la Promoción y Protección Integral de los Derechos de Niños, Niñas y Adolescentes*, *Atención de la Madre y el Niño, Desarrollo de la Salud Sexual y la Procreación Responsable,* under the jurisdiction of the Ministry of Health and Social Development (Programs 47, 44, 17, and 25, respectively).
- *Formación de recursos humanos* under the jurisdiction of the National Council for Scientific and Technical Innovations (Program 16)

- *Gestión y Asignación de Becas a Estudiantes (Act. 40- PROGRESAR)* under the Ministry of Education, Culture, Science and Technology (program 49, activity 40)

- *Seguro de desempleo* under the jurisdiction of ANSES (program 18)

The value of the adjustor for will be capped at 63,900 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 42,500 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.
- Reserve position of public and private banks, on a bank by bank basis.
- Data on the total loans value of all new federal government-funded public private partnerships.

INTERNATIONAL MONETARY FUND

ARGENTINA

July 12, 2019

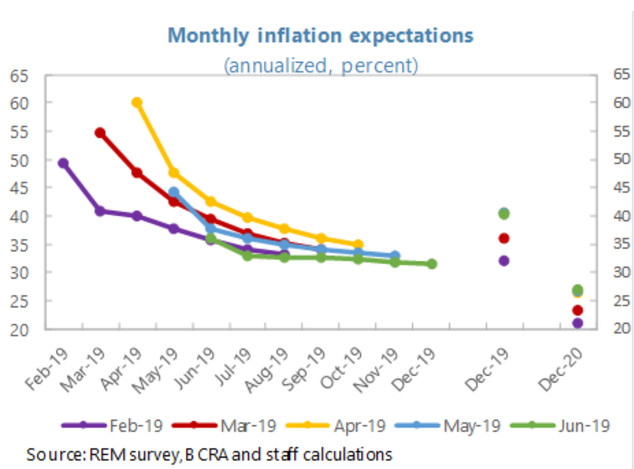
FOURTH REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

Approved By
Nigel Chalk (WHD) and Martin Mühleisen (SPR)

Prepared by the Argentina team.

1. **This statement provides additional information that has become available since the Staff Report (EBS/19/69) was circulated to the Executive Board on July 3, 2019.** The information does not alter the thrust of the staff appraisal.

2. **All end-June fiscal performance criteria were met.** The primary balance closed at AR$30.2 billion, AR$10 billion over the unadjusted target for June (AR$20 billion) and AR$47.5 billion above the target adjusted for the additional social and capital spending (AR$-17.3 billion). This mainly reflects an AR$40 billion overperformance in non-tax revenues, due to an earlier-than-expected sale of a power plant. Overall, tax revenues for the first half of the year came in in line with staff projections, with the recovery in Q2 largely making up for shortfalls in Q1. Expenditures continue to contract vis-à-vis 2018, particularly wages and pensions (4.9 percent of GDP during 2019H1 versus 5.4 percent of GDP in same period of 2018). Social spending overperformed the floor by AR$25.6 billion, closing end-June at AR$157.6 billion. Domestic arrears were also below their ceiling by AR$32 billion. Given that the PCs on primary balance, social spending and domestic arears have been met, waivers of applicability for these targets are no longer needed.



3. **Inflation expectations were relatively stable in June.** The June Survey of Market Expectation (REM) from the BCRA showed slightly lower average monthly inflation expectations in June and July (2.6

and 2.4 percent, respectively, versus 2.7 and 2.5 percent in the May survey), with little changes for August to November. On average markets now expect inflation to be 40.2 percent (y/y) at end-December 2019. Markets expect the LELIQ rate to reach the same level in December as in the previous survey (about 55 percent).

4. **Market conditions continued to be favorable in the first week of July.** As of July 8, the peso has appreciated by 1.4 percent since end-June. LELIQ rates declined by 279 bps since end-June and stood at 59.9 percent on Wednesday July 8th which (together with the new REM inflation expectations) correspond to a real annualized ex-ante interest rate of 38 percent. Sovereign spreads fell to 805 on July 8, with CDS spreads remaining relatively stable since end June.

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

	2019																		
	end-Mar			end-Apr		end-May		end-Jun				end-Jul	end-Aug	end-Sep		end-Oct	end-Nov	end-Dec
	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/	6.0	6.0	10.5	n.a.	n.a.	n.a.	n.a.	20.0	-17.3	30.2	Met	n.a.	n.a.	60.0	70.0	n.a.	n.a.	0.0
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/	30.0		5.6	n.a.	n.a.	n.a.	n.a.	45.0		13.0	Met	n.a.	n.a.	53.2	53.2	n.a.	n.a.	58.5
4. Social assistance spending (floor) 3/	60.0		72.7	n.a.	n.a.	n.a.	n.a.	132.0		157.6	Met	n.a.	n.a.	205.0	223.5	n.a.	n.a.	325.0
Indicative targets																			
5. Primary balance of the general government (floor) 3/ 9/	-14.0	-14.0	78.0	n.a.	n.a.	n.a.	n.a.	10.0		n.a.		n.a.	n.a.	80.0	95.0	n.a.	n.a.	30.0
Monetary targets																			
Performance Criteria																			
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	12.5	4.4	5.5	9.0	10.5	6.2	3.8	9.0	0.7	4.0	Met	8.4	8.2	13.1	13.1	11.5	10.5	9.8
7. Change in stock of non-deliverable FX forwards (ceiling) 6/	-1.0		-3.3	-1.2	-2.6	-1.5	-5.2	-1.7		-6.6	Met	0.0	0.0	-2.6	0.0	0.0	0.0	0.0
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	0.0	0.0	0.0	0.0	0.0		0.0	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/	-185.6	-154.5	-212.6	-	-	-	-	-	-	-		-	-	-	-	-	-	-
11. Change in monthly average monetary base (ceiling) 11/	-	-	-	0.0	-18.4	0.0	-0.6	0.0		-1.1	Met	0.0	-18.0	0.0	-33.0	-45.0	-45.0	38.0

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 which stood at US$3.6 billion.
7/ The change is measured against the value on September 28, 2018, which stood at 2,592.86 billion pesos.
8/ The change is measured against the average value for September 2018, which was AR$ 574 billion.
9/ Targets subject to adjustors as defined in the TMU.
10/ Increases reflect IMF disbursements, which increase NIR.
11/ The change is measured against the average value for February 2019, which was AR$1,343 billion.

Supplement to the Letter of Intent

Acting Managing Director
International Monetary Fund
Washington, D.C. 20431
United States of America

July 11, 2019

Dear Acting Managing Director,

This is to inform you that we now have fiscal data as of end-June, showing that we have met the end-June PCs for the primary balance and the social spending. Therefore, we are no longer requesting waivers of applicability for these PCs.

Your sincerely,

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