INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/3

ARGENTINA

January 2025

EX-POST EVALUATION OF EXCEPTIONAL ACCESS UNDER THE 2022 EXTENDED FUND FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ARGENTINA

IMF staff regularly produces papers covering multilateral issues and cross-country analysis. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 10, 2025, consideration of the staff report.
- The **Staff Report** prepared by IMF staff and completed on December 19, 2024, for the Executive Board's consideration on January 10, 2025.
- **Statements by the Executive Directors** for Argentina.

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International Monetary Fund
Washington, D.C.

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PRESS RELEASE

PR25/001

IMF Executive Board Discusses the Ex-Post Evaluation of Argentina’s Exceptional Access Under the 2022 Extended Fund Facility

FOR IMMEDIATE RELEASE

Washington, DC – January 10, 2025: The Executive Board of the International Monetary Fund (IMF) met today to discuss the Ex-Post Evaluation (EPE) of Argentina’s exceptional access under the 2022 extended arrangement under the Extended Fund Facility (2022 EFF), which expired at the end of 2024.

As required in all cases of exceptional access (EA) to Fund financing, this EPE assesses whether the macroeconomic strategy, program design, and financing under the 30-month EFF arrangement approved by the Executive Board in March 2022 (Press release No. 22/89) were appropriate and in line with Fund policies. The report also includes an appendix with the authorities’ reactions and views on the 2022 EFF.

The 2022 EFF came about in extremely difficult circumstances. Argentina was unable to regain external viability under the 2018 Stand-By Arrangement and faced large and concentrated repurchase obligations to the Fund totaling about US$ 35 billion in 2022-23. In addition, the country was grappling with high inflation, a significant budget deficit, low international reserves, and elevated public debt. The inability to meet obligations falling due to the Fund could have led to severe and protracted consequences for Argentina, significant reputational implications to the Fund, and financial costs for the Fund and its members.

The EPE report concludes that, reflecting this difficult context, as well as the challenging post-COVID conjuncture and the need to secure ownership by a reluctant government, the design of the 2022 EFF did not provide for an adjustment commensurate with the scale of Argentina’s fiscal and balance of payments (BoP) problems. The combination of a gradualist reform strategy in a country with severely limited access to financial markets, large adverse shocks, and progressively weaker policy implementation resulted in outcomes in 2022-23 that fell well short of what was envisaged at the time of program approval.

A major course correction subsequently undertaken by the Milei government—notably a sharp fiscal consolidation, an upfront devaluation, and an end to monetary financing of the budget helped Argentina avert a full-blown crisis and make important strides toward macroeconomic stabilization.

Overall, the 2022 EFF did not achieve its original macroeconomic objectives, but it was successful in easing the burden of Argentina’s financial obligations to the Fund by rescheduling repayments over 2026-34, and may have helped Argentina avoid even worse outcomes in 2022-23.

The EPE report concludes that the experience with the 2022 EFF affirms many lessons from previous Argentina EPEs and warrants further reflection in several areas, including the suitability of the Fund’s lending policy framework to deal with high and concentrated exposure cases as well as when resolution of a deeply entrenched BoP problem may not be feasible

through a single Fund arrangement; the need for clearer commitments on specific contingency plans when implementation risks are high; and the role that assessments of countries' capacity to repay should play in guiding the design of program safeguards, among others.

Executive Board Assessment[1]

Executive Directors welcomed the comprehensive ex post evaluation (EPE) of Argentina's exceptional access (EA) to Fund financing under the 2022 Extended Arrangement under the Extended Fund Facility (2022 EFF).

Directors regretted that the 2022 EFF did not achieve its objectives. While recognizing that the program reflected difficult trade-offs in a highly complex setting—and that the rescheduling of Argentina's repayment obligations to the Fund likely helped avoid potentially worse outcomes—they agreed that program design did not provide for an adjustment commensurate to the scale of the problem and risks of the situation. Furthermore, the combination of a gradualist reform strategy, large adverse shocks, and progressively weaker implementation resulted in outcomes substantially worse than in the baseline by end-2023. Directors however welcomed the course correction and significant shift in ownership and toward macroeconomic stabilization achieved since December 2023.

With respect to the consistency of the 2022 EFF with Fund policies and procedures, Directors expressed concern that the approval of the program request and subsequent reviews relied on the technicality of assessments of individual elements (capacity-to-repay descriptors, the exceptional access criteria, and strength of program design) as having been satisfied rather than a holistic view of how the Fund's resources were safeguarded. Directors also acknowledged that while policies regarding enterprise risk management (ERM) were evolving during the period, these risks could have been assessed and managed earlier, allowing for broader and deeper Board discussions on mitigation options.

Directors underscored the continued relevance of the lessons drawn by previous EPEs, including the importance of ensuring robustness of the program to shocks, balancing ownership with the quality and appropriateness of program policies, and a sharper and more holistic application of the EA framework—where they also highlighted the findings of the December 2024 IEO evaluation. Directors broadly agreed that the experience of the 2022 EFF demonstrates that the Fund's current lending policy framework may not be perfectly suited to deal with cases of large and concentrated Fund exposures, although a number of Directors expressed reservations about some alternative policy options, such as postponement of obligations to the Fund. Directors also supported the need for early and comprehensive enterprise risk discussions with the Board in such cases. While they generally agreed with the need to explore alternative approaches in circumstances where resolution of a deeply entrenched balance of payments problem may not be feasible through a single arrangement, a few Directors expressed reservations.

Directors supported further reflection in several other areas, including: the role that the capacity-to-repay assessments should play in the Fund's lending decisions; the provision of technical assistance to facilitate debt restructuring outside of a Fund-supported program; the

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[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

practice of repeatedly approving program reviews on the basis of “temporary” FX control measures; the importance of clearer commitments to specific contingency plans when program implementation risks are high; and how the Fund and its shareholders deal with political pressure. A number of Directors also emphasized the importance of effective external communications.

Directors urged that the findings from this and previous EPEs inform the ongoing discussions on a potential follow-up program with Argentina.

INTERNATIONAL MONETARY FUND

ARGENTINA

December 19, 2024

EX-POST EVALUATION OF EXCEPTIONAL ACCESS UNDER THE 2022 EXTENDED FUND FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

On March 25, 2022, the IMF Executive Board approved a 30-month arrangement for Argentina supported by the Extended Fund Facility (2022 EFF). Amounting to US$44 billion (1,001 percent of quota), it was the second largest non-precautionary arrangement in the Fund's history after the 2018 Stand-by Arrangement for Argentina (2018 SBA). Of the planned 10 reviews, eight were completed. The arrangement is set to expire at end-2024.

The 2022 EFF came about in extremely difficult circumstances, with US$35 billion in concentrated repayments during 2022-23 arising from the 2018 SBA, and the attendant prospect of arrears to the Fund, looming large. Argentina was unable to regain external viability under the 2018 SBA, which left the country owing very large amounts to the Fund. In the wake of that program, the country experienced significant political and economic change. A new government took office in November 2019, headed by President Alberto Fernández, representing a coalition of parties, some of which were highly critical of economic orthodoxy, and the Fund, in particular. The capital account was closed, and the exchange rate regime was switched from a float to a crawling peg. A sizable restructuring of private foreign currency (FX) debt in 2020—facilitated by Fund technical assistance—alleviated Argentina's debt burden. Nevertheless, owing to pandemic-related challenges and accommodative policies, by end-2021, the country again found itself dealing with high inflation (around 50 percent p.a.), a significant budget deficit (4.5 percent of GDP), and very low net international reserves (US$2.3 billion) amid rising FX shortages. Accordingly, the assessment of public debt slipped from "sustainable with high probability" that restructurings are expected to deliver, to "sustainable but not with high probability." Absent Fund support for its Balance of Payments (BoP) need, there was little prospect of Argentina being able to meet the approaching obligations to the Fund. Failure to repay could have led to severe and protracted consequences for Argentina's economy, significant reputational implications for the Fund, and financial costs for the Fund and its members.

Reflecting this legacy, the COVID-19 conjuncture, and the need to secure ownership by a government strongly reluctant to engage with the Fund, program design did not provide for an adjustment commensurate to the scale of the problem and risks of the situation. The 2022 EFF sought to address Argentina's BoP need by closely linking disbursements to the schedule of repayments, thus refinancing scheduled repurchases to the Fund. The program envisaged some adjustment through several important fiscal reforms, notably to reduce energy subsidies and optimize social assistance, as well as measures to strengthen monetary policy transmission. Although extensive analytical work by Fund staff to diagnose Argentina's economic challenges pointed to other critically important reforms in several areas, securing the authorities' commitment proved difficult during months-long discussions. The government's many 'redlines' ultimately resulted in a policy strategy that, in 2022-23, was characterized by (i) a modest, heavily backloaded, and narrowly monitored fiscal adjustment; (ii) the absence of a clear monetary anchor amid continued creation of significant peso liquidity due to direct and indirect monetization of budget deficits, as well as the Central Bank's cashflow losses, which weakened monetary policy; and (iii) a sizable gap between official and parallel market exchange rates (FX gap) in the context of extensive FX controls and weak reserve coverage. With little buffers or net Fund financing to accommodate adverse shocks and underlying ownership challenges, the program was seen as subject to exceptional risks from the start.

The combination of a gradualist reform strategy, large adverse shocks, and progressively weaker implementation resulted in outcomes substantially worse than in the baseline by end-2023. The program got off to a difficult start, with the surge in global commodity prices due to Russia's war in Ukraine (which was not fully captured in the program request baseline) feeding inflation expectations and creating additional fiscal spending needs that were met through direct and indirect monetization, further fueling inflation. The real exchange rate was allowed to appreciate significantly, eroding competitiveness and stoking expectations of a future devaluation, with the market peso/dollar exchange rate settling at roughly double the official exchange rate. Timid efforts to stabilize the economy in the second half of 2022 proved short lived, and starting 2023, a severe drought reduced exports by a quarter and pushed the economy into recession, exacerbating macroeconomic and policy challenges. Furthermore, with general elections approaching in the second half of 2023, program ownership plummeted. Pre-agreed contingency plans were not activated, commitments were repeatedly reneged on, and the authorities' policies veered significantly off course ahead of the multi-stage electoral process. The program was almost stopped, but the combined Fifth and Sixth reviews were ultimately completed in August 2023 with an attempt at course correction, which was unsuccessful as the authorities soon reneged on their commitments and resumed expansionary policies. By late-2023, inflation had quadrupled from the start of the program to over 200 percent, liquid FX reserves were fully depleted, and Argentina's EMBIG bond spread had reached about 2,500bps, a rise of some 700bps relative to the start of the program. In sum, Argentina again faced a full-blown economic crisis by the time of the final round of the election.

The election in November 2023 of President Milei marked a turning point for the program. A very sharp fiscal consolidation of about 5 percentage points of GDP in 2024 to bring the overall budget to balance and discontinuation of monetary financing, substantially reduced money growth and quasi-fiscal losses of the Central Bank. This strengthened public finances and restored the potency of monetary policy. A large upfront devaluation of 120 percent helped to ease FX market distortions while improving external competitiveness. After a large initial spike, inflation began to decline, and a rapid narrowing of the FX gap allowed a rebuilding of FX reserves closer to pre-program levels, although significant FX market distortions were left in place and real exchange rate appreciated again amid limited exchange rate flexibility. Argentina's spreads declined sharply under the new administration (to around 750bps at the time of the writing of this report). The intense macroeconomic instability inherited from the previous phase of the program, and the sharp policy adjustment to address it, took a heavy toll on economic activity. With poverty rates exceeding 50 percent in the first half of 2024, the government took steps to scale up social benefits and improve their targeting and governance.

Greater openness by the authorities to a bolder policy strategy, alongside some recalibration by the Fund, could have improved the program's chances of success in 2022-23. Argentina's pre-program challenges called for a much stronger reform effort, notably a significantly larger and frontloaded fiscal consolidation, grounded in a more comprehensive measure of the public sector deficit. Moreover, addressing more forcefully the large FX gap and the Central Bank's quasi-fiscal losses would have helped the disinflation effort and made FX reserve accumulation goals more achievable. Finally, deeper structural reforms aimed at reducing budget rigidities (including from fiscal federalism) and reforming a complex and distortive tax system could have helped address entrenched fiscal imbalances and the government's ability to adjust to shocks. The main impediment was the authorities' unwillingness to implement such reforms, despite Fund staff's advice to do so.

Overall, the Fund's approach with the 2022 EFF reflected unusually difficult trade-offs and was informed by considerations that went beyond those typically arising in regular Fund programs. The over-arching motivation for the Fund was to help a member with its BoP need primarily caused by large and concentrated IMF repayment obligations stemming from an earlier unsuccessful program, while facing a challenging post-COVID conjuncture. The Fund's strong balance sheet could have handled the (nevertheless significant) financial impact of arrears by Argentina in the event agreement on a program or a review completion could not be reached. But the Fund had to be mindful of the potentially severe and protracted consequences of arrears for Argentina and the attendant risks to the Fund's reputation. Against this backdrop, the program was successful in easing Argentina's financial burden by rescheduling repayment obligations to the Fund into 2026-2034, and likely helped the country avoid even worse outcomes in 2022-23, notwithstanding the crisis-like conditions obtaining at end-2023. Thanks to a major course

correction under the Milei administration, Argentina is now making strides toward macroeconomic stabilization, although the path to durable resolution of the BoP problem remains challenging.

It is important to recognize that the course correction that took place in 2024 was far from assured. Thus, in addition to affirming lessons from previous EPEs, the experience of the 2022 EFF warrants reflection in several areas:

- *Whether the Fund's current lending policy framework is well-suited to deal with a very large and concentrated Fund exposure case like Argentina's.* Fund policies are not designed to address situations where repurchases to the Fund (i) themselves represent a major part of the member's BoP problem; and (ii) are so large that arrears to the Fund, should they materialize, would risk pushing the member into a deep and difficult-to-exit crisis, with nontrivial economic costs for the member, reputational implications for the Fund, and financial costs for the Fund and its members. The presence of these concerns along with the authorities' unwillingness to undertake deeper reforms amid a challenging socio-political setting *on one hand*, and strong motivation on the part of the Fund to help the member in a difficult situation *on the other*, can lead to excessive deference to the authorities' views on program design and accommodation of weak implementation, in turn, lowering prospects of program success. Protecting the Fund's lending standards in such situations calls for early and comprehensive discussions with the Board on enterprise risks associated with the various alternative options available, including potential policy changes, and ways to mitigate the residual risks.

- *Whether a new approach is needed to help members when resolution of a deeply entrenched BoP problem, in an increasingly shock-prone world, is not feasible through a single arrangement under the Fund's General Resources Account (GRA).* Resolution of Argentina's entrenched BoP problem under a 3-year (or even 4-year) EFF may not have been feasible ex-ante due to: (i) the sheer size of the problem; (ii) limits to what program conditionality could achieve in the absence of the authorities' strong commitment to reforms; and (iii) a challenging political and social environment, with a history of large swings in the direction of policies. Helping members through 'holding operations' ultimately does not inspire market confidence (thus, weakening the Fund's catalytic role), nor provides a durable solution to the member's problems. Consideration could therefore be given to approaches to Fund lending and conditionality that more explicitly consider these factors in a more shock-prone world.

- *Whether assessments of members' Capacity to Repay (CtR) are appropriately guiding the design of program safeguards and the Fund's lending decisions,* especially when it cannot be assessed as "adequate" or is subject to "exceptional risks." Moreover, given the large difference between gross and net reserves observed in the 2022 EFF, consideration should be given to ensure that the most relevant metrics for reserves for a country are used in CtR assessments.

- *Whether a reflection on the Fund's decision to provide technical assistance to facilitate debt restructuring outside of a Fund-supported program is warranted.* As a global financial institution with preferred creditor status, the Fund bears responsibility for both assisting its members with resolving their BoP problems, and for sending signals to markets and investors. The Fund's technical assistance (TA) in support of Argentina's 2020 debt restructuring outside of a Fund-supported program, while understandable considering the very difficult circumstances and counterfactuals, could still have sent questionable signals to investors, given that the TA was not anchored in a policy scenario backed by actual commitments. More broadly, this experience highlights the critical importance of promoting reform implementation alongside debt relief (where needed) for durably restoring external viability.

- *Whether the practice of repeatedly approving program reviews on the basis of "temporary" FX control measures, which appeared to increasingly substitute for adjustment in achieving program targets, merits reconsideration.* The scale and proliferation of distortionary FX controls observed during the 2022 EFF appears to have served to delay the needed policy adjustments while aggravating the underlying BoP problem.

- *Whether clearer commitments on specific contingency plan measures should be sought from the authorities when implementation risks are high.* Inclusion of such plans in program documents can help program outcomes, by raising the reputational risks from non-implementation for the authorities and improving the Fund's ability to limit slippages.

- *How the Fund and its shareholders deal with political pressure, notwithstanding complexities.* While the balance between securing the authorities' ownership and policies adequate to deliver program objectives is always delicate, intense political pressure can risk undermining program quality and the member's longer-term interests. The Fund's shareholders and the Board should consider how to shield the institution and its staff from such pressures, reinforcing the Fund's credibility and impartiality as a global institution.

Authorized for Distribution By
WHD and SPR

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INTRODUCTION

1. **This report presents an Ex-Post Evaluation (EPE) of Argentina's 2022 extended arrangement supported by the Extended Fund Facility (2022 EFF).** The 30-month arrangement, with access of SDR 31.914 billion (1,001.3 percent of Argentina's quota), was approved in March 2022. Of the 10 scheduled reviews, eight were completed. Given the exceptional access (EA) nature of the arrangement, this EPE seeks to assess: (i) whether the macroeconomic strategy, program design, and financing were appropriate to address the challenges Argentina faced and in line with Fund policy; (ii) whether outcomes under the program met program objectives; and (iii) evaluation of the judgments made in applying exceptional access policy, including on the member's capacity to repay the Fund and the identified risks to the Fund.[1]

2. **The report is organized as follows:** *First*, it discusses the context leading to the 2022 EFF, starting from the aftermath of the 2018 Stand-By Arrangement (2018 SBA) and the balance of payments challenges leading up to program's request. *Second*, it presents the core elements and strategic objectives of the 2022 EFF, followed by an analysis of its implementation. *Third*, the report provides an assessment of program design and outcomes, including in a cross-country comparison. *Fourth*, the report assesses how enterprise risks and safeguards for Fund resources were handled. *Fifth,* the report concludes with some lessons for the Fund's future engagement with Argentina and other members in similar situations.

A DIFFICULT CONTEXT

A. The Aftermath of the 2018 Stand-By Arrangement

3. **The 2022 EFF came on the heels of the 2018 SBA approved in the spring of 2018 in the midst of a balance-of-payments (BoP) crisis triggered by a "sudden stop" of capital inflows.** At the time of approval, the 2018 SBA was sized at SDR 35.4 billion, of which 70 percent (SDR 24.8 billion) was planned to be treated as precautionary. Access was augmented at the time of the First Review in October 2018 to SDR 40.7 billion (US$57 billion, or 1,277 percent of quota) without any of the amount planned to be treated as precautionary. As the largest drawing program in the Fund's history, it sought to restore confidence and catalyze renewed capital inflows, reduce external and fiscal imbalances, and bring down inflation, while protecting the most vulnerable. For various reasons, the 2018 SBA did not achieve its objectives and went off track in August 2019 amid intensifying macroeconomic instability, exchange rate pressures, capital flight, and elevated debt. By

[1] In line with the Guidance Note on Ex-Post Evaluations, the report does not review the decision-making process and the roles of Management, staff, and the Board of the IMF, this being the more appropriate role for the Independent Evaluation Office. See IMF (2010).

then, four out of twelve planned reviews were completed with SDR 31.9 billion (78 percent of total access or about US$44.1 billion) disbursed. The EPE of the 2018 SBA was completed in December 2021. It identified several lessons that were meant to inform the 2022 EFF (Annex I).[2]

4. The inability to restore external viability under the 2018 SBA, together with the large disbursements made, left an extremely challenging legacy for the 2022 EFF. Argentina's BoP problems worsened during the 2018 SBA. Its indebtedness to the Fund also became substantial, as at end-2019, Fund credit outstanding accounted for almost 100 percent of gross international reserves (GIR) and 24 percent of Argentina's total external public debt; the latter meant a highly senior debt structure, which usually complicates market re-access as prospective investors fear subordination. At the same time, the Fund exposure constituted a very large financial risk for the institution. Argentina was the Fund's single largest borrower, representing over 47 percent of the Fund's GRA credit outstanding. The program and its legacy stirred significant public backlash inside Argentina and criticism by outside experts.[3]

5. Amid a worsening economic crisis in the second half of 2019, the October general elections brought to power a center-left Peronist coalition.[4] Alberto Fernández was elected President and former President Cristina Fernández de Kirchner became the Vice President. The new administration had a complicated history of relations with the IMF. In particular, during the Presidency of Cristina Fernández de Kirchner (2007-2015), "the authorities did not consult with the Fund under Article IV until 2016; Fund support for capacity development was minimal; in 2011, the Executive Board of the Fund found Argentina to be in breach of its obligations under Article VIII, Section 5 of the Articles of Agreement due to provision of inaccurate data; and the Fund's resident representative office was closed in 2013 (and reopened only in 2018)." (IMF 2021, pp. 10-11).

6. The country's economic landscape also underwent important changes in the 15 months to end-2021:

- *The capital account was closed, and the exchange rate regime switched to a crawling peg.* Although FX controls,[5] initially introduced in September 2019, helped to restrain capital outflows, they also spurred market distortions, including FX shortages and the emergence of a parallel FX market. The spread between the peso/USD parallel market

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[2] See IMF, 2021.

[3] See, for example, Lima and Marsh, 2022 or Torres, 2019.

[4] IMF, 2021 provides a detailed account of Argentina's past relations with the Fund.

[5] For the purpose of this report, FX controls is an umbrella definition which includes restrictive measures on current and capital flows, multiple currency practices, and other exchange and FX market restrictions.

and official exchange rates (FX gap) quickly widened, exceeding 30 percent by October 2019 (Figure 1).[6]

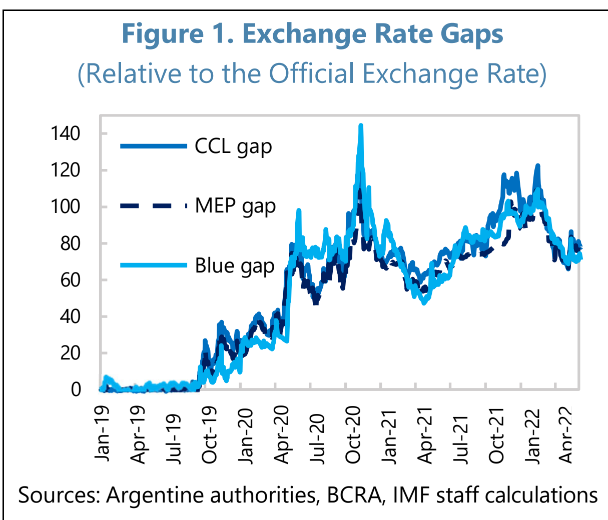


Figure 1. Exchange Rate Gaps
(Relative to the Official Exchange Rate)

Sources: Argentine authorities, BCRA, IMF staff calculations

- *A significant part of public debt was restructured*. The economic crisis that started in spring 2018 saw Argentina's public debt spike from 57 percent of GDP in 2017 to 86 percent of GDP in 2018. Despite the authorities attempts to extend maturities, debt vulnerabilities continued to mount.[7] In a February 19, 2020, staff statement, Fund staff pronounced Argentina's public debt as unsustainable (IMF, 2020c). In a highly unusual move, the authorities pursued a major sovereign debt restructuring through private sector involvement (PSI) outside of a Fund-supported program, albeit with significant technical support from the Fund. A March 2020 technical assistance (TA) report outlined IMF staff's views on a feasible macroeconomic framework and debt sustainability targets that could anchor the debt restructuring operation (see Annex II and IMF, 2020a). Importantly, the framework did not contain fully articulated policy measures. The debt restructuring was finalized in September 2020, providing significant cashflow relief. The restructuring of private external debt was complemented by a domestic-law FX debt exchange. The operations restructured about US$81 billion of Argentina's public debt providing a reduction in

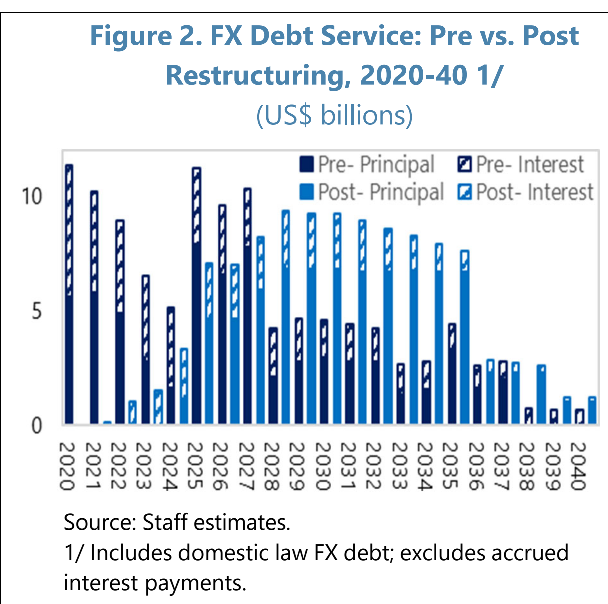


Figure 2. FX Debt Service: Pre vs. Post Restructuring, 2020-40 1/
(US$ billions)

Source: Staff estimates.
1/ Includes domestic law FX debt; excludes accrued interest payments.

[6] The initial measures included FX surrender requirements for exporters, limits on FX purchases, restrictions on debt service payments on newly contracted debt, and limits on net cash positions and FX holdings for banks and FX intermediaries. In October, the FX market restrictions were further tightened, including by reducing the limits for FX purchases by both residents and non-residents, and on the use of debit cards for purchases abroad.

[7] In August 2019, the previous government announced a plan to "reprofile" roughly US$100 billion-equivalent of short-term domestic debt. The unilateral extension of maturities of short-term paper was considered to be a default by Standard & Poor's, which downgraded Argentina's local and foreign currency sovereign credit rating to SD.

net-present-value terms of about 45 percent and cashflow relief estimated at over US$38 billion between 2020 and 2025 (Figure 2).

- *Challenges from the COVID-19 pandemic led to renewed macroeconomic pressures.* Growth collapsed in 2020, and the primary fiscal deficit widened to 6.3 percent of GDP in 2020 before narrowing to 3 percent of GDP in 2021. In the absence of access to external funding, domestic peso debt issuance accelerated significantly. However, it could not be fully absorbed by Argentina's small financial sector, which was also impaired by domestic debt restructurings in 2019 and 2020. Consequently, the bulk of government deficits were financed by the Central Bank (BCRA). Direct lending and transfers of valuation gains from revaluation of FX-denominated non-tradable Treasury securities (NTTS) to the Treasury reached 7.4 percent of GDP in 2020 and 3.7 percent of GDP in 2021. While direct lending carried no interest and debt service on NTTS was usually capitalized and rolled over, BCRA issued its own securities to offset these liquidity injections.[8] The resulting quasi-fiscal losses materially weakened BCRA's balance sheet (Annex III).[9] Macroeconomic developments thus significantly diverged from the assumptions that underpinned the 2020 debt restructuring.

B. Argentina's BoP Problem Prior to Approval of the 2022 EFF

7. At end-2021, and despite the relief provided by the debt operations, Argentina faced a massive twofold BoP problem. The first element of the BoP problem was the presence of sizable internal and external imbalances amid renewed debt vulnerabilities (Figure 3):

- *The size of the internal imbalance was large.* Twelve-month inflation had reached 50 percent by end-year, fueled by large injections of peso liquidity. The primary deficit stood at 3 percent of GDP, and the federal fiscal deficit – including 1.5 percent of GDP in interest payments – registered 4.5 percent of GDP. Over 80 percent of the deficit was monetized by the Central Bank. Direct and indirect monetization of past fiscal deficits and its subsequent sterilization brought BCRA debt held by the private sector to over 10 percent of GDP at end-2021. Servicing the BCRA debt entailed a quasi-fiscal loss of 3.3 percent of GDP in 2021, which was also monetized. Arresting inflation required credibly addressing both the fiscal deficit and the quasi-fiscal losses of the Central Bank, which arose from years of fiscal dominance.[10] Meanwhile,

[8] Moreover, since 2019, NTTS were valued at nominal value which was much higher than fair value.

[9] The quasi-fiscal loss is defined as the interest paid on BCRA securities minus the cash income received from its claims on the government.

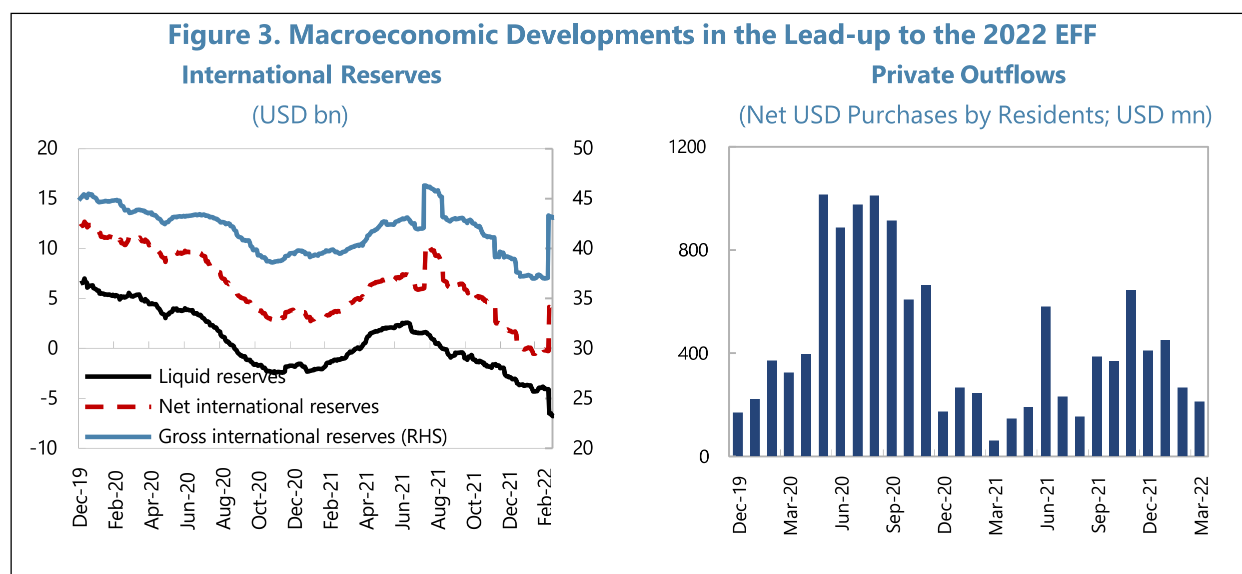
[10] This was recognized at the time of the program request (see Annex IX in IMF, 2022a).

public debt was assessed as sustainable but not with high probability, reflecting pandemic-related worsening of the economic situation as well as subsequent fiscal imbalances.

- *The external challenge was similarly daunting.* At the end of 2021, with strict FX controls restraining outflows, Argentina's gross FX reserves stood at US$39.7 billion and covered over 6 months of imports. But the bulk of these represented undrawn swap lines and other FX liabilities (such as reserve requirements). Excluding them, net international reserves (NIR) stood at only US$2.3 billion and covered less than one month of imports. BCRA's liquid FX reserves, that is, NIR excluding gold and SDR holdings, were negative. After a period of significant depreciation during the 2018 SBA, the real exchange rate appreciated by 20 percent in 2021 as inflation outpaced the rate of crawl, and despite BCRA's interventions in the parallel FX market (amounting to US$4 billion in 2019-21), the FX gap widened to 100 percent by end-2021.

The second element of the BoP problem comprised sizable upcoming Fund repurchases. The large, frontloaded disbursements under the 2018 SBA meant that large repayments to the Fund were coming due starting in 2021 and peaking at SDR 13.4 billion and SDR 13.6 billion, respectively, in 2022 and 2023 (26-27 percent of GIR in each year). [11]

Figure 3. Macroeconomic Developments in the Lead-up to the 2022 EFF



[11] Repayments include charges and surcharges. Repurchases of about SDR 2.7 billion in 2021 were made with the help of the resources from the August 2021 SDR allocation (SDR 3.1 billion).

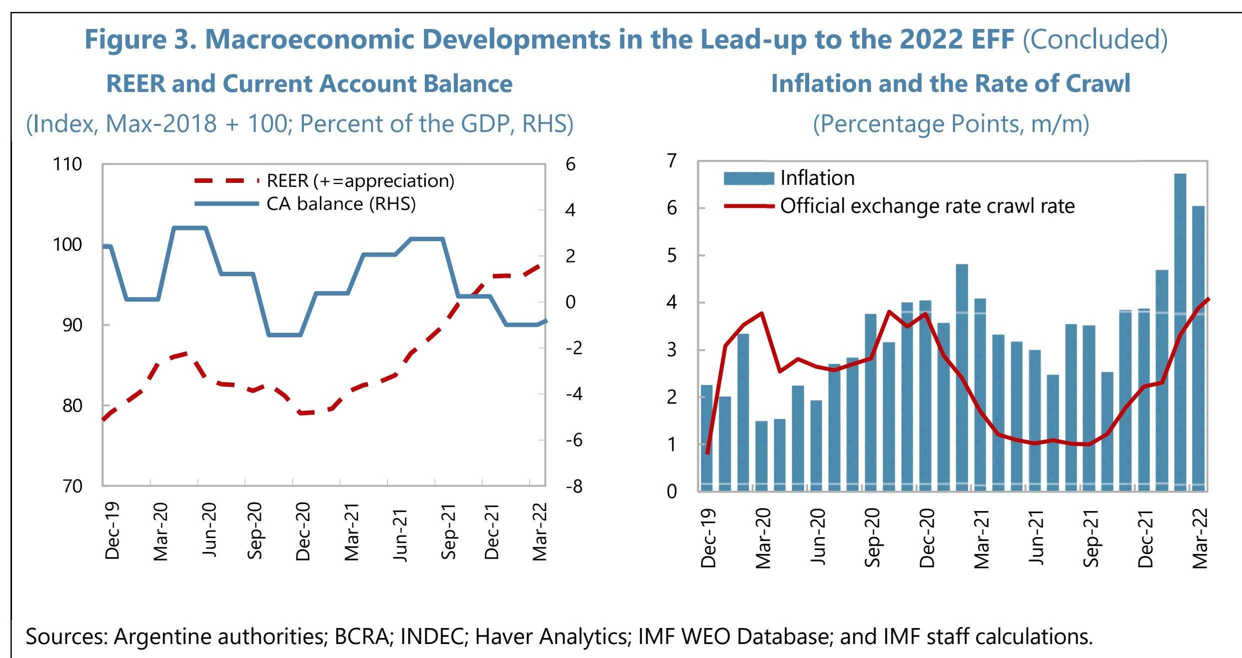


Figure 3. Macroeconomic Developments in the Lead-up to the 2022 EFF (Concluded)

Sources: Argentine authorities; BCRA; INDEC; Haver Analytics; IMF WEO Database; and IMF staff calculations.

C. Complex Choices in the Lead-up to Approval of the 2022 EFF

8. The 2018 program cast a long shadow over Argentina's reengagement with the Fund. The government that took office in October 2019 was vocal in its criticism of the IMF and the 2018 SBA. The Minister of Economy denounced the program publicly and predicted that the country would require a "decade to recover" (BA Times, 2021). The Vice President expressed a view that Argentina should receive a substantial "haircut" on its debt to the Fund (MercoPress, 2020). And in his March 2021 state-of-the-union address to Congress, President Fernández announced a criminal probe of former officials involved in the 2018 SBA, which he dubbed "fraudulent".

9. The authorities requested a new Fund arrangement in August 2020, just before the closing date for the PSI offer, but discussions stalled after the PSI deal went through.[12] Initial discussions on a potential arrangement only took place in November 2020, and were inconclusive (IMF, 2020d). While the government appeared keen to engage with the Fund and avoid arrears to the Fund, it represented a coalition of parties that held divergent views on the economy.[13] Discussions revealed significant differences of opinion between staff and the authorities on the most critical reforms, notably the size and composition of the needed fiscal adjustment, the strategy to reduce monetary financing and rein in inflation, and FX market policies. While Fund staff remained

[12] See IMF 2020a.

[13] This report uses the term "arrears" to refer to overdue financial obligations to the Fund, encompassing both repurchases and charges.

actively engaged—including through the provision of TA to help with the debt restructuring—these differences resulted in a drawn-out process of program discussions that continued for a further 15 months, which gave rise to substantial doubts about the authorities' commitment and capacity to implement the deep economic reforms needed to credibly address Argentina's entrenched internal and external imbalances. These doubts were further aggravated by the ruling coalition's loss of congressional majority in 2021.

10. The pressure on the authorities to reach agreement with the Fund steadily built up ahead of the sizable repurchases to the Fund that were scheduled for early 2022.[14] Under its Article of Agreement, the Fund does not have the capacity to agree to a reduction in the value of claims on members which, absent changes to Fund policies or Argentina's ability to obtain new external financing in 2022, would have implied a high probability of Argentina running arrears to the Fund. To lessen their financial burden and help secure political support for a stronger reform package, the authorities advocated (as did several other Fund members) for a reduction of charges and surcharges to somewhat lighten their financial burden, given the rise in SDR interest rate triggered by the tightening of global financial conditions. However, such a reduction only materialized upon the completion of the review of charges and surcharges in October 2024.[15] Arrears to the Fund would have come with significant consequences for Argentina (Annex IV):

- *Access to Fund financing would have been halted.* Once a member is in arrears to the Fund, the Fund cannot provide further financing until the arrears have been cleared. Lack of access to Fund financing would then also likely preclude access to other sources of external financing with significantly adverse implications for Argentina's economy.

- *Clearing arrears to the Fund would have been challenging.* In previous cases of arrears to the Fund the size of arrears was relatively small, allowing borrowers to rely on intraday bridge financing from another member to repay the Fund in anticipation of a new disbursement. However, the massive size of Argentina's scheduled repurchases implied that obligations to the Fund—including charges and surcharges—would have quickly cumulated, exceeding the possible size of a new disbursement by the Fund and thus requiring bridge financing of a longer maturity than intraday basis to clear arrears, which would be difficult to secure.

11. The Fund too would have faced significant financial and reputational risks from failing to help Argentina make the upcoming repurchases. The Fund could have handled potential

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[14] Argentina also faced additional pressure to reach agreement from the Paris Club, which had agreed in June 2021 to avoid declaring a default on end-July 2021 obligations worth US$2.4 billion conditional on the approval of a Fund-supported program by end-March 2022.

[15] See press release https://www.imf.org/en/News/Articles/2024/10/21/pr-24385-imf-concludes-the-review-of-charges-and-surcharge-policy-and-approves-reforms.

arrears by Argentina, which would have been the likeliest alternative to a new arrangement (Annex V). At the same time, given the size of the Argentina exposure, arrears would likely have had a significant adverse impact on the Fund's financial position. Unpaid charges would have reduced the Fund's net income, while failure to make timely repurchases could have led to provisioning under IFRS9 accounting rules, although the Fund's positive net income and significant precautionary balances would have still provided some buffers against protracted arrears. Even so, arrears could have impacted other members through higher charges for other Fund borrowers and lower remuneration to Fund creditors under the burden sharing mechanism. Moreover, not agreeing to a program carried important reputational risks associated with failing to assist a member facing a large BoP need and thereby contributing to the member's severe and likely protracted economic distress—especially so, given the Fund's status as Argentina's largest creditor.

12. In sum, there were strong incentives for both sides to reach agreement on some sort of Fund arrangement, with an EFF emerging as the preferred choice. From the Fund's perspective, the program needed to be of sufficient duration to help secure the necessary reforms to resolve the BoP problem and restore Argentina's "medium-term external viability," which is the Fund's well-known "UCT-quality standard"—that is, the standard for financing in the upper credit tranches (UCT)— applying to all financing under the General Resources Account (GRA) other than emergency financing under the Rapid Financing Instrument. It also needed to push out Argentina's repurchases as far as possible to alleviate the attendant BoP burden. Agreement was reached on a 30-month arrangement under the Extended Fund Facility (EFF).

13. However, the weeks between staff-level agreement (SLA) and Board approval of the 2022 EFF revealed the fragility of political support for the program within the ruling coalition. When SLA on a new arrangement was reached in January 2022, Máximo Kirchner, the Vice President's son, and leader of the Peronist bloc in the lower house of Congress, resigned in protest. In March 2022, when the Argentine authorities tabled the IMF-supported program for congressional approval, as required under Argentina law, a third of the ruling coalition either abstained or voted against the bill. However, congressional approval was secured, an important accomplishment, with near-unanimous support from the opposition.

14. Eventually, the 2022 EFF was brought for Board approval on March 25, 2022, around the same time that Fund repurchases totaling approximately SDR 2 billion fell due. Markets' reaction to both the earlier news of an SLA and the Board approval of the program was muted (Figure 4). Limited fiscal ambition and deference to the authorities' priority of supporting growth and poverty reduction over lowering inflation was recognized by outside observers. In a difficult post-COVID period, such an approach had some supporters (e.g. Stiglitz and Welsbrot, 2022). Others held a more skeptical view, seeing it more as an attempt to simply reprofile the Fund's large exposure to later years, without sufficiently addressing Argentina's economic challenges through reforms under the program (FT, 2022).

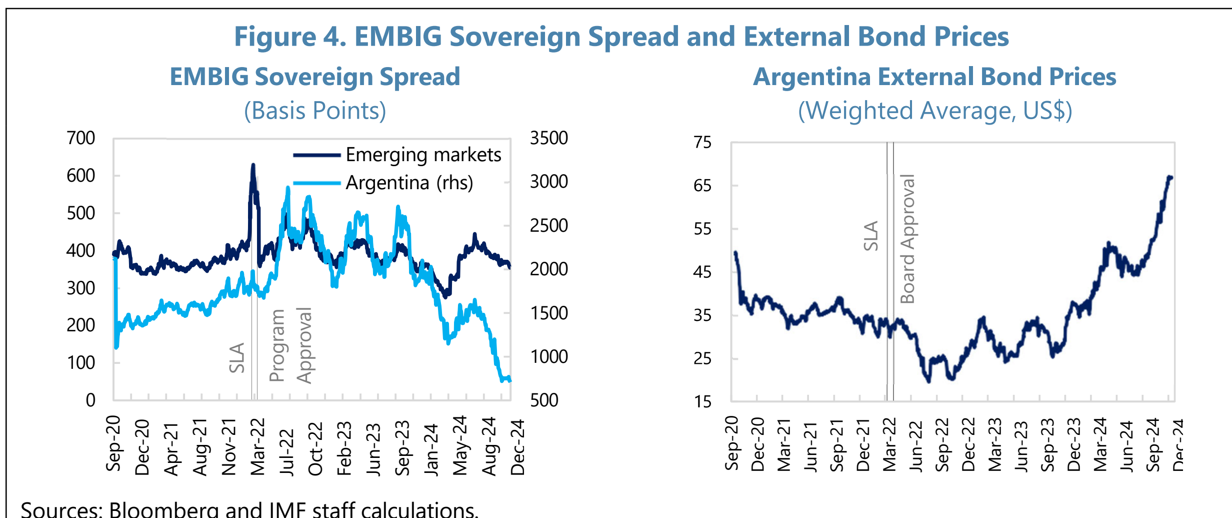


Figure 4. EMBIG Sovereign Spread and External Bond Prices

Sources: Bloomberg and IMF staff calculations.

CONTOURS OF THE 2022 EFF

A. Program Parameters

15. The choice of an arrangement under the EFF – with its longer repayment period – was consistent with the need to smooth Argentina's external debt service profile, most notably the concentrated repayments to the Fund in 2022 and 2023 (Figure 5). In this context, the access, phasing, and duration of the EFF arrangement appear to have been calibrated primarily to enable a reprofiling of repurchases arising from the 2018 SBA:[16]

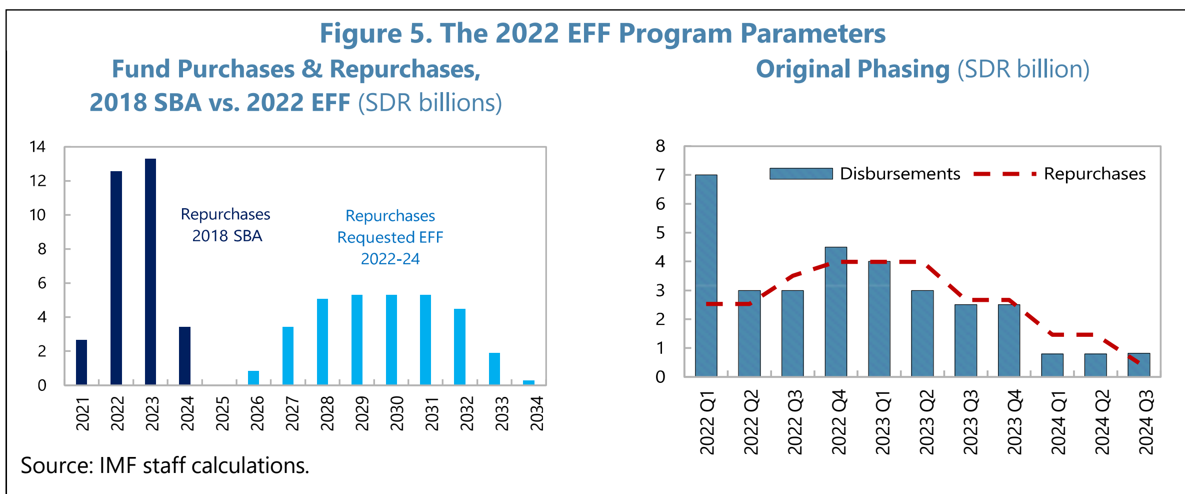


Figure 5. The 2022 EFF Program Parameters

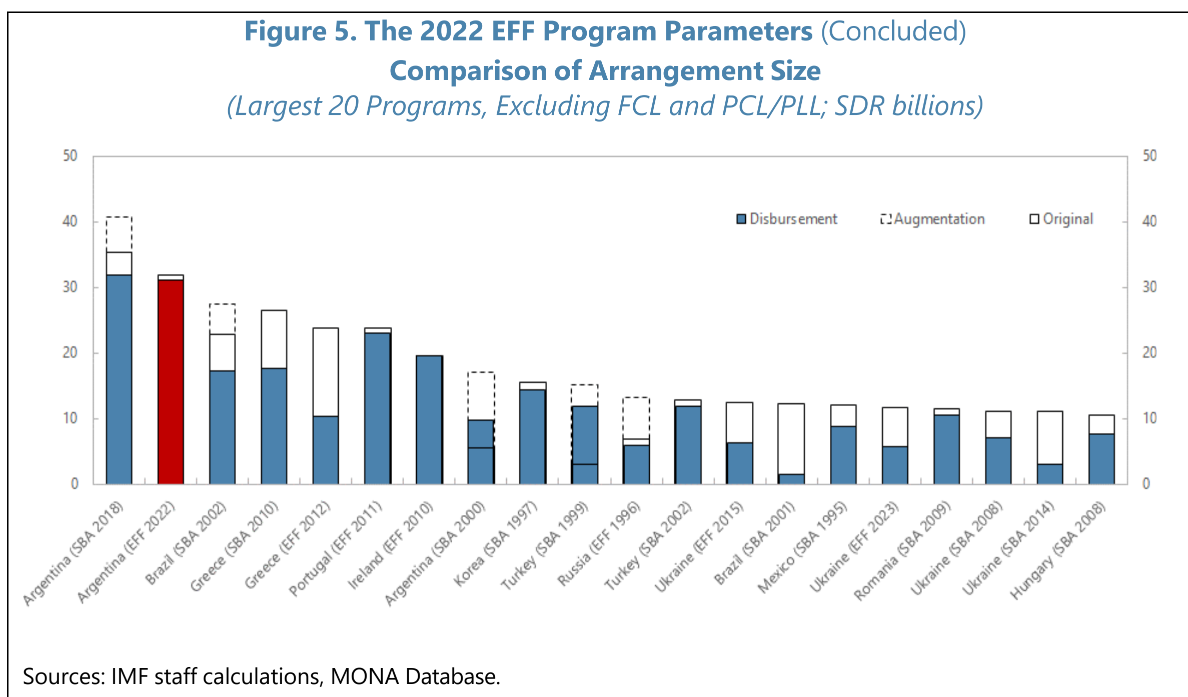
Source: IMF staff calculations.

[16] The purchases from the Fund were used as budget support, which was justified given that the proceeds were used to meet FX obligations of the government to the Fund.

Figure 5. The 2022 EFF Program Parameters (Concluded)

Comparison of Arrangement Size

(Largest 20 Programs, Excluding FCL and PCL/PLL; SDR billions)



Sources: IMF staff calculations, MONA Database.

- ***Access*** was set at SDR 31.914 billion (1,001.3 percent of quota or about US$44 billion), which equaled the disbursements made under the 2018 SBA, including repayments (or repurchases, in Fund parlance) of SDR 3.2 billion made in 2021 and early 2022 before approval of the 2022 EFF. In nominal terms, it was the second-largest non-precautionary arrangement in Fund history after the 2018 SBA.

- ***Phasing*** was broadly aligned with the repurchase schedule, with some upfront net financing that matched the repurchases made before program approval. Since approval, availability dates for drawing have been changed several times for various reasons.[17]

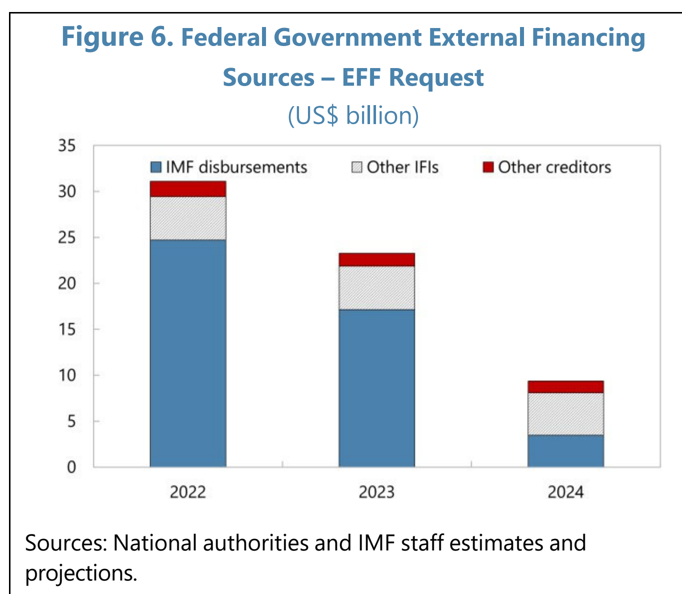
- ***Duration*** was initially set at 30 months which is shorter than the 3-year norm or the 4-year maximum for arrangements under the EFF and contrasted with the view that Argentina needed an extended period to implement structural reforms. However, the chosen duration could be explained by the reprofiling intent coupled with reluctance to increase the Fund's exposure,

[17] The EFF request originally planned to make available the purchase under the First Review on June 10, 2022. In a staff supplement this was advanced to May 10, 2022, to account for the effects of the war in Ukraine. The availability of the purchase under the Sixth Review was advanced from September 10, 2023, to August 21, 2023, to combine the review with the postponed Fifth Review. The Seventh Review included a rephasing, raising availability by SDR 1 billion for the Seventh Review by reducing availability under the Eighth, Ninth, and Tenth reviews. The original expiration date of September 24, 2024, was extended to December 31, 2024, at the time of the Seventh Review.

because a longer arrangement—beyond the period of repurchases under the 2018 SBA—would have involved larger net financing.

- ***Burden Sharing*** was low, with the Fund covering the bulk of Argentina's external financing needs. Since Argentina had not yet re-established access to international capital markets, and other IFIs and official creditors were reluctant to increase their exposure, Fund financing did not play a catalytic role. From the outset, the 2022 EFF was therefore expected to represent a large share of total external financing sources (Figure 6).[18]

Figure 6. Federal Government External Financing Sources – EFF Request
(US$ billion)



Sources: National authorities and IMF staff estimates and projections.

B. Policy Strategy

16. The program aimed to strengthen macroeconomic stability, sustain the post-COVID recovery, and begin to address the country's structural challenges. Along with the implied rephasing of the large remaining obligations to the Fund from the 2018 SBA, the program embodied a four-pillar strategy: a growth-friendly *fiscal consolidation* path, gradual *disinflation* through the reduction of monetary financing, strengthening of the *external position* through a competitive real exchange rate and accumulation of FX reserves, and *structural reforms* to enhance the sustainability and resilience of growth. Specifically:

- ***Growth-friendly fiscal consolidation.*** The program envisaged a cumulative improvement in the primary balance of 2.2 percent of GDP or around 0.7 percent of GDP per year during 2022-24. A primary deficit was projected to persist throughout the program, reaching zero only in 2025. The program baseline also assumed continued fiscal adjustment beyond the program period, totaling 2.1 percent of GDP in 2025-27. The composition of fiscal adjustment was projected to be balanced between expenditure and revenue measures. Expenditure policies focused on withdrawing COVID-related support measures, reducing energy subsidies, and

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[18] Smaller amounts were committed by other IFIs (principally the World Bank and Inter-American Development Bank) and other official bilateral creditors, along with a commitment from the Paris Club to restructure Argentina's legacy debt (US$2.4 billion at end-July 2021).

reducing transfers to provinces and government consumption spending.[19] Citing already high statutory tax rates, revenue gains were expected to be generated through revenue administration reforms.

- ***Disinflation.*** The program sought to reduce inflation from 51 percent at end-2021 to 33 percent by end-2024, by limiting direct monetary financing of the budget—with BCRA transfers to the government declining from 4.7 percent of GDP in 2021 to 1 percent of GDP in 2022 and zero by 2024—while maintaining positive real interest rates. In addition, the program emphasized the supportive role of voluntary price and incomes policies while discouraging coercive measures.[20] Including such measures was an important difference from the 2018 SBA.

- ***Strengthening the external position.*** The program targeted reserve accumulation of US$15 billion during the program period and endorsed the crawling peg as the appropriate exchange rate regime. The rate of crawl was to be calibrated to ensure a competitive real exchange rate that would support trade surpluses, and FX interventions were expected to be consistent with quarterly reserve accumulation targets and ordinarily limited to the official market (MULC).[21] Measures to explicitly address the large FX gap were not considered. The program aimed to safeguard stability in the near-term with measures to raise the efficiency of, and compliance with, the FX regulatory framework,[22] while establishing an end-2022 structural benchmark to develop a roadmap for an eventual phased and conditions-based easing of FX controls.

- ***Structural policies and social protection.*** In contrast to the 2018 SBA, which contained relatively limited structural conditionality, the 2022 EFF featured a more ambitious and diverse structural reform agenda, including enhancing the efficiency and targeting of social transfers, with a special emphasis on promoting labor market participation, particularly among women and low-skilled workers. This objective was to be pursued through a gradual rationalization and

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[19] Infrastructure spending, on the other hand, was assumed to increase over the program horizon as was pension spending.

[20] A new voluntary price agreement (Precios Cuidados) was signed in mid-January 2022 with over 150 private sector participants, guarantying a maximum price increase of 2 percent per month on 1,300 key consumer staples. The program was continuously extended over time and expanded in terms of the number of items and stores covered. It was abolished in December 2023 by President Milei. Incomes policies were tripartite agreements between unions, employers, and the state on wage increases. Throughout the program the focus was on negotiations with public-sector unions to contain public sector wage bill in real terms.

[21] The program request emphasized the importance of refraining from intervening in the parallel securities market (CCL) and included an indicative target to limit interventions in the non-deliverable future (NDF) market only to circumstances when forward guidance on monetary policy necessitated these.

[22] The program request included a prior action to strengthen transparency and compliance by streamlining regulations in the FX securities market, and a structural benchmark to submit legislation that would improve the penalty framework and reduce circumvention, including by introducing administrative fines.

reorientation of Argentina's fragmented social assistance programs, which had expanded significantly during the pandemic. A floor on social assistance spending was established, prioritizing improved targeting and efficiency of social protection measures, based on an evaluation of existing social programs.[23] As the program evolved, the structural reform agenda focused on: (i) supporting fiscal consolidation; (ii) strengthening the monetary policy framework and operations; (iii) enhancing transparency, financial integrity, and governance, including of public spending; and (iv) improving the sustainability and efficiency of strategic sectors.

17. Program design reflected the political economy constraints in a challenging post-COVID-19 environment. As under the 2018 SBA, the Fund ultimately accepted the authorities' many policy 'redlines,' which significantly constrained program design. Deference was given to the government's deliberate "fiscal gradualism" to limit potentially adverse effects of fiscal consolidation on the post-pandemic recovery. The baseline fiscal path, while "owned" by the authorities, was thus both weaker than what the Fund initially advocated and insufficient to achieve the debt service metrics laid out in the March 2020 TA report (Annex VI). Because the government attached great importance to supporting growth through fiscal means notwithstanding a high-inflation environment, monetary financing was set to continue, albeit at a slower projected pace. Despite low net FX reserves and a large FX gap, upfront adjustment of the exchange rate was not attempted. Structural factors that gave rise to budget rigidities were prominently highlighted but ultimately preserved, as was the precarious state of the Central Bank's balance sheet and income position. 'Threading a needle' through these constraints meant an attempt to boost confidence and restore stability that hinged on very strong implementation and serendipity.

18. The program set out quantitative performance criteria and structural benchmarks to support and monitor macroeconomic stabilization and reform implementation:

- **Quantitative performance criteria (QPC)** focused on key policies underpinning macroeconomic stability objectives and established floors on the primary balance and the BCRA's net international reserves (NIR) and ceilings on monetary financing and the federal government's stock of domestic arrears. Along with these QPCs, which would be monitored at quarterly test dates, the program also established continuous performance criteria disallowing the imposition/intensification of exchange restrictions and import restrictions (the latter, for balance of payments reasons), the conclusion of bilateral payments agreements inconsistent

[23] Priority was assigned to flagship initiatives, including Universal Social Protection (AUH), food stamps (Tarjeta Alimentar), and the scholarship program Progresar.

with Article VIII, and the introduction/modification of MCPs, as well as accumulation of external debt payments arrears by the federal government.[24]

- **Structural conditionality** included a set of **structural benchmarks (SBs)** to aid fiscal consolidation, strengthen the monetary policy framework and operations, enable a gradual and conditions-based easing of FX controls, enhance transparency and governance, and improve the sustainability and efficiency of certain sectors, including the energy sector. To bolster confidence in their commitment to the program, the authorities also undertook **prior actions** to raise the policy interest rates and ease regulations limiting FX securities trading ahead of the approval of the 2022 EFF.

C. Risks and Contingency Plans

19. While the program was presented as pragmatic, realistic, and credible, it was also seen as subject to exceptionally high risks. The most prominent among these were the fragile socio-economic predicament, potentially faltering political support for the program amid "open hostility from some quarters towards the Fund," tight financing constraints and limited policy space, the impact of Russia's war in Ukraine, intensification of the pandemic, tighter global financial conditions, and climate shocks. In view of these risks, the program was to be monitored with quarterly reviews.

20. The staff report for the arrangement request stopped short of describing Argentina's capacity to repay (CtR) as adequate, assessing CtR risks as "very high". This descriptor had not been given for any previous Fund-supported program, highlighting the degree to which Argentina's CtR metrics were generally unfavorable relative to other cases.[25] Furthermore, Argentina's CtR was seen as hinging critically on strong policy implementation to enable accumulation of international reserves and eventual resumption of market access—which were acknowledged by Fund staff to be "subject to a high degree of uncertainty as shocks and policy slippages could compromise reserve accumulation and the timely re-access to international capital markets" (IMF, 2022a). However, if all purchases were made as scheduled, Argentina's obligations to the Fund under the 2022 EFF would be less burdensome than those under the 2018 SBA, mitigating CtR risks.

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[24] The program also included a set of indicative targets. These established floors on real government revenues and spending on social assistance, and a ceiling on the BCRA's stock of non-deliverable forwards.

[25] In line with standard practice in EA cases, a supplement assessing the risks to the Fund and its liquidity position was issued along with the EFF arrangement request staff report. The supplement noted Argentina's elevated macroeconomic vulnerabilities, emphasized the large size of the Argentina exposure both in absolute terms and relative to CtR metrics, highlighted that the exposure would remain elevated for an extended period, and pointed out the high credit risks to the Fund of the proposed program. See *Assessment of the Fund's Financial Exposures and Liquidity Position* (EBS/22/14, Sup. 1), 3/16/2022.

21. Enterprise risks were seen as extremely high. At arrangement approval, the elevated exposure to Argentina over an extended period implied by the 2022 EFF was seen as creating "major financial and reputational risks for the Fund".[26] Reputational risks from approving the 2022 EFF focused on the adequacy of program design if the program failed to engender confidence, especially following the 2018 SBA that did not meet its objectives. However, this was balanced by the judgment that there were also significant risks of not agreeing to a Fund-supported program, principally the near-term financial risks to the Fund of arrears and the reputational risk from failing to assist a member that had a BoP need "with a realistic and credible program that meets all Fund policy requirements" (IMF, 2022a). Overall, moving forward with a Fund-supported program was seen as mitigating some of these enterprise risks, especially in the near term.

22. Notwithstanding these high risks, the program left little margin to respond to unexpected developments. As in the 2018 SBA, buffers to handle policy slippages or shocks were not built in. While there were understandings between staff and the authorities on broad contingency plans, they were not reflected in published program documents and generally relied on ad hoc FX control measures. The staff report at program approval did not present an alternative (downside) macroeconomic scenario, which was not required but would have been helpful to evaluate risks. Instead, program documents emphasized that risks could not be fully mitigated through program design and contingency planning and require "finely balanced judgements."

PROGRAM PERFORMANCE

23. The program period spanned two very different phases (Figure 7):[27]

- ***Phase One (2022-23)*** was plagued by challenges from shocks—notably the spike in commodity prices in the wake of the war in Ukraine and a severe La Niña-induced drought, which curtailed agricultural production and exports—as well as policy slippages, which accelerated sharply in the pre-election period and ultimately played a decisive role in shaping the overall outcomes (Annex VIII). Macroeconomic outcomes differed significantly from the gradual stabilization that the program envisaged (Figure 8). *Growth* was broadly in line with baseline projections in 2022 at 4½ percent but surprised significantly on the downside with a 1½ percent contraction in 2023. Average annual *inflation* accelerated to 130 percent in 2023, far above projections. The *real exchange rate* appreciation of about 20 percent between 2021 and 2023 was double what the baseline projected at the outset. The *current account* moved from a surplus in 2021 to a deficit of 3½ percent of GDP in 2023. *Gross FX reserves* more than

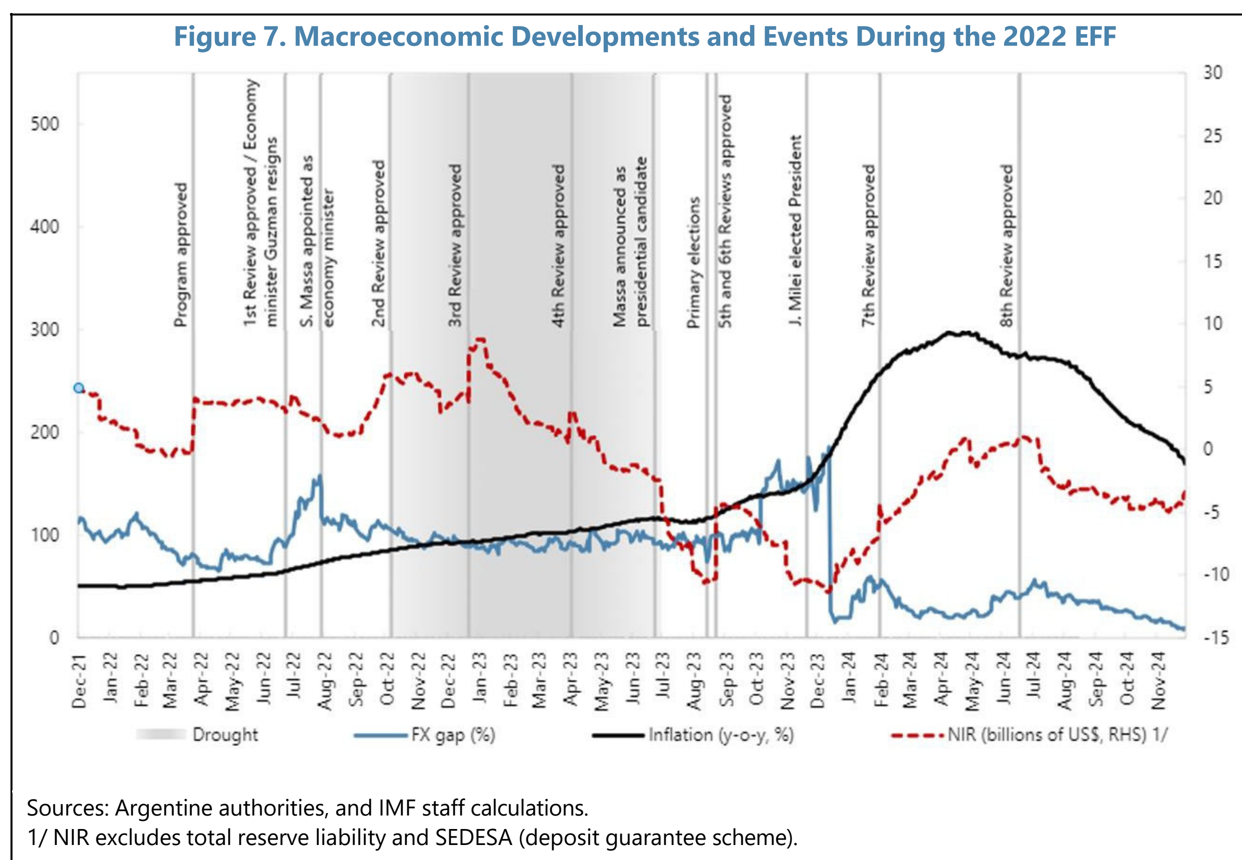
[26] See Executive Board Assessment in IMF, 2022a.

[27] Annex VII presents a synopsis of program evolution at specific Program Reviews.

halved to just US$21 billion by December 2023. By the second half of 2023, Argentina was on the brink of a full-blown crisis.

- ***Phase Two (2024)*** saw a dramatic fiscal tightening and a large step devaluation of 120-percent following the election of Javier Milei as President. *Growth* was projected in Fall 2024 at –3½ percent in 2024, which would leave real GDP slightly below its level in 2021, and 9½ percent below the forecast at arrangement approval. *Inflation* temporarily overshot to a peak of nearly 300 percent y-o-y in April as the step devaluation passed through, but then began to rapidly decline, falling to about 166 percent as of November. The current account returned to surplus, and gross reserves improved by about US$11 billion by mid-December, while the real exchange rate re-appreciated. Meanwhile, the FX gap narrowed sharply to single digits and Argentina sovereign spreads fell to around 750bps in early December 2024.

Figure 7. Macroeconomic Developments and Events During the 2022 EFF



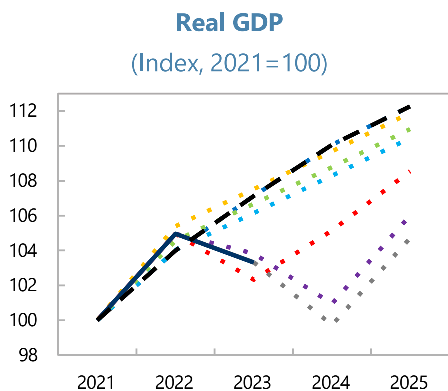
Sources: Argentine authorities, and IMF staff calculations.
1/ NIR excludes total reserve liability and SEDESA (deposit guarantee scheme).

Figure 8. Macroeconomic Projections and Outcomes

Program Approval | 1st Review | 2nd Review | 3rd Review | 4th Review | 5th and 6th Review | 7th Review | 8th Review | Latest actual

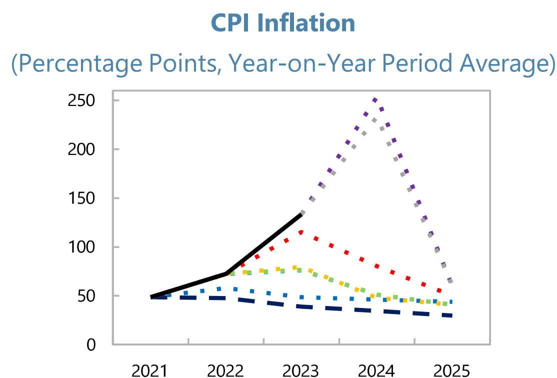
Real GDP

(Index, 2021=100)



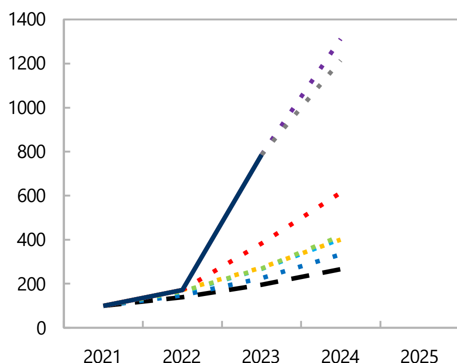
CPI Inflation

(Percentage Points, Year-on-Year Period Average)



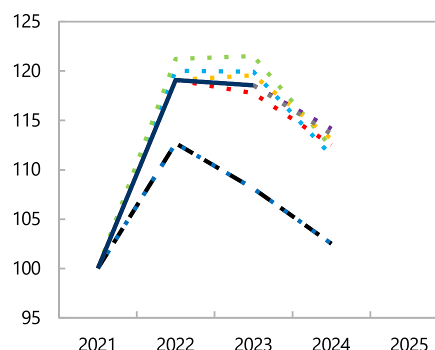
Nominal Exchange Rate AR$/US$

(2021=100, End of Period)



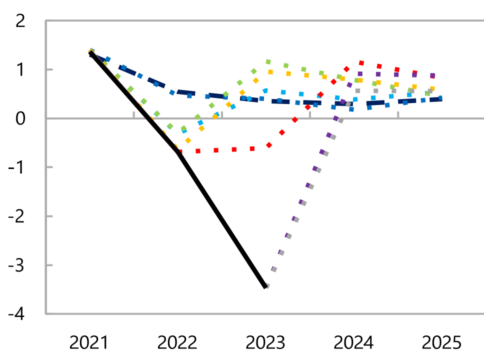
Real Effective Exchange Rate

(Index, 2021=100, Period Avg. + =Appreciation)



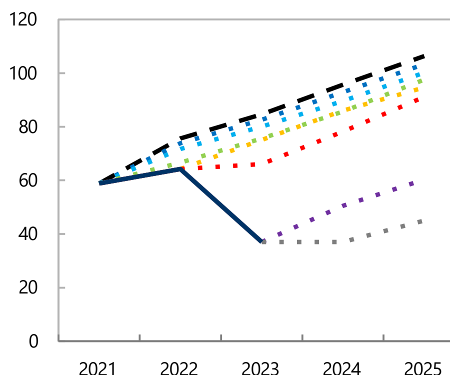
Current Account Balance

(Percent of GDP)



Gross International Reserves

(Percent of ARA Metric)



Notes: Dashed lines are projections. Continuous lines reflect realized actuals and estimates at the time of forecast.
Source: IMF staff calculations.

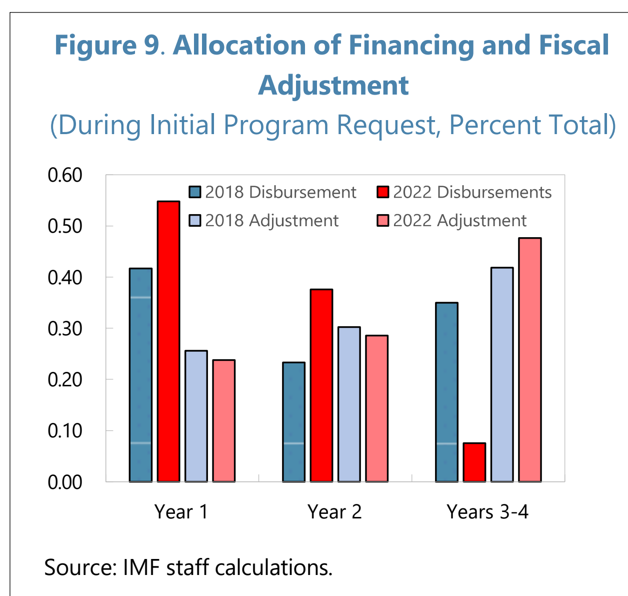
A. Program Performance in 2022-23

Fiscal Policy and Financing

24. Fiscal gradualism envisaged by the program contrasted with frontloaded disbursements and economic realities. By the time of arrangement approval, inflation was already high and accelerating, and the upswing in the global commodity prices in the wake of the war in Ukraine was in full force. Rollover of domestic debt was becoming more challenging, and monetary financing remained sizable. Nevertheless, as in the 2018 SBA, the envisaged fiscal adjustment was significantly backloaded, with close to a half of the consolidation projected for the last year of the program, when 92 percent of Fund financing would already have been disbursed (Figure 9).[28] Gradual fiscal consolidation meant increased reliance on (and importance of) mobilizing private domestic financing, because the pace of fiscal consolidation envisaged was also slower than the pace of withdrawal of Central Bank financing. Finally, the low initial policy ambition meant that fiscal policy's anchoring role would be limited.

Figure 9. Allocation of Financing and Fiscal Adjustment

(During Initial Program Request, Percent Total)



Source: IMF staff calculations.

25. The anchoring role of the targeted fiscal path progressively eroded during 2022-23. Through the first six reviews, the program continued to target a fiscal consolidation of 2.1 percent of GDP between 2021 and 2024, with an additional adjustment of 2.2 percent of GDP assumed between 2024 and 2027 (Table 1). While this often meant some strengthening of the underlying fiscal effort to correct for policy slippages and in response to negative shocks, the unchanged fiscal path in the presence of accelerating inflation, rising financing pressures (see below), and a large FX gap pointed to a widening inconsistency between fiscal targets and macroeconomic stability goals. This was particularly evident in 2022 when key end-year QPCs were met, yet inflation outcomes significantly diverged from the program's original baseline.

[28] The overall planned three-year fiscal adjustment (2.1 percent of GDP) was significantly less ambitious compared to the 2018 SBA (3.8 percent of GDP in the first three years).

Table 1. Argentina: Composition of Fiscal Adjustment

(Percent GDP, Change in the Program and Post-Program Period)

	2021-2024							2024 - 2027						
	EFF Request	1st Review	2nd Review	4th Review	5th, 6th Review	7th Review	8th Review	EFF Request	1st Review	2nd Review	4th Review	5th, 6th Review	7th Review	8th Review
Revenues	**1.1**	**0.7**	**-0.6**	**-0.8**	**-0.1**	**0.4**	**-1.5**	**0.9**	**1.0**	**1.4**	**1.6**	**0.4**	**-0.6**	**0.7**
Tax	1.2	0.9	0.0	-0.2	0.1	1.2	-0.4	0.9	0.8	0.9	1.3	0.3	-1.6	0.4
Social security	0.9	0.8	0.3	0.3	0.7	0.0	-0.4	0.0	0.1	0.4	0.2	0.0	1.0	0.5
Non-tax	-0.9	-0.9	-1.0	-0.8	-0.8	-0.8	-0.7	0.0	0.0	0.2	0.0	0.0	0.0	-0.1
Spending	**-1.0**	**-1.3**	**-2.8**	**-2.9**	**-2.3**	**-4.8**	**-6.2**	**-1.3**	**-1.2**	**-0.8**	**-0.6**	**-1.8**	**-1.0**	**-0.2**
Current	-1.7	-2.1	-3.0	-3.1	-2.3	-4.0	-5.2	-1.2	-1.2	-0.8	-0.5	-1.8	-0.9	-0.2
Pensions	1.2	0.6	0.0	0.4	0.3	-1.5	-2.0	0.4	0.7	0.8	0.9	0.7	0.0	1.1
Goods and services	-0.4	-0.4	-0.4	-0.4	-0.3	-0.6	-0.5	-0.2	-0.2	-0.1	-0.2	-0.3	0.0	0.0
Subsidies	-1.5	-1.1	-1.4	-1.6	-1.4	-1.7	-1.9	-0.5	-0.9	-0.7	-0.7	-1.0	-1.1	-0.9
Transfers to provinces	-0.3	-0.3	-0.3	-0.3	-0.4	-0.6	-0.6	-0.2	-0.2	0.0	-0.1	-0.2	-0.4	-0.4
Other	-0.7	-0.9	-0.9	-1.2	-0.5	0.4	-0.2	-0.7	-0.6	-0.8	-0.4	-1.0	0.6	0.0
Capital	0.7	0.8	0.2	0.2	0.0	-0.8	-1.0	-0.1	0.0	0.0	-0.1	0.0	-0.1	0.0
Primary Balance	**2.1**	**2.1**	**2.1**	**2.1**	**2.1**	**5.1**	**4.7**	**2.2**	**2.2**	**2.2**	**2.2**	**2.2**	**0.4**	**0.8**

Sources: IMF staff estimates and projections in published staff reports at the time of respective program reviews.

26. Meanwhile, fiscal financing pressures became increasingly more relevant in shaping macroeconomic outcomes (Figure 10):

- *The ambitious financing plan immediately ran into difficulties* in Argentina's shallow financial market.[29] As average maturities shortened and rollover pressures intensified, growing strains on the financial market—aggravated by political events and uncertainties—prompted the BCRA to intervene.[30] In the end, the bulk of the government's financing needs was met by the BCRA, either directly or through secondary market purchases to prop up the auctions. These purchases weighed heavily on the BCRA's balance sheet and independence, as discussed further below. In 2023, a voluntary debt exchange helped lengthen most maturities to beyond the 2023 presidential election.[31] This somewhat reduced immediate rollover pressures but projected nominal amortization payments still became larger due to indexation.

[29] The program assumed about 2 percent of GDP per year in net domestic financing from private sources—compared to an average of 0.6 percent of GDP in 2022-2023 that ultimately materialized—with another 1 percent of GDP financed by the Central Bank to support the fiscal deficits during the program.

[30] Initially, BCRA intervention in the secondary bond market was prompted by strong market reaction to the resignation of the economy minister about a week after the First Review was completed. Interventions resumed in the fall of 2022 and accelerated as the program went on.

[31] In 2023, a voluntary debt swap was conducted to defer most of AR$9.2 trillion in debt maturing between June and September 2023 to 2024 and 2025 with a participation rate of 67%. As a prior action for the combined Fifth and Sixth Reviews, the authorities converted existing dollar and inflation linked instruments into baskets of mostly dual and inflation linked securities maturing between August 2024 and January 2025. Another exchange in 2024 (a completed structural benchmark in the Eighth Review) converted 40 percent of domestic debt falling due in 2024 to inflation linked securities maturing between 2025 and 2028 with average duration rising from 6 months to 3 years.

- *Rollover pressures resulted in mounting debt service costs.* Attracting private investors to buy government debt entailed giving strong incentives, which included high interest rates and linking of the principal to inflation and/or exchange rate. By the time of the combined Fifth and Sixth Reviews, a third of the total reduction in the primary deficit projected to be achieved in the course of the program was expected to be offset by higher interest expenditures relative to program approval (0.7 percent of GDP). Furthermore, despite fiscal adjustment, the consolidated public sector balance—including BCRA's quasi-fiscal losses—was projected to worsen by 1.1 percent of GDP in the course of the program compared to an improvement of 2.2 percent of GDP anticipated at the time of program approval (Table 2, Figure 11).

Table 2. Argentina: Evolution of General Government Operations

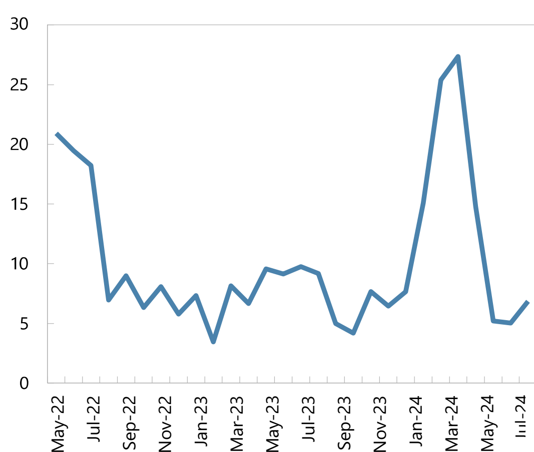
(Percent GDP)

	EFF Request					4th Review					5th and 6th Review					8th Review				
	2021	2022	2023	2024	Δ	2021	2022	2023	2024	Δ	2021	2022	2023	2024	Δ	2021	2022	2023	2024	Δ
Primary Balance																				
Federal government	-3.0	-2.5	-1.9	-0.9	**2.1**	-3.0	-2.3	-1.9	-0.9	**2.1**	-3.0	-2.4	-1.9	-0.9	**2.1**	-3.0	-2.4	-2.9	1.7	**4.**
Provincial government	0.3	0.4	0.4	0.4	**0.1**	0.5	0.6	0.5	0.4	**-0.1**	0.5	0.6	0.3	0.4	**-0.1**	0.5	0.6	0.1	0.1	**-0.**
Interest Expenditure	1.8	1.7	1.7	2.5	**0.7**	1.8	2.0	2.3	2.9	**1.1**	1.8	2.0	2.4	3.2	**1.4**	1.8	2.1	1.9	1.8	**0.**
BCRA Quasi-fiscal balance	-3.3	-3.3	-2.9	-2.6	**0.7**	-3.3	-4.3	-3.9	-3.2	**0.1**	-3.3	-5.2	-6.0	-5.0	**-1.7**	-3.3	-5.1	-6.5	-3.3	**0.**
Consolidated Public Sector Balance	-7.8	-7.1	-6.1	-5.6	**2.2**	-7.6	-8.0	-7.6	-6.6	**1.0**	-7.6	-9.0	-10.0	-8.7	**-1.1**	-7.6	-9.0	-11.2	-3.3	**4.**

Sources: IMF staff estimates and projections in published staff reports.

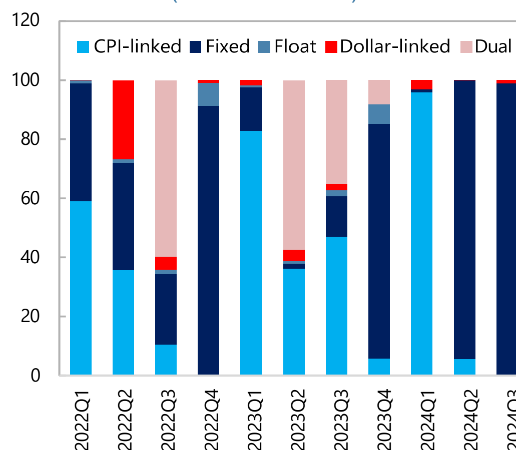
Figure 10. Domestic Debt Market Developments

Average Tenor of Inflation-linked and fixed rate government securities at issuance (3-month Average)



Treasury's Auctions Funds by instrument

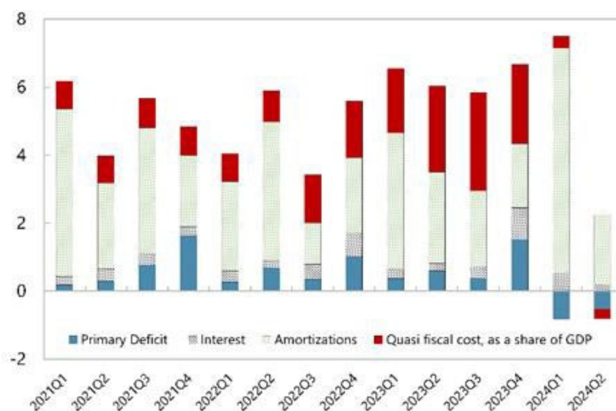
(Percent of Total)



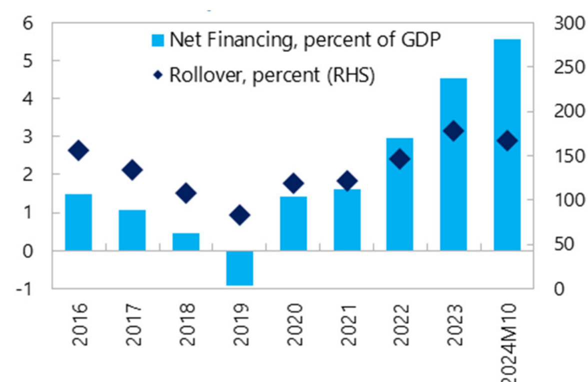
Notes: dates correspond to placement date.

Figure 10. Domestic Debt Market Developments (Concluded)

Quarterly Gross Financing Needs and BCRA Quasi-Fiscal Cost
(Percent of GDP)



Peso Debt Service and Issuance
(Only Marketable Securities)



Sources: Argentine authorities and IMF staff calculations.

27. Balanced and growth-friendly fiscal consolidation proved unattainable. The initial expectation of raising revenues by 1 percent of GDP through tax and customs administration reforms did not materialize. By the time of the Second Review and amid implementation delays of the associated structural benchmarks, the baseline projected virtually no increase in tax revenues over the program period.[32] Meanwhile, slippages on the spending side began to emerge in 2023, including overspending on salaries, the pension moratorium,[33] and delayed adjustment of energy tariffs,[34] with further challenges posed by the increasingly severe drought, which hurt export tax revenues. In the absence of strong and durable fiscal measures, the program sought to counteract these developments with tighter controls over discretionary spending. Consequently, the originally planned increase in capital spending also did not materialize. On the other hand, pension

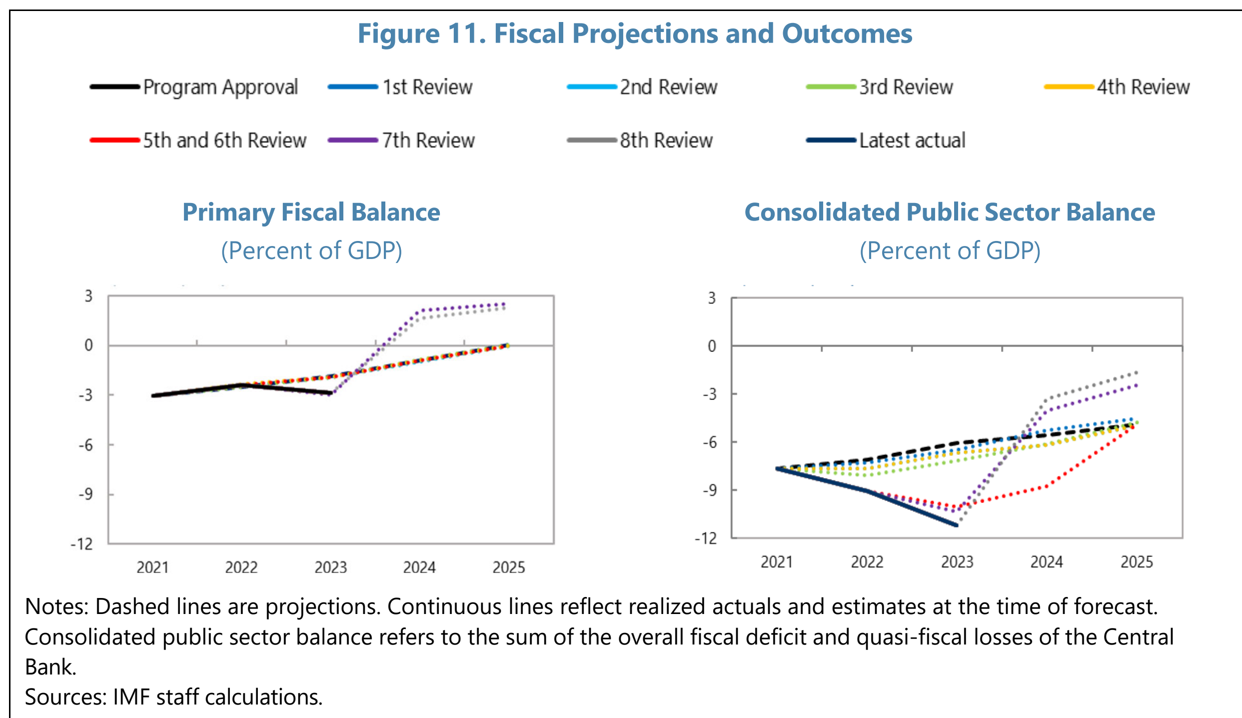
[32] A modest package of measures (a new tax on the highest bracket taxpayers, higher excises, and property tax increases) was also adopted. Although the program request documents that Argentina's tax compliance (especially on VAT) lags peers, the assessment of the yield was not clearly explained and, with hindsight, may have been overoptimistic.

[33] The moratorium, introduced in February 2023, allowed 800,000 people of pensionable age with insufficient years of contributions to access the contributory pension regime with the contribution shortfall financed from future pension benefits. Initially its cost was estimated to be 0.4 percent of GDP, however, the measure was repealed by Congress in 2024.

[34] For example, under the combined Fifth and Sixth Reviews, the authorities committed to raise electricity tariffs effective September 1, 2023. Instead, tariffs were frozen in September and adjusted only by the new administration in 2024.

expenditures were less than expected due to weak protection against inflation in the pension indexation formula used at the time.

Figure 11. Fiscal Projections and Outcomes



Notes: Dashed lines are projections. Continuous lines reflect realized actuals and estimates at the time of forecast. Consolidated public sector balance refers to the sum of the overall fiscal deficit and quasi-fiscal losses of the Central Bank.
Sources: IMF staff calculations.

28. Fiscal discipline and program ownership fell apart in the pre-election period during 2023. As revenues declined on account of the drought, spending pressures and future commitments began to ramp up, reflecting an intensifying political campaign. New tax and spending initiatives in 2023 led to tensions at the time of the completion of the combined Fifth and Sixth Reviews.[35] Ultimately, the reviews were completed with the authorities committing to achieve the 2023 fiscal target by temporarily extending a distortive tax on FX access (*impuesto pais*), restraining wage growth, and adjusting energy prices. But only a momentary pause was achieved, and fiscal populism resumed soon after the Reviews were completed. In the last months of the Fernández administration, the authorities froze energy and transport prices, extended new bonuses to pensioners and employees, and provided new tax breaks and exemptions while accumulating sizable arrears.

[35] They included large wage increases to public sector employees, tax relief to households and SMEs, bonuses to various groups, accelerated public sector hiring, and subsidized consumer lending.

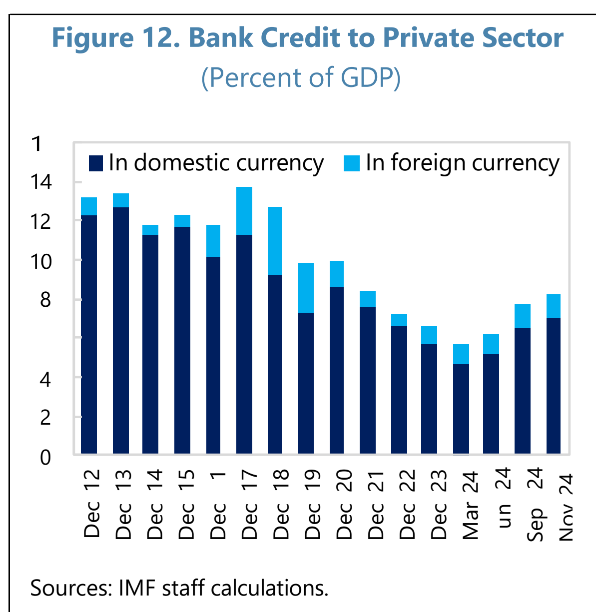
Monetary, Financial, and Exchange Rate Policies

29. Amid accelerating inflation and FX market pressures on one hand and fiscal dominance on the other, the task of counteracting volatility largely fell on Argentina's hybrid monetary framework. It consisted of an interest rate-based monetary policy and a crawling peg FX regime. Under the program's stated objectives, the former sought to maintain a positive real interest rate while the rate of crawl was to be calibrated to ensure a competitive real exchange rate and support FX reserve accumulation. In reality, the limited anchoring role of fiscal policy meant that monetary and exchange rate policies had to confront internal and external imbalances largely on their own.

30. This was challenging from the start:

- *Monetary policy transmission was weak.* Argentina's financial sector—comprised of banks, the public pension fund (Fondo de Garantía de Sustentabilidad, FGS), insurance companies, and mutual funds—was quite shallow, with total assets of about 41 percent of GDP in 2022 compared to an emerging market average of around 76 percent of GDP. The banking sector provided little private credit and was largely based on earning income on public sector securities and transaction fees for facilitating payments. Out of its total assets of 27 percent of GDP, only about a quarter (7 percent of GDP in 2022) represented credit to the private sector, while around a half of total assets were claims on the public sector, including the Central Bank (Figure 12). While the policy interest rate could hope to affect portfolio choices and demand for peso deposits to some extent, its impact on the real economy appears to have been very limited.[36] At the same time, its impact on fiscal financing costs and Central Bank losses was both immediate and large.

Figure 12. Bank Credit to Private Sector
(Percent of GDP)



Sources: IMF staff calculations.

[36] BCRA set the minimum fixed deposit rate based on the policy rate. The minimum deposit rate in Argentina was often lower than the policy rate. As of August 2024, the policy rate (LELIQ rate) was set at 41.2 percent, while the minimum deposit rate for fixed-term deposits up to 1 million pesos stood at 33.1 percent. The ratio of term deposits to current deposits was about 0.9 and average duration of term deposits was 35 days. FX deposits comprised around 10 percent of total deposits. Peso deposits were mostly privately owned with the public sector accounting for 18 percent.

- *The Central Bank was operating at a significant loss.* It faced a massive sterilization challenge. In addition to continuing to provide advances to the Treasury, it paid significant interest to investors on its own securities, occasionally purchased government securities to support the market and prop up bond auctions, and purchased FX whenever feasible, at times at subsidized rates. At end-2021, the stock of BCRA securities, which served to withdraw excess liquidity, stood at 10.9 percent of GDP, and quasi-fiscal losses of the Central Bank exceeded the primary deficit.

- *BCRA balance sheet and credibility were impaired.* While BCRA had to service its liabilities in cash, debt service on government securities it purchased or was provided previously was mostly capitalized. The resulting cash flow deficits eroded the Central Bank's capital. In August 2022, an IMF TA mission estimated BCRA's equity at negative 11 percent of GDP and recommended to restore policy solvency by ceasing BCRA transfers and advances to the National Treasury, stop quasi fiscal operations, swap the USD denominated Non-Transferable Treasury Securities (NTTS) to interest-bearing peso securities and apply international accounting standards to value the BCRA balance sheet. But the SB to develop a strategy to implement these recommendations by end-2022 was not met, and, after an extension, dropped.

- *There was tension between the disinflation and competitiveness goals.* Raising the rate of crawl would have helped FX accumulation and competitiveness goals but risked further fueling inflation. Moreover, the credibility of the crawling peg as an anchor of inflation was challenged by the presence of a large spread between the official and parallel market exchange rates. In the absence of a real exchange rate overshoot, establishing credibility would have required expending scarce reserves for intervention. Given these challenging initial conditions, program design appeared to resolve the tension in favor of competitiveness and reserve accumulation objectives by providing very limited net financing.

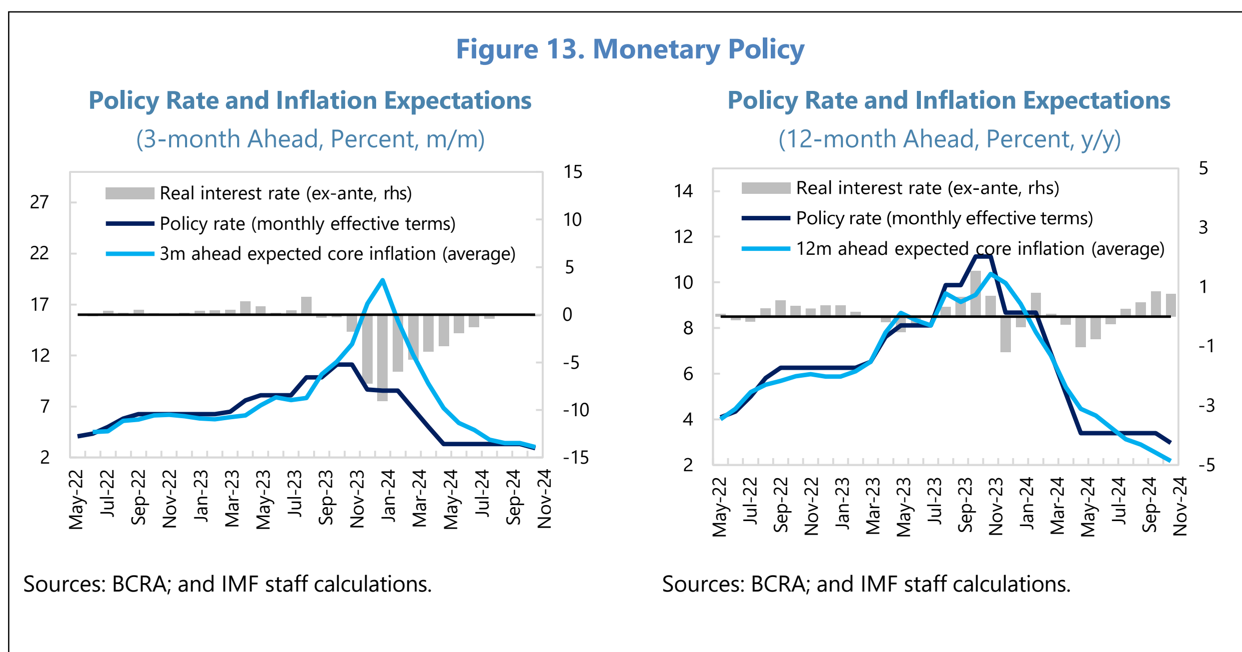
31. The Central Bank broadly succeeded in maintaining positive real interest rates but at a sizable cost to its bottom line and credibility:

- *BCRA's policy rate was kept above expected core inflation with successive interest rate hikes throughout 2022-23*, albeit intermittently and by a small margin, which points to hesitation to tighten monetary policy despite staff's clear advice (Figure 13). While there was some impact on private demand—stock of credit to the private sector shrunk by about 2 percent of GDP during 2022-23—the quasi-fiscal costs for the Central Bank sharply increased. BCRA's net purchases of government securities in the secondary market—which amounted to 2.3 percent of GDP and 4.2 percent of GDP in 2022 and 2023, respectively—served two purposes. First, they helped to meet the government's resource needs by ensuring successful bond auctions. Second, the Central Bank performed reverse maturity transformation by sterilizing these purchases with

shorter-term obligations of its own, which were preferred by market participants.[37] Both elements carried significant costs.[38]

- *By eroding the Central Bank's credibility, these large and frequent bond purchases contributed to inflation and devaluation expectations.* The purchases, which the Fund actively discouraged, began to feature prominently during program reviews. However, they were likely unavoidable and, in many ways, symptomatic of broader misalignment between the fiscal stance and the fiscal financing strategy, the solution to which resided elsewhere (i.e. fiscal consolidation). In their absence, the market-clearing interest rate at government bond auctions would have likely become prohibitively high, or the auctions would have failed. [39] At the same time, the associated costs were further eroding the Central Bank's credibility and with it, the credibility of the monetary policy framework and the exchange rate regime. By end-2023, BCRA's net credit to the government reached 24.6 percent of GDP. Quasi-fiscal losses of the Central Bank rapidly grew from 3.3 percent of GDP in 2021 to 5.2 percent of GDP in 2022 and 10.5 percent of GDP in 2023, the latter more than triple what the initial baseline envisaged.

Figure 13. Monetary Policy



Sources: BCRA; and IMF staff calculations.

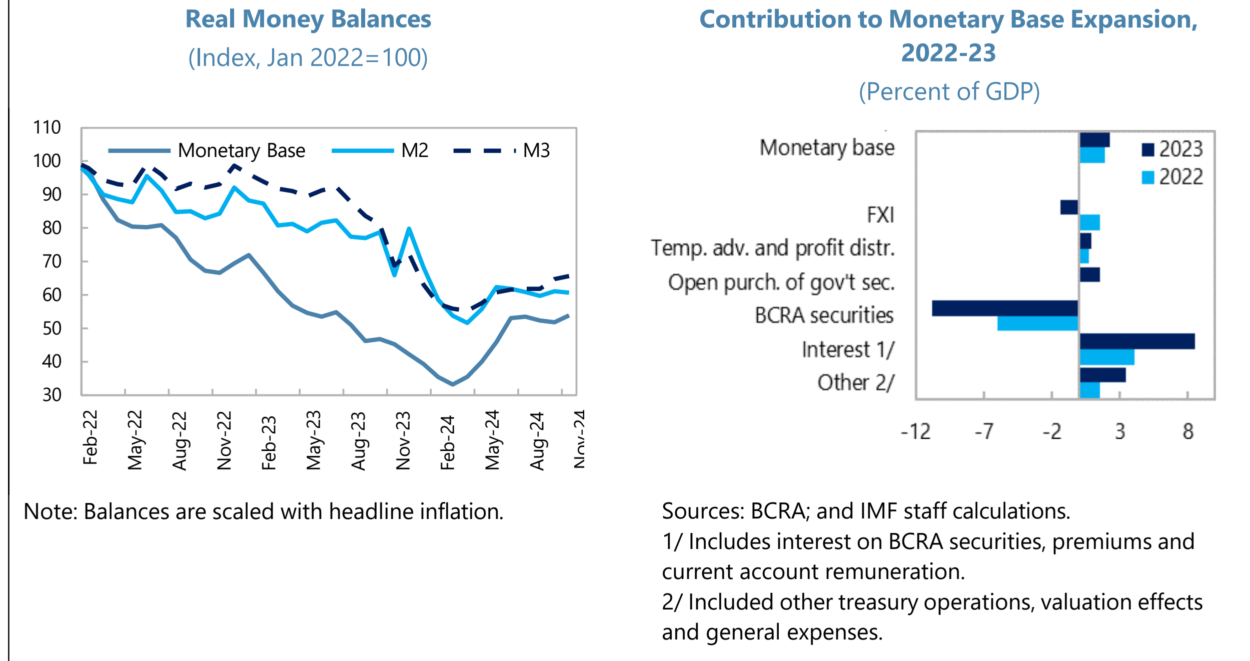
Sources: BCRA; and IMF staff calculations.

[37] Central bank securities are also perceived to carry a lower risk of restructuring relative to government bonds.

[38] Although longer maturity was transformed into shorter maturity, the buyback of fixed-rate bonds likely incurred mark-to-market losses for BCRA as the short-term rates jumped during 2022 and 2023.

[39] It is not unusual for central banks to prop up sovereign debt markets when needed, provided they can do so with credibility. The ECB, for example, can credibly intervene in the Eurozone sovereign debt market with asset purchase programs to compress the spreads because of its strong balance sheet and the euro serving as a reserve currency. BCRA did not enjoy this privilege.

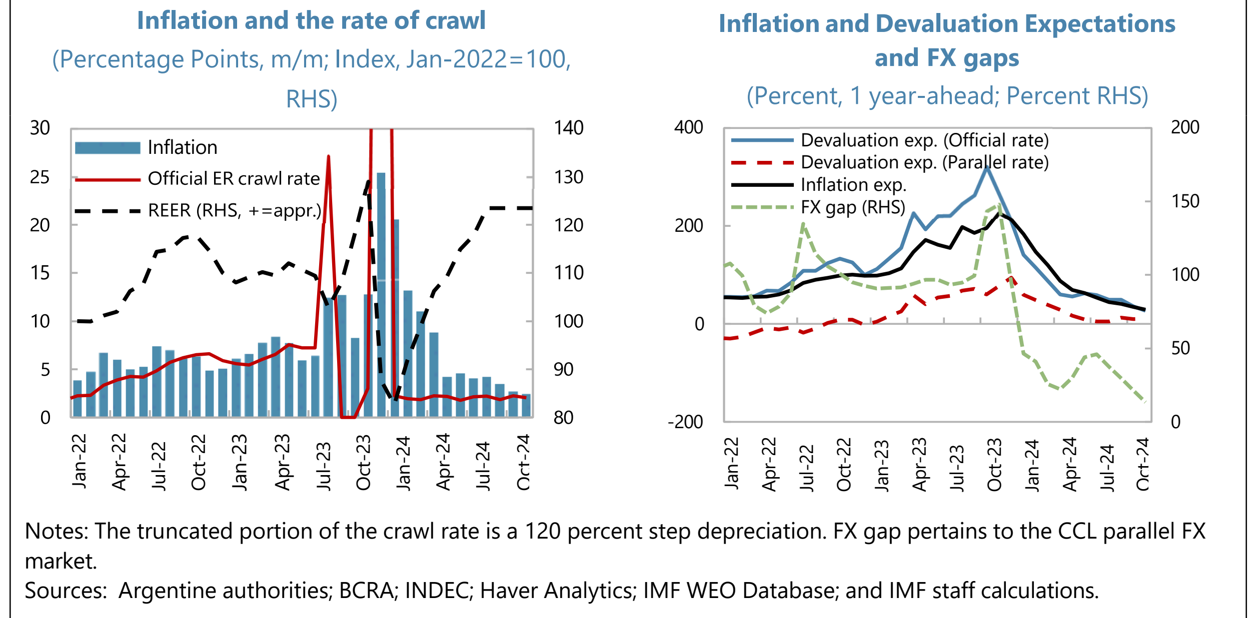
Figure 13. Monetary Policy (Concluded)



Note: Balances are scaled with headline inflation.

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

Figure 14. Inflation and Devaluation



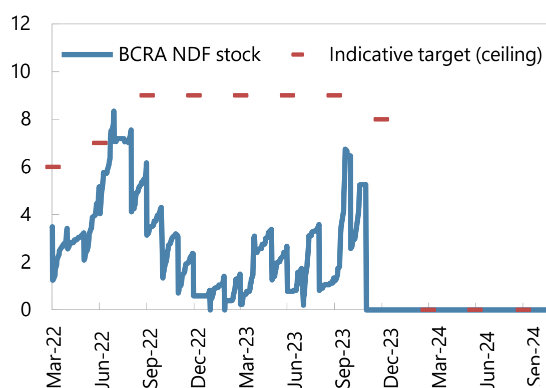
Notes: The truncated portion of the crawl rate is a 120 percent step depreciation. FX gap pertains to the CCL parallel FX market.
Sources: Argentine authorities; BCRA; INDEC; Haver Analytics; IMF WEO Database; and IMF staff calculations.

32. These efforts did not restore internal balance. Ultimately, money creation persisted.[40] As is common in high- and hyper-inflation cases, money demand plummeted, money velocity rose, and monetary base declined from 7.9 percent of GDP at end-2021 to 4.2 percent of GDP by 2024. Inflationary pressures continued through 2023 and intensified significantly in the last four months of the year amid a massive pre-election fiscal loosening; by end-2023, annual inflation had reached 211 percent, more than four times its end-2021 level (Figure 14).

33. Developments on the external front mirrored the internal disequilibrium. As the program evolved, the policy mix became inconsistent as the crawling peg was accompanied by looser-than-necessary fiscal and monetary policies. Consequently, FX policy efforts proceeded in fits and starts, amid hesitation on whether to spend FX reserves to contain the FX spread or accelerate the speed of crawl to reduce the external deficit. The inability to rein in inflation fed pre-existing fear of floating, and ultimately rendered the external position untenable:

Figure 15. BCRA Stock of Non-Deliverable Futures

(USD bn)



Notes: The indicative targets shown are those applicable at each test date, after accounting for adjustors and resets at preceding reviews.
Sources: Argentine authorities; BCRA; IMF WEO Database; and IMF staff calculations.

- The rate of crawl struggled to keep up with inflation as fiscal and monetary policies could not moderate domestic demand, and inflation expectations remained largely unanchored. While the real exchange rate appreciated, eroding competitiveness, a large FX gap—which was seen as a key determinant of devaluation and inflation expectations—fueled further inflation.

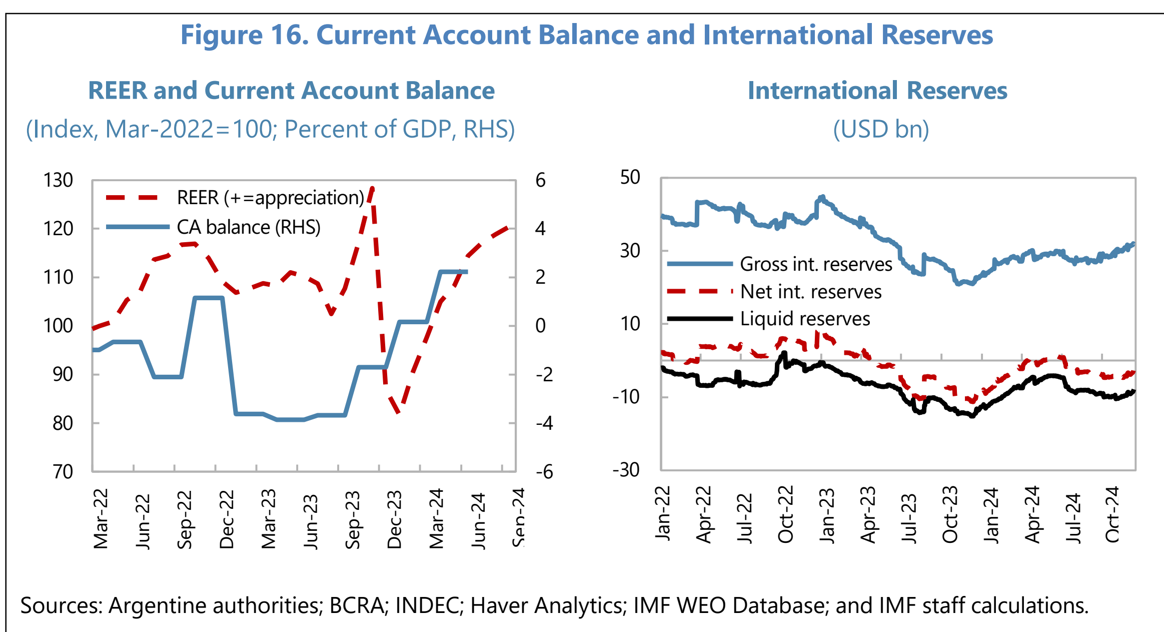
- With limited and mixed impact of interest rate hikes on inflation in the context of an impaired BCRA balance sheet, the Central Bank alternated between spending scarce reserves in the

[40] Interest payment on BCRA securities were not sterilized and were the most important contributor to base money growth.

parallel market to contain the FX spread and accelerating the rate of crawl to maintain competitiveness with sporadic attempts to accumulate reserves.[41]

- Due to high pass-through, competitiveness gains from speeding up the crawl rate were short-lived, and further stoked inflation, thus testing the resolve to accelerate the rate of crawl. Ultimately, inflation outpaced the rate of crawl for most of the program period while FX reserves declined (Figure 16). This cycle was further fueled by supply shocks, most importantly the drought, which contributed to a swing in the current account to a sizable deficit as well as inflationary and FX market pressures.

Figure 16. Current Account Balance and International Reserves



Sources: Argentine authorities; BCRA; INDEC; Haver Analytics; IMF WEO Database; and IMF staff calculations.

34. Lacking the tools and means to tame the unfolding crisis within the monetary framework, the authorities turned to controls and multiple-currency practices (MCPs) to square the circle (Annexes IX and X). Despite being at odds with the program and, until Board approval, Article VIII, Sections 2(a) and 3 of the Fund's Articles of Agreement, these measures

[41] FX interventions included a US$0.5 bn Treasury debt buyback operation in early 2023 and periodic BCRA interventions in non-deliverable futures (NDF) markets. Under the program, the authorities committed to limit these interventions to addressing disorderly FX market conditions, although this exception was broadened for the combined Fifth and Sixth Reviews to helping guide exchange rate and inflation expectations while remaining consistent with reserve accumulation goals. See Annex IV in the Staff Report for the Fifth and Sixth Reviews for further information on interventions in the parallel FX markets and staff's policy recommendations under the 2022 EFF.

proliferated throughout the program.[42] They included taxes on FX purchases, strict limits for trading in the parallel FX securities markets, repatriation and surrender requirements of export proceeds, export incentive schemes that temporarily offered preferential exchange rates for agricultural exporters to liquidate their stocks, limits on immediate FX access for imports and import financing requirements (Figure 17).[43]

35. The Fund responded with forbearance. While Fund staff reports cautioned against such policies as distortive and unsustainable, they also acknowledged them as temporarily helpful in containing FX market pressures and meeting FX reserve accumulation targets. As the scope and complexity of these measures increased—as did the extent of discretion and opaqueness involved in their implementation—the Fund's Executive Board granted approvals and waivers of non-observance for the continuous performance criteria in all but the First Review.[44] The consistent approval of program reviews on the basis of NIR targets met through such means was notably at odds with the expectations for a Fund-supported program.[45] Meanwhile, the SB to publish a roadmap for gradual, conditions-based easing of FX controls was routinely postponed.[46]

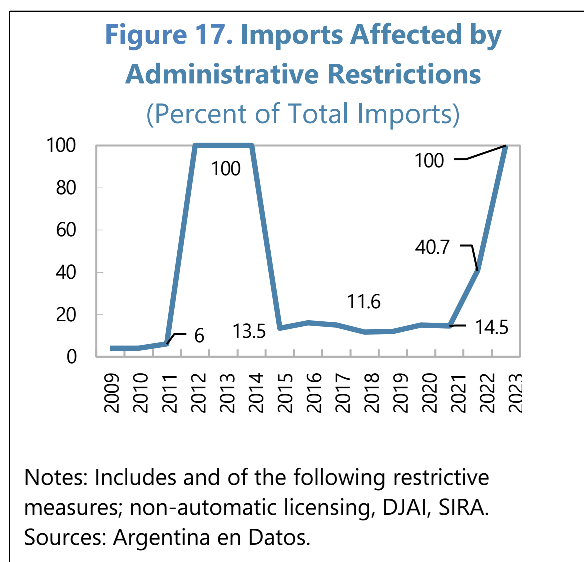


Figure 17. Imports Affected by Administrative Restrictions
(Percent of Total Imports)

Notes: Includes and of the following restrictive measures; non-automatic licensing, DJAI, SIRA.
Sources: Argentina en Datos.

36. While providing short-lived relief, control measures and MCPs further deepened economic distortions. In the short-term, these measures slowed FX outflows, compressed imports and uplifted reserves and tax revenues. However, in the absence of policies to address underlying macroeconomic imbalances, these effects were short-lived and came at the expense of growing

[42] The program included continuous performance criteria prohibiting the imposition/modification/intensification of import restrictions for balance of payment reasons or exchange restrictions and the introduction/modification of MCPs.

[43] See BCRA (2024) for BCRA's inventory of measures as of une 2024.

[44] No MCPs and exchange restrictions measures were assessed as having been introduced in the lead up to the First Review.

[45] A 1978 Board paper on standards for conditionality in the upper credit tranches stated: "…an improvement in the balance of payments cannot be considered durable if this is brought about by means of restrictions on trade and payments. Use of restrictions for balance of payments purposes cannot be considered as a proper adjustment measure as they add to, rather than correct, the prevailing distortions." See IMF (1978).

[46] The initial deadline of end-December 2022 was reset for June 2023 during the Second Review, March 2024 in the Fifth and Sixth Reviews, June 2024 in the Seventh Review, and July 2024 in the Eighth Review.

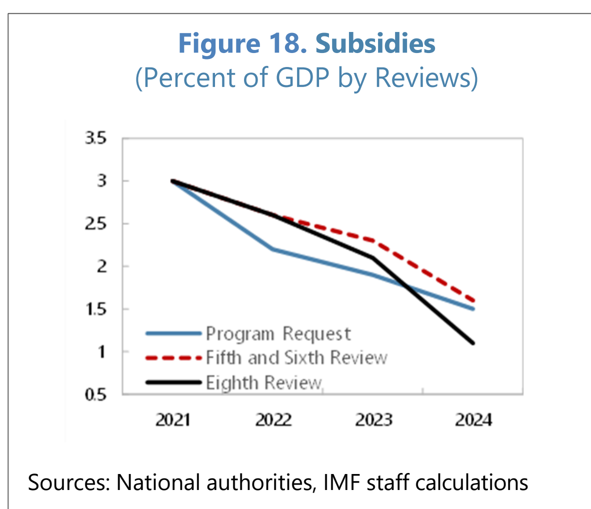
distortions and vulnerabilities. Notably, successive rounds of export incentive schemes led to hoarding in anticipation of even more preferential treatment, and delays in FX access for imports led to a backlog of import payments and debt overhang issues for importers.[47] These caused significant distortions in resource allocation and production processes, held back investment and FDI, contributed to higher corporate markups, and generated opportunities for rent seeking and abuse.

37. Tensions came to a head in the second half of 2023. As external pressures mounted and FX reserves plummeted, the program attempted a course correction with a step devaluation of 27 percent in August 2023. The reprieve was short-lived, however, as was the authorities' commitment. With fiscal discipline falling apart in the pre-election period, and monetary conditions spiraling out of control, the authorities stepped up FX sales. Between August and November 2023, gross FX reserves were further depleted from about US$29 billion to US$21 billion—well below pre-program level of US$37 billion in February 2022. Net international reserves remained in the US$-5 to -10 billion range during this period, reaching a low of US$-11 billion in December.

Structural Reforms and Social Protection

38. There was some progress on energy subsidy reform—a key component of the fiscal consolidation strategy—but the reform eventually sputtered, limiting savings (Figure 18). At the end of 2021, energy subsidies were sizable (reflecting low user tariffs relative to operating expenses), amounting to 3 percent of GDP. They were also poorly targeted. The implementation of the "segmentation scheme" in late 2022 was a notable advancement in the rationalization of energy subsidies, with the targeted removal of support for high-income households and a more precise allocation to lower-income groups.[48] However, actual tariff increases in 2022-23 consistently and considerably undershot the scheme's unambitious "caps" (which had been set to already slow convergence to cost-recovery levels). In August 2023, the authorities missed the SB on updating electricity prices

Figure 18. Subsidies
(Percent of GDP by Reviews)



Sources: National authorities, IMF staff calculations

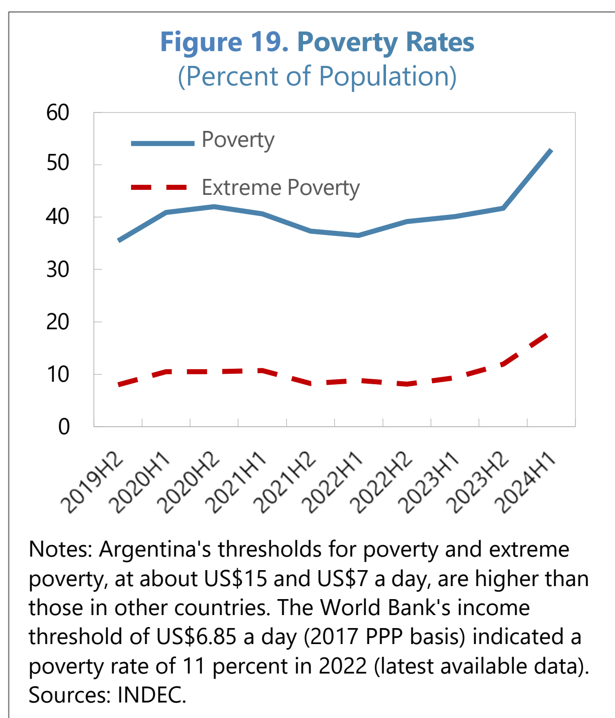
[47] For further details on importers' debt overhang, see Annex IV in the Seventh Review Staff Report.

[48] The Tariff Segmentation Scheme (Decree 332) separated the population into three groups based on income and wealth criteria. Tariffs were supposed to reflect costs for high income households and increase at a rate of 80 and 40 percent of salary growth for middle and lower-income ones. Removal of these caps was a prior action for the Eighth Review.

and instead issued a decision to freeze energy and urban transport tariffs. That, together with other slippages, lowered fiscal savings from the subsidy reform from around 1 percent of GDP expected at the program request to 0.7 percent of GDP realized between 2021 and 2023.

39. Although social spending targets were met in most reviews, poverty rates increased during the program, reflecting intense macroeconomic instability.[49] In response to elevated inflationary pressures, declining real wages, and subdued economic growth, the authorities progressively expanded social assistance measures, in line with program objectives. However, while these programs provided extensive coverage, their effectiveness in mitigating the impact of real income erosion was limited. The SB to prepare and publish a comprehensive evaluation of social support programs and strategy to identify options for policy improvements was not met. Meanwhile, the decline in purchasing power driven by inflation and a segmented labor market worsened vulnerabilities among lower-income households. Poverty increased from approximately 37 percent at the end of 2021 to around 53 percent in the first half of 2024. Extreme poverty also rose sharply, surpassing 18 percent at the end of June 2024, up from about 8 percent at the end of 2021 (Figure 19).

Figure 19. Poverty Rates
(Percent of Population)



Notes: Argentina's thresholds for poverty and extreme poverty, at about US$15 and US$7 a day, are higher than those in other countries. The World Bank's income threshold of US$6.85 a day (2017 PPP basis) indicated a poverty rate of 11 percent in 2022 (latest available data).
Sources: INDEC.

40. Progress on pension reforms, critical for both fiscal sustainability and social protection reasons, eluded. The system faced persistent challenges, which were documented in the program request staff report, including an aging population, replacement rates exceeding 90 percent of the average wage with generous special regimes at the provincial level, and non-compliance with contribution requirements, all of which have contributed to pension spending well above the OECD average and more than double the average of other Latin American and emerging market peers (see Annex VIII in IMF, 2022a). However, parametric reforms to the system were ruled out from the start. The authorities met the related end-December 2022 SB to complete a detailed assessment of the pension system, but reforms did not follow, and, contrary to staff recommendations and prior

[49] Targets were narrowly missed during the Third and Eighth Reviews. The target for the Third Review was missed due to under-execution in the AUH program. The target for the Eighth Review was narrowly missed (by less than 0.01 percent of GDP), due to general under-execution.

understandings, a pension moratorium introduced in 2023 further raised the pension system's fiscal costs, see ¶27.

41. The program made good progress on some transparency and governance policies, but advancing other structural reforms proved challenging. In addition to meeting the SBs to improve the transparency of public finances and of the monetary and exchange rate policy framework, key milestones in 2022 were the congressional approval of the amended Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Legislation (Law 25.246) and the publication of a National AML/CFT Strategy. However, reforms to the legal framework to strengthen the BCRA's autonomy remained pending. Progress also stalled on plans to update property valuations and publish detailed reports, including assets and liabilities, for public corporations and trust funds.

42. Despite strong initial promises, plans to reduce gender gaps largely faded into the background as attention shifted to macroeconomic stabilization. Gender gaps were highlighted prominently at arrangement request. The staff report emphasized that men earned 30 percent more than women, female labor participation at 50 percent compared poorly to 70 percent for men, and women undertook 76 percent of unpaid household work. The program featured commitments to enhance gender equity by: strengthening care support systems, expanding social protection programs (including improved access to childcare and housing), and promoting labor market inclusion. Additionally, building on the gender budgeting framework established in 2021, commitments were made to allocate adequate fiscal resources to continue closing gender gaps. After some progress noted in the First Review, no further advancements were discussed in subsequent staff reports.

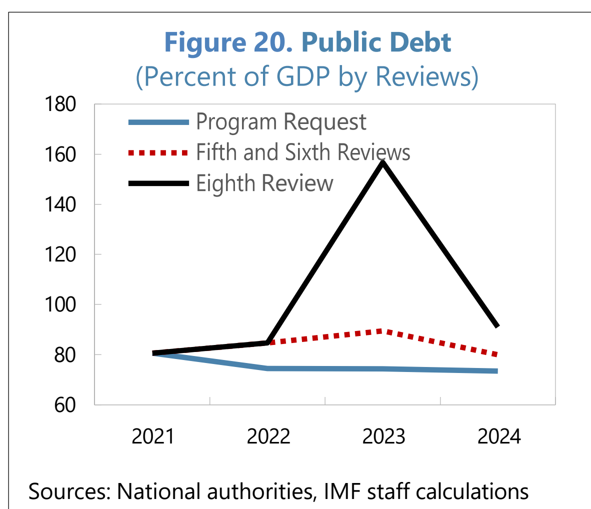
B. Program Performance in 2024

43. The program was significantly recalibrated to support the economic policy agenda of President Milei's administration. Facing significant imbalances, depleted reserves, and spiraling inflation, macroeconomic stabilization efforts began in earnest through decisive fiscal and external adjustment, coupled with measures to support halting monetary financing, and a more active domestic debt management. These measures succeeded in achieving some degree of macroeconomic stabilization. The intense macroeconomic instability inherited from the previous phase of the program, and the sharp policy adjustment to address it, took a heavy toll on economic activity, with real GDP expected to contract by 3½ percent by the time of the Eighth Review. To mitigate the impact on the vulnerable, the authorities took steps to scale up social assistance. For example, benefits from the flagship programs supporting young mothers and children—the universal child allowance and food assistance initiatives—nearly doubled in real terms.

44. The centerpiece of the new approach was a commitment to eliminate the fiscal deficit in 2024. This meant a fiscal adjustment of about 5 percent of GDP—more than double what the

original program targeted over a three-year period—to reach a primary surplus of 2.1 percent of GDP, well above previous reviews' projections.[50] The initial plans, articulated at the time of the Seventh Review, envisaged a broadly balanced adjustment, with increased tax revenues from unwinding personal income tax exemptions, trade-related taxes, a higher tax on FX access, and improved tax buoyancy following the recovery from drought conditions. Alongside, a reduction in subsidies, government operating costs, and the public sector wage bill was planned to underpin the expenditure adjustment. Although revenue projections were revised down by the time of the Eighth Review, deep expenditure cuts, including to discretionary spending, markedly improved the fiscal position.

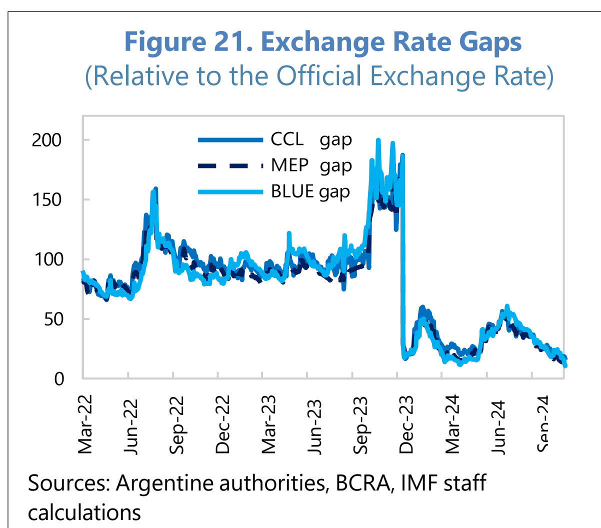
45. Fiscal tightening was accompanied by efforts to reduce fiscal financing pressures. The authorities focused on extending debt maturities and reducing rollover risks through voluntary debt reprofiling. The Treasury conducted multiple exchanges of short-term instruments for medium-term inflation-linked notes (1-3 years), primarily involving public sector participants, who hold about 60 percent of domestic debt. In March 2024, the administration completed a significant domestic debt swap, successfully exchanging 77 percent of peso-denominated debt due in 2024 (approximately US$50 billion) for longer-term local bonds maturing between 2025 and 2028. Despite these efforts, the average maturity of domestic debt remained short at 28 months as of end-September 2024, and rollover risks persist due to limited private sector participation. Public debt-to-GDP ratio spiked from 85 percent in 2022 to 157 percent in 2023 in the wake of exchange rate devaluation (see below), although much of this impact is expected to dissipate with catching up of the nominal GDP (Figure 20). At the time of the Eighth Review, public debt was projected to decline to 91 percent of GDP, almost 20 percentage points of GDP higher than expected at the time of program request.



[50] BCRA quasi-fiscal costs were expected to decline sharply but remain sizeable at around 4 percent of GDP.

46. The exchange rate policies also underwent a major recalibration. A 120 percent step devaluation of the official exchange rate in December 2023 produced an overshooting of the real exchange rate and—helped by the fiscal effort—by March 2024, rapidly narrowed the FX gap from 190 percent to about 20 percent while facilitating accumulation of US$11 billion in FX reserves. Furthermore, the authorities relaxed some FX controls and import restrictions and reduced delays in FX access. However, the crawling peg exchange rate regime was retained with an initial crawl rate of 2 percent per month. While helping to contain inflation expectations, the slower-than-inflation rate of crawl meant an appreciating real exchange rate. Concurrently, FX reserve accumulation slowed, and the FX gap widened to 50 percent in mid-2024 (Figure 21).

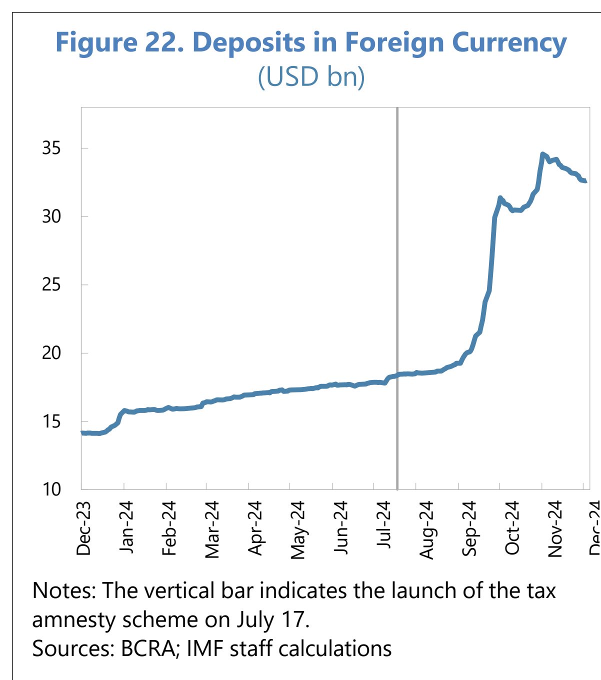
Figure 21. Exchange Rate Gaps
(Relative to the Official Exchange Rate)



Sources: Argentine authorities, BCRA, IMF staff calculations

47. Since mid-2024, confidence has been further enhanced through the continued implementation of the fiscal program, and stronger-than-anticipated resident FX inflows. The authorities included a one-off tax amnesty in their comprehensive *Ley Bases* reform package, which allowed declaration of previously undeclared FX assets. Between the introduction of the scheme on July 17 and end-November 2024, private FX deposits in the domestic banking system nearly doubled, rising by US$14.3 billion (Figure 22). This large infusion, together with unwavering implementation of the fiscal program, markedly improved FX market conditions, facilitating a resumption of FX reserve accumulation, a rapid narrowing of the FX gap (which reached single digits in early December 2024), and a further significant reduction in sovereign bond spreads, which fell to around 750bps in early December 2024 (down from around 2,000bps in December 2023, and 1,600bps in mid-July 2024 – see also Figure 4).

Figure 22. Deposits in Foreign Currency
(USD bn)



Notes: The vertical bar indicates the launch of the tax amnesty scheme on July 17.
Sources: BCRA; IMF staff calculations

48. With fiscal policy shouldering the bulk of the disinflation effort, work began on improving the balance sheet of the Central Bank. Monthly interest rates dropped below monthly core inflation starting December 2023 with real interest rates turning negative. This helped to lower the BCRA's quasi-fiscal losses, reduced the interest costs of government debt, and further slowed the rate of base money growth.[51] Despite negative real interest rates, inflation began to decline after a post-devaluation spike, slowing from just below 300 percent y-o-y in April 2024 to about 166 percent as of November 2024. As inflation fell, the real policy interest rate became marginally positive. A key policy initiative involved replacing the BCRA's interest-bearing liabilities (LELIQ) with Treasury-issued Fiscal Liquidity Bills (LEFIs). This was designed to reduce inflationary pressures by eliminating the need for the BCRA to issue additional pesos. Put options were largely eliminated and the government bought back its securities held by the BCRA. However, the broader challenge of improving the quality of BCRA assets and their quantity—particularly FX reserves—remains highly pertinent. Balance sheet transparency has also been boosted by the BCRA's decision to value government securities at end-2023 market rate, allowing for a more accurate measure of its equity position (estimated at 1.7 percent of GDP as of August 2024). Further reforms to improve BCRA policy credibility and legal independence also remain work in progress.

49. The structural reform agenda advanced in several other areas, supporting the macroeconomic adjustment. Policy efforts resumed in Q1:2024 with sizable energy tariff adjustments[52] (as prior action for the Seventh Review) and a plan to completely redesign energy subsidies, focusing instead on supporting only the basic energy consumption basket for vulnerable households. At the time of the Eighth Review, energy subsidies were projected to shrink from 1.6 percent of GDP in 2023 to 0.7 percent of GDP in 2024. The government lifted the 2023 pension moratorium and revised the pension indexation formula via a decree, linking pension benefits to past consumer prices, which improved inflation protection.[53] There was also progress in implementing some of the 2022 safeguards assessment recommendations to strengthen the BCRA's autonomy and transparency. Balance sheet transparency has also been boosted by the BCRA's decision to value government securities in accordance with international standards at fair value or amortized cost, whichever is lower for NTTS and government advances, allowing for a more accurate measure of the bank's equity position. But the recommendation for the BCRA to fully adopt IFRS remains pending.[54] Further efforts focused: (i) on enhancing the efficiency, control, and transparency of public spending; (ii) the implementation of the AML/CFT framework; (iii) the SOE privatization

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[51] Despite negative real rates, demand for peso-denominated assets improved owing to fiscal tightening, which helped stabilize both the exchange rate and inflation.

[52] Tariff increases of 350 percent for electricity and 200 percent for gas were implemented in the first quarter of 2024.

[53] The previous formula, adopted in 2020, linked pensions to past wages and payroll taxes.

[54] A structural benchmark was added in the third review to improve BCRA financial reporting to bring some aspects in line with IFRS, and this measure was completed on time, by May 2023.

process; and, in the context of the Ley Bases legislation, approved by Congress in mid-2024 (iv) advancing the agenda for a more market-based economy through product market liberalization, network and services sector deregulation, and labor market reforms.

C. Compliance with Conditionality

50. Compliance with QPCs followed a V shape, with the bottom around the combined Fifth and Sixth Reviews (Figure 23, Annex XI). All periodic QPCs were met through 2022, with the exception of the NIR floor at end-June. However, this was aided by the loosening of established quantitative targets and FX measures that led to non-observance of the continuous performance criteria related to exchange restrictions and multiple currency practices at each Review except the first. Despite the proliferation of such FX measures and further loosening of quantitative targets, the QPCs on NIR and primary balances were missed at all test dates in 2023 by increasingly wider margins. The ceiling on monetary financing was also breached by a large margin in June 2023, and again in December, together with the ceiling on domestic arrears. The compliance with QPCs improved markedly in 2024 under the Milei administration, which brought an end to monetary financing and met increasingly tighter targets on the primary balance. NIR targets were also met in March and June 2024, but reserve accumulation stalled thereafter, leading to missing of the September 2024 target.

Figure 23. Compliance with Quantitative Targets

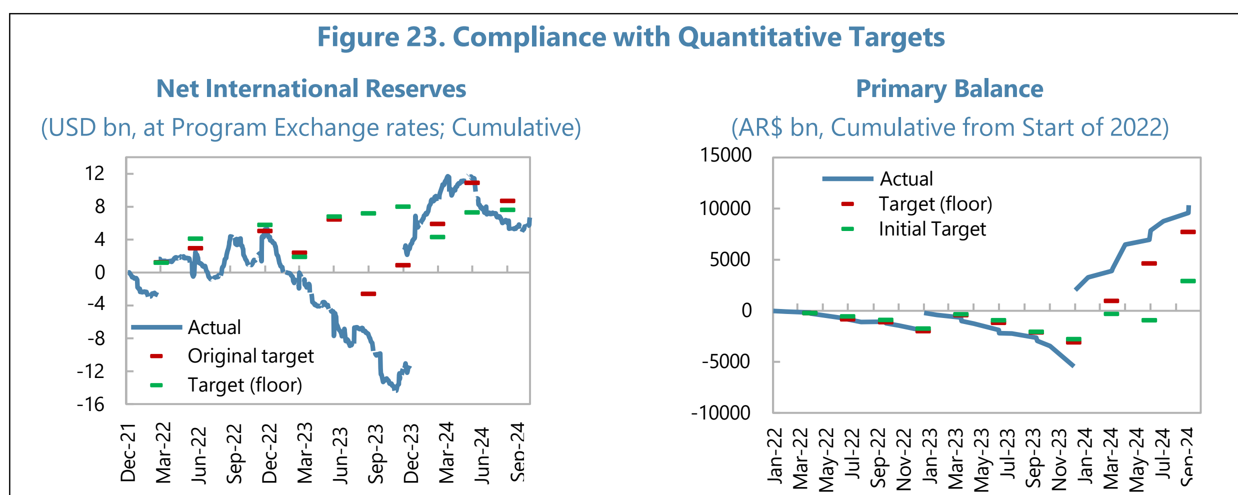
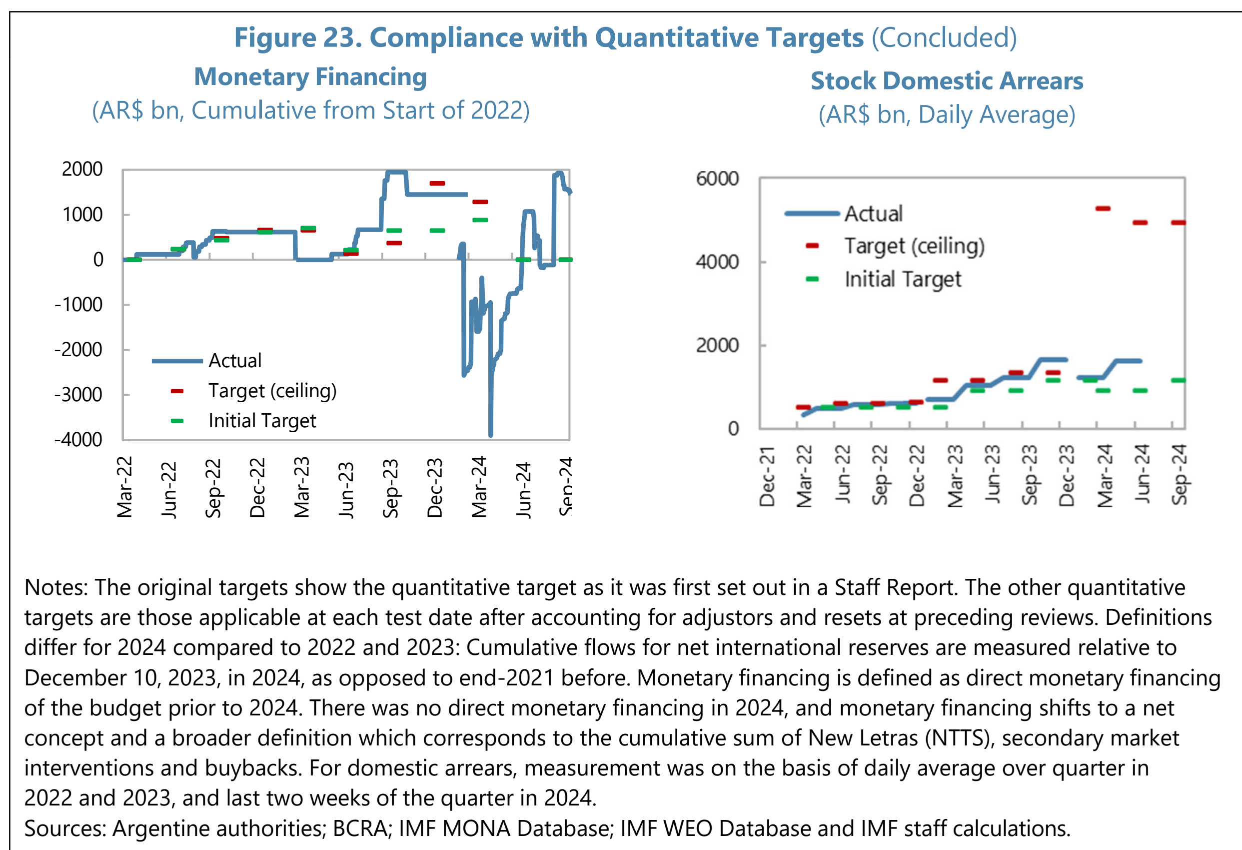


Figure 23. Compliance with Quantitative Targets (Concluded)



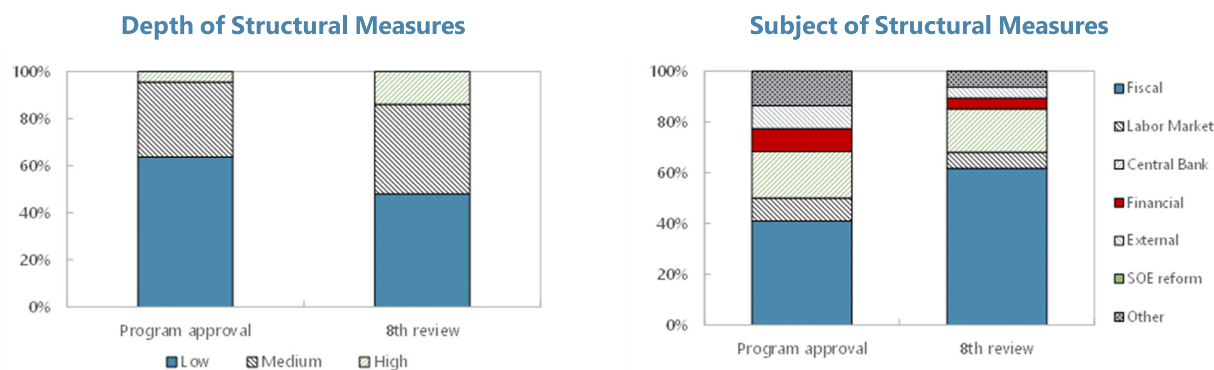
Notes: The original targets show the quantitative target as it was first set out in a Staff Report. The other quantitative targets are those applicable at each test date after accounting for adjustors and resets at preceding reviews. Definitions differ for 2024 compared to 2022 and 2023: Cumulative flows for net international reserves are measured relative to December 10, 2023, in 2024, as opposed to end-2021 before. Monetary financing is defined as direct monetary financing of the budget prior to 2024. There was no direct monetary financing in 2024, and monetary financing shifts to a net concept and a broader definition which corresponds to the cumulative sum of New Letras (NTTS), secondary market interventions and buybacks. For domestic arrears, measurement was on the basis of daily average over quarter in 2022 and 2023, and last two weeks of the quarter in 2024.
Sources: Argentine authorities; BCRA; IMF MONA Database; IMF WEO Database and IMF staff calculations.

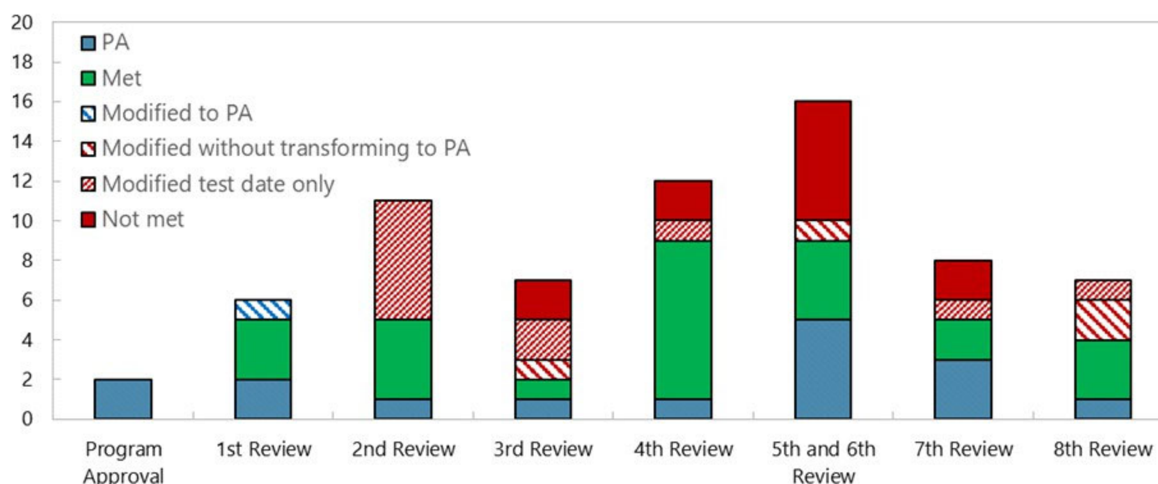
51. Compliance with structural conditionality was also mixed (Annex XII, Figure 24). As macroeconomic challenges mounted, SBs were increasingly oriented to supporting macroeconomic adjustment, and diverted away from addressing deep-seated structural challenges, as envisaged at program approval. Fiscal and monetary/FX policies represented 81 percent of all the structural benchmarks over 2022-23, and most of them were met.[55] The overall compliance rate began to experience challenges as early as the Second Review, when several SBs had their test dates postponed and the completion rate fell further in the Third Review.[56] After some improvement during the Fourth Review, major challenges reappeared in the combined Fifth and Sixth Reviews. The Seventh and Eighth Reviews saw a much better implementation rate, reflecting renewed commitment under the new administration, but the number of structural benchmarks was markedly reduced as the government's lack of parliamentary majority hampered legislative measures.

[55] These typically included submission of budgets, raising the policy interest rate, a step devaluation in 2023, and updating of the electricity prices.

[56] Repeated postponement of structural benchmarks without conversion to prior actions was quite common in several areas.

Figure 24. Structural Measures





Sources: IMF MONA Database; and IMF staff calculations

ASSESSMENT

A. Did the Program Achieve its Objectives?

52. The 2022 EFF did not evolve as envisaged due to a combination of external shocks, major policy slippages, and unusually weak buffers and traction to secure course correction. The EFF had the following stated objectives: (i) gradually and sustainably improve public finances; (ii) durably reduce persistent high inflation; (iii) strengthen external resilience and reserve buffers; and (iv) enhance the sustainability of growth by mobilizing domestic savings, strengthening the effectiveness of public investment, and encouraging the development of strategic tradable sectors (IMF, 2022a).

- **By mid-2023, it was clear that the program was not achieving any of its objectives.** Public finances were in worse shape than before the program with an essentially unchanged federal government primary balance and much higher BCRA quasi-fiscal deficit. Although the unexpected and severe drought was an important contributing factor, the deterioration also reflected policy reversals by the authorities from the start of 2023, an election year which saw the economy minister emerge as a presidential candidate. Absent an adequate fiscal effort to tame domestic demand and anchor the monetary regime, inflation accelerated in 2022-2023; and the inability to tackle mounting quasi-fiscal deficits of the BCRA further aggravated this nexus. Moreover, with inflation not tamed, the authorities' unwillingness to implement a sufficiently large devaluation led to an increasingly overvalued real exchange rate and near depletion of liquid FX reserves despite mounting FX controls. Reflecting shocks and persisting macroeconomic imbalances and distortions, growth significantly disappointed.

- **In 2024, a rapid change of policies resulted in some progress toward program objectives.** The program was significantly redesigned to support the economic policy agenda of the new administration, which differed markedly from the gradual approach envisaged under the original program. Government spending was compressed sharply in real terms, and the primary balance and consolidated public sector balance are now on track to be higher in 2024 than they were in 2021. The large upfront devaluation helped to stabilize and re-build FX reserves. Still, as the real exchange rate re-appreciated, reserve accumulation stalled before building adequate buffers, and before the bulk of FX controls could be unwound. The intense macroeconomic instability inherited from the previous phase of the program, and the sharp policy adjustment to address it, have also taken a toll on domestic demand, with a deep recession estimated in 2024, amidst high and rising poverty rates (which exceeded 50 percent in the first half of 2024). More recently, signs of some growth momentum have emerged.

B. Was Program Design Adequate to Achieve its Objectives?

53. The 2022 EFF took a twofold approach to addressing Argentina's overall BoP problem. First, a significant part—corresponding to Fund repurchases—was entirely rolled over with the new arrangement. Although this did not constitute resolution, more favorable repayment terms under the EFF clearly lessened the country's BoP burden. The authorities' reform program thus needed to address the remainder of the BoP problem and strengthen Argentina's ability to regain market access and capacity to repay the Fund by the time repurchases fell due in late 2026.

54. The ambition of the program's fiscal strategy was modest relative to these challenges. Credible stabilization programs that seek to bring inflation down from very high levels usually involve ambitious and frontloaded fiscal consolidation.[57] A strong fiscal effort would have also

[57] See Annex III in IMF, 2024b.

helped ease the external imbalance, especially to support potential devaluation. In contrast, the 2022 EFF envisaged a heavily backloaded adjustment path with only 0.5 percent of GDP deficit reduction during the first year, which compared unfavorably to the overall budget deficit of 4.5 percent of GDP and the quasi-fiscal loss of the Central Bank of 3.3 percent of GDP in 2021.[58] Moreover, the fiscal adjustment plan did not inspire confidence. Revenue-raising rested on tax administration improvements with uncertain near-term yields, while the tax system's complexity and excessive reliance on distortionary taxes[59] (accounting for around a third of tax revenues) was preserved, perpetuating incentives for informality. Reforms to durably reduce the wage bill and pensions, were ruled out, and the automatic earmarking of about half of the revenues to provinces perpetuated budget rigidities. Consequently, contingency plans to address potential slippages or shocks had to rely on ad hoc discretionary measures.

55. Given this, many factors needed to align for the fiscal financing strategy to succeed, while the odds were stacked against success. The strategy rested on the financial sector's ability to absorb sizable bond issuances by the government.[60] This, in turn, hinged on sufficiently strong demand for peso liquidity. The latter—together with the FX reserve accumulation goals—depended critically on the ability to reduce inflation and maintain a competitive real exchange rate. However, initial conditions were highly inconducive. Money demand was declining, and inflation was already high and threatened to accelerate further due to surging commodity prices in the wake of the war in Ukraine. The domestic financial sector was small, and the only alternative funding source available was financing by the Central Bank. Large quasi-fiscal losses of the Central Bank constituted a direct injection of liquidity, constraining the Central Bank's ability to conduct monetary policy. Against this backdrop, the path to success was narrow and highly uncertain. It critically depended on the authorities' ability to boost confidence in and demand for domestic assets through bold policy actions.

56. Disinflation efforts were further hampered by the absence of a monetary anchor. The four primary channels of peso liquidity injection by the Central Bank—that is, monetization of fiscal deficits, BCRA interventions in the bond market, quasi-fiscal losses, and FX purchases—were not

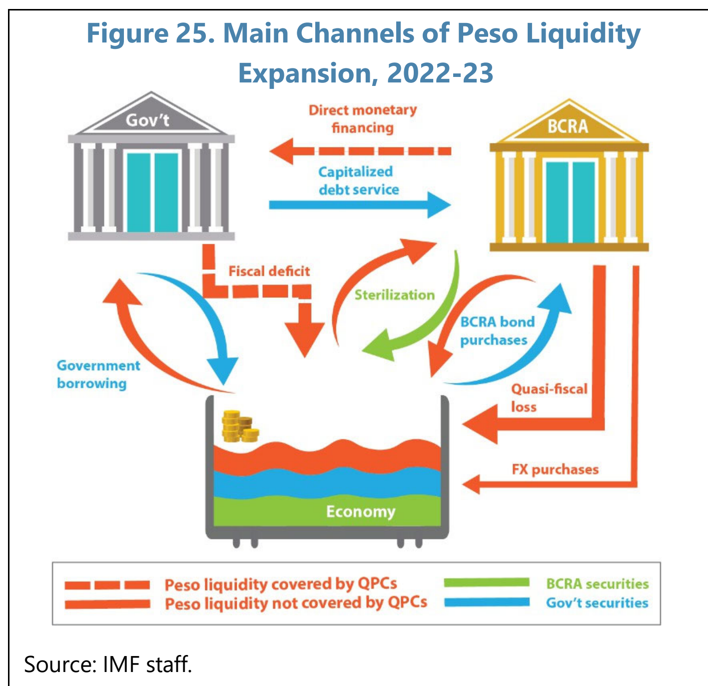
[58] For a discussion of the fiscal nature of such losses see Robinson (1991) or Vaez-Zadeh (1991). Central Bank losses that are small relative to monetary base are common and usually can be self-correcting and do not present major macroeconomic stability risks. The large size of BCRA losses, however, was a significant concern.

[59] These included financial transactions taxes (discouraging formal banking), a tax on turnover levied by provinces and export duties.

[60] The program anticipated that not only could sufficient amounts of private financing be mobilized, but that the authorities would also be able to gradually move away from issuing inflation indexed debt and lengthen the maturity profile of domestic debt.

fully brought under control by the program's conditionality (Figure 25). While QPCs established limits on the primary deficit and direct Central Bank financing of the budget, the framework did not contain an overall monetary anchor, such as a limit on net domestic assets (NDA) or base money. BCRA's purchases of government bonds in the secondary market were also excluded until very late in the program as were the quasi-fiscal losses of the Central Bank.[61] While setting targets for monetary aggregates would have been challenging given unstable money demand, the absence of an overall nominal anchor meant that sizable amounts of liquidity flowing out of the Central Bank were neither capped nor captured by the program's monitoring framework. These injections thus continued to fuel inflation even when the program's fiscal and monetary QPCs were met.

Figure 25. Main Channels of Peso Liquidity Expansion, 2022-23



Source: IMF staff.

57. Persistent quasi-fiscal losses of the Central Bank presented a critical vulnerability and an obstacle to monetary policy. Leaving these losses unaddressed may have had some short-term advantages: it allowed to postpone the needed fiscal adjustment and temporarily take advantage of the seigniorage revenue created by continued money growth, although such revenue itself was conditional on inflation remaining problematically high. However, this also meant that significant money growth was a direct consequence of program design. Moreover, the large size of these losses threatened a vicious circle with rising losses requiring growing issuance of costly Central Bank securities, likely accompanied by interest rate increases to keep up with inflation and producing explosive nominal money supply growth. This left monetary policy handicapped, as raising the policy interest rate became difficult and its overall impact on inflation became ambiguous. In the end, the government's sizable financing needs stemming from slow fiscal adjustment overloaded

[61] The TMU definition of BCRA financing of the government through the first six reviews included: (i) overdraft transfers from the BCRA to the Federal Government (line Adelantos Transitorios in the summary account of the BCRA, as published on its website); (ii) distribution of profits (Utilidades); and (iii) the acquisition of government debt in the primary market or by direct purchases from public institutions. At the time of the Seventh Review, the definition was adjusted to include: (i) issuance of new non-marketable government bonds (Letras Intransferibles); and (ii) purchase of government securities in the secondary markets.

the domestic financial sector, and BCRA losses tripled as a share of GDP during 2022-23, exceeding the entire monetary base by a factor of two in 2023.

58. Shortcomings of the disinflation strategy and the persistent FX gap undermined the feasibility of the FX reserve accumulation strategy. The goals of simultaneously maintaining a competitive real exchange rate and meeting the FX reserve accumulation targets under a crawling peg depended critically on a credible disinflation strategy and strong confidence boost from the program. When these did not materialize, the external sector goals became extremely challenging. Continued liquidity creation and inflation sharpened the authorities' policy trade-offs. Devaluation expectations made FX purchases difficult, and even when such purchases were possible, they could not be durably sterilized. The program's lack of a clear strategy to address the distortionary FX gap further complicated the problem while entrenching distortions.[62] Even during the program's best-performing stretch in the second half of 2022, when both fiscal and monetary targets were met and economic activity was reasonably strong, achievement of the FX accumulation goals required increasing reliance on distortionary exchange restrictions and MCPs, which continuously intensified and expanded over time.

59. It is difficult to overstate the centrality of low fiscal ambition in undermining the overall program design. It was due to low fiscal ambition that various sources of liquidity injection by the Central Bank were uncapped by the program's monitoring framework and an overall nominal anchor could not be factored in. With other sources of financing not well calibrated to support backloaded adjustment, loopholes in the monetary framework thus served to understate the true scale of the fiscal challenge, only a small part of which was captured by the primary deficit, as discussed further below. Similarly, successfully maintaining a competitive real exchange rate and accumulating FX reserves without further accelerating inflation was likely not feasible (even in theory) unless fiscal policy played a more meaningful role (see, for example, Calvo et al., 1994 and Montiel and Ostry, 1993). Fiscal consolidation was arguably the only available tool to simultaneously reduce inflation and support FX reserve accumulation.

60. The design of the 2022 EFF largely reflected the authorities' ability to assert their policy preferences, in the face of the Fund's perceived weak negotiating position on one hand and strong motivation to help Argentina on the other. The authorities' predisposition to prioritizing government spending goals over macroeconomic stability, tolerance of monetary financing, unwillingness to undertake deep reforms, aversion to exchange rate adjustment, and many other redlines resulted in a program that differed manifestly from staff's initial proposal, as well as the Fund's general advice to members. There may have been a set of circumstances and fortuitous factors under which the program could have achieved some success, but such an outcome would

[62] Grey (2021) discusses the distortionary effects of parallel market exchange rates and strategies to address them.

have seemed unlikely and well short of a decisive resolution of Argentina's BoP problem. All told, the program resembled a holding operation, primarily aimed at reprofiling the obligations to the Fund.[63]

61. This said, it should be clear that the scale of the unfortunate outcomes in 2023 cannot be fully attributed to program design. A severe drought played an important aggravating role, causing a very large (about US$20 billion) reduction in FX inflows. Above all, program ownership profoundly weakened as the authorities' policies diverged from the program, the drought was mismanaged—with FX reserve loss and additional trade financing significantly exceeding the impact of the drought as discussed in Annex VIII—pre-agreed contingency plans were not activated, and promises were repeatedly broken. Through it all, the Fund held on to its minimax strategy and continued to extend the benefit of doubt.

62. The reforms implemented by the new administration brought much-needed change to the program's design. Establishment of a strong fiscal anchor, which eliminated deficit financing by the Central Bank put in place the key element that was missing in the original program. Moving BCRA securities to the balance sheet of the government substantially reduced quasi-fiscal losses, addressed an important source of liquidity creation, and strengthened credibility of the disinflation effort while creating favorable conditions to improve the effectiveness of monetary policy. Program monitoring was strengthened by capturing BCRA's secondary market purchases of government securities in program conditionality. Coupled with the large upfront devaluation and measures to relax some FX controls and improve market access, as well as the congressional approval of reform legislation (Ley Bases), the program was brought back on track and created the conditions for decisively addressing Argentina's BoP need.

63. However, sustaining and consolidating the initial stabilization gains will likely require broadening the fiscal reform effort and further improving social conditions to strengthen buy-in from the population. In addition to high-quality fiscal measures (improved progressivity of the personal income tax and subsidy reduction, a sizable part of the initial fiscal turnaround was achieved through deep cuts to discretionary spending, including public investment and wages, as well as temporary or one-off revenue measures such as increasing the distortionary pre-existing tax on FX access (*impuesto pais*) or tax amnesty. As macroeconomic stability takes hold, policies would need to shift toward making fiscal gains more durable by addressing the structural fiscal rigidities: making energy tariffs' cost-recovery automatic, improving sustainability of the pension system and public wage bill, reducing the distortive nature and complexity of the tax system, and improving flexibility in fiscal relations with provinces. Sustainability of fiscal consolidation will also hinge

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[63] EPA and EPE of Argentina's 2003 SBA also found that it "rested on the presumption that the program was transitional, a holding pattern that was not expected to provide the basis for a stabilization of Argentina's balance of payments nor lay the foundation for a resumption of growth." (IMF, 200 , p. 15).

critically on its social acceptance. The authorities have significantly increased social benefits and enhanced inflation-protection of wages and pensions. However, recent trends—notably, that after an intense period of instability in 2023 followed by sharp fiscal consolidation, poverty rates rose to over 50 percent in early 2024—suggest that further strengthening of social support may be needed absent a reversal of this trend.

64. Paving the way toward regaining market access will hinge on a credible strategy to unwind FX controls, greater exchange rate flexibility and a more meaningful role for monetary policy. Strong FX reserve accumulation during 2024 reflected the 120 percent step devaluation in December 2023, easing of the drought conditions, and the tax amnesty. At the same time, the presence of extensive FX controls—which will need to be unwound to ease distortions and regain access to capital markets—and appreciation of the real exchange as a result of preserving a slowly crawling peg, could make continued FX reserve accumulation challenging. Moreover, with fiscal policy anchored by a fixed target (budget balance), maintaining external competitiveness and smoothing fluctuations in response to shocks would require both a more effective mechanism for external adjustment, notably greater exchange rate flexibility, and a stronger role for monetary policy—specifically, ensuring a positive policy real interest rate that appropriately responds to inflation developments to ensure internal balance while supporting the external stability goals. These considerations suggest that, despite achieving strong progress in recent months, the path to resolving Argentina's BoP problem remains challenging.

C. What Could Have Been Done to Improve the Program?

65. The size of Argentina's imbalances and the degree of macroeconomic instability called for a much more ambitious and frontloaded fiscal consolidation. As discussed earlier, this was the key missing piece critical to both debt sustainability and stabilizing the macroeconomic situation. An appropriate fiscal anchor was crucial, and it needed to comprehensively capture the channels through which fiscal and quasi-fiscal activities contributed to aggregate demand. In 2021, the primary deficit—which anchored the fiscal plan under the program—captured somewhere between 40 and 60 percent of the consolidated deficit of the government and BCRA, depending on whether seigniorage is included (Table 3). This share dropped to less than a third in 2022 and less than a quarter in 2023, underscoring the increased disconnect between program targets and the actual

Table 3. Argentina: Consolidated Public Sector Deficit 1/
(Percent of GDP)

	2021	2022	2023	2024 (proj.)
Consolidated fiscal deficit	**7.8**	**9.6**	**15.3**	**3.4**
o/w Primary deficit	3.0	2.4	2.9	-1.7
Interest expenditure	1.5	2.1	1.9	1.8
BCRA quasi-fiscal loss	3.3	5.1	10.5	3.3
Seigniorage revenue	2.6	1.8	2.4	2.7
Consolidated fiscal deficit less seigniorage	**5.2**	**7.8**	**12.9**	**0.7**

Sources: Argentine authorities and IMF staff calculations.
1/ The 2024 projection is based on the Eighth Program Review.

fiscal stance, which affected policy credibility and market confidence in 2022-23.[64] A more comprehensive diagnosis of the fiscal challenge would have better exposed the weakness of the fiscal plan, which proved impossible to compensate due to limited effectiveness other policy tools. While it is hard to say—even with the benefit of hindsight—whether a more ambitious fiscal effort was socially acceptable or politically feasible in Argentina's post-COVID environment, the adopted gradual approach to restoring macroeconomic stability was no less risky as it ultimately postponed and magnified the needed adjustment, undermining fiscal policy credibility.

66. Stronger fiscal adjustment would have increased the chances of program success if accompanied by additional measures in other areas, specifically:

- *Addressing the large FX gap would have better supported reserve accumulation goals.* Hoarding of FX, rent seeking, and lobbying for preferential exchange rates by exporters plagued the program and undermined efforts to build reserves. These effects could have been lessened with a reunification of the exchange rates and greater exchange rate flexibility. While this would have temporarily jolted inflation, the external sector strategy would have been more achievable and the overall disinflation strategy more credible.

- *An upfront and significant reduction of Central Bank losses could have strengthened the disinflation effort.* Embodying past and present fiscal excesses, these losses made monetary policy significantly less effective. Recapitalization of the Central Bank, and/or at least ensuring sufficient interest payments on government securities held by the BCRA, would have reduced its operational cashflow losses. While such a move would have also increased the fiscal deficit—and made the broader fiscal challenge more transparent—it would have allowed for an interest rate-based monetary policy that did not automatically trigger countervailing liquidity injections every time policy was tightened. In other words, the efficacy of monetary policy as a tool to fight inflation would have been resuscitated.

67. Conditionality aimed at deeper and more durable structural reforms could have also improved the likelihood of program success. A complex and distortive tax system and rigidity of the budget stemming from an unsustainable pension system and a sizable public wage bill, over 70 percent of which was controlled by the provinces, were key issues flagged by IMF staff as necessary to address Argentina's fiscal imbalances. Reforms of this nature often involve significant and time-consuming preparatory work and internal dialogue, which did not take place in advance of

[64] The overall deficit may have been also under-estimated due to omission of certain interest expenditures from the deficit calculation on the assumption that they are inflation-induced and akin to amortization. They were thus treated as below-the-line financing items. A large part of accrued interest was also not included in the interest expenditure due to cash-based accounting. While there is some merit to considering such exclusion in a high-inflation environment, doing so in a setting where full refinancing of inflation-induced interest payments is not always possible understates the demand pressures implied by the fiscal imbalance (Blejer and Cheasty, 1991).

the 2022 EFF, likely owing to weak incentives and political resistance. The EFF could therefore have helped make progress in these areas by: (i) clearly stating necessary reform objectives in structural benchmarks[65], (ii) ensuring that all low-depth structural benchmarks are followed up by higher-depth benchmarks (all roadmaps and strategies should eventually result in legislation) and delayed SBs elevated to prior actions, and (iii) being more parsimonious in structural conditionality, in favor for high-depth benchmarks. Greater parsimony of conditionality in an environment with weak ownership and large political risks could have helped focus the efforts of the authorities and strengthened the signal of program ownership given by the degree of compliance with benchmarks.

68. Combining more ambitious fiscal adjustment and greater exchange rate flexibility with more backloaded phasing could have helped ensure a more sustained reform effort. Phasing of access was broadly aligned with the BoP need arising from scheduled repurchases, which helped avoid arrears to the Fund as long as reviews continued to be completed.[66] However, there was a mismatch between the schedule of disbursements (over 90 percent of which were scheduled for 2022-23) and programmed fiscal adjustment (with about a half initially planned in 2024), and the contributions from Argentina's external adjustment and from other sources of financing were lower than in other programs, which left the Fund financing most of the BoP need (see below). While the phasing reflected in part the need to build some confidence and buffers upfront and Argentina's acute financing needs, it raises questions about whether Fund financing was well-enough aligned to allow the safeguards provided by program actions to cumulate. Ultimately, the policy space gained by the authorities through frontloaded phasing was used up, and the low net financing on offer from the Fund may have provided insufficient incentives to sustain reforms, especially around the election cycle. While recognizing the upfront BoP need, more backloaded disbursements with higher net financing in 2023 and 2024 might have better incentivized adjustment and more durable commitment to policy implementation, while potentially preserving some space for bringing forward disbursements in response to shocks.[67]

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[65] For example, the structural benchmark on the study to strengthen the equity and long-term sustainability of the pension system could specify an objective of ensuring that pension spending does not increase as a share of GDP in the medium-term, or that replacement rates are aligned with regional peers, etc.

[66] By that logic, access could have been adjusted downward for the 2021 SDR allocation which Argentina received before the start of the EFF and used to make repayments to the Fund.

[67] Conditional on a stronger reform effort and adequate CtR, Argentina's large BoP needs and low reserves may have justified higher access under the program. Larger net financing by the Fund to reduce the need for monetary financing was explored in the early stages of program discussions but the authorities were unwilling to undertake the requisite more ambitious policy adjustment and did not pursue this option out of concerns over potentially anti-catalytic effects of further increasing already large (senior) debt to the IMF.

D. Were Macroeconomic Projections Overly Optimistic?

69. The program's growth forecasts were optimistic beyond the first year (Figure 26). The extent of over-optimism can be gauged by comparing program forecasts at each review with contemporary Consensus forecasts and, when available, actuals (text figure). Current-year forecasts were generally in line with Consensus forecast, except during the Fourth Review, when the program's forecast underestimated the adverse effect of the drought. One-year ahead growth forecasts were at times more optimistic than Consensus by more than one standard deviation and significantly exceeded market sentiment at the time of the Fifth and Sixth Reviews. Both program and Consensus one-year ahead forecasts significantly exceeded the outcome, which can be attributed to the unexpectedly long-lasting drought.

70. Program forecasts were also quite optimistic about inflation. Current year and one-year ahead inflation forecasts were substantially lower than actuals throughout the program. While this may have reflected the inherent difficulties with projecting inflation amid macroeconomic instability and shocks, program forecasts were also more than one standard deviation below contemporary Consensus forecasts in 6 out of 8 instances for current year inflation and 5 out of 8 instances for next year's inflation.

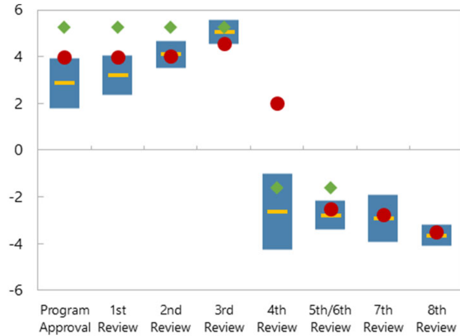
71. External sector projections were somewhat optimistic about FX reserve accumulation but less optimistic for the current account. While actual current account outcomes often underperformed relative to forecasts—in part due to the drought—program projections were within one standard deviation of mean Consensus forecasts in six out of eight Reviews at both current year and one-year ahead horizons. FX reserve projections were similarly close to Consensus and/or actuals for the current year in all program forecasts except for the Fifth and Sixth Reviews. However, there was consistent over-optimism in one-year ahead FX reserve projections, with all forecasts until the Seventh Review more than one standard deviation above mean Consensus.

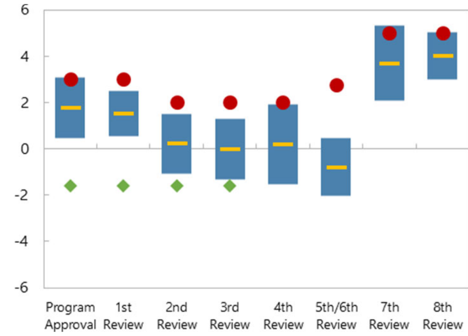
Figure 26. Comparison of Program Forecasts with Consensus and Actuals

Current-year **One-year Ahead**

Real GDP Growth

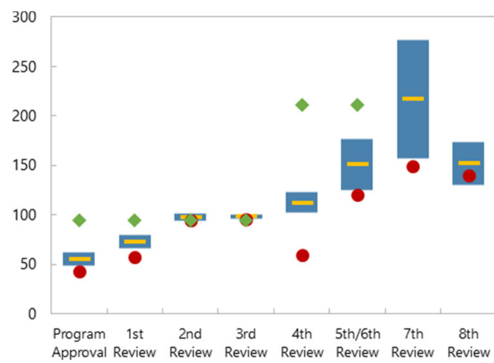
(Annual Average, Percentage Points)

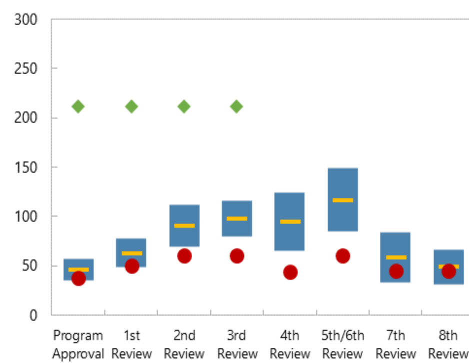




CPI Inflation Rate

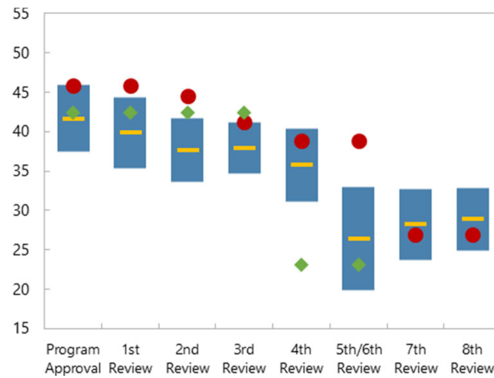
(Year on Year, End of Year, Percentages)

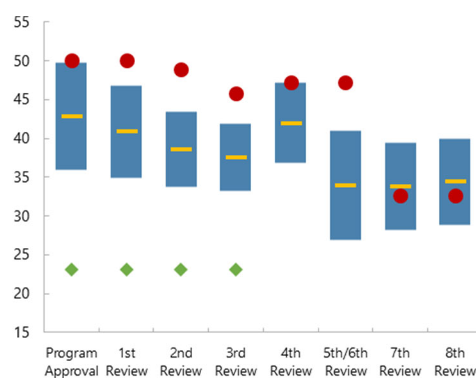




Gross FX Reserves

(End of Year, US$ bn)



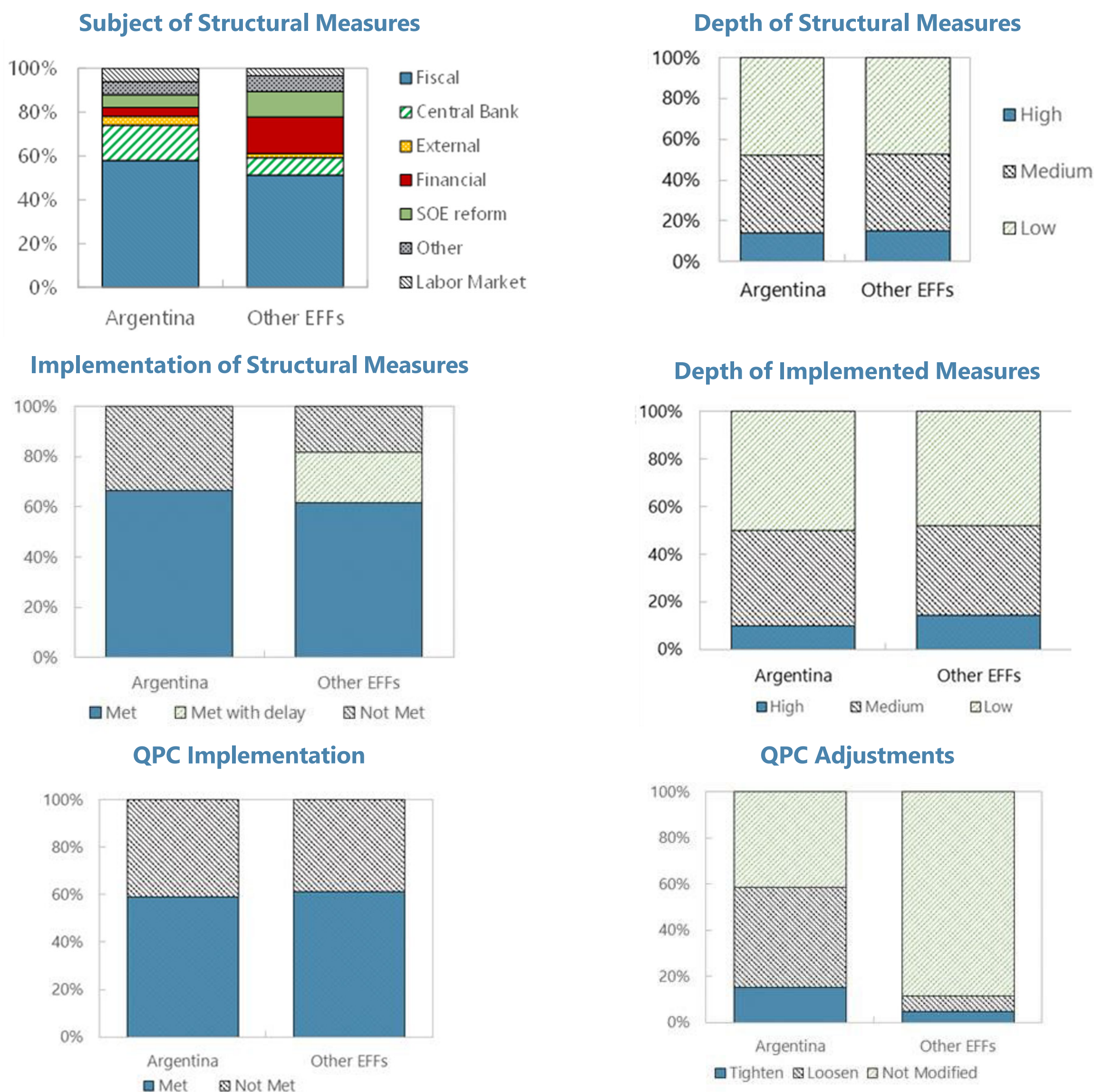


Consensus (+-1 standard deviation) Consensus (Mean) IMF Staff Reports) Actual

Notes: Blue bars span ±1 standard deviation from the mean Consensus Forecast. Consensus Forecasts are based on the nearest monthly forecasts prior to the publication date of the corresponding IMF Staff Report. Actuals are shown when available.

Sources: Haver Analytics; Consensus Economics; and IMF staff calculations.

Figure 27. Comparison of Structural and Quantitative Targets with other EFFs



Notes: Other EFFs include 38 programs with 25 countries from 2002 to 2023. Implemented measures are defined as those that are met or met with delay. QPC loosening (tightening) is defined as an increase (decrease) in a ceiling or upper bound target, or a decrease (increase) in a floor or lower bound target.
Sources: IMF MONA Database; and IMF staff calculations.

E. How did Argentina's 2022 EFF Design Compare to Other EFF-Supported Programs?

Phasing and Financing-Adjustment Mix

72. The phasing was frontloaded compared to other EFFs, with relatively low contributions to external financing gaps from current account adjustment and other financing sources. The frontloaded phasing—and program duration—was more in line with the historical pattern in SBAs than in EFFs (Figure 27) despite Argentina's deep-seated structural imbalances. The planned external adjustment and financing from other external creditors made only small contributions to filling Argentina's external financing requirements, with the Fund's share correspondingly larger (Figure 28). This was in part prompted by the large share of Fund repurchases in Argentina's external financing needs, though Fund policy does not explicitly make allowances for the role of the Fund in the BoP need when determining the appropriate access level. Overall, there is no indication that the Fund program catalyzed significant external financing flows beyond what would already have been available.

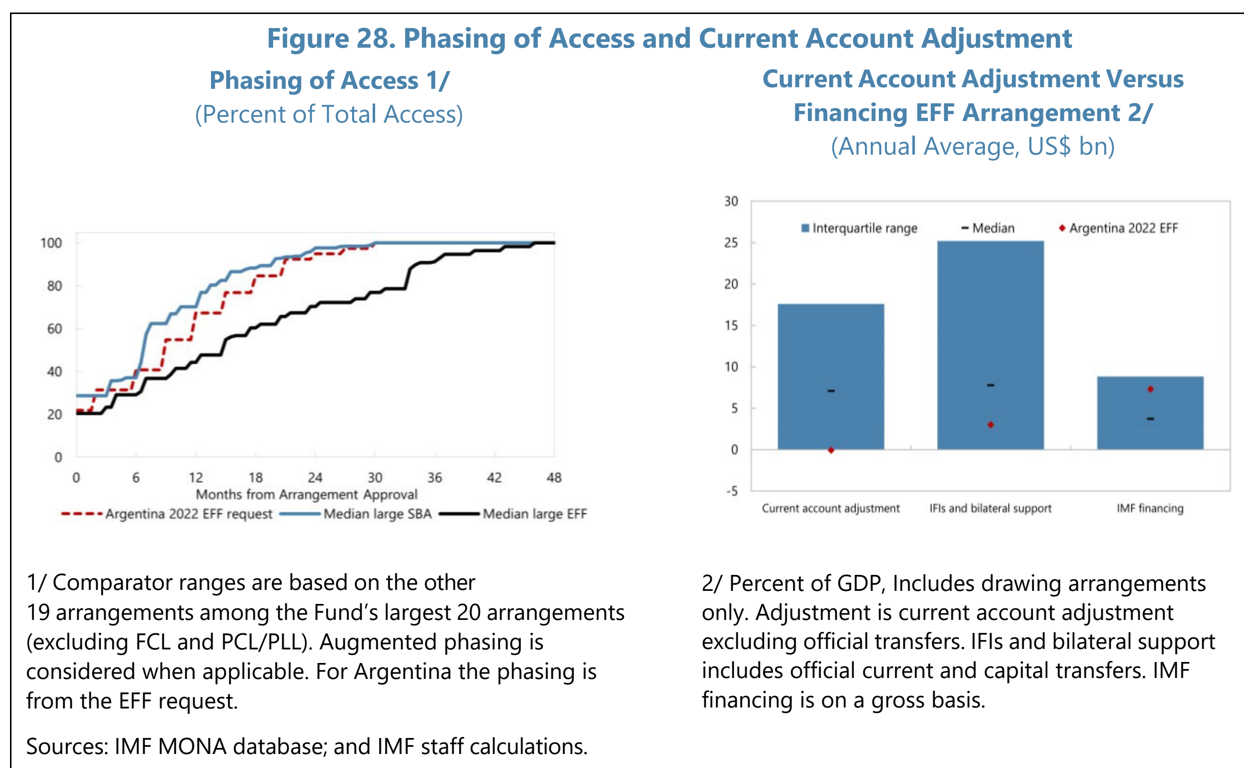


Figure 28. Phasing of Access and Current Account Adjustment

Phasing of Access 1/
(Percent of Total Access)

Current Account Adjustment Versus Financing EFF Arrangement 2/
(Annual Average, US$ bn)

1/ Comparator ranges are based on the other 19 arrangements among the Fund's largest 20 arrangements (excluding FCL and PCL/PLL). Augmented phasing is considered when applicable. For Argentina the phasing is from the EFF request.

2/ Percent of GDP, Includes drawing arrangements only. Adjustment is current account adjustment excluding official transfers. IFIs and bilateral support includes official current and capital transfers. IMF financing is on a gross basis.

Sources: IMF MONA database; and IMF staff calculations.

Structural Conditionality and Quantitative Targets

73. The targeting and depth of structural benchmarks were comparable to other EFFs, although implementation rates were somewhat lower (Figure 28).[68] Measures related to the fiscal sector (58 percent) were the most prevalent, followed by Central Bank issues (16 percent). Similar to other EFFs, about half of structural measures were of low depth, while high depth structural conditions were limited (14 percent). While a third of structural measures were not implemented, implementation did not favor lower depth measures. The structural depth of implemented measures was of a similar composition to that of planned measures, as well as other EFFs.

74. QPC implementation rates were comparable to other EFFs, but quantitative targets were more frequently loosened. About 60 percent of QPCs were met, similar to other EFFs, but modification of QPCs was far more frequent than in other EFFs and skewed towards loosening—45 percent of QPCs were loosened while only 7 percent were tightened—reflecting the underperformance of the program relative to key macroeconomic objectives.

Macroeconomic Adjustment

75. The program's macroeconomic outcomes were an outlier compared to other EFF-supported programs (Figures 29 and 30). The real appreciation experienced by Argentina under the 2022 EFF was generally above the 90th percentile of what was observed in other EFF-supported programs and by far the largest among those approved under the Exceptional Access Policy. Relatedly, and in part due to the historic drought, the outcomes for the current account and FX reserves were close to the 10th percentile of what was observes in the comparators.[69] Inflation, which increased by 180 percentage points during this period, exceeded the first two years of comparable programs by several orders of magnitude.[70] At the same time, the adjustment of the primary fiscal deficit—both planned and actual—was comparable to the median adjustment in other EFF-supported programs, both in unconditional terms and after accounting for differences in pre-

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[68] As per the (IMF, 2019) structural depth is defined as the degree and durability of structural conditions, with measures separated into high-, medium-, and low-depth categories.

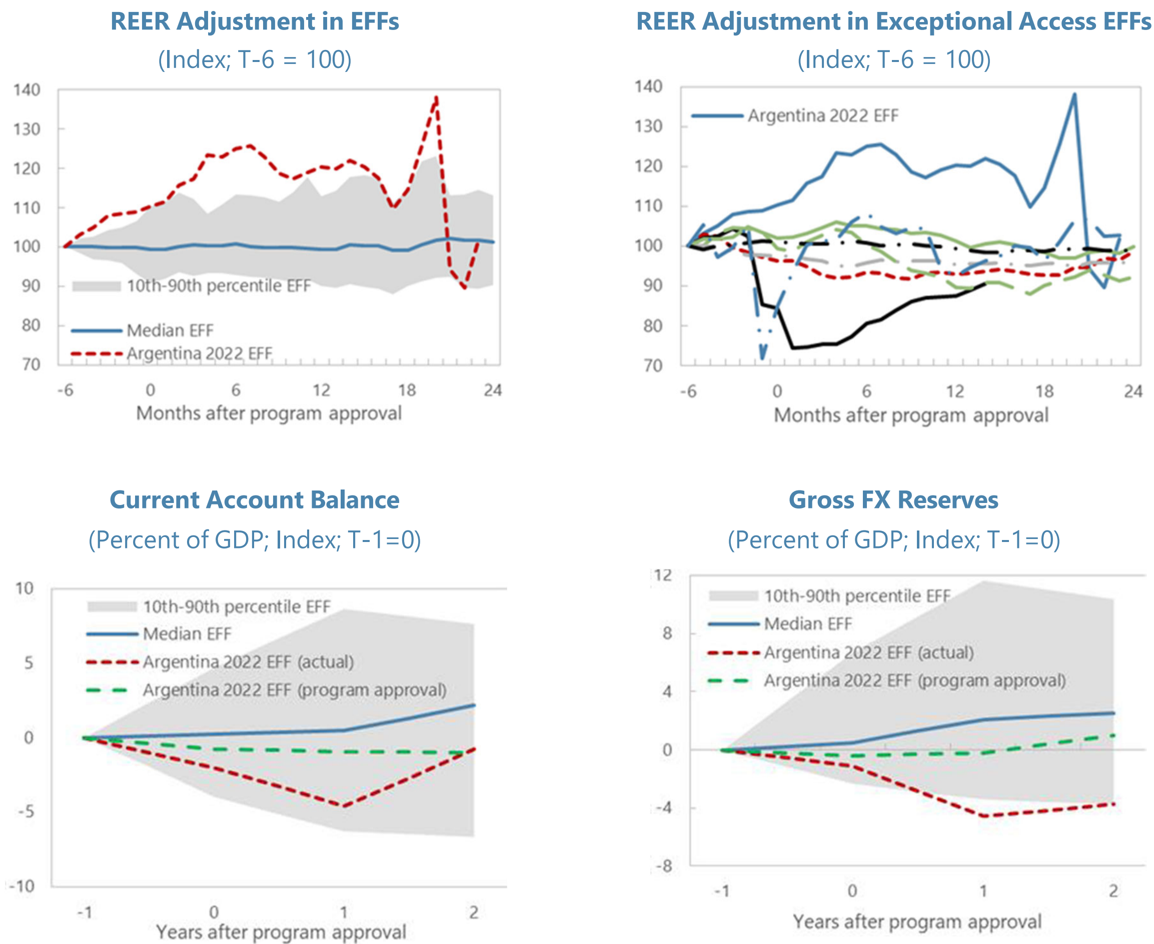
reserves

[69] The underperformance is not explained by forecasts at program approval or initial current account balances and reserve buffers.

[70] The program was also an outlier with regards to the initial inflation rate prior to program approval (48 percent in 2021).

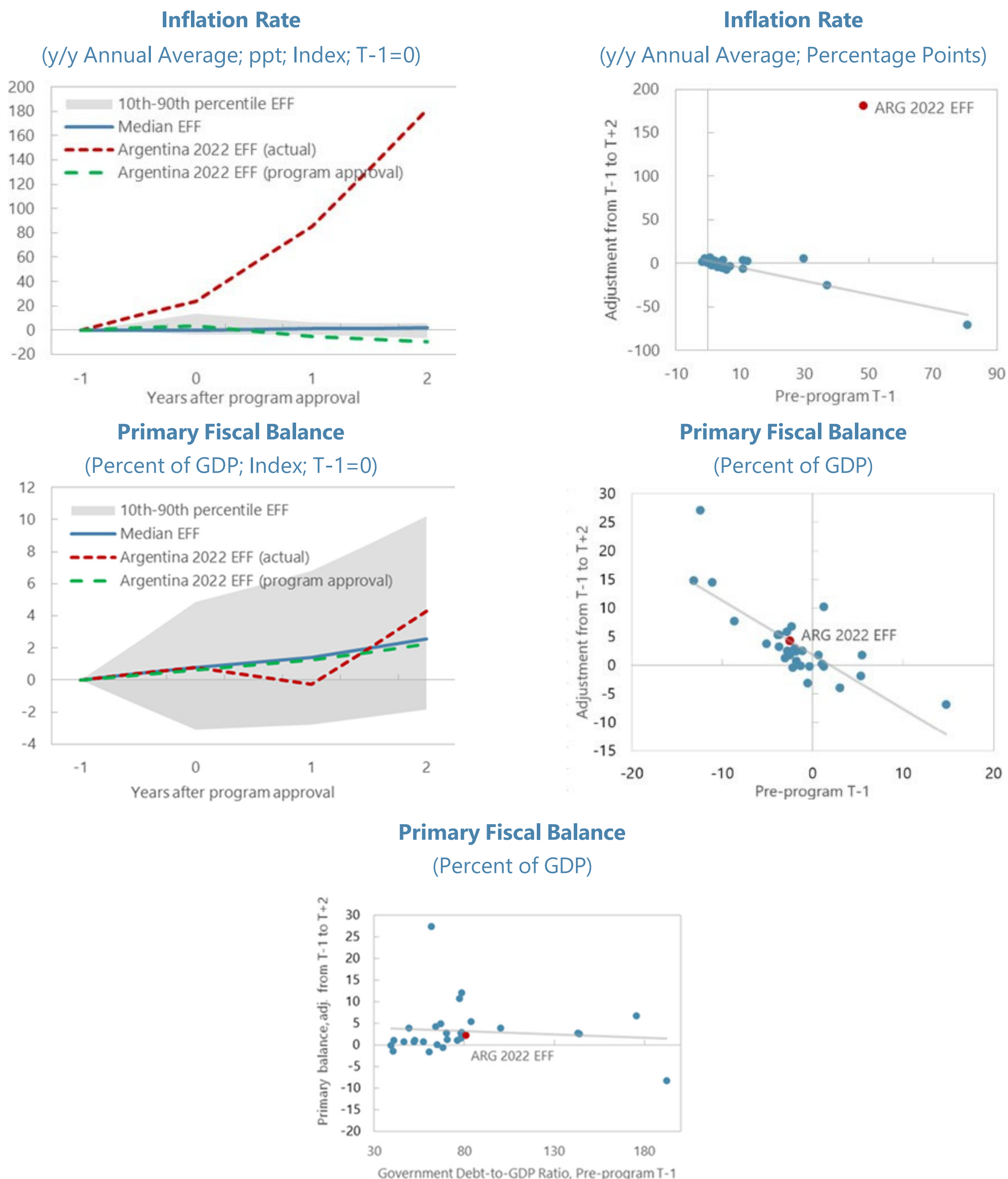
program deficit and public debt levels. However, significant and increased quasi-fiscal losses by the BCRA complicate the assessment of the initial fiscal stance and the size of the adjustment.

Figure 29. Comparison of External Adjustment with other EFFs



Notes: Other EFFs include programs with available data between 2002-2023. T denotes the program approval date. REER figures are based on actuals. Current account and reserves figures are based on actuals for EFFs, actuals up to 2023 and October 2024 WEO forecasts for 2024 for Argentina 2022 EFF (actual) and projections at program approval for Argentina 2022 EFF (program approval).
Sources: IMF WEO, MONA and IFS Databases; and IMF staff calculations.

Figure 30. Comparison of Internal Adjustment with other EFFs



Notes: EFFs include programs with available data between 2002-2023. T denotes the program approval date. Timeline figures are based on actuals for EFFs, actuals up to 2023 and October 2024 WEO forecasts for 2024 for Argentina 2022 EFF (actual) and projections at program approval for Argentina 2022 EFF (program approval). Scatter plots are based on actuals up to 2023 and October 2024 WEO forecasts for 2024 for ARG 2022 EFF and actuals for other EFFs. The line of best fit is based on an OLS regression that excludes ARG 2022 EFF.
Source: IMF WEO and MONA Databases; and IMF staff calculations.

CONSISTENCY WITH FUND POLICIES AND PROCEDURES

A. General Considerations

76. Several policies govern exceptional access to the Fund's general resources (GRA). A general requirement for a program supported by a Fund GRA arrangement is that it must meet the upper credit tranche (UCT)-quality standard (see Annex XIII). The Fund's exceptional access policy prescribes additional safeguards for access to GRA resources beyond regular access limits. The EA policy involves procedural and substantive elements. Procedural requirements involve early and systematic consultation with the Executive Board and provision of information and analysis justifying exceptional access. On substance, satisfaction of four exceptional access criteria (EACs) is required.[71]

77. Various elements of applicable policies collectively provide safeguards to ensure members' capacity to repay the Fund, which is further complemented by indicator-based analysis. As such, these elements are interconnected, in the sense that whether one criterion is met may rest on an assessment of another. Although such connections are not explicitly laid out in Fund rules, bearing these logical links in mind is important for a holistic view of how Fund's resources are safeguarded. When applied to the case of Argentina's 2022 EFF, one way to think of these links is the schematic of Figure 31.

78. Concerns about the strength of the authorities' program extends to the safeguards provided under EAP. The cornerstone of the Fund's multi-layered risk mitigation framework is the strength of the underlying policy reform program.[72] The additional safeguards prescribed by the EAP are based on the premise that the underlying program is strong, both in design and implementation prospects. When that is not the case, the safeguards are weaker regardless of whether they have been technically met. For example, whether the member's program provides a reasonably strong prospect of success (EAC4) is not as meaningful if program design itself is not sufficiently strong to

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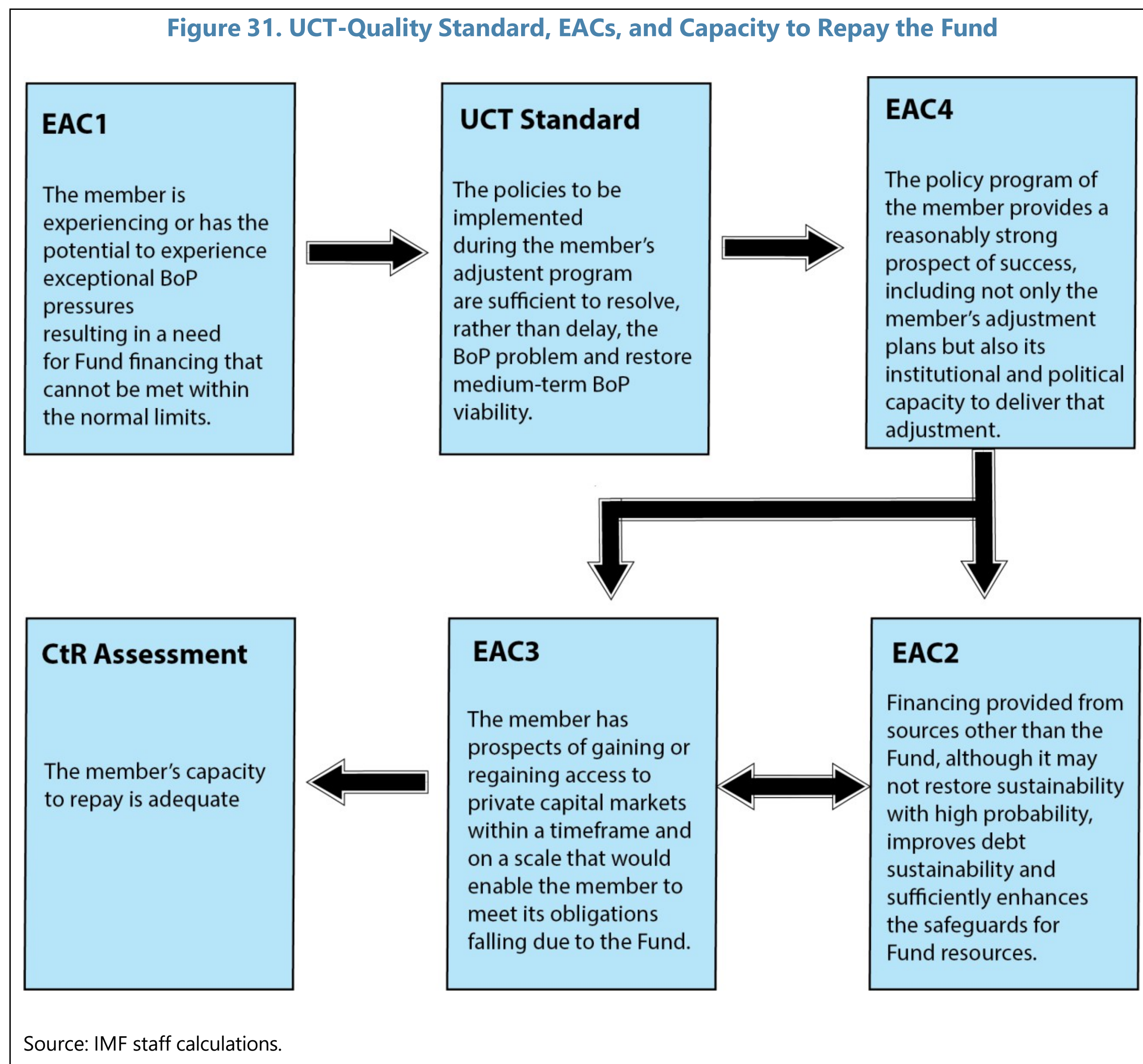
[71] Decision No. 14064-(08/18), as amended.

[72] The Fund does not have explicit procedures for certifying UCT-quality compliance, and its assessment requires careful judgement. Under current practice, compliance with the UCT-quality standard is presumed by the Executive Board's approval of a program or a program review after a robust internal review process.

resolve the BoP problem.[73] And if EA4 is weakly met, this too dilutes the significance of any positive assessments on EAC3 and EAC2.

Figure 31. UCT-Quality Standard, EACs, and Capacity to Repay the Fund



Source: IMF staff calculations.

79. These considerations are highly relevant for Argentina's 2022 EFF. From the beginning, the program was considered as subject to exceptional risks, including that it may fail to engender

[73] One could also consider a feedback link from EAC4 to program strength, i.e. poor ownership may result in a weaker reform plan.

confidence and stability. The design of the program did not inspire confidence, as discussed earlier. These factors suggest that the safeguards under EAP a priori were not as strong as intended by the policy. Rather than adopting a 'big-picture' view of what the signals from various elements of the risk management frameworks (CtR descriptors, the EA criteria, and strength of program design) taken together—including linkages between them—meant, the Fund's approval of the program request and subsequent reviews seems to have relied on the technicality of assessments of individual elements as having some possibility of being satisfied rather than a holistic view of how the Fund's resources were safeguarded. Within this over-arching conclusion, assessments of the individual criteria as met during all program reviews merit further discussion, with the exception of EAC1, which was easily satisfied by the macroeconomic background in 2021, see ¶7. However, it should be noted that EACs are not formulated with the precision that would allow unambiguous evaluation.

B. Exceptional Access Criteria and Procedural Requirements

EAC4

80. At arrangement approval, EAC4 was assessed as met in part on the basis of congressional approval of the program required under Argentine law. This form of political assurance to the Fund provides comfort that there is broad support for the program, including from the opposition, which was highly pertinent given the government's lack of congressional majority. What the vote revealed, however, was that the biggest danger to the program lay within the ruling coalition, a third of which did not vote in favor. These concerns were aggravated by inflammatory rhetoric of key political leaders and the history of acrimonious relations between the Fund and Peronist governments. In the event, the Argentine authorities from both administrations made numerous disparaging public statements about the Fund over the course of the program, levied accusations against Fund staff, and questioned the validity of Fund-supported programs. A related concern, which was not clearly communicated in formal assessments, was the authorities'—notably the Central Bank's—institutional capacity to implement the program in the context of severe fiscal dominance and the precarious state of its balance sheet. Throughout the course of the program, the assessment of EAC4 being met was increasingly tenuous amid deepening fractures within the governing coalition, the economy minister emerging as a presidential candidate, and openly populist policies ahead of the elections. After the elections, the assessment of EAC4 as being met was initially based on staff's assessment that there was broad parliamentary support for President Milei's policy plans despite his party being in a significant congressional minority. The latter became more binding by the time of the Eighth Review, as delays emerged with the approval of key reform legislation and economic policy making relied on executive discretion. Nevertheless, staff judged EAC4 as met due to implementation of discretionary policy measures to mitigate the impact of legislative setbacks, and staff's assessments of prospects of eventually securing Congressional support as strong.

EAC3

81. The Fund expected Argentina to regain market access in 2025, by the time repurchases to the Fund fell due (in late 2026), on a scale that would enable Argentina to make the repurchases. At arrangement approval, EAC3 was assessed as met conditional on strong program implementation, which would help restore confidence, improve reserve coverage with the support of sustained trade surpluses and increased FDI, and create the conditions for a gradual lifting of FX controls. Staff also acknowledged that this assessment was subject to a high degree of uncertainty as shocks and policy slippages could compromise reserve accumulation. The initial assessment appeared optimistic given cross-country experience,[74] the strength of the adjustment program, concerns about EAC4 and implementation risks, the presence of extensive FX controls, and the fact that the program baseline did not envisage Argentina's public debt to become sustainable with high probability during this period. The assessment became even more difficult to justify as the program evolved through end-2023, with the assumptions upon which the initial assessment hinged appearing increasingly out of reach, while shocks and repeated policy setbacks materialized. Notably, external bond prices traded at near-distressed level, macroeconomic conditions worsened with escalating inflation, a widening FX gap and a swing to a sizable deficit in the current account, FX controls and restrictions proliferated without a roadmap for their unwinding, and liquid FX reserves were nearly depleted. These developments likely merited a more critical assessment of regaining market access in 2025, including by ensuring the realism of conditioning assumptions given a track record of underperformance.

EAC2

82. The Fund's approach to assessing EAC2 is conditional on a debt sustainability assessment. When a member's debt is assessed to be unsustainable ex-ante ("red zone"), EAC2 requires outside financing (e.g. from a debt restructuring or other exceptional financing) to restore debt sustainability with high probability (green zone). On the other hand, when debt is considered to be sustainable but not with high probability (gray zone), EAC2 can be satisfied 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. This duality is aimed at ensuring that a debt restructuring, when it is needed to restore debt sustainability, is sufficiently deep to bring debt to the green zone. At the same time, debt restructuring (or other financing provided from sources other than the Fund) is not necessarily required when debt is in the gray zone.

83. Argentina's 2020 FX-debt restructuring was unusual in that it took place outside of a Fund-supported program. While Argentina's debt sustainability was assessed to be in the green

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[74] Data from a cross-country sample on loss of market access during 2000-17 indicate that the average time to re-gain market access was 2½ years after the Fund-supported program ended (IMF, 2015; Guscina, Malik and Papaioannou, 2017)

zone immediately after the debt restructuring, the assumptions underpinning the debt operation were quickly made obsolete by the COVID-19 pandemic, which—coupled with unsustainable policies—brought Argentina's debt to the gray zone by the time the 2022 EFF was approved.

84. Technical assessment of EAC2 was based on a sound analytical framework, which was applied correctly albeit with some optimism (Annex XIV). As Argentina remained locked out of international capital markets, the requisite additional safeguards for Fund resources hinged on whether sufficient private-sector and external bilateral official FX debt remained outstanding by the end of the program so that this debt could be restructured if needed (e.g., due to an adverse shock that rendered debt unsustainable) to improve debt sustainability to at least the "gray zone." Staff assessed the "sufficiency" of this cushion through twin tests of debt sustainability in the face of a large shock and of FX availability should market access be delayed.[75] Importantly, the methodology for these assessments was revised to utilize the tools of the Fund's new Sovereign Risk and Debt Sustainability Framework (SRDSF) for Market Access Countries shortly ahead of the EAC2 assessment for 2022 EFF request. These revisions have helped make the assessments more rigorous and transparent, and the methodology was consistently applied to all 2022 EFF program reviews as well as other exceptional access arrangements. An important caveat was that the assessment of EAC2 hinged on the authorities' strong implementation of the program, as well as baseline macroeconomic assumptions. The latter contained optimistic projections on long-run GDP growth and the real exchange rate, and, importantly, sizable fiscal adjustment beyond the program period. While the "gray zone" assessment and the post-program debt sustainability test were met with sizable buffers, the FX availability test was often met by a thin margin.[76]

Procedural Requirements

85. The procedural elements of the EA policy required prior to approval of the arrangement were followed. The EA Framework requires (1) systematic consultations on program negotiations; (2) a short note outlining the tentative diagnosis of the problem, the outlines of the needed measures, the basis for judgment that EA may be necessary and appropriate with a preliminary evaluation of the four EA criteria, and the likely timetable for discussions; and (3) a separate informal note evaluating the case for EA on further consideration of the four EA criteria. The Board was

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[75] Supplement 1, Annex I in IMF, 2022a. It is important to note that, while the baseline debt sustainability assessment included market issuance in the post-program period consistent with program assumptions, this issuance was appropriately excluded in the adverse scenario for the twin safeguard tests.

[76] The size of these buffers varied across program reviews. Significant hypothetical reprofiling was needed for the post-program debt sustainability test to be met in the Third Review. The FX availability test was met with a sizable buffer in the Seventh and Eighth Reviews.

updated very frequently on Argentina and the status of discussions with the authorities throughout the period between arrangements. This included one informal session in 2019, seven in 2020, two in 2021 (not including the formal meeting on the 2018 SBA's EPE), and five in the first three months of 2022 in advance of program approval.[77] The first short note diagnosing the problem, outlining policy measures, and providing an initial assessment of EA need and qualification was provided to Directors as background for the November 2020 meeting. The second informal note evaluating the case for EA and the four EACs was provided as background for the informal session on February 16, 2022.

C. Were Financial Risks Consistent with the Fund's Risk Tolerance?

86. The required procedural steps pertaining to financial risks and safeguard assessments were generally followed. Processes embedded in the Fund's multi-layered risk management framework that aim to mitigate country-specific financial risks to the Fund, including the EA policy and the internal review process, were followed. Financial risks to the Fund, their impacts, and potential mitigating measures were assessed both by staff and in engagements with the Board beginning with the initiation of program discussions in 2020, and including the staff report for the arrangement request, which was accompanied by the standard supplement that assessed Argentina's CtR and the risks to the Fund's finances and its liquidity position.[78] CtR was assessed at each review. An updated safeguards assessment was conducted during April-May 2022, before the first review, and an updated fiscal safeguards review was conducted before the first review, given the use of Fund purchases for budget support. During program negotiations and throughout the program, Fund staff prepared for the eventuality of arrears, but ultimately the procedures for addressing arrears cases did not need to be set into motion.

87. Given the programmed adjustment, lower access and less frontloaded phasing would have been more consistent with Fund policies and guidance. Access limits and phasing are parameters that aim to help establish "adequate safeguards for the temporary use of Fund resources".[79] In addition to the BoP need, access to GRA resources is guided by the member's capacity to repay the Fund, the strength of its adjustment effort, the amount of Fund credit outstanding, and its record of such use in the past (IMF, 2024c). These considerations do not establish firm thresholds, but for Argentina, all these factors would have pointed to a lower access level. Furthermore, given the programmed backloaded adjustment effort, lower access and less

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[77] Dates of informal sessions: August 30, 2019; February 19, 2020; March 20, 2020; May 28, 2020; June 8, 2020; September 10, 2020; November 9, 2020; March 17, 2021; November 15, 2021; January 18, 2022; January 28, 2022; February 16, 2022; March 3, 2022; and March 18, 2022.

[78] See Assessment of the Fund's Financial Exposures and Liquidity Position in IMF, 2022a.

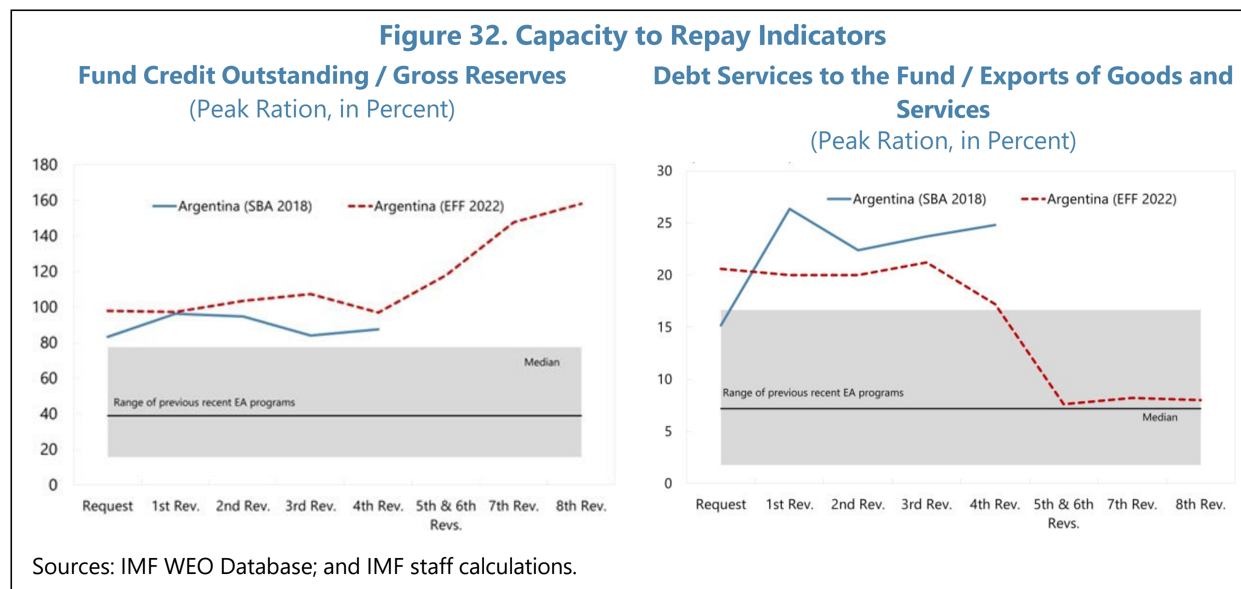
[79] See Articles of Agreement, Article V, Section 3(a).

frontloaded phasing would also have been more consistent with the substantial enterprise risks from the Fund's large exposure to Argentina, discussed below.

88. Moreover, Fund financing was agreed and disbursed despite the inability to assess Argentina's CtR as adequate. As described earlier, at arrangement approval, Argentina's CtR was already an outlier relative to other EA cases. This held true both for metrics on the stock of Fund credit outstanding and for metrics on Fund debt service. Argentina's CtR was assessed as having "very high risks" from the initial program request through the Third Review, before being elevated to "exceptional risks" from the Fourth Review through the Eighth Review, albeit the latter noted that CtR had "improved somewhat".

89. Argentina's CtR metrics improved along with the shift of obligations from the SBA repurchase schedule to the EFF repurchase schedule, helped by some reserve accumulation during 2024. As the program progressed and gross reserves declined, Argentina's CtR as measured by the stock of credit outstanding relative to the stock of reserves deteriorated (see left-hand panel in Figure 32). However, the SBA obligations were being replaced by obligations under the EFF. The longer repayment profile improved Argentina's CtR in terms of debt service measures—as envisaged in the program strategy—and brought them broadly in line with other exceptional access cases (see right-hand panel in Figure 32). The accumulation of gross and net reserves during 2024 also contributed to improved CtR, albeit the peak ratio of Fund credit outstanding to gross reserves continued to increase in the Seventh and Eighth Reviews, remaining well above other EA programs.

Figure 32. Capacity to Repay Indicators



Sources: IMF WEO Database; and IMF staff calculations.

90. The assessment of Argentina's CtR was clouded by the substantial difference between reported gross and net international reserves. This gap was evident in the run-up to arrangement approval: at end-2021, NIR amounted to only US$2.3 billion, despite GIR totaling US$39.7 billion.[80] It remained sizable during the program, with NIR reaching their lowest point of negative US$11 billion in December 2023, while GIR remained at US$21 billion. A key factor was that some of the GIR were held against gross official liabilities in foreign currencies—principally, FX swap lines, deposits of financial institutions stemming from reserve requirements on FX deposits, and the FX holdings of the deposit insurance fund. This led to GIR overstating Argentina's FX buffers, which is illustrated by the difficulties in making repayments to the Fund during 2023, despite reported GIR never falling below $20 billion. [81]

91. Ultimately, the program went forward despite difficulties in reconciling the level of financial risk assumed by the Fund with its stated tolerance for such risk. The Fund had, in its 2016 statement on risk acceptance, set risk tolerance levels across its various functions, and "expected to operate within a moderate overall risk range" with respect to its lending.[82] This statement acknowledged that if moderate risks materialized, the unresolved BoP problems of a member "might require successor arrangements locking in Fund resources for a more protracted period of time than originally intended," a situation the Fund found itself in vis-à-vis Argentina. The statement called for such risks to be mitigated through policy safeguards and "tighter substantive as well as procedural criteria applied in cases where higher risk is accepted." However, given the concerns about the strength of the original program, the safeguards incorporated in the EFF-supported program did not seem commensurate with the level of risk. This left the Fund with relatively high residual financial risks. Although both the staff report and the Board summing up of the EFF request acknowledged that "these risks cannot be fully mitigated through program design and contingency planning"—an assessment echoed in subsequent program reviews—the Board accepted the residual risks and the Fund proceeded with approving the program and subsequent reviews.[83]

D. How Were Enterprise Risks Handled?

92. Policies regarding enterprise risk management (ERM) were evolving during the period of Argentina's EFF-supported program. As noted above, the 2016 statement on risk acceptance

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[80] Program documents also presented an alternative measure, "FX liquidity", which was defined as gross reserves excluding the unactivated share of the PBoC swap, the BIS credit facility, gold, SDR holdings, and SEDESA deposit insurance.

[81] The BoP Manual (IMF, 2013) defines reserve assets as "those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs…". BoP financing needs should include Fund repurchases.

[82] See *Risk Acceptance Statements* (SM/16/7, Rev. 3), February 17, 2016.

[83] See IMF (2022a) Executive Board assessment para. 6, and Executive Summary para. 5.

governed the tolerance of risk during program negotiations, approval, and the first three reviews. Assessing whether procedures were followed under the policy as it existed at that time is challenging, as specific requirements were not spelled out. In December 2022—after the EFF was well underway—the Board approved a broader ERM policy.[84] This more clearly specified governance and procedures and laid the groundwork for more quantified measures of risk tolerance that were subsequently developed and approved.[85] Under the new ERM policy, the staff report for the Seventh Review in January 2024 was accompanied by a standalone enterprise risk assessment—the first of its kind under the policy—to facilitate Board consideration of the enterprise risks of approving the review versus those of not approving it.

93. Enterprise risks of the proposed program were communicated from an early stage, albeit in a less systematic manner than occurred upon implementation of the new ERM policy. The enterprise risks of the proposed program—and of failing to agree on a program—were highlighted in multiple informal Board engagements ahead of program approval. These engagements also discussed risk mitigation strategies. As noted earlier, program documents and Board discussions acknowledged the program implementation risks amidst a complex economic, political, and social situation, and emphasized the need for contingency planning, while also highlighting the reputational risks associated with failing to assist a member facing a large BoP need as the lender of last resort, as well as the ongoing risk of Argentina incurring arrears to the Fund.

94. While risks were properly acknowledged, they could have been assessed and managed earlier, allowing for broader and deeper Board discussions on mitigation options. From the time the 2018 SBA went off track, consideration of the large enterprise risks and a broader menu of options (including alternatives to program engagement) to address them could have been explored by the Executive Board. However, once program negotiations started and the authorities' intention to request a Fund-supported program was made public in mid-2020, discussions by the Board—while frequent, with over a dozen informal meetings prior to program approval and substantial staff outreach to Executive Directors—mostly focused on program prospects and parameters. Moreover, consideration by the Fund's Executive Board of the EPE of the 2018 SBA took place after program negotiations had been in progress for over a year, with many key program parameters already narrowed down, missing the opportunity to fully incorporate the lessons from past engagement. Similarly, risks to the Fund's preferred creditor status, the ability to handle very large arrears, and other enterprise risks such as the potential impacts of arrears on fundraising for concessional lending or on shareholder support for other policy initiatives were not systematically discussed by the Board,

[84] See SM/22/206.

[85] See EBS/24/9.

against the enterprise risks of being perceived as too lenient in the program in order to avoid arrears. Although the Fund saw itself as prepared to tolerate Argentina incurring arrears, it ultimately underestimated the difficulty of changing course once the program was underway, repeating a failure of the 2018 SBA. A clearer and more realistic view of the risk of "pulling out"—rather than the mere acknowledgement of the need for "finely balanced judgements"—would have provided a more informative input into the assessment of enterprise risks and could have incentivized a deeper and broader discussion of program parameters or alternatives to a program.

GENERAL LESSONS

95. The 2022 EFF reflected very difficult trade-offs in a highly complex setting. Many considerations seem to have affected the Fund's engagement with Argentina. The overarching motivation was to help a member amid a challenging post-COVID backdrop. While the Fund was prepared to handle the financial consequences of arrears by Argentina, the potential consequences for Argentina's economy and the Fund's reputation, especially given the difficult legacy of the 2018 SBA, could not be ignored. At the same time, the authorities—notably Argentina's political leadership—did not appear sufficiently committed to implement needed reforms, despite significant accommodation of their redlines. Ultimately, the Fund saw helping Argentina—even through a less-than-ideal program—as potentially leading to better outcomes for Argentina than not agreeing to a program, despite heavy risks. These considerations remained relevant as the program evolved. By early 2023, a severe drought hit the country and aggravated macroeconomic imbalances, which greatly complicated decisions on how to approach policy slippages unrelated to the drought. Finally, the pre-election period presented an additional conundrum for the Fund around maintaining political neutrality—as both "pulling the plug" and continuing to complete reviews had implications—as well as how to preserve some boundaries for policies and viable options for course correction after the elections.

96. As Argentina is now making strides toward the macroeconomic stabilization aimed for under the program, there are important lessons to learn. Thanks to a major course correction by the new government starting in late 2023, macroeconomic policies are broadly on the right track, although the path to durable resolution of the BoP problem remains long and uncertain. The Fund remained engaged despite the previous authorities' weak ownership and poor policy implementation, while helping Argentina avoid large arrears to the Fund without increasing the Fund's own exposure and putting Argentina's obligations to the Fund on a more manageable repayment profile. It should be recognized, however, that in the interim Argentina endured crisis conditions, which it is beginning to exit only due to the election of a government with an unusually strong will to implement difficult reforms. While the argument that engaging with Argentina through the 2022 EFF delivered better outcomes than pursuing a different course can be made, it is difficult to assert this point with strong confidence as the counterfactual outcomes cannot be observed. The overall outcomes of the program would be substantially weaker if evaluated on the basis of

developments through the end of 2023. Recognizing this and reflecting on what could have been done differently is important given the toll on the population from the intense macroeconomic instability, then followed by sharp macroeconomic adjustment, which was necessarily larger than what was needed at the outset of the 2022 EFF.

97. The case of Argentina's 2022 EFF underscored continued relevance of the lessons drawn by the 2021 EPE and the 2003 EPE/EPA. While the 2022 EFF attempted to incorporate some of them, a highly complex political and socio-economic backdrop and the difficult legacy of the 2018 SBA resulted in several pitfalls that resembled those faced by previous programs. *Ensuring robustness of the program to shocks* was warranted given the exceptional risks and would have required a stronger policy effort to allow buffers in the program, more explicit contingency planning, and alternative scenario analysis. The importance of *balancing ownership* (which involves giving some deference to policy "redlines") on the one hand with *the quality and appropriateness of program policies (*which involves *questioning those "redlines") and* the attendant *risks to the Fund's reputation* on the other, was highly relevant in view of a rather shallow and gradual adjustment effort when compared to the scale of the underlying imbalances. Sustained slippages during 2023 amid an intensifying election campaign evoked the recommendation to *consider when the Fund should "pull the plug" on programs whose objectives can no longer realistically be met*. This also applies to situations when meeting the Exceptional Access Criteria becomes increasingly tenuous or doubtful during the program. Finally, *sharpening the application of the EA framework* was highly relevant, particularly in the evaluation of EAC4, which would have benefited from a more granular assessment of Argentina's political dynamics, and the realism of the EAC3 and EAC2 assessment. In addition, the links between the various elements of the broader framework for safeguarding Fund resources (Figure 31)—most importantly, that concerns about program strength extend to the strength of the safeguards provided by EACs and CtR assessment—underscore the importance of a holistic application of the EA framework that takes into account these links and the collective signals provided by the individual elements of the overall framework.

98. Fundamentally, the experience with the 2022 EFF calls for reflection on whether the IMF's current policies and procedures are well-suited to deal with a large- and concentrated-exposure case like that of post-2018-SBA Argentina. There is not a clear policy framework governing the Fund's approach to exposures that are so large that if they became arrears, re-engagement by the member would become near-impossible (due to the unavailability of bridge financing in those amounts), which would also carry substantial reputational implications to the Fund, and financial costs to the Fund and its members. The imperative of avoiding such an outcome would have directly rebounded onto the Fund's willingness to delay a review, taking away arguably the most important source of Fund leverage in a program, and thus handicapping program prospects. Fund policies also do not generally differentiate between sources of BoP problems, and in

particular, whether a large part of the BoP problem stems from obligations to the Fund. Relatedly, the Fund's lending framework does not account for cases like Argentina's where the risks from the existing exposure are already high. In this case, the marginal financial risks to the Fund associated with the refinancing of Argentina's outstanding Fund credit were much lower than if a comparable amount of new financing had been provided to a borrower in similar circumstances but with no Fund credit outstanding.

99. Resolution of these tensions is not obvious and requires a broader discussion of policy options. The combination of high enterprise risks in the Argentina 2022 EFF, along with the authorities' unwillingness to undertake deeper reforms amid a very challenging socio-political setting, was not conducive to negotiating or maintaining the desired strength of program design and bar for completing program reviews as the Fund sought to help Argentina. Therefore, preserving the Fund's lending standards in cases where these considerations are present—and avoiding setting undesirable precedents for other Fund-supported programs—calls for further consideration of: (i) options that are not limited to standard program engagement (e.g. a postponement of Fund repurchases beyond the program period[86]); and (ii) (if a standard program engagement is considered the only viable option) ways to ensure a realistic possibility for the member to exit from arrears to the Fund while taking into account all the relevant trade-offs.

100. Early and comprehensive enterprise risk discussions with the Board are also critical in such contexts. Argentina was the subject of multiple informal Board engagements in the 2020-22 period before the program request, and Board documents included the analysis of financial risks to the Fund. In January 2024, the Board discussion of dedicated enterprise risk assessment – anchored in the new ERM policy – provided an enhanced framework that is also being adopted in other high enterprise risk cases. There is merit in such cases of having Board consideration of risks associated with a broader set of options than program vs. no program, or the possibility of arrears, and should encompass options that may involve policy changes and the associated risks and mitigants associated with those options. Moreover, caution is needed in such large exposure cases to not underestimate the pressures to maintain course once the program route has been chosen, versus stopping a review due to program implementation weakening below an acceptable level.

101. Doubts about whether the 2022 EFF could have feasibly resolved Argentina's deeply entrenched BOP problem warrant further consideration of the appropriate approach in such circumstances. The UCT-quality standard in the GRA requires members' BoP problems to be resolved through measures adopted within the program period. However, the example of Argentina's 2022 EFF suggests that this may not have been feasible because of a combination of the

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[86] Although the Fund has had a longstanding policy of not invoking this clause, Articles of Agreement, Article V, Section 7(g) permits postponement of repurchases beyond the maximum repurchase period if the Fund determines, by a 70 percent majority of the total voting power, that a longer period for repurchase (but still consistent with temporary use of the Fund's general resources) is justified because discharge on the due date would result in exceptional hardship for the member.

large size of the deeply entrenched BoP problem and the severe limitations on what program conditionality could achieve in the absence of strong commitment to reforms amid a challenging political environment and difficult post-COVID socio-economic setting, including repeated exogenous shocks during the program period. Approaches to Fund lending and conditionality that more explicitly consider these factors, in a more shock-prone world, could be useful, while balancing against the risk that provision of Fund resources without a durable solution to the member's underlying vulnerabilities could be counterproductive for the Fund's credibility and the member's long-term interests.[87]

102. The role of CtR assessments in guiding the design of program safeguards and the Fund's lending decisions, as well as the analytical framework underpinning such assessments could be further enhanced. While CtR assessments are an important part of the Fund's overall risk management framework, Fund policies would benefit from further clarity as to how such assessments should be factored into lending decisions. In the case of Argentina's 2022 EFF, the decision to lend despite the inability to assess the country's CtR as "adequate" and the completion of program reviews notwithstanding "exceptional risks" to CtR merit a consideration of these decisions' consistency with the Fund's risk tolerance level (or a revision of the latter). Moreover, assessing Argentina's CtR on the basis of gross FX reserves, which were not reported in line with international standards, and also included assets held against FX liabilities that made them markedly higher than net reserves, significantly overstated the country's actual capacity repay. This points to the need for CtR assessments to consider the most relevant country-specific measures of reserve buffers.

103. The precedent of providing technical assistance to facilitate debt restructuring without clear and credible policy commitments under a Fund-supported program merits further consideration. In the very difficult circumstances Argentina was in—on the brink of default to external creditors, while owing significant senior debt obligations to the Fund created under the 2018 SBA—it is understandable that the Fund sought to assist in the restructuring, motivated by the goal of helping the member. However, helping a member to create policy space without ensuring that commitments were in place on how to use that space may have come with costs and should be treated carefully as a precedent. The Fund's role as a global financial institution with a preferred creditor status suggests the importance of remaining objective in both assisting the members with resolving their BoP problems and in sending signals to markets and investors. Constructed outside of a Fund-supported program, the March 2020 DSA was based on hypothetical policy scenarios, not

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[87] See also Mühleisen (2024), who emphasizes the importance of protecting IMF staff's independence and avoiding short-term convenience in program design at the expense of detriment to the long-term standing of the IMF.

backed by actual commitments, which sent questionable signals to investors.[88] Further, the assumptions in the DSA incorporated only a limited impact from the COVID-19 pandemic, which was only beginning to unfold at the time when the report was prepared. When most of the world was already in lockdown, the Fund continued to base assessments on the same baseline, which was not revised until after the debt restructuring was completed, despite clearly becoming obsolete.[89] Finally, the authorities' engagement in serious program discussions did not begin in earnest until the fiscal space freed up by private creditors was largely used up, and Argentina's economy was re-experiencing stress. Going forward, the Fund's approach to provision of technical assistance to facilitate debt restructuring should account for the risk that restructurings could be used in lieu of (rather than to complement) reforms and the implications of such risks, including for the Fund's preferred creditor status and its' signaling role to market and investors.

104. The practice of repeated approvals of program reviews on the basis of "temporary" FX control measures, which appeared to increasingly substitute for adjustment in achieving program targets, warrants reconsideration. The use of FX and price controls and MCPs during the 2022 EFF was significant. Under Article VIII, Sections 2(a) and 3 of the Articles of Agreement, the Fund's Executive Board has the authority to approve the temporary use of exchange restrictions and MCPs in certain circumstances. However, the justification for completing program reviews and granting access to Fund resources on the basis of targets met with the use of such measures warrants further reflection. Under the Articles, Fund financing is intended to give the member the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. Where such destructive measures (e.g., exchange restrictions and MCPs) need to be deployed as stopgaps to allow a smoother course correction, the program should envisage their rapid removal. By contrast, reliance on such measures under the 2022 EFF continuously increased throughout 2022-23, sending a strong signal that the member was not implementing durable adjustment and that the program merited substantive recalibration.

105. Given high implementation risks, the 2022 EFF could have benefited from the authorities' clearer and more transparent commitments to specific contingency plan measures. The credibility of the program and the likelihood of its success would have been enhanced by the inclusion of the authorities' commitment to explicitly spelled-out contingency plans in program documents. This would have given the authorities, the Fund, and—to the extent the general measures could be made public—market participants clear *ex ante* markers as to what would be

[88] The DSA of such a high-profile and complex case may have also merited a discussion by the Executive Board. In general, IMF staff cannot share the DSA document, unless first endorsed by the Fund's Executive Board. DSAs prepared in the context of capacity development assistance are an exception to that rule, see IMF (2023). This exception was invoked in the case of Argentina.

[89] A June 1, 2020 staff technical statement described the assumptions as subject to exceptional uncertainty.

required for completion of program reviews in the baseline or adverse scenarios.[90] The exclusion of such plans from published program documents may have lowered reputational risks from non-implementation for the authorities and weakened the Fund's ability to constrain policy slippages. On the other hand, information about reluctance to provide such commitments could have informed the assessment of EAC4.

106. The experience during the 2022 EFF calls for giving further consideration to how the Fund and its shareholders deal with political pressure notwithstanding complexities. There is always a delicate balance to be struck between securing the authorities' ownership and ensuring policies that are adequate to deliver program objectives. In this context, undue deference to the authorities' preferences risks undermining program quality and the member's longer-term interests, and can result in programs that fail to meet their objectives. This type of pressure can adversely affect the Fund's ability to effectively fulfil its mandate. The Fund's shareholders and the Board should consider how to shield the institution and its staff from such political pressures, reinforcing the Fund's credibility and impartiality as a global institution.

[90] Side letters are available to convey confidential contingency plans to the Executive Board.

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Annex I. Lessons Drawn by the Ex-Post Evaluation of the 2018 SBA[1]

The EPE of the 2018 SBA was discussed by the IMF's Executive Board in December 2021. It found that the program did not succeed for several reasons, falling broadly into four buckets. First, there were shortcomings in program design. The baseline assumptions were found to be overly optimistic, which left little buffer to account for shocks. Further, due to the authorities' policy "red lines," the program did not sufficiently consider alternative or unconventional policies—such as a debt restructuring or use of capital flow management measures—that would have facilitated the achievement of program objectives. Second, the EPE identified shortcomings in clear and frank communication within the Fund, including on the analysis and risks underlying key judgments in the application of the Exceptional Access (EA) as well as program assumptions, risks, and contingency measures. Third, external communications, led by the authorities, was not sufficiently clear and strong to help restore confidence. Fourth, the inability of the program to catalyze other sources of financing and the Fund's resulting role as the largest creditor to Argentina made it difficult to "pull the plug." On this basis, the EPE drew seven general lessons on the importance of:

1. Ensuring robustness of the program to shocks and forecast errors by using conservative yet plausible baseline assumptions and testing the sensitivity to alternative assumptions;

2. Tailoring the program to country circumstances, even if that means embracing unconventional measures (e.g., CFMs) when the policy space offered by traditional policies is limited;

3. Sharpening the application of the Exceptional Access Framework by laying out the analysis and risks underlying key judgments, such as market access, as fully as possible;

4. Carefully balancing ownership—in a broad societal sense when the government has fragile political support—against the quality and appropriateness of program policies and risks to the Fund's reputation, including by questioning policy "redlines" that could compromise program objectives;

5. Ensuring effective external communication, led by the country authorities, so that the program is well understood by the population and in financial markets and has the intended catalytic effect;

6. Revisiting the Fund's assessment and risk-mitigation processes to ensure the Board has sufficient information to robustly discuss program assumptions and strategies and to ensure

[1] Ex-Post Evaluation of Exceptional Access under the 2018 Stand-By Arrangement, IMF Country Report No. 21/279.

contingency plans are agreed in advance with authorities;

7. Considering the broader implications for the Fund's role in the global financial safety net, including burden sharing with other IFIs and private creditors and when the Fund should "pull the plug" on programs whose objectives can no longer realistically be met.

Executive Directors noted that several of the lessons drawn were not new, and they emphasized that the findings should inform Argentina's new Fund-supported program.[2]

[2] See Press Release PR21/401.

Annex II. Summary of the Staff Technical Note on Public Debt Sustainability[1]

By end-2019, Argentina's federal government debt had reached US$323 billion at end-2019, equivalent to 88 percent of GDP and was assessed by Fund staff as unsustainable and requiring definitive debt operation with a meaningful contribution by private creditors, which held US$133 billion, or 41 percent of the total debt. Debt to the private sector included foreign-law debt ($73 billion) and domestic-law debt ($60 billion). About 60 percent of debt to the private sector ($80 billion) was held by nonresidents. The analysis underpinning the estimated scope of the needed debt relief focused on the $207 billion held by the official and private sectors and excluded US$117 billion of public debt held by other public sector bodies—the Central Bank (BCRA) and the social security trust fund FGS (Fondo de Garantia de Sustentabilidad).

Staff's feasible macroeconomic framework envisage the following:

- ***Growth was projected to remain positive post-2020.*** After a projected real GDP contraction of 2.3 percent in 2020, growth was expected to rebound to over 2 percent in 2021-23 followed by convergence to a long-term potential of 1.5 percent.

- ***Fiscal consolidation would amount to 2½ percent of GDP during 2021-23*** and an additional ½ percent of GDP in 2024-25. Starting from a projected primary fiscal deficit of 1.6 percent of GDP in 2020, the framework projected a steady improvement to reach a primary surplus of 0.8 percent of GDP by 2023 and 1.3 percent of GDP starting 2025.

- ***Inflation was assumed to gradually decline***, helped by reduced monetary financing of the budget, positive real interest rates, and a rate of crawl of the nominal exchange rate which would also be consistent with maintaining a ***broadly constant real exchange rate*** after a modest appreciation in 2020. The official exchange rate was assumed to act as a de-facto nominal anchor to meet the disinflation goals, with incomes policy playing a supportive role. Temporary price controls were assumed to be gradually lifted starting in late 2020.

- ***International reserves were assumed to increase steadily***—averaging US$2.8 billion in 2021-23 and US$1.8 billion in 2023-30—supported by a trade surplus and modest FDI inflows, in the context of a gradual easing of CFMs with an eventual restoration of access to international capital markets.

Conditional on the macroeconomic and re-financing projections, debt restructuring to achieve a sustainable debt position, it was suggested to target: i) GFNs averaging no more than 5 percent of

[1] IMF Technical Assistance Report—Staff Technical Note on Public Debt Sustainability, March 2020.

GDP after 2024, and not exceeding 6 percent of GDP in any year (compared to projected GFN of 13.3 percent of GDP in 2020); ii) Debt service in foreign currency averaging no more than 3 percent of GDP after 2024 (6.1 percent of GDP projected in 2020). The minimum cash-flow relief necessary to meet these targets was projected to stabilize Argentina's debt—excluding debt held by BCRA and FGS—at below 40 percent of GDP by 2030 and beyond (60 percent of GDP if BCRA- and FGS-held debt were included).

Annex III. Balance Sheet Challenges of the BCRA

1. **The BCRA's balance sheet has been progressively weakening since 2006 due to persistent monetary financing through different channels.** Initially, this was predominantly caused by the government instructing the BCRA to use its freely usable international reserves to service external liabilities of the Treasury. In exchange, BCRA received non-transferable dollar-denominated treasury securities (NTTS) with typically 10-year maturity and interest rates close to the return on FX reserves subject to a cap. NTTS interest payments have been either paid in cash or were accrued and securitized with new NTTS with principal rolled over. In times of currency devaluation, the NTTS were revalued, and profits transferred to the Treasury and debt overhang exacerbated. In 2019, such revaluation led to the transfer of US$18 billion as profit distribution to the Treasury. By 2020, the accumulated stock of NTTS reached 16.3 percent of GDP or about US$60 billion. BCRA financing was an essential component of fiscal response to the COVID-19 pandemic in 2020-21. BCRA subsidized private credit and increased direct advances and transfers of asset revaluation gains to the Treasury, totaling 7.4 percent of GDP in 2020 and 4.7 percent of GDP in 2021. To mop up the additional liquidity, BCRA issued its own securities raising its quasi-fiscal losses.

2. **Money creation and Central Bank losses accelerated in 2022-2023, further undermining BCRA's credibility.** The government's challenges with raising funds from private sources prompted BCRA to step up bond purchases in the secondary market, particularly in 2023. These purchases were sterilized through issuance of BCRA securities (LELIQ) whose stock progressively grew to 16.4 percent of GDP in 2023. Because the Treasury generally securitized its debt service to BCRA, the latter's cashflow deficits—which were met with creation of fresh peso liquidity—mounted further, reaching 10.5 percent of GDP. Preferential exchange rates to exporters were an additional contributing factor. In the fall of 2022, IMF Technical Assistance mission estimated BCRA's equity at negative 11 percent of GDP in 2022. It recommended urgently ceasing all quasi-fiscal operations and transfers to the Treasury, strengthening accounting standards, and conversion of NTTS to an inflation-linked peso superbond to be serviced from fiscal resources.

Table 1. Argentina: Summary Operations of the Central Bank

(in percent of GDP)

	2021	2022	2023	Sep-24
Net Foreign Assets	3.6	4.9	1.1	1.5
Net Domestic Assets	4.3	1.4	4.0	2.4
Credit to the public sector	19.0	19.1	24.6	8.6
of which: temporary advances	4.7	3.4	0.9	0.5
non-marketable gov't bonds	12.7	13.3	6.8	3.1
gov't bonds and other net credit	2.6	2.4	16.9	5.0
Credit to financial institution	-2.7	-2.6	-3.9	-1.8
BCRA securities	-10.9	-12.7	-16.4	-1.8
Other	-1.1	-2.4	-0.4	-2.6
Monetary Base	7.9	6.3	5.1	3.9
Memorandum Items				
Quasi-fiscal loss (cashflow deficit)	3.3	5.1	10.5	-0.2
NFA (in billions of USD)	16.2	22.7	2.5	8.1

Source: IMF Country Reports and Argentine authorities.

3. In 2024, the balance sheet of the Central Bank has been substantially strengthened. Aside from the initial positive balance sheet impact of financial repression, improvements in the net equity position of the Central Bank has been enabled by: (i) improvements in reserve coverage; (ii) the redemption of government securities held by the BCRA, supported by the fiscal surplus and net government debt placements; and (iii) the transfer of all peso-remunerated liabilities from the BCRA's balance sheet to the Treasury.[1] As a result of the transfer of BCRA remunerated liabilities to the Treasury (completed in July 2024), quasi-fiscal costs declined to zero, as the Treasury now bears the interest costs of the new monetary policy instrument (the LeFi, the Fiscal Liquidity Treasury Bill). Balance sheet transparency has also been boosted by the BCRA's decision to value government securities at end-2023 market rate, allowing for a more accurate measure of its equity position. At the same time, the BCRA issued a short-term USD denominated bond (US$10bn BOPREAL) to clear the backlog of import bills.

[1] The government exchanged BCRA's remunerated liabilities (*pases*) for Treasury bills in two phases. In the initial phase (launched in March), the government encouraged banks to shift their holdings of *pases* towards fixed rate Treasury bills (LECAPs) by offering higher interest rates, with the option of using various Treasury bills as a collateral in the BCRA's standing lending facility. In second phase (launched in July), the government converted all remaining *pases* to a newly created variable rate Treasury bill (LeFis), with these instruments becoming the new monetary policy instrument.

Annex IV. IMF Arrears Policy and Resolution Mechanisms

This annex describes the Fund's well-established framework for dealing with overdue financial obligations and the resolution mechanisms in place and an overview of arrears cases.[1]

1. The Fund's policy on arrears consists of a threefold strategy providing for (i) preventive measures to avoid new arrears from emerging, (ii) intensified collaboration to support normalizing relations with the Fund, and (iii) the application of escalating remedial measures. The Fund's strengthened cooperative strategy on overdue financial obligations applies to both short-term and protracted arrears (of six months or more) and to both Poverty Reduction and Growth Trust (PRGT) and to the General Resources Account (GRA). However, arrears to the GRA are breaches of obligations under the Articles of Agreement, subject to the sanctions specified in Article XXVI, Section 2, and as such are following a specific timetable of remedial measures.[2]

2. Remedial measures for overdue financial obligations to the GRA follows a Board approved timetable starting with immediate prohibition of use of any of the Fund's general resources. Subsequent steps include a series of notifications to the member in an attempt to resolve the arrears; if not resolved, the arrears are reported to the Board one month after occurrence; followed by the issuance of a complaint at the two-month mark, which formalizes the prohibition on use of Fund resources. After a brief factual press release is published, a declaration of ineligibility will be considered to take effect not more than twelve months after the emergence of arrears and within three-months a declaration of noncooperation will trigger the suspension of technical assistance to the member. The remedial measures could culminate to the procedure on compulsory withdrawal within six months after the decision on suspension of voting and representation rights.

3. While the Fund's arrears policy prescribes the de-escalation of remedial measures, the resolution mechanisms to clear arrears to the Fund have only been applied to few cases.[3] Under the de-escalation policy on arrears, the process for lifting remedial measures is based on a Board decision that the member in arrears has strengthened its cooperation with the Fund, as evidenced by a sustained track record of performance regarding economic policies and payment to the Fund, with prospects of full clearance of arrears and regaining access to the Fund's financial resources. The de-escalation policy on arrears has been applied to five countries: Democratic

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[1] When a member fails to repay its credit outstanding to the Fund in full when due, it incurs overdue financial obligations to the Fund, also referred to in the non-technical term of "arrears" to the Fund.

[2] The timetable of remedial measures for arrears to the GRA is based on the procedures for dealing with members with arrears to the Fund adopted by the Executive Board on August 17, 1989, as amended by Decision No. 12546-(01/84), adopted on August 22, 2001.

[3] The policy on the de-escalation of remedial measures under the Fund's arrears strategy was established in uly 1999 (IMF, 1999a and 1999b).

Republic of Congo (2002), Liberia (2006), Somalia (2020), Sudan (2000) and Zimbabwe (2010). In addition to cooperation on policies and payments with the Fund, resolving protracted arrears also required political and financial support by other Fund members in the form of bilateral loans and grants to allow for restructuring of debt in arrears and facilitating movement towards regaining access to Fund resources and sustainability.

4. In recent history, Fund's arrears cases have been limited in duration and magnitude. Over time, incidence of arrears to the Fund have continued to decline and there has not been any new case of protracted arrears since 2001 (Zimbabwe). Since 1980, there have been a total of 30 cases of protracted arrears by the Fund membership. The credit outstanding at the start of these arrears ranged from SDR 1.3 million to SDR 728.9 million (Table 1). The last protracted arrears case was Sudan, which had incurred arrears in 1984 and was cleared in 2022. Recent cases of arrears were typically short-term arrears cases of technical nature, involving small countries and amounts. Only the short-term arrears by Greece in 2015 carried a financial and strategic significance, due to the size of the Fund's credit exposure.

Table 1. Argentina: Protracted Arrears to IMF - Relative Size in the Lending Portfolio

	Start date of arrears	Period of arrears	Credit Outstanding to IMF at the Year of Start of Arrears 1/ (Millions of SDR)	Outstanding Credit as % of total IMF Lending
Zimbabwe	Feb-01	02/2001-10/2016	209.5	0.3%
Afghanistan, Islamic Republic of	Nov-95	11/95–02/03	1.3	0.0%
Central African Republic	Jun-93	06/93–03/94	21.0	0.1%
Bosnia and Herzegovina	Sep-92	09/92–12/95	20.5	0.1%
Federal Republic of Yugoslavia	Sep-92	09/92–12/00	81.1	0.3%
Haiti	Nov-91	11/91–12/94	23.8	0.1%
Congo, Democratic Republic of the	Nov-90	11/90–06/02	366.3	1.6%
Iraq	Nov-90	11/90–09/04	28.9	0.1%
Dominican Republic	Aug-90	08/90–04/91	50.4	0.2%
Honduras	Nov-88	11/88–06/90	27.3	0.1%
Haiti	Oct-88	10/88–09/89	33.8	0.1%
Congo, Democratic Republic of the	Jun-88	06/88–05/89	584.1	2.2%
Panama	Dec-87	12/87–02/92	243.9	0.8%
Honduras	Oct-87	10/87–11/88	54.4	0.2%
Somalia	Jul-87	7/87-03/2020	123.7	0.4%
Sierra Leone	Jan-87	01/87–03/94	81.5	0.3%
Jamaica	Apr-86	04/86–01/87	554.4	1.6%
Zambia	Apr-86	04/86–12/95	701.6	2.0%
Peru	Sep-85	09/85–03/93	639.0	1.7%
Gambia, The	Jun-85	06/85–07/86	30.4	0.1%
Zambia	Apr-85	04/85–01/86	728.9	1.9%
Tanzania	Mar-85	03/85–07/86	52.6	0.1%
Liberia	Dec-84	12/84–03/08	237.3	0.6%
Sierra Leone	Nov-84	11/84–09/86	97.5	0.3%
Sudan	Jul-84	Ongoing	677.6	1.8%
Vietnam	Feb-84	02/84–10/93	89.0	0.2%
Chad	Jan-84	01/84–11/84	8.5	0.0%
Guyana	Apr-83	04/83–06/90	84.0	0.2%
Nicaragua	Feb-83	02/83–04/85	9.0	0.0%
Cambodia	Mar-75	03/75–10/93	12.5	0.0%
Select Short-term arrears:				
Greece 2/	Jun-15	June 30, 2015 - July 20, 2015	12718	22.2%

Notes. Protracted arrears refer to amounts due from members that are six or more months overdue in settling financial obligations to the IMF.
1/ Credit outstanding for each member country refers to the credit outstanding to the Fund in the year that arrears began. Credit outstanding figures for Guyana (83), Nicaragua (83) and Cambodia (75) refer to values at end-1984, and for Afghanistan (95), Iraq (90) and Former Republic of Yugoslavia (92) refer to arrears as of April 1997
2/ Arrears by Greece involved a missed payment of SDR 1.6 bn due on June 30, 2015, that was repaid fully on July 20, 2015 https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr15344 and https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr15310
Sources: IMF Finance department database on protracted arrears. https://www.imf.org/external/np/fin/tad/extdbt1.aspx, member country data, and staff calculations.

Annex V. Financial Impact on the Fund of Protracted Arrears

This Annex describes the impact on the Fund's income and reserves of protracted arrears. The IMF has developed a multilayered financial risk-mitigation framework to address the range of financial risks it faces in fulfilling its mandate. Among other objectives, these policies and instruments contribute to arrears prevention and clearance, as well as buffering the impact of arrears on the Fund's finances.[1]

1. The impact of arrears on the Fund's finances escalates with the passage of time:

- *When a member incurs arrears, the initial impact on income is limited* because under existing policies the Fund would continue to record income from GRA basic charges on credit outstanding at the rate of charge for basic charges, and if applicable, surcharges applied above the basic rate of charge. The Fund would also obtain income from overdue charges (special charges) until the length of arrears reaches six months.

- *Obligations six months or more overdue are considered protracted arrears*, and when a member reaches this stage all income from basic charges and surcharges will be deferred and the burden-sharing mechanism is activated to cover shortfalls in the Fund's income from these deferred charges. Under the current Board decision, temporary financing in equal amounts would be obtained from debtor and creditor members by increasing the basic rate of charge on Fund credit and reducing the rate of remuneration on the remunerated portion of members' reserve tranches, respectively, with a floor on the latter of 85 percent of the SDR interest rate.[2] Quarterly assessments are made based on unpaid charges over the previous quarter.

- *Concerns about a member's failure to make timely repayments to the Fund could also trigger a provision for expected credit losses (ECL)* under IFRS 9, which would be charged against net income and ultimately absorbed by the Fund's precautionary balances. Precautionary balances, which complement other components of the Fund's risk management framework, provide the buffer to absorb such losses if they were to exceed the Fund's income.

- *ECL are determined by comparing expected cash flows with contractual cash flows* and discounting the expected cash shortfalls at the effective interest rate, which is the basic rate of

[1] See Annex IV for policies on interacting with members with arrears to the Fund.

[2] If the overdue charges exceed the symmetric capacity of this mechanism, it would trigger a Board review of the burden sharing decision, which could be amended by a 70 percent majority. Absent any changes to the decision, the shortfall in income would be closed by raising the rate of charge.

charge. ECL are estimated by assessing a range of possible outcomes in light of expected future economic conditions, weighted according to the assessed probability of each outcome.[3] ECL is inherently subjective and entails considerable judgement. Any estimate of ECL and the size of a provision would take into account the level of the member's cooperation with the Fund, and the tone and content of the authorities' public statements and commitments. The key variable in determining ECL is the probability of an ultimate loss scenario (i.e., the member ultimately leaving the Fund and failing to settle its obligations to the Fund).[4]

- *The ECL calculation would also take account of financial safeguards* like the burden-sharing mechanism and accounts like the Special Contingent Account (SCA-1) that was available in the past.[5] Any residual cash-flow shortfall would be probability-weighted and considered in the overall ECL calculation, which would also include the probability of an ultimate loss (see illustration described below). An ECL deemed material in the context of the financial statements would require an adjustment in the value of credit outstanding on the Fund's balance sheet, with the reduction in value charged against income as a provisioning expense. Such a provision would reduce the Fund's income (and precautionary balance accumulation) one-for-one.

2. The magnitude of the Fund's exposure to Argentina at the time of the EFF request—and subsequently—implied that protracted arrears by Argentina could have had a sizable impact on the Fund's net income. The text table shows selected financial statement items, both currently and from the time of the EFF request. If Argentina had entered protracted arrears, its charges and surcharges could have exceeded the symmetric capacity of the burden sharing mechanism and reduced net income, while spilling over into higher charges on other borrowers from the GRA and lower remuneration to creditor countries. In such a scenario, assuming a close-to-zero probability of an ultimate loss, net income of the Fund would have remained positive. However, assuming an ultimate loss probability of 10 percent—a pessimistic assumption given historical experience—would have resulted in an ECL of about SDR 3 billion during this period (total exposure multiplied by the 10 percent probability), an amount exceeding the Fund's annual net operational income but far below the accumulated precautionary balances.

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[3] See Provisioning for Impairment Losses in the Context of the Fund (FO/Dis/20/37, March 3, 2020) for background on the IFRS 9 requirements and their implementation at the Fund.

[4] It could be argued that the probability of an ultimate loss should remain low at the inception of protracted arrears if the country is actively cooperating with the Fund. If arrears persist, the country's financial position worsens, and/or relationships with the Fund deteriorate, the probability of an ultimate loss could increase over time.

[5] The SCA-1 is an account whose purpose is to protect the Fund in case of the ultimate failure of a member to repay its overdue obligations. The account currently has a zero balance.

Table 1. Argentina: Selected Financial Statement Items

Amounts in billion SDR	2022	2024
Argentina GRA charges and surcharges 1/	1.1	2.4
Burden-sharing capacity 1/ , 2/	0.2	1.4
Fund net operational income 1/	1.4	3.0
Argentina credit outstanding 3/	33.2	31.0
Precautionary balances 3/	20.1	25.1

1/ Fund financial years ending April 2022 and April 2024.
2/ Symmetric capacity only. Annual average.
3/ As of April 30 each year.

Annex VI. Debt Sustainability Analysis During the 2022 EFF

Table 1. Argentina: Debt Sustainability Heat Maps Prior to the Fund's New SRDSF

Program Request

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

First Review

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

Source: IMF staff

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

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

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are: 200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

Table 2. Argentina: Debt Sustainability Assessments Under the Fund's New SRDSF

Horizon	Second Review		Third Review		Fourth Review	
	Mechanical signal	Final assessment	Mechanical signal	Final assessment	Mechanical signal	Final assessment
Overall	…	High	…	High	…	High
Medium term	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Fanchart	Moderate	…	Moderate	…	Moderate	…
GFN	Moderate	…	Moderate	…	Moderate	…
Long term	…	High	…	High	…	High
Sustainability assessment 1/	…	Sustainable but not with high probability	…	Sustainable but not with high probability	…	Sustainable but not with high probability
Debt stabilization in the baseline	Yes		Yes		Yes	

Horizon	Fifth-Sixth Review		Seventh Review		Eighth Review	
	Mechanical signal	Final assessment	Mechanical signal	Final assessment	Mechanical signal	Final assessment
Overall	…	High	…	High	…	High
Medium term	Moderate	Moderate	High	Moderate	High	Moderate
Fanchart	Moderate	…	High	…	High	…
GFN	Moderate	…	Moderate	…	Moderate	…
Long term	…	High	…	High	…	High
Sustainability assessment 1/	…	Sustainable but not with high probability	…	Sustainable but not with high probability	…	Sustainable but not with high probability
Debt stabilization in the baseline	Yes		Yes		Yes	

Source: IMF 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/ 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.

Annex VII. Synopsis of Program's Evolution

This annex provides a brief summary of key developments during each program Review.

Phase One (2022-23)

- **First Review (June 24, 2022).** With the end-March test date only two weeks after approval of the arrangement, all QPCs were met. Spillovers continued to materialize from the war in Ukraine, as monthly inflation reached 5 percent in May, and domestic bond and FX market conditions became more volatile. Meanwhile, fiscal spending was expanding rapidly (up 11 percent y-o-y through end-June), and together with high inflation, continued to drive a real exchange rate appreciation (5.3 percent in April relative to end-2021). About a week after the First Review was completed, Minister of Economy Martin Guzmán resigned. Media reports cited the minister's disagreements with a faction of the ruling coalition, which favored larger spending to reduce poverty. The resignation triggered a sharp sell-off in the domestic bond and FX markets prompting Central Bank intervention in both markets. After a brief (24-day) tenure of Silvia Batakis, Sergio Massa was announced as the new Minister of Economy on July 28, 2022.

- **Second Review (October 7, 2022).** Due to political reshuffling, the Second Review was completed slightly behind schedule. All end-June QPCs were met, except for the floor on NIR, which was missed by US$0.3 billion. The continuous PCs on exchange restrictions and MCPs were also missed. Minister Massa committed to restore fiscal discipline, tighten monetary policy, and boost FX reserves. Growth of public spending began to moderate. Monthly inflation rose to 7 percent in August, while the FX gap remained at around 100 percent. By this time, the real exchange rate had appreciated by 12 percent (since end-2021), and the monthly rate of crawl accelerated to 6 percent to maintain competitiveness. A restructuring agreement with the Paris Club was reached in late October. A temporary scheme to incentivize liquidation of soy stocks (new MCP) allowed purchase of US$3 billion by the Central Bank.

- **Third Review (December 22, 2022).** Expenditure controls remained in place and all end-September QPCs were met. Monthly inflation eased to 6.3 percent in October. BCRA sold US$0.9 billion to reduce the persistent FX gap (90-100 percent) while accelerating the rate of crawl to 6.4 percent. MCPs and FX restrictions further expanded and intensified, resulting in nonobservance of the corresponding continuous PC. BCRA intervened again in the domestic bond market after pressures resurfaced amid shortening maturities and rising yields. Bank exposure to the public sector exceeded half of total assets while private credit continued to shrink.

- **Fourth Review (April 1, 2023).** All end-December 2022 QPCs were met, though the continuous PCs on exchange restrictions and MCPs were again missed. NIR rose by US$5.4 billion in 2022, helped by a trade surplus, MCPs, and FX restrictions. After improving in the second half of 2022, fiscal discipline wavered amid an intensifying drought, which led to a drop in NIR by US$5.8

billion in Q1:2023. The NIR target for 2023 was revised down by US$1.8 billion, although the growth projection remained unchanged, despite consensus forecasts pointing to a recession. A new unfunded pension moratorium threatened to create additional pension liabilities of around 0.4 percent of GDP over time.[1] After moderating to 5 percent in December, monthly inflation accelerated to 6.3 percent in January-February. Real interest rates in the secondary market were hovering around 12-13 percent and the FX gap at around 90 percent. A new financing strategy sought a voluntary debt exchange aimed at extending maturities. Banks' holdings of BCRA securities rose sharply, while credit to the private sector declined.

- **Fifth and Sixth Reviews (August 23, 2023).** The Fifth and Sixth Reviews were combined and the availability date for the latter was brought forward.[2] Key end-June 2023 QPCs were missed by wide margins, and the program went off track amid policy slippages and an intensifying impact of the drought. With the economy minister Massa was announced as Presidential candidate on June 23, 2023, electoral considerations began to affect policy making, with the introduction of a new tax relief, spending initiatives, public wage increases and bonuses, etc. Growth slowed and exports plummeted. FX reserves fell by US$16 billion in the first six months of 2023. MCPs, exchange restrictions, and other control measures continued to intensify, leading to nonobservance of the continuous PCs. Monthly inflation hovered at 5-6 percent and the FX gap averaged around 100 percent. BCRA losses continued to mount due increased sterilization costs. Key policy undertakings by the authorities ahead of the completion of the reviews included efforts to contain wages, a 27-percent (relative to end-July) step devaluation, a large interest rate hike, and measures to reduce energy subsidies. The end-year target for the primary balance remained unchanged.

Phase Two (2024)

- **Seventh Review (January 31, 2024).** In the last months of 2023, the government largely reneged on its policy commitments and turned to outright populism, bringing Argentina close to a full-blown crisis. Key QPCs were missed by large margins. Monthly inflation accelerated to 12.8 percent in November (over 320 percent annualized), the FX gap exceeded 150 percent, and NIR reached negative US$11.2 billion in early December as hard currency liquid reserves were completely exhausted.[3] BCRA interventions and MCPs and exchange restrictions intensified. The government of newly elected President Milei took office on December 10, 2023, and implemented a 120-percent step devaluation, stepped up FX purchases, and began to cut expenditures and unwind tax rebates,

[1] A prior action sought offsetting measures of about 0.2 percent of GDP.

[2] The authorities successfully mobilized US$3.4 billion of bridge financing to remain current with the Fund.

[3] The authorities also activated the swap line with the People's Bank of China (US$4.9 billion) to meet the BoP need.

aiming at a fiscal adjustment of 5 percent of GDP in 2024. Monetary financing was sharply curtailed, and work began to strengthen the BCRA's balance sheet.

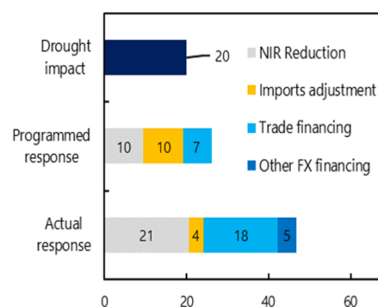
- **Eighth Review (June 13, 2024).** The program was assessed as firmly on track. All end-March QPCs were met. About two-thirds of the fiscal adjustment planned for 2024 was achieved as of end-April through wide-ranging executive measures. Monthly inflation declined faster than expected, falling to 8.8 percent in April from 25.5 percent in December 2023. Supported by a sizable turnaround in trade balance and aggressive FX purchases, NIR recovered to about US$0.3 billion. The FX gap narrowed rapidly to 20 percent but began to widen again, reaching about 40 percent. Limited unwinding of MCPs and exchange restrictions was underway, though the relevant continuous PCs were again missed. Efforts to heal the BCRA balance sheet and reduce its quasi-fiscal losses continued, including through improved accounting standards and a partial offloading of BCRA securities.

Annex VIII. The Economic Impact of the Ukraine War and the 2022-23 Drought

1. The war in Ukraine had limited spillovers to Argentina but added to inflationary pressures. The conflict had a muted impact on economic activity and foreign exchange inflows, given weak trade connections with Russia and Eastern Europe and only a mild effect on terms of trade as higher import prices (gas, fertilizers) were offset by higher export prices (grains, crude oil). Similarly, the impact on fiscal balances was limited as a higher energy subsidy bill was offset by an increase in export tax revenues. The Argentine economy was also largely insulated from tighter global financial conditions due to lack of access to international markets and widespread FX controls. Nonetheless, higher food and energy prices, which constitute a significant share of the consumption basket, added to already strong inflationary pressures. The impact of the shock had been partially accounted for at program approval, and the authorities responded to the shock by re-directing spending towards higher energy subsidies and targeted social assistance to shield low-income households from higher food prices.

2. The 2022-23 drought had a significant impact on Argentina's economy. The drought particularly affected the agricultural sector, which accounts for nearly 10 percent of GDP. The most pronounced effects were seen in soybean production, marking the worst harvest in over a decade. While corn and wheat also experienced a decline in output, the impact on these products was less severe. Agricultural GDP contracted by 17 percent in 2023, resulting in an overall real GDP contraction of 1½ percent, which was nevertheless shallower than the 2½ percent contraction forecast at the Fifth and Sixth Review. Importantly, the drought is estimated to have caused a loss of US$20 billion in FX inflows from agricultural exports, contributing to a swing to a deficit in the current account and the loss of FX reserves. The program was adjusted to partially accommodate the impact of the drought with a loosening of 2023 NIR targets. It also sought a balanced mix of financing and adjustment to the drought through policy measures to bring about a partially offsetting contraction in imports. However, only limited adjustment materialized in 2023, while the combined trade and other financing and reserve depletion were more than double the estimated impact of the drought.

Figure 1. Programmed vs. Actual Response to the Drought in 2023 (USD bn)



Notes: The programmed response reflects differences between 3rd and 5th-6th Reviews. The actual response is based on data through November 2023.
Sources: Argentine authorities; and IMF staff calculations.

Annex IX. Export Incentive Schemes

Several rounds of export incentive schemes were introduced during the program:

1. September 2022. The first iteration of the scheme permitted exporters of soybean and derivatives to fulfill their FX surrender requirement by exchanging their dollar receipts at a preferential exchange rate about 40 percent above the official rate. The scheme lasted for the duration of September 2022.

2. December 2022. The scheme was re-instated for the duration of December 2022 with roughly the same product coverage and design parameters, including a preferential exchange rate about 40 percent above the official rate.

3. April to August 2023. The third iteration of the scheme was introduced in April 2023 with its coverage expanded from the exports of soybeans and their derivatives to a broader set of agricultural products, including corn. The scheme expired in end-May 2023 for soy products and end-August 2023 for other agricultural products. The preferential exchange rate offered by the scheme—which was adjusted in July 2023 to make up for the crawl of official exchange rate—averaged about 20 percent above the official rate over the duration of the scheme. The scheme was also coupled with a prohibition on accessing FX market for making payments for imports of soybeans until receipt of the export proceeds for the soybean product.

4. Late 2023 and 2024. A new scheme, introduced In September 2023, allowed agricultural exporters to settle 25 percent of their proceeds in the formal parallel (CCL) FX market. This was subsequently raised to 50 percent and expanded to all exporters, before being replaced in December 2023 with the 80:20 Preferential Export Scheme, which maintained broad coverage of export industries but reduced the share of export proceeds which could be settled in the parallel FX market to 20 percent.

Economic impact

5. The first two iterations of the export incentive schemes in September and December 2022 resulted in US$11 billion (2 percent of GDP) of agricultural sales which helped secure NIR and fiscal program targets (latter through export tax revenues, which increased by about ½ percent of GDP given export tax rates of 33 percent) in the second half of 2022. The BCRA bore the costs (about ¾ percent of GDP) arising from the exchange rate differential, for which it was compensated by the Treasury with long-maturity non-transferable Treasury securities. The BCRA also shouldered the sterilization cost as it withdrew the peso liquidity introduced into the system. While the third iteration of the scheme introduced in April 2023 facilitated US$6½ billion in agricultural exports (and generated about ¼ percent of GDP quasi-fiscal costs to the BCRA), the additionality of its impact on exports was likely much lower, as exporters became incentivized to hoard their products in expectation of further rounds. Moreover, agricultural exports in 2023 may have been held back by

the impact of the historic drought. For later iterations of export incentive schemes, the export and fiscal impact is difficult to assess as they have broad coverage and are no longer time-bound. However, these iterations also imposed no quasi-fiscal costs to the BCRA given their reliance on parallel FX markets instead of preferential exchange rate offers

Consistency with program conditionality and Fund policies

6. The first three iterations of the export incentive schemes were assessed as MCPs and therefore necessitated approval under Article VIII and waivers of non-observance of the continuous performance criterion related to multiple currency practices in the Second, Third, Fourth, and combined Fifth and Sixth Reviews. The fourth iteration of the scheme, which remains in place as the 80:20 Preferential Export Scheme, did not give rise to a MCP as it does not specify a specific exchange rate for the sale of export proceeds, and as transactions in the CCL market are not considered exchange transactions.[1] Nevertheless, an end-June 2024 structural benchmark introduced in the Seventh Review for its elimination was not met.

[1] The Fund's new MCP policy took effect on February 1, 2024. Pursuant to the policy, all pre-existing MCPs were deemed removed and previous Board approvals to maintain MCPs lapsed. A new assessment of the old measures that constituted MCPs under the old policy (as well as other measures that segment the market in line with the new MCP policy) was conducted in the Eighth Review according to the new MCP policy.

Annex X. Exchange Restrictions and MCPs During the 2022 EFF

Table 1. Argentina: Measures Giving Rise to Exchange Restrictions/ MCPs During the 2022 EFF

	Measure	Assessment
2nd Review	Preferential exchange rate for exporters of soybeans and derivatives	New MCP
	Preferential exchange rate for non-resident tourists	New MCP
	Reduction in annual limits on undelayed FX access for goods imports and restriction of FX market access beyond those limits for certain import categories	Intensification of exchange restrictions
	Implementation of a system of annual limits on the amount of foreign exchange that can be immediately accessed for payments of imports of services	Intensification of exchange restrictions
	Inclusion of Transactions with Argentine Certificates of Deposits Representative Foreign Shares (CEDEARS) instruments to the list of capital market transactions that cannot be undertaken 90 days prior to and after access to the official FX market is granted	Intensification of exchange restrictions
3rd Review	Reinstatement of preferential exchange rate for exporters of soybeans and derivates	New MCP
	Extension of 30 percent tax to purchases of foreign currency for the payment of (a) personal, cultural, and recreational services and (b) the importation of a list of luxury goods	Intensification of exchange restrictions/modification of MCP
4th Review	Restriction of individuals who participate in the pension buyback scheme from accessing the FX market for a period of twelve months	Intensification of exchange restrictions
5th-6th Review	Preferential exchange rate for exporters of soybeans and derivates and other regional products.	New MCP
	Preferential exchange rate and list of eligible products changed	Modification of MCP
	New tax on purchase of foreign currency for payment of (a) certain professional services (25 percent) and (b) transportation services and imported goods with exemptions for essential goods (7.5 percent)	New exchange restriction/new MCP
	Prohibition on accessing FX market for making payments for imports of soybeans until the export proceeds for the soybean product have been received	New exchange restriction
	Prohibition on accessing the FX market by exporters that do not fulfill the FX surrender requirement	New exchange restriction

Table 1. Argentina: Measures Giving Rise to Exchange Restrictions/ MCPs During the 2022 EFF (Concluded)

	Measure	Assessment
5th-6th Review	BCRA authorization requirement for FX market access for specific professional services if payment is made earlier than 60 calendar days after the service was provided	Intensification of exchange restrictions
	BCRA authorization requirement for FX market access for payments of interests to non-resident related counterparty	Intensification of exchange restrictions
	Extension of the non-CCL transaction affidavit period to 180 days for CCL transactions with securities under foreign law and extension of the affidavit requirement for non-CCL transactions before access to the FX market to the whole company group	Intensification of exchange restrictions
	Extension of requirement to Argentinian provinces to refinance 60 percent of the principal amount of external loans before accessing the FX market for repayments of the remaining 40 percent	Intensification of exchange restrictions
	Restriction of individuals who have debt with the National Security Administration (ANSES) from accessing the FX market	Intensification of exchange restrictions
7th Review	Restriction 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.	Intensification of exchange restrictions
	All requests for FX required authorization of the BCRA.	Intensification of exchange restrictions
	Increase in tax on purchase of foreign currency from 7.5 to 17.5 percent for transportation services and imported goods with exemptions for essential goods.	Modification and intensification of an existing MCP and exchange restriction
8th Review	Application of the impuesto pais to the acquisition of FX for payment of investment income (dividend)	New exchange restriction/new MCP

Sources: IMF Country Report No. 24/37 and IMF Country Report No. 24/167

Annex XI. Performance Criteria Under the 2022 EFF

Table 1. Argentina: Performance Criteria under the 2022 EFF 1/ 2/
(In billions of Argentine pesos Unless Otherwise Stated)

	2022																					
	end-Mar				end-June					end-Sept						end-Dec						
	PC	Adjusted PC	Actual	Status	PC	Revised PC	Adjusted PC	Actual	Status	IT	PC	Revised PC	Adjusted PC	Actual	Status	IT	PC	Revised PC (1)	Revised PC (2)	Adjusted PC	Actual	Status
Fiscal targets																						
Performance Criteria																						
1. Cumulative floor on the federal government primary balance 3/ 10/	-222.3	-210.9	-192.7	Met	-566.8	-874.4	-849.0	-800.7	Met	-912.3	-1142.1	-1156.8	-1136.0	-1096.1	Met	-1758.6	-1884.9	-2015.7	-2015.7	-2017.2	-1955.1	Met
2. Ceiling on the federal government stock of domestic arrears 4/	535.9	...	336.2	Met	535.9	612.2	...	489.4	Met	535.9	612.2	654.0	...	589.7	Met	5359.9	612.2	654.0	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	...	0.0	Met	0.0	0.0	0.0	...	0.0	Met	0.0	0.0	0.0	0.0	..	0.0	Met
Indicative Targets																						
4. Cumulative floor on real government revenues 3/ 5/	2417.3	...	2566.0	Met	4759.4	5179.7	...	5169.6	Not Met	6929.2	7763.9	7763.9	...	..	..	8900.0	10347.6	..	..	..	..	...
5. Cumulative floor on federal government spending on social assistance programs 3/ 6/	151.9	...	164.2	Met	318.0	332.2	...	343.4	Met	494.4	542.1	565.3	...	562.4	Not Met	707.8	780.6	823.2	810.8	..	817.6	Met
Monetary targets																						
Performance Criteria																						
6. Cumulative floor on the change in net international reserves of BCRA 7/ 8/ 10/	1.200	1.245	1.523	Met	4.1	3.450	2.950	2.660	Not Met	4.400	4.100	4.100	3.600	4.591	Met	5.800	5.800	5.000	5.000	5.036	5.426	Met
7. Cumulative ceiling on central bank financing of the federal government 3/ 8/	236.8	...	122.0	Met	438.5	475.8	...	435.1	Met	613.3	665.4	665.4	...	620.1	Met	705.2	765.2	654.0	654.0	..	620.1	Met
Indicative Target																						
8. Ceiling on the central bank stock of non-deliverable futures 9/	6.000	...	1.200	Met	7.000	7.000	...	4.358	Met	9.000	9.000	9.000	...	3.131	Met	9.000	9.000	9.000	9.000	..	0.587	Met

Table 1. Argentina: Performance Criteria under the 2022 EFF 1/ 2/ (Continued)

(In billions of Argentine pesos Unless Otherwise Stated)

	2023																							
	end-Mar						end-June						end-Sept						end-Dec					
	IT	PC	Revised PC	Adjusted PC	Actual	Status	IT	PC	Revised PC	Adjusted PC	Actual	Status	IT	PC	Revised PC	Adjusted PC	Actual	Status	IT	PC	Revised PC	Adjusted PC	Actual	Status
Fiscal targets																								
Performance Criteria																								
1. Cumulative floor on the federal government primary balance 3/ 10/	-365.4	-441.5	-441.5	-441.9	-689.9	Not Met	-931.7	-1181.4	-1181.4	-1201.0	-1880.7	Not Met	-2064.4	-2145.4	-2335.7	-2143.2	-2962.8	Not Met	-2798.3	-2970.2	-3286.5	-3094.0	5483.3	Not Met
2. Ceiling on the federal government stock of domestic arrears 4/	927.5	1177.4	1177.4	...	709.0	Met	927.5	1177.4	1177.4	...	1051.6	Met	1177.4	1177.4	1359.8	...	1224.1	Met	1177.4	1177.4	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	0.0	0.0	Met	0.0	0.0	0.0	...	0.0	Met	0.0	0.0	0.0	...	0.0	Met	0.0	0.0	0.0	...	0.0	Met
Indicative Targets																								
4. Cumulative floor on real government revenues 3/ 5/	2594.4	...	...	...	...	...	5346.8	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	..
5. Cumulative floor on federal government spending on social assistance programs 3/ 6/	249.8	239.3	239.3	...	315.6	Met	522.8	500.4	500.4	...	650.5	Met	823.8	823.8	948.4	...	1132.2	Met	1199.7	1199.7	1338.5	...	1677.4	Met
Monetary targets																								
Performance Criteria																								
6. Cumulative floor on the change in net international reserves of BCRA 7/ 8/ 10/	6.200	5.500	1.900	2.400	0.100	Not Met	9.400	8.600	6.800	6.500	-4.7	Not Met	8.700	7.200	-2.200	-2.600	-7.400	Not Met	9.800	8.000	1.300	0.900	-12.400	Not Met
7. Cumulative ceiling on central bank financing of the federal government 3/ 8/	215.3	139.3	139.3	...	130.0	Met	647.8	372.8	372.8	...	1358.0	Not Met	651.4	651.4	1699.7	1699.7	1698.0	Met	883.0	883.0	1291.2	...	1698.0	Not Met
Indicative Target																								
8. Ceiling on the central bank stock of non-deliverable futures 9/	9.000	9.000	9.000	...	0.224	Met	9.000	9.000	9.000	...	0.771	Met	9.000	9.000	9.000	...	1.202	Met	9.000	9.000	8.000	...	0.000	Met

Table 1. Argentina: Performance Criteria under the 2022 EFF 1/ 2/ (Concluded)

(In billions of Argentine pesos Unless Otherwise Stated)

	2024									
	end-Mar					end-June			end-Sept	
	IT	PC	Adjusted PC	Actual	Status	IT	PC	Revised PC	IT	PC
Fiscal targets										
Performance Criteria										
1. Cumulative floor on the federal government primary balance 3/ 10/	-317.1	962.4	...	3868.3	Met	-951.3	1925.0	4600.4	2887.3	7694.5
2. Ceiling on the federal government stock of domestic arrears 4/	2536.7	5264.4	...	1563.0	Met	2536.7	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	...	0.0	Met	0.0	0.0	0.0	0.0	0.0
Indicative Targets										
4. Cumulative floor on real government revenues 3/ 5/	...	...	...	...	...	...	...	...	...	...
5. Cumulative floor on federal government spending on social assistance programs 3/ 6/	588.6	1177.2	...	1124.7	Not Met	1126.0	2252.0	2342.7	4308.1	3826.9
Monetary targets										
Performance Criteria										
6. Cumulative floor on the change in net international reserves of BCRA 7/ 8/ 10/	4.300	6.000	5.900	8.700	Met	7.300	9.200	10.900	7.600	8.700
7. Cumulative ceiling on central bank financing of the federal government 3/ 8/	0.0	0.0	...	-2119.4	Met	0.0	0.0	0.0	0.0	0.0
Indicative Target										
8. Ceiling on the central bank stock of non-deliverable futures 9/	7.000	...	...	...	...	6.000	...	...	...	...

Sources: National authorities and Fund staff estimates and projections.
1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU, which were updated in the Seventh Review
3/ Flows from January 1 through December 31.
4/ The stock of domestic arrears at end-Q4 2021 stood at 535.9 billion pesos including intra-public sector transfers (transferencias figurativas) and 397.9 billion pesos excluding these transfers. The TMU definition excluded these transfers for the purposes of the end-March 2022 PC, but was amended to include them thereafter. Definition changed in the Seventh Review, with average stock measured over the last two weeks of the quarter.
5/ Rebased assuming CPI=100 at end-2021. Discontinued after June 2022.
6/ Labelled as ""Cumulative floor on social assistance spending (Asignación Universal para Protección Social, Tarjeta, Progresar)"" from the Third Review onwards.
7/ In billions of U.S. dollars. The change is measured against the value of NIR on December 31, 2021 of US$2.325 billion until the Third Review, and against a revised NIR of US$2.277 billion thereafter. Excludes payments to Paris Club from September 2022 onwards.
8/ Definition changed in the Seventh Review, with cumulative flows measured starting from December 10, 2023 and central bank financing including a broader definition and shifted to net concept.
9/ 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.
10/ Targets subject to adjustors as defined in the TMU.

Annex XII. Structural Benchmarks Under the 2022 EFF

	Prior Actions	Sector	Timing	Status
1	Increased the effective annual policy rate.	Monetary/FX Policy	Program request (March 2022)	Met
2	Eased certain FX security market restrictions.	Monetary/FX Policy	Program request (March 2022)	Met
3	Updated wholesale electricity and gas prices.	Fiscal Structural	1st Review (June 2022)	Met
4	Modified budget to ensure consistency with the end-2022 fiscal targets.	Fiscal Structural	1st Review (June 2022)	Met, previously SB
5	Submitted to congress the draft 2023 budget consistent with the agreed primary deficit and	Fiscal Structural	2nd Review (Oct. 2022)	Met, previously SB
6	Issued an Emergency Decree consistent with the program primary deficit target.	Fiscal Structural	3rd Review (Dec. 2022)	Met
7	Issued a new Decree to contain the fiscal impact of the new pension moratorium.	Fiscal Structural	4th Review (March 2023)	Met
8	Extended domestic debt maturities.	Financing	5th and 6th Reviews (Aug. 2023)	Met
9	Implemented a nominal step devaluation.	Monetary/FX Policy	5th and 6th Reviews (Aug. 2023)	Met
10	Increased the effective annual policy rate.	Monetary/FX Policy	5th and 6th Reviews (Aug. 2023)	Met
11	Issued an administrative order to ensure future public wage increases are capped to support an	Fiscal Structural	5th and 6th Reviews (Aug. 2023)	Met
12	Completed public hearings outlining proposals for electricity and gas tariff increases to reduce	Fiscal Structural	7th Review (Jan. 2024)	Met
13	Bought back government debt held by the central bank to maintain net zero credit to government,	Financing/Monetary	7th Review (Jan. 2024)	Met
14	Developed a strategy, in consultation with the Fund, to help ensure an orderly solution to the	Monetary/FX Policy	7th Review (Jan. 2024)	Met
15	Issued a decree to remove the CVS formula (Decree 332/2022), which caps increases in N2	Fiscal/Structural	8th Review (June 2024)	Met

Structural Benchmarks		Sector	Timing	Status
1	Avoid additional taxes on financial transactions	Fiscal Structural	Continuous	
2	Call a public hearing on a proposal to update wholesale energy tariffs effective June 1, 2022. For residential users, the updates will be anchored on the average wage growth (coeficiente de variación salarial) as established by Law 27.443. For GUDIs, energy tariffs will reflect full cost recovery; the rest of non-residential users will have their tariff revised according to the proposal defined in the hearing	Structural	Apr-22	Met
3	Submit to congress amended AML/CFT Legislation (Law 25.246), in accordance with the international standard, and considering inputs from experts, academics, relevant civil society institutions, and Fund staff, for its consideration by congress in 2022	Financial Integrity	May-22	Met
4	Prepare a proposal with an action plan by the Secretary of Treasury, in consultation with Fund staff, to enhance financial and budget reporting of the entities of the national public sector other than the National Administration according to Law 25.917, Art 3.	Fiscal Structural	Jun-22	Met
5	Modify the SEPIPyPPP 1/2021 Resolution to enable an annual regulation that sets investment projects prioritization and selection criteria. Criteria will prioritize ongoing projects and, among major projects, those with pre-feasibility or feasibility studies. On this basis, a regulation will be adopted to determine prioritization and selection criteria for projects to be included in the 2023 Budget."	Fiscal Structural	Jun-22	Met
6	Publish a time-bound plan to streamline the reserve requirement system and improve the transmission of monetary policy.	Monetary/FX Policy	Jun-22	Met
7	Publication of semi-annual investor relations presentation to advance the investors relation program	Financing	Jul-22	Met
8	Publish a National AML/CFT Strategy with recommendations to mitigate the risks, vulnerabilities, and threats identified in the national risk assessments.	Financial Integrity	Sep-22	Met
	Continued…			

Structural Benchmarks *(cont'd)*		Sector	Timing	Status
9	Conduct a study outlining options and recommendations to strengthen the equity and long-term sustainability of the pension system, focused on the special pensions regimes (set forth by Law 27.546).	Fiscal Structural	Dec-22	Met, with modifications
10	Develop, in consultation with Fund staff, a detailed and time-bound action plan focused on identifying compliance gaps and improving compliance risk management of key domestic taxes and customs duties.	Fiscal Structural	Dec-22	Met
11	Secretary of energy will publish a) a medium-term energy sector strategy, with the technical support of the World Bank and for consultation with key stakeholders, focusing on improvements to: i) energy efficiency, ii) generation cost management, iii) distribution and transmission, iv) targeting of subsidies; and (v) the overall financial sustainability of the sector; and b) a detailed plan to improve the implementation of the subsidy segmentation scheme.	Fiscal Structural	Dec-22	Met, with modifications
12	Prepare, in consultation with Fund staff, a medium term debt management strategy (MTDS).	Financing	Dec-22	Met
13	Conduct and publish, working with development partners, a comprehensive evaluation of social support programs and strategy to identify options for policy improvements.	Fiscal Structural	Mar-23	Not met; Completed but not published due to confidentiality
14	Modify and submit to congress legislation—Foreign Exchange Criminal Law—to improve the penalty framework, including by introducing authorization of administrative fines, to make the sanctioning framework more efficient and enhance the timeliness of enforcement.	Monetary/FX Policy	Reset from March 2023 to May 2023	Not met; draft legislation finalized, submission to congress expected by end- October
15	Publish 2022 financial statements of the BCRA that enhance financial disclosures towards compliance with IFRS-7.	Monetary/FX Policy	May-23	Met
16	Complete a comprehensive evaluation of tax expenditures on the basis of enhanced technical criteria, in consultation with IMF staff.	Fiscal Structural	Jun-23	Met
17	Publication of an external ex-post audit on COVID spending that took place of at least during 2020.	Governance/Structural	Jun-23	Not met; clearance resolutions were issued in late 2022, but the audit reports remain unpublished due to confidentiality

1

Continued…

Structural Benchmarks *(cont'd)*		Sector	Timing	Status
18	Develop in consultation with Fund staff, a strategy to durably improve the BCRA financial position, drawing on recommendations from the Fund's Safeguard Assessment.	Monetary/FX Policy	Modified and reset from December 2022 to October 2023	Not met
19	Publish first enhanced quarterly report for public corporations and trust funds including a breakdown of assets and liabilities, based on 2022 data and quarterly data through 2022Q4.	Fiscal Structural	Reset from March 2023 to October 2023	Not met; published report did not include breakdown of assets and liabilities data due to lack of availability
20	Develop and execute a plan aimed at extending the maturities of a portion of the domestic debt coming due in 2024.	Financing	Mar-24	Met
22	Publication of detailed reforms of the current tariff segmentation scheme to better target subsidies on the basic energy basket for vulnerable households.	Fiscal Structural	May-24	Met
23	Eliminating the existing preferential export scheme.	Monetary/FX Policy	Jun-24	--
24	Develop in consultation with Fund staff, compliance improvement plans for customs.	Fiscal Structural	Jun-24	--
25	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	Reset from June 2023 to March 2024 to July 2024	--
26	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	Sep-24	--
27	Strengthen the integration of relevant administrative databases, working with World Bank technical assistance, to improve the targeting and efficiency of social support.	Fiscal Structural	Sep-24	--
28	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	Sep-24	--
29	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	Oct-24	--

Annex XIII. The UCT-Quality Standard

1. The Fund's Articles, along with long-standing policies and practices, set out the basic conditions that must be met for the Fund to approve access to its general resources. Under Article V, Section 3(a), the Fund is required to adopt policies on the use of its general resources that will "assist members to solve their balance of payments problems in a manner consistent with the Articles and that will establish adequate safeguards for the temporary use of the general resources of the Fund." In line with the Articles, the Guidelines on Conditionality make clear that Fund supported programs are to be directed towards the goals of solving the member's balance of payments problem and achieving medium term external viability (IMF, 2002). Under the Fund's longstanding tranche or credit tranche policies, different standards apply depending on whether the requested purchase pertains to the reserve tranche, the first credit tranche, or the upper credit tranche (UCT) – the latter two constituting the credit tranches.[1]

2. The UCT-quality standard was developed based on several principles, summarized in IMF (1978).[2] The first principle is "that in the upper tranches the resources are to be used in support of the implementation of policies which give substantial assurance that the needed adjustment of the balance of payments will be achieved within a reasonable period." The second principle is that the resolution of the BoP problem is not delayed: "The viability of the balance of payments necessarily means that the imbalances which gave rise to the balance of payments difficulties are eliminated. If they are merely suppressed, they will reappear after a period, perhaps in a more acute form, making any improvement in the balance of payments short-lived." Finally, it was emphasized that the manner in which the BoP problem is resolved also matters: "…an improvement in the balance of payments cannot be considered durable if this is brought about by means of restrictions on trade and payments. Use of restrictions for balance of payments purposes cannot be considered as a proper adjustment measure as they add to, rather than correct, the prevailing distortions."

3. A "UCT-quality" program supported by GRA resources must be designed to resolve, rather than delay the resolution of, the member's BoP problem and to achieve medium-term external viability (IMF 2002, 2019, 2024c). This means that the policy measures that need to be taken to resolve a member's BoP problem should be undertaken during the program period and

[1] The first 25 percent above the member's quota is known as the "first credit tranche." The Fund's attitude to requests for transactions within the first credit tranche is a liberal one, provided that the member itself is making reasonable efforts to solve its problems (IMF, 1991, section 2). Access beyond the first 25 percent is considered in the "upper credit tranches."

[2] See also IMF (1983); IMF (2002a); IMF (2004); IMF (2024c).

implemented in a manner that will lead to strengthening of the member's BoP before repurchases begin (IMF 2019, footnote 4). Management may not recommend, and the Board may not approve a new UCT arrangement unless this UCT standard is met. Furthermore, a program review will be completed only if the Executive Board is satisfied, based on the member's past performance and policy understandings for the future, that the program remains on track to achieve its objectives (IMF, 2002b).

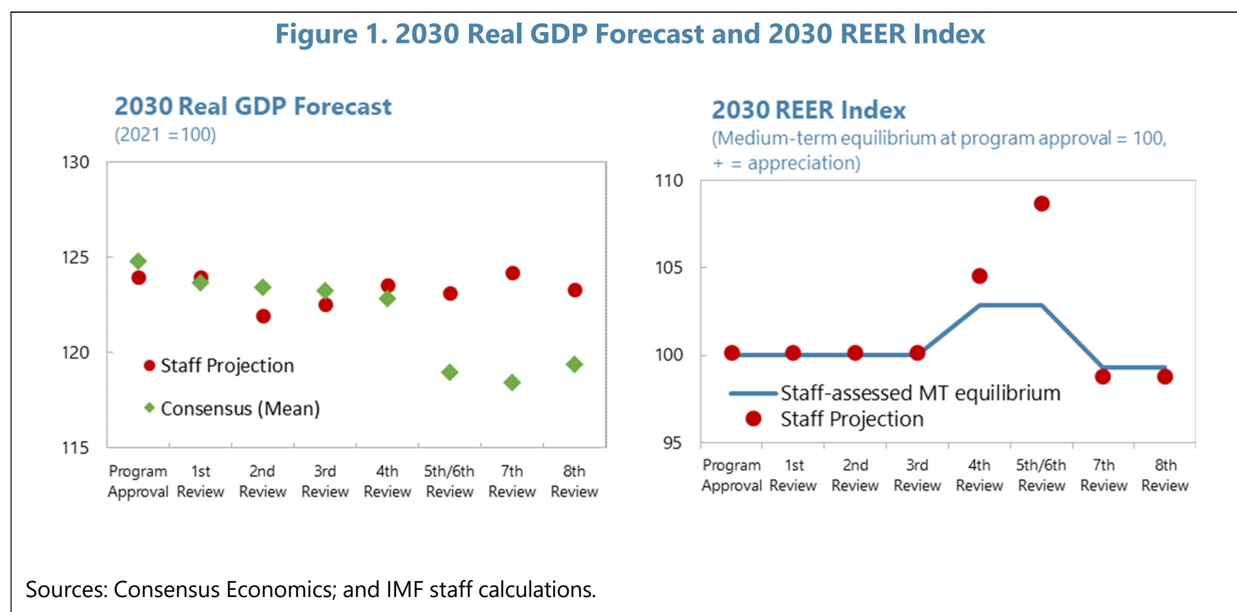
Annex XIV. Optimism in the EAC2 Assessment

EAC2 safeguard assessments are applied in the post-program period, and depend on projections of the government debt-to-GDP and GFN-to-GDP ratios, among other key parameters. These projections are in turn affected by the projected level of real GDP and REER in 2030 and average fiscal balances in 2025-30. While the safeguard assessments are applied to an adverse scenario, this scenario is centered around the baseline projections, and therefore impacted by over-optimism in the baseline:

1. **Real GDP.** The 2030 real GDP forecasts, which are based on staff's estimates of the long-term growth rate, were measurably more optimistic than Consensus forecasts at the Fifth-Sixth, Seventh and Eighth Reviews. The projected real GDP level was about 4 percent higher than the mean Consensus projection and appeared to be insensitive to the deep recession Argentina experienced in 2023-24, incorporating no long-term scarring effects as the near-term outlook worsened over the course of the program.

2. **REER.** The 2030 REER forecast was approximately at the staff-assessed medium-term equilibrium REER level at program approval and in the first three program reviews. In the Fourth and Fifth-Sixth Reviews, both the staff-assessed equilibrium and the extent by which the REER forecast exceeded it increased. In the Fifth-Sixth Review, this culminated in a 2030 REER projection that was 9 percent stronger than in the Third Review and 6 percent stronger than the staff-assessed equilibrium.

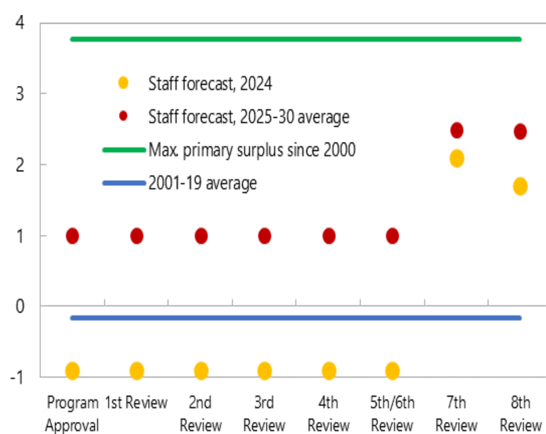
Figure 1. 2030 Real GDP Forecast and 2030 REER Index



Sources: Consensus Economics; and IMF staff calculations.

3. Primary balance. Until the Seventh Review, the average primary balance projections over 2025-30 incorporated as much adjustment post-program as the adjustment planned for the program period, at about 2 percent of GDP. The projected average primary surplus over 2025-30 was also consistently above the average primary balance in 2001-19. In the Seventh and Eighth Reviews, the projected average primary surplus was closer to the historical maximum, but the implied post-program adjustment narrowed in view of the sizable fiscal consolidation implemented by the Milei administration.

Figure 2. Primary Balance (Percent of GDP)



Note: The maximum primary surplus since 2000 was in 2004.
Sources: IMF WEO Database, and IMF staff calculations.

Appendix I. The Authorities' Views on the Ex-Post Evaluation of Exceptional Access Under the 2022 Extended Fund Facility Arrangement

1. **Our assessment is in broad agreement with the IMF's EPE evaluation of the causes behind the failure of the 2022 program until it was rescued by the current government.** The program was poorly designed, it had flagrant inconsistencies with the objectives pursued and lacked government ownership. The central weakness of the program was its weak fiscal consolidation ambition and the continuation of uncapped monetary financing. The fiscal deficit in 2021 had been 4.5% of GDP and the Central Bank (BCRA) had a 3% of GDP quasi fiscal loss. Yet the program only required a 0.5% of GDP fiscal adjustment in its first year. The program naively assumed that the bulk of the adjustment would take place in its final years. In the meantime, the program allowed for the continuation of monetary financing of the deficit.

2. **The program's flaws were exacerbated by the authorities' lack of commitment to its implementation and their pursuit of policies that were broadly in contravention with the agreement, once negative shocks hit the economy.** No meaningful policy correction was requested nor implemented in response to the negative shocks described in the document. By December of 2023 the program had failed completely. Argentina faced an imminent balance of payments crisis. The fiscal deficit was larger than when the program started. So was the Central Bank's quasi-fiscal deficit. Inflation was significantly higher than at the onset of the program and much higher than what the program envisioned. Net international reserves were negative. In all its quantitative and qualitative elements, the program failed.

December 2023-November 2024: Turnaround

3. **It is important to highlight that the economic program implemented since December of 2023 was fully designed and executed by the new authorities without any additional financial support nor technical assistance from the IMF.** Upon taking office, the new authorities faced an impending hyperinflation episode and economic depression. In response, a comprehensive stabilization program that included fiscal monetary, social, financing and micro economic policies was implemented. While it has been established that the unprecedented fiscal adjustment was the foundation upon which the program was built, every single component was essential for its success. If any of its constituent parts had not been present, Argentina would most likely have faced hyperinflation and an unprecedented economic contraction.

4. The program's core pillars include:

(i) Instantaneous elimination of a 5% of GDP fiscal deficit. This implied a significantly higher fiscal adjustment than the IMF required in the 2022 program.
(ii) Immediate cessation of Central Bank's financing for government spending. Strengthening of the Central Bank's balance sheet. An end to monetary expansion originated in interest payments to remunerated reserve requirements.
(iii) A monthly 2% monthly devaluation of the Argentine peso vs the US dollar (crawling peg).
(iv) A doubling, in real terms of direct social assistance to the poor.
(v) Streamlining of the complex, distortionary reserve requirement system for financial institutions.
(vi) Correction of price distortions, including an increase of over 500% in key regulated prices.
(vii) Immediate refinancing and payment of domestic and external debt obligations.
(viii) Broad deregulation and opening of the economy to international competition.
(ix) Deep public sector reform, including closure or privatization of inefficient state-owned enterprises.

Results

5. Economic and financial variables indicate that Argentina's stabilization and reform program has succeeded across the board. It is performing in line with the authorities' expectations and exceeding market and analysts' forecasts. Despite an unprecedented fiscal adjustment, the impact on output and employment has been milder than expected, especially when compared to Argentina's history and other countries' adjustment programs. Inflation has fallen faster than anticipated in the program, reaching its lowest monthly level in more than 3 years (November 2024 CPI: 2,4%).

6. Most importantly, the government remains steadfast in its commitment to transitioning to a new economic framework. This approach prioritizes strengthened fiscal solvency, a reduced state role in the economy, greater openness to international trade, and the elimination of distortions that hinder the efficient functioning and growth of the private sector. Fiscal surplus was reached within the very first month of implementation, and more importantly, continuously sustained since then and through November 2024, reaching a milestone that prior IMF agreements had aspired to achieve over several years, yet had never met.

- The 5% of GDP fiscal adjustment averted a major economic depression and hyperinflation. Economic output is projected to contract by less than 3% in 2024, significantly less than initially forecasted. Economic activity bottomed out in April, and a full recovery is now underway. GDP grew 3.9% in the third quarter, a stunning 16.6% annualized. The economy is projected to grow by at least 5% in 2025 and 2026.

- CPI inflation fell from 25.5% in December 2023 to 2.4% in November 2024, marking the lowest level in more than three years and reversing a multi-year rising trend. Forward-looking indicators show inflation expectations are currently below the 2% implied by the FX crawl. The fall in inflation is particularly remarkable given the large increases in key regulated prices.

- The parallel exchange rate has remained stable since the government took office, despite a 200% devaluation of the official rate, narrowing the gap between official and parallel rates from 150% to approximately 10%.

- Sovereign risk has fallen from 2,000 basis points to 675 basis points—the lowest level in over four years. This sharp decline indicates that market access is within reach, increasing the likelihood of fast repayment to the IMF.

- Dollar deposits in the banking system more than doubled, from $16.5 billion to $36.1 billion, driven by a tax amnesty and increased confidence in the government´s program.

- Since December 10, 2023, the Central Bank purchased more than $21 billion.

- The fall in inflation of the basic food basket (Canasta Básica Alimentaria), combined with increased cash transfers to more targeted subsidies for low-income sectors, means that direct financial aid has more than doubled in real terms and has resulted in coverage of 100% of basic food needs.

- Real salaries for formal workers are up 11.3 % in real terms from December 2023 to September 2024.

- Pensions are up 8.7 % in real terms from November 2023 to November 2024.

- Many distortive FX restrictions and controls have been eliminated, although some relevant elements remain in place.

- Argentina has no major economic imbalances. Fiscal accounts are in balance, the current account will record a small surplus, banks are well capitalized and face no major currency mismatches in their balance sheets.

7. To conclude, we disagree with the report's assessment that "fiscal policy shouldered the bulk of the disinflation effort." Without the corresponding monetary and FX policy changes, Argentina would have fallen into hyperinflation despite the fiscal adjustment. A new monetary policy

framework, which introduced quantitative monetary aggregates starting from June 2024, was essential to break inflation expectations and accelerate the disinflation process. At the same time, the 2% crawling peg was instrumental in anchoring inflation and exchange rate expectations. Furthermore, it allowed the BCRA to acquire more than US$21billion. Net of unanticipated external debt payments, the BCRA will meet the Net International Reserve target for the year.

8. Against this backdrop, it is an important lesson learnt when it comes to monetary and FX policies in a country with the specific characteristics of Argentina, particularly at the end of 2023. The steadfast disinflation program was primarly successful because Argentina followed the authorities' policies and views on interest rate and FX policies, even if they might not be fully in line with those of the IMF. Had Argentina raised real interest rates or deviated from the 2% crawl, the result would have been further money printing and a continuation of the inflation spiral. The unwavering fiscal effort, although unique, but, more importantly, unsolicited and yet among the most credible commitments of Milei administration, would have proven insufficient.

Statement by Mr. Madcur and Mr. Nador (OEDAG) on Argentina
January 10, 2025

We would like to thank staff for the *Ex-Post Evaluation of Exceptional Access Under the 2022 Extended Fund Facility Arrangement*, and to commend the team led by Mr. Abbas and Mr. Mirzoev for the remarkable job in preparing the insightful report, along with the worthy engagement with my authorities and other relevant stakeholders. We appreciate the candid, thorough, and balanced paper, including the valuable lessons learnt as a virtuous improvement process, particularly in this very visible relationship of the IMF with Argentina within the exceptional access framework.

The consecutive failures of two programs highlight the need for reflection and learning. Thus, as suggested by staff in the report, it may be useful to have a thoughtful discussion about the roles and responsibilities of the Fund's Board and staff, particularly considering the difficult political decisions that are sometimes necessary in an international organization such as the IMF.

With the benefit of hindsight, it is easier to agree with most of the conclusions made in the report regarding the inconsistencies of the 2022 EFF, which were less apparent at the time the program was designed. We can now benefit from the positive experience of successful shock therapy under President Milei, which demonstrates that a frontloaded large fiscal consolidation was needed, doable, and desirable to bring the economy back to normalization, stability, and external sustainability. As the authorities rightly point out in their remarks, this approach was judiciously accompanied by consistent monetary and foreign exchange policies.

In 2022, there were fewer other good options left, if any. In retrospect, as hinted in the report, avoiding arrears in such a peculiar juncture was perhaps the most relevant objective of that program, and that objective was met. There is a burden-sharing mechanism to be taken very seriously and a flip side, named charges and surcharges, where Argentina has paid the Fund nearly five billion SDRs since 2018.

Furthermore, and levering on a privileged standpoint of having witnessed the evolution of the program under two different administrations, we would like to emphasize some additional concluding reflections.

The authorities' ownership of a program is paramount; however, program design appears as even more vital in countries with highly unstable macroeconomic context, even more so if social tensions are relevant. As evidenced throughout the report (see paragraphs 25 and 28 third bullet) the previous administration showed an important initial commitment to the program, overperforming all QPCs by end-2022. Nevertheless, disinflation as a key objective of the 2022 EFF would not materialize. The new administration, on the other hand, implemented a much more ambitious reform, principally fiscal, but also complemented it by corresponding monetary and FX that would eventually differ from the IMF view. This unsolicited and much larger adjustment than the program objective (see paragraph 44) proved effective and, in a much faster fashion, in the stabilization and disinflation process.

Program design is challenging, not only because a one-size-fits-all approach has proven ineffective, but more importantly because it requires balancing technical perspectives with the realistic feasibility of policy implementation in a specific country. This process does not mean yielding to the authorities' red lines; rather, it involves incorporating good faith domestic insights to

enhance program design and conditionality, thereby increasing the likelihood of success. Additionally, contingency planning remains a crucial element of program design.

Against this backdrop, judgment and informed decisions are paramount, and require early and continuous engagement among staff, management, and the Board. Furthermore, this engagement will also allow to weigh in strategic, and even political considerations, and the Board is the right venue to articulate these dimensions.

Finally, we stress the importance of a sound and well-coordinated communication strategy to enhance domestic buy-in of a program. Domestic support feeds program ownership and improves success prospects, especially in countries where the IMF faces reputational challenges.