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ARGENTINA

June 2024

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

In the context of the Eighth Review Under the Extended Arrangement Under the Extended Fund Facility, Requests for Modification of Performance Criteria, Waivers of Nonobservance of Performance Criteria, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 13, 2024, following discussions that ended in May 2024, with the officials of Argentina on economic developments and policies underpinning the IMF arrangement under the Extended Arrangement Under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on May 31, 2024.
- A **Staff Supplement,** updating information on recent developments.
- A **Statement by the Executive Director** for Argentina.

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

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International Monetary Fund
Washington, D.C.

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

FOR IMMEDIATE RELEASE

- The Executive Board's decision enables a disbursement of around US$800 million to support the authorities' efforts to entrench the disinflation process, rebuild fiscal and external buffers, and underpin the recovery.
- Program remains firmly on track, with all quantitative performance criteria for end-March 2024 met with margins.
- Sustaining progress requires improving the quality of fiscal adjustment, taking initial steps towards an enhanced monetary and FX policy framework, and implementing reforms to unlock growth, formal employment, and investment.

Washington, DC – June 13, 2024: The Executive Board of the International Monetary Fund (IMF) completed today the eighth review of the extended arrangement under the Extended Fund Facility (EFF) for Argentina. The Board's decision allows for an immediate drawing of approximately US$800 million (or SDR600 million), bringing the total disbursements under the arrangement to about US$41.4 billion[1].This will support the authorities' efforts to restore stability and strengthen Argentina's external viability.

In completing the review, the Executive Board assessed the program to be firmly on track, with all quantitative performance criteria through end-March 2024 met with margins. In addition, the Board also approved waivers of non-observance for a new exchange restriction and multiple currency practices in the context of some easing of dividend payment restrictions. The Board emphasized that sustaining the strong progress requires improving the quality of fiscal adjustment, initiating steps towards an enhanced monetary and FX policy framework, and implementing the structural agenda. Continued efforts to support the vulnerable, broaden political support and ensure agile policymaking will also be necessary.

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

"Since the last review, continued resolute actions to restore macroeconomic stability have put the program firmly on track. The stabilization plan—centered on a strong fiscal anchor with no new monetary financing—has delivered fiscal and external surpluses, a marked turnaround in reserves, a strengthening of the central bank's balance sheet, and faster-than-expected

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[1] IMF Executive Board Approves 30-month US$44 billion Extended Arrangement for Argentina and Concludes 2022 Article IV Consultation

disinflation, while upscaling social expenditures. All quantitative performance criteria through end-March were met with margins, with good progress on the structural agenda.

“Nevertheless, some macroeconomic imbalances and barriers to growth remain, and a difficult adjustment path still lies ahead. Policies now need to be enhanced to build on the progress made so far. Efforts should continue to broaden political and societal support for reforms, as well as to protect the most vulnerable.

“Impressive progress has been made to achieve overall fiscal balance and priority should now be placed in further improving the quality of the adjustment. Efforts should continue to reform the personal income tax, rationalize subsidies and tax expenditures, and strengthen expenditure controls. Beyond this year, deeper reforms of the tax, pension, and revenue-sharing systems, including to unwind distortive taxes, will be critical.

“Monetary and FX policies need to evolve to continue to entrench the disinflation process and further improve reserve coverage. To support the transition towards a new monetary regime, where price and financial stability remain prime objectives of the central bank and individuals are free to use currencies of their choice, the real policy rate should turn positive to support peso demand and disinflation. The exchange rate policy should also become more flexible to reflect fundamentals, and safeguard disinflation as well as reserve accumulation, particularly as capital flow management measures (CFMs) are gradually eased as conditions permit. Further steps are also needed to define the new monetary regime’s key underpinnings as well as to develop and begin to implement the framework for a conditions-based easing of FX controls and CFMs.

“Greater focus on micro-level reforms will help support the recovery and boost potential growth. The proposed reforms aimed at improving competitiveness, increasing labor market flexibility, and improving the predictability of the regulatory framework for investment, are steps in the right direction, and their approval and careful implementation should be a priority. This should be complemented by reforms to enhance transparency and governance, including the AML/CFT framework.

“Risks, although moderated, are still elevated, requiring agile policy making. Contingency planning will remain critical, and policies will need to continue to adapt to evolving outcomes to safeguard stability and ensure all program objectives continue to be met.”

INTERNATIONAL MONETARY FUND

ARGENTINA

May 31, 2024

EIGHTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA, WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. Decisive implementation of the stabilization plan—centered on a strong fiscal anchor with no new monetary financing, and relative price corrections—has led to twin fiscal and external surpluses, a marked turnaround in reserves, faster-than-expected disinflation, a bolstering of the BCRA's balance sheet and a reduction in sovereign spreads to multi-year lows. Selected easing of FX restrictions and deregulatory efforts are improving resource allocation. Nevertheless, macroeconomic imbalances and growth bottlenecks remain sizable and a long and difficult adjustment process still lies ahead, where policies need to evolve to build on earlier gains and support a turnaround in activity. Efforts are also underway to build political and societal support for reforms, as well as to scale up social assistance to protect the most vulnerable and ensure the burden of the adjustment does not fall disproportionally on working families. That said, delays in securing key legislation in Congress have led to some market volatility.

Program performance. The program is firmly on track. All quantitative performance criteria through end-March were met with margins, with good progress made in meeting structural benchmarks (SBs). Some unwinding of the most distortive multiple currency practices (MCPs) and exchange restrictions is underway, although many remain temporarily in place as imbalances are being addressed, with a minor modification to limit tax arbitrage.

Policy discussion. Sustaining the strong early progress requires improving the quality of fiscal adjustment, taking initial steps towards an enhanced monetary and FX policy framework, implementing the structural agenda, and securing financing assurances. This will require continued efforts to secure congressional approval of key fiscal and structural legislation, already passed by the lower house, as well as agile policy making, if external and implementation risks are realized.

- **Fiscal policy.** The authorities are fully committed to achieving a primary surplus of 1.7 percent of GDP this year, consistent with overall balance. About two-thirds of

the adjustment planned (around 5 ppts of GDP) has been achieved as of end-April, mainly through temporary higher import-related taxes, lower subsidies, and discretionary spending cuts. The fiscal package, which is expected to be approved by Congress—covering a personal income tax reform, a tax amnesty, an improvement to personal asset taxes and tobacco excises—will support and improve the quality of consolidation efforts. Beyond this year, the authorities intend to sustain an overall balance, which will require putting greater focus on reforming the tax, pension, and revenue-sharing systems, including to unwind distortive taxes.

- **Monetary and FX policies.** Monetary and FX policies will evolve to entrench the disinflation and safeguard reserve accumulation. Specifically, to support the transition towards a new monetary regime ("currency competition"), the central bank will ensure monetary policy rates move into positive territory in real terms, while FX policy will become more flexible with the easing of capital flow management measures (CFMs) as conditions allow. That said, the authorities remain committed to an early unwinding of the most distortive MCPs and exchange restrictions. Finally, a further streamlining of banking regulations is necessary to strengthen monetary transmission and continue to unlock private credit.

- **Supply side policies.** The authorities will continue to correct relative price misalignments and create a more market-oriented economy. The expected approval of the landmark reform legislation (*Ley Bases*) will support the recovery and boost productivity over time through (i) increased labor market flexibility; (ii) upgrades in the legal framework and properly-designed incentives for large long-term investments in hydrocarbon and other strategic sectors; (iii) reduced state participation in the economy; and (iv) removal of entry barriers and policies to safeguard competition.

- **Financing strategy and assurances.** The authorities' domestic financing strategy will continue to focus on reducing rollover risks, while gradually reducing vulnerabilities by extending maturities, avoiding FX-and inflation-linked securities, and shifting from overnight central bank paper to Treasuries. On the external side, firm financing assurances have been sought from multilateral and regional development banks. Firm commitments from China are in place, including to substantially refinance the activated portion of the PBOC swap and to address project loan delays in line with project implementation progress. Continued efforts to address imbalances and sustain twin surpluses will be critical to ensure Argentina's return to external markets in a timeframe consistent with debt refinancing needs.

Program baseline. Minor revisions to the baseline are being proposed on account of a stronger contraction in activity in late 2023, and a more rapid decline in inflation. Output is now projected to contract by around 3½ percent in 2024 (previously 2¾ percent), although a turnaround in activity is expected during the second half of this year, as the headwinds from fiscal consolidation ease, real wages start to recover, and investment gradually picks up in response to reform efforts. Monthly inflation is expected to fall further, converging to around 4 percent by end-2024 (140 percent y/y vs. 150 percent previously), and declining further over the medium term, as peso demand recovers from historically low levels. Meanwhile, reserves are projected to remain unchanged as the less favorable terms of trade are largely offset by stronger net capital inflows. Sustained fiscal and external surpluses over the medium term—supported by tight policies, productivity gains and structural improvements in the energy balance—will strengthen reserves and secure international market access prospects.

Program and enterprise risks. Risks remain elevated, although they have become more balanced following bold actions to restore stability. Downside risks persist. External conditions could become less favorable, and the ongoing recession could become more protracted, fueling social tensions and complicating program implementation. Further delays in securing congressional approval of the fiscal and structural packages could also hamper stabilization efforts, and would require that strong offsetting measures under the control of the Executive be taken as needed to secure all program targets. Efforts should also continue to ensure proper burden sharing and build reform consensus given the very fragile social and political landscape. Against this backdrop, Fund enterprise risks remain significant, although these have moderated, including near-term balance sheet risks from overdue financial obligations.

Program modalities. Purchases under the eighth review are at SDR 0.6 billion, which will be maintained in the SDR Holding Account at the IMF to meet Fund obligations as they fall due. Program targets for the primary fiscal balance and reserves have been strengthened to reflect program overperformance and updates to the macroeconomic framework. Approval for multiple currency practices under Article VIII, assessed in line with the new MCP policy, are sought on the grounds that the measures have been imposed for balance of payments reasons, are temporary, non-discriminatory in nature, and do not give Argentina unfair competitive advantage over other members. In the context of easing of cross-border dividend payment restrictions and limiting potential tax arbitrage, approval of a new exchange restriction and MCP arising from the application of the tax on FX access (*impuesto pais)* for payment of dividends and profits to nonresident investors is also sought as the conditions for approval are met. In addition, waivers of nonobservance are also requested, as this new measure caused nonobservance of the continuous PCs against the imposition/intensification of exchange restrictions and the introduction/modification of MCPs.

Approved By
Rodrigo Valdés, Luis Cubeddu (both WHD), Mark Flanagan (SPR)

Discussions took place in Buenos Aires and Washington, D.C. during April–May 2024. The team included L. Cubeddu and A. Ahuja (heads), T. Kass-Hanna, J.M. Fournier, J. Yépez Albornoz (all WHD), A. Lagerborg (FAD), G. Otokwala (LEG), S. Mulema (MCM), K. Elfayoumi (SPR), M. Szafowal (Local Economist), and B. Kelmanson (Resident Representative). I. Gudbjartsdottir (MCM), V. Alonso and G. Una (both FAD) joined part of the discussions. S. Hua (WHD) provided research assistance and M. Machado Damasio (WHD) provided document management. The team met with L. Caputo (Economy Minister), S. Bausili (BCRA President), C. Guberman (Budget Secretary), P. Quirno (Finance Secretary), V. Werning (BCRA Vice President) and their teams. Mr. Madcur (OED) participated in the discussions.

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CONTEXT

1. **Decisive policy actions to restore stability have delivered much better-than-expected results, and the program is now soundly on track.** The steadfast implementation of the stabilization plan—founded on a strong fiscal anchor with no new net credit to the government, and relative price corrections—has led to impressive central bank FX purchases, the first consecutive monthly fiscal surpluses in almost two decades, markedly lower FX gaps, and sovereign spreads falling to multi-year lows. Monthly inflation fell to single digits in April, beating market expectations for the fifth consecutive month, with core inflation reaching its lowest since January 2023. Meanwhile, the central bank balance sheet has been strengthened, much of the legacy importer debt overhang has either been resolved or reprofiled, and domestic debt rollover risks have been significantly reduced. Selected FX restrictions have been eased, especially for smaller firms, and deregulatory reforms are already improving resource allocation in key sectors. Under a clear departure from past policies, all quantitative performance criteria through end-March have been met with margins (Figure 1), with progress made in key areas of the structural agenda.

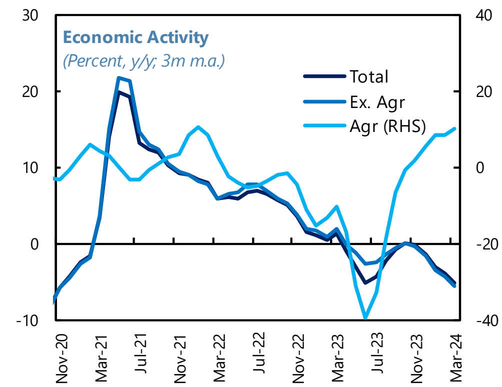
2. **Nevertheless, the path ahead remains challenging, requiring further policy adjustments to tackle still large legacy imbalances and growth bottlenecks.** Sustaining the strong progress already made and supporting the recovery requires: (i) strengthening the fiscal anchor by improving the quality and durability of the ongoing consolidation through structural measures, some of which are currently under congressional consideration, requiring timely approval; and (ii) refining the monetary and FX policy frameworks and communication to firmly entrench the disinflation process, further improve reserve coverage and support the transition to a new "currency competition" regime. This will need to be complemented by a well-calibrated easing of CFMs, with an early unwinding of the more distortive MCPs and exchange restrictions, as well as reforms to create a more market-oriented economy to support a turnaround in activity and boost Argentina's growth potential. More generally, and as stability is restored, reliance on discretionary short-term measures should give way to a more comprehensive and predictable policy approach.

3. **Continuing to build societal and political support for the needed reforms remains essential.** Given the large near-term costs of addressing macroeconomic imbalances, efforts will need to continue to scale up social assistance to protect the most vulnerable and ensure the cost of the adjustment does not disproportionately fall on working families. Against the backdrop of the administration's limited congressional representation, it remains critical to continue to work with Congress, provincial governors, and other stakeholders to secure passage of fiscal and other reform legislation (*Ley Bases*). Strengthening reform consensus will be necessary to limit market volatility, boost confidence and improve the climate for longer-term investment.

RECENT DEVELOPMENTS

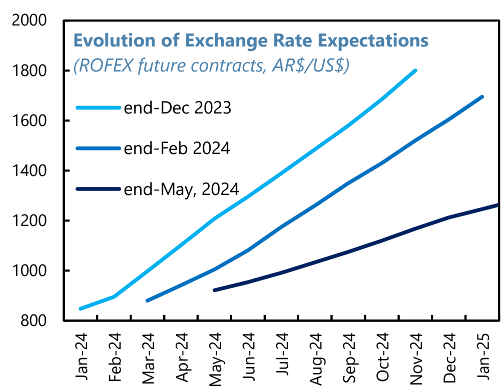
Key indicators are showing better-than-expected outcomes on account of determined policy actions. The large step devaluation, the strong and frontloaded fiscal tightening with no new net monetary financing, *along with actions to improve the central bank balance sheet have led to marked turn-around in reserve and inflation dynamics. Efforts to correct unsustainable policies and restore macroeconomic stability have been associated with short-term economic and social costs, although there are incipient signs that parts of the economy may have begun to stabilize. Despite progress, sizeable macroeconomic imbalances persist, competitiveness gains remain tenuous, and lingering political uncertainties could weigh on markets.*

4. **Activity and demand have contracted sharply, although there are early signs that some sectors may be close to bottoming out.** Following a sharper-than-estimated contraction in Q4:2023 GDP (1.9 percent q/q, sa), indicators point to a further decline in demand and activity (especially in construction, manufacturing, and retail trade where idle capacity has risen) through Q1:2024 (3 percent q/q, sa) on account of the front-loaded fiscal consolidation and relative price corrections, which were necessary to restore stability (Figure 2). Private consumption fell considerably (real supermarket sales declined by 10 percent November–March), supported also by falling real wages (down 17 percent November–March), although employment has generally held up.[1] That said, several indicators point towards a potential stabilization in economic activity beginning in April, including improvements in consumer confidence, an emerging uptick in private credit and cement consumption, all against the backdrop of a rebound in agricultural production following last year's drought.



Sources: INDEC; Haver Analytics; and Fund staff calculati

5. **While still elevated, inflation has declined faster than expected.** Unlike the August 2023 devaluation, the exchange rate passthrough has been better contained this time around thanks to a combination of the strong fiscal anchor, demand contraction, and compression of corporate margins, allowing monthly headline inflation to fall to 8.8 percent in April from 25.5 percent in December 2023 (Figure 3). While necessary relative price corrections (see ¶8 and ¶12) continue to keep regulated price inflation elevated, core inflation (6.3 percent m/m) is now lower than its January 2023 level, beating market expectations. Indicators point to further disinflation in May, consistent with declining near-term inflation expectations, a significant compression in the FX gap and market depreciation expectations in the context of an unchanged 2 percent monthly rate of crawl.[2] That said, the FX gap has risen more



Sources: Bloomberg Finance L.P.; and Fund staff calculations.

[1] Employment in key sectors associated with public sector activities has been more affected, including construction where employment fell by 12 percent y/y in February following deep cuts to public investment.

[2] It is worth noting that under the preferential export scheme, 20 percent of export proceeds are being channeled to the formal parallel (CCL) market.

recently form 20 percent to around 40 percent, in part reflecting policy and political uncertainties around the prospects of congressional approval of key reforms in the context of low real policy interest rates.

6. The trade balance has reversed to surplus, and notably so on a cash basis, while financial outflows have slowed:

- The cumulative goods trade surplus reached US$7.2 billion between December and April, from a deficit of around US$8 billion during January–November 2023, driven by significant import compression (18 percent y/y in volumes during January–April 2024), and an export rebound (19 percent y/y in volumes), mainly from an agricultural export recovery from last year's drought. The cumulative services deficit also narrowed driven mainly by declining tourism outflows and freight expenses (from lower goods imports). The real effective exchange rate (REER) has appreciated by around 40 percent since the large mid-December step devaluation, reaching the staff-assessed medium-term equilibrium level after considering the impact of import-related taxes, recognizing uncertainties.

- On a cash basis, the cumulative goods trade balance was much stronger (around US$15.5 billion through April), with the difference (from the accrual trade balance) mainly reflecting near US$8.5 billion in commercial debt flows and use of private FX for imports payments, partly offset by exports receipts settled outside the official market (around US$ 6 billion were channeled through the CCL market). Since December, importers have accumulated about US$7 billion in new commercial debts (through the new rules-based phased import payment schedule) while exporters debt grew by US$1.3 billion. Various central bank schemes (BOPREALs) to address the importer debt and dividend payment overhang have successfully provided near-term cash-flow relief of close to US$10 billion (see Box 6), and the untreated importers' debt overhang accumulated during 2022–23 has fallen significantly (US$3–5 billion).

Argentina: Trade Balance Developments
(in billions of U.S. dollars)

	Dec-Apr 2022/23	Dec-Apr 2023/24	Diff.
Accrual Based			
Goods Trade Balance	-0.5	7.2	7.6
Goods Exports	27.9	29.2	1.3
Goods Imports	28.4	22.0	-6.3
Services Balance*	-0.8	-0.1	0.7
Cash Based			
Goods Trade Balance	4.3	15.5	11.2
Goods Exports	28.3	24.7	-3.6
Goods Imports	24.0	9.2	-14.7
Services Balance*	-3.1	-0.5	2.7

*Preliminary estimates.
Sources: INDEC; BCRA; and IMF staff calculations.

- On the financial account side, net private financial outflows through the official market slowed sharply, as households substantially reduced the pace of savings in foreign currency, at about US$20 million per month this year, compared to US$160 million per month over 2023. Amid a fairly strong external position by the private sector (see Box 5), private firms' deleveraging eased from about US$40 million per month this year versus a monthly average of US$160 million in 2023. Net new FDI flows were more or less flat, as investors remained in a wait-and-see mode, although some firms have started placing debt in international capital markets and domestically in dollars.[3]

[3] The state-controlled oil and gas company (YPF) and private electricity company (Pan American Energy) issued bonds (US$800 million and US$400 million, respectively) in international markets, with several private energy and agribusiness companies (Edenor, Pampa Energia, Cresud) also issuing USD-denominated bonds domestically.

7. As a result, reserves are being quickly replenished, although net international reserves (NIR) remain inadequate. Central bank (BCRA) FX purchases have exceeded US$17 billion since mid-December, while direct intervention in the parallel markets and non-deliverable futures (NDF) markets have ceased (Figure 4). Net international reserves (NIR) have recovered from negative US$11.2 billion pre-devaluation to about US$0.3 billion, supported by an increase in the cash trade surplus as well as lower private sector foreign asset purchases. This NIR overperformance has allowed the early elimination of restrictions to FX access to micro, small-and medium-sized enterprises (MSMEs). Despite reduced external imbalances, Argentina's reserve coverage remains below 50 percent of the ARA metric, requiring sustained improvement, particularly in the context of still important future FX debt service obligations and the weaker overall external position than the level implied by medium-term fundamentals and desirable policies (see Annex I).

Argentina: International Reserves 1/

(in billions of U.S. dollars, at current rates)

	2023	2024	
	Dec-7th	end-Jan	Latest
1. Gross International Reserves	**21.2**	**27.6**	**29.2**
a. Gross liabilities	32.4	31.9	28.8
PBOC swap	18.3	18.3	18.2
BIS 2/	2.8	2.0	0.0
RR FX deposits	9.4	9.8	8.8
Other (incl. desposit insurance)	1.9	1.9	1.9
2. Net International Reserves (=1-a)	**-11.2**	**-4.3**	**0.3**
b. Gold	4.0	4.1	4.7
c. SDR	0.0	2.7	0.0
Memorandum item			
FX liquidity 3/	-0.8	3.7	9.5

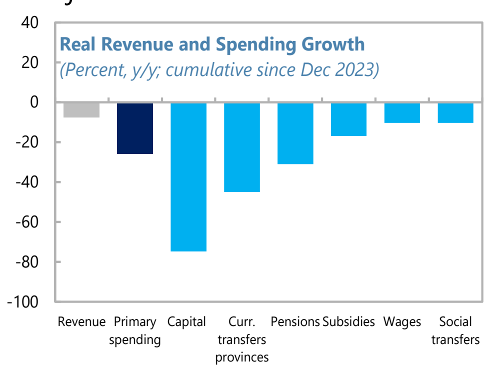
Sources: BCRA and IMF staff calculations

1/ Includes valuation effects. Data as of May 29, 2024.

2/ BIS credit facility was fully unwound in April.

3/ Defined as gross reserves excluding the unactivated share of the PBoC swap, BIS credit facility, Gold, SDRs holdings and SEDESA deposit insurance.

8. Tight fiscal policy has delivered the first consecutive four-month overall surplus in 16 years, while protecting social assistance. A remarkable fiscal adjustment since end-December—with real spending cuts (26 percent y/y) more than offsetting real revenue declines (8 percent y/y)—yielded a cumulative overall surplus of 0.2 percent of GDP in the first four months of 2024 (Figure 5). On the revenue side, higher fuel excises, export receipts, and temporary taxes on FX access for imports (*impuesto pais*) are helping to partially offset real declines in domestic taxes, also a result of an earlier decision to raise the PIT floor. Expenditure cuts have been delivered through measures under the Executive's control, including: (i) discretionary cuts in capital spending and transfers to SOEs and provinces, forcing adjustment across these entities; (ii) energy, transport and water tariff increases;[4] (iii) limits to public wage increases; and (iv) the tighter management of decentralized public entities (e.g., streamlining inefficient trust funds), in line with the Public Investment Management Assessment (PIMA) recommendations. Given the very delicate social situation, transfers have been significantly scaled up to the flagship universal child allowance program (*AUH*), the food program (*Alimentar*), and the new early childhood support program (*primeros 1000 dias*), while the school aid allowance program has been expanded to support working families'

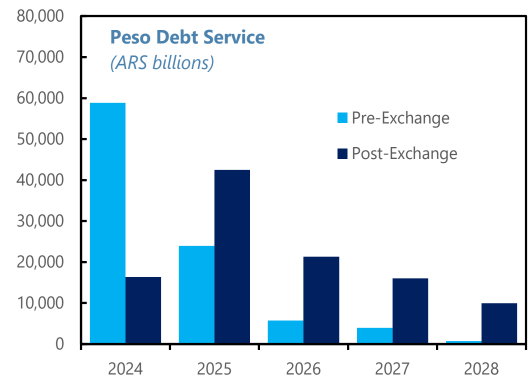


Sources: MECON; and Fund staff calculations.

[4] Electricity prices (PEST) were raised during February–April to reflect full cost recovery for high-income residential users (150 percent) and all commercial user categories (225–480 percent). Effective April 1, natural gas prices (PIST)—frozen since May 2023—were also raised for high income and commercial users (around 300 percent) and for low-and middle-income residential users (around 100 percent). Public transportation (bus and rail) fares in Buenos Aires—frozen since August 2023—were raised by over 200 percent during January–February, although the scheduled April hikes have been postponed for at least two months.

private school tuition (Box 1). Similarly, the real value of pensions has been protected by the newly improved indexation formula (linked to past inflation), effective April, that also partially compensates for earlier real losses.

9. Strong fiscal and domestic financing efforts have materially reduced domestic debt rollover risk. Active public debt management has reduced rollover risks, including through a voluntary exchange that successfully extended 40 percent of all outstanding peso debt this year (6.5 percent of GDP) into inflation-indexed securities falling due in 2025–28 **(end-March 2024, SB)**, rendering a substantially improved maturity profile (average duration rose from 6 months to 3 years) and lower interest bill. To reduce debt vulnerabilities and build the Treasury yield curve, efforts continue to shift toward fixed-rate instruments (away from inflation- and FX-indexed securities), unwind costly central bank insurance (puts), and shift from BCRA to Treasury securities (¶10).[5] Meanwhile, following the clearance of large arrears inherited from the previous administration, the stock of domestic arrears has been maintained at around 0.2 percent of GDP, well below the program's ceiling. Efforts to clear arrears to the wholesale electricity market clearing company (CAMMESA) are ongoing, partly through government transfers (with outstanding long-dated bonds)[6] and by gradually allowing energy distribution prices to converge to full cost recovery (¶18).



Sources: MECON and Fund staff calculations.

10. Efforts continue in healing the central bank's balance sheet, with a new accounting policy better reflecting its true quality.

- In the context of rapidly falling inflation, ex-ante real policy interest rates have turned less negative, despite the central bank's decision to lower nominal policy rates (from 8.6 percent m/m in end-December to 3.3 percent as of late). Meanwhile, sustained reserve accumulation and redemption of government securities (enabled by the fiscal surplus and net government debt placements) have strengthened the quality of BCRA assets and reduced its liabilities (the stock of BCRA peso-denominated securities fell to around 7.3 percent of annualized GDP as of end-April, from 8.5 percent of GDP at end-November). Base money growth in nominal terms has been kept generally contained by the effective sterilization of (lower) interest payments on BCRA securities and reserve purchases through placements of BCRA peso-denominated and FX-denominated (BOPREAL) securities as well as higher treasury deposits. Base money and broad money measures now stand at near historic lows.

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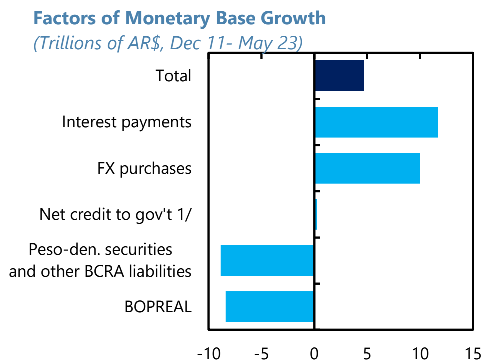
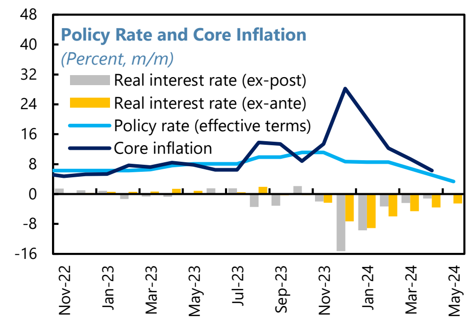
[5] In the mid-May primary auction, the Treasury introduced new short-term fixed instruments, with a floor above the policy interest rate, aimed at: (i) shifting liquidity from the BCRA's overnight facilities to Treasury bills; and (ii) strengthening the Treasury's cash buffers. About 2 percent of GDP of peso debt held by the private sector is still scheduled to mature this year.

[6] Such a transaction would be reflected as an increase in fiscal transfers (above the line) with a corresponding reduction in treasury deposits at the BCRA (below the line) from whom the bond is repurchased.

- Importantly, the BCRA has published the 2023 financial statements under a new accounting policy which is more closely in line with international standards, representing the valuation of non-transferable treasury bills (denominated in USD) and temporary advances to the government at amortized cost or fair value whichever is lower (instead of face value as previously). The statements delivered a more objective measurement of the central bank's net equity position, eliminating the possibility of transfers of accounting profits to the Treasury, consistent with the zero-deficit policy and the elimination of monetary financing.

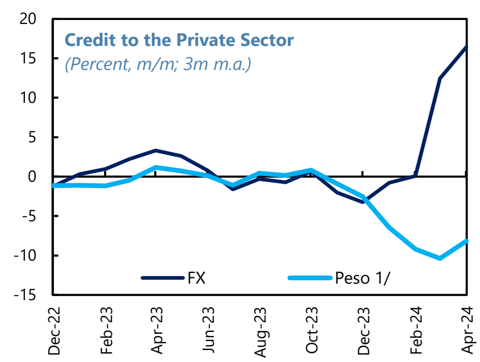


Sources: BCRA; and Fund staff calculations.
1/ Includes put exercise, new NTTS and treasury buybacks.



Sources: BCRA; INDEC; and Fund staff estimates.
Note: Real interest rates are a function of core inflation. The ex-ante measure uses the average expected core inflation for months t, t+1, and t+2.

11. The banking system remains sound—albeit with rising public sector exposure—while banking regulations ease further. At end-March, commercial banks remained highly capitalized (40 percent of risk weighted assets) and liquid (around 80 percent of total deposits). Exposure to the public sector rose further (from 46 percent of assets in November to 51 percent in March), as credit to the private sector contracted further (down 30 percent y/y), although there are incipient signs of a recovery of credit, especially in small USD credit segment. Profitability has remained broadly stable (5.9 percent return on assets) despite financial repression, while asset quality has improved somewhat, as non-performing loans declined to about 2 percent in March from 2.7 percent in November (Figure 6). Against this backdrop, the authorities have further eased banking system regulations by: (i) eliminating mandatory minimum interest rates on deposits and most limits on bank lending rates; (ii) limiting access to repurchase agreements (repos) solely to entities regulated by the BCRA; and (iii) downsizing credit incentive schemes, eliminating compulsory lending to micro, small- and medium-sized enterprises (MSMEs), and narrowing the range of credit products eligible for differentiated minimum reserve requirement benefits. Furthermore, banks have been mandated to provide capital forecasts to guide the approval of dividend payouts.



Sources: BCRA; and Fund staff calculations.
1/ At constant end-2023 prices.

12. Deregulation efforts to create a more market-based economy continue. On the relative prices front, while the release of price controls has proceeded more gradually than originally intended, utility tariffs (electricity, gas, water, public transport) are still undergoing notable adjustments to better reflect costs, fuel prices are now aligned with international comparators, and wheat price subsidies have been phased out to boost production and exports. The comprehensive deregulatory Emergency Decree (DNU) issued in December is already improving resource allocation in critical sectors. For instance, the repeal of rent controls has spurred a notable transformation in the residential rental market, doubling the square footage supplied and lowering real rental rates. Meanwhile, the "open sky" policy is starting to increase competition in local air transport, while lower tariffs on final and intermediate goods imports,[7] more expeditious customs clearance procedures, lower barriers to new wholesale stores, and improved access to over-the-counter medications are expected to boost competition and productivity to the benefit of consumers.

13. Some FX restrictions were further eased, yet most controls remain in place. Since end-January, the authorities have (i) reduced access delays to official FX for MSMEs (from 45 days on average to 30 days); (ii) cut FX access delays for a basket of basic goods; (iii) lifted transaction restrictions in the formal parallel market for exporters that sell agricultural goods under the export promotion scheme; (iv) modified capital market regulations to ease BOPREAL transactions and make the new instruments more attractive; (v) extended the BOPREAL scheme to address the dividend payment overhang; (vi) removed restrictions on the possibility of opening savings accounts in U.S. dollars (Comunicación "A" 8027); and (vii) repealed the preferential exchange rate on banks accounts for tourism inflows on May 9 (Comunicación "A" 7551), which was giving rise to a Multiple Currency Practice (MCP). Meanwhile, the *impuesto pais* was extended to the purchase of FX for payment of dividends to non-resident investors, resulting in a new exchange restriction and MCP, and a need for waivers of nonobservance (¶36).

PROGRAM PERFORMANCE

14. The program is firmly on track. All quantitative performance criteria (PCs) through end-March were met (Figure 1), with good progress made in meeting structural benchmarks.

- **Fiscal.** The cumulative primary cash surplus through end-March reached ARS 3,800 billion (0.6 percent of GDP), overperforming the program target by almost ARS 3,000 billion, supported by expenditure restraint and increases in trade related taxes. The stock of domestic arrears remained well below the program ceiling (ARS 5,264.6 billion), despite some increase in domestic arrears to the state-owned electricity distribution company, which are in the process of being addressed. The indicative floor on social spending (covering three flagship programs) was temporarily missed by a minor margin (0.01 percent of GDP) and is now well above target following recent large transfers to the flagship social safety net programs.

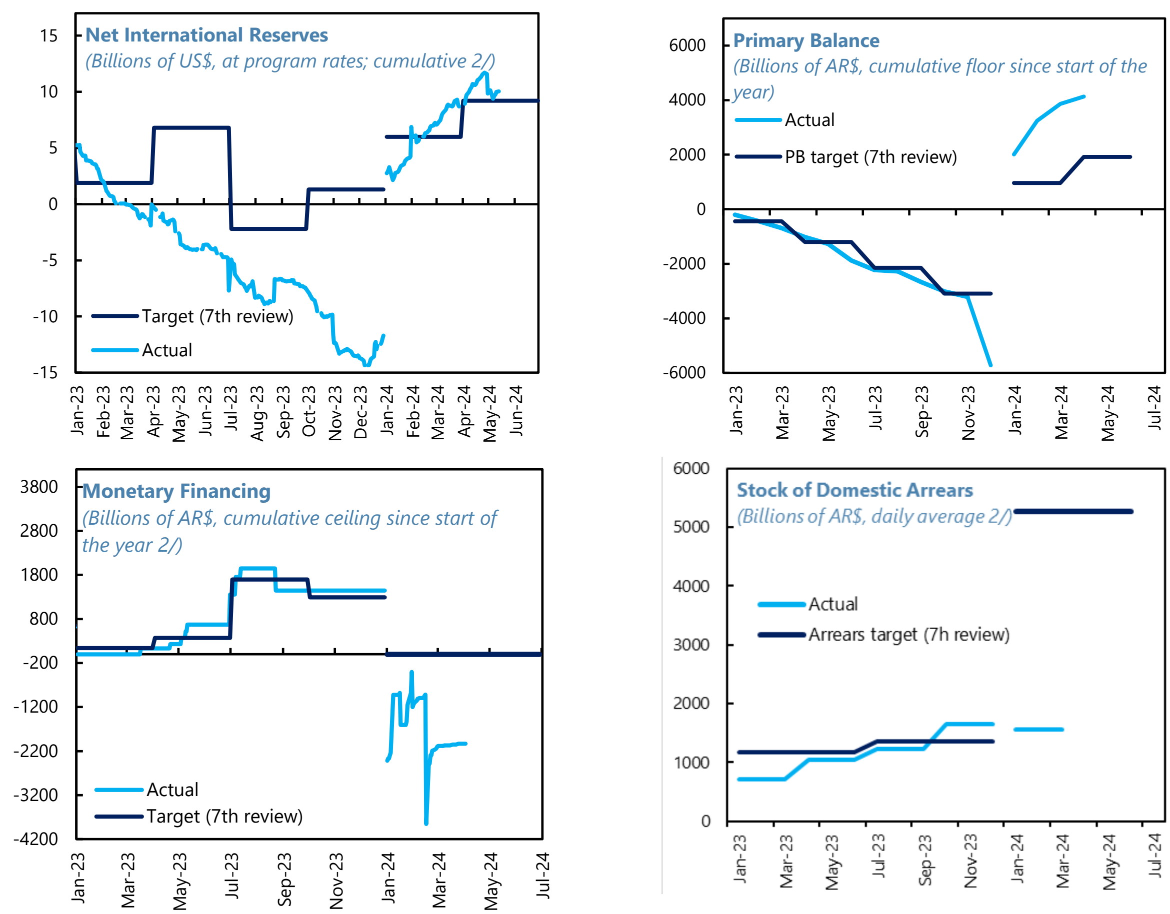
- **Reserves.** The PC on the cumulative change in NIR through end-March was met with a large margin, reaching US$8.7 billion versus an adjusted program floor of US$6 billion. Part of the overperformance reflects a higher-than-anticipated increase in commercial credit to importers, which more than offsets weaker terms of trade and agricultural recovery.

[7] Import tariffs have been reduced for (i) fertilizers (from 5 percent to zero); (ii) herbicides (from 35 percent to 12.6 percent); (iii) home appliances and car tires (from 35 percent to 16 percent); and (iv) some plastic inputs (from 12.6 percent to 6 percent).

- **Monetary and financing.** Net credit to the government remained below zero. There was no direct monetary financing (either through temporary advances or profit transfers) and cumulative central bank net purchases of government bonds in the secondary market was below zero—as purchases associated with the exercise of put options on treasury securities by private banks were more than offset by government debt buybacks.

15. Structural benchmarks. The authorities successfully extended maturities of a large portion of the domestic debt coming due this year through a voluntary debt exchange **(end-March 2024, SB)**. The authorities have also started to articulate their strategy to enhance the monetary policy framework and operations **(end-April 2024, SB)**, published detailed reforms to the current tariff segmentation scheme to better target subsidies **(end-May 2024, SB)** and are developing a framework for the gradual easing of FX controls and CFMs **(end-July 2024, SB)**.

Figure 1. Argentina: Performance Relative to Key Program Targets, 2023–24 1/



Sources: National authorities and Fund staff calculations.
1/ Targets are set on an end-quarter basis. Data as of May 13, 2024 for Net International Reserves; as of March 31, 2024 for Monetary Financing; as of end-April, 2024 for Primary Balance and end-March for the Stock of Domestic Arrears.
2/ Definitions changed for 2024 compared to 2022 and 2023, with cumulative flows now measured relative to December 10, 2023, as opposed to end-2021. Central bank financing now includes broader definition and shifted to net concept. For domestic arrears, before 2024 daily average over quarter and now measured over the last two weeeks of the quarter.

STRENGTHENING THE STABILIZATION PLAN

Sustaining progress in the stabilization process will require strengthening the fiscal anchor—by improving its quality, durability, and predictability—enhancing the monetary and FX framework to entrench the disinflation process and support reserve accumulation and taking further steps to remove growth bottlenecks to support the recovery. Securing key fiscal and structural legislation will be instrumental to the reform agenda, also demonstrating broader political and societal ownership.

A. Fiscal Policy

16. **Delivering the planned fiscal consolidation this year remains the authorities' top priority.** The government's unwavering commitment to achieve overall balance this year (equivalent to a primary surplus of about 1.7 percent of GDP) will require an ambitious adjustment of 5 percentage points of GDP (4 percentage points in underlying terms), approximately two-thirds of which has been achieved in the first four months of 2024, underpinned by revenue measures and, importantly, discretionary expenditure cuts (¶8). To safeguard the planned adjustment against revenue risks from the contraction in activity and less favorable commodity export prices and ensure proper burden sharing, policy is expected to rely more on higher-quality structural measures. While the adjustment is large by historical and cross-country standards, successful stabilization episodes have often been associated with fiscal consolidation of similar magnitudes (see Box 3).

Argentina: Fiscal Adjustment 2024

(in % of GDP)

	Authorities' Plan	Progress 1/
Fiscal Consolidation	**5.0**	**2.9**
Structural Measures	**2.7**	**1.6**
PIT	0.2	-0.3
Fuel excises	0.5	-0.1
Pensions	0.4	0.3
Phase out workfare program	0.4	0.4
Wage bill and administrative reforms	0.5	0.7
Subsidies	0.7	0.6
Other Measures	**2.3**	**2.3**
Impuesto Pais	0.8	1.1
Lower capital spending	0.7	0.8
Lower transfers to SOEs/Provinces	0.5	0.4

Sources: Argentinian authorites and Fund staff estimates.

1/ Comparing execution in 2023 with 12-month cumulative execution until April 2024.

17. **Revenue-enhancing reforms remain critical to strengthen the quality and durability of the fiscal anchor.** The authorities' fiscal package, which has been passed by the lower house with good near-term prospects for senate approval, contains some high-quality measures to boost revenues this year. In addition to the vital PIT reform, which should bring around ten percent of formal sector workers under the regime, the package also includes (i) a gradual reduction of personal asset taxation with a frontloading option; and (ii) an improved coverage of tobacco excises. The higher expected VAT receipts associated with the planned energy tariff adjustments (¶18) add another element of high-quality adjustment. Combined with the temporary application of *impuesto pais* to dividend payments

Argentina: Expected Yields from Recent Fiscal Measures, 2024

(in % of GDP, national government)

Fiscal chapter (subject to congressional approval) 1/	**0.38**
Property transfer tax	-0.01
Wealth tax (bienes personales)	0.05
Monotributo	0.04
PIT	0.25
Tobacco excises	0.05
Other measures	**0.21**
Additional VAT from tariff adjustments	0.20
Impuesto pais on dividend payments abroad	0.10
Total	**0.59**

Sources: MECON and IMF staff estimates.

1/ The fiscal package includes a tax amnesty proposal that the authorities expect to yield 0.3 percent of GDP in 2024. This measure is not included in staff's baseline.

abroad, introduced for balance of payment purposes (¶13), leaving the package altogether yielding 0.6 percent of GDP, the authorities would be on track to deliver their fiscal plan for 2024.[8] The authorities proposed legislation does include some investment incentives which could be better targeted,[9] but the proposed fiscal package also requires that the authorities present to Congress a plan to rationalize tax expenditures over the next two months, where consideration should be given to eliminating other reduced tax rates that benefit specific regions or sectors. Overall, this approach could help further strengthen the underpinnings of the adjustment. Meanwhile, improvements in the efficiency of the tax collection agency continue, reflecting the recommendation of the tax administration diagnostic tool (TADAT) completed in March. In this regard, the tax authorities intend to publish the Compliance Risk Management (CRM) tools and Compliance Improvement Plans (CIPs) by end-December 2024.

18. These efforts need to be complemented by the continued rationalization of subsidies.

- On the **energy front,** following increases to electricity and gas tariffs by an average of 350 percent and 200 percent, respectively, in Q1:2024, the authorities plan to achieve full cost recovery for most electricity and gas users and replace the current tariff segmentation scheme with one that supports only the basic energy consumption basket of vulnerable households during S2:2024.[10] To this end, detailed reforms to transition towards the new scheme have been published **(end-May 2024, SB)** and a new Decree has been issued to remove caps on price increases, which are tied to the wage indexation formula **(*prior action*)**.[11] Further increases in electricity prices (PEST) and gas prices (PIST) are expected to take place in the coming months, following some delays, while tighter caps on subsidized electricity consumption will be instituted as needed. These actions are expected to secure a 0.7 percent-of-GDP reduction in the energy subsidy bill this year and regularize the finances of the sector (¶29).

- Meanwhile, urban **transport subsidy** reduction will continue (0.1 percent of GDP for 2024), aided by additional bus and train fare increases in the Greater Buenos Aires area in May (over 50 percent). Transfers to the state-owned water company are also being reduced, in line with the projected increase in water tariffs per the new indexation formula.[12]

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[8] The proposed fiscal package also includes a tax amnesty to incentivize regularization of taxpayer obligations, which has not been included in the staff's baseline.

[9] Investment incentives include a lower CIT rate (25 percent vs. the current 35 percent) for an extended period (30 years) as well as protection from new taxes or tax changes at the provincial and municipal level. The proposed generous scheme was deemed necessary to encourage investment given a long history of tax/regulatory uncertainties.

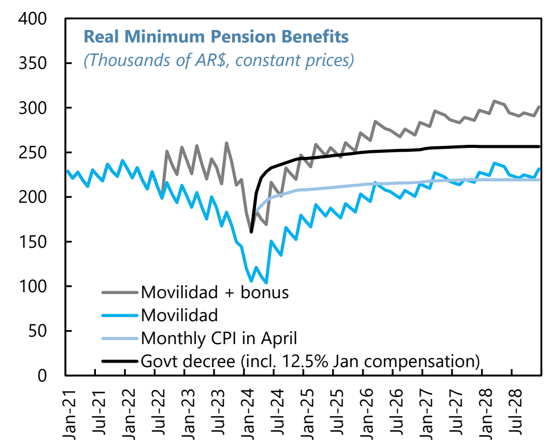
[10] The basic energy basket (150–200 kWh of electricity, 30–40 cubic meters of gas per month) may vary depending on household size, location, season, and type of energy access. Means-testing will be conducted using a social registry and cross-checked with data from social security and tax collection agencies. Electricity and gas prices are expected to increase initially by an average of 200 and 500 percent, respectively.

[11] The previous (Decree 332/2022) capped increases in utility bills for low- and middle-income households at 40 and 80 percent of previous year's salary or wage index growth (CVS).

[12] An increase in water tariffs (around 200 percent) was authorized in April for the Buenos Aires area and a further increase is planned for June in line with the indexation formula.

19. Strong budget discipline and controls remain essential. Public financial management reforms incorporated in the proposed *Ley Bases* aims to (i) rationalize and improve the oversight of decentralized public entities (i.e., trust funds); (ii) strengthen control over public investment projects; (iii) enhance flexibility of public employment contracts; and (iv) repeal the costly and ineffective 2023 pension moratorium. These are being complemented by the authorities' ongoing efforts to improve cash management and consolidate all central government entities into the treasury single account (TSA) at the central bank **(*end-September 2024, SB*)**.

20. Further enhancements in the targeting and governance of social assistance will be necessary. Given the high poverty rates among children, the authorities intend to continue to focus and expand their support through the well-managed, means-tested flagship programs (Universal Child Allowance and Food Stamp), and the new early childhood support program, and are mobilizing financing and technical support from official creditors for this purpose (¶23). Efforts continue to improve the governance of social assistance, including by eliminating costly intermediaries and strengthening the social registry by integrating relevant administrative databases to ensure assistance is channeled to the most vulnerable households **(*end-September 2024, SB*)**.[13] In addition, pensions will continue to be adjusted by inflation to protect their purchasing power while also safeguarding public finances over the medium term.



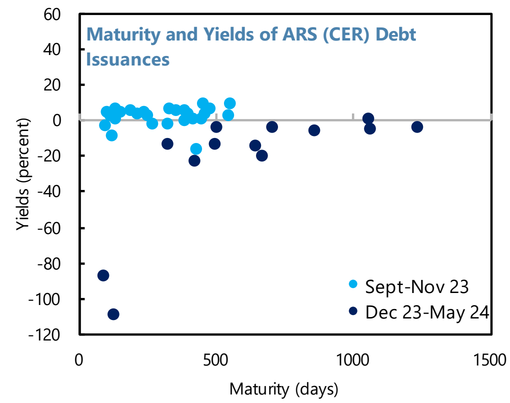
Sources: INDEC; Haver Analytics; and Fund staff calculations.

21. Sustaining overall fiscal balance beyond 2024 as intended (around 2½ percent of GDP primary surplus) will require reforming the tax, pension, and revenue sharing systems. The government will submit to Congress a 2025 draft budget consistent with overall fiscal balance **(September 15, 2024, SB)**, with a breakdown of policies underpinning the draft budget—where further structural measures will be needed—along with a comprehensive fiscal risk statement to bolster credibility. A comprehensive, revenue-neutral tax reform is also being developed, in consultation with stakeholders and development partners **(end-October 2024, SB)**, aimed at enhancing the tax system's efficiency, fairness, and simplicity, while gradually phasing out distortive taxes, notably *impuesto pais* (set to expire at end-2024). To complement these efforts with spending reforms, the authorities intend to develop a roadmap for additional fiscal reforms to improve the sustainability and equity of the pension system, and to strengthen fiscal frameworks as well as the intergovernmental transfer system by end-2024 (see Box 2).

[13] Initial investigations have brought to light evidence of misuse of state funds resulting in multiple deregistration of individuals and institutions formerly receiving or channeling state assistance. Efforts are underway to improve procurement and targeting of these programs, with technical assistance and funding from development partners.

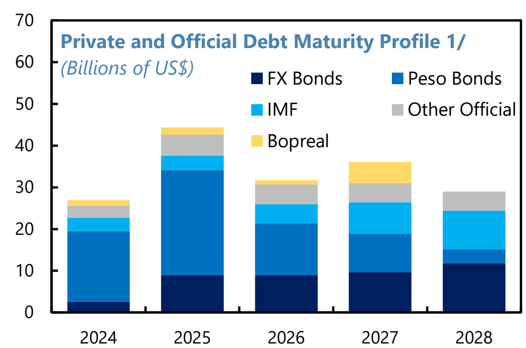
B. Financing Policy

22. The domestic financing strategy will continue to focus on reducing rollover risks and other debt vulnerabilities. The strong fiscal anchor is expected to continue to enable net peso debt placements at more favorable interest rates (supported also by capital controls) and longer maturities, as well a shift from FX- and inflation-linked bonds to fixed-rate securities. To achieve these goals, the authorities plan to broaden the set of instruments and maturities being offered, and to publish an auction calendar. Once the economy is on a stronger footing and inflation declines further, they will deepen the investor pool to further improve and extend the treasury yield curve and curtail the use of put options, currently exercisable only in the month before maturity.[14] To further strengthen the BCRA's balance sheet, steps are being taken to gradually replace central bank securities with Treasury securities, as conditions permit.



Sources: MECON; and Fund staff calculations.

23. On the external side, efforts must continue to prepare the ground for re-accessing international capital markets. Official creditors are projected to provide US$1.4 billion in net financing in 2024, including from the World Bank, Inter-American Development Bank (IADB) and other regional development banks (the Development Bank of Latin American and the Caribbean, CAF, and the Plata Basin Development Fund, FONPLATA) who have agreed to provide liquidity support to finance the expansion of social safety net programs. Firm commitments from China are in place, including to substantially refinance the drawn portion of the People's Bank of China (PBOC) swap (US$5 billion), while renewed financing of the hydro-dam project will be in line with implementation progress, as the Argentine authorities work to overcome environmental and labor-related issues (see ¶39). Amid a challenging maturity profile in the years ahead, the authorities remain focused on further reducing fiscal and external imbalances to re-access international capital markets by late-2025 or earlier, if possible, with the aim of better managing the large FX obligations falling due, while avoiding an increase in external indebtedness.



Sources: MECON; and Fund staff estimates.
1/ Includes principal and interest payments. Data for 2024 is for May-December. Peso denominated bonds converted to USD using current official exchange rate of 885.8 ARS/USD.

[14] The BCRA's put options scheme predates this administration. Options are sold ahead of primary auctions to give banks the right to sell the bond back to the BCRA at a future date at a price based on the previous day's prices. The current administration has limited the exercise date to within the month of maturity, effectively reducing the value of the puts.

C. Monetary and Exchange Rate Policies

24. Monetary and FX policies will evolve in the transition to a new monetary regime that will entail "currency competition". The authorities intend to refine monetary and FX policies to entrench the disinflation process and support a further buildup in reserves as FX controls and restrictions are further eased as conditions permit (¶26) in the transition towards a new regime. While key underpinnings are being developed, the eventual "currency competition" within the regime could leave it resembling the managed float system prevailing in Peru and Uruguay today. Price stability will remain a prime objective of the central bank, in a context where individuals are free to save and transact in the currencies of their choosing.[15] The central bank would be prohibited from providing financing to the government and would continue to refrain from any profit transfers to the Treasury. It would maintain its lender-of-last-resort functions to eligible (solvent) financial institutions, continue to sterilize foreign exchange purchases, and overtime manage liquidity through open market operations with government securities. Furthermore, accounting practices would continue to be refined so that the BCRA balance sheet reflects fair value.

25. During this transition, monetary policy must assume a more active role in anchoring inflation and inflation expectations. In the context of FX controls, a strong fiscal anchor, and a limited credit channel, negative real interest rates have been feasible and have helped to address unsustainably large quasi-fiscal deficits, which the authorities viewed as fueling excess peso money supply and inflation. That said, while declining inflation has been making real rates less negative, the authorities understand that this process needs to continue. Indeed, it was agreed that to support the transition to the new monetary regime and attenuate market pressures, the overnight ex-ante policy interest rate would need to become positive in real terms in the near term to support peso demand, particularly as CFMs are eased (¶26) and private credit recovers. To this end, the authorities are developing a plan to extend monetary operations to include repos with Treasury securities as collateral,[16] with the BCRA using discretion to manage liquidity in the banking system alongside treasury auctions to establish the short end of the yield curve.

26. FX policy needs to become more flexible with the easing of CFMs as conditions allow. While the fixed rate of crawl has helped to anchor inflation following the large step devaluation, the authorities will adjust FX policy over time to move more flexibly to better reflect fundamentals and safeguard a further improvement in reserve coverage (necessary to support an easing of CFMs). Following initial steps to unwind FX restrictions and controls (¶13), the authorities remain committed to unwind all MCPs and FX restrictions, starting with the most distortive measures, including to eliminate the 80:20 preferential export scheme **(end-June 2024, SB)** and eliminate the *impuesto pais* before end-2024. More generally, a framework for a conditions-based easing of FX controls and CFMs is being developed **(end-July 2024, SB)**, drawing on cross country experience and Argentina-specific factors to guide the implementation of an eventual exchange rate unification.

[15] Other currencies would not have legal tender status, and tax payments will continue to be made in pesos.

[16] To this end, the BCRA has exempted short-term Treasury securities (LECAPs) purchased by banks in the primary market from contributing to the maximum limit allowable for exposure to government securities.

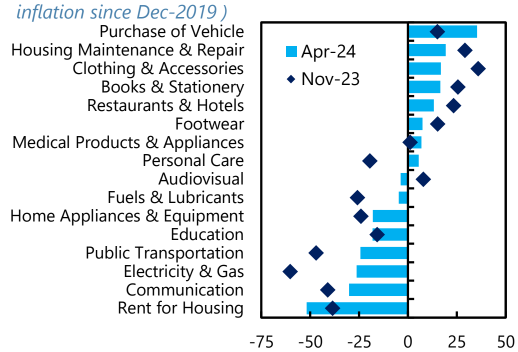
27. Meanwhile, a further streamlining of banking system regulations is necessary to strengthen monetary transmission and private credit allocation. Following actions taken to simplify regulations (¶11), the authorities plan to continue easing banking regulations, while amending the regulatory frameworks to ensure a level playing field between Fintech companies and traditional banking institutions. These measures are aimed at increasing market competition, strengthen the credit channel of monetary transmission, and support a more rapid recovery of private credit. Macro prudential policies will also evolve to prevent lending in currencies in which borrowers are not hedged, while micro prudential reserve requirements fulfilled in FX could provide a buffer for short-term FX emergency liquidity support.

D. Structural Policies

28. Renewed efforts are needed to create a more open and market-oriented economy. The important realignment in relative prices and adjustment process underway is leading to a narrowing of corporate profit margins—which had risen sharply in previous years—as wholesalers have passed on to consumers only a fraction of the higher import cost. In fact, prices of certain protected sectors (e.g., clothing, appliances, electronics) now better reflect international prices, and ongoing efforts to reduce import tariffs on selected intermediate goods should continue to support competition to the benefit of consumers.[17] The authorities are working to secure congressional approval of reform legislation (*Ley Bases*), which aims to: (i) boost private formal employment, through easing of regulations related to hiring and job transition; (ii) spur new large long-term direct investments, including in strategic sectors like energy and mining, through greater predictability and incentives; (iii) strengthen the hydrocarbon sector regulatory framework; (iv) promote competition in key economic sectors (aerospace, healthcare, housing, pharmaceutical, wholesale trade), through lower regulatory costs and barriers to entry and effective mechanisms and institutions to safeguard competition; and (v) strengthen the SOE privatization process, which will rationalize and improve their efficiency and governance (see Box 4). Upon approval of this new legislation, the authorities plan to prepare the needed implementing regulations to support the responsible and properly sequenced adoption of the *Ley Bases* as well as the December 2023 Emergency Decree (DNU).

Relative Price Distortions

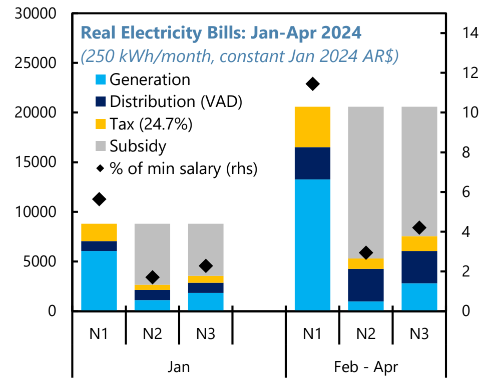
(Percent; cumulative difference relative to GBA headline inflation since Dec-2019)



Sources: INDEC; Haver Analytics; and Fund staff calculations.

[17] Online prices (see State Street Global Markets) at end-March show that prices for identical tradable products in Argentina are now better aligned with those in the US at the official exchange rate. Important differences, however, remain across goods. For example, prices of electronic products in Argentina are 80 percent more expensive than in the US (300 percent in December 2023), while food prices remain are lower (25 percent) than those in the US. See D. Cavallo (2024), https://www.cavallo.com.ar/cuan-cerca-esta-la-unificacion-y-liberalizacion-cambiaria/. For methodology details, including cross-country comparability, see here: https://globalmarkets.statestreet.com/research/dam/public/docs/pricestats_product_sheet.pdf.

29. Particular focus is needed to improve the efficiency and investment incentives in the energy sector. While phasing out subsidies to electricity and natural gas production has been an earlier priority (¶18), the authorities are making effort to alleviate pressure on the energy market's payment chain and improve the viability of the sector. In this regard, transportation and distribution tariffs, which were kept artificially low to contain the energy bills, have been raised (by around 270 percent for electricity and 600 percent for natural gas) and are now being automatically updated to better reflect costs.[18] Going forward, the authorities will align pricing to improve cost recovery for lower and middle-income households through the new energy subsidy scheme. A more predictable pricing policy, together with properly-designed reforms of the regulatory framework of the hydrocarbon sector (also in *Ley Bases*), and continued efforts to expand the gas pipelines are essential to sustain the improvement in the energy balance and support responsible investment in the energy sector.



Sources: MECON; and Fund staff calculations.

30. Further actions to enhance transparency and governance will improve macro-critical state functions. Tackling pervasive corruption and strengthening government accountability remains one of the authorities' top priorities. Beyond efforts are underway to improve the efficiency, control, and transparency of public spending (¶19), the authorities are committed to further strengthen the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework in line with international standards and recommendation of the ongoing FATF assessment. Following congressional approval of the reforms to AML/CFT Law 25.246, efforts are centered on needed implementing regulations as well as the necessary measures to address the shortcomings identified in the 2022 National Risk Assessment.[19] The authorities are also considering conducting a comprehensive governance assessment, with Fund technical support, to help identify priorities to underpin their medium-term governance and anti-corruption strategy.

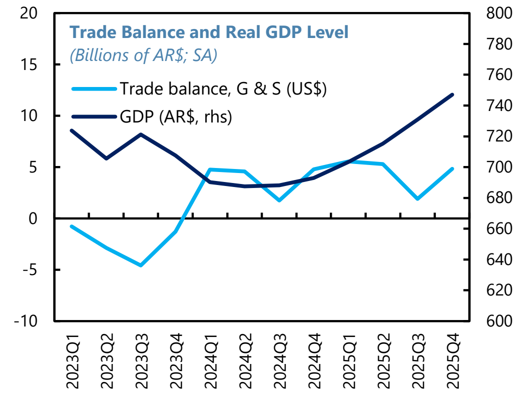
MACROECONOMIC OUTLOOK AND RISKS

31. The baseline outlook has been slightly revised to reflect recent developments and assumed policy measures. Economic activity and demand are projected to contract more sharply in 2024, given the carryover from the lower growth in Q4:2023 and the stronger impact of the upfront

[18] Consumer energy bills in the country consist of four key components: (i) generation costs for electricity and gas; (ii) transportation costs; (iii) distribution costs; and (iv) national, provincial, and municipal taxes. Under the previous administration, adjustments to transportation and distribution costs were delayed, leading to distributors accumulating arrears with the wholesale electricity market clearing company.

[19] The amendments to Law 25.246 aim to strengthen transparency of legal persons and legal arrangements through the creation of a centralized register to ensure that adequate, accurate, and up-to-date information on the beneficial ownership and control of legal persons and legal arrangements, including for the settlor(s), trustee(s) and beneficiary(ies), is obtained or accessed rapidly and efficiently by competent authorities as designated by Law 27.739.

fiscal tightening during Q1:2024. Meanwhile, inflation is expected to fall somewhat faster, supported by refinements in the monetary and FX policy framework and a recovery in peso demand from historically low levels. The projected (and generally unchanged) twin fiscal and external surpluses over the medium term—supported by tight policies, productivity gains and structural improvements in the energy balance—will ensure the sustainability of public debt (see Annex II) and allow for a gradual conditions-based unwinding of CFMs and re-access to international capital markets.



Sources: INDEC; IMF, WEO Database.

- **Real GDP growth.** The economy is projected to contract by 3½ percent in 2024 (from 2¾ percent), consistent with a deeper contraction in non-agricultural output (5 percent y/y), with a recovery starting in late 2024, as headwinds from fiscal tightening fade, real wages begin to recover, and confidence is strengthened. The recovery is expected to be supported by a pickup in demand, including private investment, encouraged by the adoption of market-oriented reforms. Real GDP growth is now projected to rebound to around 5 percent next year, with output growth converging to potential over the medium term.

- **Inflation.** Monthly headline inflation is expected to fall to around 4 percent by end-2024 (140 percent y/y), and to decline further over the medium term. The strong fiscal anchor, the end of debt monetization, and the strengthened monetary and FX policy framework will support a gradual recovery in peso demand and underpin a sustained reduction in inflation.

- **External.** The external current account balance is expected to shift from a deficit of 3.4 percent of GDP to a surplus of 0.6 percent of GDP this year, supported by the recovery of agricultural exports from last year's drought, and the projected policy-induced demand compression. Tight policies and a competitive real exchange rate will underpin external surpluses over the medium term with a gradual recovery in imports being more than offset by structural improvements in the energy and mining balance and a pickup in export volume growth from ongoing structural reforms. Net international reserves are projected to increase by US$7 billion this year—unchanged relative to the last review—as a somewhat lower-than-programmed current account balance (on account of weaker agricultural export volumes and terms of trade) is expected to be offset by stronger net capital inflows, including from efforts to address the FX debt overhang from earlier delays in the payment of imports and dividends. Reserve coverage is projected to improve further over the medium term, consistent with a re-access to international capital markets by late-2025, and a step increase in foreign direct investment as reforms bear fruit.[20]

[20] The baseline does not assume a rapid pick up in resident FX inflows and re-monetization of the economy. Instead, the gradual easing of CFMs is assumed to be associated with resident FX outflows rising to historic norms.

Argentina: Selected Economic Indicators, 2022–25

		7th Rev	8th Rev	7th Rev	8th Rev	7th Rev	8th Rev
	2022	2023	2023	2024	2024	2025	2025
GDP growth (avg, %)	5.0	-1.1	-1.6	-2.8	-3.5	5.0	5.0
Non-agro GDP	5.7	-0.3	-0.8	-5.2	-6.0	5.0	5.0
Inflation (eop, %)	94.8	211.4	211.4	149.4	139.7	45.0	45.0
Primary fiscal balance (% of GDP)	-2.4	-3.0	-2.9	2.1	1.7	2.5	2.3
Overall fiscal balance (% GDP)	-4.2	-5.2	-4.6	0.0	0.0	0.4	0.5
Current account balance (% GDP)	-0.7	-3.5	-3.4	0.9	0.6	0.9	0.8
Change in net int'l reserves (US$bn)1/	4.8	-16.4	-16.4	7.0	7.0	6.0	5.0
Monetary financing (% GDP) 2/	3.1	5.0	5.0	0.0	0.0	0.0	0.0

Sources: National authorities and Fund staff estimates and projections.

1/ Net International Reserves (NIR) are gross reserves net of swap lines, deposit insurance, reserve requirements on FX deposits, and other reserves liabilities. At current rates.

2/ Up to 2023 includes profit transfers, advances (adelantos) and secondary market purchases. For 2024 includes also issuance of new non-marketable government bonds and treasury buybacks.

32. Risks, while more balanced, remain elevated. Following decisive actions to restore stability, downside risks have moderated significantly. Nevertheless, the path toward macroeconomic stabilization remains highly uncertain. The ongoing economic recession could become more protracted, and the disinflation process could prove more stubborn, leading to prolonged hardship and intensified social tensions, even with the reinforcement of social spending. Delays in securing congressional approval of key fiscal and structural legislation could undercut the stabilization and recovery efforts. On the external front, global financial conditions could tighten further, leading to an even stronger U.S. dollar, lower commodity prices, and weaker growth in key trading partners. That said, upside risks could emerge if sustained market-oriented reforms lead to an even faster recovery in confidence and investment.

33. Against this still uncertain backdrop, the authorities stand ready to recalibrate policies to evolving outcomes to ensure program objectives are met. The authorities remain committed to the program's fiscal balance and ambitious reserve accumulation goals and will continue to build consensus for the needed reforms. Should downside risks materialize, the authorities agreed to deploy alternative measures under the control of the Executive as needed to secure all program targets. In the event of delays in congressional approval of the fiscal and structural packages, for instance, the authorities agreed to pursue discretionary measures to safeguard the fiscal anchor, including by: (i) strengthening and expanding excises, particularly on fuels; (ii) accelerating the reduction in energy and transportation subsidies (¶18); and (iii) further streamlining transfers to provinces and SOEs. In addition, they will redouble efforts to strengthen tax administration and budget controls. The authorities also stand ready to adjust FX and monetary policy more nimbly to achieve reserve accumulation and disinflation goals, including by bringing ex-ante real policy interest rate into positive territory sooner to support peso demand in the event that reduction in inflation and inflation expectations proves more stubborn. Clear policy communication will be provided to guide market expectations to achieve intended results.

34. While still substantial, Fund enterprise risks have declined. With completion of the eighth review, near-term *financial* risks would recede even further as obligations to the Fund would remain manageable through late-2026.[21] On the *business* side, the presence of large imbalances, any remaining uncertainties over monetary and FX policy implementation, and challenges in sustaining societal support for key reforms could raise questions about the credibility and durability of the program. *Reputational* risks persist but have evolved. Evenhandedness concerns within Argentina have been allayed by the Fund's support for the current authorities' commendable efforts in tackling imbalances resulting from policy setbacks of the previous administration. Nevertheless, the program is anchored on an ambitious fiscal adjustment against the backdrop of a fragile social conditions. In this context, it remains critical to ensure there is agile policy making, including sufficient social assistance. Meanwhile, restoring Argentina's medium-term external viability fundamentally hinges on the government's ability to continue to build the political and societal support for the needed fiscal and structural reforms.

PROGRAM ISSUES

35. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic stabilization plan and set out future policy commitments. The Technical Memorandum of Understanding (TMU) clarifies program definitions and the various quarterly targets. Program targets and conditionality have been updated to reflect recent developments, outlook revisions, and progress on the policy front.

36. Quantitative targets. The authorities are requesting:

- *Modification of targets*: New quarterly PCs are proposed through end-September 2024 and ITs are set through end-December 2024, with revisions to adjustors where applicable, reflecting updated projections on external disbursements, notably:
  - The *primary fiscal balance* is being strengthened for end-June and end-September relative to the seventh review to reflect program overperformance and updates to the macroeconomic framework. The primary surplus target for 2024 has been revised to 1.7 percent of GDP (2 percent in the seventh review) to maintain consistency with the overall balance target, given the important steps taken to reduce the projected interest bill.
  - The *NIR accumulation target* for end 2024 remains unchanged, although the targets for end-June and end-September have been increased to reflect program overperformance in the first quarter.
  - The are also minor revisions to *the ceiling on the federal government stock of domestic arrears* due to a small downward revision to nominal GDP projections.

[21] Fund charges are expected to average SDR 2.5 billion per year during 2025–28. Meanwhile, Fund repurchases associated with the 2022 EFF only come due in late-2026 (SDR 0.8 billion), rising to an average of SDR 4 billion per year during 2027–28.

- *Waiver of nonobservance* for continuous PCs on the imposition or intensification of exchange restrictions and the introduction or modification of MCPs, on the basis of corrective actions, namely the request—and staff recommendation—for Board approval under Article VIII to maintain the measure on a temporary basis consistent with the framework for a conditions-based easing of FX controls and CFMs (¶26), the implementation of tight macroeconomic policies and the commitment to phase out exchange restrictions and MCPs.
    - Approval to maintain on a temporary basis measures assessed under the new MCP policy as giving rise to MCPs (see Annex III) as well as the new exchange restriction and MCP arising from the application of *impuesto pais* to the purchase of foreign currency for the payment of investment income.

37. Prior action. On May 28, 2024, the authorities issued an Executive Decree removing the wage indexation formula (Decree 332/2022), which capped increases in low- and middle-income households' electricity and natural gas utility bills.

38. Structural Benchmarks. Two new SBs and one modified SB are being proposed. The proposed new SBs are: (i) developing and publishing a draft proposal to enhance the efficiency and simplicity of the tax system, including by reorienting the system away from distortive trade and financial transactions taxes **(end-October 2024, SB)**; and (ii) developing an action plan to consolidate all central government entities into the treasury single account (TSA) at the central bank, in consultation with Fund staff **(end-September 2024, SB)**. The existing SB on submitting to Congress the draft 2025 budget consistent with overall balance (with macroeconomic assumptions and underlying policies has been modified so that the draft budget will also include a comprehensive fiscal risk statement **(September 15, 2024, SB)**.

39. Financing assurances. Firm financing commitments are being secured from official creditors over the remainder of the program. Multilateral and regional development banks, including the World Bank, IADB, CAF, and FONPLATA, will provide net financing of around US$1.6 billion during 2024 and US$1.3 billion in 2025 in the form of budget support and project loans. Staff assesses a firm commitment to be in place for substantial rollover of the activated portion of the PBOC swap line. Based on representations, the baseline assumes a rollover of 80 percent of this portion (but the amount could be higher), with the remaining repayment coming from reserves. The financing of a hydro-dam project will be conditional on implementation progress (as the Argentine authorities work to overcome environmental and labor-related issues). This would help secure net financing of around US$0.1 billion in 2024 and an additional US$0.5 billion in 2025, as well as meet the comparability of treatment under the 2022 Paris Club restructuring agreement. The program baseline continues to assume NIR accumulation of US$7 billion during 2024, with a projected trade (goods and services) surplus of around US$20 billion. CFMs will continue to play a supportive role in limiting capital outflows in the near term while imbalances are being addressed.

40. Capacity to repay. While Argentina's capacity to repay has improved somewhat since the last review, it is still subject to exceptional risks, hinging critically on the steadfast implementation of the stabilization plan to deliver reserve accumulation goals and secure the resumption of market access by the time repurchases to the Fund come due (Table 12). The program baseline continues to envisage a gradual improvement in reserve coverage, with accumulation of US$5–12 billion per year over the medium term, although Argentina's rising export potential, especially in energy and mining, provides some upside. Full implementation of the agreed stabilization plan will be needed to address balance of payments needs, including the remaining Fund obligations related to the 2018 SBA and repurchases from the current EFF arrangement, which start coming due in late-2026. Fund debt service obligations are projected to remain very large after 2026, averaging 7 percent of exports, or 14 percent of gross reserves during 2027–31. Outstanding Fund credit is projected to remain large and will only fall below 6 percent of GDP by 2027, also reflecting projected market access.

41. Jurisdictional issues. As elaborated in Annex III, staff assesses that, under the new MCP policy, which took effect on February 1, 2024, Argentina maintains a number of MCPs resulting from impermissible spreads (from 17.5 to 60 percent) caused by official actions, notably the imposition of exchange taxes (*impuesto pais* and withholding taxes). Staff supports the authorities' request for Board approval to maintain these measures on a temporary basis as the conditions for approval are met—i.e., they are temporary, maintained for balance of payment reasons, and do not give Argentina unfair competitive advantage over other members nor do these measures discriminate among members. As these are legacy measures, no waiver of non-observance is requested. Staff also supports the request to approve the new exchange restriction and MCP resulting from the application, in May 2024, of the *impuesto pais* to the acquisition of FX for payment of investment income (dividend), as it was introduced primarily for BOP purposes and meets the criteria for approval: it is temporary, is being applied while the member is endeavoring to eliminate its BOP problems, does not give the member an unfair competitive advantage over other members, does not discriminate among members, and is necessary (see Annex III).[22]

42. Safeguards assessment. The BCRA has made progress in implementing some of the 2022 safeguards assessment recommendations. In particular, policies have led to a significant strengthening of the BCRA's balance sheet and actions have been taken to ensure that the central bank financial statements are more in line with international financial reporting standards (IFRS). Further work is being conducted in other areas, including to finalize the BCRA's IT security policy, enhance the cybersecurity framework, and conduct an external quality review of the internal audit function by end-2024. Staff welcomes these developments and looks forward to further engagement on other recommendations to strengthen the BCRA's autonomy and transparency by reforming the BCRA's legal framework and fully adopting IFRS.

43. Arrears policy. Staff assesses that the authorities continue to make good faith efforts under the Fund's Lending into Arrears policy to resolve arrears to: (i) external private creditors that did not participate in the 2005/10 debt exchange or did not settle under the terms provided in 2016 and those to which there is debt outstanding from the 2001 default (about US$2.35 billion total), with the authorities closely monitoring evolving relations with these creditors; and (ii) Mobil Exploration, where negotiations remain underway on a repayment plan on principal claims (US$196 million). Payments

[22] This temporary measure was put in place in the context of the authorities' efforts to ease restrictions on dividend payments and prevent tax arbitrage. The tax on purchases of foreign currency would make the eventual transfers of dividend payments abroad more expensive thereby containing near-term balance of payments pressures.

on the claims made by YPFB (Bolivian Oil & Gas Company) for gas delivered and unpaid during 2023 were completed on April 5, 2024, and an outstanding interest payment is expected to be made upon invoicing. Discussions are ongoing between the Argentine and Paraguayan authorities on payment arrangements for overdue obligations owed to a binational Paraguayan and Argentine entity (Yacyreta) related to energy imports in 2023 and 2024. Meanwhile, two external arrears claims remain under litigation: (i) Bpifrance Assurance Export, where the firm filed an appeal with the Supreme Court of Justice on December 2, 2022, after the Court of Appeal had rejected the extraordinary appeal submitted by the agency on grounds of statute of limitations; and (ii) Titan Consortium I, LLC, where a legacy claim is currently under litigation on grounds of statute of limitations. The authorities affirmed that no other external arrears were incurred since the seventh review.

EXCEPTIONAL ACCESS

44. Staff assesses that Argentina continues to satisfy the four exceptional access (EA) criteria. This assessment is contingent on the continued implementation of the stabilization plan and the agreed baseline policies. Importantly, given elevated risks and uncertainty—especially with still high inflation, weak external buffers and program implementation challenges associated with a fragmented political landscape a fragile social situation—staff's EA assessment remains subject to finely balanced judgements.

- ***CRITERION 1.*** *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account resulting in a need for Fund financing that cannot be met within the normal limits.*
    - **Staff assesses that this criterion as met.** Argentina is experiencing exceptional balance of payments pressures on the financial account, which while starting to be addressed, remain very demanding. In addition to continuing to implement the stabilization plan, meeting the large external debt service obligations during 2024 and beyond will continue to require that the Fund maintain its exposure above normal access limits, with the continued support of the broader international community.

- ***CRITERION 2.*** *A rigorous and systematic analysis indicates that there is a high probability that the member's debt is sustainable in the medium-term; where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*
    - **Staff assesses that this criterion is met.** In the context of sustained implementation of the ambitious fiscal consolidation plan—which will further safeguard debt sustainability—and under the revised baseline, Argentina's public debt is assessed to be sustainable, but not with high probability (see Annex II). Debt-to-GDP dynamics remain favorable from 2024 onwards, reflecting the ongoing and planned fiscal consolidation, the recovery in economic activity, and convergence of the real exchange rate to medium-term fundamentals (following an initial overshooting). These dynamics are being supported by the recent successful domestic debt

exchanges and auctions, which have led to a significant reduction in debt servicing costs and an important extension of maturities, within the context of capital controls. However, this assessment remains subject to elevated risks and hinges critically on the continued decisive implementation of the authorities' stabilization and reform plan to deliver the assumed improvement in fiscal and external imbalances over the medium term. Projected debt and debt service metrics remain above the indicative targets set out in the March 2020 Staff Technical Note on Public Debt Sustainability (at the time, consistent with an assessment of sustainable debt with high probability), suggesting that margins for maneuver remain extremely limited. Nevertheless, adequate safeguards are in place to meet EA2—in the event of adverse shocks there would be sufficient restructurable FX debt to the private sector potentially available after the program to improve debt sustainability and enhance safeguards for Fund resources.

- ***CRITERION 3.*** *Staff judges that the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.*

  - **Staff assesses that this criterion is met.** External sovereign bond prices have risen considerably to multi-year highs, reflecting the authorities' decisive policy implementation and improvements in the perception of Argentina's growth and external prospects. That said, continued progress is necessary to sustain improvements in the fiscal and external balances, which will in turn require implementation of well-sequenced market reforms (product, labor, trade, governance) to boost competitiveness, investment, and exports. Furthermore, a strengthening of Argentina's regulatory frameworks, as proposed in *Ley Bases*, will support the projected structural change in the energy and mining balance. Such improvements would also facilitate the gradual easing of CFMs, which will in turn help support productivity and investment. Taken together, these efforts should allow Argentina to gradually regain access to international private capital market starting in late 2025, on a scale that would enable repayment to the Fund by the time its payments begin falling due in late 2026. This assessment, however, continues to be subject to a high degree of uncertainty as implementation challenges, given the complex social and political landscape, could complicate the authorities' ability to deliver on its stabilization and reform plans. In parallel, continued engagement will be necessary to resolve over time the ongoing sovereign debt litigation cases.

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

  - **Staff assesses that this criterion is met.** The administration is decisively implementing an ambitious stabilization plan and has met all quantitative performance criteria with margins for the first time since the start of the arrangement. Despite the economic contraction, various opinion polls suggest that President Milei's approval ratings remain strong (and above 50 percent). In fact, setbacks from delays in the approval of key reform legislation have been mitigated through discretionary fiscal measures to ensure that program objectives are not compromised while also scaling up social assistance to protect the vulnerable. That said, efforts to secure Congressional approval of a more "streamlined" package of fiscal and structural measures continue, with passage of the legislation by the Lower House. Prospects of Senate approval and eventual congressional approval of these reform bills remain strong, which in turn would lay the foundation for a higher quality fiscal adjustment and stronger turnaround in economic activity and confidence. Nevertheless, implementation risks remain given the complexity of the stabilization and reform process that lies ahead, and the highly fragmented political landscape and fragile social situation. If such risks materialize, the authorities remain fully committed to implement contingency plans to achieve the program objectives and targets (¶33). The President's recent statements to veto any legislative initiative that could jeopardize the fiscal targets, along with the authorities' track record and willingness to do "what it takes" to achieve the program objectives lends further confidence to staff's assessment.

STAFF APPRAISAL

45. Staff commends the authorities' continued actions to restore macroeconomic stability and put the program firmly on track. Against the backdrop of a heavy inheritance, the resolute ownership and implementation of the plan—centered on a strong fiscal anchor, no new monetary financing, and relative price corrections—has delivered the first consecutive four-month fiscal surplus in almost two decades, along with an impressive turnaround in international reserves, faster-than-expected disinflation, and a significant drop in sovereign spreads, all helping to rebuild policy credibility. All quantitative performance criteria through end-March were met, some by significant margins, and good progress is being made in meeting structural benchmarks.

46. Policies need to evolve to build on the gains made thus far, while efforts should continue to build political and societal support for reforms. Sustaining progress will require strengthening the fiscal anchor—by improving its quality, durability, and predictability—enhancing the monetary and FX policy frameworks and communication to firmly entrench the disinflation process, further improve reserve coverage, and pave the way to a new monetary regime. A well-calibrated easing of CFMs, with an early unwinding of the more distortive MCPs and exchange restrictions, will complement these actions, along with reforms to create a more market-oriented economy to support the recovery and boost Argentina's growth potential. The administration should redouble efforts in working with Congress, provincial governors, and other stakeholders to secure congressional approval of key fiscal and structural legislation, while social assistance should be adjusted to protect the most vulnerable and ensure that the cost of the adjustment does not fall disproportionately on working families.

47. Continuing to improve the quality and durability of the fiscal anchor is a top priority. Staff welcomes the authorities' commitment to deliver overall fiscal balance without central bank financing, and the impressive efforts made thus far in achieving the projected 5 percentage points of GDP adjustment. The approval of key fiscal and structural legislations—including the vital PIT reform—will be essential to improve the quality of the adjustment and secure this year's target. These efforts will need to be complemented by a timely and predictable rationalization of energy and transport subsidies, strengthened expenditure discipline and controls, efforts to reduce tax expenditures, and enhanced targeting and governance of social assistance. Beyond 2024, staff supports the authorities' plan to maintain an overall balance while starting to unwind distortive taxes, and emphasizes that reforms of the tax, pension, and revenue-sharing systems, will be central to this endeavor.

48. Further progress in addressing imbalances will facilitate domestic and external financing goals. Staff welcomes ongoing progress in significantly reducing domestic rollover risks, extending maturities, shifting away from inflation- and FX-linked securities, and reducing costly central bank insurance. Supported by the fiscal anchor, these debt management efforts should continue to build a yield curve in close coordination with the BCRA. On the external front, it remains critical to continue mobilizing external financing and related technical support from official creditors. Staff supports the authorities' focus on rebuilding external buffers as this is crucial for re-accessing international capital markets by late 2025 (or earlier if possible) with the objective of better managing external obligations (while not increasing net indebtedness).

49. Staff welcomes the intention to transition to a new monetary regime which would involve "currency competition", although further work is needed in defining some of the key underpinnings. Staff supports an eventual transition to a new regime with a firm nominal anchor where price and financial stability remain the prime objectives of the central bank and where individuals are free to save and transact in the currencies of their choice. However, work should continue in better defining the role of the central bank in managing liquidity and safeguarding financial sector stability, while a more consistent communication about the new monetary and FX regime will be essential. The commitments to maintain no net monetary financing and no central bank profit transfer to the Treasury are laudable, and consideration should be given to enshrine these commitments into law, including to strengthen central bank independence. Similarly, accounting practices should continue to be refined in line with international standards so that the central bank's balance sheet better reflects its fair value.

50. Monetary and FX policies need to evolve to entrench the disinflation process and improve reserve coverage. Monetary policy, in the context of capital controls, has appropriately focused on reducing the peso overhang and strengthening the central bank balance sheet. Going forward the ex-ante policy interest rate should turn positive in real terms to support peso demand, with more active use of interest rate policy as needed, particularly as CFMs are eased and private credit recovers. In tandem, banking system regulations should be further streamlined to strengthen monetary transmission and private credit allocation. On the FX policy front, the exchange rate will need to become more flexible soon to better reflect fundamentals and safeguard a continued improvement in reserve coverage. While actions have been taken to streamline FX restrictions and controls, further steps will be required to continue to unwind the most distortive MCPs and FX restrictions, including eliminating the preferential export scheme as planned and removing the tax on FX access on imports this year. To this end, it remains critical to finalize the preparation and approval of a framework for a conditions-based easing of FX controls and CFMs, drawing on cross country experience and Argentina-specific factors.

51. Supporting the recovery and boosting potential growth will require that greater focus be given to micro-level reforms. Staff supports initial steps to correct relative price misalignments and improve the efficiency of selected sectors. Securing congressional approval of reform legislation (*Ley Bases*) is now essential to underpin the recovery and boost productivity through measures that eliminate entry barriers, increase labor market flexibility, modernize the hydrocarbons legal framework, and create responsible incentives for large long-term investments. These actions should be complemented by reforms to enhance transparency and governance, including through a comprehensive governance assessment, with Fund technical support, and by strengthening the AML/CFT framework in line with international standards.

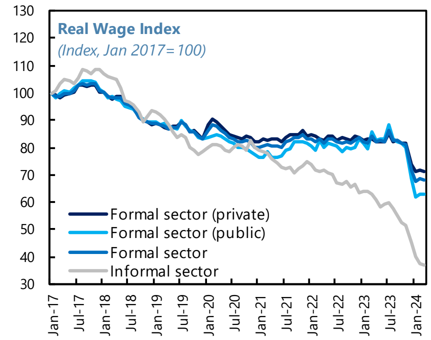
52. Program risks have moderated, yet remain elevated, requiring continued commitment to adapt policies to achieve program objectives. Since assuming office, the authorities' actions have firmly steered the economy away from a full-blown crisis and hyperinflation. Nevertheless, downside risks persist, as external conditions become less favorable and the recession could become more protracted, fueling social tensions and complicating program implementation. Meanwhile, further delays in securing congressional approval of key legislation could undercut the stabilization and recovery efforts. Should risks materialize, the authorities will need to be ready to implement the agreed contingency measures to secure all program targets. Priority should be given to improving burden sharing and building societal consensus for the needed reforms, mindful of the very fragile social and political landscape.

53. On the basis of the authorities' demonstrated ownership of the stabilization plan and strong program performance, staff recommends completion of the Eighth Review under the arrangement. Staff also supports the requested modification of key program targets, approval of the MCPs in line with the new MCP policy, approval of the new exchange restriction/MCP arising from the application of the foreign exchange access tax *(impuesto pais)* to dividends as the conditions for approval are met, and waiver of nonobservance of the PCs on exchange restrictions / MCPs on the basis of corrective action, and recommends completion of the financing assurances review, including given Argentina's ongoing good faith efforts to resolve its external arrears.

Box 1. Argentina's Social Conditions, 2023–24

This box describes the evolution of social conditions in Argentina and recent developments under the Milei administration.

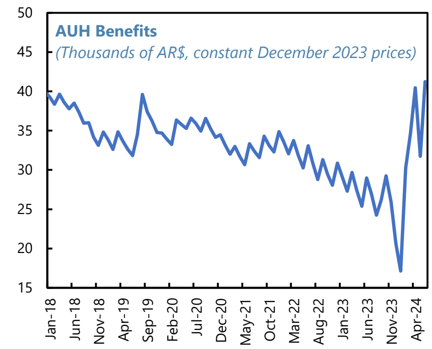
Argentina's social conditions have deteriorated over the past decade. Poverty rose from 29 percent in S1:2017 to 42 percent by S2:2023, with 12 percent of the population living in extreme poverty. The distribution across age has also grown increasingly unequal—while 15 percent of those above 65 live in poverty that figure is near 60 percent for children under 14. Driving forces include lackluster growth, rising informality and declining real wages, as income has not kept up with the rise in inflation.



Sources: INDEC; and Fund staff calculations.

Argentina's social safety net coverage is fairly comprehensive, but assistance has often been insufficient to compensate for the erosion of incomes and important gaps persist. Over 50 percent of households/individuals receive some type of social assistance. Key flagship programs include well-run conditional cash transfer programs with support from MDBs—for example, the child allowance program (*AUH*) and food program (*Alimentar*), which are target poor families with children. The pension-age population is well covered, including through the expansion of universal pensions (PUAM). Yet, the value of assistance has often not kept up with inflation and the safety net does not cover informal workers without children.

There are also important governance issues. Some of the programs are not well-targeted, and suffer from duplications, redundancy, and governance issues (e.g., the workfare program *Potenciar Trabajo*). In addition, many of the social programs are administered by social organizations (intermediaries) that have added to cost and inefficiencies.



Sources: INDEC; and Fund staff calculations.

Against this backdrop, the authorities have taken steps to scale up social benefits and improve their targeting:

- **Sharp increases in child benefits.** Since mid-December, child allowances provided through AUH and *Alimentar* have been scaled up significantly, with the former expected to almost double in real terms since end-2023, following the recent announcement of a 42 percent nominal increase to take place on June 1. These were complemented by a 500 percent increase in the early childhood support program (*primeros 1000 dias*) and a scholarship program to assist early education tuition payments.
- **Rationalization of inefficient programs.** Programs run through intermediaries are being scaled back. The workfare program (*Potenciar Trabajo)* is being rationalized and replaced by new programs (*Volver a Trabajo* and *Acompañamiento Social)* with greater oversight and accountability.
- **Preserving the real value of pensions/benefits.** A new benefit indexation formula was established via an Emergency Decree effective April, which also included a 12.5 percent compensation for inflation earlier in the year. Under the new formula, pension benefits would be automatically adjusted to the previous month's inflation, with similar adjustments applying to selected social program (e.g., AUH). Importantly, the new formula enhances the sustainability of the pension system, by preventing the large real increases in benefits that would have accrued under the old formula once the economy recovers (the old formula was based on a complex combination of inflation, wages, and social security contributions).
- **Strengthening the integration of databases and social assistance targeting.** Efforts are underway**,** in collaboration with the World Bank, to improve the targeting and efficiency of social support (end-September 2024, SB), including by developing a plan to upgrade the current individual-level database to a household-level one.

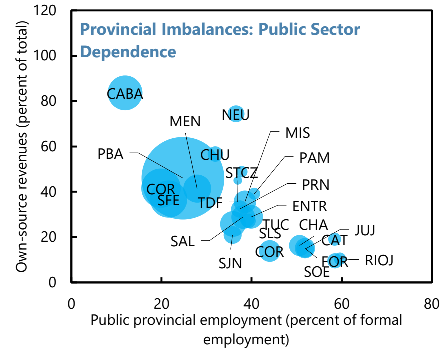
Additional efforts to strengthen social assistance and burden sharing will be required. The social safety net will need to adapt to evolving circumstances to protect the poor and lower-middle class and address gaps in the social safety net. Active labor market policies may be required in the event of layoffs.

Box 2. Argentina's Provincial Finances

This box describes the structure and evolution of provincial finances in Argentina and reform challenges going forward.

Background

Large imbalances persist between own resources and spending across levels of government. While tax responsibilities are fairly centralized, the constitution grants subnational governments the power to execute almost half of all public spending (including education, healthcare, security, and infrastructure). As a result, a complex system of intergovernmental transfers has arisen, involving (i) automatic, non-earmarked transfers (e.g., *coparticipación)*, (ii) other automatic earmarked transfers; and (iii) discretionary transfers, including through a structure of fiduciary funds.



Sources: INDEC; MECON; and Fund staff calculations.

These intergovernmental imbalances have tended to weaken overall fiscal discipline and efficiency. The federal government has increasingly relied on distortive taxes (trade, financial transaction) that are not co-participated and on discretionary transfers to gain political patronage and support from governors. Meanwhile, provinces have shown little incentives to improve the efficiency of their own revenue raising efforts, with spending generally following own revenues plus transfers, given borrowing constraints in many provinces.

Recent Developments

Provincial Fiscal Balance, 2015-23

(Percent of GDP)

	2015	2019	2023 (est.)
Primary balance	-0.6	0.2	0.1
Own revenues	8.2	8.0	7.6
Federal transfers	8.6	8.3	8.8
Primary spending	17.4	16.2	16.2
Overall balance	-0.9	-0.6	0.0

Sources: MECON and Fund staff estimates.

- **2016–19.** With the signing of the 2017 fiscal pact, provinces agreed to reduce their fiscal spending/deficits (which had risen during 2005–15). The pact also replaced the discretionary scheme for approving external indebtedness, by a rules-based system depending on the level of debt service to own revenues.
- **2020–23.** With the economic emergency, the application of the fiscal pact was suspended in 2020, and over half of all provinces restructured their external obligations in coordination with the federal government. Provinces ran surpluses during 2021–22 (supported by increased discretionary transfers), although the fiscal position deteriorated in 2023 in part reflecting the drought and election-related policies, including the decision to raise the nontaxable PIT floor) which reduced co-participated revenues sharply.

Challenges Going Forward

Although it remains necessary for provinces to adjust their spending plans, although care will need to be taken to avoid excessive inequities in adjustment across provinces.

- Provincial revenues are already down sharply in real terms, including as a result of (i) reduced co-participated revenues (down 17 percent y/y in the first four months of 2024) due to the recession and the earlier decision to raise the nontaxable PIT floor; and (ii) cuts in earmarked and discretionary provincial transfers (down 76 percent y/y), including those provided through trust funds. Meanwhile, provincial own revenues are also being adversely affected by the recession, and provincial spending is being adjusted commensurately (in the absence of market access).
- The extent of spending adjustment may differ across provinces. Likely poorer provinces with limited revenue mobilization capacity (and thus most reliant on federal transfers) could end up adjusting more, while richer provinces, including those reliant on mining royalties, may need to adjust less.
- As such, efforts are necessary to improve the quality of the adjustment by broadening co-participated taxes (reforming the PIT and reducing tax expenditures). This would also help to avoid cuts in essential spending at the provincial level, and mitigate the risk of disruptive financing (i.e., arrears or quasi currencies).

Over time, an overhaul of Federal-Provincial Relations is required. Horizontal inequities should be addressed by better aligning revenue and expenditure responsibilities and creating binding borrowing constraints.[1] A comprehensive tax reform should consider both federal and subnational level taxation, including reducing reliance on distortionary taxes (i.e., turnover tax). Fiscal rules should ensure greater coordination across levels of government.

1/ Provinces are legally subject to Argentina's Fiscal Responsibility Law and a series of annual Fiscal Pacts (agreements with the federal government) with the objective to reduce fiscal inequalities and harmonize the fiscal structure.

Box 3. Lessons From Successful Stabilization Programs 1/

This box draws lessons from over 20 stabilization programs, both unsuccessful and successful cases. The results, which also supported by a deep-dive into a few successful cases (Peru: 1990–94, Israel: 1985–86, and Brazil: 1994–2004), suggest that successful stabilizations had larger/frontloaded fiscal consolidation, moved earlier towards more flexible FX regimes with inflation targets, and were supported by structural policies. Importantly, achieving these results took time, and continuous adjustments were necessary to adapt to evolving circumstances.

Successful stabilization episodes tended to be associated with relatively large and more frontloaded fiscal consolidation. Initial fiscal measures were often temporary (e.g., increased export or wealth taxes, elimination of tax exemptions, cuts to defense spending or food/transport subsidies, and temporary surcharges on certain activities), with more durable ones ushered in overtime to deliver higher-quality adjustment to enhance the plan's credibility. The magnitude of fiscal adjustment in successful episodes was substantial (+6 ppts of GDP in *Peru* in the first year, +15 ppts of GNP in *Israel* in two years, and around 3–5 ppts of GDP in *Brazil*), and was often calibrated to rule out monetary financing, while changes in the central bank charter (*de jure* commitment) were introduced after the initial phase (*Peru, Israel*). Other legislation to strengthen fiscal responsibility (*Brazil*) and measures to improve tax efficiency/administration and streamline current and quasi-fiscal expenditures (*Peru)* also helped to consolidate stabilization gains.

Despite important differences in the initial FX regime, successful stabilization cases transitioned towards greater exchange rate flexibility. For instance, *Israel* initially chose an exchange-rate based stabilization following a step devaluation, with significant external support, although it ultimately moved to a more flexible exchange rate arrangement (crawling band) in the face of rising external deficits and currency appreciation. *Peru* opted for a managed float (and elimination of FX restrictions) at the outset, given lack of reserves and uncertainty surrounding the market-clearing exchange rate in the context of complex FX distortions. After some success in reducing high inflation through the Real Plan (1994), *Brazil* moved to a free-floating exchange rate in 1999 as the crawling peg regime ran its course.

Monetary policy was tighter under successful programs, even when a nominal anchor was not well-defined. Ex-ante real interest rates normalized more quickly in successful cases, with the rate of money growth slowing more substantially. The faster normalization of monetary policy supported stronger capital inflows that helped support faster pace of reserve accumulation. *Peru* initially targeted the monetary base (without announcing targets) yet started announcing annual inflation targets in 1994 given unstable money demand and difficulties signaling a clear policy stance. *Israel* used private credit as the main target, while *Brazil* moved to inflation targeting shortly after floating the exchange rate.

In some cases, early supply-side reforms limited negative near-term growth impact, while supporting disinflation. Facing a wide range of market distortions, *Peru* moved quickly to deregulate and open its economy, dismantling price controls, multiple exchange rates, trade restrictions, and its overregulated labor and product markets. *Brazil* also implemented significant structural reforms across labor and product markets, with trade and investment deregulation and significant privatization of SOEs. In contrast, *Israel* generally followed a strategy of "stabilize first, and deal with growth later", which resulted in sluggish growth.

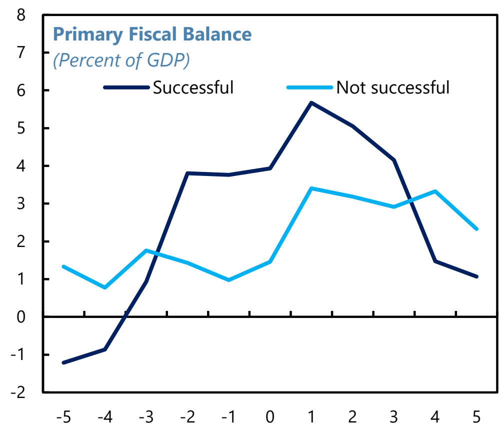
In most of these programs, the disinflation process was gradual, and accompanied by steadfast policy implementation and political support. Annual inflation fell below 40 percent after about 12 months, under 20 percent in 18 to 24 months, but to single digits only after 30 months. The disinflation process was often nonmonotonic and success was incremental, ultimately gained through sufficiently tight macroeconomic policies over many years and efforts to further deepen supply-side reforms, which also supported capital inflows and a gradual (but not excessive) appreciation of the real exchange rate. Political support for reforms was also essential.

1/ The box draws from stabilization episodes identified by Calvo and Vegh (1998) and Henry (2002). For specific country case discussion see Rossini and Santos (2015) for Peru, Fischer (1987) for Israel and Ayres et al (2019) for Brazil.

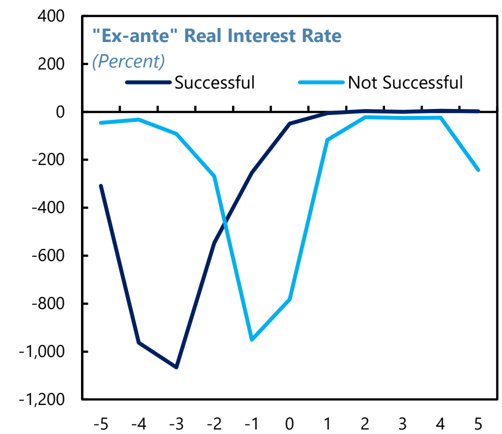
Box 3. Lessons From Successful Stabilization Programs (Concluded)

Box Figure 1. Evolution of Key Macroeconomic Variables

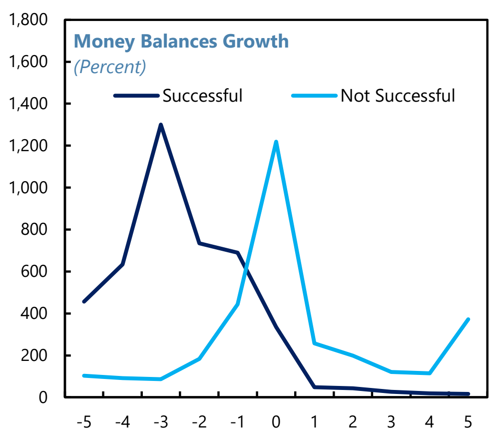
In successful episodes, fiscal policy was much tighter…



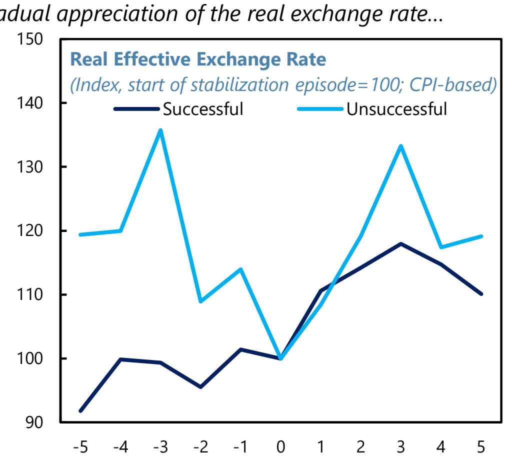
…while monetary policy normalized more quickly…



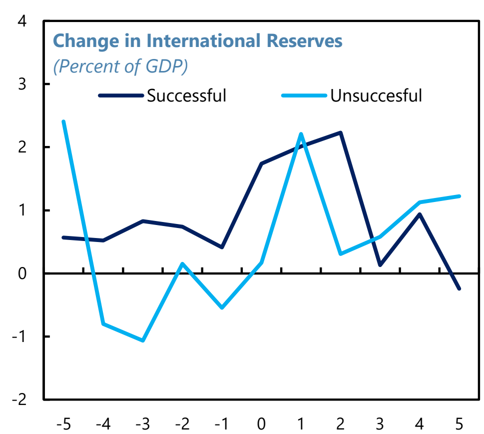
…with money growth slowing down substantially.



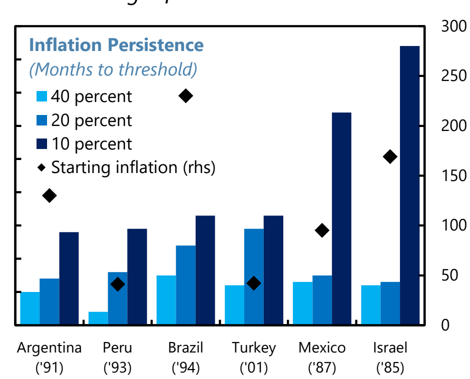
Meanwhile, capital inflows rose substantially supporting a gradual appreciation of the real exchange rate…



…and more sustained reserve accumulation.



Success in reducing inflation to low levels took time.



Source: Country Authorities; Henry (2002); IMF, WEO database; and IMF staff calculations.
Note: Successful episodes: Argentina (1991), Brazil (1994), Chile (1978), Israel (1985), Jamaica (1992), Mexico (1987), Peru (1993), Turkey (2001); unsuccessful episodes: Argentina (1977, 1983), Brazil (1983, 1989), Mexico (1986), Peru (1990), Turkey (1994).

Box 4. Emergency Decree Bill and Landmark Reform Law (*Ley Bases*)

The Emergency Decree DNU seeks to deregulate important sectors of the economy. Specifically, some 350 reform clauses aim to enhance market competition, reduce state-interventions, and create a more level playing field across sectors (see Table). While the Decree remains in effect, the Senate has rejected it, some elements have been suspended following legal challenges (i.e., those related to labor reform, land sales and private health care fees) and the Supreme Court has announced it would assess its broader legality. The expected congressional approval of the *Ley Bases* should strengthen the legal basis of the DNU.

Emergency decree: "Bases for the Reconstruction of the Argentine Economy"

General objective	Legal and economic deregulation measures altering the Argentine state's role in society and economy.
Repeal of the Rental Law	Repeal law establishing that home rental contracts must have three-year duration, and that rental prices must adjust biannually based on a formula linked to wages and CPI.
Repeal of the Anti-Hoarding Law	Repeal law allowing the Executive to intervene in markets / impose fines to assure normal supply and availability of key inputs, and prevent price increases.
Repeal of the Law of Supermarket Shelf Display	Repeal law that limits shelf space to particular products/brands, forces shelf display of multiple brands of similar products, and imposes space quota for goods produced by selected firms (small domestic, cooperatives, aboriginal / 'popular economies' groups).
Repeal of the Buy Argentine legislation	Repeal public procurement quota prioritizing specific domestic suppliers.
Elimination of the Economy Ministry's Price Observatory	Eliminate office monitoring compliance with the price freeze/ceiling schemes and overseeing availability of goods and inputs.
Change of legal status of public companies to allow path to privatization	Declare SOEs subject to privatization, a prior step to either privatization or partial privatization.
Modernize labor legislation to create formal employment	Repeal / amend laws for employees to sue employers for large severance packages. Extend maximum job trial periods. Expand workers' right to receive direct payment to limit abusive behavior by labour unions. Enhance flexibility of working time rules, including for just-cause dismissals. Reduce standard severance pay calculation, and possibility of replacing standard severance pay for unemployment insurance scheme. Limit rights to strike by way of guaranteeing essential services. Broaden just-cause dismissal to include strikes that limit others' rights to work. Relax rules on the presumption of a working relationship for informal or infrequent workers.
Deregulation of various sectors	Amendment of the regulatory framework governing prepaid and obras sociales healthcare schemes. Repeal Land Law to promote investment. Repeal obligations imposed on sugar refineries. Liberalize legal regime for wine sector. Implement "open sky" policy. Deregulate tourism by eliminating tourist agency monopolies. Deregulate satellite internet services. Repeal Industrial and Commercial Promotion Laws.
Amend Civil / Commercial Code "to reinforce contractual freedom between the parties."	Change civil and commercial code to free most contract negotiations of restrictions. The code would only apply to matters not covered by the contract.

The *Ley Bases* includes wide-ranging clauses to create a more market-based economy. The bill passed by the lower chamber in April and is expected to be approved by the Senate. Its main provisions are summarized in the table below.

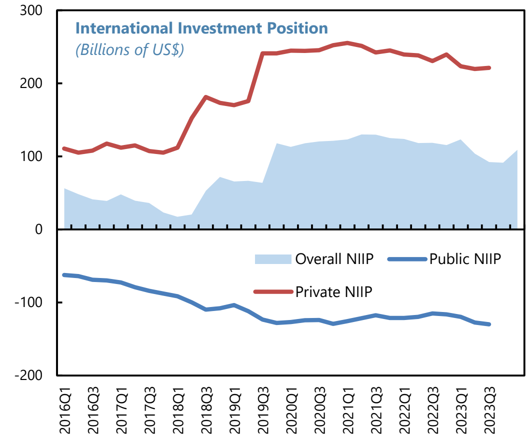
Ley Bases Bill Passed by the Chamber of Deputies: Summary of Main Elements

General objective		To promote private activity, develop trade and manufacturing through a legal framework that guarantees liberty and limits state intervention.
Emergency declaration		Declaring state emergency in the areas of administration, economic, financial, and energy over 1 year without extension. The Executive Branch receives legislative powers (bypassing Congressional procedures) but must report to Congress monthly on the use of the power and results.
State reform	**Delegation of powers**	Special legislative powers to modify or eliminate state dependencies or decentralized offices, while prohibiting the closing of 14 national institutes, incl. the CONICET research council, food and medicine regulator ANMAT, and space agency CONAE.
	Fiduciary funds	Amendment/elimination of public trust funds and reallocation of their resources to the National Treasury.
	Privatization of SOEs	Four public companies are now up for privatization, and five more could be considered for privatization. For privatization: Aerolíneas Argentinas; Energía Argentina; Radio y Televisión Argentina; and Intercargo. For consideration for privatization/concession: Utility AySA (water & sewage); National mail service; SOFSE (rail operator); Belgrano Cargas (rail cargo); Corredores Viales (road maintenance). Majority state control to be maintained over Nucleoeléctrica Argentina and Yacimientos Carboníferos de Río Turbio.
	State administration	Loosen labor rights for existing public workers, with more flexibility to reassign tasks, among other things.
Public works contracts		State gets power to renegotiate or rescind public works contracts or sign new concessions for private-led works.
Public debt consolidation		Consolidates intra-public sector debt involving the federal government (excluding BCRA, provinces). Modifies investment regulations for the social security fund (FGS)
Labor market reform		The reform: i) allows for longer internships/trial periods before formal hiring (longer for smaller firms); ii) authorizes workers-employers negotiations on unemployment insurance contributions in collective bargaining agreements (replacing severance payments), with employer's contribution of up to 8% of the wage; iii) repeals sanctions and fines on employers who have not registered their employees; iv) streamlines workers registration procedures, especially for SMEs; v) requires severance payments for unjustified dismissals, up to the highest wage (excl. bonuses) times time worked, with penalty if discrimination plays a role; vi) establishes that protests blocking access to businesses or obstructing production will be considered grounds for lawful dismissals, and potential prosecution.
Repeal of 2023 pension moratorium		Eliminate pension moratorium allowing access state pension by paying for missing years of social security contributions. Those losing this benefit will instead receive an amount related to their years of contributions, with a floor of 80% (welfare payment for older adults already in place).
Economic deregulation		Authorization to repeal / amend regulations that increase private transaction costs, curtail autonomy, or result in scarcity of goods/services.
Defense of competition		Pro-competition reforms, including raising penalties on oligopolistic behavior, outlining conflict resolution practices. Creating a competition court.
Hydrocarbons legal framework		Deregulates the oil sector to free companies to produce oil and gas. Removes government's prerrogative to set export quotas and prices (energy exports can be blocked under very exceptional circumstances). Merges electricity and gas regulators.
Incentive regime for large investments (RIGI)		Special fiscal regime for new investment projects of at least USD 200 mn. Sets income tax at 25%, tax on dividends at 7% (0% for profits reinvested for three years), offers accelerated amortization of capital, outlines tax treatment for most taxes and offers long-term stability, sets rules to treat FX income from exports, establishes conflict resolution mechanisms. If passed, any previous laws running contrary to RIGI would be nullified.

Box 5. Evolution of External Assets and Liabilities, 2016–23

This box describes the evolution of Argentina's NIIP between 2016 and end-2023, drawing policy implications.

Despite a strongly positive NIIP, Argentina's external vulnerabilities remain high reflecting strong mismatches in the composition of foreign assets and liabilities. Argentina's NIIP doubled in USD terms during 2016–19, as increases in formation of private sector foreign assets (over US$100 billion), took place against a backdrop of rising public external indebtedness (over US$60 billion). Since 2019, the net external position has remained relatively stable, although gross assets and liabilities have moved substantially. In the case of the public sector, the significant decline in reserve assets was balanced against a reduction in debt held by the private sector of a similar magnitude (US$25 billion), namely reflecting valuation gains from the exchange rate depreciation on peso debt held by nonresidents as well as resident purchases of debt held by nonresidents. Meanwhile, the generally unchanged private sector external position reflects offsetting factors, including (i) an increase in private assets abroad, mainly in the form of currency and deposits (close to US$40 billion),[1] and (ii) an increase in private external liabilities mainly in the form of trade credit (US$55 billion), largely in response to the tight restrictions on FX access for imports. Despite having a positive NIIP of about US$110 billion at end-2023, most external assets are in the form of household savings abroad (US$260 billion), while gross debt (non-FDI) liabilities are large, owed by the public sector (over US$150 billion), and private firms in the form of trade credits.[2]



Source: INDEC.

A sustained commitment to twin fiscal/external surpluses remains crucial to meet FX debt service obligations while gradually reducing these gross stock imbalances. A large level of external assets alone is not sufficient to mitigate external debt liabilities risks if the holders' profiles are mismatched. Argentina's large gross external assets are largely in the form of private savings abroad (or USD under the mattress) in response to a long history of unsustainable policies, while external debt (non-FDI) liabilities are concentrated in the public sector (and more recently the corporate sector in the form of short-term import debt that are being reprofiled under BOPREAL). As such, it remains critical to implement policies to sustain fiscal and external surpluses, while also encouraging FDI and private capital inflows (especially in the form of resident asset repatriation).

Net International Investment Position, 2015-2023
(in billions of U.S. dollars)

	end-2015	end-2019	end-2023	Diff 2019/2023
Overall NIIP	**56.5**	**113.2**	**109.0**	**-4.2**
GG NIIP	**-62.1**	**-128.1**	**-131.2**	**-3.1**
Reserve Assets	25.6	44.8	23.1	-21.8
Gross Liabilities	-87.7	-172.9	-154.2	18.7
Official	-28.0	-73.4	-78.9	-5.5
Private	-58.7	-98.9	-73.9	25.0
Others	-1.0	-0.6	-1.4	-0.8
Private NIIP	**118.6**	**241.2**	**240.1**	**-1.1**
Assets	246.2	352.3	414.3	62.0
Currency deposits	153.3	226.6	263.0	36.5
Other	92.9	125.8	151.3	25.5
GrossLiabilities	-127.6	-111.1	-174.2	-63.1
FDI equity&shares	-53.2	-47.5	-77.1	-29.6
FDI and trade debt	-45.6	-51.4	-77.3	-26.0
Private loans	-22.0	-34.8	-34.8	0.0
Residual	-6.8	22.5	15.0	-7.5

Sources: INDEC; and Fund staff calculations.

1/ Investment income to Argentines over the same period was US$13.8 billion, indicating that a larger share of the growth in Argentines' foreign savings has been on account of new flows (e.g., interest and capital gains).
2/ The high level of private foreign assets suggests that the risk of significant capital flight upon the lifting of FX restrictions may have diminished.

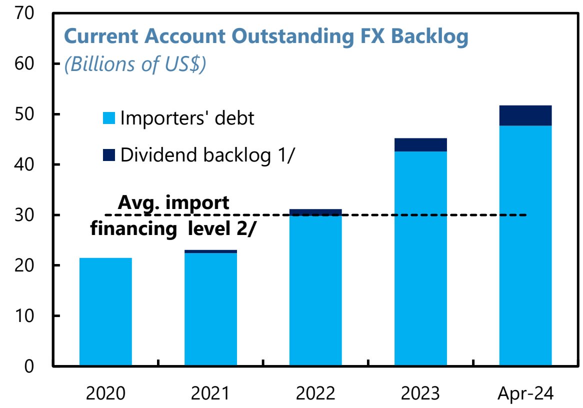
Box 6. Taking Stock of FX Debt Backlog and Overhang

This box takes stock of the FX obligations backlog stemming from current account flows and the implications for the balance of payments over the near to medium term.

FX overhang/backlog. As of end April 2024, Argentina's outstanding FX debt backlog reached roughly US$21 billion, of which US$17 billion reflected excess importers' debt[1] (see text table 1) and an estimated US$4 billion of undistributed dividends, arising from restrictions to the distribution of dividends abroad.[2]

BCRA Treatments. Through end-April, about US$17 billion has been reprofiled to smooth out FX obligations over time (see text table 2) through various BOPREAL schemes for legacy imports (US$8.3 billion) and dividend distribution abroad (US$1.8 billion), as well as a decision to delay access to FX for new imports (accumulated since mid-December 2023) accounting for the rest (US$7.1 billion).

BOP implications. While the various BOPREAL schemes have substantially improved the maturity profile of the legacy FX backlog, reaching reserve accumulation goals will require a prolonged commitment to tight macroeconomic policies, and enhanced monetary and FX policies. Delayed FX access will likely be necessary for a period of time to manage the country's import bills given payments on maturing importers' debt accumulated since end-2023.



Sources: BCRA; and Fund staff calculations.
1/ Estimates reflect difference between actual and imputed distribution value assuming similar reinvestment rates. Recent increases reflect higher actual returns to capital.
2/ Estimated from 2019-24.

BCRA FX Obligations Arising from Reprofiled FX Backlog, 2024-27
(in billions of U.S. dollars, as of end-April)

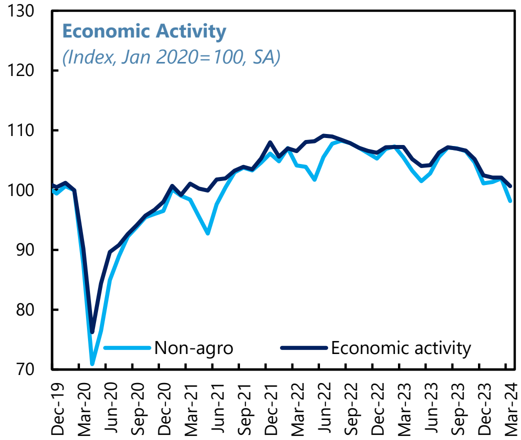
	2024 1/	2025	2026	2027	Total
Reprofiled FX Backlog Due	**8.2**	**2.0**	**2.0**	**5.0**	**17.2**
Legacy imports	1.1	1.4	0.8	5.0	**8.3**
BOPREAL 1				5.0	**5.0**
BOPREAL 2	1.0	1.0			**2.0**
BOPREAL 3	0.1	0.4	0.8		**1.3**
Schedule for new imports	7.1				**7.1**
Dividends through BOPREAL 3	0.0	0.6	1.2		**1.8**

Sources: BCRA and IMF staff estimates.
1/ May through December.

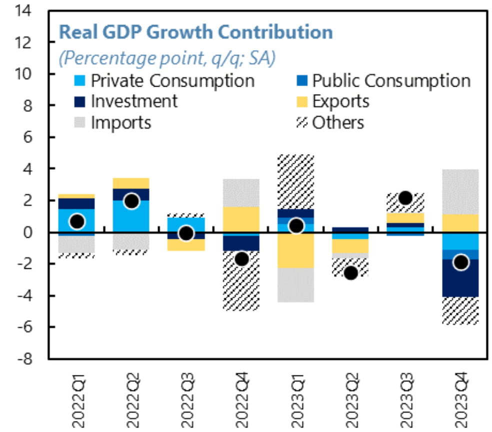
1/ MSMEs, which recently gained expedited access to the official FX market, have repaid US$0.6 billion. Under the US$1.2 billion envelop for MSMEs, an additional 0.6 billion can be expected in the second half of the year.
2/ The amount of dividend backlog is estimated over 2020–23 as the difference between actual distributions and the imputed value at a reinvestment rate during periods without exchange restrictions (46 percent). A reinvestment ratio of 70 percent is assumed for 2024.

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

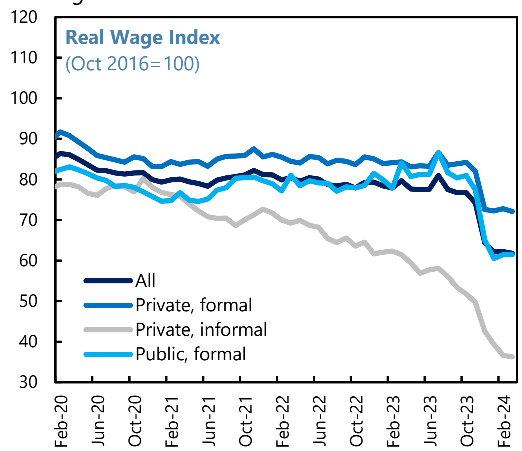
A sharp contraction starting in Q4:2023 is being led by the non-agricultural sector…



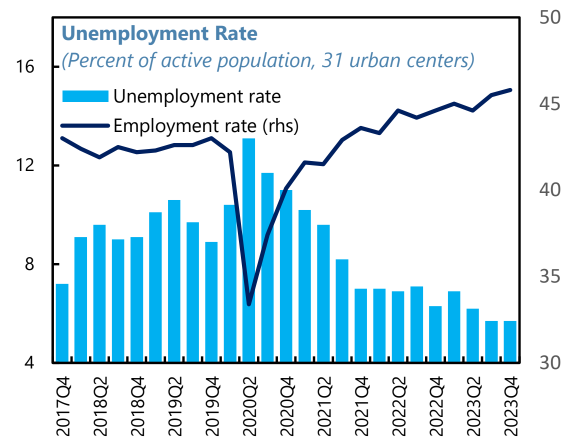
…under FX and fiscal adjustments, which depress domestic demand, led by investment.



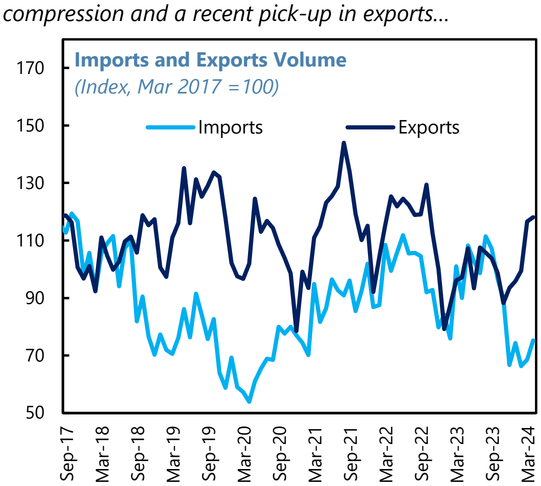
Real wages have been falling, but now appear to be bottoming out…



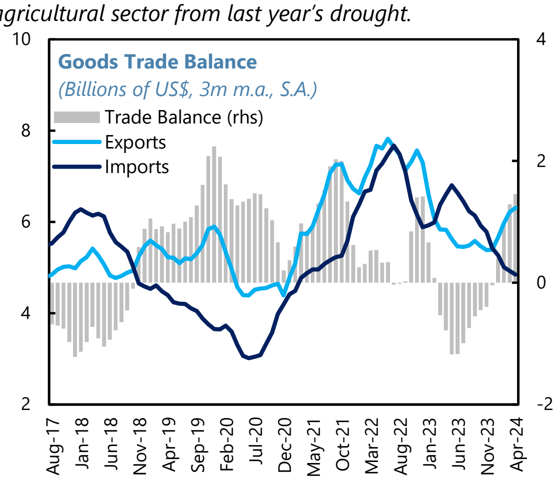
…while employment indicators seem to have held up through end-2023.



The trade balance has sharply improved due to import compression and a recent pick-up in exports…



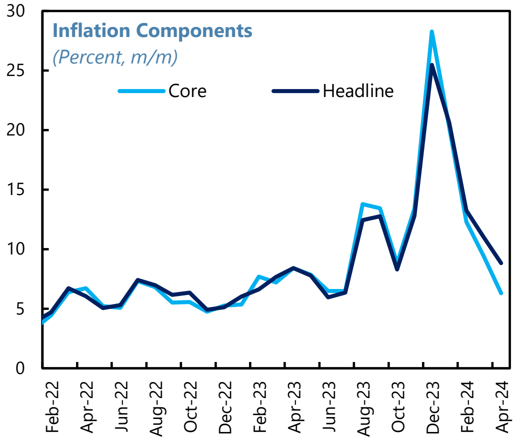
…driven by goods, reflecting largely the recovery of the agricultural sector from last year's drought.



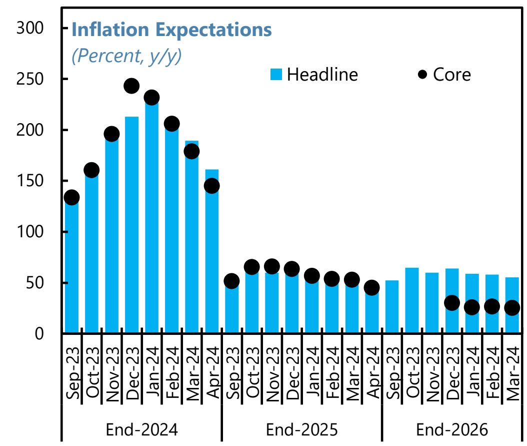
Sources: INDEC; BCRA; Haver Analytics; and IMF staff calculations.

Figure 3. Argentina: Inflation and Monetary Developments

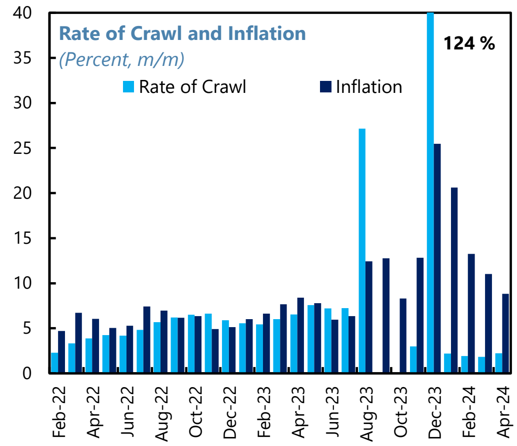
After having spiked in December, sequential headline inflation has decreased sharply…



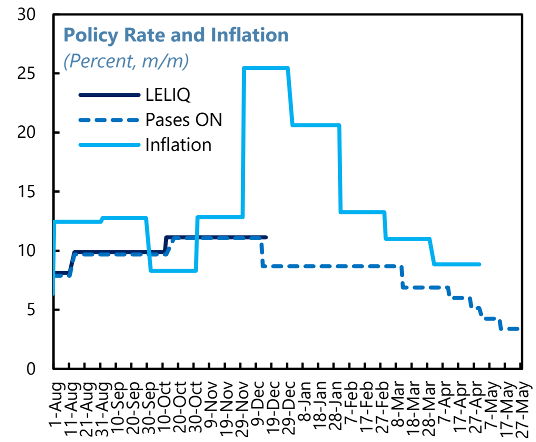
…together with inflation expectations, although they remain elevated.



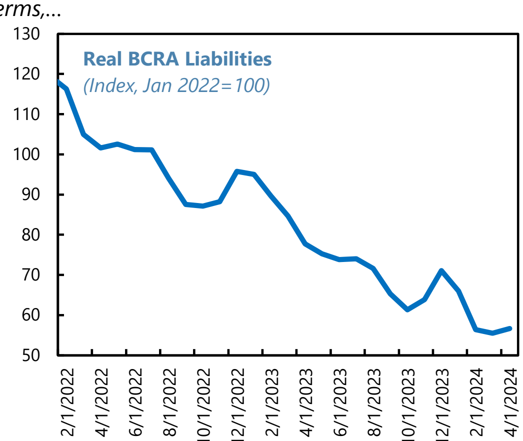
The decline in inflation has been supported by a low rate of crawl…



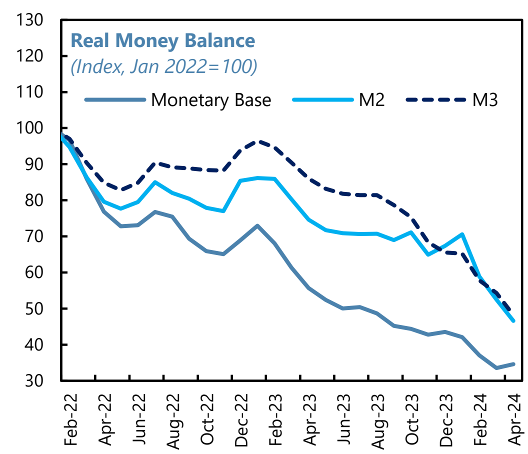
…with declining policy rates helping to strengthen the central bank balance sheet.



As a result, the stock of BCRA liabilities is down in real terms,…



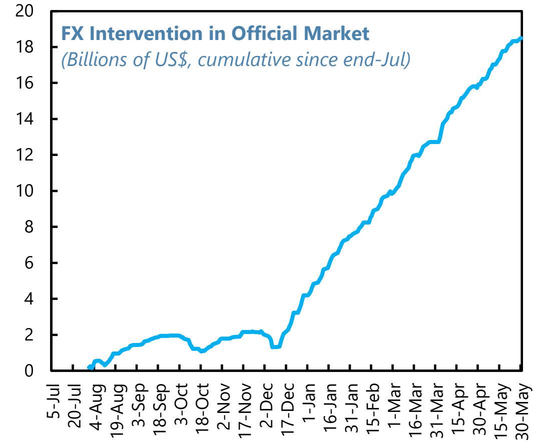
…with money demand/supply falling sharply.



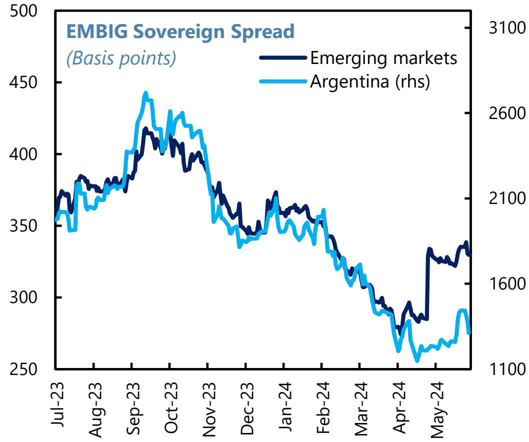
Sources: INDEC; BCRA; Haver Analytics; and IMF staff calculations.

Figure 4. Argentina: Recent Market Developments, 2022–24

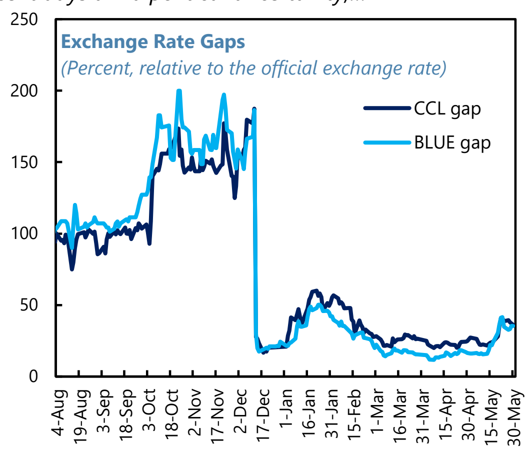
The stabilization plan has led to a sharp increase in FX purchases...



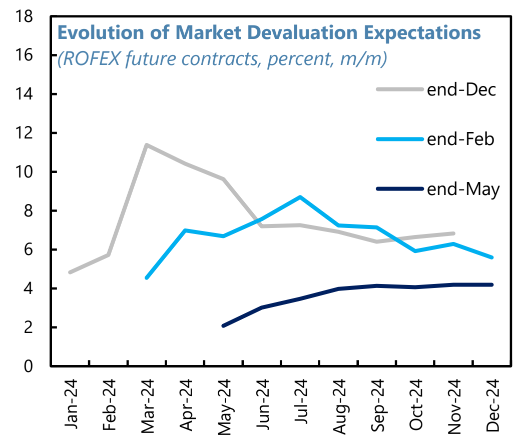
...a narrowing in sovereign spreads (even when compared with other EMs)...



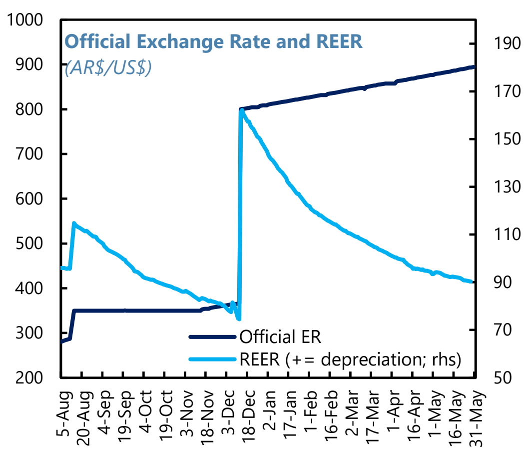
...a compression of the FX gap, although it has widened in recent days amid political uncertainty,...



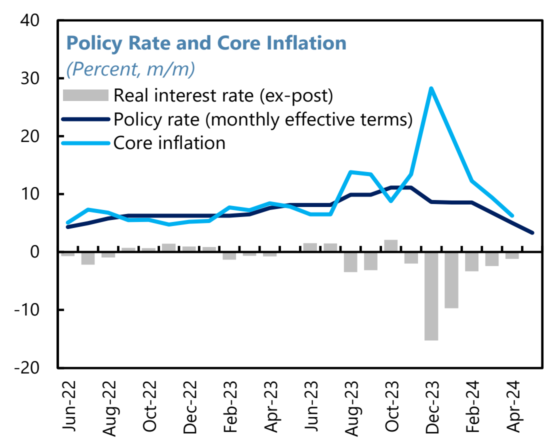
...and a reduction in devaluation expectations.



Meanwhile the real exchange has appreciated sharply...



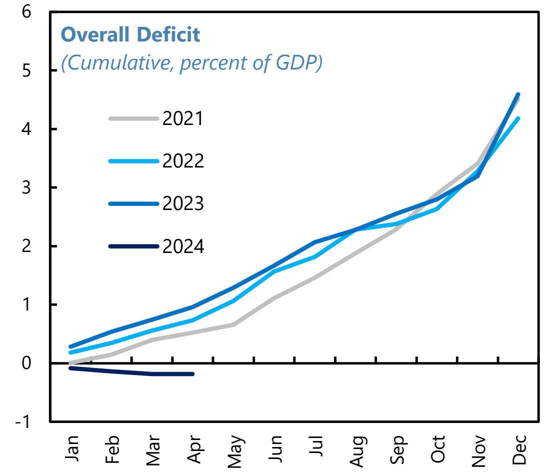
...while policy rates still remain negative in real terms.



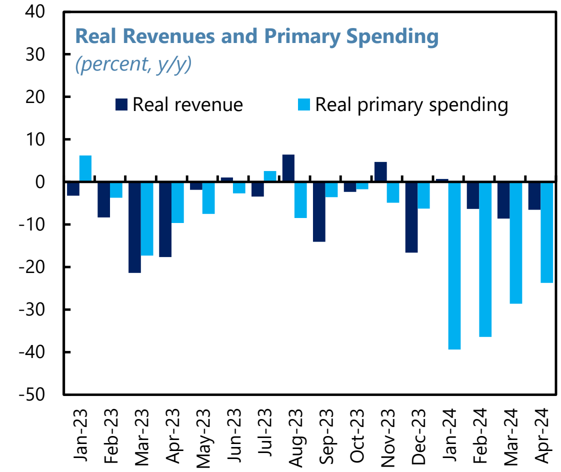
Source: BCRA; Bloomberg Finance L.P.; Haver Analytics; and IMF staff calculations.

Figure 5. Argentina: Fiscal and Financing Developments

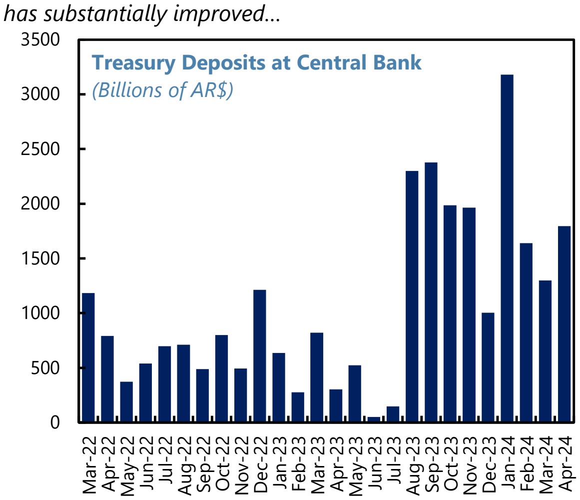
The government posted consecutive fiscal surpluses in January–April 2024, the first in over a decade…



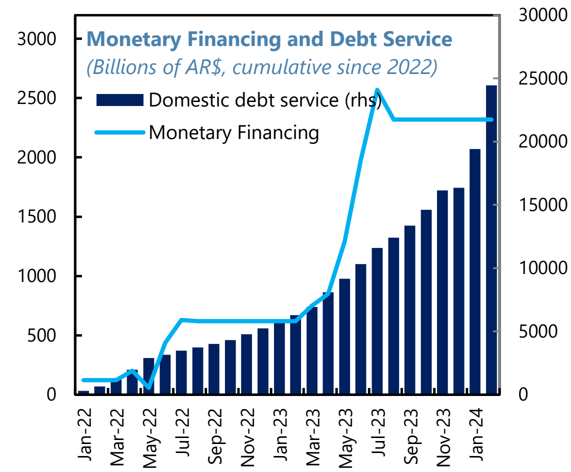
…driven mainly by sharp real spending cuts.



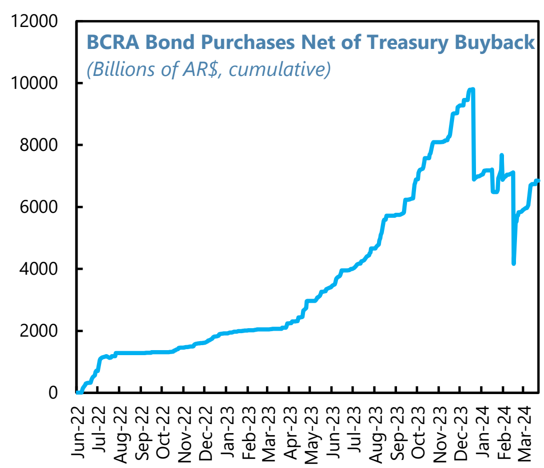
Along with overall surpluses, cash control and management has substantially improved…



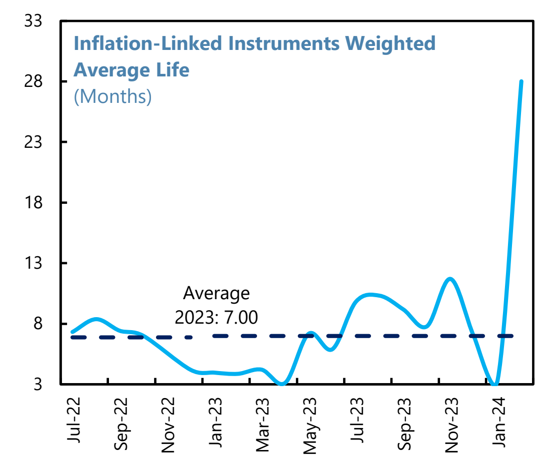
…putting a stop to monetary financing.



Primary bond issuances have been used to sterilize puts-related BCRA purchases in the secondary market…



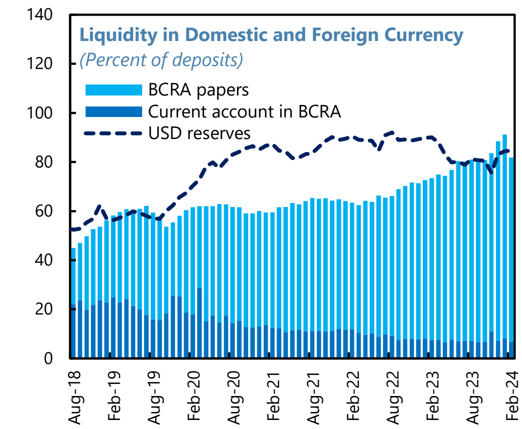
…and extend maturities to reduce rollover risks and improve peso debt profile.



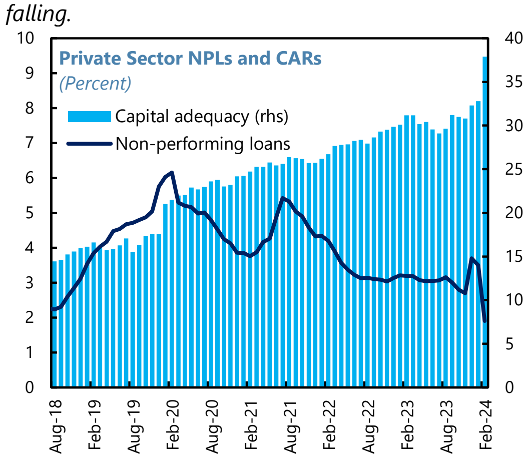
Sources: MECON; Bloomberg Finance L.P.; BCRA; and IMF staff calculations.

Figure 6. Argentina: Banking Sector Developments

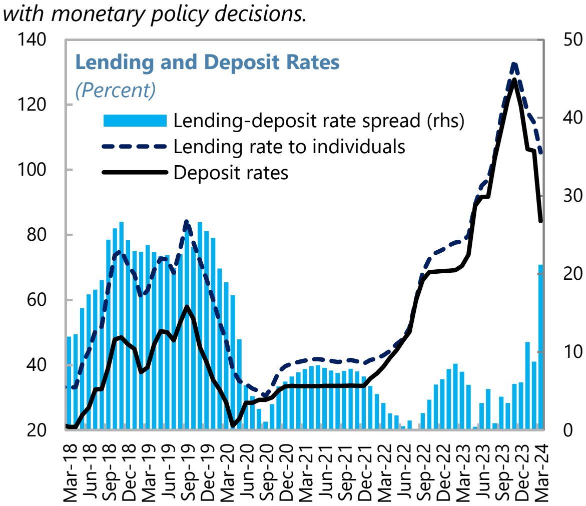
Liquidity buffers continue to grow…



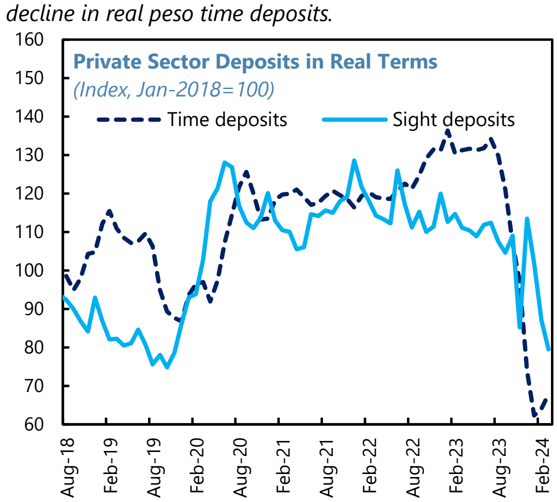
…and banking sector capitalization remains sound and NPLs are falling.



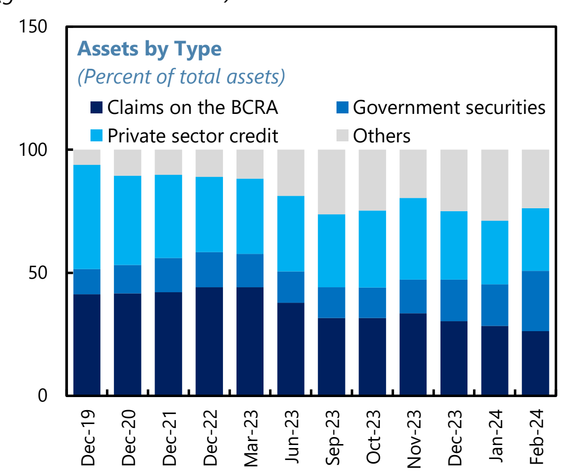
Nominal lending and deposits rates are declining, in line with monetary policy decisions.



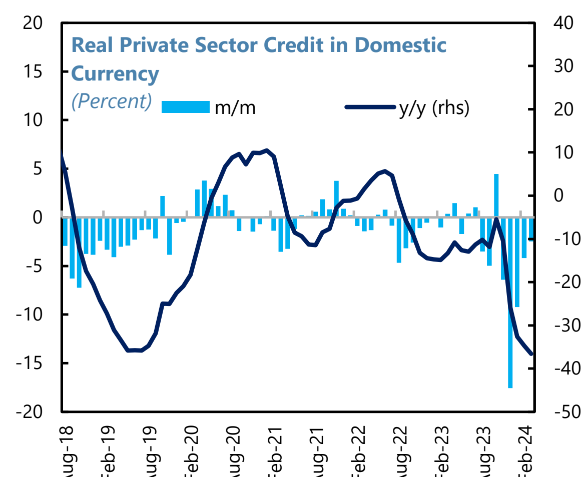
However, negative real interest rates have led to a marked decline in real peso time deposits.



Banks maintain their high exposure to the public sector (government and BCRA)…



…as private credit remains weak despite some stabilization.



Sources: BCRA and IMF staff calculations.

Table 1. Argentina: Selected Economic and Financial Indicators, 2022–29

		SR (Jan.)		SR (Jan.)	Proj.	SR (Jan.)			Proj.		
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
	(Annual percentage changes unless otherwise indicated)										
National Income and Prices											
GDP at constant prices	5.0	-1.1	-1.6	-2.8	-3.5	5.0	5.0	4.7	3.9	3.3	2.4
Non-agro GDP at constant prices	5.7	-0.3	-0.8	-5.2	-5.7	5.0	5.2	4.9	4.1	3.4	2.5
Domestic demand	7.8	3.1	0.4	-11.0	-11.3	5.2	5.1	4.7	3.8	3.1	2.1
Consumption	8.4	2.0	1.1	-7.8	-8.6	3.6	3.6	3.5	2.9	2.5	2.1
Private	9.7	1.6	1.1	-6.7	-6.8	3.5	3.9	3.5	3.2	2.7	2.3
Public	1.9	4.4	1.2	-13.6	-18.4	4.5	1.7	3.2	1.1	1.1	1.1
Investment	11.1	4.0	-1.9	-23.6	-21.8	12.7	12.0	10.2	7.4	5.5	2.2
Exports	5.8	-12.7	-6.7	26.8	21.7	6.5	4.5	4.6	4.9	5.0	5.1
Imports	17.9	6.2	2.2	-15.2	-15.5	7.2	4.9	4.8	4.6	4.2	3.8
Net exports (percent contribution to real GDP)	-3.1	-4.3	-2.0	9.4	8.7	-0.3	-0.1	0.0	0.1	0.2	0.3
Output gap (percent of potential GDP)	1.7	-0.4	-0.4	-5.6	-6.2	-3.9	-4.4	-2.5	-1.1	-0.1	0.0
Inflation (eop)	94.8	211.4	211.4	149.4	139.7	45.0	45.0	25.0	12.0	10.0	8.0
Inflation (avg)	72.4	133.5	133.5	253.4	232.8	59.6	61.2	31.8	17.5	10.4	8.9
GDP deflator	69.8	135.6	134.3	253.1	236.9	58.4	61.2	31.8	17.5	10.4	8.9
	(Percent of GDP unless otherwise indicated)										
Savings-Investment Balance											
Gross national savings	17.2	16.2	15.7	17.8	17.3	18.6	18.6	19.8	21.0	21.9	22.2
Private	21.1	20.5	20.3	17.8	17.3	17.9	17.7	19.0	19.4	20.3	20.5
Public	-3.9	-4.2	-4.6	0.0	0.0	0.7	0.9	0.8	1.6	1.6	1.7
Gross domestic investment	17.9	19.7	19.1	16.9	16.7	17.7	18.0	19.1	20.0	20.7	20.8
Private	14.7	17.4	16.3	14.1	14.4	15.1	15.0	16.2	17.5	18.1	18.2
Public	3.2	2.3	2.8	2.8	2.3	2.6	3.0	2.9	2.6	2.6	2.6
External Sector											
Current account balance	-0.7	-3.5	-3.4	0.9	0.6	0.9	0.6	0.8	1.0	1.3	1.5
Trade balance	0.9	-1.6	-1.5	3.3	2.6	3.6	3.1	3.1	3.2	3.4	3.6
Foreign direct Investment (net)	2.1	3.1	3.2	1.5	0.8	1.4	0.3	0.6	0.2	0.5	0.5
Total external debt	57.4	113.7	112.6	56.8	54.6	57.3	54.3	48.7	43.9	41.4	39.3
Gross international reserves (US$ billions)	44.6	23.1	23.1	30.1	27.2	36.1	33.2	41.2	49.2	59.2	69.2
Net international reserves (US$ billions)	8.8	-8.5	-8.5	-1.5	-1.5	4.5	4.5	12.5	20.5	30.5	40.5
Terms of trade (percent change) 1/	-3.2	-6.5	-6.6	-8.3	-6.8	-1.6	-2.2	-2.2	-2.3	-2.3	-2.5
Federal Government Operations											
Revenues 2/	18.0	16.6	16.9	18.6	16.7	18.4	17.3	17.4	17.4	17.4	17.4
Primary expenditure 3/	20.4	19.5	19.8	16.5	15.1	15.8	15.0	14.9	14.9	14.9	14.9
Primary balance 4/	-2.4	-3.0	-2.9	2.1	1.7	2.5	2.3	2.5	2.5	2.5	2.5
Overall balance	-4.2	-5.2	-4.6	0.0	0.0	0.4	0.5	0.2	0.7	0.7	0.9
Federal government debt	84.7	154.5	156.7	86.2	91.0	79.5	78.3	69.1	60.4	54.3	48.6
Official creditors	16.8	36.5	33.6	17.2	17.4	17.4	17.4	15.4	13.2	11.3	9.7
Private creditors	33.8	56.0	60.1	27.7	38.6	26.1	34.3	30.3	26.9	24.9	22.9
of which: FX-denominated debt	19.9	40.8	40.5	19.9	19.1	19.7	18.7	16.6	15.0	14.3	13.8
Public entities	34.1	62.0	63.0	41.3	35.1	36.0	26.7	23.4	20.4	18.1	16.0
Money and Credit											
Monetary base	6.3	5.0	5.1	5.5	4.2	5.9	5.0	6.0	6.5	6.7	6.8
BCRA fiscal financing 5/	3.1	5.0	5.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BCRA securities	12.7	16.1	16.4	9.2	8.4	8.7	8.2	7.4	5.9	5.7	5.4
BCRA quasi-fiscal cost	5.2	6.1	6.4	3.9	3.2	2.9	2.5	2.0	1.0	0.5	0.2
Memorandum Items											
Consolidated public sector balance (percent of GDP) 6/	-9.0	-10.4	-11.0	-3.9	-3.3	-2.2	-1.6	-1.2	0.6	1.2	1.5
Poverty rate (percent, H2)	39.2	...	41.7	...	...	...	...	...	...	...	...
Unemployment rate (avg, percent)	6.8	6.6	6.1	8.0	8.2	7.5	7.6	7.2	7.0	7.0	7.0
GDP per capita (in US$, nominal)	13,575	...	13,745	...	...	...	...	...	...	...	...
Federal government debt (share of annualized Q4 GDP)	67	102.1	106.0	71.4	75.2	68.9	69.1	65.3	58.7	53.5	48.1
Monetary base (share of annualized Q4 GDP)	5.0	3.3	3.4	4.6	3.5	5.1	4.4	5.7	6.4	6.6	6.7
BCRA securities (share of annualized Q4 GDP)	10.1	10.7	11.1	7.6	6.9	7.5	7.2	7.0	5.7	5.6	5.4

Sources: National authorities and Fund staff estimates and projections.

1/ Based on global price trends. Excludes changes in supply side factors, like climate conditions or structural changes in energy balance.

2/ Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues in 2023. Proceeds from 5G phone license auctions are also excluded.

3/ Includes COVID-related spending in 2022.

4/ Primary balance excludes BCRA profit transfers.

5/ Up to 2023 includes profit transfers, advances (adelantos) and secondary market purchases. For 2024 includes also issuance of new non-marketable government bonds and treasury buybacks, including that from December 21 2023.

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

Table 2. Argentina: External Balance of Payments, 2022–29

		SR (Jan.)		SR (Jan.)	Proj.	SR (Jan.)			Proj.		
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
						In billion USD					
Current Account	**-4.3**	**-22.7**	**-21.8**	**5.5**	**3.5**	**4.9**	**3.2**	**4.6**	**6.5**	**8.7**	**10.7**
Trade balance in goods	12.4	-3.6	-3.0	21.8	19.4	22.2	20.3	21.4	22.8	24.4	26.7
o/w Energy trade balance	-3.5	-0.6	0.4	3.4	4.7	4.3	4.4	5.0	6.1	7.4	8.9
o/w Non-energy trade balance	15.9	-3.0	-3.4	18.4	14.7	17.9	16.0	16.4	16.7	17.0	17.7
Exports f.o.b.	88.5	66.4	66.8	79.3	74.8	84.2	79.6	83.9	88.7	94.1	99.3
Imports f.o.b.	76.2	70.0	69.8	57.6	55.4	62.0	59.2	62.4	65.9	69.7	72.7
Trade balance in services	-6.9	-6.8	-6.5	-2.2	-3.5	-2.2	-2.8	-2.2	-1.6	-1.0	-0.9
Exports	14.5	22.2	21.9	23.4	21.4	25.1	22.8	24.4	26.1	27.9	29.1
Imports	21.4	29.0	28.4	25.6	24.9	27.3	25.6	26.5	27.7	28.9	30.0
Primary income balance 1/	-11.9	-14.3	-14.3	-16.3	-14.4	-17.3	-16.4	-16.7	-16.8	-17.0	-17.3
of which Public sector interest (gross)	-5.3	-7.1	-7.1	-8.3	-8.4	-8.4	-8.5	-8.4	-8.1	-8.8	-8.6
of which: IMF charges	-1.9	-3.2	-3.2	-3.4	-3.4	-3.5	-3.5	-3.5	-3.3	-2.9	-2.3
of which: other official interest	-0.7	-1.7	-1.7	-2.1	-2.2	-2.1	-2.2	-2.2	-2.2	-2.3	-2.2
of which: Private (bond holders)	-2.7	-2.2	-2.2	-2.7	-2.7	-2.8	-2.8	-2.7	-2.6	-3.6	-4.0
Secondary income, net	2.1	2.0	2.0	2.2	2.0	2.2	2.1	2.1	2.1	2.3	2.3
Capital Account	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account 2/	**-15.3**	**-16.7**	**-14.9**	**-10.5**	**-11.3**	**-6.1**	**-4.4**	**-5.2**	**-8.1**	**-10.0**	**-15.3**
Foreign direct investment, net 3/	13.3	19.9	20.5	9.0	4.9	7.7	1.6	3.6	1.5	3.5	3.5
excl. excess importers' debt (est.)	5.3	6.4	5.5	8.0	3.0	11.2	10.0	8.0	6.0	6.0	6.0
Portfolio investment, net 2/	-9.2	-8.3	-5.9	-8.5	-7.4	-10.8	-5.6	-3.4	-1.5	-3.5	-5.7
of which: amortization by general government	-11.9	-1.9	-1.9	-1.5	-1.5	-4.0	-3.7	-3.7	-4.3	-6.1	-7.0
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/ 3/	-19.5	-28.3	-29.5	-10.9	-8.8	-3.0	-0.5	-5.5	-8.2	-10.0	-13.1
IMF repurchases	-16.8	-17.7	-17.7	-4.5	-4.5	0.0	0.0	-1.1	-4.4	-6.5	-7.1
Other official repayments	-2.5	-3.5	-3.5	-2.8	-2.8	-2.9	-2.9	-2.8	-2.9	-2.9	-3.0
Other items net	-0.2	-7.0	-8.3	-3.6	-1.4	0.0	2.4	-1.5	-0.9	-0.5	-2.9
Errors and Omissions	**3.4**	**-1.3**	**-1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-22.8**	**-37.9**	**-35.3**	**-4.8**	**-7.6**	**-1.0**	**-1.0**	**-0.4**	**-1.4**	**-1.2**	**-4.4**
Financing	**22.8**	**37.9**	**35.3**	**4.8**	**7.6**	**1.0**	**1.0**	**0.4**	**1.4**	**1.2**	**4.4**
IMF Financing	23.4	12.7	12.7	6.5	6.5	0.0	0.0	0.0	0.0	0.0	0.0
Other official financing 4/	4.3	4.6	4.6	4.2	4.0	4.1	4.0	4.1	3.7	3.6	3.6
New bonds financing to general government 5/	2.0	2.0	2.0	1.1	1.2	3.0	3.0	4.3	5.7	7.6	10.8
Gross official reserves change (increase: -)	-6.9	18.6	15.9	-7.0	-4.2	-6.0	-6.0	-8.0	-8.0	-10.0	-10.0
						In percent of GDP					
Current Account	**-0.7**	**-3.5**	**-3.4**	**0.9**	**0.6**	**0.9**	**0.6**	**0.8**	**1.0**	**1.3**	**1.5**
Trade balance in goods	2.0	-0.6	-0.5	3.6	3.2	4.0	3.5	3.5	3.5	3.5	3.7
o/w Energy trade balance	-0.6	-0.1	0.1	0.6	0.8	0.8	0.8	0.8	0.9	1.1	1.2
o/w Non-energy trade balance	2.5	-0.5	-0.5	3.1	2.4	3.2	2.8	2.7	2.6	2.5	2.4
Exports, f.o.b.	14.1	10.2	10.4	13.2	12.2	15.1	13.8	13.6	13.6	13.6	13.7
Imports f.o.b.	12.1	10.7	10.9	9.6	9.0	11.1	10.3	10.1	10.1	10.1	10.0
Trade balance in services	-1.1	-1.0	-1.0	-0.4	-0.6	-0.4	-0.5	-0.4	-0.2	-0.1	-0.1
Primary income, net	-1.9	-2.2	-2.2	-2.7	-2.3	-3.1	-2.8	-2.7	-2.6	-2.5	-2.4
Secondary income, net	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Capital Account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account 2/	**-2.4**	**-2.6**	**-2.3**	**-1.7**	**-1.8**	**-1.1**	**-0.8**	**-0.9**	**-1.2**	**-1.4**	**-2.1**
Foreign direct investment, net 3/	2.1	3.1	3.2	1.5	0.8	1.4	0.3	0.6	0.2	0.5	0.5
excl. importers' debt	0.8	1.0	0.9	1.3	0.5	2.0	1.7	1.3	0.9	0.9	0.8
Portfolio investment, net	-1.5	-1.3	-0.9	-1.4	-1.2	-1.9	-1.0	-0.5	-0.2	-5.1	-7.9
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 2/ 3/	-3.1	-4.3	-4.6	-1.8	-1.4	-0.5	-0.1	-0.9	-1.2	-1.4	-1.8
Errors and Omissions	**0.5**	**-0.2**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-3.6**	**-5.8**	**-5.5**	**-0.8**	**-1.2**	**-0.2**	**-0.2**	**-0.1**	**-0.2**	**-0.2**	**-0.6**
Financing	**3.6**	**5.8**	**5.5**	**0.8**	**1.2**	**0.2**	**0.2**	**0.1**	**0.2**	**0.2**	**0.6**
IMF Financing	3.7	1.9	2.0	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Other official financing 4/	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.5	0.5
New bonds financing to general government 5/	0.3	0.3	0.3	0.2	0.2	0.5	0.5	0.7	0.9	1.1	1.5
Gross official reserves (increase: -)	-1.1	2.9	2.5	-1.2	-0.7	-1.1	-1.0	-1.3	-1.2	-1.4	-1.4
Memorandum Items:											
Exports volumes (percent change)	-2.2	-17.0	-17.0	31.3	25.6	5.5	4.6	4.8	5.0	5.0	5.1
Imports volumes (percent change)	10.5	-2.9	-3.4	-16.5	-16.6	6.5	5.1	4.9	4.6	4.2	3.8
Importers' debt (US$ billion)	31.4	41.4	41.4	42.4	45.0	38.4	37.0	35.0	33.0	33.0	33.0
Importers' debt to imports ratio	41.2	59.1	59.3	73.7	81.2	62.0	62.5	56.0	50.1	47.4	45.4
Trading partners imports growth (percent change)	3.5	-1.0	-2.3	3.6	3.4	4.0	3.6	3.8	3.5	3.4	3.4
External debt (US$ billions)	267.3	271.1	264.4	277.1	270.1	279.6	272.7	275.9	276.8	276.7	277.4
of which: External public debt	189.5	191.5	185.1	193.7	187.3	192.6	186.4	186.3	183.7	179.9	176.8
Gross international reserves (US$ billions)	44.6	23.1	23.1	30.1	27.2	36.1	33.2	41.2	49.2	59.2	69.2
in months of imports of goods and services	5.5	2.8	2.8	4.3	4.1	4.8	4.7	5.6	6.3	7.2	8.1
in percent of ARA	60.6	39.6	31.4	50.5	37.0	60.3	45.0	54.1	62.3	73.0	73.4
GIR change (US$ billions)	4.9	-21.5	-21.5	7.0	4.2	6.0	6.0	8.0	8.0	10.0	10.0
Net international reserves (US$ billions)	8.8	-8.5	-8.5	-1.5	-1.5	4.5	4.5	12.5	20.5	30.5	40.5
NIR change (US$ billions) 6/	4.8	-16.4	-16.4	7.0	7.0	6.0	6.0	8.0	8.0	10.0	10.0
Net IMF (purchases - repurchases - charges; US$ billions)	4.8	-8.3	-8.3	-1.5	-1.4	-3.5	-3.5	-4.6	-7.7	-9.4	-9.5
Terms of Trade (percent change)	-3.2	-6.5	-6.6	-8.3	-6.8	-1.6	-2.2	-2.2	-2.3	-2.3	-2.5

Sources: National authorities and Fund staff estimates and projections.

1/ The larger share of dividend outflows to foreigners are typically retained as FDI inflows through the financial account.

2/ Excludes new bond financing to GG, disbursements from the IMF and other IFIs as well as changes in reserves.

3/ FDI includes intra-company trade financing; other investment net includes inter-company trade financing.

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

5/ Includes financing from nonresidents in the domestic market in USD and ARS.

6/ NIR at current rates corresponds to GIR minus gross official liabilities with maturities of under one year.

Table 3a. Argentina: Federal Government Operations, 2022–29
(In Billions of Argentine Pesos)

		SR (Jan.)		SR (Jan.)	Proj.	SR (Jan.)			Proj.		
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
						(in billions of Argentine pesos)					
Revenues	**14,854**	**31,946**	**32,032**	**122,261**	**103,400**	**201,756**	**181,030**	**251,596**	**306,452**	**350,433**	**390,970**
Tax revenues	9,152	18,786	19,012	81,209	66,237	126,178	115,311	160,879	194,862	222,163	247,962
Social security contributions	4,274	10,075	9,620	33,251	29,013	62,555	53,336	73,092	89,745	104,158	115,723
Nontax revenues 1/	1,428	3,085	3,400	7,801	8,151	13,023	12,383	17,625	21,846	24,112	27,285
Primary Expenditures	**16,809**	**37,626**	**37,485**	**108,444**	**93,177**	**173,768**	**156,880**	**215,436**	**262,449**	**300,117**	**334,413**
Wages	2,450	6,114	6,309	17,163	16,486	28,981	27,090	36,989	45,238	51,434	57,424
Goods and services	657	1,491	1,413	2,336	3,115	4,041	5,465	7,488	8,875	10,239	11,252
Pensions	6,288	13,158	12,914	42,999	37,388	71,313	68,873	100,058	124,423	141,948	158,819
Current transfers to private sector	5,203	11,284	11,449	38,014	30,599	60,877	49,328	62,703	73,529	84,905	94,212
Social assistance	3,064	7,255	7,470	29,661	23,817	52,562	41,932	58,047	70,706	80,235	89,191
Subsidies	2,139	4,064	4,015	8,353	6,782	8,315	7,396	4,656	2,823	4,669	5,021
of which: energy	1,657	3,029	2,952	6,967	4,201	7,115	6,181	3,640	1,574	2,992	3,073
Current transfers to public sector 2/	879	2,214	2,329	3,948	3,092	2,198	2,097	2,888	3,526	4,020	4,484
Capital spending 3/	1,332	3,366	3,070	3,983	2,498	6,358	4,027	5,309	6,858	7,572	8,223
Primary Balance	**-1,956**	**-5,680**	**-5,453**	**13,817**	**10,223**	**27,988**	**24,150**	**36,161**	**44,003**	**50,316**	**56,557**
Interest Payments	**1,493**	**4,257**	**3,254**	**13,629**	**10,214**	**23,424**	**18,624**	**33,732**	**31,481**	**36,576**	**37,032**
Overall Balance	**-3,449**	**-9,936**	**-8,707**	**189**	**9**	**4,564**	**5,526**	**2,429**	**12,522**	**13,739**	**19,525**
Financing	**3,449**	**9,936**	**8,707**	**-189**	**-9**	**-4,564**	**-5,526**	**-2,429**	**-12,522**	**-13,739**	**-19,525**
Treasury Deposits (+, drawdown) 4/	**5,496**	**2,102**	**540**	**-1,117**	**-926**	**0**	**0**	**0**	**0**	**0**	**0**
External	**812**	**-1,942**	**-3,071**	**3,173**	**2,889**	**58**	**563**	**1,088**	**-7,281**	**-14,484**	**-12,298**
IMF (net)	866	-1,491	-1,504	2,173	1,998	0	0	-2,621	-11,767	-19,189	-22,141
Other official (net) 5/	239	327	330	1,456	1,201	2,227	1,867	3,063	2,230	1,062	3,033
Private (net) 6/	-293	-779	-1,898	-456	-310	-2,170	-1,305	645	2,256	3,643	6,811
Issuances	31	20	21	462	672	4,406	4,154	7,612	11,417	16,887	21,035
Amortization	324	799	1,918	918	982	6,576	5,459	6,966	9,161	13,244	14,224
Domestic	**-2,859**	**9,776**	**11,239**	**-2,245**	**-1,972**	**-4,622**	**-6,089**	**-3,517**	**-5,241**	**745**	**-7,754**
Private (net) 7/	-2,460	6,591	7,912	-2,245	-1,972	-4,622	-6,089	-3,517	-5,241	744	-7,754
Issuance	2,475	18,653	19,297	3,957	9,942	94,662	92,429	34,496	81,568	63,192	72,166
Amortization	4,935	12,062	11,385	6,202	11,915	99,283	98,518	38,013	86,810	62,447	79,921
Public entities (net)	90	3,185	3,326	0	0	0	0	0	0	0	0
BCRA (net)	-82	2,934	3,019	0	0	0	0	0	0	0	0
of which: BCRA transfers 8/	620	1,698	1,698	0	0	0	0	0	0	0	0
Other public entities	172	250	308	0	0	0	0	0	0	0	0
Other 9/	-489	0	0	0	0	0	0	0	0	0	0

Sources: National authorities and Fund staff estimates and projections.

1/ Non-tax revenues deviate from GFSM 2014 accounting with the exclusion of BCRA profit transfers. Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues from 2023 onwards. Proceeds from 5G phone license auctions are also excluded.

2/ Includes discretionary transfers to provinces, transfers to state-owned enterprises (SOEs), and transfers to universities (excluding wages).

3/ Includes federal capital transfers to provinces.

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

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

6/ Under domestic and external law.

7/ Includes Banco Nacion and other public entities.

8/ Includes temporary advances and profit distributions.

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

Table 3b. Argentina: Federal Government Operations, 2022–29
(Percent of GDP)

		SR (Jan.)		SR (Jan.)	Proj.	SR (Jan.)			Proj.		
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
				(Percent of GDP)							
Revenues	**18.0**	**16.6**	**16.9**	**18.6**	**16.7**	**18.4**	**17.3**	**17.4**	**17.4**	**17.4**	**17.4**
Tax revenues	11.1	9.8	10.0	12.3	10.7	11.5	11.0	11.1	11.1	11.1	11.1
of which: Trade and FX taxes 1/	3.2	2.2	2.3	3.6	2.8	2.5	2.2	2.2	2.1	2.1	2.0
Social security contributions	5.2	5.2	5.1	5.1	4.7	5.7	5.1	5.1	5.1	5.2	5.2
Nontax revenues 2/	1.7	1.6	1.8	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Primary Expenditures	**20.4**	**19.5**	**19.8**	**16.5**	**15.1**	**15.8**	**15.0**	**14.9**	**14.9**	**14.9**	**14.9**
Wages	3.0	3.2	3.3	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Goods and services	0.8	0.8	0.7	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Pensions	7.6	6.8	6.8	6.5	6.0	6.5	6.6	6.9	7.1	7.1	7.1
Current transfers to private sector	6.3	5.9	6.0	5.8	4.9	5.5	4.7	4.3	4.2	4.2	4.2
Social assistance	3.7	3.8	3.9	4.5	3.9	4.8	4.0	4.0	4.0	4.0	4.0
Subsidies	2.6	2.1	2.1	1.3	1.1	0.8	0.7	0.3	0.2	0.2	0.2
of which: energy	2.0	1.6	1.6	1.1	0.7	0.6	0.6	0.3	0.1	0.1	0.1
Current transfers to public sector 3/	1.1	1.2	1.2	0.6	0.6	0.2	0.2	0.2	0.2	0.2	0.2
Capital spending 4/	1.6	1.7	1.6	0.6	0.4	0.6	0.4	0.4	0.4	0.4	0.4
Primary Balance	**-2.4**	**-3.0**	**-2.9**	**2.1**	**1.7**	**2.5**	**2.3**	**2.5**	**2.5**	**2.5**	**2.5**
Interest Cash	**1.8**	**2.2**	**1.7**	**2.1**	**1.7**	**2.1**	**1.8**	**2.3**	**1.8**	**1.8**	**1.7**
Overall Balance	**-4.2**	**-5.2**	**-4.6**	**0.0**	**0.0**	**0.4**	**0.5**	**0.2**	**0.7**	**0.7**	**0.9**
Financing	**4.2**	**5.2**	**4.6**	**0.0**	**0.0**	**-0.4**	**-0.5**	**-0.2**	**-0.7**	**-0.7**	**-0.9**
Treasury Deposits (+, drawdown) 5/	**-0.9**	**0.9**	**0.9**	**-0.2**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
External	**1.0**	**-1.0**	**-1.6**	**0.5**	**0.5**	**0.0**	**0.1**	**0.1**	**-0.4**	**-0.7**	**-0.5**
IMF (net)	1.1	-0.8	-0.8	0.3	0.3	0.0	0.0	-0.2	-0.7	-1.0	-1.0
Other official (net) 6/	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Private (net) 7/	-0.4	-0.4	-1.0	-0.1	-0.1	-0.2	-0.1	0.0	0.1	0.2	0.3
Issuances	0.0	0.0	0.0	0.1	0.1	0.4	0.4	0.5	0.6	0.8	0.9
Amortization	0.4	0.4	1.0	0.1	0.2	0.6	0.5	0.5	0.5	0.7	0.6
Domestic	**-3.5**	**5.1**	**5.9**	**-0.3**	**-0.3**	**-0.4**	**-0.6**	**-0.2**	**-0.3**	**0.0**	**-0.3**
Private (net) 8/	-3.0	3.4	4.2	-0.3	-0.3	-0.4	-0.6	-0.2	-0.3	0.0	-0.3
Issuance	3.0	9.7	10.2	0.6	1.6	8.6	8.8	2.4	4.6	3.1	3.2
Amortization	6.0	6.3	6.0	0.9	1.9	9.0	9.4	2.6	4.9	3.1	3.6
Public entities (net)	0.1	1.7	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BCRA (net)	-0.1	1.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: BCRA transfers 9/	0.8	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other public entities	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 10/	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Real primary expenditure growth (percent change)	-1.1	-6.8	-6.8	-18.5	-25.3	0.4	4.4	4.2	3.7	3.6	2.3
Structural primary balance 11/	-2.9	-2.5	-2.5	2.0	1.6	2.5	2.3	2.5	2.5	2.5	2.5
BCRA secondary market purchases	2.3	4.2	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Federal government debt 12/	84.7	154.5	156.7	86.2	91.0	79.5	78.3	69.1	60.4	54.3	48.6
as a share of annualized Q4 GDP	67.2	102.1	106.0	71.4	75.2	68.9	69.1	65.3	58.7	53.5	48.1

Sources: National authorities and Fund staff estimates and projections.

1/ Includes exports taxes, imports taxes, and FX access tax (impuesto pais).

2/ Non-tax revenues deviate from GFSM 2014 accounting with the exclusion of BCRA profit transfers. Non-tax revenues in 2022 include 0.3 percent of GDP income from issuance of inflation linked debt securities. This income is excluded from revenues from 2023 onwards. Proceeds from 5G phone license auctions are also excluded.

3/ Includes discretionary transfers to provinces, transfers to state-owned enterprises (SOEs), and transfers to universities (excluding wages).

4/ Includes federal capital transfers to provinces.

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

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

7/ Under domestic and external law.

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

9/ Includes temporary advances and profit distributions.

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

11/ Adjusts for the economic and commodity price cycles; in percent of potential GDP. Adjusts also for one-offs due to the drought (i.e., temporary import taxes and preferential FX regimes).

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

Table 4. Argentina: General Government Operations, 2022–29 1/

		SR (Jan.)		SR (Jan.)	Proj.	SR (Jan.)			Proj.		
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
	(Percent of GDP unless otherwise indicated)										
Revenues	**34.0**	**32.2**	**32.0**	**34.5**	**31.5**	**34.9**	**33.6**	**34.0**	**33.9**	**34.0**	**34.1**
Tax revenues	24.1	22.4	22.2	25.5	22.7	25.2	24.5	25.0	24.8	24.9	25.0
Federal	11.1	9.8	10.0	12.3	10.7	11.5	11.0	11.1	11.1	11.1	11.1
Provincial co-participated	7.9	7.5	7.6	8.1	7.2	8.7	8.7	9.0	8.9	8.9	9.0
Provincial own	5.1	5.1	4.6	5.1	4.8	5.1	4.8	4.8	4.9	4.9	4.9
Social security contributions	6.8	6.8	6.6	6.4	6.1	7.1	6.5	6.4	6.5	6.6	6.5
Federal	5.2	5.2	5.1	5.1	4.7	5.7	5.1	5.1	5.1	5.2	5.2
Provincial	1.6	1.6	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other revenues	3.1	3.0	3.2	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Federal	1.7	1.6	1.8	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Provincial	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Primary Expenditures 2/	**35.7**	**34.0**	**34.8**	**32.3**	**29.7**	**32.0**	**30.8**	**30.8**	**30.4**	**30.5**	**30.7**
Wages	10.0	10.8	11.0	9.8	9.0	10.1	9.0	8.9	8.9	8.9	8.9
Federal	3.0	3.2	3.3	2.6	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Provincial	7.1	7.6	7.7	7.2	6.4	7.4	6.4	6.3	6.3	6.3	6.3
Goods and services	2.3	2.1	2.1	1.8	1.9	1.4	1.6	1.5	1.4	1.4	1.4
Federal	0.8	0.8	0.7	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Provincial	1.5	1.4	1.4	1.4	1.4	1.1	1.1	1.0	0.9	0.9	0.9
Pensions	9.7	8.7	8.7	8.6	7.9	8.7	8.8	9.4	9.6	9.6	9.8
Federal	7.6	6.8	6.8	6.5	6.0	6.5	6.6	6.9	7.1	7.1	7.1
Provincial	2.0	1.9	1.9	2.0	1.9	2.2	2.3	2.5	2.5	2.5	2.7
Transfers to the private sector	7.7	7.2	7.4	7.2	6.3	6.9	6.1	5.7	5.6	5.6	5.6
Federal	6.3	5.9	6.0	5.8	4.9	5.5	4.7	4.3	4.2	4.2	4.2
Provincial	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Capital spending	3.2	2.3	2.8	2.8	2.3	2.6	3.0	2.9	2.6	2.6	2.6
Federal 3/	1.2	1.3	1.2	0.6	0.4	0.6	0.4	0.4	0.4	0.4	0.4
Provincial	2.0	1.0	1.6	2.2	1.9	2.0	2.6	2.5	2.2	2.2	2.2
Other	2.7	2.9	2.8	2.3	2.2	2.3	2.3	2.3	2.4	2.4	2.4
Federal	0.4	0.6	0.5	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Provincial	2.3	2.3	2.3	1.9	1.9	2.2	2.2	2.2	2.3	2.3	2.3
Primary Balance	**-1.7**	**-1.8**	**-2.7**	**2.2**	**1.7**	**2.9**	**2.8**	**3.3**	**3.5**	**3.5**	**3.4**
Federal government	-2.4	-3.0	-2.9	2.1	1.7	2.5	2.3	2.5	2.5	2.5	2.5
Provincial government	0.6	1.1	0.1	0.1	0.1	0.3	0.5	0.8	1.0	1.0	0.9
Interest (cash)	**2.1**	**2.4**	**1.9**	**2.2**	**1.8**	**2.2**	**1.9**	**2.4**	**1.9**	**1.9**	**1.7**
Overall Balance	**-3.9**	**-4.2**	**-4.6**	**0.0**	**0.0**	**0.7**	**0.9**	**0.8**	**1.6**	**1.6**	**1.7**
Memorandum Items											
General Gov't structural primary balance 4/	-2.3	-1.3	-2.3	2.6	2.2	3.2	3.1	3.4	3.5	3.5	3.4
Federal structural primary balance	-2.9	-2.5	-2.5	2.0	1.6	2.5	2.3	2.5	2.5	2.5	2.5
Provincial structural primary balance	0.5	1.2	0.2	0.6	0.6	0.7	0.8	0.9	1.1	1.0	0.9
Consolidated public sector balance 5/	-9.0	-10.4	-11.2	-4.0	-3.3	-2.4	-1.7	-1.2	0.6	1.2	1.5
Federal government debt	84.7	154.5	156.7	86.2	91.0	79.5	78.3	69.1	60.4	54.3	48.6
of which: net of debt held by public entities 6/	50.6	92.5	93.7	44.9	56.0	43.5	51.7	45.7	40.0	36.2	32.6
Federal government debt (share of annualized Q4 GDP)	67.2	102.1	106.0	71.4	75.2	68.9	69.1	65.3	58.7	53.5	48.1
Provincial government debt	5.2	6.7	7.7	2.9	3.3	2.2	2.5	2.0	1.5	1.3	1.1
BCRA securities	12.7	16.1	16.4	9.7	8.6	9.2	8.2	7.3	5.7	5.5	5.5

Sources: National authorities and Fund staff estimates and projections.

1/ Includes federal and provincial governments. The primary balance excludes BCRA profit transfers.

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

3/ Excludes discretionary capital transfers from federal government to the provinces, which are included in provincial capital spending.

4/ Adjusts for the economic and commodity price cycles; in percent of potential GDP. Adjusts also for one-offs (in 2023 around 0.5 percent of GDP due to the drought).

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

6/ Gross federal debt, net of debt held by BCRA and FGS.

Table 5a. Argentina: Summary Operations of the Central Bank, 2022–29
(End of Period, Unless Otherwise Indicated)

		SR (Jan.)		SR (Jan.)	Proj.	SR (Jan.)			Proj.		
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
						(In billions of Argentine pesos)					
Net Foreign Assets	**4,027**	**2,002**	**2,004**	**12,779**	**11,542**	**34,890**	**31,785**	**59,315**	**87,327**	**124,008**	**162,730**
Gross foreign assets	7,900	18,654	18,654	40,540	34,021	81,307	69,322	105,255	137,646	178,137	219,901
Gross foreign liabilities	3,872	16,652	16,650	27,761	22,478	46,417	37,537	45,941	50,319	54,130	57,171
Net Domestic Assets	**1,176**	**7,606**	**7,603**	**23,415**	**14,428**	**30,046**	**20,627**	**27,334**	**27,916**	**11,225**	**-10,620**
Credit to the public sector (net)	15,736	90,482	46,709	201,321	90,093	320,017	133,858	165,452	174,503	166,849	148,173
of which: Temporary advances to federal government 1/	2,793	4,091	1,776	4,091	1,776	4,091	1,776	1,776	1,776	1,776	1,776
of which: Non-marketable government bonds 1/	10,942	54,461	12,917	129,660	24,372	216,793	40,699	49,810	54,557	58,690	61,987
of which: Other credit and gvt. deposits (net)	2,001	31,930	32,017	67,570	63,945	99,133	91,383	113,865	118,170	106,384	84,411
Credit to the financial sector, excl. securities	-2,136	-7,351	-7,351	-12,058	-11,418	-21,051	-18,067	-24,293	-29,031	-33,923	-37,806
BCRA securities	-10,483	-31,058	-31,058	-60,544	-51,926	-95,772	-85,704	-107,420	-103,980	-113,898	-121,371
Official capital and other items	-1,940	-44,466	-696	-105,304	-12,322	-173,148	-9,459	-6,404	-13,576	-7,803	384
Monetary Base	**5,204**	**9,608**	**9,608**	**36,194**	**25,970**	**64,936**	**52,412**	**86,649**	**115,243**	**135,233**	**152,110**
Currency issued	4,095	7,435	7,435	28,105	17,438	49,849	34,596	62,571	85,487	99,231	110,599
Bank deposits at the BCRA (peso-denominated)	1,109	2,173	2,173	8,088	8,532	15,086	17,816	24,078	29,757	36,002	41,511
						(Percent of GDP)					
Net Foreign Assets	**4.9**	**1.0**	**1.1**	**1.9**	**1.9**	**3.2**	**3.0**	**4.1**	**5.0**	**6.2**	**7.3**
Gross foreign assets	9.6	9.7	9.8	6.2	5.5	7.4	6.6	7.3	7.8	8.9	9.8
Gross foreign liabilities	4.7	8.7	8.8	4.2	3.6	4.2	3.6	3.2	2.9	2.7	2.6
Net Domestic Assets	**1.4**	**4.0**	**4.0**	**3.6**	**2.3**	**2.7**	**2.0**	**1.9**	**1.6**	**0.6**	**-0.5**
Credit to the public sector	19.1	47.0	24.6	30.6	14.6	29.1	12.8	11.5	9.9	8.3	6.6
of which: Temporary advances to federal government	3.4	2.1	0.9	0.6	0.3	0.4	0.2	0.1	0.1	0.1	0.1
of which: Non-marketable government bonds	13.3	28.3	6.8	19.7	3.9	19.7	3.9	3.4	3.1	2.9	2.8
of which: Other credit and gvt. deposits (net)	2.4	16.6	16.9	10.3	10.3	9.0	8.7	7.9	6.7	5.3	3.8
Credit to the financial sector, excl. securities	-2.6	-3.8	-3.9	-1.8	-1.8	-1.9	-1.7	-1.7	-1.6	-1.7	-1.7
BCRA securities	-12.7	-16.1	-16.4	-9.2	-8.4	-8.7	-8.2	-7.4	-5.9	-5.7	-5.4
Official capital and other items 2/	-2.4	-23.1	-0.4	-16.0	-2.0	-15.8	-0.9	-0.4	-0.8	-0.4	0.0
Monetary Base	**6.3**	**5.0**	**5.1**	**5.5**	**4.2**	**5.9**	**5.0**	**6.0**	**6.5**	**6.7**	**6.8**
Currency issued	5.0	3.9	3.9	4.3	2.8	4.5	3.3	4.3	4.8	4.9	4.9
Bank deposits at the BCRA (peso-denominated)	1.3	1.1	1.1	1.2	1.4	1.4	1.7	1.7	1.7	1.8	1.9
Memorandum Items:											
NFA (billions of USD)	22.7	2.5	2.5	9.5	9.2	15.5	15.2	23.2	31.2	41.2	51.2
Quasi-fiscal deficit (percent of GDP) 3/	5.2	6.1	6.4	3.9	3.2	2.9	2.5	2.0	1.0	0.5	0.2
Monetary base (share of annualized Q4 GDP)	5.0	3.3	3.4	4.6	3.5	5.1	4.4	5.7	6.4	6.6	6.7
BCRA securities (share of annualized Q4 GDP)	10.1	10.7	11.1	7.6	6.9	7.5	7.2	7.0	5.7	5.6	5.4
Monetary expansion from (percent of GDP)											
Temporary advances and profit transfers	0.8	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary market purchases 4/	2.3	4.2	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Export promotion schemes 5/	0.7	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Valuation at face value for 2022 and the 7th review vintage, and at amortized cost or fair value (whichever is lower) as of 2023.

2/ Projects no distribution of profits.

3/ Calculated as interest expenses minus interest income as recorded in the BCRA statement of income.

4/ Net of treasury buybacks, with buyback from December 21 2023 reflected in 2024.

5/ Reflects the additional peso liquidity issued due to the difference between the preferential and official exchange rate.

Table 5b. Argentina: Summary Operations of the Banking Sector, 2022–29
(End of Period, Unless Otherwise Indicated)

		SR (Jan.)		SR (Jan.)	Proj.	SR (Jan.)			Proj.		
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
					(In billions of Argentine pesos)						
Net Foreign Assets	**777**	**3,316**	**4,513**	**6,297**	**6,450**	**11,147**	**10,771**	**13,183**	**15,240**	**18,203**	**19,226**
Net Domestic Assets	**18,557**	**49,442**	**48,115**	**131,006**	**109,143**	**217,092**	**193,639**	**270,013**	**333,626**	**391,957**	**441,244**
Credit to the public sector	2,396	6,987	9,663	17,112	19,272	19,785	20,419	17,786	23,981	24,178	25,107
Gross credit to public sector	6,137	14,364	19,263	37,514	38,111	52,758	52,943	47,900	43,385	46,047	47,853
Deposits from the public sector	-3,740	-7,377	-9,600	-20,403	-18,839	-32,973	-32,524	-30,114	-19,404	-21,869	-22,746
Claims on the central bank	14,109	41,341	41,849	76,722	66,311	125,565	117,069	157,596	180,591	203,799	222,426
Holdings of central bank securities	10,483	31,058	31,058	53,712	44,434	84,349	77,364	102,317	112,365	122,918	130,898
Reserves at central bank	3,254	9,527	9,987	20,149	19,953	36,140	35,886	48,373	58,790	69,928	79,320
Other	372	756	804	2,861	1,924	5,077	3,818	6,906	9,436	10,953	12,208
Claims on the private sector	9,086	23,089	23,748	67,123	71,229	132,196	132,693	197,619	253,497	305,512	337,239
US$ denominated	688	3,388	3,261	6,299	9,000	11,181	15,956	20,733	24,109	27,535	30,875
AR$ denominated	8,398	19,701	20,488	60,824	62,229	121,015	116,736	176,886	229,388	277,977	306,364
Net capital, reserves, and other assets	-7,035	-21,975	-27,146	-29,951	-47,669	-60,455	-76,541	-102,988	-124,442	-141,532	-143,527
Liabilities with the Private Sector	**19,334**	**52,758**	**52,627**	**137,303**	**115,593**	**228,239**	**204,410**	**283,195**	**348,866**	**410,159**	**460,470**
Local currency deposits	16,437	40,058	39,844	118,647	95,837	200,382	173,552	241,174	298,058	350,179	393,213
Foreign currency deposits	2,897	12,699	12,783	18,656	19,756	27,857	30,858	42,021	50,808	59,980	67,257
in US$ billions	16.4	15.7	15.8	13.8	15.8	12.4	14.8	16.5	18.2	19.9	21.2
						(Percent GDP)					
Net Foreign Assets	**0.9**	**1.7**	**2.4**	**1.0**	**1.0**	**1.0**	**1.0**	**0.9**	**0.9**	**0.9**	**0.9**
Net Domestic Assets	**22.5**	**25.7**	**25.4**	**19.9**	**17.7**	**19.8**	**18.5**	**18.7**	**18.9**	**19.5**	**19.7**
Credit to the public sector (net)	2.9	3.6	5.1	2.6	3.1	1.8	1.9	1.2	1.4	1.2	1.1
Gross credit to public sector	7.4	7.5	10.2	5.7	6.2	4.8	5.1	3.3	2.5	2.3	2.1
Deposits of the public sector	-4.5	-3.8	-5.1	-3.1	-3.0	-3.0	-3.1	-2.1	-1.1	-1.1	-1.0
Claims on the central bank	17.1	21.5	22.1	11.7	10.7	11.4	11.2	10.9	10.2	10.1	9.9
Holdings of central bank securities	12.7	16.1	16.4	8.2	7.2	7.7	7.4	7.1	6.4	6.1	5.8
Reserves at central bank	3.9	4.9	5.3	3.1	3.2	3.3	3.4	3.3	3.3	3.5	3.5
Other	0.5	0.4	0.4	0.4	0.3	0.5	0.4	0.5	0.5	0.5	0.5
Credit to the private sector	11.0	12.0	12.5	10.2	11.5	12.0	12.7	13.7	14.4	15.2	15.0
of which: Dollar denominated	0.8	1.8	1.7	1.0	1.5	1.0	1.5	1.4	1.4	1.4	1.4
of which: Peso denominated	10.2	10.2	10.8	9.2	10.1	11.0	11.1	12.2	13.0	13.8	13.7
Net capital, reserves, and other assets	-8.5	-11.4	-14.3	-4.6	-7.7	-5.5	-7.3	-7.1	-7.1	-7.0	-6.4
Liabilities with the Private Sector	**23.5**	**27.4**	**27.7**	**20.9**	**18.7**	**20.8**	**19.5**	**19.6**	**19.8**	**20.4**	**20.5**
Local currency deposits	19.9	20.8	21.0	18.0	15.5	18.2	16.6	16.7	16.9	17.4	17.5
Foreign currency deposits	3.5	6.6	6.7	2.8	3.2	2.5	2.9	2.9	2.9	3.0	3.0
Memorandum Items:											
M3 (AR$ billions) 1/	22,648	57,801	57,918	163,145	134,909	264,358	232,551	333,857	430,058	526,487	591,067
M3 (percent of GDP)	27.5	30.0	30.5	24.8	21.8	24.1	22.2	23.1	24.4	26.2	26.4
M3 (as a ratio of monetary base)	4.4	6.0	6.0	4.5	5.2	4.1	4.4	3.9	3.7	3.9	3.9
Credit to the private sector, real (eop, y/y percent change)	-12.9	-19.4	-16.1	16.6	25.1	35.8	28.5	19.1	14.5	9.6	2.2

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

1/ Private M3* that includes Private M3 and private sector deposits in foreign currency

Table 6. Argentina: Summary Public and External Debt, 2022–29 1/

(In Billions of U.S. Dollars, Unless Otherwise Stated)

		SR (Jan.)		SR (Jan.)	Proj.	SR (Jan.)	Proj.				
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
	(in billions of U.S. dollars, unless otherwise stated)										
Public Debt											
Gross Federal Debt	**394.1**	**368.4**	**367.9**	**420.8**	**450.7**	**387.8**	**393.8**	**391.2**	**381.2**	**363.3**	**343.1**
(in percent of GDP)	*84.7*	154.5	*156.7*	86.2	*91.0*	79.5	*78.3*	*69.1*	*60.4*	*54.3*	*48.6*
BCRA Debt (Securities)	**59.2**	**38.5**	**38.4**	**44.9**	**41.6**	**42.5**	**41.1**	**42.1**	**37.2**	**37.9**	**38.2**
(in percent of GDP)	*12.7*	16.1	*16.4*	9.2	*8.4*	8.7	*8.2*	*7.4*	*5.9*	*5.7*	*5.4*
Combined Federal Gov't and BCRA	**294.8**	**259.1**	**258.4**	**264.1**	**318.7**	**254.8**	**300.9**	**300.8**	**289.8**	**279.9**	**268.2**
(in percent of GDP)	*63.4*	108.7	*110.1*	54.1	*64.3*	52.2	*59.9*	*53.1*	*45.9*	*41.9*	*38.0*
Memorandum Items											
Gross Federal Debt Held by Private Sector 2/	**157.3**	**133.6**	**141.1**	**135.4**	**191.0**	**127.5**	**172.6**	**171.7**	**169.5**	**166.2**	**161.4**
(in percent of GDP)	33.8	56.0	60.1	27.7	38.6	26.1	34.3	30.3	26.9	24.9	22.9
Gross Federal Debt in Domestic Currency 3/	**131.2**	**105.5**	**105.4**	**148.4**	**184.5**	**112.9**	**125.6**	**120.8**	**111.7**	**97.2**	**79.7**
(in percent of GDP)	28.2	44.3	44.9	30.4	37.2	23.2	25.0	21.3	17.7	14.5	11.3
Gross Federal Debt in Foreign Currency	**262.9**	**262.9**	**262.5**	**272.4**	**266.3**	**274.9**	**268.2**	**270.4**	**269.5**	**266.1**	**263.4**
(in percent of GDP)	56.5	110.3	111.8	55.8	53.8	56.4	53.4	47.8	42.7	39.8	37.3
Gross Federal debt debt (share of annualized Q4 GDP)	*67.2*	102.1	*106.0*	71.4	*75.2*	68.9	*69.1*	*65.3*	*58.7*	*53.5*	*48.1*
Overall External Debt											
Gross External Debt (includes holdouts)	**267.3**	**271.1**	**264.4**	**277.1**	**270.1**	**279.6**	**272.7**	**275.9**	**276.8**	**276.7**	**277.4**
(in percent of GDP)	*57.4*	113.7	*112.6*	56.8	*54.6*	57.3	*54.3*	*48.7*	*43.9*	*41.4*	*39.3*
By Debtor											
Public sector	189.5	191.5	185.1	193.7	187.3	192.6	186.4	186.3	183.7	179.9	176.8
Federal government	145.9	142.8	145.4	148.9	151.0	147.0	149.3	146.8	140.4	131.2	123.1
Other public sector 4/	43.6	48.6	39.8	44.8	36.2	45.6	37.1	39.5	43.4	48.7	53.7
Private sector	77.8	79.6	79.3	83.4	82.9	87.0	86.3	89.6	93.1	96.8	100.6
Financial	5.3	5.5	5.5	6.8	6.8	8.0	8.0	9.2	10.4	11.7	13.1
Non-financial	72.5	74.1	73.8	76.6	76.1	79.0	78.3	80.5	82.7	85.1	87.6
By Creditor											
Debt to official creditors	81.2	77.3	77.3	80.6	80.5	81.7	81.5	81.7	78.1	72.2	65.7
Debt to banks	7.4	7.6	7.6	8.9	8.9	10.1	10.1	11.3	12.5	13.8	15.2
Debt to other private creditors	178.7	186.2	179.5	187.6	180.8	187.7	181.1	182.9	186.1	190.6	196.6
By Maturity											
Long-term	215.0	218.8	212.4	224.5	218.0	226.7	220.6	223.6	223.5	222.4	222.0
Of which: Public sector	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0

Sources: National authorities and Fund staff estimates and projections.

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

2/ Includes Banco Nacion and public entities other than BCRA and FGS. Decline between 2022 and 2023 reflects exchange rate dynamics (see footnote 3) and reduced private sector holdings reflecting BCRA purchases of securities from the secondary market and debt buyback operations.

3/ Decline between 2022 and 2023 reflects the step devaluations in August and December. Local currency debt denominated in pesos and adjusted for inflation remains broadly unchanged.

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

Table 7. Argentina: Federal Government Gross Financing Needs and Sources, 2022–29
(In Millions of U.S. Dollars)

										Proj.					
		SR (Jan.)		2024				SR (Jan.)		SR (Jan.)	2025	2026	2027	2028	2029
	2022	2023	2023	Q1	Q2	Q3	Q4	2024	2024	2025					
Primary Fiscal Deficit	**14,884**	**19,538**	**19,350**	**-3,844**	**-1,973**	**-3,082**	**-1,343**	**-12,618**	**-10,241**	**-14,233**	**-13,283**	**-15,421**	**-16,334**	**-17,301**	**-18,430**
Interest	**10,431**	**9,962**	**11,041**	**2,688**	**971**	**2,226**	**871**	**9,069**	**6,756**	**8,439**	**6,771**	**10,900**	**8,362**	**9,672**	**9,051**
External	1,706	2,979	3,064	1,399	549	1,383	530	3,786	3,861	3,968	4,022	3,975	3,932	4,000	3,878
Official (non-IMF)	655	1,706	1,706	567	534	577	522	2,109	2,200	2,131	2,236	2,217	2,203	2,167	2,107
Private	1,050	1,273	1,358	832	15	806	8	1,677	1,661	1,837	1,786	1,758	1,729	1,832	1,771
Domestic	8,725	6,982	7,977	1,289	422	843	341	5,283	2,895	4,470	2,749	6,925	4,430	5,672	5,174
Public entities 1/	409	1,152	1,349	555	138	362	137	1,064	1,192	2,488	1,079	1,728	1,892	2,009	2,048
Private 2/	8,316	5,830	6,628	734	285	481	203	4,218	1,703	1,982	1,670	5,197	2,538	3,663	3,125
Amortizations	**64,050**	**68,995**	**71,262**	**30,873**	**4,735**	**9,683**	**2,056**	**32,633**	**47,347**	**141,187**	**102,043**	**39,911**	**74,509**	**52,681**	**65,509**
External	4,631	6,235	9,985	989	745	1,515	556	3,657	3,777	6,285	5,948	5,797	6,260	7,479	7,171
Official (non-IMF)	2,416	3,516	3,516	922	476	931	494	2,822	2,824	2,941	2,945	2,827	2,860	2,925	2,579
Private	2,215	2,719	6,469	67	269	584	61	834	953	3,344	3,003	2,971	3,400	4,554	4,592
Domestic	59,419	62,760	61,276	29,884	3,990	8,168	1,500	28,976	43,570	134,903	96,096	34,113	68,249	45,201	58,339
Public entities 3/	21,405	21,723	22,881	20,859	1,994	7,113	1,678	17,621	31,645	84,415	41,908	17,902	36,026	23,730	32,536
Private 2/	38,014	41,037	38,395	9,024	1,995	1,055	-177	11,355	11,925	50,488	54,188	16,211	32,223	21,472	25,803
IMF Debt Service	**18,759**	**20,978**	**20,978**	**2,815**	**2,806**	**1,503**	**854**	**7,980**	**7,978**	**3,473**	**3,473**	**4,603**	**7,691**	**9,503**	**10,053**
of which: Amortization	16,880	17,740	17,740	1,943	1,943	648	0	4,534	4,534	0	0	1,118	4,368	6,598	7,148
Total Needs	**108,124**	**119,472**	**122,630**	**32,532**	**6,539**	**10,330**	**2,438**	**37,064**	**51,839**	**138,867**	**99,004**	**39,992**	**74,229**	**54,554**	**66,184**
Treasury deposits (+, drawdown) 4/	-5,545	5,834	5,834	-3,201	-165	2,638	-230	-956	-958	0	0	0	0	0	0
IMF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Official (not IMF)	4,334	4,630	4,630	226	1,485	563	1,749	4,159	4,020	4,073	3,972	4,133	3,688	3,291	3,558
Public entities 5/	27,973	32,808	34,350	20,859	1,994	7,113	1,678	17,621	31,645	84,415	41,908	17,902	36,026	23,730	32,536
Private sector issuances 2/	57,961	63,531	65,148	9,997	2,428	-517	-1,309	9,709	10,599	50,378	53,124	17,957	34,516	27,534	30,090
Total Sources	**84,723**	**106,804**	**109,962**	**27,881**	**5,742**	**9,798**	**1,888**	**30,534**	**45,306**	**138,867**	**99,004**	**39,992**	**74,229**	**54,554**	**66,184**
Total Gap	**23,401**	**12,668**	**12,668**	**4,651**	**797**	**532**	**550**	**6,530**	**6,530**	**0**	**0**	**0**	**0**	**0**	**0**
IMF Disbursements	23,401	12,668	12,668	4,651	797	532	550	6,530	6,530	0	0	0	0	0	0
Memorandum Items															
Primary fiscal deficit (percent of GDP)	2.4	3.0	2.9	-0.6	-0.3	-0.5	-0.2	-2.1	-1.7	-2.5	-2.3	-2.5	-2.5	-2.5	-2.5

Sources: National authorities and Fund staff estimates and projections.

1/ Includes BCRA.

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

3/ Includes BCRA and FGS.

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

5/ BCRA and FGS are assumed to roll over 100 percent of amortizations and capitalize interest.

Table 8. Argentina: External (Residency) Gross Financing Needs and Sources, 2022–29

(In Millions of U.S. Dollars)

								Proj.							
		SR (Jan.)		2024				SR (Jan.)		SR (Jan.)	2025	2026	2027	2028	2029
	2022	2023	**2023**	**Q1**	**Q2**	**Q3**	**Q4**	2024	**2024**	2025					
Imports G&S	97,558	99,037	98,245	17,937	22,064	21,293	19,056	83,112	80,349	89,279	84,836	88,998	93,606	98,601	102,674
FDI payments	2,076	2,337	2,403	559	597	540	591	2,243	2,286	2,315	2,366	2,425	2,468	2,496	2,529
Interest federal government	2,702	2,934	2,934	1,396	567	1,370	567	3,837	3,900	4,030	4,083	4,044	4,014	5,417	5,842
to IFIs (excl IMF)	667	1,706	1,706	550	550	550	550	2,109	2,200	2,131	2,236	2,217	2,203	2,292	2,241
to private creditors FX	866	1,205	1,205	831	1	804	1	1,665	1,638	1,832	1,777	1,752	1,727	3,013	3,473
to private creditors AR$	1,169	23	23	16	16	16	16	64	62	67	70	75	85	113	128
Interest provincial government	710	951	951	339	167	344	158	1,008	1,008	943	943	834	764	475	377
Amortization federal government	14,387	5,462	5,445	934	938	1,511	938	4,317	4,320	6,902	6,610	6,561	7,174	9,051	10,031
to IFIs (excl IMF)	2,507	3,516	3,516	706	706	706	706	2,822	2,824	2,941	2,945	2,827	2,860	2,925	2,981
to private creditors FX	0	0	0	0	3	577	3	681	583	3,335	2,937	2,937	3,396	5,299	6,201
to private creditors AR$	11,880	1,946	1,929	228	228	228	228	814	914	627	728	798	918	827	849
Amortization provincial government	274	1,074	1,074	474	403	292	389	1,558	1,558	2,225	2,225	2,193	2,165	1,099	881
Debt service to IMF	18,642	20,978	20,978	2,804	2,804	1,509	861	7,980	7,978	3,473	3,473	4,603	7,691	9,412	9,495
of which interest and charges	1,868	3,238	3,238	861	861	861	861	3,445	3,443	3,473	3,473	3,485	3,324	2,905	2,347
Other outflows (net)	5,584	16,544	15,369	6,980	571	1,386	1,492	15,456	10,428	12,139	3,879	6,283	4,095	4,390	7,542
Total Needs	**141,934**	**149,317**	**147,398**	**31,424**	**28,109**	**28,243**	**24,052**	**119,511**	**111,828**	**121,306**	**108,414**	**115,941**	**121,977**	**130,942**	**139,371**
Exports G&S	103,003	88,637	88,727	22,700	26,641	23,052	23,842	102,704	96,235	109,271	102,391	108,263	114,811	122,030	128,428
FDI Inflows	15,409	22,237	22,911	6,650	1,750	150	-1,350	11,197	7,200	9,997	4,000	6,000	4,000	6,000	6,000
Borrowing of federal government	6,350	6,668	6,651	1,313	1,313	1,313	1,313	5,294	5,252	7,026	7,010	8,413	9,405	11,152	14,428
from IFIs (excl IMF)	4,334	4,630	4,630	1,005	1,005	1,005	1,005	4,159	4,020	4,073	3,972	4,133	3,688	3,558	3,580
from private creditors FX	49	69	69	64	64	64	64	257	256	2,259	2,240	3,407	4,715	6,655	9,870
of which international market issuance	0	0	0	0	0	0	0	0	0	1,500	1,500	2,500	3,500	5,000	6,000
from private creditors AR$	1,967	1,969	1,952	244	244	244	244	877	976	694	798	873	1,002	940	978
Borrowing of provincial government	689	507	507	197	197	197	197	786	786	1,012	1,012	1,265	1,761	1,761	515
Reserve Drawdown (- = accumulation)	-6,918	18,600	15,935	-4,087	-2,588	3,000	-500	-7,000	-4,175	-6,000	-6,000	-8,000	-8,000	-10,000	-10,000
Total Sources	**118,533**	**136,649**	**134,730**	**26,773**	**27,312**	**27,712**	**23,502**	**112,982**	**105,298**	**121,306**	**108,414**	**115,941**	**121,977**	**130,942**	**139,371**
Total Gap	**23,401**	**12,668**	**12,668**	**4,651**	**797**	**532**	**550**	**6,530**	**6,530**	**0**	**0**	**0**	**0**	**0**	**0**
IMF Disbursements	23,401	12,668	12,668	4,651	797	532	550	6,530	6,530	0	0	0	0	0	0

Sources: National authorities and Fund staff estimates and projections.

Table 9. Argentina: Federal Government Debt by Creditor, 2017–23 1/

	2017	2018	2019	2020	2021	2022	2023
				(in billions of U.S. dollars)			
Total Gross Federal Government Debt	**320.9**	**332.2**	**323.4**	**335.7**	**364.5**	**394.1**	**367.9**
Debt Held by Official and Private Creditors	**165.1**	**206.0**	**206.5**	**214.9**	**224.3**	**235.7**	**220.0**
Official Sector	*29.6*	*57.9*	*73.4*	*76.6*	*72.8*	*78.3*	*78.9*
Multilateral	21.3	51.0	68.0	71.1	68.0	73.7	74.2
IMF	-	28.3	44.1	46.0	41.0	45.7	40.6
Other IFIs	21.3	22.8	23.9	25.1	27.1	28.0	33.7
Bilateral	8.3	6.9	5.4	5.5	4.8	4.7	4.7
Paris Club 2/	5.5	3.7	2.1	2.4	1.9	2.0	1.6
Non-Paris Club	2.8	3.2	3.3	3.1	2.9	2.7	3.1
Private Sector 3/	*135.5*	*148.0*	*133.1*	*138.3*	*151.5*	*157.3*	*141.1*
Foreign Law	67.2	64.9	66.6	68.5	67.7	66.2	66.7
Bonds with new contractual clauses	41.3	40.4	41.2	43.5	42.8	41.3	42.0
Bonds with old contractual clauses	25.8	24.6	24.3	25.0	24.8	24.6	24.4
Other	0.0	0.0	1.1	0.1	0.1	0.4	0.3
Domestic Law	65.5	80.3	64.1	69.8	81.2	88.8	74.4
FX denominated	41.1	45.4	27.6	21.2	26.2	24.0	28.6
ARS denominated	24.4	34.8	36.5	48.5	55.0	64.8	43.4
Pending Restructuring from 2005/10 4/	2.9	2.8	2.4	2.5	2.6	2.3	2.4
Debt Held by the Public Sector 5/	**155.8**	**126.2**	**116.9**	**120.9**	**140.3**	**158.5**	**147.9**
				(Percent of GDP)			
Total Gross Federal Government Debt	**56.5**	**85.2**	**89.8**	**103.8**	**80.8**	**84.7**	**156.7**
Debt Held by Official and Private Creditors	**29.1**	**52.8**	**57.4**	**66.4**	**49.7**	**50.6**	**93.7**
Official Sector	*5.2*	*14.9*	*20.4*	*23.7*	*16.1*	*16.8*	*33.6*
Multilateral	3.8	13.1	18.9	22.0	15.1	15.8	31.6
IMF	-	7.2	12.3	14.2	9.1	9.8	17.3
Other IFIs	3.8	5.8	6.6	7.8	6.0	6.0	14.3
Bilateral	1.5	1.8	1.5	1.7	1.1	1.0	2.0
Paris Club	1.0	1.0	0.6	0.7	0.4	0.4	0.7
Non-Paris Club	0.5	0.8	0.9	1.0	0.6	0.6	1.3
Private Sector 3/	*23.9*	*38.0*	*37.0*	*42.8*	*33.6*	*33.8*	*60.1*
Foreign Law	11.8	16.7	18.5	21.2	15.0	14.2	28.4
Bonds with new contractual clauses	7.3	10.4	11.4	13.4	9.5	8.9	17.9
Bonds with old contractual clauses	4.6	6.3	6.8	7.7	5.5	5.3	10.4
Other	0.0	0.0	0.3	0.0	0.0	0.1	0.1
Domestic Law	11.5	20.6	17.8	21.6	18.0	19.1	31.7
FX denominated	7.2	11.7	7.7	6.6	5.8	5.2	12.2
ARS denominated	4.3	8.9	10.1	15.0	12.2	13.9	18.5
Pending Restructuring from 2005/10 4/	0.5	0.7	0.7	0.8	0.6	0.5	1.0
Debt Held by the Public Sector 5/	**27.4**	**32.4**	**32.5**	**37.4**	**31.1**	**34.1**	**63.0**
Memorandum Items:							
FX-Denominated Debt held by private and official sector	140.7	171.1	170.0	168.8	169.2	170.8	176.7
(percent of GDP)	24.8	43.9	47.2	52.2	37.5	36.7	75.3
Debt held by private sector nonresidents	100.0	103.2	82.5	76.1	74.0	66.5	64.1
(percent of GDP)	17.6	26.5	22.9	23.5	16.4	14.3	27.3
Provincial Debt	35.6	29.1	26.6	26.6	26.9	24.2	...
(percent of GDP)	6.3	7.5	7.4	8.2	6.0	5.2	...

Source: National authorities.

1/ Debt is based on the authorities' data and estimated using eop exchange rate. Debt to GDP ratio presented is based on average GDP.
2/ Includes the revised Paris Club debt stock agreed as part of the restructuring deal in October 2022.
3/ Private sector includes Banco Nacion and other public entities.
4/ Includes over US$ 2 bn of debt not included in the exchange offer (based on Decrees 1735/04 and 563/10), and US$ 0.1 bn of debt outstanding from the 2001 default that was not eligible for exchanges.
5/ Public sector includes BCRA and FGS.

Table 10. Argentina: International Investment Position, 2018–23

	In millions of US dollars						In percent of GDP					
	2018	2019	2020	2021	2022	2023	2018	2019	2020	2021	2022	2023
Net IIP	**65,630**	**113,155**	**121,925**	**122,247**	**116,019**	**108,971**	**12.6**	**25.7**	**32.1**	**25.4**	**18.5**	**17.0**
Direct Investment	-30,362	-27,630	-44,386	-57,438	-71,878	-80,556	-5.8	-6.3	-11.7	-11.9	-11.5	-12.6
Equity and Investment Fund Shares	-6,626	-4,697	-12,505	-25,150	-31,951	-28,801	-1.3	-1.1	-3.3	-5.2	-5.1	-4.5
Debt Instruments	-23,735	-22,933	-31,881	-32,288	-39,927	-51,755	-4.5	-5.2	-8.4	-6.7	-6.4	-8.1
Portfolio Investment	-52,404	-2,548	11,641	18,685	25,970	37,450	-10.0	-0.6	3.1	3.9	4.1	5.8
Equity and Investment Fund Shares	22,433	31,840	37,919	47,267	35,911	29,397	4.3	7.2	10.0	9.8	5.7	4.6
Debt Securities	-74,838	-34,388	-26,278	-28,581	-9,940	8,053	-14.3	-7.8	-6.9	-5.9	-1.6	1.3
Financial Derivatives	-1,296	-543	-128	-397	-339	-860	-0.2	-0.1	0.0	-0.1	-0.1	-0.1
Other Investment	83,906	99,028	115,411	121,735	117,667	129,858	16.1	22.5	30.4	25.3	18.7	20.2
Other Equity	3,074	3,223	3,364	3,520	3,684	3,913	0.6	0.7	0.9	0.7	0.6	0.6
Debt Instruments	80,832	95,805	112,047	118,215	113,983	125,945	15.5	21.7	29.5	24.5	18.2	19.6
Reserve Assets	65,786	44,848	39,387	39,662	44,598	23,073	12.6	10.2	10.4	8.2	7.1	3.6
Assets	**377,521**	**397,180**	**399,135**	**417,768**	**424,777**	**437,398**	**72.2**	**90.1**	**105.1**	**86.7**	**67.7**	**68.1**
Direct Investment	42,228	42,828	40,985	42,452	44,832	48,299	8.1	9.7	10.8	8.8	7.1	7.5
Equity and Investment Fund Shares	42,228	42,828	40,985	42,452	44,832	48,299	8.1	9.7	10.8	8.8	7.1	7.5
Debt Instruments	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio Investment	60,789	69,294	70,388	80,693	73,550	88,226	11.6	15.7	18.5	16.7	11.7	13.7
Equity and Investment Fund Shares	33,370	39,500	41,676	51,600	41,512	42,006	6.4	9.0	11.0	10.7	6.6	6.5
Debt Securities	27,419	29,794	28,712	29,093	32,038	46,220	5.2	6.8	7.6	6.0	5.1	7.2
Financial Derivatives	13	11	17	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment	208,705	240,198	248,358	254,961	261,795	277,793	39.9	54.5	65.4	52.9	41.7	43.3
Other Equity	3,074	3,223	3,364	3,520	3,684	3,913	0.6	0.7	0.9	0.7	0.6	0.6
Debt Instruments	205,631	236,975	244,994	251,441	258,111	273,880	39.4	53.8	64.5	52.2	41.1	42.7
Reserve Assets	65,786	44,848	39,387	39,662	44,598	23,073	12.6	10.2	10.4	8.2	7.1	3.6
Liabilities	**311,891**	**284,026**	**277,210**	**295,521**	**308,758**	**328,426**	**59.7**	**64.5**	**73.0**	**61.3**	**49.2**	**51.2**
Direct Investment	72,589	70,458	85,371	99,890	116,710	128,855	13.9	16.0	22.5	20.7	18.6	20.1
Equity and Investment Fund Shares	48,854	47,525	53,490	67,602	76,783	77,100	9.3	10.8	14.1	14.0	12.2	12.0
Debt Instruments	23,735	22,933	31,881	32,288	39,927	51,755	4.5	5.2	8.4	6.7	6.4	8.1
Portfolio Investment	113,193	71,842	58,747	62,008	47,580	50,776	21.7	16.3	15.5	12.9	7.6	7.9
Equity and Investment Fund Shares	10,937	7,661	3,757	4,333	5,601	12,609	2.1	1.7	1.0	0.9	0.9	2.0
Debt Securities	102,257	64,182	54,990	57,674	41,979	38,167	19.6	14.6	14.5	12.0	6.7	5.9
Financial Derivatives	1,309	554	145	397	339	860	0.3	0.1	0.0	0.1	0.1	0.1
Other Investment	124,799	141,170	132,947	133,226	144,128	147,935	23.9	32.0	35.0	27.6	23.0	23.0
Other Equity	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Instruments	124,799	141,170	132,947	133,226	144,128	147,935	23.9	32.0	35.0	27.6	23.0	23.0
Memorandum items												
Debt liabilities	250,791	228,286	219,818	223,189	226,034	237,857	48.0	51.8	57.9	46.3	36.0	37.1

Sources: National authorities and Fund staff estimates.

Table 11. Argentina: Financial Soundness Indicators, 2017–23

(Percent, End-of-Period)

	2017	2018	2019	2020	2021	2022	2023
	(Percent, end-of-period)						
Financial System							
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	15.6	16.0	17.5	24.2	26.2	29.9	32.3
Regulatory Tier 1 Capital to Risk-Weighted Assets	14.1	14.2	15.5	22.3	24.7	28.8	31.7
Assets Quality							
Non-performing Loans Net of Provisions to Capital	-3.0	-2.4	0.3	-4.4	-1.2	-1.5	-1.6
Non-performing Loans to Total Gross Loans	1.8	3.1	5.7	3.9	4.3	3.1	3.7
Earnings and Profitability							
Return on Assets1/	2.7	4.1	5.4	2.4	1.1	2.0	5.4
Return on Equity 1/	23.4	36.1	46.4	16.4	7.2	11.4	27.6
Liquidity							
Liquid Assets to Total Assets (Liquid Asset Ratio)	30.0	41.8	43.2	48.0	50.6	54.0	57.1
Liquid Assets to Short Term Liabilities	45.5	60.1	62.0	69.2	74.1	77.8	77.8
Net Open Position in Foreign Exchange Capital	11.1	9.4	8.0	12.4	11.7	29.3	60.0
Private Banks							
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	15.3	16.8	19.5	25.5	27.0	31.6	33.7
Regulatory Tier 1 Capital to Risk-Weighted Assets	13.4	14.4	16.9	23.0	25.1	30.2	32.6
Assets Quality							
Non-performing Loans Net of Provisions to Capital	-2.4	-0.6	-2.1	-6.2	-2.6	-2.0	-1.4
Non-performing Loans to Total Gross Loans	1.8	3.1	4.4	2.2	2.9	1.8	1.6
Earnings and Profitability							
Return on Assets 1/	3.2	4.2	7.5	2.7	1.3	1.7	4.8
Return on Equity 1/	26.6	35.6	60.3	16.6	7.6	9.1	23.6
Public Banks							
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	16.2	14.7	13.6	21.9	25.0	27.5	30.6
Regulatory Tier 1 Capital to Risk-Weighted Assets	15.4	14.1	13.0	21.3	24.4	27.0	30.5
Assets Quality							
Non-performing Loans Net of Provisions to Capital	-4.7	-6.3	4.9	-0.7	1.3	-0.6	-1.8
Non-performing Loans to Total Gross Loans	1.6	2.7	7.8	6.6	6.5	5.3	7.2
Earnings and Profitability							
Return on Assets 1/	2.0	4.0	2.0	2.1	1.0	2.6	6.5
Return on Equity 1/	18.5	38.6	20.2	17.2	7.4	16.9	35.3

Sources: Banco Central de la República Argentina (BCRA) and IMF database.
1/ Accumulated during the year; with inflation-adjustment starting from 2020.

Table 12. Argentina: Indicators of Fund Credit, 2024–32

(In Millions of SDRs, Unless Otherwise Specified)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total (2024-2032)
Existing and Prospective drawings (30-month EFF)	1,414	...	...	...	...	...	...	...	...	
(in percent of quota)	44.4									
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/										
Amortization 1/	487.5	0.0	833.3	3,250.0	4,841.7	5,319.0	5,319.0	5,319.0	4,485.7	29,855.2
GRA charges 1/	1,210.5	1,627.0	1,625.2	1,545.7	1,348.8	1,085.9	815.2	543.6	276.0	10,077.9
GRA surcharges 1/	577.5	777.5	776.4	729.6	613.7	459.3	300.1	140.3	12.9	4,387.3
of which level-based	385.0	518.3	517.6	486.4	409.2	306.2	200.1	93.6	8.6	2,924.9
time-based	192.5	259.2	258.8	243.2	204.6	153.1	100.0	46.8	4.3	1,462.4
GRA service charge 1/	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.0
SDR assessments and charges 1/	147.3	207.2	207.3	207.3	207.4	207.2	207.3	207.3	207.4	1,805.7
Total debt service 1/	2,425.8	2,611.7	3,442.2	5,732.5	7,011.6	7,071.5	6,641.6	6,210.2	4,981.9	46,129.0
(in percent of exports of G&S)	3.5	3.5	4.4	6.9	8.0	7.7	6.9	6.4	5.1	
(in percent of GDP)	0.5	0.6	0.8	1.2	1.4	1.4	1.2	1.0	0.7	
(in percent of GIR)	12.4	10.9	11.6	16.2	16.5	14.0	12.0	11.8	13.5	
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/										
Outstanding stock 1/	30,987.5	31,914.0	31,080.7	27,830.7	22,989.0	17,670.0	12,351.0	7,032.0	2,546.3	
(in percent of quota)	972.2	1,001.3	975.1	873.2	721.3	554.4	387.5	220.6	79.9	
(in percent of GDP)	7.0	7.7	7.0	5.9	4.6	3.4	2.2	1.1	0.4	
(in percent of GIR)	158.1	133.5	104.8	78.6	54.0	35.0	22.2	13.3	6.9	
Memorandum items:										
Exports of goods and services (US$ mn)	96,235	102,391	108,263	114,811	122,030	127,567	133,357	135,044	136,753	
Gross International Reserves (US$ mn)	27,248	33,248	41,248	49,248	59,248	70,208	77,205	73,429	51,484	
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 and projections.

1/ Assumes that all purchases will be made.

Table 13. Argentina: Schedule of Reviews and Purchases

Available on or after	Original Amounts		Conditions 1/
	SDR millions	% Quota	
March 25, 2022	7,000	220	Approval of Arrangement
May 10, 2022	3,000	94	First Review and end-March 2022 performance criteria
September 10, 2022	3,000	94	Second Review and end-June 2022 performance criteria
December 10, 2022	4,500	141	Third Review and end-September 2022 performance criteria
March 10, 2023	4,000	125	Fourth Review and end-December 2022 performance criteria
June 10, 2023	3,000	94	Fifth Review and end-June 2023 performance criteria
August 21, 2023	2,500	78	Sixth Review and end-June 2023 performance criteria
January 15, 2024	3,500	110	Seventh Review and end-December 2023 performance criteria
May 10, 2024	600	19	Eighth Review and end-March 2024 performance criteria
August 10, 2024	400	13	Ninth Review and end-June 2024 performance criteria
November 10, 2024	414	13	Tenth Review and end-September 2024 performance criteria
Total	31,914	1,001	

Sources: Fund staff calculations.

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

Annex I. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: The external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies, an assessment based holistically on elevated external debt vulnerabilities, depleted international reserves and no access to international capital markets.
Policy Responses: Continued implementation of the ambitious stabilization plan, centered on a strong fiscal anchor, relative price corrections and structural reforms, is necessary to strengthen the trade balance, support FDI and capital repatriation, rebuild international reserves, regain market access, and safeguard external sustainability. As stability is reestablished, a gradual conditions-based easing of CFM measures will be needed, while remaining MCPs and exchange restrictions should be phased out as early as possible.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. Argentina's NIIP doubled in USD terms during 2016–19 reflecting a large increase in private sector foreign assets, which was partly offset (and likely triggered) by an increase in the public sector's external liability (over US$60bn). Since 2019, the external position has remained positive and relatively stable (at around US$110bn), although gross assets and liabilities moved substantially. In the case of the public sector, significant declines in reserve assets (US$22bn) were balanced by a decline in privately held debt.[1] Meanwhile, the generally unchanged private sector external position reflects increases in private deposits abroad (about US$60bn),[2] offset by increases in private liabilities in the form of trade credit.
Assessment. Argentina has a large positive NIIP, mostly reflecting households' holdings of external assets, while the government's foreign position remains in deep negative territory (US$130 billion) with rising trade credit adding to vulnerabilities.[3]</td></tr>
<tr><td>2023 (% GDP)</td><td>NIIP: 17.0</td><td>Gross Assets: 68.1</td><td colspan="2">Res. Assets: 3.6</td><td>Gross Liab.: 51.2</td><td>Ext. Debt.: 44.5</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA reached a deficit of 3.4 percent of GDP in 2023, compared to a deficit of 0.7 percent in 2022, on account of a sharp reduction in exports (due to the drought) and an insufficient compression in imports. The CA balance is projected to reach a surplus of 0.6 percent in 2024, driven by a recovery in grain exports and a significant demand compression. In the medium term, the CA is expected to reach a surplus of about 1.5 percent of GDP supported by a competitive exchange rate, and stronger energy balance.
Assessment. The cyclically adjusted CA balance reached a deficit of 3.6 percent of GDP in 2023, before accounting for the transitory impact from the drought (about 2.4 percent of GDP).[4] Considering Argentina's weak reserve coverage and heightened external liabilities, external sustainability considerations suggest a CA norm of 1.5 percent of GDP, which would be consistent with bringing reserves near 100 percent of the ARA metric over the medium-term. As such, IMF staff assesses the CA gap to be –2.6 ±1 percent of GDP.</td></tr>
<tr><td>2023 (% GDP)</td><td>CA: –3.4</td><td>Cycl. Adj. CA: –3.6</td><td>EBA Norm: 0.4</td><td>EBA Gap: –3.9</td><td>Staff Adj:[5] 1.3</td><td>Staff Gap: –2.6</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The REER, after depreciating by more than 25 percent between end-2016 and end-2019, appreciated by over 30 percent through end-2022 and an additional 17 percent through end-November 2023. In mid-December, a step devaluation (about 120 percent against the USD) was implemented to correct the large exchange rate misalignment. Since then, the REER has appreciated by over 40 percent through end-March, bringing it broadly in line with IMF staff's estimate of the equilibrium level.
Assessment. Staff-assessed CA gap implies a REER gap of about 22 percent in 2023 (with an estimated elasticity of 0.12 applied).[6] Overall, staff assesses the REER gap to have been in the range of 33 to 38 percent just before the December 2023 step devaluation, and in the range of 20 to 25 percent on average in 2023 (also consistent with the EBA REER index model).</td></tr>
</table>

Capital and Financial Accounts: Flows and Policy Measures	**Background.** Exchange restrictions, CFM and MCP measures were introduced in late 2019 and were intensified further in 2023, including through (i) incentives to encourage export liquidation, (ii) taxes on FX access for imports, and (iii) financing requirements for imports, which led to an unprecedented rise in private commercial debt. Since mid-December, the previous opaque system of administrative import controls has been replaced by a more transparent system, with a shorter delay in FX access (45 days on average), and a large share of excess commercial debt backlog has been reprofiled or resolved. **Assessment.** While CFMs are not a substitute for sound macroeconomic policies, they may be needed in the near term as imbalances are being addressed. That said, more distortive exchange restrictions and MCP measures should be phased out as early as possible.
FX Intervention and Reserves Level	**Background.** Gross international reserves fell sharply (by over US$20bn) last year, reaching US$23 billion by end-2023, their lowest level since 2004. Meanwhile, NIR reached $-8.5 billion. Since December 10, the BCRA has purchased over US$15bn in FX assets through end-April. **Assessment.** Reserve coverage remains inadequate. Gross international reserves are estimated to have fallen to only around 30 percent of the IMF's composite metric by end-2023.

1/ Namely reflecting valuation gains from the exchange rate depreciation on peso debt held by nonresidents as well as resident purchases of debt held by nonresidents.
2/ Investment income to Argentines over the same period was US$13.8 billion, indicating that a larger share of the growth in Argentines' foreign savings has been on account of new flows (e.g., interest and capital gains).
3/ High levels of private foreign assets suggest diminishing risks of significant capital flight upon the lifting of CFMs.
4/ The adjustor is smaller than the actual impact of the drought on exports (~ 3 percent of GDP), due to second-round effects.
5/ Staff's adjustment includes the 2.4 percent drought adjustment to the cyclical CA minus the 1.1 percent external sustainability adjustor to the CA norm.
6/ Meanwhile, results from the EBA REER index model suggest a REER gap of 19.7 percent, while the EBA REER level model estimates a gap of 4.7 percent, with the estimate surrounded by significant uncertainty.

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

Table 1. Argentina: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	**High**	The exceptional level of current uncertainty amid elevated inflation and still-low reserve levels, and risks around the necessary eventual re-entry to international markets indicate that overall risks of sovereign stress continue to be high.
Near term 1/	n.a	n.a	Not applicable.
Medium term	**High**	**Moderate**	The mechanical signal of high risk is driven by the widening of the fanchart resulting from the temporary spike in the debt-to-GDP ratio due to valuation effects in the context of the strong exchange rate devaluation last year. Staff asseses medium-term risks at moderate, as debt-to-GDP ratios will decline rapidly as the overshooting of the real effective exchange rate (REER) unwinds this year and stabilizes at its long-term level and fiscal consolidation accelerates. While there is substantial uncertainty around the baseline debt trajectory, the implementation of a more ambitious fiscal consolidation and the significant maturity extensions of a large portion of domestic debt that was coming due in 2024, should help contain financing risks.
Fanchart	**High**	…	
GFN	**Moderate**	…	
Stress test	Cont. Liab.	…	
Long term	…	**High**	Given Argentina's susceptibility to adverse shocks, need to maintain tight fiscal policy, and re-enter international debt markets in 2025, there are relevant risks of a renewed episode of sovereign stress over the longer term. Full implementation of the stabilization program will help contain these risks.
Sustainability assessment 2/	…	Sustainable but not with high probability	There are good prospects for debt stabilization and acceptable rollover risks, consistent with debt sustainability. However, substantial uncertainty around the baseline indicates high risks to this assessment.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

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

At a medium-term horizon, staff assesses risks to be moderate, unchanged from the seventh review. The GFN module continues to show moderate risk, including because vulnerabilities are contained somewhat the establishment of a strong fiscal anchor that targets overall fiscal balance, the reduction in the exchange rate misalignment, and still very negative real rates. The effects from the valuation effects from the exchange rate adjustment in 2023 still linger, which continues to artificially widen the fanchart and for the mechanical signal to flash red. Going forward, it is still expected that the debt-to-GDP ratios will decline rapidly as the overshooting of the real effective exchange rate (REER) unwinds and stabilizes at its long-term level and the strong fiscal anchor is maintained. This will in turn help to increase the demand for peso denominated assets, helping to meet still-high gross financing needs. The recent debt exchange successfully extended maturities for a large portion of domestic debt coming due in 2024, maintaining gross financing needs in check. Over the longer-term, 10-year fanchart analysis points to debt sustainability (albeit with substantial risks), including of a potential renewed round of sovereign stress as Argentina needs to re-enter international debt markets and buffers are likely to remain limited.

Risks to the updated baseline are exceptionally high, particularly given a still fragile reserve position. In this context, the assessment of moderate risk of sovereign distress in the medium term still hinges critically on the steadfast implementation of the stabilization plan. Securing twin (fiscal and current account) surpluses will be essential to tackle debt vulnerabilities and rebuild external buffers. Notably, failure to adhere to the fiscal anchor would imply greater financing pressures, and higher gross financing needs over the medium- to long-term. In this context, contingency planning and agile policy making remain indispensable to improve the likelihood of program success, with additional macroeconomic policy adjustments potentially required.

Latent structural vulnerabilities remain including: the low and undiversified export base, thin domestic capital markets, high shares of foreign currency and non-resident debt, and contingent liabilities arising from a deterioration in provincial finances. In this context, sustaining the large and frontloaded consolidation, including beyond the program, along with efforts to deepen domestic capital markets and structural reforms to boost growth and exports, remain essential to mobilize domestic saving, strengthen reserves, and improve prospects of international market access, which in turn would strengthen debt-servicing capacity.

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

A. Assessment of Debt Sustainability

1. Staff assesses that Argentina's debt remains "sustainable, but not with high probability". This assessment is based on four tools: (i) a Debt Fanchart analysis that provides information on the prospects for debt stabilization; (ii) a GFN Financeability module which indicates whether rollover risks are at acceptable levels; (iii) a crisis prediction model which gives a probability of unsustainable debt (e.g., events involving sovereign default and restructuring); and (iv) contingent liability analysis to illustrate potential debt surprises from outside the current central government debt perimeter. Staff's judgment is also informed by other important elements which, in this case, includes the results of a 10-year Debt Fanchart, and an updated assessment of whether federal government debt and debt service—excluding intra-public sector debt obligations to the central bank (BCRA) and the social security trust fund (FGS)—remains manageable over the medium to long term, despite near-term challenges.[1]

2. The assessment is predicated on the successful implementation of the stabilization plan, taking into account still significant imbalances. Sustaining a strong fiscal anchor, together with significant efforts to realign and harmonize the FX regime, should secure twin (fiscal and current account) surpluses. Moreover, medium-term debt and external sustainability hinge on the gradual resumption of international market access starting in 2025, and a conditions-based unwinding of capital flow measures (see Box 1). Despite the lingering valuation effects from the step devaluations in 2023, including because over 90 percent of peso debt was linked to the U.S. dollar or to inflation, the ongoing frontloaded fiscal consolidation (around 5 percent of GDP in 2024) and a gradual appreciation of the REER in the months ahead will rapidly reduce the debt-to-GDP ratio, taking it to around 91 percent of GDP by end-2024. Debt is expected to converge to around 50 percent of GDP by 2029 (Table 5).

Argentina: Federal Government Debt, 2022-25 1/

			Proj.				*Proj.*	
	2022	2023	2024	2025	2022	2023	2024	2025
	(in US$ billions)				*(in percent of GDP)*			
Gross Federal Debt	**394**	**368**	**451**	**394**	**84.7**	**156.7**	**91.0**	**79.5**
By debtor								
Official Sector	78	79	86	87	16.8	33.6	17.4	17.6
Private Sector	157	141	191	173	33.8	60.1	38.6	34.8
Public Sector 2/	158	148	174	134	34.1	63.0	35.1	27.1
By currency								
Local currency	131	105	184	126	28.2	44.9	37.2	25.4
Foreign currency	263	263	266	268	56.5	111.8	53.8	54.2
Memorandum items								
Gross Federal Debt (*as a share of eop GDP*)	…	…	…		67.2	106.0	75.2	69.1
BCRA secondary market purchases	11	6	0	0	2.3	2.7	0	0

Sources: Argentine authorities and Fund staff estimates.

1/ Debt based on data provided by the authorities and estimated using end-of-period exchange rates. Debt-to-GDP ratio is based on average period GDP.

2/ Public sector includes the central bank (BCRA) and the social security fund (FGS).

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

B. Medium-Term Risk Analysis

3. The GFN Financeability Module continues to point to moderate risk. Baseline GFNs average around 9 percent of GDP over the 2024–29 period (around 6 percent of GDP for debt held by the private and official sector), reflecting the recent debt exchange and the success in recent primary auctions in rolling over debt towards longer-maturity instruments. However, given near-term stability challenges, some reliance on inflation-linked (CER-linked) debt instruments is assumed to persist over the near and medium term (implying lower interest bill, while the inflation uplift is captured in the amortization). At end-February 2024, banks' exposure to government debt remained moderate at around 26 percent of banking system assets. That said, Argentina's banking system is small (assets of 35 percent of GDP), and despite strong capital buffers and low NPLs, its ability to further absorb government debt securities in case of stress may be complicated by its exposure to the broader public sector, which after including central bank securities stands at around 50 percent of total assets. Argentina's low export base and high financial dollarization are also key vulnerabilities for absorbing GFNs.[2] Maintaining the strong fiscal anchor will substantially reduce financing risks, which are also partially mitigated by the large share of FX debt held by IFIs, the large share of overall debt held by the public sector, and still strict capital controls. Meeting FX obligations will be challenging—especially as repayments to official creditors (including the Fund) ramp up starting in late 2026—and will continue to require decisive actions to sustain the fiscal anchor and reducing external imbalances to restore international market access.

4. The debt fanchart module continues to point to high risk of sovereign stress, due to the temporary effects from the step devaluation at end-2023. After spiking to around 157 percent of GDP at end-2023, reflecting mainly the large nominal devaluation in December and the revision to the nominal USD GDP (which was around 50 percent lower in 2023 compared to 2022), debt is projected to reach to 91 percent of GDP by end-2024 and rapidly decline to around 49 percent of GDP by end–2029, owing largely to the impact of the much stronger fiscal path on debt dynamics. The probability of debt stabilization under the baseline continues to be high (around 95 percent). However, given the sharp increase in the initial debt-to-GDP ratio as a result of the step devaluation, uncertainty as proxied by the fanchart width is very high, triggering a mechanical signal of high risk of debt distress for the overall medium-term index.[3] However, staff judges that the mechanical signal does not adequately capture Argentina's medium-term risk, as debt-to-GDP ratios will decline rapidly with the continued unwinding of the real effective exchange rate (REER) overshooting and will stabilize at its long-term level under a strong fiscal anchor.

5. Contingent liability analysis also remains consistent with moderate medium-term risks of sovereign stress. The illustrative contingent liability shock scenario indicates the potential risks of debt surprises coming from outside the current central government debt perimeter or from

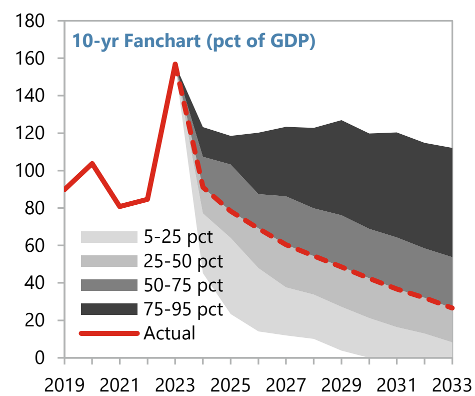
[2] Historical volatility, largely due to weak fundamentals, has tended to translate into large macroeconomic shocks.

[3] If the analysis uses the period average exchange rate to convert USD denominated debt to pesos for 2023, then the fan chart and the overall medium-term index remain moderate, with the fanchart width and overall index being lower than in the seventh review.

compensation payments stemming from unfavorable international court rulings. The shock is tailored for Argentina's circumstances by simulating a one-off debt materialization (6 percent of GDP), equivalent to the total stock of provincial debt or the combined potential compensation payments from ongoing sovereign debt litigation cases. In this scenario, debt dynamics are very close to the baseline. Furthermore, staff does not assess provincial debt to have a high risk of becoming a contingent liability to the central government, as demonstrated by the non-bailout approach taken during the 2020 provincial debt restructuring. However, depending on the scale of the final judgments in the international litigation cases against Argentina, investors' confidence in Argentine sovereign securities could dampen, impacting its ability to eventually regain market access. As such, market access is likely to hinge on the administration's ability to resolve recent sovereign debt litigation rulings. In this context, agile policymaking will remain indispensable, with additional macroeconomic policy adjustments necessary, if risks materialize, to safeguard medium-term debt sustainability.

C. Longer-Term Risk Analysis

6. A long-term fan chart analysis points to debt sustainability, albeit with substantial risks. The probability of debt stabilization in a fan chart ending in 2033 is close to 86 percent, consistent with debt sustainability, although with substantial risks. Over the medium to long term, Argentina will need to refinance maturing debt obligations from the 2020 debt restructuring as well as Fund repurchases, likely at less favorable financing terms (in the new context of higher global interest rates). Capacity to repay will depend on adhering to the fiscal anchor and the correction of other key macroeconomic imbalances, an improvement in domestic debt market conditions, adequate reserve levels, and the re-access of international private credit markets (see Annex Box 1).



7. Moreover, while debt (and debt service) held by the official and private sectors is projected to remain manageable in the medium- to long-term, buffers remain very limited. Federal debt (excluding debt held by the BCRA and FGS) would fall slightly below the 40-percent-of-GDP threshold set in the March 2020 Technical Note (consistent at the time with an assessment of sustainable debt with high probability). GFNs (for public debt not in the hands of other public entities) between 2025–2032 are projected to be within the 5 percent of GDP March Technical Note target. However, with buffers nearly exhausted, large and sustained domestic financing will be required going forward, along with efforts to improve the maturity structure, to ensure a gradual conditions-based easing of capital flow measures.

Box 1. SRDSF Key Macroeconomic and Financing Assumptions

The SRDSF reflects the continuation of the Milei administration's commitment to establish a strong fiscal anchor (of the fiscal account remaining balanced), the elimination of monetary financing, and the elimination of FX and relative price distortions. The successful implementation of the stabilization plan, mainly maintaining the fiscal consolidation and reserve accumulation pace, will be crucial for domestic debt market development, and the eventual easing of CFMs, with Argentina's re-access to international capital markets.

Macroeconomic Assumptions

- *Real GDP* is projected to contract by 3.5 percent in 2024, mainly reflecting the effects of fiscal consolidation and demand compression. Growth is expected to settle at 2.4 percent over the medium term, closing the output gap by 2029. Potential growth is assumed to hover around 2.3 percent, consistent with the administrations' reform efforts to remove regulatory bottlenecks to investment, employment, and trade (with only a minor near-term impact).
- The nominal FX realignment in December 2023 resulted in a large depreciation of the REER (much larger than the estimated misalignment of around 30 percent) ensuring an initial overshooting to quickly rebuild reserves. With tight macroeconomic policies delivering a relatively rapid disinflation, the real exchange rate is assumed to converge to the level consistent with medium-term fundamentals and remain there through the forecast horizon.
- *Inflation (eop)* is projected to decrease from about 211 percent in 2023 to around 140 percent in 2024 mainly because of exchange rate and relative price adjustments. Average inflation is expected to exceed 230 percent in 2024, decline to around 60 percent in 2025, and to reach single digits in 2029.
- Fiscal consolidation is projected to continue as planned, with the *primary balance* turning from a deficit of 3 percent of GDP in 2023 to a surplus of 1.7 percent of GDP in 2024 (consistent with overall balance) and reaching a steady-state primary surplus of 2.5 percent of GDP from 2026 onwards.
- *Capital flow management measures (*CFMs) are assumed to be gradually eased starting in Q2:2024 as conditions allow. As imbalances are addressed, and reserve coverage improves, a gradual *return to international markets* is expected to start *in 2025*.
- *Gross international reserves* are assumed to recover at a slighter faster pace in the medium-term than in previous reviews due to the FX correction, but still only reaching 2022 levels (i.e., pre-drought) levels by 2026.

Financing Assumptions

- *External official financing.* Annual official net financing remains unchanged relative to the seventh review, with average annual contributions of 0.3 percent of GDP from MDBs, through 2024 and beyond. Projected repayments to the Paris Club reflect the October 2022 joint declaration, stretching out to 2028, consistent with program reserve accumulation and debt sustainability goals. The central bank bilateral FX swap from the PBOC that was drawn in 2023 (US$4.9 billion) was not included in public debt as the value of the activated swap only temporarily crossed the *de-minimis* threshold of 1 percent of GDP (due to the large exchange rate correction in December 2023, and is projected to remain below that threshold going forward). The activated swap is assumed to be substantially refinanced in 2024 (about 80 percent), in line with the authorities' ongoing efforts to secure this.
- *External private sector financing*. Debt service on FX-denominated debt to foreign private creditors is assumed to follow the 2020 restructuring schedule, with modest new issuance in international markets from late 2025 onwards. No foreign-financed debt buybacks or repo operations are assumed. The gap between FX debt issuances with scheduled amortizations will be covered in part by a stronger external position and slightly higher reserve accumulation in the medium term.
- *BCRA financing of the fiscal deficit.* Direct transfers, after reaching 0.9 percent of GDP in 2023, are projected to be zero from 2024 onwards. No further direct intervention in the secondary debt market is assumed.

Box 1. SRDSF Key Macroeconomic and Financing Assumptions (Concluded)

- *Domestic market financing*. The program baseline assumes overall fiscal balance in 2024, minimizing the need for mobilizing net domestic financing this year. Given that it would take at least 18–24 months to entrench the disinflation process, the financing strategy maintains reliance on inflation (CER)-linkers in the near term, and continue with the gradual shift to fixed rate issuances as observed in recent primary auctions. The medium-term debt strategy continues to assume a gradual strengthening of the domestic debt market, underpinned by the strong fiscal anchor, a proactive market-oriented financing strategy, and a "currency competition" scheme. Real interest rates are expected to rise gradually to 4½ percent by 2028, consistent with a gradual unwinding of CFMs and with the cost of accessing international markets. Risks to this financing strategy remain especially large given policy uncertainty and implementation challenges.

Argentina: Key DSA Financing Assumptions

	2024	2025	2026	2027	2028	2029
External Financing						
Official (ex. IMF)						
Disbursements (USD billions)	4.6	4.2	4.1	4.1	3.8	3.8
Net financing (USD billions)	1.1	1.2	1.0	1.3	0.8	0.4
Nominal interest rate (percent)	4.1	3.8	3.8	3.8	3.8	3.8
International markets						
Issuance (USD billions)	...	1.5	2.5	3.5	5.0	6.0
Spread (basis points)	...	450	450	450	450	450
Maturity (years)	...	7	7	7	7	7
Grace period (years)	...	4	4	4	4	4
Peso Market Financing						
Instruments (share)						
Short-term (fixed rate)	25	25	25	25	10	5
CER-linked (2-year maturity)	65	65	65	65	65	65
Long-term (3/4-year maturity)	10	10	10	10	25	30
Real Interest Rate (percent)	-19.5	2.1	3.0	3.8	4.3	4.5

Sources: Fund staff assumptions and projections.

Table 2. Argentina: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	
2. Subsectors included in the chosen coverage in (1) above:						

Subsectors captured in the baseline		Inclusion	Comments
1	Budgetary central government	Yes	
2	Extra budgetary funds (EBFs)	No	Not applicable
3	Social security funds (SSFs)	No	Excludes FGS/ANSES liabilities
4	State governments	No	Excludes state govt liabilities
5	Local governments	No	Excludes local govt liabilities
6	Public nonfinancial corporations	No	
7	Central bank	No	
8	Other public financial corporations	No	

(Groupings: CG = rows 1–3; GG: expected = rows 1–5; NFPS = rows 1–6; CPS = rows 1–8.)

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

de: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

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

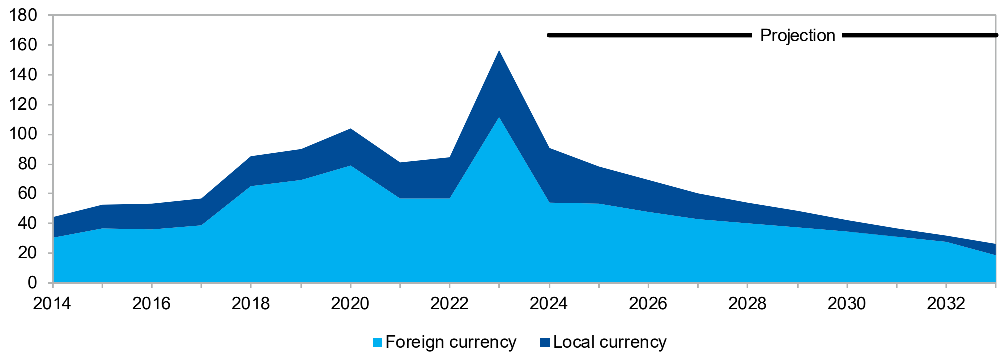
(Groupings: CG = rows 1–3; GG: expected = rows 1–5; NFPS = rows 1–6; CPS = rows 1–8.)

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

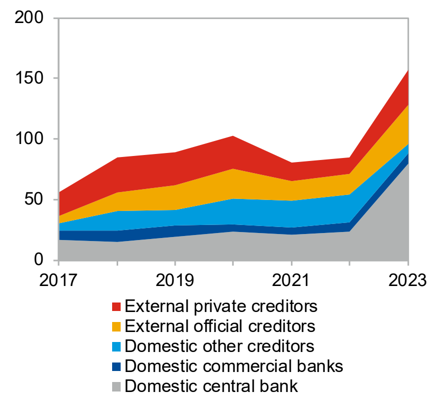
Commentary: The coverage in this SRDSA is gross federal (central government) debt held by the private, official and public sectors. The DSA does not include GDP warrants, debt of the provinces or municipalities, or debt of the central bank. Staff does not judge the exclusion of provincial debt as a significant contingent liability risk, as demonstrated by the federal government's non-bailout approach to the recent provincial debt restructuring.Central bank bilateral FX swaps were not included in public debt for DSA purposes.

Table 3. Argentina: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)

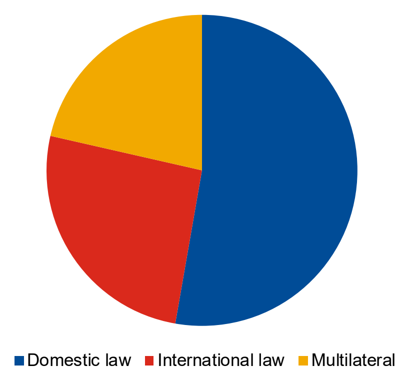


Public Debt by Holder (percent of GDP)



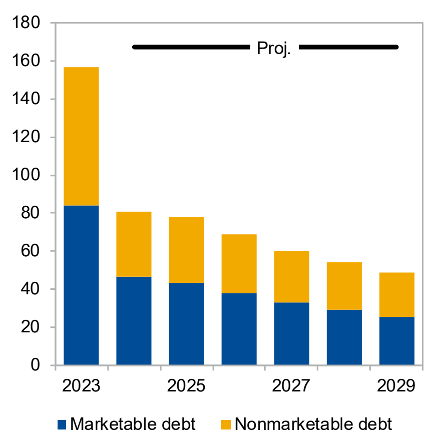
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023 (percent)



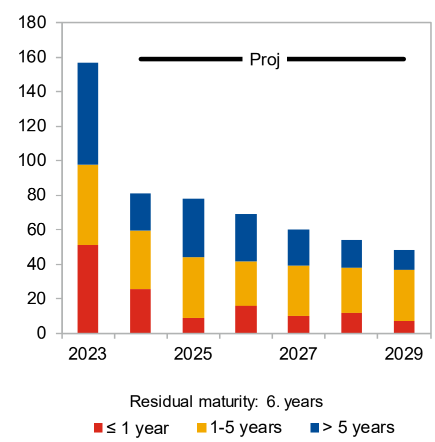
Note: The perimeter shown is central government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is central government.

Commentary: Foreign-currency denominated debt will continue to dominate over the long term. With inflation remaining high, the financing strategy assumes reliance on inflation (CER)-linkers, with an increase in maturity and shift towards fixed rate instruments envisaged only in the medium term. The large share of FX debt is held by IFIs, and the large share of overall debt held by the intra-public sectors (including non-marketable instruments), mitigates rollover risks.

Table 4. Argentina: Realism of Baseline Assumptions

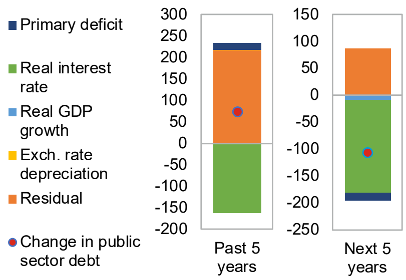
Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			
	real-time	**t+3**	**t+5**
Historical Output Gap Revisions 2/			

Comparator Group:
Emerging Markets, Commodity Exporter, Program

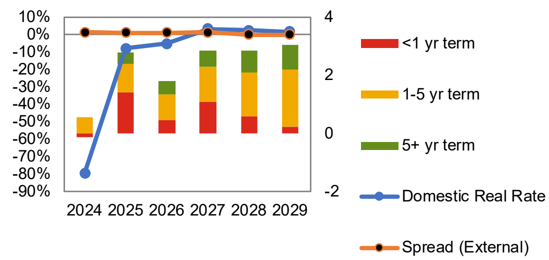
Color Code:

Optimistic	> 75th percentile
	50-75th percentile
Pessimistic	25-50th percentile
	< 25th percentile

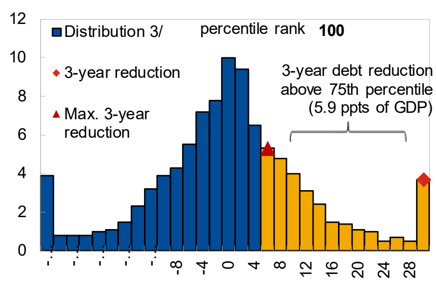
Public Debt Creating Flows
(Percent of GDP)



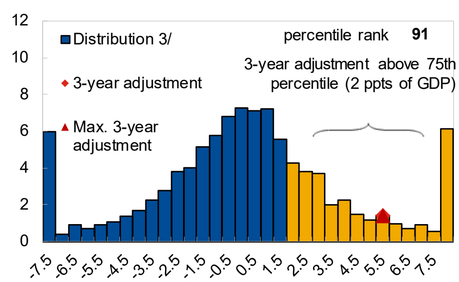
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent)) 4/



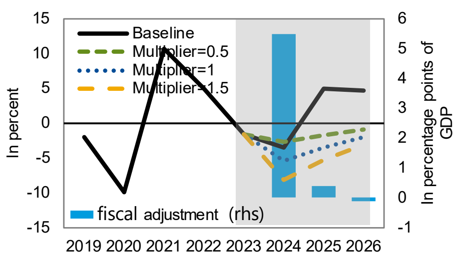
3-Year Debt Reduction
(Percent of GDP)



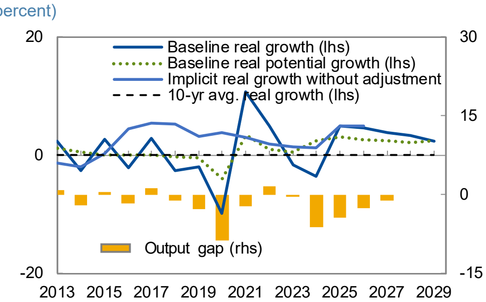
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth
(in percent)



Commentary: Forecast track record analysis point to baseline optimism, particularly the debt reduction and exchange rate paths, in line with the staff assessment that risks to the baseline remain exceptionally high. Argentina's extreme economic volatility makes it difficult to achieve high forecast accuracy over long periods of time. Moreover, the program baseline assumes a significant and sustained macroeconomic adjustment to address underlying imbalances and help Argentina emerge from its prolonged period of crisis. Envisaged fiscal consolidation appears relatively optimistic, but the projected consolidation is broadly in line with other succesful stabilization episodes. Bond issuance analysis is consistent with resumption of international market access from 2025 onwards, with modest initial issuances. While projected medium-term growth is optimistic relative to the 10-year average (reflecting recent volatility and crises), it is in line with the removal of economic distortions and the implementation of growth-enhancing reforms.

Source : IMF Staff.

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

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

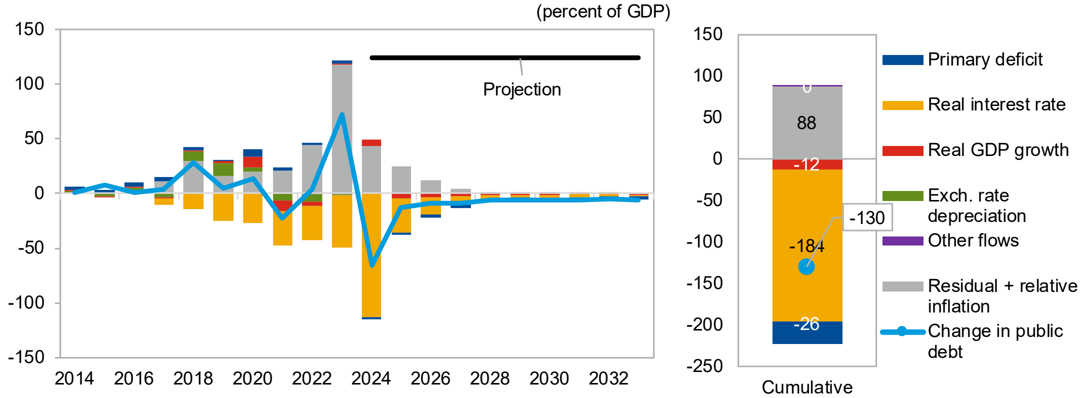
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

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

Table 5. Argentina: Baseline Scenario
(Percent of GDP, Unless Indicated Otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	156.7	91.0	78.3	69.1	60.4	54.3	48.6	42.4	36.8	32.0	26.6
Change in public debt	72.1	-65.7	-12.7	-9.2	-8.7	-6.1	-5.7	-6.2	-5.7	-4.8	-5.4
Contribution of identified flows	-13.9	-29.9	-19.3	-10.3	-7.0	-4.8	-3.9	-3.8	-3.4	-2.6	-2.3
Primary deficit	2.9	-1.7	-2.3	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Noninterest revenues	24.5	23.9	26.0	26.5	26.3	26.3	26.3	26.3	26.3	26.3	26.3
Noninterest expenditures	27.4	22.2	23.7	23.9	23.8	23.8	23.8	23.8	23.8	23.8	23.8
Automatic debt dynamics	-15.9	-28.4	-17.0	-7.8	-4.5	-2.3	-1.4	-1.3	-0.9	-0.1	0.1
Int. rate-growth differential	-47.3	-107.3	-35.4	-19.1	-10.5	-5.4	-3.8	-4.3	-3.6	-2.8	-2.3
Real interest rate	-48.6	-113.0	-31.1	-15.6	-7.9	-3.4	-2.5	-3.2	-2.6	-2.0	-1.5
Real growth rate	1.3	5.7	-4.3	-3.5	-2.6	-1.9	-1.3	-1.1	-1.0	-0.8	-0.7
Real exchange rate	-0.2	…	…	…	…	…	…	…	…	…	…
Relative inflation	31.6	78.9	18.3	11.3	5.9	3.1	2.4	3.0	2.6	2.7	2.4
Other identified flows	-0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	86.0	-35.8	6.7	1.1	-1.7	-1.3	-1.9	-2.4	-2.2	-2.2	-3.1
Gross financing needs	9.1	3.0	14.7	6.7	11.6	8.2	9.5	5.7	8.0	5.7	5.6
of which: debt service	6.2	4.7	17.0	9.2	14.1	10.7	12.0	8.2	10.5	8.2	8.1
Local currency	4.0	1.4	11.9	5.8	9.9	5.8	6.5	3.4	3.6	1.9	1.7
Foreign currency	2.2	3.3	5.1	3.4	4.1	4.8	5.5	4.8	6.9	6.3	6.4
Memo:											
Real GDP growth (percent)	-1.6	-3.5	5.0	4.7	3.9	3.3	2.4	2.3	2.3	2.3	2.3
Inflation (GDP deflator; percent)	134.3	236.9	61.2	31.8	17.5	10.4	8.9	11.4	10.9	10.4	9.9
Nominal GDP growth (percent)	130.2	225.8	69.5	37.8	22.1	14.0	11.5	14.0	13.4	12.9	12.4
Effective interest rate (percent)	1.9	2.5	3.4	4.4	3.5	3.9	3.7	3.9	3.9	4.2	4.5

Contribution to Change in Public Debt
(percent of GDP)



Staff commentary: Public debt is projected to decline over the long term, reflecting the baseline assumptions of strong adherence to the fiscal anchor. Lower FX misalignments will be conducive to more stable macroeconomic conditions. Efforts to further deepen domestic capital markets and boost exports and productivity remain essential to mobilize domestic saving, strengthen reserves, and improve prospects of international market access, which in turn would strengthen debt-servicing capacity. The large residuals in 2023 and 2024 can be explained by stock-flow adjustments given the differences between end-of-period and period average exchange rates given the sharp exchange rate adjustments in 2023. The key drivers in the reduction of the effective interest rate reflect the recent debt exchange operation and the success in recent auctions to place debt at longer maturities and at lower yields.

Table 6. Argentina: Medium-Term Risk Analysis

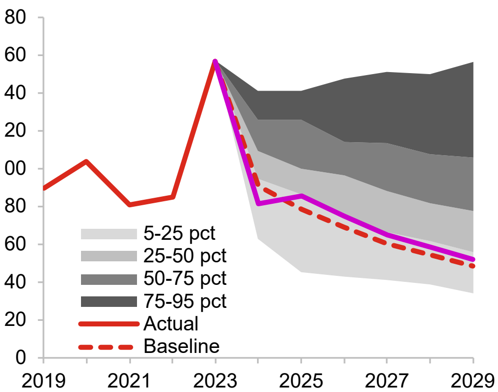
Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

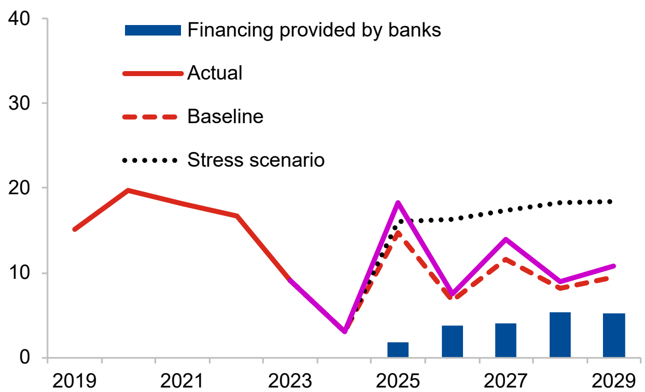
Module	Indicator	Value	Risk index	Risk signal	Emerging Markets, Commodity Exporter, Program (0 – 25 – 50 – 75 – 100)
Debt fanchart module	Fanchart width	122.7	1.8	…	
	Probability of debt not stabilizing (pct)	5.06	0.0	…	
	Terminal debt level x institutions index	52.3	1.1	…	
	Debt fanchart index	**…**	**2.96**	**High**	
GFN finance-ability module	Average GFN in baseline	8.9	3.0	…	
	Bank claims on government (pct bank assets)	15.0	4.9	…	
	Chg. in claims on govt. in stress (pct bank assets)	22.7	7.6	…	
	GFN financeability index	**…**	**15.5**	**Moderate**	

Legend: Interquartile range; Argentina

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)

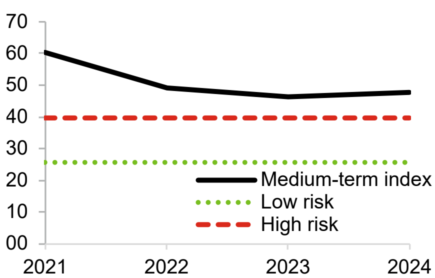


Triggered stress tests (stress tests not activated in gray)

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

Medium-Term Index

(index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.7
GFN financeability index	7.6	17.9	0.5	0.3
Medium-term index (MTI)	0.3	0.4	…	0.5, High

Prob. of missed crisis, 2024-2029 (if stress not predicted): 54.5 pct.
Prob. of false alarm, 2024-2029 (if stress predicted): 3.4 pct.

Commentary: The medium-term risk assessment of high risk is driven by the widening of the fanchart resulting from the temporary spike in the debt-to-GDP ratio due to valuation effects in the context of the strong exchange rate devaluation. Staff asseses medium-term risks at moderate, as debt-to-GDP ratios will decline rapidly as the overshooting of the real effective exchange rate (REER) unwinds and stabilizes at its long-term level . While there is substantial uncertainty around the baseline debt trajectory, strong adherence to the strong fiscal anchor (i.e.,maintaining fiscal balance) helps to contain financing risks.

Table 7. Argentina: Decomposition of Public Debt and Debt Service by Creditor, 2024–2025 /1

	Debt Stock (end of period)			Debt Service			
	31-Mar-24			2024	2025	2024	2025
	(In US$ bn)	*(Percent total debt)*	*(Percent GDP) 2/*	*(In US$ bn)*		*(Percent GDP)*	
Total	399.0	100.0	83.0	42.7	81.7	8.9	16.4
External	137.1	34.4	28.5	10.6	12.8	2.2	2.6
Multilateral creditors [3,4]	74.8	18.8	15.6	7.7	6.8	1.6	1.4
IMF	43.0	10.8	8.9	4.7	2.9	1.0	0.6
World Bank	9.8	2.5	2.0	0.7	0.9	0.2	0.2
CAF	4.3	1.1	0.9	0.6	0.8	0.1	0.2
IADB	16.3	4.1	3.4	1.4	2.0	0.3	0.4
FONPLATA	0.4	0.1	0.1	0.1	0.1	0.0	0.0
BIE	0.2	0.1	0.0	0.0	0.0	0.0	0.0
BCIE	0.6	0.1	0.1	0.0	0.0	0.0	0.0
Other Multilaterals	0.2	0.0	0.0	0.0	0.0	0.0	0.0
OFID	0.1	0.0	0.0	0.0	0.0	0.0	0.0
IFAD	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral Creditors [3]	4.2	1.1	0.9	1.1	1.1	0.2	0.2
Paris Club	1.5	0.4	0.3	0.5	0.5	0.1	0.1
Non-Paris Club	2.7	0.7	0.6	0.6	0.6	0.1	0.1
o/w: China	2.6	0.6	0.5	0.6	0.6	0.1	0.1
T-Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	57.6	14.4	12.0	1.8	4.8	0.4	1.0
Commercial creditors	0.3	0.1	0.1	0.1	0.1	0.0	0.0
Domestic	262.0	65.6	54.5	32.1	69.0	6.7	13.8
T-Bills	77.6	19.5	16.1	9.4	12.4	1.9	2.5
Bonds	176.5	44.2	36.7	18.1	55.4	3.8	11.1
Loans	7.8	2.0	0.0	4.6	1.1	1.0	0.2

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

2/ Using eop exchange rate in December.

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

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

Annex III. Update on the Foreign Exchange Regime as it Applies to Exchange Restrictions and Multiple Currency Practices

1. **This annex takes stock of *jurisdictional findings of* exchange restrictions and multiple currency practices (MCPs) as well as recent developments in the FX system of Argentina.** At the time the extended arrangement for Argentina was approved, staff assessed the exchange regime and identified several exchange restrictions and multiple currency practices (MCPs) subject to Fund jurisdiction.[1] These ranged from general restrictions on access to the FX market to restrictions on payments for imports, invisible transactions (transfers of dividends, profits, wages, remittances etc.), payments of interests and amortization of loans, and MCPs arising from exchange taxes (also found to be an exchange restriction), withholding taxes and the parallel market. New restrictions and MCPs have since been introduced, and existing ones have been intensified/modified throughout the course of the extended arrangement.[2] Some of the temporary measures (such as soy dollar and other incentive schemes) have since expired, and recent reforms have led to the easing of some restrictions and removal of at least one MCP.

Changes Introduced by the New Administration

2. **Since December 2023, the authorities have started to gradually liberalize the FX regime.** Important changes made prior to the completion of the seventh review included streamlining and substantially shortening delayed FX access for imports, reducing withholding taxes, and letting a significant amount of FX controls expire as shown in Table 1 of the seventh review staff report. Recent measures to further ease exchange controls include:

(i) Access delays are further reduced to 30 days for a basket of basic goods.

(ii) Further reducing access delays to official FX for MSME imports to 30 days, excluding cars and a few other selected goods. MSMEs can also access FX in advance for up to 20 percent of capital good purchases.

(iii) Easing restrictions on BOPREAL transactions to make the new instruments more attractive.

(iv) Streamlining the withholding taxes resulting in one withholding tax of 30%.

(v) Repealing the preferential exchange rate for non-resident tourists which was assessed as giving rise to an MCP.

3. **The central bank has issued FX denominated instruments (BOPREAL) to unwind the large stock of importers' debt overhang and dividend payments to non-residents.** For the commercial debt accumulated before December 13, 2023, eligible importers, whose debt has been properly registered and verified, can purchase these securities, payable in USD with maturities of up to 4 years at varying interest rates. Importers with immediate need to service FX debt can either use

[1] See EBS/22/14, Supplement 2 (March 2022).

[2] For a summary of changes introduced under the program which were found to amount to intensification of exchange restrictions or modification of MCPs, see Table 1, EBS/24/5. The table includes changes made up to the completion of the 7th review.

these instruments in collateralized borrowing, sell them in the secondary market where they have been trading at a discount, or simply use them as a payment promise. Subscription is done in pesos. The BOPREAL can also be used for the payment of tax obligation at a specified exchange rate. Similarly, since May 2024 the authorities have allowed subscription of BOPREAL instruments to be used to settle dividend payments to non-resident investors.

4. **The government has also adjusted the level and scope of the *Impuesto Pais* tax.** In December 2023, *impuesto pais* was increased from 7.5 to 17.5 percent for transportation services and a wide set of imported goods, with exemptions for essential goods. The *impuesto pais* was also extended to apply to import payments made with subscriptions of the BOPREAL instruments. In May 2024, the 17.5 percent *impuesto pais* tax was further extended to the subscription of BOPREAL and purchase of foreign currency for the payment of dividends and profits to non-resident investors. This application of the *impuesto pais* tax gives rise to a modification of an MCP with respect to the purchase of FX for dividend and profit payments and an exchange restriction.

Exchange Restrictions

5. **Argentina continues to maintain a large number of exchange restrictions subject to Fund jurisdiction.** The restrictions largely continue to be the same ones identified at the time of the approval of the arrangement, as supplemented and adjusted between reviews under the EFF-supported program. As a result, the exchange restrictions in place can be summarized under the following broad headings:

a. **General Restriction:** Argentina maintains exchange restrictions arising from limitations on access to the foreign exchange market for making any payments or transfers for current international transactions, which prevent access to the official foreign exchange market (MULC) unless the requester has not in the previous and subsequent 90 days undertaken certain transactions in the securities market (CCL). The non-CCL transaction affidavit period has been extended to 180 days for CCL transactions with securities under foreign law.

b. **Restrictions on Payments for Imports:** Argentina maintains exchange restrictions arising from restrictions on payments for imports of goods and services, as follows: (i) delayed access to and limitations on the amounts of FX that can be accessed for import payments;[3] (ii) limitations on advance payments for imports; (iii) limitations on payments for imports of luxury goods; (iv) a preauthorization requirement for payments of services to related parties and (v) a prohibition on accessing FX market for making payments for imports of soybeans until the export proceeds for the soybean product have been received.

c. **Invisible Transactions:** Argentina maintains exchange restrictions on payments for invisible transactions, as follows: (i) limitations on accessing the FX market to make transfers of foreign currency abroad as profits and dividends to non-resident shareholders; and (ii) limitations on access to FX by resident individuals for invisible transactions (e.g., wages, salaries, family

[3] Currently, for most goods, importers access FX in four installments of 25 percent each at 30, 60, 90 and 120 days after the purchase. Exceptions include fuel and energy (no delay), pharmaceutical goods and fertilizers (30 days), cars and selected other goods (180 days). Also, MSMEs have a reduced delay of 30 days.

remittances, medical expenses, educational expenses) and other current account transfers and for non-residents for transferring abroad proceeds from current international transactions.

d. Restrictions on payments of interest and amortization on external loans: Argentina maintains exchange restrictions on payment of interest on and moderate amounts of amortization of external loans, as follows: (i) limitations on access to foreign exchange for payment of external indebtedness which require that all external debt proceeds have been surrendered into the local exchange market prior to accessing foreign exchange to service external debt;[4] (ii) mandatory refinancing requirements; (iii) limitations on advance payments of debt; and (iv) prior BCRA consent for payments of principal (including amortization) to related parties and (v) BCRA authorization requirement for FX market access for payments of interests to non-resident related counterparty.

e. Exchange Taxes: Argentina maintains exchange restrictions arising from

(i) a 30 percent tax on the purchase of foreign exchange by individuals and on payments for consumption abroad, including (a) travel allowance and savings, (b) personal, cultural, and recreational services, and (c) the importation of a list of luxury goods.

(ii) an 8 percent tax on the purchase of foreign exchange and payment for certain professional services (including digital services).

(iii) a 17.5 percent tax on the purchase of foreign exchange and payment, including through subscription of BOPREAL, for transportation services, imported goods (with exemptions for essential goods) and dividends and profits to non-resident investors.

(iv) a 25 percent tax on the purchase of foreign exchange and payment, including through subscription of BOPREAL, for other services.

f. Pension Restrictions. Restriction of individuals who participate in the pension buyback scheme from accessing the FX market for a period of twelve months. Restrictions of individuals who have debt with the National Security Administration (ANSES) from accessing the FX market. There are also restrictions on beneficiaries of and contributors to the Argentine Integrated Pension System (SIPA) who receive financing provided under the ANSES credit scheme from accessing the FX market for as long as the loan remains unpaid.

6. The Executive Board granted approval to retain the above measures on a temporary basis. The Board approved that Argentina may maintain these exchange restrictions for a period of 12 months beginning January 31, 2024, or the date of the completion of the next Article IV consultation with Argentina.

MCPs Under the New MCP Policy

7. Staff assessment is that Argentina also maintains a number of MCPs. On February 1, 2024, a new MCP policy took effect. Pursuant to the policy, all old MCPs were deemed removed and

[4] In April 2024, the central bank introduced resolution A7994 providing an exemption for exporters to access the official foreign exchange market to settle external debt (both capital and interest) given if certain criteria are met, including that the settlement is made with newly borrowed funds from a domestic financial institution via foreign credit line.

previous Board approvals (including for Argentina) to maintain MCPs lapsed. Accordingly, staff has conducted a new assessment of the old measures that constituted MCPs in Argentina, under the old policy, as well as other measures that appear to segment the market in line with the new MCP policy. Under the new policy, an MCP arises where an official action results in an actual exchange rate spread that differs unreasonably from the normal commercial costs and risks of exchange transactions (exchange rate spreads which are not considered "commercially reasonable"), i.e., exceed the permissible margins specified in the MCP policy.

8. Staff has determined that Argentina maintains multiple currency practices arising from the following official actions which create impermissible spreads.

a. a 30 percent exchange tax plus a 30 percent withholding exchange tax on the purchase of foreign exchange by individuals for (i) travel allowance (and savings); and (ii) the importation of a list of luxury goods;

b. an 8 percent exchange tax plus a 30 percent withholding exchange tax on the purchase of foreign exchange for the payment of certain professional services (including digital services);

c. a 30 percent exchange tax on the purchase of foreign exchange by individuals on payments for consumption abroad, including personal, cultural, and recreational services;

d. a 25 percent exchange tax on the purchase of foreign exchange for other services; and

e. a 17.5 percent exchange tax on the purchase of foreign exchange for (i) other goods (excluding a list of essential goods) and transport and (ii) payment of dividends and profits to non-resident investors.

9. The previous finding of an MCP arising from the spread relative to the parallel (blue) market does not meet the requirement of the current policy. Given that parallel (blue) market transactions are illegal, staff has determined in line with the new policy that the spread relative to that market (the Blue Market) does not give rise to an MCP.

10. These multiple currency practices (MCPs) and the other exchange controls come at the cost of substantial distortions. For example, all taxes on purchases of foreign currency make imported goods more expensive and hence compress imports, especially in the presence of a crawling peg that prevents adjustments of the exchange rate to these taxes, thereby reducing balance of payment needs.[5] Meanwhile, At the same time, proceeds of these taxes yield fiscal revenues that contribute to the fiscal surplus and in turn to the reduction in sovereign risk, further easing BOP pressures. However, in discouraging trade with arbitrary cost differences, these taxes impede the operation of firms and reduce foreign competition. They also distort allocation, penalizing both imported goods, and firms that do not hold enough FX deposits. The divergence of rates across goods adds to the misallocation of resources, while modestly reducing effective inequality.

[5] The preferential exchange rate for non-resident tourists via domestic bank accounts, which has now been eliminated, seemed to be of limited use and thus limited impact.

Appendix I. Letter of Intent

Buenos Aires, Argentina
May 31, 2024

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

Dear Ms. Georgieva,

Under President Milei's leadership, our administration has averted a full-blown crisis, and our decisive policy actions have restored macroeconomic stability, exceeding expectations. We have delivered the first four-month sustained fiscal surplus in nearly two decades, a complete halt to net central bank financing of the government, faster-than-expected disinflation, a rapid turnaround in international reserves, and a notable strengthening of the central bank's balance sheet. Significant efforts have also been made to scale up support to vulnerable young mothers and children and protect the purchasing power of pensions. As a result of our resolute ownership and commitment, and in contrast with past program performance, we have met all end-March quantitative performance criteria—some with important margins.

The journey ahead remains long and challenging, given the difficult inheritance resulting from decades of fiscal recklessness, heavy-handed state intervention, runaway inflation, depleted reserves, falling income per capita and rising poverty. To sustain the progress and safeguard the gains we have achieved and enable a rapid recovery of our economy, we will continue to strengthen our macroeconomic and structural policies, while consolidating societal and political support for our reforms. In this context, our flagship fiscal and reform legislation has already been passed by the Lower House and we are working with key stakeholders to secure passage in the Senate and its eventual final approval. In the attached Memorandum of Economic and Financial Policies (MEFP), we outline the key policies of our economic program to keep the current IMF arrangement under the Extended Fund Facility (EFF) on track. We are committed to:

- **Strengthening our fiscal anchor.** Our unwavering commitment to fiscal balance, with no net central bank financing, is being supported by policies that seek to improve the quality and fairness of the ongoing consolidation. We are working to secure congressional approval of a fiscal package and remain committed to continue to improve the targeting of subsidies and to strengthen expenditure controls and accountability.
- **Refining our monetary and FX policy framework.** Our priority remains entrenching the disinflation process, while further strengthening reserve coverage and the central bank's balance sheet. As we transition towards a "competition of currency" regime and ease FX restrictions and controls, our monetary policy will evolve to continue to anchor inflation expectations, while FX policy becomes more flexible to reflect fundamentals.
- **Reinvigorating our structural reform agenda.** We will advance our micro-level reforms to boost productivity, private investment, and formal employment. In this regard, we are working with Congress to seek approval of the landmark reform legislation (*Ley Bases)* to modernize our labor market, upgrade our legal framework for large-long-term investments, reduce state participation in the economy, and remove barriers to entry while safeguarding competition.

Based on our ambitious goals, persistent actions, and resolute commitments, **we request completion of the Eighth Review under the arrangement** with disbursement of SDR 600 million, which will be maintained in our SDR Holding Account at the IMF to meet Fund obligations as they fall due. In this context, we also request Executive Board approval of:

- *Modifications of program targets* for the primary fiscal balance and reserves to reflect program overperformance and updates to the macroeconomic framework.
- *Multiple currency practices and an exchange restriction under Article VIII*, on grounds that these measures, including the recent application of FX access tax (*impuesto pais*) to the newly allowed payment of dividends and profits to nonresident investors, have been imposed for balance of payments reasons, are temporary, non-discriminatory in nature, and do not give Argentina unfair competitive advantage over other members. In addition, waivers of nonobservance are also requested, as the recent measure implemented in the context of continuing easing of FX restrictions caused non-observance of the continuous PCs against the imposition/intensification of exchange restrictions and the introduction/modification of MCPs.

Completion of the financing assurances review. The program remains fully financed, with financing being secured from multilateral and regional development banks, including the Development Bank for Latin America and the Caribbean (CAF), Plata Basin Financial Development Fund (FONPLATA), the Interamerican Development Bank (IADB), and the World Bank. The BCRA intends to maintain its swap lines with the People's Bank of China (PBOC) and firm commitments are in place, including to substantially refinance the drawn portion of the swap.

We are confident that our ambitious stabilization plan and the policies that underpin it are sufficient to restore stability and ensure achievement of the program objectives and targets, yet we stand ready to take any additional measures that may become appropriate for this purpose. Indeed, while we continue with our efforts in securing final approval by Congress of our fiscal and reform legislation, we will maintain our fiscal anchor, strengthen reserve buffers, and drive down inflation, by taking whatever actions we deem appropriate—as we have done in the first months of our administration.

We will continue to consult with the IMF on the adoption of these measures in accordance with the Fund's policies on such consultation and will refrain from any policy that would not be consistent with the program's objectives and commitments herein. The program will continue to be monitored through frequent reviews, quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU). Underscoring our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Finally, we wish to express our sincere appreciation for your continued support to Argentina under the current EFF arrangement, which is set to expire by end-year. We also look forward to engaging in due course on a potential new multi-year IMF-supported program with the aim of continuing to address our deep-seated challenges and build a more prosperous Argentina.

Yours sincerely,

/s/	/s/
Luis Caputo	Santiago Bausili
Minister of Economy of the Republic of Argentina	President, Central Bank of the Republic of Argentina

Attachment I. Memorandum of Economic and Financial Policies Update

May 31, 2024

A. Context

1. **Our decisive policy actions continue to deliver better-than-expected results, and the program is now firmly on track.** Since the completion of the seventh review, steadfast implementation of our stabilization plan has consolidated earlier gains, squarely restoring macroeconomic stability. Our bold actions have delivered (i) a sustained fiscal surplus though April (the first in 16 years), eliminating net central bank financing; (ii) a significant buildup in international reserves; (iii) a faster-than-anticipated reduction in inflation and inflation expectations, together with a strengthening of the central bank's balance sheet; (iv) a realignment in many relative prices and improvements in resource allocation; and (v) a significant improvement in market indicators. Meanwhile, efforts are ongoing to protect the most vulnerable from the near-term adjustment costs— targeted support to young mothers and children has been more than doubled and a new pension formula has been adopted by presidential decree to protect the purchasing power of pensions in a timely manner. In a clear break from the past, and as a testament to our strong program ownership, we have overperformed all end-March performance criteria.

2. **The road ahead will continue to be long and difficult, and policies will need to evolve to safeguard the durability of the stabilization process.** Building on our initial actions, we will seek to further reduce legacy macroeconomic imbalances and create a more open market-oriented economy. Specifically, we are strengthening our fiscal anchor—maintaining overall fiscal balance with no central bank financing—by improving the quality of consolidation through reforms that improve the progressivity and efficiency of the tax system, streamline subsidies, strengthen expenditure controls, and better target social assistance. As we transition towards a "competition of currency" regime, our monetary policy framework will continue to be refined to firmly entrench the disinflation process, and further strengthen the central bank's balance sheet. Efforts will also continue to prudently ease FX restrictions and controls in a manner consistent with our ambitious reserve accumulation goal. Importantly, further reforms efforts at the micro-economic level remain critical to boost private investment, formal employment, and productivity. To this aim, we have presented to Congress various reform proposals and are building the political and social consensus to secure their approval to begin to reverse decades of decline and unleash Argentina's vast potential.

B. Recent Developments and Program Performance

3. **Economic activity is showing signs of stabilizing, following a period of sharp demand contraction.** Real GDP fell by about 2 percent q/q (sa) in Q4:2023, with the economy contracting by 1.6 percent last year against the backdrop of unsustainable policies and rising imbalances. The needed tightening of macroeconomic policies and correction of relative prices have led to a further contraction in activity and demand through Q1:2024 (3 percent q/q, sa), although employment has

generally held up. That said, high-frequency indicators suggest activity may be stabilizing in some sectors and real wages bottoming for formal sector workers, in the context of a recovery in agriculture production following last year's drought.

4. Our bold stabilization efforts are allowing a rapid disinflation process. Monthly inflation reached single digits in April (8.8 percent), with core inflation trending even lower and high frequency indicators pointing to a continuation in the disinflation trend, exceeding market expectations. The central bank's balance sheet is being strengthened, also supported by a decline in policy interest rates. Base money has been kept generally unchanged in nominal terms as reserve purchases and interest payments on BCRA securities have been sterilized through a reduction in net credit to the government and BCRA-issued FX swaps (worth around US$8 billion) to address the importer debt overhang and delays in dividend payments (BOPREAL). Real base money and broad money measures are now near historic lows.

5. Meanwhile, the FX realignment has allowed external surpluses and a rapid accumulation of reserves, well above program targets. The cumulative cash goods trade surplus during December-April reached around US$15.5 billion, driven by a significant compression in import volumes (18 percent y/y during January-April 2024), a rebound in export volumes (19 percent y/y), and higher import financing. The latter has been enabled by a narrowing of the FX gap, the new rules-based scheme for accessing imports, as well as ongoing efforts to address the importer debt overhang accumulated in earlier years. As a result, reserves have been replenished at a faster than anticipated pace, with net international reserves (NIR) increasing by over US$11 billion since the FX correction in December—US$2.7 billion above the end-March quarterly performance criteria (QPC). This NIR overperformance has allowed the elimination of restrictions to FX access to micro, small-and medium-sized enterprises (MSMEs) earlier than originally planned (¶20).

6. These improvements have been made possible by delivering on our unwavering commitment to fiscal balance. The cumulative primary cash surplus through end-April reached ARS 4,133 billion (0.7 percent of GDP), overperforming the end-March program QPC by almost ARS 3,000 billion. This fiscal overperformance was largely made possible by strong expenditure restraint, including efforts to reduce and improve the targeting of energy, transport, and water subsidies and ensure tariffs better reflect cost recovery levels (see ¶14). In tandem, we have increased targeted social assistance by scaling up transfers to the flagship universal child allowance program (AUH), the food program (*Alimentar*), and introduced a new early childhood support program (*primeros 1000 dias*), while expanding the school aid allowance program to support working families in covering their children's private-school tuition. Similarly, with the issuance of a presidential decree, we are protecting the real value of pensions through a new and improved indexation formula linked to past inflation, effective April, that also partially compensates for earlier real losses. Social spending is already above the indicative target, following minor shortfalls through end-March. A new fiscal package, aimed at strengthening the quality of our consolidation efforts, was presented to Congress (see ¶13) and recently approved by the lower house.

7. Our fiscal and financing efforts have halted central bank financing. Net credit to the government has been maintained below zero, as there continues to be no monetary transfers. This has been enabled by prudent and active public debt management that has allowed net placements (including to buy back debt from the central bank) and reduced rollover risks, including through a voluntary debt exchange that successfully extended 40 percent of all outstanding peso debt this year (6.5 percent of GDP) into inflation-index securities falling due 2025-28 (end-March 2024, SB). In the last primary auction, the Treasury introduced a new short-term fixed rate instruments program, allowing us to (i) shift liquidity from the BCRA's overnight facilities to Treasury bills; (ii) maintain the net-zero monetary financing target by buying back treasuries in the balance sheet of the BCRA; and (iii) strengthen the Treasury's cash buffers. Meanwhile, following the clearance of large arrears inherited from the previous administration, including with the electricity wholesale company (CAMESSA), we have maintained the stock of domestic arrears well below the program ceiling.

8. **Efforts continue to deregulate and create a more market-based economy.** Aside from correcting the regulated utility prices to better reflect costs, fuel prices now reflect international comparators and wheat price subsidies have been eliminated to encourage production and exports. The far-reaching deregulatory Emergency Decree (DNU) issued in December is having important effects in beginning to improve the allocation of resources in key sectors. For example, following the repeal of damaging rent controls, the residential rental market has experienced a remarkable turnaround (resulting in higher supply and lower rental rates in real terms), while our "open sky" policy is promoting competition in the local air transport market. In addition, to enhance competition and benefit consumers, we have started to reduce import tariffs on final and intermediate goods, expedite the custom clearing process, allowed the entry of new wholesale stores and improved access to over-the-counter medications. A new landmark reform bill (*Ley Bases*) was presented to Congress and recently approved by the lower house, with the aim of modernizing and deregulating Argentina (see ¶21), while boosting private formal employment and private investment, including in large long-term projects.

C. Outlook and Risks

9. **Our program will continue to lead to a further reduction in inflation and a turnaround in growth around the second half of this year.** While the stabilization path will be long and challenging, continued tight macroeconomic policies—centered on maintaining an overall fiscal balance—and market-oriented reforms will consolidate the gains achieved so far. Our baseline outlook has been revised to reflect recent developments and evolving policies, including to improve the quality of our fiscal consolidation and refine the monetary and FX policy framework.

- **Real GDP growth.** As the headwinds from policy tightening fade and real wages and private credit stabilize and recover, the economy is expected to start expanding again during S2:2024. Despite this turnaround, the economy is expected to contract by 3½ percent in 2024, primarily reflecting the negative carryover from the larger-than-expected contraction in activity during Q4:2023. The economy is expected to grow by 5 percent in 2025 supported by a recovery in demand, including private investment, encouraged by the adoption of market-oriented reforms. Output levels are expected to return to trend over time, as economic slack is unwound.

- **Inflation.** Monthly headline inflation is expected to converge to around 4 percent by end-2024 (140 percent y/y), declining further over the medium term. The sustained reduction in inflation is being underpinned by our strong fiscal anchor, the end of debt monetization, and our strengthened monetary and FX policy framework, which will support a recovery in peso demand as we move towards a "currency competition" regime.

- **External.** The external current account balance is expected to shift from a deficit of 3.4 percent of GDP to a surplus of 0.6 percent of GDP this year, supported by strong domestic demand compression and expenditure switching effects from the exchange rate correction, despite somewhat weaker terms of trade, including from lower global soybean prices. External surpluses are projected over the medium term with the recovery in imports being offset by structural improvements in the energy and mining balance and a gradual increase in export volume growth, especially in non-primary sectors. NIR is still projected to increase by US$7 billion this year, as a somewhat lower-than-programmed trade balance is expected to be offset by stronger net capital inflows. Reserve coverage will improve further over the medium term, consistent with a re-access to international capital markets by late-2025, and a step increase in foreign direct investment as reforms bear fruit.

Text Table 1. Argentina: Selected Economic Indicators, 2022–25

		7th Rev	8th Rev	7th Rev	8th Rev	7th Rev	8th Rev
	2022	2023	2023	2024	2024	2025	2025
GDP growth (avg, %)	5.0	-1.1	-1.6	-2.8	-3.5	5.0	5.0
Non-agro GDP	5.7	-0.3	-0.8	-5.2	-6.0	5.0	5.0
Inflation (eop, %)	94.8	211.4	211.4	149.4	139.7	45.0	45.0
Primary fiscal balance (% of GDP)	-2.4	-3.0	-2.9	2.1	1.7	2.5	2.3
Overall fiscal balance (% GDP)	-4.2	-5.2	-4.6	0.0	0.0	0.4	0.5
Current account balance (% GDP)	-0.7	-3.5	-3.4	0.9	0.6	0.9	0.8
Change in net int'l reserves (US$bn)1/	4.8	-16.4	-16.4	7.0	7.0	6.0	5.0
Monetary financing (% GDP) 2/	3.1	5.0	5.0	0.0	0.0	0.0	0.0

Sources: National authorities and Fund staff estimates and projections.

1/ Net International Reserves (NIR) are gross reserves net of swap lines, deposit insurance, reserve requirements on FX deposits, and other reserves liabilities. At current rates.

2/ Up to 2023 includes profit transfers, advances (adelantos) and secondary market purchases. For 2024 includes also issuance of new non-marketable government bonds and treasury buybacks.

10. **Although still elevated, risks have become more balanced.** While progress to date has exceeded expectations, and downside risks have moderated, the road to stabilization is still uncertain and subject to shocks. For example, global financial conditions could tighten further, leading to an even stronger USD, lower commodity prices, and weaker growth in key trading partners. While we continue working with Congress in building consensus for the needed reforms, further delays could emerge in final approval of our fiscal and reform legislation. Upside risks are also present, however, as faster disinflation and market-oriented reforms could further strengthen confidence, investment and productivity over the medium term.

11. Against this still uncertain backdrop, we will continue to adapt our economic policies to changing circumstances to ensure our program objectives are met. We are firmly committed to safeguarding our hard-earned policy credibility, established through our unwavering fiscal anchor and ambitious reserve accumulation goal. Should risks materialize, we will take all necessary steps to ensure our adherence to the program objectives and targets, including:

- On *fiscal policy,* implementing measures to: (i) strengthen and expand excises, particularly on fuels; (ii) accelerate the reduction in subsidy spending in both energy and transportation (¶14); (iii) further streamline transfers to provinces and SOEs; and (iv) further enhance tax administration and expenditure controls.
- *On monetary and FX policy*, we stand ready to adjust policies as needed to achieve disinflation and reserve accumulation goals. In the event inflation and inflation expectations prove more challenging, we would bring ex-ante real policy interest rate into positive territory sooner to support peso demand. We will continue to provide clear policy communication to achieve the intended result.

D. Program Policies

Fiscal Policy

12. We remain committed to achieve overall fiscal balance this year, while improving the quality of our consolidation efforts. Building on our early progress, we are seeking to improve the progressivity and efficiency of the tax system, while also further reducing subsidies and strengthening expenditure controls, including on public wages and discretionary transfers to state-owned enterprises (SOEs) and provinces. These efforts are necessary to provide additional space to scale up social assistance (as needed) and protect priority capital expenditure. The achievement of overall balance—which is consistent with a primary surplus of about 1.7 percent of GDP—will also safeguard the target of zero net credit from the central bank to the government.

13. Efforts are underway to improve the progressivity and efficiency of the tax system. A revised package of fiscal measures, which was recently approved by the Lower House, is expected to be approved by Congress in the coming weeks. The package includes: (i) a much-needed reform to the personal income tax (PIT), which largely unwinds the harmful changes introduced in late 2023, ensuring that at least ten percent of formal sector workers are brought under the regime (while also eliminating benefits for certain groups and sectors); (ii) a tax amnesty that seeks to encourage taxpayers to regularize their tax obligations; (iii) a rationalization and simplification of personal asset taxes; and (iv) improvements in the coverage of tobacco excises. These measures, together with higher VAT receipts from the planned energy tariff adjustments, are expected to boost revenues by about 1 percent of GDP this year. This will be complemented by efforts to streamline tax expenditures that unfairly benefit regions and certain sectors, skewing the level playing field, as well as improvements in the efficiency of the tax collection agency (AFIP), in line with the recommendation of the tax administration diagnostic tool (TADAT) completed in March. Work continues in developing a compliance improvement plan for customs (end-June 2024, SB) and in securing publication of the Compliance Risk Management (CRM) tools and Compliance Improvement Plans (CIPs).

14. On the spending side, we will continue to improve the targeting of subsidies and strengthen expenditure controls while safeguarding social assistance.

- **Subsidies.** Following recent decisions to raise electricity and gas tariffs—up an average of 350 percent and 200 percent, respectively—we plan to achieve full cost recovery for most electricity and gas users during S2:2024 and replace the existing tariff segmentation scheme with one that supports only the basic energy consumption basket of vulnerable households. To this end, we have published detailed reforms to transition towards the new scheme (end-May 2024, SB) and recently issued a decree to remove the CVS formula (Decree 332/2022), which used to cap increases in N2 and N3 electricity and natural gas utility bills **(*prior action*).** Going forward, we commit to raise electricity prices (PEST) and gas prices (PIST) as planned to improve cost recovery, and will consider instituting tighter caps on subsidized electricity consumption as needed. These actions will support our commitment to reduce energy and transport subsidies this year by at least 0.7 percent of GDP and to regularize the finances of the energy sector. In parallel, legacy arrears to the wholesale electricity market clearing company (CAMMESA) are being cleared as energy distribution prices converge to full cost recovery. In tandem, we will continue to reduce subsidies to urban public transport (e.g., train fares were increased by an additional 53 percent in May) and transfers to the state-owned water company (water tariffs are expected to increase further in June, in line with the new indexation formula).
- **Expenditure efficiency and controls.** Reforms proposed in the landmark reform bill, *Ley Bases* are expected to strengthen the management of our public finances, including by (i) rationalizing and improving the oversight of decentralized public entities (i.e., trust funds), in line with the recommendations of the 2022 Public Investment Management Assessment (PIMA); (ii) increasing control over public investment projects; (iii) allowing for greater flexibility in public employment contracts; and (iv) repealing the costly and ineffective 2023 pension moratorium. This is being complemented by ongoing efforts to develop a plan to improve cash management and consolidate all central government entities into the treasury single account (TSA) at the central bank (end-September 2024, SB).
- **Social assistance.** Following efforts to scale up targeted social assistance and protect the real value of pensions, we will continue to safeguard support for the most vulnerable and adjust our social plans to ensure that young mothers and children are provided with the needed support and education opportunities, with the support of our development partners. We will continue to make progress to strengthen the integration of the relevant administrative databases to the social registry to improve the targeting and efficiency of social support (end-September 2024, SB).

15. Beyond this year, we will sustain an overall balance, while reducing distortionary taxes. We will submit to Congress a Draft 2025 budget consistent with the goal of overall balance, while defining underlying policies alongside a comprehensive fiscal risk statement (September 15, 2024, SB) to strengthen its credibility. In this regard, we are developing a proposal aimed at enhancing the efficiency, equity, and simplicity of the tax system (end-October 2024, SB) that will also allow for a reduction in distortive taxes, including *impuesto pais,* which we plan to unwind by end-2024 or earlier if conditions permit. These efforts will be complemented by reforms on the spending side, including to improve the sustainability of the pensions system, strengthen fiscal frameworks, and the efficiency and incentives of the current intergovernmental transfer system. A roadmap for implementing these additional reforms will be developed by end-2024.

Financing Policy

16. With the fiscal anchor in place, we will continue to tap the domestic debt market to refinance maturing debt in 2024. We plan to roll over maturing debt held by the private sector through primary market auctions, where a menu of instruments and maturities will be offered, eventually providing an auction calendar. As inflation declines further, we will continue to replace FX- and inflation-linked bonds with fixed-rate securities to reduce debt servicing costs and debt vulnerabilities. As stability becomes even more entrenched, we plan to deepen the investor base, extend the treasury yield curve over the medium run, and continue to scale back the use of put options which now can only be exercised during the final month before maturity.

17. Efforts are underway to secure financing assurances from key official creditors and to improve the prospects of re-accessing international capital markets. We are continuing to work closely with our development partners, including IADB and WB, to increase and bring forward net financing to strengthen reserves and support our fiscal and social safety net reform efforts. The BCRA intends to maintain the swap lines with the People's Bank of China (PBOC) and firm commitments from China are in place, including to substantially refinance the drawn portion of the swap. Outstanding obligations related to commercial arrangements with Paraguay are also being addressed. Finally, our central goal remains to regain international capital market access, not with the objective of increasing net external indebtedness, but to manage external obligations in a manner that supports external resilience and growth. In this context, after a long absence, some private sector companies have started to tap international credit markets.

Monetary and Exchange Rate Policies

18. Our monetary and FX policy framework will continue to evolve to support disinflation while strengthening reserve buffers. The delivery of the fiscal anchor, together with an early FX correction and efforts to strengthen the central bank balance sheet, supported a rapid reduction in inflation and reserve buildup. Sustaining these gains, while easing FX controls and restrictions as conditions permit, will require continued refinements to monetary and FX policies to support the transition towards a "currency competition" regime, for which we are developing its key underpinnings. Under the eventual "currency competition" regime, price stability will remain a prime objective of the central bank, in a context where individuals will have total freedom to transact in the currencies of their choosing.

19. During the transition, monetary policy will continue to be instrumental in anchoring inflation and inflation expectations. While negative policy rates have been instrumental in addressing unsustainably large quasi-fiscal deficits and supporting disinflation in the context of FX controls and strong fiscal anchor, the overnight policy interest rate will evolve to continue to guide inflation and inflation expectations. In fact, consistent with the rapid disinflation process, the real (ex-ante) policy rate is now significantly less negatively than earlier in the year and can be expected to move into positive territory later in the year to support peso demand as FX controls are eased and private credit recovers. Necessary steps will continue to be taken in conjunction with the Treasury to limit the quasi-fiscal cost, and a plan is being developed to extend monetary operations to include Treasuries, which, alongside treasury auctions, would help establish the short end of the yield curve. Furthermore, the BCRA will refrain from any profit transfers to the Treasury (¶15), and accounting standards will continue to be refined in line with international standards to reflect the fair value of the BCRA balance sheet.

20. Meanwhile, the FX policy will continue to evolve to support our stabilization efforts.

- In transitioning towards the competition of currency regime, FX policy will evolve over time to move with more flexibility in line with fundamentals to sustain the reserve buildup and disinflation process.
- This will be accompanied by a further unwinding of FX restrictions to eliminate costly distortions while supporting Argentina's external balance. In fact, we are in the process of (i) extending the BOPREAL scheme to address the backlog on dividend payments abroad of corporates to encourage new FDI; (ii) removing a multiple currency practice in the form of the preferential exchange rate on bank accounts for tourism inflows (eliminate Comunicacion "A" 7551); and (iii) eliminating FX restrictions for MSMEs. We remain committed to eliminate the preferential export scheme where 20 percent of export proceeds can be channeled through the securities (CCL) FX market (end-June 2024, SB). Furthermore, as imbalances are addressed and policy frameworks are strengthened, a further easing of FX controls and CFMs will be considered, based on the framework that is being developed (end-July 2024, SB).

21. Banking system regulations need streamlining to strengthen monetary transmission and encourage private credit. Initial efforts focused on: (i) eliminating mandatory minimum interest rates on deposits and most limits on bank lending rates; (ii) limiting access to repurchase agreements (repos) solely to entities regulated by the BCRA; and (iii) downsizing credit incentive schemes, eliminating compulsory MSME lending, and narrowing the range of credit products eligible for differentiated minimum reserve requirement benefits. Banks are also now mandated to provide capital forecasts to guide the approval of dividend payouts. A further easing of banking regulations is planned, and a regulatory review process is underway to ensure a level playing field between Fintech companies and traditional banking institutions. These measures will increase market competition, further enhance the credit channel of monetary transmission, and support the recovery of private credit from historic low levels.

Structural Policies

22. Ongoing efforts to create a more open and market-based economy will support a more sustainable and prosperous Argentina. The proposed landmark reform legislation, *Ley Bases,* which is expected to be approved by Congress shortly, aims to: (i) support private formal employment, through easing of regulations related to hiring and job transition; (ii) provide greater predictability and incentives for new large long-term direct investments; (iii) strengthen the regulatory framework for the hydrocarbon sector; (iv) streamline regulatory costs and barriers to entry in key sectors (aerospace, healthcare, housing, pharmaceutical, wholesale trade) while creating effective mechanisms and institutions to safeguard competition; and (v) rationalize and improve the efficiency and governance of SOEs, while clarifying the privatization process. Upon approval of this new legislation, which will help strengthen the legal basis for the December 2023 Emergency Decree (DNU), efforts will focus on preparing the needed implementing regulations. Regarding actions under the Executive's control, efforts will continue to improve efficiency and align investment incentives for key sectors (e.g., energy, communication healthcare) and to unwind cross subsidies, thereby improving resource allocation.

23. Improving governance and addressing corruption is a central feature of our reform efforts. Aside from improving the efficiency of public spending (¶13) and unfair competition by vested interests with tax and regulatory advantages (¶21), we are committed to further strengthen the AML/CFT framework in line with international standards, by approving the pending reforms to Law 25.246 and implementing by mid-2025 the necessary mitigating measures to address the shortcomings identified in the 2022 National Risk Assessment. Consideration will also be given to conducting a comprehensive governance assessment, with Fund technical support, to help identify priorities to underpin our medium-term strategy in this area.

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

(In Billions of Argentine Pesos, Unless Otherwise Stated)

	2022															
	end-Mar				end-June				end-Sept				end-Dec			
	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status
Fiscal targets																
Performance Criteria																
1. Cumulative floor on the federal government primary balance 3/ 7/	-222.3	-210.9	-192.7	Met	-874.4	-848.6	-800.7	Met	-1156.8	-1136.0	-1096.1	Met	-2015.7	-2017.2	-1955.1	Met
2. Ceiling on the federal government stock of domestic arrears 4/	535.9	...	336.2	Met	612.2	...	489.4	Met	654.0	...	589.7	Met	654.0	...	615.5	Met
Continuous Performance Criterion																
3. Non-accumulation of external debt payments arrears by the federal government	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
Indicative Targets																
4. Cumulative floor on social assistance spending (Asignación Universal para Protección Social, Tarjeta,	151.9	...	164.2	Met	332.2	...	343.4	Met	565.3	...	562.4	Not Met	810.8	...	817.6	Met
Monetary targets																
Performance Criteria																
5. Cumulative floor on the change in net international reserves of BCRA 5/ 7/	1.200	1.245	1.568	Met	3.450	2.950	2.703	Not met	4.100	3.600	4.591	Met	5.00	5.04	5.43	Met
6. Cumulative ceiling on central bank financing of the federal government 3/	236.8	...	122.0	Met	475.8	...	435.1	Met	665.4	...	620.1	Met	654.0	...	620.1	Met
Indicative Target																
7. Ceiling on the central bank stock of non-deliverable futures 6/	6.000	...	1.249	Met	7.000	...	4.358	Met	9.000	...	3.131	Met	9.000	...	0.587	Met

Sources: National authorities and Fund staff estimates and projections.
1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Flows from January 1 through December 31.
4/ Includes intra-public sector transfers (transferencias figurativas).
5/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021 of US2.277 billion. It excludes payments to Paris Club from September 2022 onwards.
6/ In billions of U.S. dollars. The stock of non-deliverable futures on December 31, 2021 stood at US$ 4.185 billion, as defined in the TMU.
7/ Targets subject to adjustors as defined in the TMU.

Table 1. Argentina: Quantitative Performance Criteria and Indicative Targets 1/ 2/ (Continued)
(In Billions of Argentine Pesos, Unless Otherwise Stated)

	2023															
	end-Mar				end-Jun				end-Sep				end-Dec			
	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status
Fiscal targets																
Performance Criteria																
1. Cumulative floor on the federal government primary balance 3/ 7/	-441.5	-441.9	-689.9	Not Met	-1181.4	-1201	-1880.7	Not Met	-2335.7	-2143.2	-2962.8	Not Met	-3286.5	-3094.0	-5483.3	Not Met
2. Ceiling on the federal government stock of domestic arrears 4/	1177.4	...	709.0	Met	1177.4	...	1051.6	Met	1359.8	...	1224.1	Met	1359.8	...	1647.8	Not Met
Continuous Performance Criterion																
3. Non-accumulation of external debt payments arrears by the federal government	0.0	0.0	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	...	0.0	Met
Indicative Targets																
4. Cumulative floor on social assistance spending (Asignación Universal para Protección Social, Tarjeta, Progresar) 3/	239.3	...	315.6	Met	500.4	...	650.5	Met	948.4	...	1132.2	Met	1338.5	...	1677.4	Met
Monetary targets																
Performance Criteria																
5. Cumulative floor on the change in net international reserves of BCRA 5/ 7/	1.90	2.4	0.1	Not Met	6.8	6.5	-4.7	Not Met	-2.2	-2.6	-7.4	Not Met	1.3	0.9	-12.4	Not Met
6. Cumulative ceiling on central bank financing of the federal government 3/	139.3	...	130.0	Met	372.8	...	1358.0	Not Met	1699.7	1699.7	1698.0	Met	1291.2	...	1698.0	Not Met
Indicative Target																
7. Ceiling on the central bank stock of non-deliverable futures 6/	9.000	...	0.224	Met	9.000	...	0.771	Met	9.000		1.202	Met	8.000	...	0.000	Met

Sources: National authorities and Fund staff estimates and projections.
1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Flows from January 1 through December 31.
4/ Includes intra-public sector transfers (transferencias figurativas).
5/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021 of US2.277 billion. It excludes payments to Paris Club from September 2022 onwards.
6/ In billions of U.S. dollars. The stock of non-deliverable futures on December 31, 2021 stood at US$ 4.185 billion, as defined in the TMU.
Discontinued starting in 2024.
7/ Targets subject to adjustors as defined in the TMU.

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

(In Billions of Argentine Pesos, Unless Otherwise Stated)

	2024							
	end-Mar				end-Jun		end-Sep	
	Target	Adjusted	Actual	Status	CR 24/37	Proposed	CR 24/37	Proposed
Fiscal targets								
Performance Criteria								
1. Cumulative floor on the federal government primary balance 3/	962.4	...	3868.3	Met	1925	4600.4	2887.3	7694.5
2. Ceiling on the federal government stock of domestic arrears 4/	5264.6	...	1563.0	Met	5264.6	4946.4	5264.6	4946.4
Continuous Performance Criterion								
3. Non-accumulation of external debt payments arrears by the federal government	0.0	...	0.0	Met	0.0	0.0	0.0	0.0
Indicative Targets								
4. Cumulative floor on social assistance spending (Asignación Universal para Protección Social, Tarjeta, Progresar) 3/	1177.2	...	1124.7	Not Met	2252.0	2342.7	4308.1	3826.9
Monetary targets								
Performance Criteria								
5. Cumulative floor on the change in net international reserves of BCRA 5/ 6/ 7/	6.0	5.9	8.7	Met	9.2	10.9	7.6	8.7
6. Cumulative ceiling on net central bank financing of the federal government 7/	0.0	...	-2119.4	Met	0.0	0.0	0.0	0.0

Sources: National authorities and Fund staff estimates and projections.
1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU, which were updated for this review.
3/ Flows from January 1 through December 31.
4/ Includes intra-public sector transfers (transferencias figurativas). Definition changed compared to CR 23/312, with average stock now measured over the last two weeks of the quarter.
5/ In billions of U.S. dollars.
6/ Targets subject to adjustors as defined in the TMU.
7/ Definition changed compared to CR 23/312, with cumulative flows now measured starting from December 10, 2023. Central bank financing now also includes broader definition and shifted to net concept.

Table 2. Argentina: Structural Benchmarks			
Proposed Prior Action	**Sector**	**Status**	**Completion Date**
1. Issue a decree to remove the CVS formula (Decree 332/2022), which caps increases in N2 and N3 electricity and natural gas utility bills.	Fiscal/ Structural	Met	May 28, 2024
Proposed New/Modified Structural Benchmarks	**Sector**	**Status**	**Completion Date**
1. Develop and publish a draft proposal to enhance the efficiency, equity and simplicity of the tax system, including by reorienting the system away from distortive trade and financial transactions taxes.	Fiscal/ Structural		end-October, 2024
2. Submit to Congress the draft 2025 budget, consistent with overall balance, with the following elements: (i) key macroeconomic assumptions; (ii) underlying policies; and (iii) a comprehensive fiscal risk statement.	Fiscal/ Structural		September 15, 2024
3. Develop an action plan to consolidate all central government entities into the treasury single account (TSA) at the central bank, in consultation with Fund staff.	Fiscal/ Structural		end-September, 2024

Table 2. Argentina: Structural Benchmarks (Concluded)			
Previously Agreed Structural Benchmarks	**Sector**	**Status**	**Completion Date**
1. Develop and execute a plan aimed at extending the maturities of a portion of the domestic debt coming due in 2024.	Financing	Met	end-March, 2024
2. Refinement of the monetary policy framework and operations, to ensure it is well anchored with clear and well communicated medium-term objectives consistent with price stability.	Monetary/ FX Policy	Met	end-April, 2024
3. Publication of detailed reforms of the current tariff segmentation scheme to better target subsidies on the basic energy basket for vulnerable households.	Fiscal Structural	Met	end-May, 2024
4. Strengthen the integration of relevant administrative databases, working with World Bank technical assistance, to improve the targeting and efficiency of social support.	Fiscal Structural		end-September, 2024
5. Develop and publish a framework, in consultation with Fund staff, for the gradual easing of FX controls and CFMs outlining the necessary conditions and objectives.	Monetary/ FX Policy		end-March, 2024; Reset to end-July, 2024
6. Develop in consultation with Fund staff, compliance improvement plans for customs.	Fiscal Structural		End-June 2024
7. Eliminate existing preferential export scheme.	FX Policy		End-June 2024

Attachment II. Technical Memorandum of Understanding Update

May 31, 2024

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

2. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates—starting from the seventh review—are those that prevailed on December 29, 2023. Accordingly, the exchange rates for the purposes of the program are shown in Text Table 1.

Table 1. Argentina: Program Exchange Rates 1/

Argentine Pesos to the US dollar	808.45
Argentine Pesos to the SDR	1,084.67
Argentine Pesos to the Euro	893.90
Argentine Pesos to the Canadian dollar	611.95
Argentine Pesos to the British pound	1,031.02
Argentine Pesos to the Renminbi	113.85
Gold price (US$/ounce)	2,064.45

1/ Rate published by the BCRA as of December 29, 2023.

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 (GFS) Manual 2014 and the Public Sector Debt Statistics Guide. For any variable or definition that is omitted from the TMU but is relevant for program targets, the authorities of Argentina shall consult with the staff on the appropriate treatment to reach an understanding based on the Fund's standard statistical methodology.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Cumulative Floor on the Federal Government Primary Balance

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

5. Definitions:

- The primary balance of the federal government is measured above-the-line and defined in accordance with the monthly and annual reporting of the "*Esquema IMIG*", with additional as needed adjustments to reflect 2014 GFS Manual accounting practices. This is equivalent to total revenues (*ingresos totales*, according to "Esquema IMIG") minus primary spending (*gastos primarios*). Revenues are recorded on a cash basis and include tax revenues (*ingresos tributarios*), revenue income (*rentas de la propiedad*), other current revenues (*otros ingresos corrientes*), and capital revenues (*ingresos de capital*). For the purposes of assessing the floor of the primary deficit, revenues exclude any type of financial transfers from the Central Bank (including *Utilidades* and *Adelantos Transitorios*), interest income from intra-public sector holding of securities and debt obligations, proceeds from the sale of financial assets (including privatization proceeds through the sale of shares), proceeds from the sale of licenses/permits (including payments for mobile phone or broadcast licenses, and natural resource permits), revenue income from the issuance of government debt that is part of non-tax revenues (*resto rentas de la propiedad*), and special drawing rights (SDRs) allocated by the Fund or received bilaterally from other IMF members.

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

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

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

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

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

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

Ceiling on Federal Government Accumulation of Domestic Arrears

8. Definition: Domestic arrears are defined as the floating debt, that is the difference between primary spending recorded on an accrual basis (*gasto devengado*, from the SIDIF system) and primary spending recorded on a cash basis (*base caja,* from the Treasury). This includes intra-public transfers (*transferencias figurativas*), and primary spending for personnel (*gasto en personal*), acquisition of goods and services (*bienes y servicios*), nonprofessional services (*servicios no profesionales*), capital expenditures (*bienes de uso*), and transfers (*transferencias*).

9. Measurement: The arrears are measured on a daily basis. Arrears will be capped at 0.8 percent of GDP (ARS 4,946,421 million) for the daily average of the final two weeks of each quarter.

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

Cumulative Floor on the Change in Net International Reserves of BCRA

11. Definitions:

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

- **Gross official reserve assets** 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 BCRA's (i) monetary claims, (ii) free gold, (iii) holdings of SDRs, including all Fund disbursements since March 25, 2022 (iv) the reserve position in the IMF, (v) holdings of fixed income instruments and (vi) net cash balances within the Latin American Trade Clearing System (ALADI). Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency vis-à-vis domestic currency (such as futures, forwards, and options), precious metals other than gold, assets in nonconvertible currencies and illiquid assets.

- **Gross official reserve liabilities** in foreign currencies include (i) foreign currency liabilities with original maturity of one year or less, (ii) Fund cumulative disbursements, except for the net financing component of the program (SDR 3.166 billion), net of cumulative Fund payments that have taken place from March 25, 2022 onwards[1], (iii) any deliverable forward foreign exchange (FX) liabilities with original maturity of one year or less on a net basis defined as the long position minus the short position payable in foreign currencies directly undertaken by the BCRA or by any other financial institutions on behalf of the BCRA. Neither the Federal government's foreign liabilities nor its FX deposits at the BCRA are considered as gross foreign liabilities of the BCRA. The foreign currency swap with the People's Bank of China (including the activated and nonactivated portions), the foreign exchange bank reserve requirements, SEDESA, ALADI and other non-resident deposits would be considered, for program purposes, as a foreign exchange liability of the BCRA with a maturity of one year or less.

12. Measurement: The change in net international reserves will be measured as the cumulative change in the stock of NIR at each test date relative to the stock on December 10, 2023.

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

14. Adjustor:

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

Table 2. Argentina: Program Loan Disbursements from Multilateral and Bilateral Sources
(Baseline Projection)

	(In millions of US$) 1/
end-March 2024	66
end-June 2024	199
end-September	437
end-December 2024	950

1/ Cumulative from January 1.

[1] In case of a delayed Fund disbursement, until the disbursement, Fund cumulative disbursements may be reported as negative by the difference between the sum of repurchases within the scheduled date and actual date of disbursement and the value of Fund cumulative disbursements prior to the repurchase.

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

15. Definitions: Central bank (BCRA) financing to the government includes (i) overdraft transfers from the BCRA to the Federal Government (*Adelantos Transitorios*), (ii) distribution of profits (*Utilidades*), (iii) the acquisition of government debt in the primary market or by direct purchases from public institutions, (iv) issuance of new non-marketable government bonds (*Letras Intransferibles*), and (v) purchase of government securities in the secondary markets (including transactions that are bilateral, conducted at MAE and BYMA, or made at other parties' discretion from application of regulation A7291 and the execution of "put options" on government securities (under A7555 and A7716). Net financing of the Federal Government is defined as the amount of financing to the government net of cash transfers from the Federal Government to the BCRA to repurchase government securities, reduce the stock of overdraft transfers or the stock of non-marketable government bonds or recapitalize the BCRA. Transactions done in the context of debt exchanges or rollover of non-marketable government bonds are excluded from this definition.

16. Measurement: The cap of cumulative flows on net financing is set to zero in 2024.

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

18. Monitoring: Daily data will be provided to the Fund within two days. The flow of BCRA net financing to the government will be measured at each test date as the cumulative value starting from December 10, 2023. Given the unpredictability of secondary market purchases and time needed to offset them, these will be measured up to the end of the month prior to the target date.

Continuous Performance Criteria

Federal Government Non-Accumulation of External Debt Payments Arrears

19. Definitions:

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

    i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets

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

that are equivalent to fully collateralized loans under which the obligor is required to repay the funds and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

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

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

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

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

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

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

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

Exchange Restrictions, MCPs, Bilateral Payment Agreements and Import Restrictions

22. Consistent with commitments in IMF arrangements, we will not: (i) impose or intensify any exchange restrictions, (ii) introduce or modify Multiple Currency Practices (MCPs), as elaborated in the TMU, (iii) conclude bilateral payment agreements that are inconsistent with Article VIII; and (iv) impose or intensify import restrictions for balance of payment reasons (continuous performance criteria). Narrowing the scope or lowering the rates of *impuesto pais* and the withholding taxes assessed as giving rise to MCPs by the Fund will not constitute a modification as defined under the PC.

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

Cumulative Floor on Federal Government Spending on Social Assistance Programs

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

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

- *Tarjeta Alimentar*

- *Progresar*

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

OTHER INFORMATION REQUIREMENTS

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

Daily

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

- Disaggregated data of BCRA’s international reserve assets by source with a lag of three days.

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

- Data on gross BCRA sales and purchases of securities settled in different currencies, for each market segment and at transaction price in the applicable currency, will be provided to the Fund with a daily frequency, with a lag of three days.

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

- Data on BCRA government securities purchased and sold in the secondary market by maturity and mechanism, and corresponding price and quantities, with a lag of three days.

- Data on the outstanding stock of BCRA put options on government bonds.

Weekly

- BCRA balance sheet.

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

- Weekly data on (i) the stock of BOPREAL by series, (ii) the maturity profile of BOPREAL, (iii) interest payments on BOPREAL and (iv) the stock of the debt registry.

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

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

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

Fortnightly

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

- Information on outstanding debt instruments (local and global debt): maturity, currency, legislation, characteristics (DL, Dual, CER, fixed), holders (banks, FXI, insurance, corporates, foreigners, BCRA, FGS, BNA, provinces).

- Daily data on external financing from each multilateral and bilateral creditor, broken down by budget support and project financing, and by largest bilateral projects.

Monthly

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

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

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

- Data on the stock of domestic arrears by ministry or agency.

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

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

- On federal debt:

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

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

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

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

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

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

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

Quarterly

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

- On provincial government operations, with a lag of no more than two months after the closing of each quarterly, according to the format defined by the Ministry of Finance.

- On provincial debt:

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

ii. Quarterly domestic and external debt service (amortization and interest payments) of the provincial governments, provided within two months following the closing of each quarter.

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

INTERNATIONAL MONETARY FUND

ARGENTINA

June 10, 2024

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

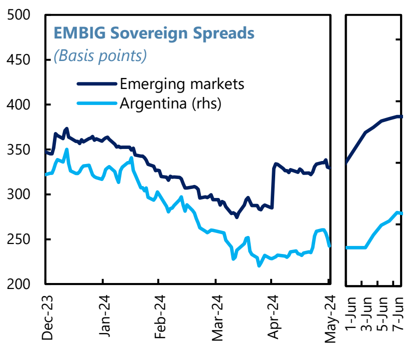
Approved By
Rodrigo Valdés, Luis Cubeddu (both WHD), Mark Flanagan (SPR)

Prepared by the Argentina team of the Western Hemisphere Department

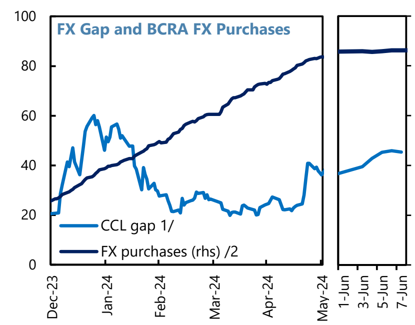
This supplement provides an update on developments since the issuance of the Staff Report (EBS/24/50) circulated to the Executive Board on May 31, 2024. Specifically, it provides details on recent market and economic developments, along with an update on recent policy announcements through June 9, 2024. The thrust of the staff appraisal remains unchanged.

RECENT DEVELOPMENTS AND POLICIES

1. Despite improvements in market indicators since end-2023, conditions have been more volatile in recent weeks, driven by domestic uncertainties and tighter global financial conditions. Since end-May, Argentine spreads have risen to around 1600 basis points, reflecting broader trends across emerging markets and political uncertainties, including new spending (pension) initiatives proposed by the opposition in congress. Similarly, the FX gaps have risen somewhat to around 40–45 percent, while BCRA FX purchases in the official market have moderated (to about US$30 million a day on average in June, compared to US$115 million in May). That said, prospects for an eventual Senate approval of the fiscal and structural packages remain good, after which the authorities intend to streamline current account restrictions further (by lowering the tax on FX access for import payments), while meeting the overall balance targets.



Sources: Bloomberg Finance L.P. and IMF staff calculations.

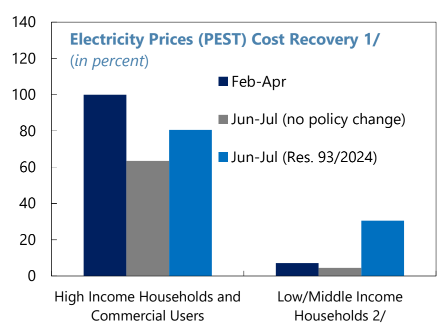


Sources: BCRA; Haver Analytics; IMF staff estimates.
1/ In percent. relative to official exchange rate.
2/ In U.S. billions, cumulative since Dec. 10 2023.

2. Fiscal targets for end-June are on track to be met, supported by a pickup in revenues. Tax revenues grew by 11 percent y/y in real terms in May, marking the first positive real growth since August 2023. Stronger collection was explained by an uplift in the FX access tax (253 percent y/y), corporate income taxes (81 percent y/y),[1] export duties (12 percent y/y), and adjustments to fuel taxes (7 percent y/y). Provincial co-participated revenues rose by 21 percent in real terms.

3. In line with program commitments, the authorities issued a resolution to raise electricity and gas prices and reduce the caps on subsidized consumption during S2:2024.

- Wholesale electricity and gas prices were raised in June to improve cost recovery, in the context of seasonally higher energy prices. The next adjustments are expected after August. Monthly caps on subsidized consumption of electricity (350 kWh) and gas were introduced for low-income households, and for medium-income households, the electricity cap was lowered (from 400 kWh to 250 kWh).



Sources: MECON; and Fund staff calculations.
1/ Cost recovery defined as electricity prices as a share of generation costs.
2/ Weighted average.

- Price increases were most pronounced for low-and-middle income households, where subsidies have been greatest,[2] and were implemented in the context where social benefits have been stepped up with improvements in their targeting.

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[1] Largely attributed to realized gains from firms' FX denominated assets after the December 2023 devaluation.
[2] Low- and middle-income households in the Greater Buenos Aires Area saw their electricity and gas bills increase by 73 percent and 16 percent in real terms. For this group, bills remain on average 78 percentage points below cost recovery.

Statement by Leonardo Madcur, Alternate Executive Director for Argentina
June 13, 2024

On behalf of the Argentinean authorities, we thank Mr. Cubeddu, Mr. Ahuja, and the entire IMF mission team for the meaningful engagement and for the comprehensive and well-written staff report, and related material, on the Eighth Review under the Extended Fund Facility for Argentina.

My authorities have continued to deliver on their commitments to restore macro stability since the inauguration, further reaffirmed by the time of the seventh review, and as a result, the **program is firmly on track**. Moreover, the sizeable overperformance of all quantitative targets, as well as fulfilment of prior actions and structural benchmarks, are testament to the robust ownership and unwavering implementation of the stabilization plan.

Notably, Argentina's fiscal adjustment of almost 5 percent in the first few months of President Milei's administration ranks as one of the largest in all key programs with the IMF. This vital fiscal anchor, coupled with strict monetary discipline and a stable FX policy, are already bearing fruit with much faster-than-expected disinflation, reserve accumulation, and relative price realignment.

Additionally, recognizing the importance of the social safety net to also strengthen the viability of the stabilization plan, the authorities have scaled up meaningfully social benefits, as pensions are not only being preserved, but even increased in real terms.

Building upon these earlier-than-anticipated reassuring results, my authorities have also demonstrated agile policy making and, importantly, contingency planning, to secure the objectives of the program while addressing perennial macro imbalances. Against this backdrop, we concur with staff that enterprise risks to the Fund have declined.

Nevertheless, the road ahead is far from unchallenging since initial stability achievements still coexist with spotted fragility. The transition from the early corrective measures to a medium-term program, including by Congress approval of the landmark legislation *Ley Bases* and fiscal package, as anticipated, has proven lingering whilst the authorities fight vested interests across the board to streamline fiscal performance, stabilize the economy, and at the same time protect the most vulnerable, as it sets the grounds for an inclusive and sustained growth.

Implementation of the stabilization plan

My authorities' have rapidly attained continued twin fiscal and current account surpluses in the first five months of 2024, a fundamental stabilizing objective of the plan that accounts for the faster-than-expected stabilization signs, notably disinflation and reserve buildup.

Frontloaded fiscal consolidation of 5 percent of GDP as of end of April has allowed to bring monetary financing to a full stop at the wake of this administration, actually net credit to government became negative for about AR$1.5 trillion. This fiscal performance of a consecutive five-month overall surplus is unprecedented in the last decades; it stems from higher revenues, lower energy and transportation subsidies, discretionary spending cuts, public sector wage bill rationalization, capital expenditures streamlining, curbing of transfers to provinces and state-owned enterprises, and tighter management of decentralized public entities and trust funds. As of May 2024, tax collection was up 10.7 percent, while spending was down 27.6 percent, both in real terms; the fiscal primary surplus commitment for 2024 is 1.7 percent of GDP.

Going forward, my authorities are fully committed to transitioning to advanced quality measures, which are part of *Ley Bases* and the fiscal package that have already been passed by the lower house and are expected to be debated at the Senate in the coming days. Additionally, to further enhance tax revenues reducing distortionary taxes, a rate reduction of *impuesto PAIS* has been announced from 17.5 percent to 7.5 percent, once both legislation initiatives get Congress approval.

Plans continue to be developed, with technical assistance from the IMF, IDB, and World Bank, to improve tax compliance, rationalize the tax system, enhance the targeting of subsidies, improve the sustainability of the pension system, reinforce coordination at provincial levels, and improve governance of SOEs.

Upscaled social spending is also at the centerstage to protect the most vulnerable, and to safeguard the value of pensions in real terms; my authorities have more than doubled in real terms—compared to the previous year—the flagship child allowance program (*AUH*), as well as significantly increased spending in food stamp benefits (*Alimentar & Primeros 1000 dias*); while refining the targeting of other support and workfare programs like *Potenciar Trabajo*.

Importantly, **inflation** has sharply decreased to 8.8 percent in April 2024 from 25.5 percent in December 2023. Data for May 2024 will be released in the coming days; however, high frequency indicators show a further decline; there is no exact correlation, and only for reference, inflation in the city of Buenos Aires was 4.4 percent in May 2024, down from 9.8 percent in the previous month.

On the **exchange rate policy**, after the sharp initial step devaluation, followed by a consistent FX policy implementation, FX purchases amounted to USD17.2 billion since inauguration, also boosted by strong export recovery. Relatedly, Net International

Reserves (NIR) as of March 31 totaled USD8.7 billion, well above the USD6 billion target; furthermore, NIR accumulation since December 10, 2023 represented USD11.2 billion, even after addressing part of the FX backlog and a sizeable unwinding of the BIS swap. Remarkably, FX expectations derived from *ROFEX* futures contracts (t + 10 months) have had a downward evolution, with FX rates of 1,800 AR$/USD in December 2023, to 1,650 in February 2024, and 1,200 in May 2024.

Moreover, FX policy is expected to evolve consistently with the disinflation and reserve accumulation objectives. My authorities will continue to ease FX controls and unwind Multiple Currency Practice (MCPs) as conditions permit, and in transitioning to the new monetary regime “currency competition”.

With regard to **trade,** goods trade reverted to a healthy surplus of USD7.2 billion from December 2023 to April 2024, compared to a deficit of minus USD8 billion in the period January-November 2023, representing a USD15.2 billion turnaround.

My authorities have also made important efforts to gradually normalize trade flows, with more than USD18 billion already tackled with the following breakdown: (i) *BOPREAL* subscription of USD10.1 billion, of which USD8.3 billion for legacy imports, and USD1.8 billion for dividend distribution abroad; (ii) MSMEs have already accessed USD700 million; and (iii) new imports reprofiling for USD7.1 billion.

Regarding **monetary policy,** its core objective remains disinflation, with a complementary anchoring role to enhance the fiscal stance. My authorities have continued to strengthen the central bank balance sheet; BCRA-remunerated liabilities are down to USD16 billion, 3.2 percent of GDP, from USD23 billion, 8.3 percent of GDP back in December 2023. The interest annual policy rate is down to 40 percent from 133 percent (a time when BCRA interest payments represented 10 percent of GDP).

Notably, the BCRA has published 2023 financial statements under new accounting standards more in line with international practice, marking at either fair value or amortized cost the non-transferable treasury bills and temporary advances to the government. Moreover, bank regulations are being gradually realigned for a better monetary transmission and improved credit allocation to the private sector.

On **financing**, a noteworthy net domestic financing of AR$24 trillion has been achieved through end May 2024 (3.9 percent of GDP) representing a rollover rate of 258 percent. Additionally, after successful conversion operations and new auctions, peso-denominated treasuries’ maturities have been extended from an average duration of six months to three years, allowing not only to rebuild buffers, but also to buyback government debt held by the BCRA. At the same time, our engagement with multilateral and regional development banks has been intensified to mobilize net positive financing, and we are working closely with all bilateral creditors to secure the delivery of committed financing.

The deep **structural reforms** laid out by the government aim at a market-oriented economy. They are designed to boost long-term investment and job creation and will not only expand Argentina's productive capacity and enhance external resilience, but also contribute to global energy security and climate goals. That will durably unlock Argentina's remarkable potential in energy, mining, technology, agriculture, and other strategic and export-oriented sectors, along with continued efforts to improve transparency and governance by further strengthening the AML/CFT framework in line with international standards. Improving Argentina's external sector, together with the pillars of the stabilization plan, is of utmost importance to improve the country's creditworthiness, as a pre-condition to gradually regain access to international capital markets by the end of next year.

Conclusion

Argentina and its people are enduring a costly process towards stabilization, and inclusive and sustainable growth, to unlock the country and its people's massive potential. Challenges remain sizeable, however, and outstandingly, the majority of the people have sustained their support of President Milei's policies, actions, and vision. This vital social support continues to underpin the change mandate, and it will eventually drive the needed political support for the program.

My authorities reaffirm their commitment to the policies and objectives of the economic program supported by the IMF arrangement under the Extended Fund Facility (EFF), and to meeting the enhanced program's targets and structural conditionality for the remainder of the program. We also look forward to continuing to engage with the Fund as we develop our policies beyond this year and over the medium term.

Based on the steadfast implementation of the bold stabilization plan and our demonstrated strong commitment and ownership to the program, we encourage Executive Directors to support the eighth review under the extended arrangement under the EFF, the requests for approval of the modification of performance criteria to reflect program overperformance, a temporary exchange restriction, and multiple currency practices, and the financing assurances review.