INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/297

ARGENTINA

October 2018

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT; INFLATION CONSULTATION; FINANCING ASSURANCES REVIEW; AND REQUESTS FOR REPHASING, AUGMENTATION, WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STAFF SUPPLEMENT

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 26, 2018, following discussions that ended on September 23, 2018, with the officials of Argentina on economic developments and policies underpinning the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on October 17, 2018.
- An **Assessment of the Risks to the Fund and the Fund's Liquidity Position**.
- A **Staff Supplement** updating information on recent developments.

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

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

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

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Press Release No. 18/395
FOR IMMEDIATE RELEASE
October 26, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under Argentina's Stand-Arrangement, Approves US$5.7 Billion Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the first review of Argentina's economic performance under the 36-month Stand-By Arrangement (SBA) that was approved on June 20, 2018.

The completion of the review allows the authorities to draw the equivalent of about US$5.7 billion (SDR 4.10 billion), bringing total disbursements since June to about US$20.4 billion (SDR 14.71 billion). The Board also approved an augmentation of the Stand-By Arrangement to increase access to about US$56.3 billion (equivalent to SDR 40.71 billion or 1,277 percent of quota)[1]. The authorities have requested the use of this IMF financing as budget support.

Argentina's strengthened economic plan aims to bolster confidence and stabilize the economy through a reduction in the budget deficit, the adoption of a simpler monetary policy framework, and freely floating the exchange rate (with foreign currency intervention limited to cases of an extreme overshooting of the currency). Protecting the most vulnerable in Argentina continues to be a central component of the authorities' efforts including by prioritizing social assistance spending and planning for an increase in spending on social assistance programs in the event that social conditions deteriorate.

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

"Argentina has faced difficult market conditions but the authorities have remained steadfastly committed to the Stand-By Arrangement's main policy objectives to address longstanding vulnerabilities, protect the vulnerable, ensure that the public debt remains sustainable, reduce inflation, and foster growth and job creation.

[1]US dollar amounts have been calculated using today's exchange rate: SDR ONE EQUALS U.S. DOLLARS - 1.38371/U.S. DOLLAR ONE EQUALS SDR - 0.722697

“To achieve these goals, the authorities have redoubled their reform efforts by accelerating the reduction in the fiscal deficit to reach primary balance in 2019 and achieve a primary surplus starting in 2020. The 2019 budget, which is anchored by this target, has been approved by the Lower House. Its passage into law will be key to restoring confidence and ensuring policy continuity.

“The authorities have redesigned their monetary policy framework with strict limits on the growth in the monetary base. This framework is expected to provide a simpler and more effective anchor that will decisively lower inflation and inflation expectations.

“The authorities are allowing the currency to freely float. However, in the event that there is a significant overshooting of the exchange rate, the Central Bank is prepared to intervene in a limited, simple, and rules-based way.

“The program continues to emphasize improving gender equality, protecting society’s most vulnerable, and laying the foundation for growth and job creation. The authorities have already taken measures to increase social assistance programs and have prioritized social assistance and childcare spending in the 2019 Budget.

“Despite the challenging environment the government has proactively strengthened its policy plans. Important challenges remain. However, full implementation of the policies that underpin the Stand-By Arrangement, together with strong support from the international community, should allow the country to return to macroeconomic stability and fulfill its full economic potential, for the benefit of all Argentines.”

Annex

The main elements of Argentina’s revised economic plan are summarized below:

Fiscal Policy: The authorities are fully committed to reducing the federal government’s financing needs and placing public debt on a firm downward path. They aim to strengthen the country’s fiscal position by achieving a primary balance in 2019 and primary surpluses starting in 2020. To this end, the government is seeking support in the Argentine Congress for revenue-enhancing and cost-cutting measures that include: introducing taxes on exports, increasing the wealth tax, scaling back inefficient energy subsidies, reprioritizing capital spending, and improving the structure of federal transfers to provinces.

Monetary Policy: To decisively reduce inflation, the Central Bank will shift toward a stronger, simpler, and more verifiable monetary policy regime, temporarily replacing the inflation targeting regime with a monetary base target. At the center of the new framework is a commitment to cap the growth of money to zero percent per month (calculated as the change in the monthly average) until June 2019, with the aim of decisively bringing down inflation and inflation expectations. This framework is supplemented by a commitment not to allow short-term rates to fall below 60 percent until 12-month inflation expectations decisively fall for at least two consecutive months.

Exchange Rate Policy: The Central Bank of Argentina (BCRA) has adopted a floating exchange rate regime without intervention. However, in the event of extreme overshooting of the exchange rate, the BCRA may conduct limited intervention in foreign exchange markets to prevent disorderly market conditions. Such intervention would be unsterilized.

Social Protection and Gender Equality. The draft federal budget strengthens the social safety net. The floor on social assistance spending and the framework for adjusting social spending will be maintained. The draft budget increases social spending and preserves health spending (while better targeting health outlays to the most vulnerable). It also includes a 12 percent expansion of public childcare in an effort to raise female labor force participation (particularly for lower income households). With the support of the World Bank, the National Social Security Administration (*ANSES*) will continue to improve targeting and expand coverage of the universal child allowance (*AUH*). Finally, the government has also developed a system to improve the monitoring of social conditions to better respond to emerging needs of low income households.

Augmentation and Re-phasing of Fund Resources. Under the revised arrangement, Fund resources for Argentina in 2018-19 have increased by US$19 billion. A total of about US$ 56.3 billion would be made available to Argentina for the duration of the program through 2021.Fund disbursements for the remainder of 2018 would more than double compared to the original Fund-supported program, to a total of US$13.4 billion (on top of the US$15 billion already disbursed). Planned disbursements in 2019 are also nearly doubled, to US$22.8 billion, with US$5.9 billion planned for 2020-21. The resources available in the program are no longer expected to be treated as precautionary and the authorities have requested the use of the IMF financing for budget support.

INTERNATIONAL MONETARY FUND

ARGENTINA

October 17, 2018

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT; INFLATION CONSULTATION; FINANCING ASSURANCES REVIEW; AND REQUESTS FOR REPHASING, AUGMENTATION, WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context. The first review under the SBA is taking place in the context of turbulent market conditions, a stronger-than expected decline in activity, and an inability of the central bank to anchor inflation expectations. Data released since program approval has shown activity slowing markedly and inflation and inflation expectations rising (largely driven by a weakening currency). At the same time, a new bout of volatility in key emerging markets, together with a domestic corruption investigation, has limited Argentina's access to market financing.

Program Performance. All performance criteria and the structural benchmark for end-June were met. However, the deterioration of market conditions has meant that (i) inflation has exceeded the inner band since end-June (requiring staff consultation) and the outer band at end-September (requiring consultation with the Executive Board); (ii) net international reserves (NIR) are below the end-September performance criteria; (iii) non-deliverable forwards (NDF) are above the end-September target; and (iv) the reduction in net credit to government (NCG) target for end-September was not met. The authorities are requesting waivers for non-observance of the end-September NIR, NCG, and NDF targets, on the grounds that corrective actions are being taken in the context of the newly reformulated program. Waivers of applicability are being requested for the end-September fiscal targets.

Program Design. The authorities have proactively recognized that restoring stability in Argentina will require a significant reshaping of their policy program and have requested changes in the nature of Fund support under the Stand-By Arrangement. Specifically, with more limited market access, Argentina now faces a pressing balance of payment need that is intimately entwined with a large fiscal financing gap and which cannot be resolved through policy adjustment alone. The authorities are forcefully strengthening their policy program by (i) eliminating the primary fiscal deficit in 2019 and targeting a primary surplus in 2020; (ii) establishing the growth rate in base money as a robust nominal anchor for monetary policy; (iii) having a freely floating exchange rate, where rules-based, unsterilized FX intervention will be deployed only in a limited set of circumstances where the currency significantly overshoots; and (iv) increasing the availability of Fund resources to address the BOP and fiscal financing needs facing Argentina.

Access. Assuming a much lower rollover rate of sovereign debt than under the original Stand-By Arrangement, US$36.3 billion in Fund financing will be needed until end 2019 to meet the BOP and fiscal financing needs. This will be achieved through both an augmentation of access under the Stand-By Arrangement (by 167 percent of quota, SDR 5.3 billion or around US$7.1 billion) and a front-loading of access from 2020-21 into 2018-19. In total, access under the Stand-By Arrangement would be 1,277 percent of quota (SDR 40.714 billion or about US$57 billion). The authorities are requesting that the domestic counterpart of the access drawn under the arrangement be made available as budget support to meet their fiscal financing need.

Approved By
Nigel Chalk and Zuzana Murgasova

A mission team visited Buenos Aires from August 13 to 22, 2018. Discussions resumed in Washington on September 4 and continued in Buenos Aires from September 12-23. The team consists of R. Cardarelli (head), Y. Carrière-Swallow, J. Wong (all WHD), P. Dudine (FAD), J. Menkulasi (SPR), M. Souto and R. Veyrune (MCM). The mission was aided by A. Aghababyan, A. Diaz, and J. Sarmiento-Monroy. Mr. Lopetegui (Alternate Executive Director) participated in most meetings.

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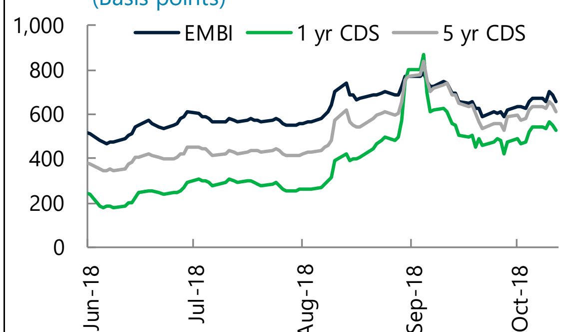
DEVELOPMENTS

1. Since Board approval of the Stand-By Arrangement (SBA), Argentina has faced important unanticipated developments:

- A new bout of volatility hit emerging markets in August, reducing the availability of market financing for the entire emerging markets asset class.
- In Argentina itself, a wide-ranging domestic corruption investigation emerged that has implicated senior members of the previous government as well as large domestic construction companies.
- Finally, markets have doubted the authorities' commitment to the program. This partly reflects an initially timid communication strategy around the stabilization plan, as well as an unclear and, at times, inconsistent FX intervention strategy from the central bank.

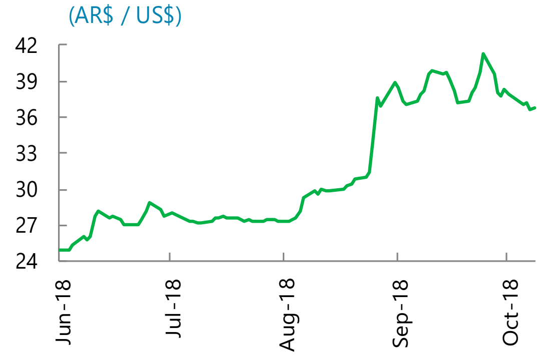
2. These external and domestic factors have served to erode market confidence, causing sovereign spreads to rise to almost 800bps in early September amid increasing pressures on the currency. With the government unable to issue new FX debt in sufficient volumes and with FX intervention exceeding limits agreed in the Stand-By Arrangement, international reserves have been depleted at a much faster pace than was anticipated under the program (at end-September, net international reserves were US$6.7 billion below the program floor).

EMBI and CDS spreads
(Basis points)



Source: Bloomberg.

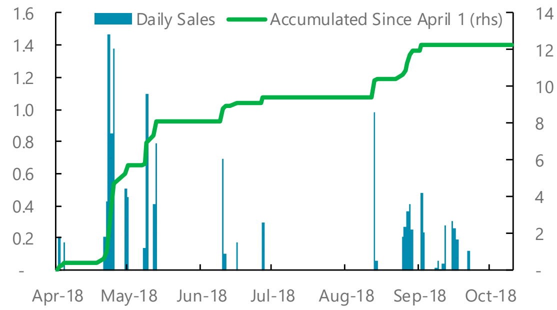
Exchange Rate
(AR$ / US$)



Source: Bloomberg.

3. In the last week of August, this difficult situation took a dramatic turn when President Macri publicly announced that he had reached agreement with the Fund to bring forward program resources to fund the government's fiscal needs in 2018-19. The uncertainty surrounding the announcement amplified the volatility of the peso (which had already been on a depreciating trend), leading the currency to depreciate by 8 percent vis-à-vis the U.S. dollar on the day of the announcement. On the following day, despite a 1500 bps increase in the policy interest rate, a 5-percentage point increase in reserve requirements, and the sale of US$330 million in FX reserves, the currency fell another 11 percent. Bond spreads moved dramatically higher, with the 1-year CDS spread rising from 499 bps before the announcement to 798 bps by the end of that week. During August, the peso depreciated by 26 percent versus the U.S. dollar.

BCRA FX Intervention
(US$bn)



Source: BCRA.

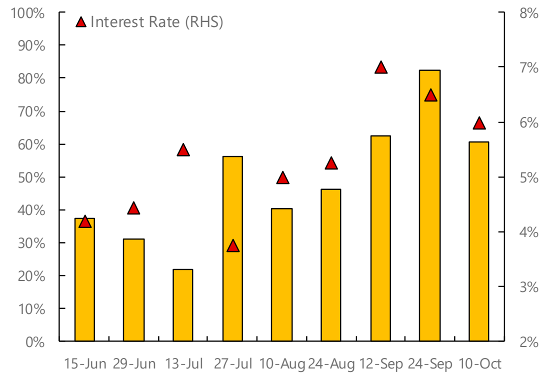
4. On September 3, with market pressures continuing, President Macri announced an overhaul of his cabinet and a further tightening of fiscal policy targeting primary balance in 2019. The adjustment was to be underpinned by an increase in export taxes, cuts to capital spending, and reductions in subsidies and other spending. In thin markets, the exchange rate depreciated 4.3 percent on September 3 and the central bank sold US$100 million at the end of the trading day. Ongoing FX sales by the central bank did not arrest the continued depreciation of the peso during the rest of September, with the exchange rate peaking above 41 pesos to the dollar on September 28.

5. As the September maturity date for LEBACs approached, both resident and nonresident investors appeared to be moving from peso to FX-denominated assets, even as Argentine bonds rallied. To stabilize markets ahead of the September 19 LEBAC maturity, the central bank announced it would (i) rollover only half (AR$150 billion) of the maturing LEBACs held by nonbanks; (ii) raise remunerated reserve requirements by 5 percent; and (iii) be ready to auction FX to counter disorderly market conditions. In the following 5 days, the central bank sold US$0.6 billion in foreign currency as the exchange rate modestly appreciated. In advance of the October maturity of LEBACs, the central bank announced a further 3 percent increase in remunerated reserve requirements. in the context of an appreciating peso and higher interest rates, the October 17 LEBAC maturity was met with stable conditions in monetary and exchange rate markets.

6. Despite worsening financing conditions, the authorities continue to issue debt in domestic markets. Since June, the federal government has placed US$17 billion in domestic law debt (Annex I). Private sector rollovers of FX debt reached low levels in June-August, driven by the exit of non-resident holders. During those months, only about 40 percent of the new issuance of FX bonds was purchased by private sector holders. Higher interest rates have attracted stronger private sector demand in both September auctions (with an average 70 percent rollover rate). Around US$5.3 billion in short term peso bonds were issued in August and September, with yields in excess of 50 percent for 3- to 6-month maturities.

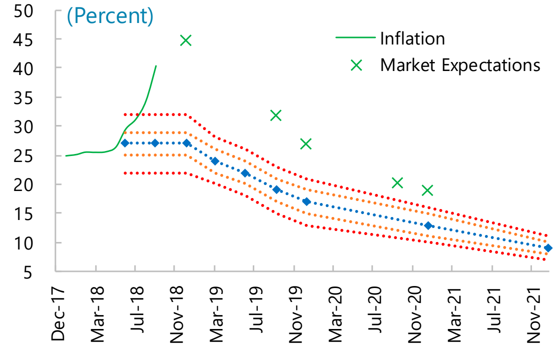
7. The large and rapid depreciation of the peso has caused inflation and inflation expectations to depart from program targets. With medium-term inflation expectations now well outside the program's inflation consultation clause outer band through end-2020, the strength of the nominal anchor provided by the inflation targeting regime has been undermined.

FX LETES Private Sector Rollovers



Inflation Consultation Clause

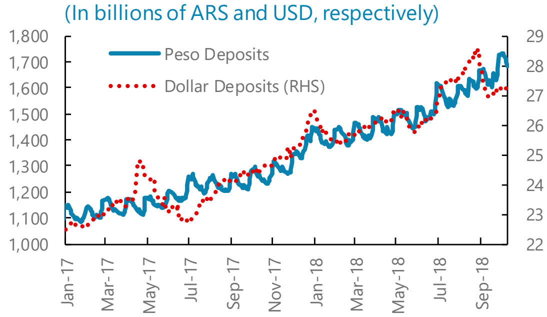
(Percent)



Source: BCRA and Fund staff calculations.

Private sector deposits

(In billions of ARS and USD, respectively)



Source: BCRA.

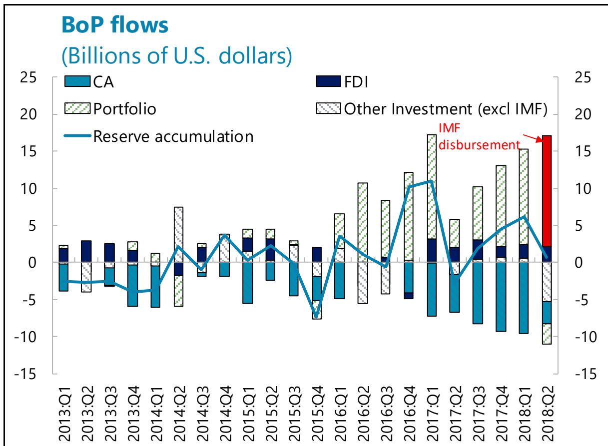
Banking Sector Indicators (end-June)

CAR	14.8
Ratio of ST Assets to ST Liabilities	45.4
Liquidity coverage	200.0
NPLs (%)	2.2
Provision Coverage Ratio	124.0
NOP (% capital)	10.0
UVA linked assets minus liabilities (% capital)	33.0
ROE (nominal)	33.8
ROA	4.0
Gross Exposure to Government (% total assets)	10.0

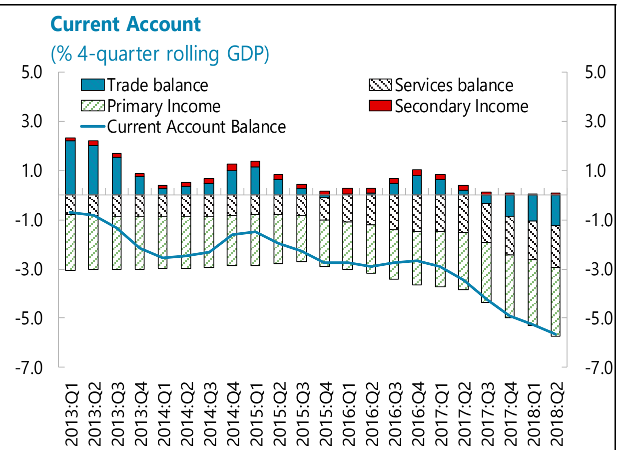
8. **Despite this market volatility, there has not been a meaningful movement of deposits out of the banking system.** US dollar-denominated deposits have fallen by around 5 percent since end-August but are around the same level as at the time of program approval. The Argentine banking sector appears solid with sizable capital positions, ample liquidity, low NPLs, strong provisioning, limited mismatches (either for currency or with regards to inflation-linked assets and liabilities), and high profitability. Exposure to sovereign liabilities is limited (at around 10 percent of banks' total assets) although banks do have significant holdings of central bank liabilities.

9. **The economic slowdown has deepened.** GDP fell by 4 percent (q/q sa) in the second quarter of 2018, driven by the negative weather shock to agricultural production and the impact of tighter financial conditions and market volatility on the rest of economy. Leading indicators of activity suggest that the recession has continued in the third quarter, reflecting the deterioration in confidence, the negative impact of inflation on real wages, and the sharp increase in real interest rates. Labor market conditions have worsened, with the unemployment rate rising to about 9½ percent in Q2, up from 8.6 percent the same quarter last year. Poverty rose to 27¼ percent in the first half of 2018, about 1½ percentage points higher than in the previous six months.

10. Despite the weaker currency and slower economic activity, the current account deficit remained high at 5.6 percent of GDP in the second quarter. A surge in imports in the first quarter together with sharp declines in agriculture production and primary exports (driven by the drought) led to a widening of the trade balance. Interest payments on external debt remain high, making up more than one-half of the current account deficit. In the first quarter this deficit was predominantly financed by public sector borrowing (including US$13 billion in federal government issuance to nonresidents, with additional inflows from nonresident purchases of provincial bonds and LEBACs). In the second quarter, balance of payments flows shifted dramatically as the government was precluded from issuing debt in international markets, non-resident holdings of LEBACs unwound, and there were outflows from private sector assets. An adjustment in the trade balance also appears to have begun in July.



Source: BCRA.



Source: BCRA.

POLICY CHANGES

11. The authorities' policy objectives remain unchanged from the original SBA:

- To fully restore market confidence through macroeconomic policies that lower the cost of borrowing, lessen the federal government's financing needs, and put public debt on a firm downward path.

- To strengthen the central bank's institutional framework by reinforcing its autonomy and designing a policy strategy that ensures inflation falls consistently over time.

- To lessen the strains on the balance of payments, allow the exchange rate to operate flexibly as a shock absorber, increase international reserves, lower the current account deficit, and reduce Argentina's gross external financing needs.

- To protect Argentina's most vulnerable citizens from the burden of this needed policy recalibration.

12. However, achieving these objectives in this more difficult environment has necessitated a strengthening of the authorities' policy program. With more limited market access, Argentina now faces a pressing balance of payments need that is intimately entwined with a large fiscal financing gap, which cannot be resolved through policy adjustment alone. The authorities have decided to respond forcefully by:

- Submitting a 2019 Budget with a zero-primary deficit target, backed by an agreement between the government and provincial leaders to support the government's policy program.
- Adopting a simpler, stronger, and verifiable monetary policy framework that decisively lowers inflation and inflation expectations. To this end, the inflation targeting framework has been replaced by a monthly target on the growth of base money.
- Allowing the exchange rate to float freely. The authorities will undertake rules-based FX intervention only in limited, pre-specified circumstances to prevent a significant overshooting of the peso. All such FX intervention, if it occurs, will be unsterilized.
- Agreeing an increase in budget support from other IFIs and seeking to increase the swap line with the People's Bank of China (by US$9 billion).
- Increasing the level of social assistance benefits in the main safety net programs.

Details of the proposed policy changes are outlined below.

A. Fiscal Policy

13. The government is on track to modestly outperform the 2018 fiscal target (a primary deficit of 2.7 percent of GDP). The positive effect of the depreciation on trade-related taxes (i.e., export taxes and the VAT on imports), the effect of higher inflation on revenue, and the fact that spending on pensions and social transfers responds to inflation with a lag, should offset the impact of the recession on the fiscal position. In addition, the authorities have introduced new taxes on exports that became effective in early September and have reduced the tax reimbursement to exporters.[1] The authorities plan to use the resulting, modest, fiscal space in 2018 to increase spending on externally-financed investment projects, boost social spending (by giving one-off extra payments in September and December to those that receive the universal child allowance), and pay a bonus to public-sector employees (whose wage would otherwise be locked into a public wage agreement that provides for an average nominal increase of 8 percent from June 2018 to June 2019).

[1] The net negative impact on exports is expected to be small since the measure will likely be offset by an increase in the productive capacity from last year's strong investment in export industries, a rebound of agricultural exports after the drought, and an expected increase in energy exports as production in the Vaca Muerta basin picks up.

14. The 2019 draft federal government budget, which was submitted to Congress on September 17, targets a primary balance of zero by:

- The introduction of taxes on all exports (which will remain in place until end-2020).
- An increase in the wealth tax, which is levied on the richest members of Argentina's society and will be based upon their assets held both within Argentina and abroad.[2]
- The elimination of the exemption of public employees' wages (at all levels of government) from the Personal Income Tax.
- The elimination of the non-taxable component of salaries (*componente no remunerativo*) and the elimination of exemptions of financial profits of cooperatives and mutual institutions from the Corporate Income Tax (CIT).
- The draw-down of the national pension fund assets (*Fondo de Garantía y Sustentabilidad*, FGS).
- A one-year suspension of the planned reduction in the financial transaction tax (*impuesto al cheque*).
- Scaling back inefficient energy subsidies by (i) raising tariffs to increase cost recovery from an average of 50 percent in 2018 to 70 percent in 2019; (ii) introducing a new pricing system for gas production; and (iii) reallocating the responsibility for transportation subsidies to provincial governments (which are better placed to judge how best to design and fund such support).
- Containing capital spending, especially in transportation and energy projects where private sector participation is expected to pick up.
- An overall 5 percent real cut in spending on goods and services (while increasing the purchase of food and medicine for the poor) and a 2 percent reduction in public employment.[3]
- A reduction of current discretionary transfers to provinces (including by eliminating the *Fondo Federal Solidario,* through which 30 percent of revenues from soy taxes were redistributed to provinces).

Some fiscal resources will, however, be used to fund additional social spending (see below), reduce the corporate income tax rate (to encourage investment), and increase the minimum amount of

[2] This measure requires separate legislation, for which provincial governors have expressed their support by signing an Addendum to the Fiscal Pact.

[3] The reduction in employment will occur by attrition, striking the right balance between reducing spending and protecting essential services.

income that is exempt from the employer's social security contribution (to reduce the burden on lower income workers), according to the pace established by the end-2017 tax reform.

15. The 2019 budget strengthens the social safety net. The budget keeps social assistance spending constant as a share of GDP (once adjusted for one-offs in the last quarter of this year),[4] preserves health spending in real terms (while concentrating resources on the most vulnerable) and achieves efficiency gains in the purchase of medicine and food for poor households. In addition, the program allows for an additional 0.2 percent of GDP in spending on specified social assistance programs to protect the poor, should such an increase be needed. The authorities have introduced a multi-transit public transportation fare, which will particularly benefit the poor. With the support of the World Bank, the National Social Security Administration will continue to improve targeting and expand coverage of the universal child allowance (*Asignación Universal por Hijo*).[5] The authorities have also developed a system to monitor social conditions (based on multiple indicators including poverty, employment, and the number of social program beneficiaries) to better respond to the emerging needs of low income households. The authorities intend to finalize a comprehensive social protection reform strategy by end-2019.

16. Fiscal policy will unavoidably become more procyclical in 2019. The zero-primary balance target in 2019 implies a structural fiscal adjustment of 3.1 percent of potential GDP, a 1.7 percent of potential GDP larger negative fiscal impulse than was built into the original SBA. This reflects the urgency of lessening the fiscal financing needs and the need to assure market participants that the public debt remains on a sustainable path. The targeted path for the primary deficit will ensure that debt peaks at 81 percent of GDP in 2018 and falls steadily thereafter to 59 percent of GDP by 2023. To this end, it will be necessary that the authorities meet their target of a 1 percent of GDP primary surplus in 2020 and keep a primary surplus above 1 percent of GDP over the medium term. Also, these targets will support the disinflation process by lessening domestic demand. Staff will continue to work with the authorities over the course of the program to improve the quality of the fiscal consolidation, and make it as growth-friendly and durable as possible. This could include an eventual expansion of coverage of the PIT from the top decile to the top quintile of the wage distribution, as well as reducing exemptions on VAT.

17. Provinces are in a relatively healthy fiscal position and are well placed to achieve the targeted fiscal rebalancing without reducing essential services. On aggregate, provinces had a primary surplus of 0.6 percent of GDP in June this year and are expected to close 2018 with a small primary surplus, due to a contraction in the wage bill, goods and services, and capital spending (as a share of GDP). For 2019, provinces are expected to achieve a small primary surplus, despite the cut in discretionary transfers and the handover of responsibility for subsidies on intra-provincial public

[4] Net of the one-off payments in 2018Q4, the budget increases social assistance spending over 34 percent in nominal terms, in line with population dynamic and the benefit indexation formula.

[5] In addition, in coordination with some provinces, ANSES (the social security administrator) is facilitating the verification of the education and health requirements for accessing the universal child allowance (AUH), which will improve efficiency and coverage of the program.

transport and the payment of the social tariff on electricity. The cut in discretionary transfers to provinces envisaged under the program will be almost fully offset by a programmed increase in automatic transfers (total transfers to provinces are expected to fall only slightly in 2019).[6] Moreover, the Fiscal Responsibility Law, approved at the end of 2017, limits the increase in public employment at the provincial level, and commits provinces to maintain non-wage current primary spending flat in real terms. Finally, a modification to the 2017 Fiscal Pact will allow provinces to delay the planned reduction in stamp duties and other taxes. which will help their revenue position.

Summary Of 2019 Fiscal Measures Under The Baseline (Federal Government)
(estimated impact on deficit, as a percent of GDP)

Primary federal deficit 2018	**2.7**
Impact on deficit of revenue measures 1/	**-1.2**
Devolution to provinces of 3 percent of coparticipation and 2017 Fiscal Pact	0.4
Loss of distortionary taxes from Dec 2017 tax reform 2/	0.4
Reduction in tax devolutions to exports (reintegros)	-0.1
Draw-down of FGS assets	-0.4
Taxes on exports and taxes on soy	-1.2
Increase in the wealth tax	-0.1
Reduce exemptions to the Personal Income Tax	-0.1
Elimination of the SSC-exempt component of salaries and reduction in tax expenditures on CIT	-0.1
Impact on deficit of expenditure measures 1/	**-1.5**
Employment freeze and a 5 percent real cut in goods and services	-0.2
Increase in pension	0.3
Reduction in energy subsidies	-0.2
Shift to provinces of subsidies for intra-provincial public transport and social tariff on electricity	-0.4
Cut in federal capital spending	-0.4
Elimination of the Fondo Federal Solidario	-0.2
Reduction in other discretionary transfers to provinces	-0.2
Reduction in other current primary spending	-0.2
Primary federal deficit 2019	**0.0**

Note:
1/ A -/+ sign means that the measure reductes/increases the primary deficit.
2/ At program approval, the authorities were planning to suspend the increase in minimum salary above which employers pay SSC. Under the 2019 budget, the increase will proceede as originally planned.

18. The authorities remain committed to their policy plans to promote gender equality. The 2019 budget includes an expansion of public childcare facilities, which should help raise female

[6] Since 2016 automatic transfers to provinces have been increasing 0.3 percent of GDP per year. Transfers to the Province of Buenos Aires will increase a further 0.4 percent of GDP in 2018-19, as planned under the Fiscal Pact.

labor force participation and contribute to level the playing field for women in the labor market (particularly for lower income households). The *Comisión Nacional de Valores* is in the process of setting up a registry of gender balance in listed companies' executive boards and management positions. Finally, legislation that extends the duration of paternity and maternity leave is being considered by Congress.

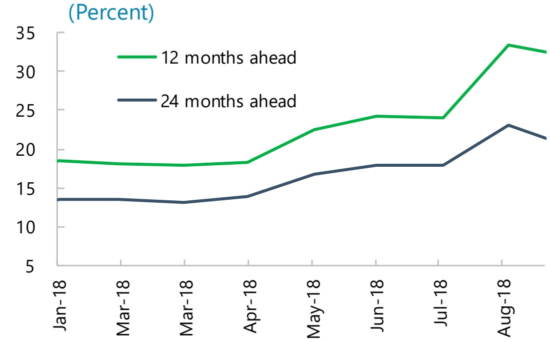
B. Monetary Policy

19. Since the approval of the IMF-supported program, the BCRA has set its policy interest rate based on the gap between end-2019 inflation expectations and its inflation target. Policy statements have appropriately announced and explained rate decisions as being calibrated to bring inflation back to target over the medium term. This approach has been well understood by the market, although there have been important doubts as to how long the BCRA would be willing to withstand the high interest rates needed to bring down inflation.[7]

20. However, the conduct of monetary policy has been overshadowed by significant exchange rate volatility and an important weakening of the currency. With the central bank's policy framework not providing a firm nominal anchor, currency depreciation is strongly passing through into domestic prices. Inflation accelerated from 3.1 percent (month-on-month) in July to 6.5 percent in September, bringing year-on-year inflation to 40.5 percent.

21. Inflation expectations have increasingly diverged from central bank targets. The September survey of professional forecasters predicted inflation to be well above the outer band of the inflation consultation clause through end-2020. This is despite the BCRA's forceful policy response in August and September, which included: (i) raising the policy rate by 2,000 bps (to 60 percent), (ii) extending time-based forward guidance (i.e., committing to not lower the policy rate until at least December), and (iii) raising the reserve requirement by 5 percent.

Inflation expectations
(Percent)

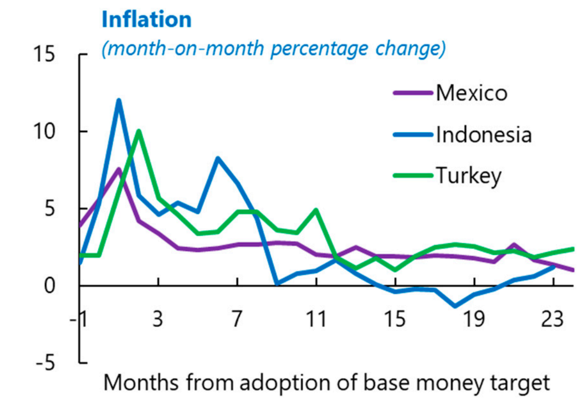


Source: BCRA.

[7] The August and September surveys of professional forecasters indicate that these doubts may be dissipating, with policy rate expectations aligning closely with the BCRA's forward guidance. This increase in the forward curve has raised the ex-ante real interest rate when measured at a 3-month horizon.

Box 1. Monetary Aggregate Targeting During Stabilization Episodes

With limited central bank credibility, unanchored inflation expectations, and accelerating inflation, the BCRA has adopted a monetary framework centered on zero growth of base money. This approach is simple and easily monitorable and should help to stabilize the Argentine economy. Base money targets have been used extensively in the context of Fund-supported reform programs, including in 45 of the 105 arrangements over 2002-2012 that were reviewed in IMF (2014).[1] This box summarizes experiences from three of these programs:[2]



- **Indonesia (1997)**. Following a 70 percent depreciation of the rupiah, Bank Indonesia aimed to reduce soaring inflation during 1998 by adopting an intermediate target of 16 percent broad money growth and using an operational target for the growth rate of base money. Amid low central bank credibility, the adoption of a simple base money target delivered some degree of clarity and predictability to the monetary framework. Inflation was reduced from a crisis peak of 150 percent to single digits in the space of around 18 months. Interest rates were highly volatile in the early months of implementation and rose to over 100 percent before stabilizing. GDP fell by 21 percent before the economy began growing again in 1999, reflecting the combined banking and BOP crisis (much of which took place before the base money target was introduced). An inflation targeting framework was adopted in 1999, alongside the passage of a law establishing the independence of the central bank.

- **Mexico (1995)**. Following a forced transition to exchange rate flexibility, Banco de Mexico adopted an intermediate target on the growth of the monetary base in early 1995, with borrowed reserves as its instrument. Amid a deepening crisis, initial implementation of the rule involved substantial volatility of the exchange rate, as the velocity of money was very unstable. However, once the central bank took decisive action to ensure that interest rates rose to nearly 100 percent, inflation and the exchange rate stabilized, amid a fall in output of 10 percent. Inflation was gradually lowered from over 50 percent in 1995 to the mid-twenties by 1997. An inflation targeting regime was formalized in 2001.

- **Turkey (2001).** Following a 50 percent depreciation of the currency, the Central Bank of Turkey set a target for the growth rate of base money of about 25 percent during 2001 as part of its macroeconomic stabilization program. Early in the program dollarization reduced the demand for Lira, which allowed for a reduction in the rate of growth of the monetary base but without having a marked impact on inflation. The liquidity crisis led to a fall in output of over 5 percent in 2001. Together with tight interest rate policy, inflation was reduced from chronically high levels of above 50 percent to single digits by 2004.

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[1] IMF Policy Paper, "Conditionality in evolving monetary policy regimes," March 2014.
[2] IMF Occasional Paper, "Managing Financial Crises: Recent Experiences and Lessons for Latin America", no. 217, 2003.

22. The authorities have decided, therefore, to replace their inflation targeting framework with a target on the growth in the monetary base. The objective is to set monetary policy in a simpler, stronger, and more verifiable way, to bring down inflation and inflation expectations more rapidly. The core of the new framework is a commitment to a ceiling on the growth rate of nominal base money that is equal to zero percent per month until June 2019, and to one percent per month until end-2019.[8] This framework is expected to be a transitional arrangement until the system has stabilized. Once inflation and inflation expectations become well anchored, the central bank plans to return to an inflation targeting framework.

23. Changes to the operational framework are being implemented to increase the BCRA's control over domestic liquidity conditions. LELIQ issuance is being calibrated to reach the base money target on average for each month based on fixed allotment, variable rate auctions. Also, to avoid an unintentional loosening of monetary conditions, the base money growth target is supplemented by a commitment to maintain short-term rates above 60 percent until such time as 12-month-ahead median inflation expectations fall decisively for at least two consecutive months. The commitment to keep short-term rates from falling below 60 percent has been operationalized by introducing a minimum bid rate at the LELIQ auction. The central bank will accommodate increases in the interest rate as needed to ensure the achievement of its quantitative target.

C. Exchange Rate Policy

24. Over the past few months, the central bank's approach to the exchange rate lacked a clear objective and has resulted in an excessive loss of reserves while doing little to address disorderly market conditions. Contrary to their commitments under the program, the authorities have followed an ad hoc, discretionary intervention strategy. They have intervened on some days without a significant movement of the peso, sold reserves into an appreciating currency, sold reserves both by auctions and direct sales to the market, and occasionally stepped out of the market altogether in the face of very large daily movements in the currency. The authorities have been concerned by low levels of liquidity in the currency market, that creates a risk that small transactions result in very large movements in the exchange rate, and have tried to counter this with their intervention strategy. However, the volumes trading in the market became endogenous to the potential of the central bank stepping in to sell dollars. This lack of a clear framework has been particularly evident in the disruptive conditions in the currency market in August and September.

25. The authorities have allowed the currency to freely float. The central bank regards that a floating exchange rate is best suited to Argentina's current circumstances, particularly given the uncertain prospects for the terms of trade and for capital flows. However, the BCRA has indicated it would be prepared to intervene—in a limited, simple, and rules-based way—to prevent disorderly market conditions and in the event that there is a significant overshooting of the exchange rate.

[8] The targets will include adjustments in December and June to accommodate seasonal spikes in the demand for currency. As a result, after taking into account these seasonal adjustments, average base money will grow by a cumulative 8.0 percent from September 2018 to June 2019, and by 11.6 percent from June to December 2019.

Specifically, the central bank is committed to undertaking no FX purchases or sales within a wide, "non-intervention zone" (of AR$39 per US$ ± 15 percent).[9] In the event the currency were to move outside of this zone, the BCRA would have the option (but not a commitment) to announce a competitive auction to either buy or sell up to US$150 million per day. The central bank is committed to ensuring that all FX purchases/sales are unsterilized, which would result in an expansion/contraction of base money (i.e. base money would grow at a faster/slower rate than the announced monthly targets).

D. Debt Management

26. Prior to the program, Argentina's debt management has relied on a mix of monetary and external financing. The BCRA's advances to the Treasury resulted in a liquidity overhang absorbed by the BCRA via the issuance of its own securities (LEBACs), incurring a significant quasi-fiscal cost and undermining the authorities' disinflation objective. In addition, the debt management strategy relied on sizable U.S. dollar denominated issuances, exposing public debt to exchange rate risk. While monetary financing was suspended in the context of the IMF-supported program, the latter risk remains.

27. The Treasury faces sizable FX funding needs in the remainder of 2018 and 2019. About US$5.1 billion in FX LETES will mature in the remainder of 2018, together with a US$3.1 billion repo with banks. In 2019, if rollover rates remain as projected under the baseline, the Treasury would face FX gross financing needs (with the private sector) of US$22.3 billion.

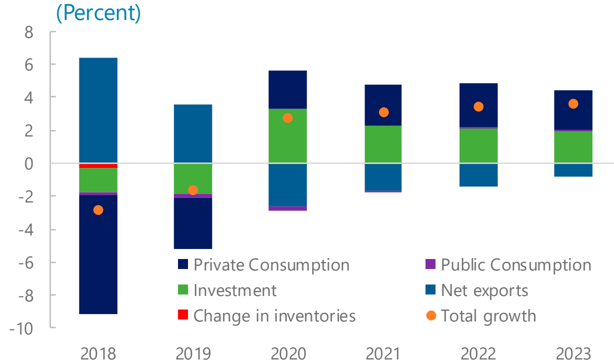
28. The development of a liquid, peso-denominated domestic government securities market is a priority to improve the currency composition of public debt. This will require a successful macroeconomic stabilization effort and a gradual increase in domestic currency debt issuance, supported by measures that improve the effectiveness of debt management policies and that develop the local financial market. The Treasury should issue peso-denominated securities more regularly, preferably based on a pre-announced schedule, with benchmarks provided by a few (initially short) maturities to deepen the market and develop a yield curve. Given the strong preference for liquidity, the development of secondary and repo markets will be important and would benefit from the introduction of a market making agreement. Regulatory limits on banks' exposure to sovereign risk have resulted in a larger role played by mutual funds in the local fixed income market, and could be reconsidered in the context of market development efforts.

[9] The limits will be adjusted daily at a monthly rate of 3 percent until December 2018, starting on October 1, 2018.

IMPACT ON THE MACROECONOMIC OUTLOOK

29. In line with the more difficult financial situation, and with a larger fiscal adjustment and tighter monetary conditions, staff has revised down its growth projections. The economy is expected to continue contracting for the remainder of the year, and growth for 2018 is now forecast to be -2.8 percent (versus 0.4 percent at SBA approval). The rebound of agricultural activity is expected to contribute to a gradual recovery starting in 2019Q2, but a 1.7 percent contraction is still projected on average for 2019 (versus 1.5 percent expansion expected at the time of program approval). Domestic demand growth is expected to remain weak for some time. However, the real exchange rate depreciation, stronger agricultural and energy exports, and import compression are expected to create a significant boost to GDP from net exports.

Contribution to GDP growth
(Percent)

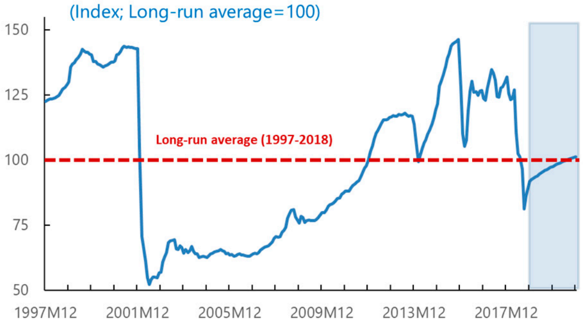


Source: IMF calculations and estimates.

30. The recent depreciation of the peso is projected to boost near-term inflation. Inflation is now expected to exceed 43 percent by end-2018 (versus 27 percent at SBA approval). Contracting activity, continued moderation in wage increases, and the shift in the monetary framework are expected to reduce inflation to 20 percent by end-2019.

31. The exchange rate is expected to remain far more depreciated than originally envisaged under the SBA. In real effective terms, the currency has depreciated by about 34 percent so far in 2018, already exceeding the overvaluation estimated at the time of the 2017 Article IV. The sharp real depreciation, together with the projected continued contraction in demand, is expected to result in a significant external adjustment for the remainder of the year and into 2019, with the current account deficit expected to fall to 1.6 percent of GDP in 2019. The public sector is not expected to tap international markets in 2019, although nonresident investors are expected to purchase domestic law bonds. A cumulative real appreciation of around 20 percent is expected by 2020. In the program scenario (where stability gradually returns and confidence in the policy framework is rebuilt), both the level of the REER and the current account position are expected to converge to levels that are consistent with medium-term fundamentals and desirable policies.

Real effective exchange rate
(Index; Long-run average=100)



Source: IMF staff calculations.

32. The current baseline scenario is worse than the "adverse scenario" outlined in the Stand-By Arrangement in June. That scenario assumed higher rollover rates and a less depreciated peso than currently envisaged, and accordingly, a higher path of reserves, and a lower debt-GDP ratio. It was envisaged at the time of program approval that, in such circumstances, there would be a need for additional fiscal measures and that the domestic counterpart of Fund financing would be drawn and made available as budget support (as is now proposed in the changes to the SBA).

Argentina SEI – Adverse Scenario vs Current

	2018	2019	2020	2021	2022	2023
GDP at constant prices	-2.8	-1.7	2.7	3.1	3.4	3.6
Adverse	-1.3	0.0	1.0	1.2	1.7	2.3
CPI inflation (eop, y/y percent change)	43.8	20.2	13.0	9.0	5.0	5.0
Adverse	31.7	20.8	15.0	10.0	9.0	5.0
Primary balance	-2.7	0.0	1.0	1.1	1.2	1.4
Adverse	-2.0	-0.9	-0.2	-0.1	0.2	0.4
Total public debt (federal)	81.2	72.2	67.0	63.7	60.5	59.3
Adverse	68.6	65.4	60.0	59.8	59.0	57.9
Rollover Rates for Public Debt	50.0	60.0	98.0	100.0	100.0	100.0
Adverse	71.0	82.0	90.0	95.0	100.0	100.0
Gross international reserves (billions of U.S. dollars)	56.4	53.5	59.2	65.0	69.0	73.2
Adverse	54.3	53.6	54.2	57.1	73.7	89.7
ARA	89.3	84.8	90.6	94.3	97.0	99.3
Adverse	84.4	78.9	74.9	73.9	89.2	101.4
Net international reserves, (billions of U.S. dollars)	23.1	20.3	26.0	31.8	35.8	40.0
Adverse	4.5	0.1	-3.0	3.5	23.8	49.8
Change in REER (eop, percent change)	-30.3	6.2	3.8	2.3	1.4	0.9
Adverse	-24.0	2.2	0.0	0.0	0.0	0.0
Interest rate (eop)	69.6	32.0	20.0	15.3	14.0	13.1
Adverse	43.0	26.8	16.5	15.3	10.8	10.3
Current account balance	-4.2	-1.6	-2.4	-2.6	-2.6	-2.5
Adverse	-3.0	-1.2	-1.0	-0.5	-0.3	-0.2

IMPLICATIONS FOR THE STAND-BY ARRANGEMENT

33. BOP need. Argentina faces a BOP need arising from pressures on the current and capital accounts, stemming from a shift in the global appetite for emerging market assets and idiosyncratic concerns about Argentina. The resulting tightening of financial market conditions has constrained the government's ability to issue new debt, including to cover its debt obligations falling due, and created significant difficulties for Argentina in meeting its gross external financing needs. Indeed, the lower rollover rate since program approval has translated directly into lower international reserves. This, in addition to higher private outflows and lower inflows, has implied a sizable revision in the capital account and a downward adjustment in the current account deficit. As such, an augmentation and front-loading of access under the SBA is warranted to address Argentina's actual BOP need. In staff's judgment, the Fund's financing, together with sustained implementation of the reform program, should help bolster confidence and restore external financing flows, both to the government and to the private sector, eventually restoring stability to Argentina's external position. Indeed, the program assumes that the successful implementation of adjustment policies as envisaged, combined with the support from international community, will help reestablish access to international markets at reasonable terms. The BOP pressures that Argentina is currently facing are seen as temporary.

34. Access. Even with the authorities' more front-loaded fiscal adjustment program, and assuming the revised macroeconomic framework discussed above, the federal government is likely to be left with a significant financing need in 2018-19. The program is based on a conservative scenario where:

- Other IFIs provide new financing sufficient to at least cover their upcoming amortizations in 2018-19. Financing assurances have been given for new lending of about US$5 billion by the World Bank, Interamerican Development Bank, and the Development Bank of Latin America (CAF).

- The private sector rolls over 50 percent of the amortizations coming due, rising gradually to 70 percent by end 2019, and nearly 100 percent in 2020, as confidence returns.

- Public sector entities maintain/increase their exposure to federal government liabilities, as non-financial public-sector entities also capitalize their interest payments.

- The Federal fiscal position is adjusted to achieve primary balance in 2019 and a 1 percent of GDP surplus in 2020.

Under such assumptions, there would be a financing gap that the authorities have requested be met from IMF financing. This would imply a larger and more front-loaded disbursement of Fund resources: an augmentation of access by SDR 5.335 billion (around 167 percent of quota or US$7.1 billion) with SDR 25.9 billion (or about US$36.3 billion, 813 percent of quota) made available as budget support between end-September 2018 and end-December 2019. This would bring total access under the SBA to 1,277 percent of quota (SDR 40.714 billion or about US$57 billion).

35. Capacity to repay. Argentina's capacity to repay the Fund continues to be assessed as adequate, although subject to heightened risks (see below). The Fund's exposure in terms of debt service metrics are at the higher end compared to other exceptional access cases, and the frontloading would result in a considerable bunching of Argentina's repurchase obligations to the Fund. Nonetheless, international reserves are projected to remain adequate at the end of the program and throughout the repayment period. Moreover, Argentina's efforts over the past few years to strengthen institutions, improve governance, and increase transparency help provide assurances. That said, a steadfast delivery of program commitments will be crucial for a successful IMF-supported program in Argentina, which would significantly reduce sovereign and balance of payments risks, result in lower spreads, increase access to global capital markets, and permit Argentina to successfully exit from Fund support.

36. Program performance. While all end-June quantitative performance criteria (QPC) under the SBA were met,[10] some end-September QPCs, for which data are available, have been missed.

- In particular, the deterioration of market conditions has meant that (i) inflation has exceeded the inner band since end-June (requiring staff consultation) and the outer band at end-September (40.5 percent y/y, requiring consultation with the Executive Board), largely owing to the sharp depreciation of the peso[11]; (ii) NIR fell below its end-September target and the stock of non-deliverable forwards rose above the program ceiling, owing to the BCRA's significant spot and forward FX intervention and lower-than-expected rollover rates; and (iii) difficult financing conditions have precluded the Treasury from reducing its stock of liabilities to the central bank, thus missing the QPC on net credit to government. Waivers for non-observance are, therefore, requested for the end-September QPCs for net international reserves, net credit to government, and non-deliverable forwards.

- Corrective actions are being taken to recalibrate monetary policy and accelerate the process of fiscal adjustment in the context of the newly reformulated program. The authorities have begun to reduce the outstanding stock of NDFs, with around US$200 million having been rolled off during September, and the stock will be monitored going forward through a continuous QPC.

- The authorities are requesting waivers of applicability for all end-September fiscal QPCs. However, preliminary data indicates that these targets will be met and, in the likely case that the final data becomes available before the board date, a staff statement will be issued reporting on their performance.

- The continuous QPCs for external payment arrears and central bank financing of the government were met.

- The end-June structural benchmark for the establishment of FX auctions was met. The end-September structural benchmark on the establishment of a senior-level debt management coordinating committee between Finance and the BCRA was implemented on October 1 (i.e. with a minor delay).

37. Risks. Needless to say, the large scale of financing under the revised program creates significant risks to the Fund.

- First among these risks is the uncertainty surrounding the degree to which private capital participates in financing Argentina in the coming months. If rollover rates are lower than is assumed in this revised program, even the proposed increase and front-loading of Fund

[10] The floor on social spending in end-June 2018 was met using an accrual basis. The TMU has been updated to clarify that going forward, this is to be measured on a cash basis. For the end-June and end-September 2018 targets, there was a minor typo on the starting stock of NIR as of June 4, 2018. The correct amount should have read US$ 24.735 billion, although this did not affect performance relative to those NIR targets.

[11] As part of the consultation, a letter by the BCRA outlining the reasons for the breach and policy responses will be issued to the Board in the coming days, as part a supplement.

resources would be unable to fully finance the balance of payments and fiscal needs. In such circumstances, it would be difficult to represent that the program remains fully financed. Similarly, if financing terms do not improve as envisaged under the baseline, even if rollover rates are realized, this could raise concerns about program financing and the sustainability of the federal debt.

- If macroeconomic outturns were to weaken beyond staff's projections, the authorities' fiscal objectives could be called into question, necessitating further policy measures to achieve the fiscal targets under the program. Even then, the debt-GDP path would likely be higher than is forecast in the baseline, which may raise sovereign spreads and lessen the availability of market financing.

- An inability to achieve the targeted fiscal adjustment, or continued difficulty re-establishing central bank credibility within the new monetary framework, could undermine the authorities' policy efforts and lead to concerns over the path of public debt and future inflation. This, in turn, would make it more difficult to convince investors of the sustainability of Argentine public debt or to establish a nominal anchor.

- Risks to the program could also arise from external shocks, such as unanticipated changes to U.S. monetary policy, a potential deepening of trade tensions, increased uncertainty arising from geopolitical tensions, or an exogenous tightening of global financial conditions (particularly one that is incident on emergent market economies).

- Finally, maintaining social and political support for the authorities' proposed adjustment is likely to be difficult, particularly when (as is expected) the economic downturn deepens. This risk is exacerbated further by the fact there will be national elections in October 2019.

38. Debt sustainability. Debt burden indicators have worsened since the time of the program request, and beyond what was envisaged in the adverse scenario. Public debt is expected to peak at 81 percent of GDP by end-2018. This reflects the recent real exchange rate depreciation and the high share of FX-denominated debt and, to a lesser extent, lower GDP growth. With the implementation of the new monetary framework and additional fiscal consolidation, the staff's baseline envisages a rebound in market confidence, including a partial and front-loaded unwinding of the real exchange rate depreciation and a return of growth, leading debt to fall to around 59 percent of GDP by 2023. Nevertheless, there are significant downside risks to this baseline scenario including (i) if the rebound to market confidence envisaged in the program does not fully materialize, (ii) the structurally high share of FX-denominated debt, and (iii) potential contingent liabilities from the broader public sector. At the same time, the 40 percent of public debt that is held by other public entities is a mitigating factor. Overall, staff's assessment is that debt remains sustainable, but not with a high probability (see Annex I).

39. Prior Actions and Structural Benchmarks. The authorities have already submitted a 2019 Budget to Congress with a zero-primary deficit target and that quantifies the 2019 policy measures and tax expenditures, contains a statement of fiscal risks and mitigating measures (including from

PPPs), and eliminates article 27 of the Law 11,672 (which established that capital expenditures under the *Programa de Inversión Prioritaria* have to be recorded below the line). Also, the government has submitted the revenue legislation (on the wealth tax) that underpins their fiscal plan as a prior action for completion of this review. Passage of the budget and the tax legislation are proposed as structural benchmarks for end-November. A new structural benchmark is proposed for end-October for submitting a medium-term budget to congress, and the timing of the structural benchmark for limiting the counterparties for LEBACs is proposed to be changed to end-March 2019 (from end-September 2019).

40. Political Assurances. The authorities have obtained an expression of support for the fiscal program from the provincial governors, who have signed an addendum to the 2017 Fiscal Pact whereby they agree on the importance of the federal government reaching a primary balance in 2019. After approval in Congress, the addendum to the Fiscal pact will be submitted for approval to the provincial legislative bodies, thus reflecting the support from a broad spectrum of political forces within Argentina. Further, the head of the *Partido Justicialista* block in the Senate has expressed support for the fiscal plan that underpins the Stand-By Arrangement. Although broader statements of support from the IMF-backed program have not been expressed by all political factions, these statements of support on the fiscal adjustment, together with the BCRA's well-executed communication of the new monetary policy and the concrete fiscal and monetary policy measures adopted since the time of program approval, provide sufficient assurances that the authorities are committed and able to implement the program.

41. Reviews. Given the uncertainties, staff propose incorporating into the program a second review based on an end-October test date and a third review based on an end-December test date, and then subsequently move back to regular quarterly reviews.

42. Conditionality. Program conditions will include:

- ***Primary balance of the federal government.*** The primary balance target for 2019 will be set at zero for the year as a whole (although the quarterly targets will take into account seasonality in revenues and spending). The adjustor for capital spending financed by multilateral and bilateral official donors (of up to 0.2 percent of GDP) will be maintained.

- ***Social targets.*** The floor on social assistance spending and 0.2 percent of GDP adjustor for social spending will be maintained under the redesigned program.[12]

- ***Net credit to government (NCG).*** Starting in end-October the targeted change in NCG will be reduced to zero. At each review, staff will examine with the authorities the prospect of reinstating a targeted reduction of the NCG, depending on market conditions.

[12] At 0.2 percent of GDP, the adjustor would allow for greater spending on the universal child allowance by about 30 percent, either to increase coverage (for example, covering those parents who lose formal employment) or to increase benefits.

- ***Net International Reserves.*** NIR targets will assume Fund resources are fully drawn down as budget support (rather than having an adjustor to the NIR target for the use of Fund budget support as was previously the case). Adjustors will be introduced as follows: (i) a downward adjustor to the floor based on cumulative FX sales insofar as they take place outside the non-intervention zone and are no more than US$150 million per day, and (ii) an upward adjustor to the floor insofar as the cumulative issuance of FX denominated debt is in excess of that assumed in the program baseline. There will also be an adjustor linked to changes in the timing of IFI disbursements to Argentina.

- ***Non-deliverable forwards.*** A continuous ceiling for the stock of non-deliverable forwards will be kept at US$3.6 billion (the same as the end-September stock) until end-December 2018. Starting in 2019, this will become a quarterly performance criterion (with monthly indicative targets) and the stock will be reduced gradually.

- ***Inflation targets.*** Reflecting the change in the monetary policy framework from inflation targeting to monetary targets, the inflation consultation clause will be eliminated from program conditionality.

- ***Net Domestic Assets.***[13] NDA QPCs will be established that are consistent with the programmed path for NIR and the central bank's targeted growth in base money. These program targets will be defined as a ceiling on the monthly average of NDA. There will not be an adjustor to the NDA ceiling linked to FX sales (purchases), so that these transactions are not sterilized and automatically lead to a reduction (increase) in the growth of base money. An adjustor based on changes in the timing of disbursements of IFI budget support—symmetric to that for NIR—will be included for the NDA ceiling.

In addition, modifications are requested for end-December performance criteria for the primary balance of the federal government, domestic arrears, social assistance spending, NIR, NDF, and net credit to government.

43. Safeguards. A safeguards assessment of the BCRA has been completed. The assessment mission found that the BCRA has strong external audit arrangements and is planning to transition financial reporting practices to international standards in 2020. Plans to amend the BCRA Charter are underway. Central bank independence will need to be strengthened in key governance aspects including refocusing the bank's objectives on monetary and financial stability and strengthening governance arrangements at the BCRA board (including the personal autonomy of board members and the Governor). Recapitalization of the BCRA will be necessary to strengthen the balance sheet. Staff also recommended closer coordination between the authorities and staff on the use of budget support resources in line with the Memorandum of Understanding, signed between the Treasury and the BCRA, that sets out terms and responsibilities for handling IMF resources used for budget

[13] NDA includes the BCRA's Net Claim on the Government, its monetary policy operations (sterilization instruments), and the Net Other Items that do not belong to NIR or base money.

support. In light of the proposed additional budget support under the SBA, a fiscal safeguards review is planned for October-November 2018.[14]

44. Financing Assurances. The combination of a larger fiscal adjustment and increased resources from the Fund ensure the program is fully financed. The authorities will continue to seek further bilateral and multilateral financing for Argentina (including larger support from other IFIs and an increase in the size of the foreign currency swap with the People's Bank of China). Additional FX resources should be kept to build-up reserves in order to strengthen Argentina's external position. It is expected that the increase in access and re-phasing of the program will play a key role in bringing back market confidence and supporting the authorities' reform plan. Continued strong program implementation should allow Argentina to meet its obligations to the Fund in a timely manner.

Settlement of Untendered Debt as of December 31, 2017

(In billions of US$, unless otherwise noted)

	Nominal Amount	Claims	Agreements	Haircut (Percent)
Agreements	5.53	17.44	11.34	35
Pending	1.18	3.29	0.81	75
Total	**6.71**	**20.73**	**12.15**	**41**

Source: Ministry of Finance.

45. The authorities continue to make good faith efforts to resolve outstanding arrears to external private creditors. The debt exchange undertaken by the government in 2016 reopened capital markets and resolved the bulk of the arrears that had built up over the past several years with the previous two administrations. However, a residual amount of arrears to private creditors remains unresolved. Currently, a total of around US$1.2 billion in principal (or US$3.2 billion including accrued interest) remains outstanding. Since program approval, the authorities have continued to make payments under the agreements executed. While there have been no new agreements since June, the authorities have continued to work with the Attorney General's office and are now in the final stages of approving and publishing the instructions for the procedure for settlement of claims under Argentine Law. The authorities expect that this will bring in another wave of agreements for claims under Argentine Law out of a total of about US$90 million in original principal amounts eligible. The authorities maintain open discussions with creditors and all documentation to enter into agreements are available on the government's website. The terms

[14] Under the safeguards policy, fiscal safeguards reviews should be conducted for all arrangements where a member requests exceptional access to Fund resources, with an expectation that a significant proportion, i.e., at least 25 percent, of the funds will be directed to financing of the state budget. See BUFF/15/94.

offered are the same as those offered to the creditors who accepted in 2016. Litigation initiated by certain bondholders continues in several jurisdictions. Staff is of the view that, based on the authorities' actions, they are making good faith efforts as required under the Fund's Lending into Arrears policy.

46. There are limited outstanding arrears to official bilateral creditors. These arrears, of approximately US$30 million (in principal amount), claimed by the French export credit agency, relate to the building of a gas pipeline in the Tierra del Fuego region of Argentina by a French company in the late 1970s. The parties are currently in arbitration in the International Chamber of Commerce International Court of Arbitration. Discussions are ongoing, and both countries have recently agreed that the constitution of the Court will be decided under Argentine Law.

EXCEPTIONAL ACCESS CRITERIA

47. While the environment under which the SBA would be implemented has worsened, Argentina is judged to continue to meet the four criteria for exceptional access:

- ***Criterion 1. The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account resulting in a need for Fund financing that cannot be met within the normal limits.*** Tighter global financial conditions since the approval of the program in June have reinforced the shift in portfolio preferences away from peso assets and intensified capital account pressures. The return of market confidence has not materialized as envisaged at the time of Board approval and has resulted in a weaker-than-expected exchange rate and a lower rollover rate of private holdings of public debt. This gives rise to a larger financing need than was envisaged at the time the program was designed which cannot be met within the normal limits of Fund access.

- ***Criterion 2. A rigorous and systematic analysis indicates that debt is sustainable but not with a high probability; exceptional access is justified as financing from sources other than the Fund improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*** Under staff's new baseline, Argentina's federal government debt is projected to increase above the high-risk threshold (70 percent). Gross financing needs (GFN) are high but remain below the 15 percent of GDP high-risk threshold during the projection period. The end-2018 federal debt-to-GDP ratio forecast for end-2018 is 16 percentage points higher than at program approval (due to depreciation, and to a lesser extent, lower growth rate). Notwithstanding this, the debt-GDP ratio is projected to fall over the medium term as a result of the fiscal efforts of the government, a return to growth, and a reversal of the overshooting of the real exchange rate. There are, however, sizable risks around this baseline: the high actual level of debt to GDP, the large share of foreign currency debt, significant rollover needs, and implementation risks around the proposed fiscal consolidation all leave Argentina vulnerable to changing market sentiment and movements in the real exchange rate. There are also potential contingent liabilities from the broader public sector, including (as yet undetermined) BCRA recapitalization needs. On the other hand, the large share of public debt held by other public-sector entities serves as an important mitigating factor. All in all, staff's assessment is that debt is sustainable but not with a high probability. Exceptional access in such situations requires the existence of non-Fund financing that improves debt sustainability and ensures sufficient safeguards for Fund resources. Staff judges that the required safeguards are in place. Notably, prospects for market access under the program are expected to strengthen, despite the recent strains, and the long maturity of Argentina's privately-held foreign currency-denominated debt[15] improves the prospects of adequate private creditor exposure being maintained throughout the program.

- ***Criterion 3. Staff judges that the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.*** Despite the recent tightening of financial conditions, Argentina continues to maintain access to domestic financial markets, where resident and non-resident investors have continued to participate in recent peso- and US$-denominated bond placements. Global and domestic factors have, however, tightened external financing conditions and average yields on Argentina's external bonds have risen. Nonetheless, staff expects that the successful implementation of Argentina's policy program, combined with support from the international community, will help reestablish Argentina's access to international capital markets on reasonable terms.

- ***Criterion 4. Staff judges that the policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.*** The initial implementation of the program showed a mixed picture of the authorities' commitment to their policy plans. But despite the difficult political situation, weaker economic environment, and unfavorable market conditions the government has reinforced its ownership of the fiscal adjustment that is needed under the program (although there is space for improving the quality of the adjustment). In addition, the government has been working within Congress and with regional governors to build political support for its policy efforts, particularly as regards fiscal policies. Indeed, the majority of provincial Governors have publicly expressed their willingness to share the burden of the fiscal adjustment with the federal government and, in a recent addendum to the 2017 Fiscal Pact, have recognized the importance of the federal government reaching primary balance in 2019. In addition, the head of the Justicialista party block in the Senate has public indicated his support for the government's announced fiscal plan underlying the Stand-By Arrangement, which should help facilitate the passage of the 2019 Budget. Despite a complicated economic situation and a difficult history of IMF lending to Argentina, social opposition to the program has been more subdued than might have been expected. On the monetary side, the central bank has raised policy rates by a cumulative 20 percent since the time of program approval, increased reserve requirements in an effort to anchor inflation and inflation expectations, and (on October 1) rolled out a simpler and tighter monetary policy framework, which immediately led to a rise in

[15] Of the outstanding stock of the federal government's foreign currency debt held outside the public sector (US$147 billion), only about one quarter is expected to mature by end-2020.

short-term interest rates, and committed to a freely floating exchange rate regime with a transparent FX intervention rule. This demonstrates the authorities' commitment to taking action, as needed, to achieve their monetary goals. Although broader statements of support from the IMF-backed program have not been expressed by all political factions, the concrete actions on the fiscal and monetary fronts, the statements of support on the fiscal adjustment, and the BCRA's well-executed communication of the new monetary policy provide sufficient assurances at this stage that the authorities are committed and able to implement the program. Finally, the authorities continue to demonstrate strong ownership of their policy framework and a high-level political commitment to partnering with the Fund in their efforts. Strong, sustained and consistent policy implementation will be crucial, and broad societal ownership of the government's economic plan continues to be essential, for program success.

STAFF APPRAISAL

48. Argentina is confronting a renewed bout of financial market volatility. A significant current account deficit, large gross fiscal financing needs, and limited foreign currency reserves, have left Argentina vulnerable to shifts in global market sentiment. Even with the support of the Fund (under the Stand-By Arrangement that was approved by the Executive Board on June 20) market confidence has remained fragile and, in the past 2 months, partly due to some policy slippages and miscommunications, has turned decidedly against Argentina.

49. The authorities have responded forcefully by redoubling their reform efforts. This has included an important acceleration in the pace of fiscal adjustment to achieve a primary fiscal balance in 2019 as well as a redesign of the monetary policy framework to provide a simpler and more effective nominal anchor to guide inflation expectations downward.

50. The Argentine authorities remain committed to protecting the vulnerable from the burden of adjustment. This is evidenced by measures already taken to increase social assistance programs, as well as the prioritization of social assistance and childcare spending in the 2019 Budget and the maintenance of the flexibility within the program to increase such spending further in 2019, should the government deem it necessary.

51. There appears to be broad societal understanding of the need for the government's reform efforts. Provincial governors have, for the most part, endorsed the fiscal plan that has been articulated by the administration. Moreover, there have been statements from the head of the *Partido Justicialista* block in the Senate indicating his backing for the authorities' fiscal plan.

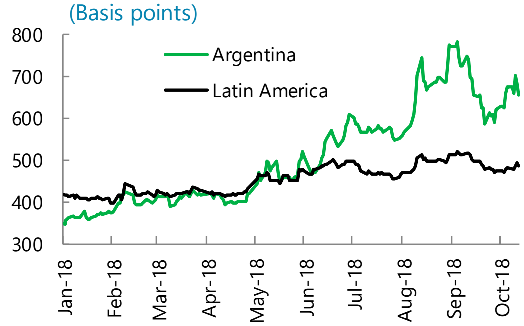
52. Certainly, there are important risks to the authorities' strategy. A significant amount of Fund resources will be devoted to supporting Argentina's balance of payments adjustment and financing a large share of the government's fiscal needs for the next 15 months. However, this strong show of support from the international community together with the stronger policy framework should reassure domestic and international investors, and return Argentina to both macroeconomic stability and an external position that is aligned with medium-term fundamentals. Steadfast implementation will be critical for the program's success.

53. Staff supports the authorities' request to modify the program supported by the Stand-By Arrangement. The government's economic plans will address longstanding vulnerabilities and the Fund's support will provide time for the administration to undertake the needed realignment of policies. Under the modified program, the debt remains sustainable, inflation will come down, and growth and job creation will be restored. There will be challenging times ahead for the Argentine people, but the authorities' policy plans merit the support of the international community. Staff support the authorities' request for converting the program from precautionary to a drawing arrangement for budget support, an augmentation, rephasing, waivers of non-performance and applicability, completion of the first review and inflation consultation, and completion of the financing assurances review.

Figure 1. Recent Market Developments

Sovereign spreads peaked above 750 bps in September, but have narrowed since then

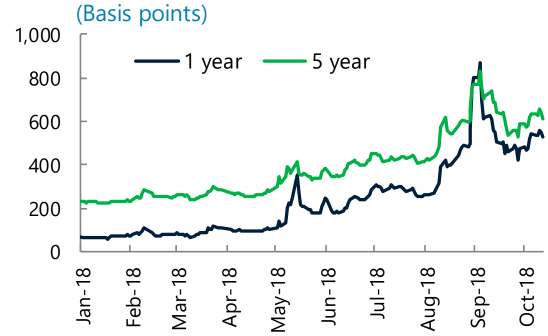
EMBI
(Basis points)



Source: Bloomberg.

CDS spreads have also decreased after a sharp increase in August and September

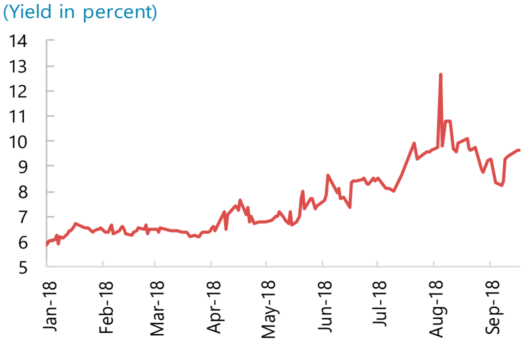
Credit Default Swaps
(Basis points)



Source: Bloomberg.

Yields of the 10-year sovereign bond in dollars have fallen but are still above their levels at the start of 2018.

10-year government bond yield
(Yield in percent)



Source: Bloomberg.

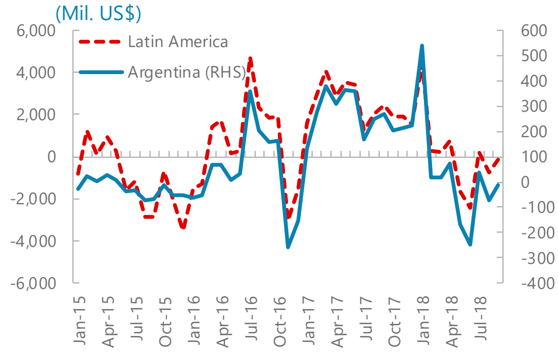
Equity markets have been volatile since June.

Merval Stock Index
(Level)

Source: Bloomberg.

Capital flows have stabilized recently.

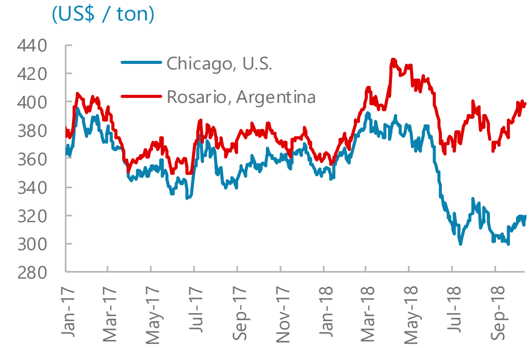
Bond Country Flows: ETFs/Mutual Funds
(Mil. US$)



Source: EPFR.

Soy prices facing Argentine exporters have fallen, though less than US prices.

Soybean spot prices
(US$ / ton)



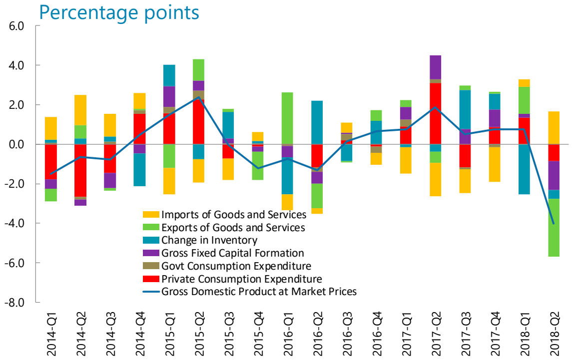
Source: Bloomberg.

Figure 2. Real and External Sector

GDP growth decelerated in 2018: Q2, driven by weak exports, investment, private consumption and inventories.

Contribution to GDP growth (q/q)

Percentage points

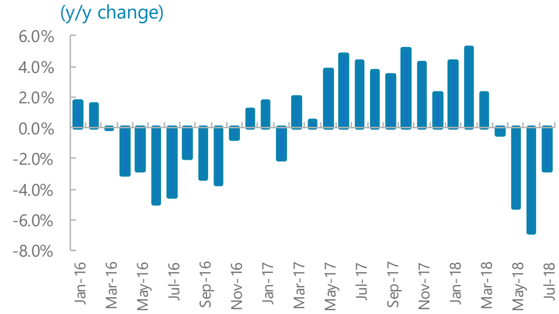


Source: INDEC.

Economic activity remained weak in July

Monthly Economic Activity Index

(y/y change)

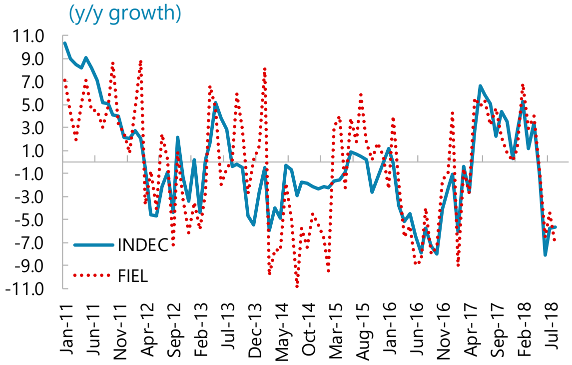


Source: INDEC.

Industrial production fell sharply over the last few months…

Industrial Production

(y/y growth)

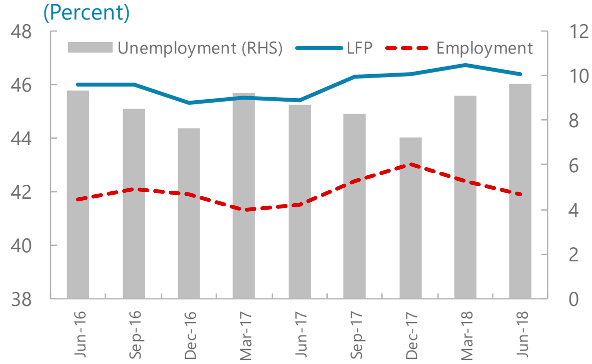


Sources: INDEC and Fiel.

…and labor market indicators have weakened.

Labor Force and Employment

(Percent)

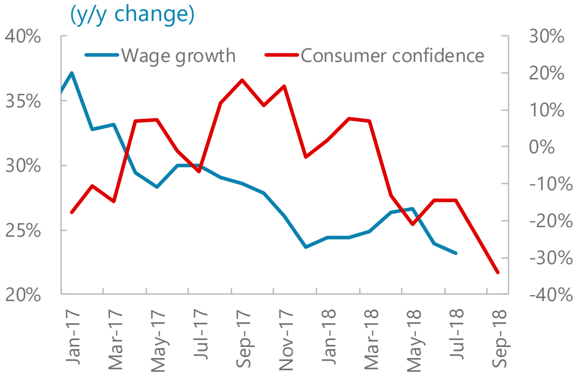


Source: INDEC

Weaker consumer confidence and anemic real wage growth are likely to continue to hinder consumption.

Wages and Consumer confidence

(y/y change)



Sources: Min. del Trabajo and UTDT.

An adjustment in the trade balance appears to be underway.

Export and Import Values

(3mma, y/y growth)

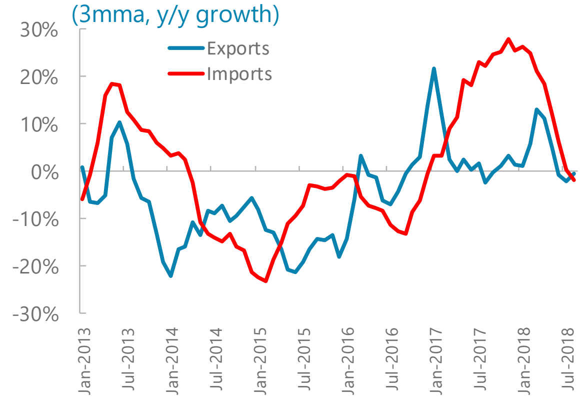
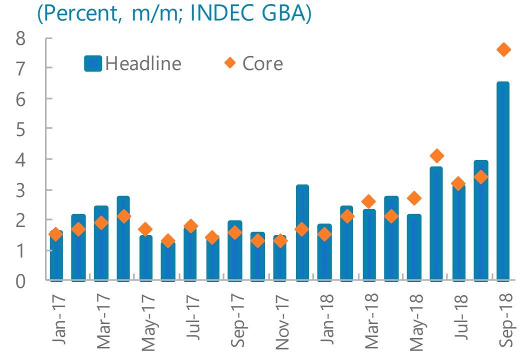


Figure 3. FX and Monetary Developments

Headline and core inflation have accelerated since May…

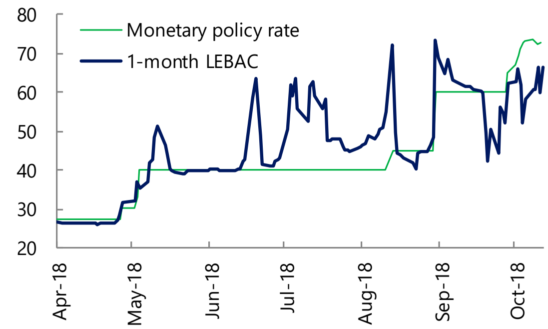
Headline and Core CPI
(Percent, m/m; INDEC GBA)



Source: INDEC.

The BCRA has tightened monetary conditions…

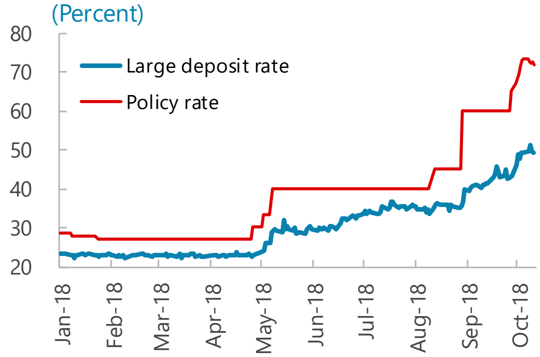
Interest Rates
(Percent)



Source: BCRA.

… and rate increases are being slowly transmitted to deposit rates.

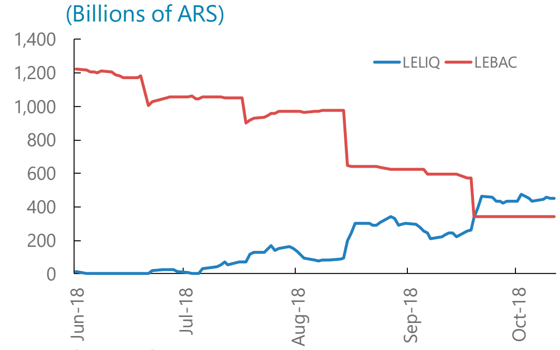
BADLAR Gap
(Percent)



Source: BCRA.

The BCRA has reduced and re-intermediated its stock of sterilization instruments

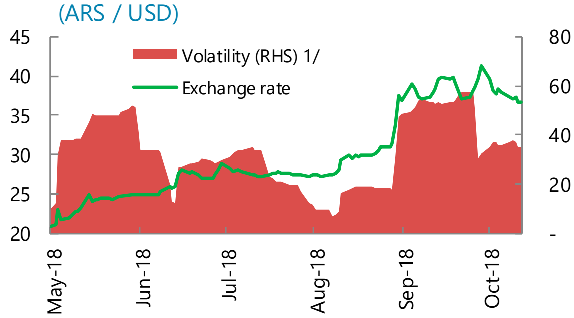
BCRA sterilization instruments
(Billions of ARS)



Source: BCRA.

The peso depreciated sharply in August but stabilized in September and has appreciated so far in October

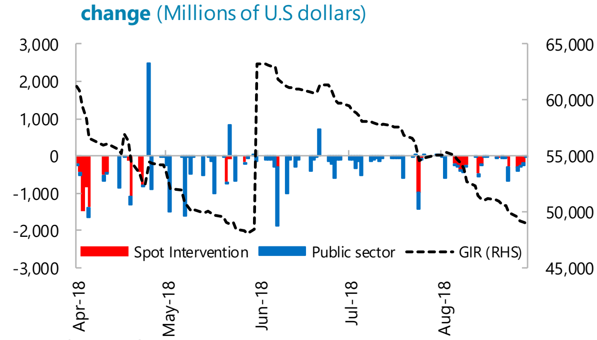
Exchange Rate on SIOPEL platform
(ARS / USD)



Source: Bloomberg. 1/ 20-day annualized volatility of daily changes.

Reserves have fallen due to higher than expected interventions and lower than expected rollovers…

Gross International Reserves, contributions to change (Millions of U.S dollars)



Source: BCRA.

Table 1. Argentina: Selected Economic and Financial Indicators

				Prog.	Prog.	Proj.					
	2015	2016	2017	2018	2019	2018	2019	2020	2021	2022	2023
	(Annual percentage changes unless otherwise indicated)										
National income, prices, and labor markets											
GDP at constant prices	2.7	-1.8	2.9	0.4	1.5	-2.8	-1.7	2.7	3.1	3.4	3.6
Domestic demand	4.2	-1.3	6.3	-1.4	0.5	-8.4	-5.0	5.3	4.6	4.7	4.2
Consumption	4.2	-0.8	3.3	-0.9	1.6	-8.6	-4.1	2.5	3.1	3.5	3.1
Private	3.7	-1.0	3.5	-0.6	2.3	-9.9	-4.6	3.5	3.7	4.1	3.6
Public	6.9	0.3	2.2	-2.2	-2.0	-1.5	-1.6	-2.1	-0.2	0.5	0.2
Investment	3.5	-4.9	11.0	-1.2	-2.1	-7.0	-9.5	18.5	11.1	9.3	8.2
Exports	-2.8	5.3	0.4	5.6	6.8	5.9	7.7	3.3	3.9	4.4	4.5
Imports	4.7	5.7	15.0	-2.7	1.6	-17.8	-7.6	14.1	9.9	9.0	6.4
Change in inventories and stat. disc. (contribution to growth)	0.2	0.2	1.8	-0.5	-0.5	-0.3	0.0	-0.1	0.0	0.0	0.0
Nominal GDP (billions of Argentine pesos)	5,955	8,189	10,556	13,240	16,068	13,629	17,872	21,066	23,948	26,356	28,597
Output gap (percent)	1.1	-1.8	-0.5	-2.9	-3.7	-4.8	-7.8	-6.7	-5.2	-3.9	-2.3
CPI inflation (eop, y/y percent change)	…	…	24.8	27.0	17.0	43.8	20.2	13.0	9.0	5.0	5.0
GDP deflator (y/y percent change)	26.6	40.0	25.3	24.9	19.6	33.4	32.5	14.9	10.4	6.4	4.7
Unemployment rate (percent)	…	8.5	8.4	8.5	8.6	9.8	10.9	9.9	8.8	8.1	7.7
	(Percent of GDP unless otherwise indicated)										
External sector											
Exports f.o.b. (goods, billions of U.S. dollars)	56.8	57.9	58.4	66.4	71.6	61.6	65.2	67.5	70.2	73.3	76.6
Imports f.o.b. (goods, billions of U.S. dollars)	57.6	53.5	64.0	65.7	67.7	58.3	53.0	60.2	66.3	73.5	76.7
Trade balance (goods, billions of U.S. dollars)	-0.8	4.4	-5.5	0.7	4.0	3.3	12.2	7.3	3.9	-0.2	-0.2
Trade balance (goods)	-0.1	0.8	-0.9	0.1	0.7	0.7	2.7	1.5	0.7	0.0	0.0
Terms of trade (percent change)	-4.4	6.0	-2.7	4.0	-1.9	1.2	-1.5	-1.2	-0.8	0.0	0.1
Total external debt	27.9	34.2	37.2	51.3	52.6	57.2	60.6	56.1	53.2	49.4	45.6
Savings-Investment balance											
Gross domestic investment	15.6	14.6	14.8	15.1	14.8	13.8	11.5	13.3	14.3	15.1	15.9
Private	11.9	11.2	11.2	12.1	12.2	10.4	8.5	10.1	11.0	11.8	12.4
Public	3.6	3.4	3.6	3.1	2.6	3.5	3.0	3.2	3.3	3.3	3.5
Gross national savings	12.8	12.0	9.9	11.6	11.6	9.7	10.0	10.8	11.7	12.5	13.4
Current account balance	-2.7	-2.7	-4.9	-3.6	-3.2	-4.1	-1.5	-2.4	-2.6	-2.6	-2.5
Public sector 1/											
Primary balance	-4.4	-4.7	-4.4	-2.8	-1.3	-2.5	0.1	1.2	1.4	1.6	1.7
of which: Federal government	-3.8	-4.2	-4.1	-2.7	-1.3	-2.7	0.0	1.0	1.1	1.2	1.4
memo: Structural federal primary balance 2/	-4.2	-4.5	-4.1	-2.1	-0.6	-1.7	1.4	2.2	2.0	1.9	1.8
Overall balance 5/	-6.0	-6.6	-7.0	-5.1	-3.8	-5.5	-4.4	-3.2	-3.2	-2.5	-1.9
of which: Federal government	-5.1	-5.8	-6.2	-5.0	-3.7	-5.3	-3.9	-2.9	-3.0	-2.4	-1.9
Revenues	35.4	35.1	34.8	35.0	35.6	35.7	36.8	37.4	37.0	36.6	36.3
Primary expenditure 3/	39.8	39.8	39.3	37.8	36.9	38.1	36.7	36.2	35.6	35.0	34.6
Total public debt (federal, % GDP)	55.1	55.0	57.6	64.5	60.9	81.2	72.2	67.0	63.7	60.5	59.3
Total public debt (federal, billions of U.S. dollars)	252.2	283.9	323.7	322.4	334.9	302.7	312.5	322.0	335.1	346.7	353.2
Money and credit											
Monetary base (eop, y/y percent change)	34.9	31.7	21.8	25.9	21.3	34.8	13.5	23.5	17.4	12.7	11.5
M2 (percent change)	28.2	30.4	25.8	22.5	25.3	11.9	17.9	33.5	21.8	16.8	15.4
Credit to the private sector (eop, y/y percent change)	35.7	31.2	51.3	34.9	21.9	30.2	14.9	19.0	14.9	10.8	14.5
Credit to the private sector real (eop, y/y percent change)	…	…	21.2	6.2	4.2	-5.0	-4.4	5.3	5.4	5.6	9.0
Interest rate (eop) 4/	32.2	23.9	28.8	37.2	22.5	69.6	32.0	20.0	15.3	14.0	13.1
Real interest rate (eop), 12-m ahead y/y inflation 4/	…	…	10.1	17.2	8.4	37.2	16.8	10.1	9.8	8.6	7.8
Memorandum items											
Gross international reserves (billions of U.S. dollars)	25.6	39.3	55.1	65.4	69.0	56.4	53.5	59.2	65.0	69.0	73.2
Gross international reserves (percent of ARA)	39.4	73.0	92.0	100.0	101.0	89.3	84.8	90.6	94.3	97.0	99.3
Change in REER (eop, percent change)	5.3	-3.4	6.6	-18.1	3.9	-30.3	6.2	3.8	2.3	1.4	0.9

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

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

Table 2. Argentina: Summary Balance of Payments

	2015	2016	2017	*Prog.* *2018*	*Prog.* *2019*	Proj. 2018	2019	2020	2021	2022	2023
					(Billions of U.S. dollars)						
Current account	**-17.6**	**-14.7**	**-31.3**	**-19.9**	**-18.6**	**-20.2**	**-7.0**	**-12.0**	**-14.1**	**-15.1**	**-15.5**
Trade balance in goods	-0.8	4.4	-5.5	0.7	4.0	3.3	12.2	7.3	3.9	-0.2	-0.2
Exports f.o.b.	56.8	57.9	58.4	66.4	71.6	61.6	65.2	67.5	70.2	73.3	76.6
Primary products	13.3	15.7	14.8	18.1	20.8	12.7	14.2	15.5	17.0	18.4	19.8
Manufactures of agricultural origin	23.3	23.3	22.5	22.6	22.7	21.8	22.2	22.9	24.0	25.0	25.9
Manufactures of industrial origin	18.0	16.9	18.7	22.0	24.7	22.7	24.0	24.1	24.4	25.1	25.9
Energy	2.2	2.0	2.4	3.6	3.4	4.4	4.9	4.9	4.9	4.9	4.9
Imports f.o.b.	57.6	53.5	64.0	65.7	67.7	58.3	53.0	60.2	66.3	73.5	76.7
Capital goods (includes parts and accessories)	23.4	22.4	26.6	26.5	27.6	23.6	20.8	23.6	26.3	29.7	31.7
Intermediate goods	17.3	14.8	17.1	17.3	16.9	16.6	15.7	17.6	19.4	21.3	22.2
Consumer goods	10.5	11.6	14.8	15.9	17.6	12.8	11.8	13.9	15.0	16.3	15.9
Fuels and lubricants	6.4	4.6	5.5	6.0	5.6	5.4	4.7	5.1	5.6	6.2	6.9
Trade balance in services	-5.8	-8.2	-9.9	-8.8	-9.0	-7.1	-3.1	-5.0	-5.8	-6.2	-6.8
Exports	13.2	12.8	14.2	13.0	13.7	12.0	10.6	11.6	12.6	13.5	15.2
Imports	19.0	21.0	24.1	21.8	22.7	19.0	13.6	16.6	18.4	19.8	22.0
Primary income, net	-12.1	-12.1	-16.3	-12.0	-13.8	-17.4	-17.1	-15.2	-13.1	-9.5	-9.4
Secondary income, net	1.1	1.2	0.5	0.3	0.2	0.9	0.9	0.9	0.9	0.9	0.9
Capital Account	**0.1**	**0.4**	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account	**13.6**	**28.8**	**45.7**	**6.0**	**17.2**	**-7.3**	**-20.3**	**12.6**	**21.6**	**33.1**	**38.2**
Foreign direct investment, net	10.9	1.5	10.4	4.9	5.2	5.1	2.0	4.5	7.3	9.9	12.3
Portfolio investment, net	0.4	35.3	35.9	42.1	23.0	-2.5	-15.0	9.5	17.2	23.0	23.5
Derivatives, net	0.0	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net 1/	2.2	-7.7	-0.7	-40.9	-11.0	-9.8	-7.2	-1.4	-2.9	0.2	2.5
Errors and Omissions	**-0.9**	**-0.2**	**0.0**	**0.0**	**0.0**	**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-4.9**	**14.3**	**14.6**	**-13.6**	**-1.2**	**-27.7**	**-27.1**	**0.7**	**7.7**	**18.3**	**22.9**
Financing	**4.9**	**-14.3**	**-14.6**	**13.6**	**1.2**	**27.7**	**27.1**	**-0.7**	**-7.7**	**-18.3**	**-22.9**
Gross official reserves (increase: -)	4.9	-14.3	-14.6	-3.6	-3.6	-1.4	2.9	-5.7	-5.9	-3.9	-4.2
Net use of IMF resources				15.0	0.0	28.1	21.5	2.0	-4.7	-22.5	-22.9
Official financing	0.0	0.0	0.0	2.3	4.8	1.0	2.8	2.9	2.9	8.1	4.3
World Bank/IDB				2.3	4.8	1.0	2.3	2.9	2.9	8.1	4.3
CAF							0.5				
					(Percent of GDP)						
Current account	**-2.7**	**-2.7**	**-4.9**	**-3.6**	**-3.2**	**-4.2**	**-1.6**	**-2.4**	**-2.6**	**-2.6**	**-2.5**
Trade balance in goods	-0.1	0.8	-0.9	0.1	0.7	0.7	2.7	1.5	0.7	0.0	0.0
Exports, f.o.b.	8.8	10.5	9.2	11.9	12.4	12.7	14.5	13.6	13.1	12.7	12.5
Imports f.o.b.	-9.0	-9.7	-10.0	-11.8	-11.7	-12.0	-11.8	-12.2	-12.4	-12.8	-12.5
Trade balance in services	-0.9	-1.5	-1.6	-1.6	-1.6	-1.5	-0.7	-1.0	-1.1	-1.1	-1.1
Exports	2.1	2.3	2.2	2.3	2.4	2.5	2.3	2.3	2.3	2.3	2.5
Imports	-3.0	-3.8	-3.8	-3.9	-3.9	-3.9	-3.0	-3.4	-3.4	-3.4	-3.6
Primary income, net	-1.9	-2.2	-2.6	-2.2	-2.4	-3.6	-3.8	-3.1	-2.5	-1.7	-1.5
Secondary income, net	0.2	0.2	0.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.1
Capital Account	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	2.9	2.6	4.9	3.5	3.2	4.2	1.5	2.4	2.6	2.6	2.5
Foreign direct investment, net	1.7	0.3	1.6	0.9	0.9	1.0	0.4	0.9	1.4	1.7	2.0
Portfolio investment, net	0.1	6.4	5.6	7.6	4.0	-0.5	-3.3	1.9	3.2	4.0	3.8
Derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	0.3	-1.4	-0.1	-4.2	-1.1	4.0	3.8	0.7	-0.9	-2.5	-2.6
Reserve assets (- accumulation)	0.8	-2.6	-2.3	-0.7	-0.6	-0.3	0.6	-1.2	-1.1	-0.7	-0.7
Memorandum items:											
Exports volumes (percent change)	-1.6	6.8	-0.4	5.8	7.6	-0.5	5.0	2.8	3.9	4.4	4.5
Imports volumes (percent change)	2.6	3.6	14.2	0.2	0.2	-11.5	-12.5	12.1	9.0	10.9	4.5
Gross international reserves (billions of U.S. dollars)	25.6	39.3	55.1	65.4	69.0	56.4	53.5	59.2	65.0	69.0	73.2
Gross international reserves (percent of ARA)	39.4	73.0	92.0			89.3	84.8	90.6	94.3	97.0	99.3
Net international reserves (billions of U.S. dollars)	-2.6	12.5	31.1	29.7	33.4	23.1	20.3	26.0	31.8	35.8	40.0
Net International Investment Position (percent of GDP)	8.8	9.3	3.5	9.0	8.0	2.8	3.1	1.5	-0.8	-3.6	-5.9
Terms of Trade (Index, 2000 = 100)	506	536	522	542	532	528	520	513	509	509	510
Real effective exchange rate (percent change)	5.3	-3.4	6.6	-18.1	3.9	-30.3	6.2	3.8	2.3	1.4	0.9

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

Table 3. Argentina: Consolidated Public Sector Operations

	2015	2016	2017	*Prog. 2018*	*Prog. 2019*	Proj. 2018	2019	2020	2021	2022	2023
					(Billions of Argentine pesos)						
Revenues	**2,106.6**	**2,871.6**	**3,677.9**	**4,633.7**	**5,718.0**	**4,859.0**	**6,570.0**	**7,883.7**	**8,862.6**	**9,633.3**	**10,384.9**
Tax revenues	1,429.9	1,952.8	2,454.3	3,076.3	3,794.8	3,262.6	4,525.1	5,452.7	6,147.0	6,627.8	7,090.3
Social security contributions	529.5	709.8	924.6	1,153.2	1,429.1	1,170.2	1,455.7	1,745.4	2,013.5	2,261.6	2,491.3
Other revenues	147.2	209.0	299.1	404.2	494.1	426.3	589.2	685.6	702.1	743.9	803.3
Primary Expenditures 1/	**2,368.9**	**3,255.5**	**4,144.9**	**4,998.7**	**5,926.7**	**5,197.0**	**6,558.1**	**7,621.0**	**8,534.8**	**9,221.6**	**9,898.4**
Wages	738.7	1,008.4	1,281.3	1,527.6	1,801.6	1,577.6	2,043.3	2,361.1	2,641.8	2,889.9	3,108.6
Goods and services	169.7	205.8	279.9	313.7	364.5	324.6	399.6	450.8	498.2	531.9	558.6
Transfers to the private sector	932.0	1,343.4	1,680.2	2,070.5	2,514.5	2,159.1	2,755.5	3,178.4	3,512.4	3,748.2	3,998.3
Of which: federal pensions	535.7	734.7	1,022.5	1,312.1	1,643.4	1,310.4	1,763.1	2,193.7	2,439.3	2,636.5	2,829.8
Capital spending	216.6	280.1	375.5	404.4	416.0	471.0	543.9	674.1	780.0	873.2	988.6
Other	311.9	417.9	528.1	682.5	830.0	664.8	815.9	956.5	1,102.5	1,178.4	1,244.4
Primary balance	**-262.3**	**-383.9**	**-467.0**	**-365.0**	**-208.7**	**-338.0**	**11.9**	**262.7**	**327.8**	**411.7**	**486.5**
Interest cash	94.2	155.7	262.8	313.4	403.7	406.0	779.0	920.0	1,073.4	1,048.7	1,018.0
Overall balance	**-357.3**	**-542.3**	**-737.6**	**-678.4**	**-612.4**	**-751.8**	**-782.0**	**-672.5**	**-760.0**	**-649.4**	**-542.5**
					(Percent of GDP unless otherwise indicated)						
Revenues	**35.4**	**35.1**	**34.8**	**35.0**	**35.6**	**35.7**	**36.8**	**37.4**	**37.0**	**36.6**	**36.3**
Tax revenues	24.0	23.8	23.3	23.2	23.6	23.9	25.3	25.9	25.7	25.1	24.8
Social security contributions	8.9	8.7	8.8	8.7	8.9	8.6	8.1	8.3	8.4	8.6	8.7
Other revenues	2.5	2.6	2.8	3.1	3.1	3.1	3.3	3.3	2.9	2.8	2.8
Primary expenditures 1/	**39.8**	**39.8**	**39.3**	**37.8**	**36.9**	**38.1**	**36.7**	**36.2**	**35.6**	**35.0**	**34.6**
Wages	12.4	12.3	12.1	11.5	11.2	11.6	11.4	11.2	11.0	11.0	10.9
Goods and services	2.8	2.5	2.7	2.4	2.3	2.4	2.2	2.1	2.1	2.0	2.0
Transfers to the private sector	15.7	16.4	15.9	15.6	15.6	15.8	15.4	15.1	14.7	14.2	14.0
Of which: federal pensions	9.0	9.0	9.7	9.9	10.2	9.6	9.9	10.4	10.2	10.0	9.9
Capital spending	3.6	3.4	3.6	3.1	2.6	3.5	3.0	3.2	3.3	3.3	3.5
Other	5.2	5.1	5.0	5.2	5.2	4.9	4.6	4.5	4.6	4.5	4.4
Primary balance	**-4.4**	**-4.7**	**-4.4**	**-2.8**	**-1.3**	**-2.5**	**0.1**	**1.2**	**1.4**	**1.6**	**1.7**
Interest cash	1.6	1.9	2.5	2.4	2.5	3.0	4.4	4.4	4.5	4.0	3.6
Overall balance	**-6.0**	**-6.6**	**-7.0**	**-5.1**	**-3.8**	**-5.5**	**-4.4**	**-3.2**	**-3.2**	**-2.5**	**-1.9**
Structural primary balance (General Government) 2/	**-5.0**	**-4.8**	**-4.4**	**-1.9**	**-0.3**	**-1.0**	**2.1**	**3.0**	**2.7**	**2.5**	**2.3**
Structural primary balance (Federal) 2/	**-4.2**	**-4.5**	**-4.1**	**-2.1**	**-0.6**	**-1.7**	**1.4**	**2.2**	**2.0**	**1.9**	**1.8**
Structural primary balance (Provinces) 2/	**-0.8**	**-0.3**	**-0.3**	**0.2**	**0.3**	**0.7**	**0.7**	**0.8**	**0.7**	**0.6**	**0.5**

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

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

2/ Percent of potential GDP.

Table 4. Argentina: Federal Government Operations

			Prog.	Prog.	Proj.					
	2016	2017	2018	2019	2018	2019	2020	2021	2022	2023
					(Billions of Argentine pesos)					
Revenues	**2,180.9**	**2,754.8**	**3,512.8**	**4,373.8**	**3,667.3**	**5,060.8**	**6,104.7**	**6,936.0**	**7,513.1**	**8,086.4**
Tax revenues	1,528.3	1,874.4	2,365.2	2,931.8	2,527.5	3,579.1	4,337.5	4,927.2	5,285.4	5,635.0
Social security contributions	558.1	727.3	912.7	1,137.3	915.5	1,139.5	1,372.7	1,589.8	1,795.3	1,985.8
Nontax revenues	94.6	153.2	234.9	304.7	224.3	342.2	394.5	419.0	432.3	465.6
Primary expenditures	**2,524.5**	**3,183.8**	**3,871.1**	**4,584.8**	**4,034.0**	**5,054.7**	**5,884.8**	**6,667.8**	**7,184.0**	**7,693.6**
Federal expenditures	1,835.0	2,257.6	2,694.5	3,188.5	2,835.6	3,517.6	4,009.4	4,471.5	4,845.9	5,249.3
Wages 1/	316.8	401.0	489.2	580.9	498.2	646.9	728.8	810.9	898.9	971.0
Goods and services 1/	91.8	121.3	123.3	141.0	125.8	150.6	163.5	180.2	192.9	203.1
Pensions	734.7	1,022.5	1,312.1	1,643.4	1,310.4	1,763.1	2,193.7	2,439.3	2,636.5	2,829.8
Current transfers to private sector	511.0	531.9	594.4	672.3	686.4	779.5	712.7	763.9	797.8	856.8
Social assistance	219.9	282.0	351.6	431.9	377.9	481.1	579.9	634.8	685.4	731.7
Energy 2/	209.2	150.5	149.3	141.0	202.7	210.9	99.3	111.2	93.9	106.1
Transport	80.2	90.5	93.6	99.4	103.1	84.0	33.5	17.9	18.6	19.1
Other	1.7	9.0	0.0	0.0	2.7	3.6	0.0	0.0	0.0	0.0
Capital spending	117.8	121.1	99.9	78.6	143.9	132.8	168.6	205.2	240.7	302.9
Other current primary spending	62.8	59.7	75.5	72.3	70.9	44.7	42.1	71.8	79.1	85.7
Transfers to provinces	689.5	926.2	1,176.6	1,396.3	1,198.4	1,537.2	1,875.3	2,196.4	2,338.1	2,444.3
Automatic	551.6	756.8	1,027.0	1,327.2	1,050.8	1,412.1	1,791.1	2,100.6	2,259.0	2,358.6
Discretionary	137.8	169.5	149.6	69.1	147.5	125.1	84.3	95.8	79.1	85.7
Capital	64.3	86.8	68.8	27.3	52.1	44.7	42.1	47.9	52.7	57.1
Current	73.6	82.7	80.8	41.8	95.4	80.4	42.1	47.9	26.4	28.6
Primary balance	**-343.5**	**-429.0**	**-358.3**	**-211.0**	**-366.7**	**6.0**	**219.9**	**268.2**	**329.1**	**392.8**
Interest cash (net of ANSES and public sector)	131.3	224.9	301.8	387.8	361.4	694.3	833.8	985.1	965.8	938.0
Overall balance	**-474.8**	**-653.9**	**-660.1**	**-598.8**	**-728.1**	**-688.3**	**-613.8**	**-716.9**	**-636.7**	**-545.1**
Memorandum items:										
Capital spending, including capital transfers to provinces	182.0	207.9	168.8	105.9	196.0	177.5	210.7	253.1	293.4	360.0
Arrears and advances	-33.0	16.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-310.5	-445.0	-358.3	-211.0	-366.7	6.0	219.9	268.2	329.1	392.8
Overall balance, accrual basis	-441.8	-669.9	-660.1	-598.8	-728.1	-688.3	-613.8	-716.9	-636.7	-545.1
Structural primary balance	-375.2	-437.6	-290.8	-101.2	-247.1	271.3	492.9	506.7	520.1	521.4
					(Percent of GDP)					
Revenues	**26.6**	**26.1**	**26.5**	**27.2**	**26.9**	**28.3**	**29.0**	**29.0**	**28.5**	**28.3**
Tax revenues	18.7	17.8	17.9	18.2	18.5	20.0	20.6	20.6	20.1	19.7
Social security contributions	6.8	6.9	6.9	7.1	6.7	6.4	6.5	6.6	6.8	6.9
Nontax revenues	1.2	1.5	1.8	1.9	1.6	1.9	1.9	1.7	1.6	1.6
Primary expenditures	**30.8**	**30.2**	**29.2**	**28.5**	**29.6**	**28.3**	**27.9**	**27.8**	**27.3**	**26.9**
Federal expenditures	22.4	21.4	20.4	19.8	20.8	19.7	19.0	18.7	18.4	18.4
Wages 1/	3.9	3.8	3.7	3.6	3.7	3.6	3.5	3.4	3.4	3.4
Goods and services 1/	1.1	1.1	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.7
Pensions	9.0	9.7	9.9	10.2	9.6	9.9	10.4	10.2	10.0	9.9
Current transfers to private sector	6.2	5.0	4.5	4.2	5.0	4.4	3.4	3.2	3.0	3.0
Social assistance	2.7	2.7	2.7	2.7	2.8	2.7	2.8	2.7	2.6	2.6
Energy 2/	2.6	1.4	1.1	0.9	1.5	1.2	0.5	0.5	0.4	0.4
Transport	1.0	0.9	0.7	0.6	0.8	0.5	0.2	0.1	0.1	0.1
Other	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital spending	1.4	1.1	0.8	0.5	1.1	0.7	0.8	0.9	0.9	1.1
Other current primary spending	0.8	0.6	0.6	0.4	0.5	0.3	0.2	0.3	0.3	0.3
Transfers to provinces	8.4	8.8	8.9	8.7	8.8	8.6	8.9	9.2	8.9	8.5
Automatic	6.7	7.2	7.8	8.3	7.7	7.9	8.5	8.8	8.6	8.2
Discretionary	1.7	1.6	1.1	0.4	1.1	0.7	0.4	0.4	0.3	0.3
Capital	0.8	0.8	0.5	0.2	0.4	0.3	0.2	0.2	0.2	0.2
Current	0.9	0.8	0.6	0.3	0.7	0.5	0.2	0.2	0.1	0.1
Primary balance	**-4.2**	**-4.1**	**-2.7**	**-1.3**	**-2.7**	**0.0**	**1.0**	**1.1**	**1.2**	**1.4**
Interest cash (net of ANSES and public sector)	1.6	2.1	2.3	2.4	2.7	3.9	4.0	4.1	3.7	3.3
Overall balance	**-5.8**	**-6.2**	**-5.0**	**-3.7**	**-5.3**	**-3.9**	**-2.9**	**-3.0**	**-2.4**	**-1.9**
Memorandum items:										
Capital spending, including capital transfers to provinces	2.2	2.0	1.3	0.7	1.4	1.0	1.0	1.1	1.1	1.3
Arrears and advances	-0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance, accrual basis	-3.8	-4.2	-2.7	-1.3	-2.7	0.0	1.0	1.1	1.2	1.4
Overall balance, accrual basis	-5.4	-6.3	-5.0	-3.7	-5.3	-3.9	-2.9	-3.0	-2.4	-1.9
Structural primary balance 3/	-4.5	-4.1	-2.1	-0.6	-1.7	1.4	2.2	2.0	1.9	1.8

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

1/ It includes universities.

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

3/ Percent of potential GDP.

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

(end of period, unless otherwise indicated)

	2016	2017	Prog. 2018	Prog. 2019	Proj. 2018	2019	2020	2021	2022	2023
					In billions of Argentine pesos					
Net foreign assets	199	584	788	975	844	832	1,130	1,440	1,634	1,920
Net domestic assets	623	417	472	554	505	699	762	782	871	874
Credit to the public sector (net)	1,460	1,741	2,155	2,047	2,047	1,891	1,777	1,598	1,360	1,117
of which: Temporary advances to federal government	382	472	542	542	503	503	503	503	503	503
of which: Non-marketable government bonds	772	915	1,129	971	1,428	1,606	1,703	1,771	1,789	1,879
Credit to the financial sector (net)	-589	-681	-735	-923	-1,369	-1,815	-2,132	-2,445	-2,765	-3,099
of which: BCRA securities held by banks	-345	-441	-436	-872	-851	-1,167	-1,367	-1,558	-1,764	-1,925
BCRA securities held by non-banks (-)	-354	-719	-569	0	0	0	0	0	0	0
Official capital and other items (net)	106	76	-379	-570	-173	624	1,117	1,629	2,275	2,857
Monetary base	822	1,001	1,260	1,529	1,350	1,532	1,893	2,222	2,505	2,794
Currency issued	595	787	990	1,202	847	1,103	1,239	1,373	1,486	1,606
Bank deposits at the central bank (peso-denominated)	227	214	270	327	503	429	654	849	1,019	1,188
					As a percentage of GDP					
Net foreign assets	2.4	5.5	6.0	6.1	6.2	4.7	5.4	6.0	6.2	6.7
Net domestic assets	7.6	3.9	3.6	3.5	3.7	3.9	3.6	3.3	3.3	3.1
Credit to the public sector (net)	17.8	16.5	4.6	4.5	15.0	10.6	8.4	6.7	5.2	3.9
of which: Temporary advances to federal government	4.7	4.5	5.6	5.5	3.7	2.8	2.4	2.1	1.9	1.8
of which: Non-marketable government bonds	9.4	8.7	6.6	6.5	10.5	9.0	8.1	7.4	6.8	6.6
Credit to the private sector (net)	-7.2	-6.5	7.6	7.5	-10.0	-10.2	-10.1	-10.2	-10.5	-10.8
of which: BCRA securities held by banks	-4.2	-4.2	8.6	8.5	-6.2	-6.5	-6.5	-6.5	-6.7	-6.7
BCRA securities held by non-banks (-)	-4.3	-6.8	9.6	9.5	0.0	0.0	0.0	0.0	0.0	0.0
Monetary base	10.0	9.5	9.5	9.5	9.9	8.6	9.0	9.3	9.5	9.8
Currency issued	7.3	7.5	7.5	7.5	6.2	6.2	5.9	5.7	5.6	5.6
Bank deposits at the central bank (peso-denominated)	2.8	2.0	2.0	2.0	3.7	2.4	3.1	3.5	3.9	4.2
					Changes in monetary base (y/y, in AR$ billion)					
Change in monetary base	198	179	259	269	376	182	361	329	283	289
Foreign exchange purchases (net)	209	266	-391	101	-163	-117	241	260	179	195
Operations with the public sector	151	143	100	-260	-249	117	0	0	55	0
Sterilization (net) (-)	-177	-227	551	428	720	182	120	69	49	94
Other items (net)	14	-3	-1	0	33	0	0	0	0	0
Memorandum items:										
Monetary base (yoy, percent change)	31.7	21.8	25.9	21.3	34.8	13.5	23.5	17.4	12.7	11.5
M2 (AR$ billions) 1/	1,372	1,726	2,115	2,651	1,933	2,278	3,042	3,704	4,326	4,993
M2 (yoy, percent change) 1/	30.4	25.8	22.5	25.3	11.9	17.9	33.5	21.8	16.8	15.4
Gross international reserves (US$ billions)	39.3	55.1	65.4	69.0	56.4	53.5	59.2	65.0	69.0	73.2
Policy interest rate (eop) 2/	23.9	28.8	37.2	22.5	69.6	32.0	20.0	15.3	14.0	13.1
Real interest rate (eop), 12-m ahead y/y inflation 2/	3.6	10.1	17.2	8.4	37.2	16.8	10.1	9.8	8.6	7.8

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

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

(end of period, unless otherwise indicated)

	2016	2017	*Prog.* *2018*	*Prog.* *2019*	Proj. 2018	2019	2020	2021	2022	2023
					In billions of Argentine pesos					
Net foreign assets	33	-13	-65	-62	-82	-76	-73	-68	-61	-59
Net domestic assets	1,482	1,973	2,613	3,318	3,176	3,817	4,880	5,848	6,756	7,849
Credit to the public sector (net)	-98	-121	-33	3	-187	-118	2	87	193	302
Gross credit to public sector	383	500	681	873	937	1,333	1,636	1,899	2,157	2,436
Deposits from the public sector	-482	-621	-714	-870	-1,124	-1,452	-1,633	-1,812	-1,964	-2,134
Claims on the central bank	883	980	1,122	1,393	1,972	2,375	2,933	3,458	3,961	4,479
Holdings of central bank securities	345	441	436	594	851	1,167	1,367	1,558	1,764	1,925
Reserves at central bank	473	455	569	657	1,021	1,076	1,419	1,737	2,020	2,363
Credit to the private sector	1,125	1,701	2,298	2,802	2,218	2,549	3,033	3,485	3,862	4,422
of which: Dollar denominated	154	292	479	595	634	757	853	941	1,009	1,126
of which: Peso denominated	970	1,409	1,819	2,207	1,584	1,791	2,180	2,544	2,853	3,296
Liabilities with the private sector (-)	-2,043	-2,662	-3,420	-4,315	-3,839	-4,713	-5,898	-6,989	-8,003	-9,204
Local currency deposits	-1,159	-1,464	-1,794	-2,320	-2,037	-2,401	-3,206	-3,904	-4,559	-5,262
Foreign currency deposits	-357	-496	-754	-937	-1,057	-1,340	-1,602	-1,876	-2,136	-2,528
expressed in billion US$	-22	-26	-28	-32	-29	-33	-37	-41	-47	-53
Net capital, reserves, and other assets	1,616	2,075	2,646	3,435	3,012	3,725	4,811	5,808	6,743	7,851
					As a percentage of GDP					
Net foreign assets	0.4	-0.1	-0.4	-0.4	-0.6	-0.4	-0.3	-0.3	-0.2	-0.2
Net domestic assets	18.1	18.7	18.0	19.2	23.3	21.4	23.2	24.4	25.6	27.4
Credit to the public sector (net)	-1.2	-1.1	-0.2	0.0	-1.4	-0.7	0.0	0.4	0.7	1.1
Gross credit to public sector	4.7	4.7	4.7	5.0	6.9	7.5	7.8	7.9	8.2	8.5
Deposits of the public sector	-5.9	-5.9	-4.9	-5.0	-8.2	-8.1	-7.8	-7.6	-7.5	-7.5
Claims on the central bank	10.8	9.3	7.7	8.0	14.5	13.3	13.9	14.4	15.0	15.7
Holdings of central bank securities	4.2	4.2	3.0	3.4	6.2	6.5	6.5	6.5	6.7	6.7
Reserves at central bank	5.8	4.3	3.9	3.8	7.5	6.0	6.7	7.3	7.7	8.3
Credit to the private sector	13.7	16.1	15.8	16.2	16.3	14.3	14.4	14.6	14.7	15.5
of which: Dollar denominated	1.9	2.8	3.3	3.4	4.7	4.2	4.0	3.9	3.8	3.9
of which: Peso denominated	11.9	13.3	12.5	12.7	11.6	10.0	10.3	10.6	10.8	11.5
Liabilities with the private sector (-)	-24.9	-25.2	-23.5	-24.9	-28.2	-26.4	-28.0	-29.2	-30.4	-32.2
Local currency deposits	-14.1	-13.9	-12.3	-13.4	-14.9	-13.4	-15.2	-16.3	-17.3	-18.4
Foreign currency deposits	-4.4	-4.7	-5.2	-5.4	-7.8	-7.5	-7.6	-7.8	-8.1	-8.8
Net capital, reserves, and other assets	19.7	19.7	18.2	19.8	22.1	20.8	22.8	24.3	25.6	27.5
Memorandum items:										
Credit to the private sector (eop, y/y percent change)	31.2	51.3	34.9	21.9	30.2	14.9	19.0	14.9	10.8	14.5
Credit to the private sector, real (eop, y/y percent change)	...	21.2	6.2	4.2	-9.5	-4.4	5.3	5.4	5.6	9.0
Interest rate on wholesale deposits (eop) 1/	20.0	23.3	32.7	20.5	64.1	30.0	18.0	13.3	12.0	11.1

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

1/ BADLAR index of deposits over 1 million AR$.

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

(end of period, unless otherwise indicated)

	2018											
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
	In ARS billions											
Net foreign assets	677	768	758	680	629	788	651	584	582	853	848	844
Net domestic assets	289	235	237	319	391	256	416	625	668	418	422	505
Credit to the public sector (net)	1,813	1,858	1,841	1,897	2,202	2,041	1,743	2,066	2,079	2,070	2,060	2,047
of which: Temporary advances to federal government	496	496	507	519	530	542	530	524	503	503	503	503
of which: Non-marketable government bonds	957	980	982	1,009	1,217	1,409	1,025	1,217	1,448	1,442	1,435	1,428
Credit to the financial sector (net)	-809	-809	-785	-750	-777	-914	-904	-996	-1,027	-1,147	-1,393	-1,369
of which: BCRA securities held by banks	-493	-568	-531	-492	-496	-516	-528	-491	-495	-634	-878	-851
BCRA securities held by non-banks (-)	-802	-813	-853	-834	-719	-637	-603	-464	-301	-194	-2	0
Official capital and other items (net)	88	-1	35	6	-316	-234	181	18	-82	-311	-243	-173
Monetary base	966	1,003	995	999	1,020	1,044	1,067	1,208	1,250	1,271	1,271	1,350
Currency issued	765	763	755	743	731	755	763	761	754	759	765	847
Bank deposits at the central bank (peso-denominated)	201	240	240	256	289	288	304	447	496	512	506	503
	Changes in monetary base (m/m, ARS billions)											
Monetary base	-35	37	-7	4	21	23	23	141	69	21	0	79
Foreign exchange purchases (net)	58	99	-41	-97	-134	-78	0	-128	-115	150	-60	184
Operations on behalf of the public sector	22	0	12	12	10	-9	-19	11	-14	-150	60	-184
Sterilization (net) (-)	-114	-60	22	91	142	104	48	219	169	21	0	79
Other items (net)	0	-2	1	-2	4	7	-6	39	-6	0	0	0
Memorandum items:												
Monetary base (average)	1,027	1,029	1,022	1,020	1,024	1,066	1,111	1,197	1,271	1,271	1,271	1,350
Monetary base (average), m/m change	44	2	-7	-2	4	42	45	86	74	0	0	79
Monetary base (average), m/m percent change	4.5%	0.2%	-0.6%	-0.2%	0.4%	4.1%	4.2%	7.8%	6.2%	0.0%	0.0%	6.2%
Monetary base (eop) y/y percent change	16.7	23.1	31.9	25.6	34.8	25.3	28.2	44.1	44.0	46.0	44.4	34.8
Monetary base (eop) m/m percent change	-3.5	3.8	-0.7	0.4	2.1	2.3	2.2	13.3	3.4	1.7	0.0	6.2
M2 (AR$ billions) 1/	1,645	1,623	1,663	1,641	1,725	1,876	1,724	1,895	1,827	1,845	1,833	1,933
M2 (yoy, percent change) 1/	26.6	28.9	31.2	27.5	33.9	33.7	22.9	33.1	26.7	26.7	22.8	11.9
Gross international reserves (US$ billions)	62.0	61.5	61.7	56.6	50.1	61.9	58.0	52.7	49.0	53.0	51.4	56.4
Policy interest rate (eop) 2/	28.0	27.3	27.3	27.4	39.3	40.0	40.0	60.0	65.0	75.1	73.4	69.6
Real interest rate (eop), 12-m ahead infl. Exp. 2/	8.0	7.8	7.9	7.7	13.7	12.6	12.8	20.0	24.2	34.9	36.8	37.2

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

1/ Currency in circulation outside banks plus peso-denominated deposits in checking and savings accounts.

2/ Average of all LEBAC maturities before 2017, midpoint of the repo corridor from 2017 to July 2018; 7-day LELIQ rate from August 2018.

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

(end of period, unless otherwise indicated)

	2019											
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
	In ARS billions											
Net foreign assets	1,047	1,061	1,073	906	915	923	987	994	1,000	824	829	832
Net domestic assets	302	288	276	444	435	450	399	406	414	605	614	699
Credit to the public sector (net)	2,034	2,016	1,999	1,977	1,956	1,931	1,923	1,919	1,912	1,906	1,899	1,891
of which: Temporary advances to federal government	503	503	503	503	503	503	503	503	503	503	503	503
of which: Non-marketable government bonds	1,465	1,484	1,501	1,517	1,532	1,546	1,558	1,569	1,579	1,589	1,599	1,606
Credit to the financial sector (net)	-1,434	-1,494	-1,553	-1,612	-1,670	-1,701	-1,737	-1,770	-1,802	-1,833	-1,862	-1,815
of which: BCRA securities held by banks	-898	-947	-995	-1,043	-1,090	-1,111	-1,136	-1,160	-1,182	-1,204	-1,224	-1,167
BCRA securities held by non-banks (-)	0	0	0	0	0	0	0	0	0	0	0	0
Official capital and other items (net)	-298	-234	-169	79	149	220	214	258	304	532	577	624
Monetary base	1,350	1,350	1,350	1,350	1,350	1,372	1,386	1,400	1,414	1,428	1,443	1,532
Currency issued	864	882	899	934	941	968	974	973	971	988	999	1,103
Bank deposits at the central bank (peso-denominated)	485	467	450	415	408	404	412	427	443	440	443	429
	Changes in monetary base (m/m, ARS billions)											
Monetary base (eop)	0	0	0	0	0	23	14	14	14	14	14	89
Foreign exchange purchases (net)	-69	-70	347	-135	-136	78	-54	-55	165	-76	-76	-37
Operations with the public sector (net)	69	70	-347	135	136	-78	54	55	-165	76	76	37
Sterilization (net) (-)	0	0	0	0	0	23	14	14	14	14	14	89
Other items (net)	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Monetary base (average)	1,350	1,350	1,350	1,350	1,350	1,372	1,386	1,400	1,414	1,428	1,443	1,532
Monetary base (average), m/m change	0	0	0	0	0	23	14	14	14	14	14	89
Monetary base (average), m/m percent change	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%	1.0%	1.0%	1.0%	1.0%	1.0%	6.2%
Monetary base (eop) y/y percent change	39.7	34.6	35.6	35.0	32.2	31.5	29.9	15.9	13.2	12.4	13.5	13.5
Monetary base (eop) m/m percent change	0.0	0.0	0.0	0.0	0.0	1.7	1.0	1.0	1.0	1.0	1.0	6.2
M2 (AR$ billions) 1/	1,933	1,939	1,946	1,953	1,960	2,000	2,027	2,054	2,082	2,110	2,138	2,278
M2 (yoy, percent change) 1/	17.5	19.5	17.0	19.0	13.6	6.6	17.6	8.4	13.9	14.3	16.7	17.9
Gross international reserves (US$ billions)	54.6	52.7	61.8	58.3	54.8	56.8	55.4	54.1	58.2	56.3	54.4	53.5
Policy interest rate (eop) 2/	64.0	62.9	59.5	56.2	52.8	47.2	41.6	38.9	36.8	35.4	33.3	32.0
Real interest rate (eop), 12-m ahead infl. Exp. 2/	36.3	36.2	34.1	32.0	29.9	25.8	21.7	20.1	19.0	18.4	17.3	16.8

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

1/ Currency in circulation outside banks plus peso-denominated deposits in checking and savings accounts.

2/ Average of all LEBAC maturities before 2017, midpoint of the repo corridor from 2017 to July 2018; 7-day LELIQ rate from August 2018.

Table 6. Argentina: External Debt

	2015	2016	2017	*Prog. 2018*	*Prog. 2019*	Proj. 2018	2019	2020	2021	2022	2023
					(Billions of U.S. dollars)						
Total external debt (gross; includes holdouts)	178.9	189.6	237.3	285.7	303.4	277.3	273.1	277.1	284.5	284.1	280.7
Percent of GDP	*27.9*	*34.2*	*37.2*	*51.3*	*52.6*	*57.2*	*60.6*	*56.1*	*53.2*	*49.4*	*45.6*
By type of creditor											
Debt to official creditors	46.0	50.3	55.5	68.1	74.4	83.6	103.9	108.5	101.2	80.3	57.9
Debt to banks	6.2	6.5	8.2	9.8	10.4	9.5	9.4	9.5	9.8	9.8	9.7
Debt to other private creditors	126.7	132.8	173.6	207.8	218.6	184.1	159.8	159.0	173.5	194.0	213.1
By type of debtor											
Official debt	113.2	130.2	164.1	207.7	221.8	197.6	187.2	185.1	184.3	174.7	160.0
Bank debt	5.3	5.3	8.9	11.3	12.5	10.2	11.4	12.6	13.8	15.0	16.2
Non-financial private sector	60.5	54.1	64.4	66.7	69.1	69.4	74.4	79.4	86.4	94.4	104.4

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

Table 7. Argentina: Public Debt

	2015	2016	2017	*Prog. 2018*	*Prog. 2019*	Proj. 2018	2019	2020	2021	2022	2023
					(Billions of Argentine pesos)						
Gross federal debt	3,280	4,500	6,078	8,543	9,786	11,062	12,911	14,110	15,265	15,953	16,952
By currency:											
In domestic currency	1,210	1,536	1,957	2,084	2,576	2,477	2,728	3,098	4,079	5,321	7,141
In foreign currency	2,070	2,965	4,121	6,460	7,210	8,585	10,182	11,013	11,186	10,632	9,811
By residency:											
Held by external residents	1,210	1,593	2,286	3,500	4,334	4,794	6,084	7,015	7,817	8,365	9,091
Held by domestic residents	2,069	2,907	3,792	5,043	5,452	6,268	6,827	7,095	7,448	7,589	7,861
					(Percent of GDP)						
Gross federal debt	55.1	55.0	57.6	64.5	60.9	81.2	72.2	67.0	63.7	60.5	59.3
By currency:											
In domestic currency	20.3	18.8	18.5	15.7	16.0	18.2	15.3	14.7	17.0	20.2	25.0
In foreign currency	34.8	36.2	39.0	48.8	44.9	63.0	57.0	52.3	46.7	40.3	34.3
By residency:											
Held by external residents	20.3	19.5	21.7	26.4	27.0	35.2	34.0	33.3	32.6	31.7	31.8
Held by domestic residents	34.8	35.5	35.9	38.1	33.9	46.0	38.2	33.7	31.1	28.8	27.5

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

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

	2018				2018		2019				2019		2020	2021
	September	October	November	December	*Current*	*Prog*	Q1	Q2	Q3	Q4	*Current*	*Prog*		
Primary Balance	850	787	811	3,259	5,707	6,456	-	-	-	-	-	7,489	(5,019)	(5,888)
Plan Gas Payments	-	-	-	-	-	-	600	-	-	-	600	-	600	300
Interest	1,176	1,742	1,325	2,450	6,694	7,546	3,119	5,654	2,657	5,471	16,901	13,572	16,410	13,060
FX	442	1,027	965	1,621	4,055	4,219	1,730	3,417	1,449	3,338	9,936	8,400	10,637	10,076
Non-Financial Public Sector	102	100	149	169	519	463	194	368	111	364	1,036	415	605	572
Financial Public Sector	4	26	8	629	666	658	74	655	73	655	1,457	1,345	1,458	1,417
IFI	117	52	187	95	452	452	332	567	324	314	1,537	954	1,396	1,278
Private	219	850	620	729	2,418	2,646	1,130	1,828	941	2,006	5,905	5,686	7,178	6,809
AR$	735	715	360	829	2,639	3,326	1,389	2,237	1,207	2,133	6,966	5,170	5,773	2,984
Non-Financial Public Sector	339	101	3	431	874	1,101	909	1,031	731	972	3,643	1,331	2,819	1,496
Financial Public Sector	116	27	99	144	386	626	142	175	171	169	657	720	434	132
Private	280	586	258	255	1,378	1,599	338	1,031	305	992	2,666	3,119	2,520	1,356
Amortizations	5,804	3,729	9,983	12,518	32,034	37,947	18,693	18,281	6,022	6,315	49,311	63,057	35,473	41,772
FX	2,343	2,245	6,925	4,412	15,926	14,009	8,865	8,276	2,620	3,392	23,153	34,080	16,127	27,388
Non-Financial Public Sector	194	122	3,085	70	3,471	3,021	2,827	204	260	45	3,336	1,921	411	271
Financial Public Sector	194	129	336	88	747	420	315	20	46	-	380	421	290	9,637
IFI	263	173	150	191	777	772	530	2,114	516	457	3,618	5,214	2,934	6,616
Private LETES	1,680	1,702	2,529	958	6,869	5,734	3,778	1,062	1,057	2,831	8,728	19,424	5,142	5,142
Private Other	12	119	826	3,105	4,062	4,062	1,415	4,876	741	59	7,091	7,100	7,350	5,722
AR$	3,461	1,484	3,057	8,106	16,108	23,939	9,828	10,005	3,401	2,923	26,158	28,978	19,347	14,384
Non-Financial Public Sector	300	9	14	2,498	2,821	6,411	1,443	1,660	3	3	3,108	11,780	2,016	525
Financial Public Sector	1,178	624	1,944	4,551	8,296	12,193	4,449	3,250	308	816	8,823	8,921	2,095	1,947
Private LETES	1,319	835	1,083	1,039	4,276	4,254	2,824	3,728	3,037	2,051	11,640	3,790	7,963	9,936
Private Other	664	16	16	18	714	1,081	1,112	1,367	54	54	2,587	4,487	7,273	1,976
IMF Debt Service	-	-	-	-	-	-	272	553	765	440	2,029	-	2,318	4,481
of which: Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	1,875
Total Needs	7,831	6,258	12,119	18,227	**44,435**	51,949	22,684	24,488	9,443	12,226	**68,841**	95,661	**49,782**	**53,725**
Deposit drawdown	304	3,425	700		4,429	2,237	2,000	-	-	-	2,000		-	-
IFIs	-	-	1,000	1,000	2,000	1,005	-	1,400	700	900	3,000	4,800	2,934	2,866
Public Sector 1/	2,308	1,085	5,531	7,806	16,729	23,610	10,136	6,532	1,459	2,199	20,326	32,613	8,236	14,449
Private Rollovers	1,838	1,336	2,227	2,560	7,961	13,343	4,565	6,068	3,178	3,496	17,306	28,632	26,996	22,775
FX LETES	840	851	1,264	479	3,435	5,740	1,889	584	687	1,981	5,142	18,453	5,142	5,142
Peso LETES	659	417	542	520	2,138	3,513	1,412	2,051	1,974	1,435	6,872	1,059	7,963	9,936
FX Other	6	59	413	1,553	2,031	3,483	707	2,682	481	41	3,912	6,745	6,983	5,722
Peso Other	332	8	8	9	357	607	556	752	35	38	1,381	2,375	6,909	1,976
New Debt	3,842	900	457	-	5,199	11,754	-	-	-	-	-	29,616	5,500	12,000
ST Peso	3,842	900	457	-	5,199		-	-	-	-	-		-	-
ST FX	-				-		-	-	-	-	-	2,000	-	-
Peso (1+ year mat)	-				-	11,000	-	-	-	-	-	15,616	1,000	-
FX (1+ year mat)	-				-	753	-	-	-	-	-	12,000	4,500	12,000
Total Sources	8,291	6,746	9,915	11,366	**36,318**	51,949	16,700	14,000	5,336	6,595	**42,632**	95,661	**43,667**	**52,090**
Total Gap	(460)	(488)	2,204	6,861	**8,117**	0	5,983	10,487	4,107	5,631	**26,208**	0	**6,115**	**1,635**
FX	1,449	2,011	1,643	2,675	7,778		5,535	6,989	2,548	3,839	18,911		8,817	6,034
Peso	(1,909)	(2,499)	561	4,186	339		448	3,498	1,559	1,792	7,297		(2,702)	(4,399)
Private Rollover Rates	50%	50%	50%	50%		85%	50%	55%	65%	70%		100%	98%	100%
IMF Disbursements	-	5,740	-	7,700	13,440	5,779	10,920	5,460	5,460	980	22,820	11,557	3,920	1,960

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

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

	2018		2018		2019				2019		2020	2021
	September	Q4		*Pgram*	Q1	Q2	Q3	Q4		*Pgram*		
Imports G&S	6,574	20,420	26,994	30,547	15,118	16,649	17,182	17,582	66,531	90,370	76,791	84,684
Debt Service	2,130	5,302	7,432	5,517	2,754	4,441	2,473	4,362	14,032	13,556	12,942	11,903
Public Sector	442	3,613	4,055	3,264	1,730	3,417	1,449	3,338	9,936	6,793	10,637	10,076
Private Sector	1,689	1,689	3,377	2,252	1,024	1,024	1,024	1,024	4,096	6,763	2,305	1,828
Amortizations	6,288	16,621	22,909	14,643	9,875	8,868	2,973	3,938	25,655	20,850	26,975	37,128
Public Sector	2,343	13,582	15,926	9,916	8,865	8,276	2,620	3,392	23,153	15,012	16,127	27,388
Private Sector	1,103	1,709	2,812	2,812	1,011	592	353	547	2,502	2,502	10,848	9,740
LEBAC to Non-residents	2,842	1,329	4,171	1,916	0	0	0	0	-	3,336	-	-
Other outflows (net)	8,601	(11,687)	(3,085)	4,532	2,432	3,056	1,009	46	6,543	(182)	(1,854)	(13,810)
Total Needs	23,594	30,655	**54,250**	55,240	30,180	33,014	23,638	25,929	**112,760**	124,594	114,854	119,906
Exports G&S	5,884	17,652	23,536	25,351	17,957	20,685	18,942	18,184	75,768	85,311	79,077	82,800
FDI	96	2,670	2,767	2,672	370	325	231	1,033	1,959	5,241	4,535	7,321
IFIs	-	2,000	2,000	1,005	-	1,400	700	900	3,000	4,800	2,934	2,866
Private Sector Rollover and Issuances	2,533	3,039	5,572	5,673	1,126	1,126	1,126	1,126	4,506	9,265	7,594	6,818
LEBAC rollovers of Non-Residents	0	0	-	621	0	0	0	0	-	334	-	-
Public Sector Rollover and Issuances	4,688	5,976	10,664	14,487	2,596	3,266	1,169	2,023	9,054	23,260	16,624	22,864
Rollover	846	4,619	5,466	7,437	2,596	3,266	1,169	2,023	9,054	11,260	12,124	10,864
Issuances	3,842	1,357	5,199	7,050	-	-	-	-	-	12,000	4,500	12,000
Reserve Drawdown (- = accumulation)	10,853	(9,260)	1,593	5,456	2,147	(4,275)	(2,637)	(2,969)	(7,733)	(3,617)	(2,025)	(4,399)
Total Sources	24,054	22,078	**46,133**	55,263	24,197	22,527	19,531	20,298	**86,553**	124,593	108,739	118,270
Gap	(460)	8,577	**8,117**	(24)	5,983	10,487	4,107	5,631	**26,208**	0	**6,115**	**1,635**

Table 10. Argentina: Schedule of Reviews and Purchases

Available on or after	Original Amounts		Proposed Augmentation and Rephasing		Conditions 1/
	SDR millions	% Quota	SDR millions	% Quota	
June 20, 2018	10,613.71	333%	10,613.71	333%	Approval of Arrangement
October 26, 2018	2,063.78	65%	4,100.00	129%	First Review and end-September 2018 performance criteria
December 15, 2018	2,063.78	65%	5,500.00	173%	Second Review and end-October 2018 performance criteria
March 15, 2019	2,063.78	65%	7,800.00	245%	Third Review and end-December 2018 performance criteria
June 15, 2019	2,063.78	65%	3,900.00	122%	Fourth Review and end-March 2019 performance criteria
September 15, 2019	2,063.78	65%	3,900.00	122%	Fifth Review and end-June 2019 performance criteria
December 15, 2019	2,063.78	65%	700.04	22%	Sixth Review and end-September 2019 performance criteria
March 15, 2020	2,063.78	65%	700.04	22%	Seventh Review and end-December 2019 performance criteria
June 15, 2020	2,063.78	65%	700.04	22%	Eighth Review and end-March 2020 performance criteria
September 15, 2020	2,063.78	65%	700.04	22%	Ninth Review and end-June 2020 performance criteria
December 15, 2020	2,063.78	65%	700.04	22%	Tenth Review and end-September 2020 performance criteria
March 15, 2021	2,063.78	65%	700.04	22%	Eleventh Review and end-December 2020 performance criteria
June 1, 2021	2,063.71	65%	700.05	22%	Twelfth Review and end-March 2021 performance criteria
Total	35,379	1110%	40,714	1277%	

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

Table 11a. Argentina: Quantitative Performance Criteria, Indicative Targets, and Consultation Clauses - Outturns 1/2/

(In billions of Argentine pesos unless otherwise stated)

	2018					
	end-Jun			end-Sep		
	PC	Adjusted PC	Actual	PC	Adjusted PC	Actual
Fiscal targets						
Performance Criteria						
1. Primary balance of the federal government (floor) 3/ 9/	-148.0	-155.1	-122.6	-256.0	n.a.	n.a.
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0		0.0	0.0		0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	8.2		-1.9	14.9		n.a.
4. Social assistance spending (floor) 3/	87.7		87.7	131.1		n.a.
Indicative targets						
5. Primary balance of the general government (floor) 3/ 9/	-163.0		-47.9	-272.0		n.a.
Monetary targets						
Performance Criteria						
6. Change in net international reserves (floor) 6/ 9/	5.5	2.0	2.7	5.5	-2.0	-8.7
7. Change in stock of non-deliverable FX forwards (ceiling) 4/ 6/	1.0		0.4	0.0		1.3
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	-78.0		-39.4
9. Central bank financing of the government (ceiling) 4/	0.0		0.0	0.0		0.0
Inflation Consultation Clause						
10. Inflation bands (in percent, y-o-y)						
Outer Band (upper)	32			32		
Inner Band (upper)	29			29		
Center inflation target	27		29.5	27		40.5
Inner Band (lower)	25			25		
Outer Band (lower)	22			22		
11. Change in net domestic assets of the central bank (ceiling) 8/ 9/	15.0	40.0	-98.0	64.0	251.2	441.7

1/ Targets as defined in the Technical Memorandum of Understanding (TMU) dated June 12, 2018.
2/ Based on program exchange rates defined in the TMU dated June 12, 2018.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on June 4, 2018.
7/ The change is measured against the value on end-May 2018, which stood at 2,204.4 billion pesos.
8/ The change is measured against the value on end-May 2018, which stood at AR$ 432.9 billion pesos.
9/ Targets subject to adjustors as defined in the TMU.

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

(In billions of Argentine pesos unless otherwise stated)

	2018				2019		
	end-Oct	end-Nov	end-Dec		end-Jan	end-Feb	end-Mar
	Proposed PC	IT	PC	Proposed Revised PC	IT	IT	Proposed PC
Fiscal targets							
Performance Criteria							
1. Primary balance of the federal government (floor) 3/ 9/	-290.0	n.a.	-362.5	-370.0	n.a.	n.a.	6.0
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	17.0	n.a.	21.6	24.4	n.a.	n.a.	30.0
4. Social assistance spending (floor) 3/	144.0	n.a.	177.5	173.0	n.a.	n.a.	60.0
Indicative targets							
5. Primary balance of the general government (floor) 3/ 9/	n.a.	n.a.	-382.4	-370.0	n.a.	n.a.	-14.0
Monetary targets							
Performance Criteria							
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	3.7	2.1	5.5	7.1	5.3	3.5	12.5
7. Change in stock of non-deliverable FX forwards (ceiling) 6/ 11/	0.0	0.0	-0.5	0.0	0.0	-0.7	-1.0
8. Change in central bank credit to government (ceiling) 7/	0.0	0.0	-156.0	0.0	0.0	0.0	0.0
9. Central bank financing of the government (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10. Change in net domestic assets of the central bank (ceiling) 8/ 9/	97.7	-55.7	166.0	-46.2	-112.1	-36.0	-185.6

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on September 28, 2018.
7/ The change is measured against the value on September 28, 2018, which stood at 2,592.86 billion pesos.
8/ The change is measured against the average value for September 2018, which was AR$ 557 billion.
9/ Targets subject to adjustors as defined in the TMU.
10/ Increases reflect IMF budget support disbursements, which increase NIR.
11/ Continuous performance criterion until end-December 2018. Thereafter, this will become a quarterly performance criterion with indicative targets at end-January and end-February 2019.

Table 12. Argentina: Structural Program Conditionality

	Prior Actions	Timing	Implementation status
1	Present a 2019 budget to Congress targeting a zero primary balance and that includes details on the key policy measures that will be undertaken to achieve the 2019 primary balance objective, a statement of fiscal risks, an esimate of tax expenditures, and the elimination of article 27 of Law 11,672.	1st Review	Met
2	Submit to Congress legislation increasing the rate and base of the wealth tax (*Impusto sobre los Bienes Personales*).	1st Review	Met
	Structural Benchmarks	**Timing**	**Implementation status**
1	Publish a regulation to introduce a foreign exchange auction for BCRA intervention in the spot and forward markets.	Jun-2018	Met
2	Establish a senior-level debt management coordinating committee between Treasury-Finance-BCRA that would meet weekly and coordinate activities linked to sterilization and debt issuance plans.	Sep-2018	Not met. Implemented with one day delay.
3	Present a three-year budget document to Congress, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program. The budget would include details on realistic and prudent macroeconomic assumptions underlying the medium-term budget.	Oct-2018	Proposed
4	Congress will pass the 2019 Budget targeting a zero primary balance.	Nov-2018	Proposed
5	Congress will pass the revenue legislation underpinning the 2019 fiscal plan, including the increase in rate and base of the wealth tax (Impueso sobre los Bienes Personales)	Nov-2018	Proposed
6	Provide sufficient resources to the newly created CBO (Oficina de Presupuesto del Congreso), so that it can effectively evaluate macroeconomic and budgetary forecasts (including those contained in the annual budget and MTFF), provide independent costing to Congress of new policy initiatives, assess the government's fiscal plans (including the annual budget), and monitoring public finances at the central level.	Dec-2018	
7	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Mar-2019	Proposed Change from Sep-2019 to Mar-2019
8	Submit to Congress a new charter for the central bank that will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability	Mar-2019	
9	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	
10	Recapitalize the central bank to ensure it has the adequate level of capital as percent of the monetary base plus the outstanding stock of LEBACs.	Dec-2019	

Table 13. Argentina: Indicators of Fund Credit, 2018-26

(In millions of SDRs, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Existing and Prospective drawings (36 month SBA)	20,214	16,300	2,800	1,400	…	…	…	…	…
(in percent of quota)	634	511	88	44					
(Projected Debt Service to the Fund based on Existing and Prospective Drawings) 1/									
Amortization 1/	0.0	0.0	0.0	2,653.4	14,494.4	16,128.5	5,600.1	1,575.1	262.5
GRA charges and surcharges 1/	79.1	939.5	1,370.2	1,596.8	1,553.6	760.9	138.4	26.9	2.8
GRA service charge 1/	48.0	81.5	14.0	7.0	0.0	0.0	0.0	0.0	0.0
SDR assessments 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service 1/	127.1	1,021.0	1,384.2	4,257.3	16,048.0	16,889.4	5,738.6	1,602.1	265.3
(in percent of exports of G&S)	0.2	1.9	2.5	7.4	26.4	26.3	8.5	2.2	0.4
(in percent of GDP)	0.0	0.3	0.4	1.1	4.0	3.9	1.2	0.3	0.0
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings) 1/									
Outstanding stock 1/	20,213.7	36,513.8	39,313.9	38,060.6	23,566.2	7,437.7	1,837.6	262.5	0.0
(in percent of quota)	634.2	1,145.6	1,233.5	1,194.1	739.4	233.4	57.7	8.2	0.0
(in percent of GDP)	5.9	11.5	11.3	10.1	5.8	1.7	0.4	0.1	0.0
Memorandum items:									
Exports of goods and services (US$ mn)	73,551	75,768	79,077	82,800	86,827	91,737	96,925	102,406	108,197
Gross International Reserves (US$ mn)	56,360	53,506	59,193	65,046	68,979	73,212	78,816	84,850	91,345
Quota	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3	3,187.3

Source: Fund staff estimates.

1/ Assumes that all purchases will be made.

Table 14. Argentina: External Debt Sustainability Framework, 2013-23

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
Baseline: External debt	27.3	30.2	27.9	34.2	37.2			**55.8**	**60.2**	**55.4**	**52.8**	**49.0**	**45.2**	**-2.6**
Change in external debt	-1.7	2.9	-2.4	6.4	3.0			18.6	4.4	-4.8	-2.7	-3.8	-3.8	
Identified external debt-creating flows (4+8+9)	-0.9	3.4	-2.7	6.7	-1.7			4.5	2.1	0.0	-0.3	-0.8	-1.2	
Current account deficit, excluding interest payments	1.5	0.9	2.2	1.8	3.7			1.7	-0.6	0.7	1.1	1.3	1.5	
Deficit in balance of goods and services	-3.0	-3.4	-1.9	-3.1	-1.4			-3.1	-5.1	-3.8	-3.1	-2.3	-2.4	
Exports	14.7	14.5	10.9	12.8	11.4			15.1	16.8	16.0	15.5	15.1	14.9	
Imports	11.7	11.2	9.0	9.7	10.0			12.0	11.8	12.2	12.4	12.8	12.5	
Net non-debt creating capital inflows (negative)	-1.5	-0.6	-1.7	-0.4	-2.1			-1.0	-0.4	-0.9	-1.4	-1.7	-2.0	
Automatic debt dynamics 1/	-0.9	3.0	-3.1	5.3	-3.2			3.9	3.1	0.2	0.0	-0.4	-0.6	
Contribution from nominal interest rate	0.6	0.7	0.6	0.9	1.2			2.5	2.0	1.7	1.5	1.3	1.0	
Contribution from real GDP growth	-0.7	0.7	-0.7	0.6	-0.8			1.4	1.0	-1.5	-1.6	-1.7	-1.7	
Contribution from price and exchange rate changes 2/	-0.8	1.6	-3.0	3.9	-3.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.8	-0.4	0.3	-0.3	4.7			14.1	2.4	-4.8	-2.3	-3.0	-2.6	
External debt-to-exports ratio (in percent)	186.4	208.2	255.5	268.1	326.7			369.7	357.7	346.5	340.8	324.5	303.3	
Gross external financing need (in billions of US dollars) 4/	85.8	82.6	81.7	104.5	97.4			137.5	105.7	97.7	96.6	116.9	117.1	
in percent of GDP	14.0	14.7	12.7	18.9	15.3	10-Year	10-Year	28.2	23.5	19.8	18.1	20.3	19.0	
Scenario with key variables at their historical averages 5/								**55.8**	**50.2**	**45.3**	**41.6**	**37.1**	**32.8**	**-3.5**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	2.4	-2.5	2.7	-1.8	2.9	1.7	4.6	-2.8	-1.7	2.7	3.1	3.4	3.6	
GDP deflator in US dollars (change in percent)	3.0	-5.5	10.9	-12.2	11.8	7.1	10.9	-21.4	-6.1	6.9	5.0	4.0	3.3	
Nominal external interest rate (in percent)	2.3	2.4	2.2	2.7	4.2	2.5	0.6	5.1	3.4	3.2	3.0	2.7	2.3	
Growth of exports (US dollar terms, in percent)	-5.0	-8.7	-14.4	1.0	2.7	2.0	15.3	1.3	3.0	4.4	4.7	4.9	5.7	
Growth of imports (US dollar terms, in percent)	9.6	-11.8	-8.4	-7.1	19.6	6.7	24.1	-8.8	-9.2	13.7	10.2	10.9	4.4	
Current account balance, excluding interest payments	-1.5	-0.9	-2.2	-1.8	-3.7	-0.4	2.1	-1.7	0.6	-0.7	-1.1	-1.3	-1.5	
Net non-debt creating capital inflows	1.5	0.6	1.7	0.4	2.1	1.6	0.7	1.0	0.4	0.9	1.4	1.7	2.0	

Source: Fund staff calculations and estimates.

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

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

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

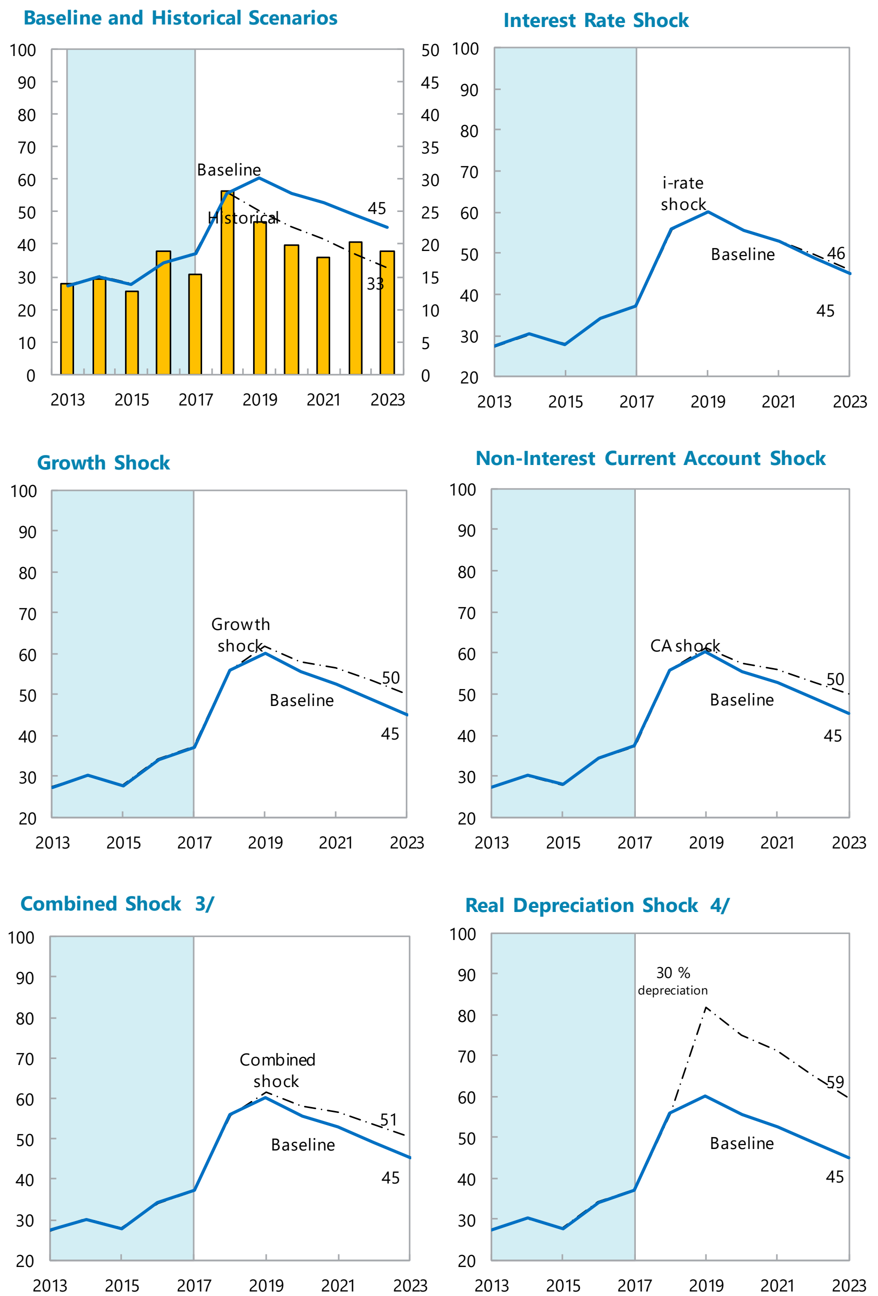
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Table 15. Argentina: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



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

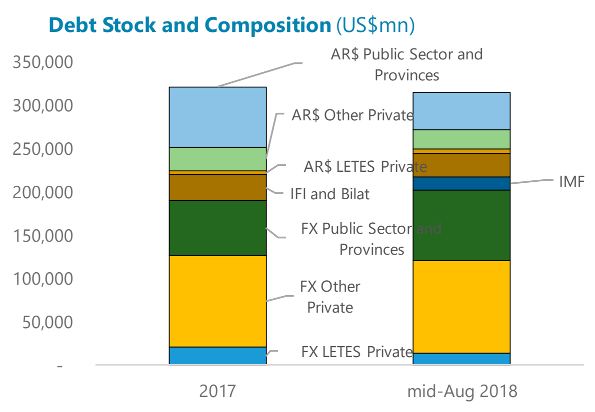
ANNEX I. Public Debt Sustainability Analysis

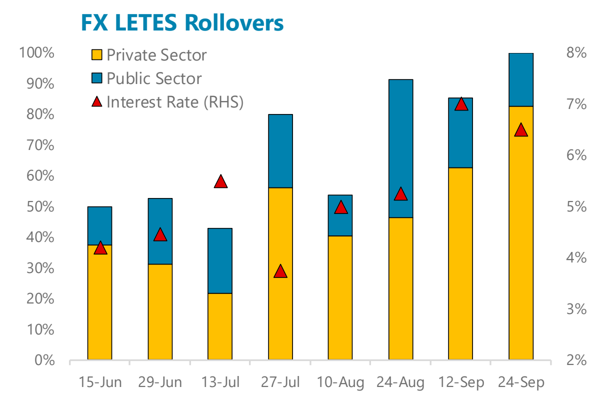
This debt sustainability analysis (DSA) provides an update to the findings in the [2018 Argentina: Request for Stand-By Arrangement](). Federal government debt is projected to rise to 81 percent in 2018 but start declining from 2019. The peak in the debt to GDP ratio in 2018 is 16 percentage points of GDP higher than projected at program approval, due to the higher-than-expected depreciation and lower growth projection. However, under staff's new baseline, which envisages a rebound in market confidence, and faster fiscal consolidation, debt is expected to fall to slightly below 60 percent of GDP by 2023. There are important downside risks to this path, including, economic and financial conditions not improving as envisaged in the baseline; the structurally high share of foreign currency denominated debt; fiscal and external financing needs; and potential contingent liabilities. The re-phased and augmented access under the program should will ensure the program remains fully financed. Staff's overall assessment is that Argentina's debt is sustainable, but not with a high probability.

A. Background

1. Stock. By mid-August 2018, gross federal government debt (including intra-public sector holdings) stood at US$315 billion, down from US$321 billion at end 2017. The drop was largely due to the depreciation of the peso, which was at AR$18.8/US$ at end-2017.

2. Currency Composition. The FX-denominated portion of debt has gone up from around 68 percent in end-2017 to about 77 percent by mid-August 2018, largely driven by the (i) the US$9 billion external bond placement in January 2018, (ii) the US$15 billion IMF disbursement in June 2018, and (iii) currency depreciation. About one quarter of the peso-denominated debt is linked to inflation.





3. Maturity. The average maturity of total public debt at end-2017 stood at 7.7 years, with the average maturity of bonds standing at 9.4 years. The stock of short-term LETES in private hands has decreased from US$25 billion at end-2017 to around US$20 billion by mid-August 2018, due to the lower levels of rollovers.

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

5. Recent placements and market access. Since the approval of the Stand-By Arrangement in June, authorities have placed a total of US$17 billion worth of debt, including the partial rollover of FX denominated debt in the domestic market.

Argentina - Recent Debt Issuances and Rollovers

	Amortizations	Placements	Interest Rates
FX LETES (mn US$)			
15-Jun	900	450	4.20%
29-Jun	1,450	762	4.45%
13-Jul	1,200	514	5.50%
27-Jul	500	400	3.75%
10-Aug	800	430	4.99%
24-Aug	1,000	913	5.25%
12-Sep	895	763	7.00%
24-Sep	951	951	6.50%
BONAR Dual (mn US$)			
21-Jun		2,000	4.50%
13-Jul		1,638	4.50%
Peso BOTE (mn AR$)			
21-Jun		63,330	26.0%
18-Jul		45,832	26.0%
Peso LETES (mn AR$)			
17-Aug		14,227	42.23%
17-Aug		8,862	39.81%
24-Aug		25,773	42.14%
24-Aug		10,582	39.74%
14-Sep		37,976	48.0%
21-Sep		107,374	50 - 54.75%

- Private sector rollovers of foreign currency debt reached low levels in June-August, driven by the exit of non-resident holders. During those months, only about 40 percent of the new issuance of FX LETES was purchased by private sector holders. Both September auctions, however, saw a sizable improvement as interest rates climbed above 6 percent. About 63 percent and 83 percent of LETES rollovers during that month were purchased by the private sector.

- The new short-term Peso LETES program is also off to a good start, with total placements of about US$5.3 billion in August and September, with maturities of 3, 6 and 12 months. Rates for 3 and 6 months climbed to around 54.75 and 50 percent, respectively.

B. Baseline Scenario

6. Debt is expected to increase to 81 percent of GDP in 2018 – 16 percentage points higher than at program approval – as a result of higher realized depreciation for the year and lower projected growth. While there has been a level increase in the debt stock, the dynamics after 2019 remain broadly unchanged as debt is expected to decline gradually toward 59 percent of GDP by 2023. Gross financing needs (GFN) are high but remain below the 15 percent of GDP high-risk threshold during the projection period. This projection is based on the following assumptions:

- ***Growth and inflation***. Growth in 2018 is expected to decelerate to -2.8 percent, remain at -1.7 percent in 2019, and then rebound to 2.5 percent in 2020. Growth will then rise gradually to 3.6 percent by 2023. Inflation is expected to continue to erode the real value of long-maturity, peso-denominated debt.

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

- ***Exchange rate.*** The real peso depreciation in 2018, which has already exceeded the peso overvaluation estimated at end-2017, will worsen debt dynamics. Staff expects this excess real depreciation to unwind during the program period, with nearly 85 percent of the unwind taking place between end-September 2018 and end-2019.

- ***Financing assumptions.*** Continued rollover of intra-public-sector financing is assumed, together with the capitalization of interest payments. Statutory advances from the BCRA are zero starting in July 2018. No further international bond issuance is expected until 2020. The IMF will play a key role in financing the federal government for the remainder of 2018 and 2019. The average effective interest rate on total debt is expected to drop from 8.2 percent in 2018 to 7.1 percent by 2023.

C. Realism of the Assumptions

- ***Growth and inflation***. The track record shows that the median forecast error for real GDP growth has been in the lowest quartile of the distribution, while the median forecast error for inflation suggest somewhat pessimistic bias.

- ***Primary deficit.*** The track record shows that the median forecast error for the primary balance has been on the optimistic side. The tool for assessing the realism of projected fiscal adjustment shows that it is ambitious compared with the distribution of observed adjustments in a cross section of countries.

D. Shocks and Stress Tests

Solvency Risks

- Given the high share of foreign currency denominated debt, a shock to the exchange rate is a major vulnerability. The standard DSA stress test (50 percent real depreciation with 0.25 pass-through) shows that debt could jump to 99 percent of GDP in such a scenario. Debt is also vulnerable to a growth shock, which under the stress test could raise debt to 81 percent of GDP. Given the relatively long debt maturity profile, a shock to interest rates is not a major risk, although it is important to keep in mind that the concept of debt considered here does not include BCRA debt, which is mostly short-term.

- Fiscal consolidation is critical to stabilizing the debt level. If the primary balance were to remain unchanged at its 2018 level (–2.7 percent of GDP), debt would remain largely flat, at 79 percent of GDP by 2023. A 'combined macro-fiscal' shock would cause debt to peak at nearly 116 percent of GDP.[16]

Liquidity Risks

- A combined macro-fiscal shock will lead to GFN of 31 percent of GDP. In such a scenario, it may not be possible to finance this through market access on favorable terms.

- Liquidity risks are somewhat mitigated by the significant share of debt held by public sector entities. However, while the public sector holds around half of the federal debt stock, the contribution of this debt to the medium-term GFN profile is relatively small. Even if these principal payments are fully rolled over, as assumed in the program, a significant GFN remains.

E. Overall Assessment

7. **Debt is expected to peak at 81 percent of GDP in 2018 and fall thereafter.** The fiscal adjustment, economic recovery, and lower real interest rates (as central bank credibility is established) will all work to place public debt-to-GDP on a steady downward trajectory from 2019 onwards. Debt would fall under the planned fiscal consolidation to about 59 percent of GDP by the end of 2023.

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

- The size of the gross financing needs under a stressed scenario;

- The large (and potentially rising) share of foreign currency debt (which makes Argentina's debt dynamics susceptible to deviations from the programmed path of the real exchange rate);

- The large external financing needs of the economy, which in past emerging market crises has shown to be a strong predictor of a debt crisis;

- The fact that the proposed fiscal consolidation is ambitious relative to similar country situations (it is in the top 5 percent of the distribution of fiscal consolidations achieved by a broad sample of program countries);

- The DSA covers only federal government debt and so could understate the sustainability of general government debt. However, most provinces are running close to a balanced budget and provincial debt at end-2017 was projected to be around 6 percent of GDP;

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

- The national government faces contingent liabilities from needing to recapitalize the central bank, from loss-making publicly-owned corporations, and from unfunded pensions.

These risks are, however, mitigated by the high share of federal government debt that is held by other public-sector entities and the relatively long maturity of dollar-denominated debt issued on international markets (around one quarter of the government's US$-denominated debt held outside the Argentine public sector will mature by end-2020). The rephased and augmented access under the program is needed to ensure the program remains fully financed.

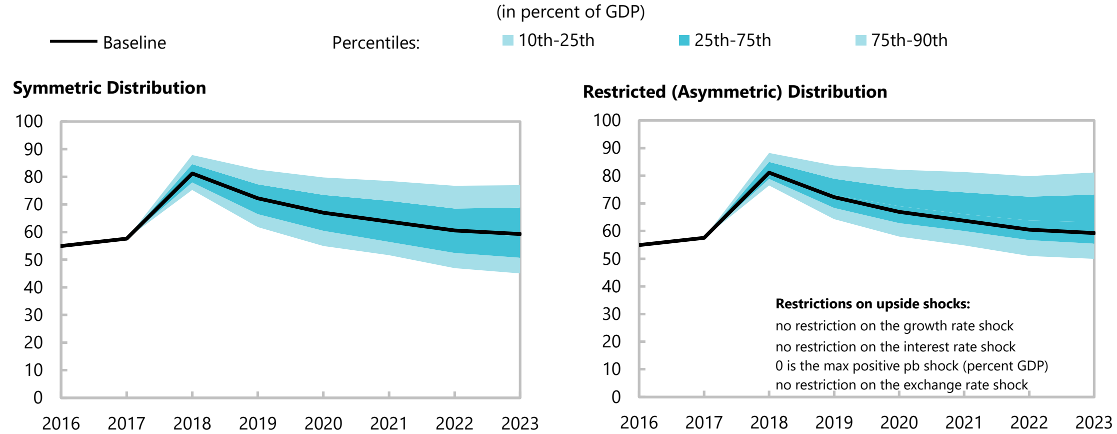
Argentina Public DSA Risk Assessment

Heat Map

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

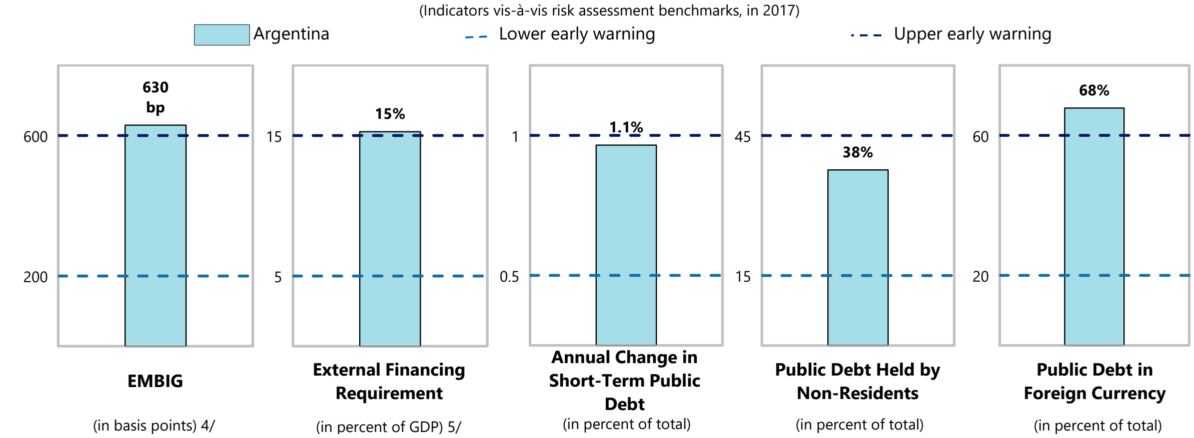
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

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



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

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

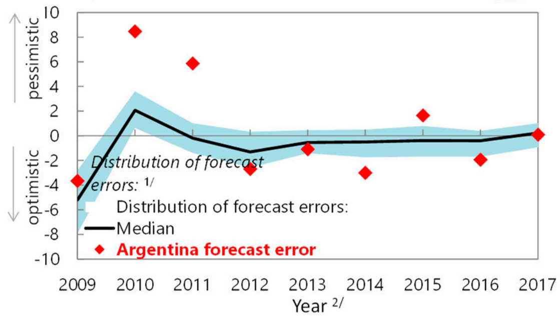
4/ EMBIG, an average over the last 3 months, 23-Jun-18 through 21-Sep-18.

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

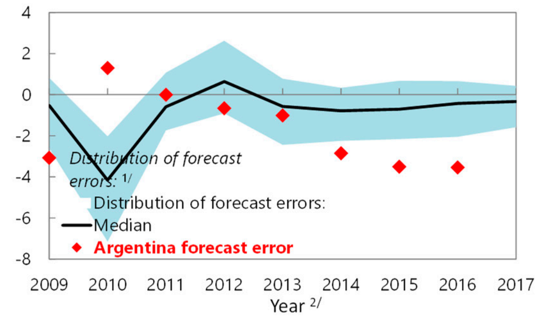
Argentina Public DSA - Realism of Baseline Assumptions

Forecast Track Record, Versus all countries

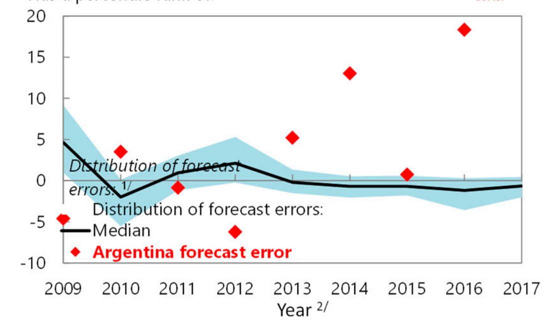
Real GDP Growth
(in percent, actual-projection)
Argentina median forecast error, 2009-2017: -1.10
Has a percentile rank of: 22%



Primary Balance
(in percent of GDP, actual-projection)
Argentina median forecast error, 2009-2017: n.a.
Has a percentile rank of: n.a.

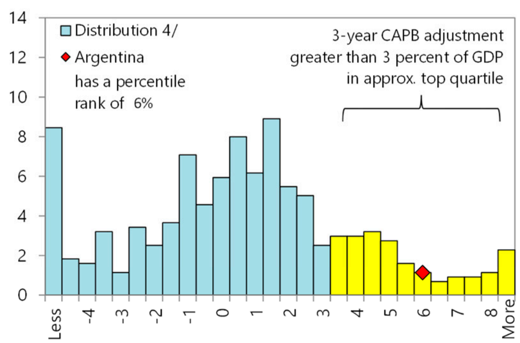


Inflation (Deflator)
(in percent, actual-projection)
Argentina median forecast error, 2009-2017: n.a.
Has a percentile rank of: n.a.

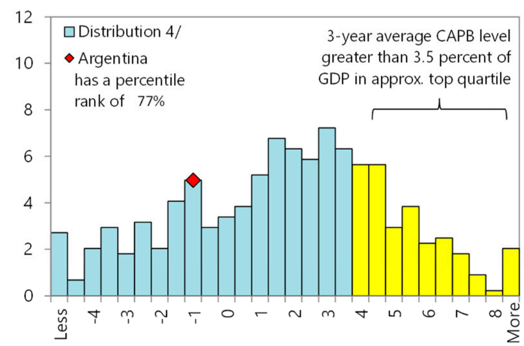


Assessing the Realism of Projected Fiscal Adjustment

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

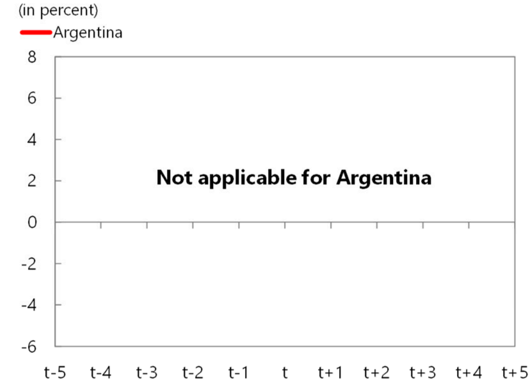


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Argentina, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Argentina Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

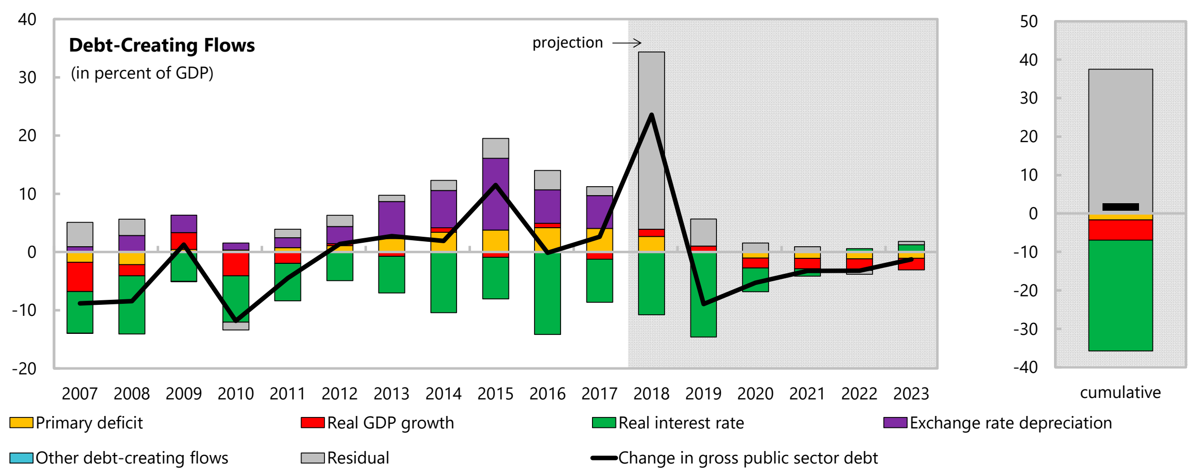
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	47.4	55.0	57.6	81.2	72.2	67.0	63.7	60.5	59.3
Public gross financing needs	9.5	12.5	13.6	11.2	13.4	9.2	11.7	14.3	14.2
Real GDP growth (in percent)	2.8	-1.8	2.9	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation (GDP deflator, in percent)	23.5	40.0	25.3	33.4	32.5	14.9	10.4	6.4	4.7
Nominal GDP growth (in percent)	26.8	37.5	28.9	29.1	31.1	17.9	13.7	10.1	8.5
Effective interest rate (in percent) [4/]	4.5	4.0	8.6	8.2	8.6	8.6	8.5	7.7	7.1

As of September 21, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		587
5Y CDS (bp)		540
Ratings	Foreign	Local
Moody's	B2	B2
S&Ps	B+	B+
Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.6	-0.1	2.6	23.6	-8.9	-5.3	-3.2	-3.2	-1.3	1.7	
Identified debt-creating flows	-3.3	-3.5	1.1	-6.8	-13.6	-6.8	-4.1	-2.6	-1.8	-35.8	
Primary deficit	0.9	4.2	4.1	2.7	0.0	-1.0	-1.1	-1.2	-1.0	-1.7	0.9
Primary (noninterest) revenue and grants	25.3	26.6	26.1	26.9	28.3	29.0	29.0	28.5	28.3	169.9	
Primary (noninterest) expenditure	26.2	30.8	30.2	29.6	28.3	27.9	27.9	27.3	27.2	168.3	
Automatic debt dynamics [5/]	-4.2	-7.7	-3.0	-9.5	-13.5	-5.8	-3.1	-1.4	-0.8	-34.1	
Interest rate/growth differential [6/]	-8.4	-13.4	-8.6	-9.5	-13.5	-5.8	-3.1	-1.4	-0.8	-34.1	
Of which: real interest rate	-7.3	-14.1	-7.4	-10.8	-14.6	-4.1	-1.3	0.6	1.2	-28.9	
Of which: real GDP growth	-1.2	0.7	-1.2	1.2	1.0	-1.7	-1.8	-2.0	-2.0	-5.2	
Exchange rate depreciation [7/]	4.2	5.8	5.6	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Government and Public Sector Finance: (	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.7	3.3	1.5	30.4	4.6	1.6	0.9	-0.6	0.6	37.5	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

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

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

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

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

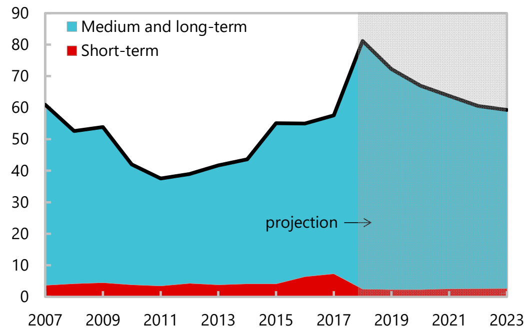
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

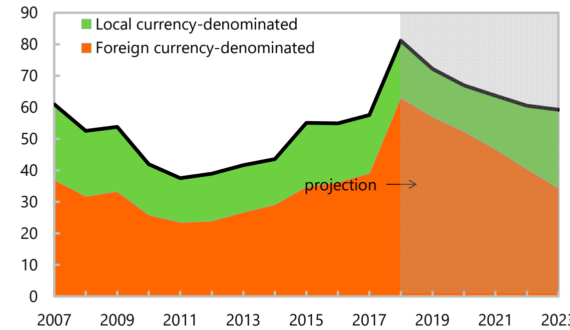
Argentina Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



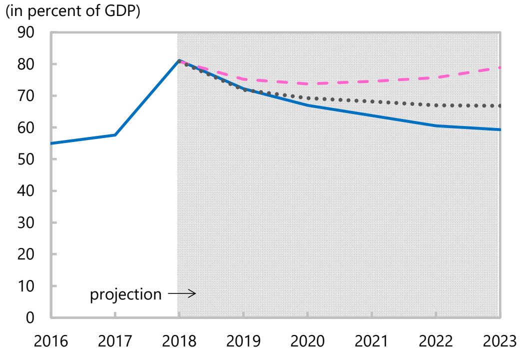
By Currency
(in percent of GDP)



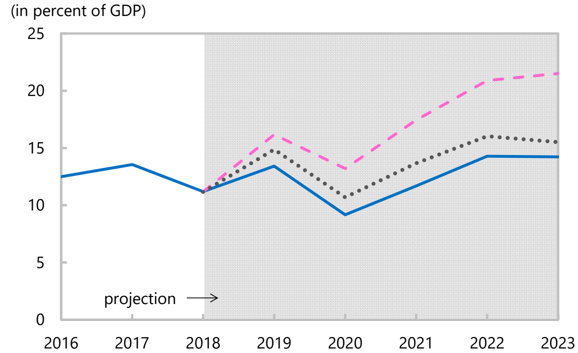
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	33.4	32.5	14.9	10.4	6.4	4.7
Primary Balance	-2.7	0.0	1.0	1.1	1.2	1.0
Effective interest rate	8.2	8.6	8.6	8.5	7.7	7.1
Constant Primary Balance Scenario						
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	33.4	32.5	14.9	10.4	6.4	4.7
Primary Balance	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7
Effective interest rate	8.2	8.6	8.7	9.0	8.2	7.5

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.8	1.7	1.7	1.7	1.7	1.7
Inflation	33.4	32.5	14.9	10.4	6.4	4.7
Primary Balance	-2.7	-1.8	-1.8	-1.8	-1.8	-1.8
Effective interest rate	8.2	8.6	6.7	5.9	3.8	1.7

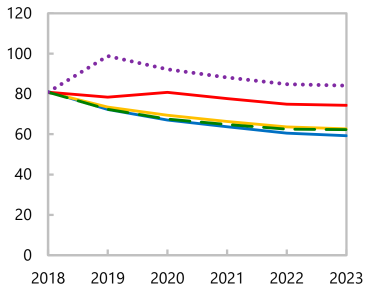
Source: IMF staff.

Argentina Public DSA - Stress Tests

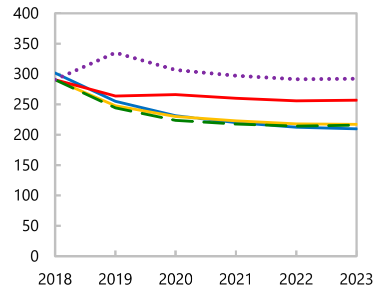
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

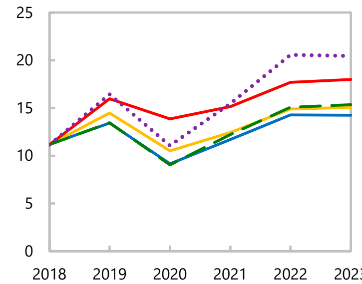
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



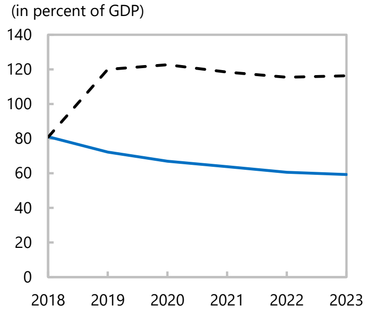
Public Gross Financing Needs
(in percent of GDP)



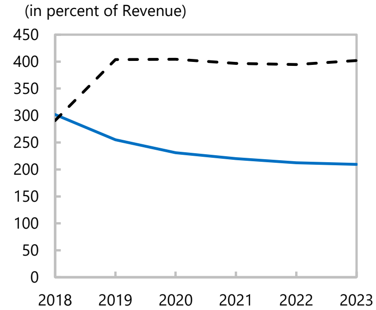
Additional Stress Tests

Baseline
Combined Macro-Fiscal Shock

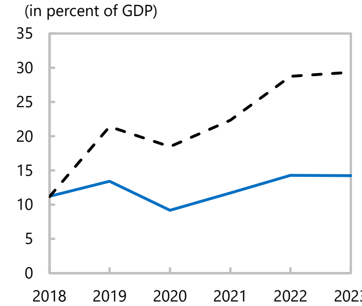
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	33.4	32.5	14.9	10.4	6.4	4.7
Primary balance	-2.7	-1.0	0.0	1.1	1.2	1.0
Effective interest rate	8.2	8.6	8.7	8.7	7.8	7.2
Real Interest Rate Shock						
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	33.4	32.5	14.9	10.4	6.4	4.7
Primary balance	-2.7	0.0	1.0	1.1	1.2	1.0
Effective interest rate	8.2	8.6	9.0	9.3	8.6	8.4
Combined Shock						
Real GDP growth	-2.8	-6.3	-1.9	3.1	3.4	3.6
Inflation	33.4	31.4	13.7	10.4	6.4	4.7
Primary balance	-2.7	-1.7	-2.3	1.1	1.2	1.0
Effective interest rate	8.2	11.2	8.0	8.5	8.4	8.2

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.8	-6.3	-1.9	3.1	3.4	3.6
Inflation	33.4	31.4	13.7	10.4	6.4	4.7
Primary balance	-2.7	-1.7	-2.3	1.1	1.2	1.0
Effective interest rate	8.2	8.6	8.8	9.1	8.2	7.5
Real Exchange Rate Shock						
Real GDP growth	-2.8	-1.7	2.7	3.1	3.4	3.6
Inflation	33.4	49.9	14.9	10.4	6.4	4.7
Primary balance	-2.7	0.0	1.0	1.1	1.2	1.0
Effective interest rate	8.2	11.2	7.6	7.8	7.3	6.9

Source: IMF staff.

Appendix I. Letter of Intent

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

October 17, 2018

Dear Madame Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic objectives and policies of the Government of Argentina for 2018 and beyond. Also attached is a Technical Memorandum of Understanding that sets out the specific objectives that we are committed to achieving under the IMF arrangement in support of our economic plan.

Our economic reform plan, supported by the IMF Stand-By Arrangement, has been confronted by significant new challenges since it was approved by the IMF's Executive Board in June. Argentina has been subject to considerable market volatility driven, in part, by inhospitable global conditions toward emerging market economies and, in part, by the domestic political strains created by an ongoing and expanding corruption investigation focused on the operation and construction of public infrastructure and services during the previous administration.

Amidst these unanticipated strains, our policy plan has been unable to bolster market confidence in the way that we had hoped. We have decided to meet these challenges forthrightly and transparently and to adapt our strategy to these less favorable circumstances. Specifically, we intend to redouble our efforts on strengthening our fiscal position that has already been successfully underway since we first announced our goals in May in order to live within our means and balance our budget (excluding interest payments) in 2019. We are also going to overhaul our monetary and exchange rate policy framework to decisively lower inflation, a tax that we know is most injurious to Argentina's most vulnerable citizens.

In this context, we are requesting the IMF to continue and deepen its strong support for our strengthened policy program. As part of that support, we are formally requesting that access under the existing IMF Stand-By Arrangement be augmented by SDR 5.335 billion (about US$7.1 billion), to make the arrangement equivalent to SDR 40.714 billion (about US$57 billion), or 1,277 percent of Argentina's quota with the IMF, and that the disbursements be rephased to ensure that the program remains fully financed. We are also requesting waivers of non-observance for end-September performance criteria on net international reserves, net credit to government, and non-deliverable forwards, all of which were missed due to a deterioration of market conditions which generated a sizable depreciation of the peso, lower than expected rollover rates, and difficult financing conditions. We have taken corrective actions to recalibrate monetary policy and accelerate the process of fiscal adjustment in the context of the newly reformulated program. Lastly, we would also request waivers of applicability for the performance criteria on the primary balance of the federal government, domestic arrears, and social assistance spending, as the final data will not be available at the time of the Board consideration.

It is now no longer tenable for Argentina to treat this arrangement as precautionary. As such, we plan to draw the full amount of access under the program and we are requesting that all tranches can be used as budget support.

These revisions to the plan are designed by, and fully owned by, the Argentine government. We are convinced that this revised policy plan is strong, and will help build confidence, reduce uncertainty, and strengthen Argentina's economic prospects.

Importantly, we remain committed to ensuring that the burden of the needed recalibration of the fiscal policy is shared fairly and that the most vulnerable segments of Argentina's population are fully protected. Under our program, we intend to introduce a tax on household wealth to ensure a meaningful contribution to our efforts from those at the upper end of the income distribution. We have levied a tax on exports, taking into account that exporters have benefited by the recent depreciation from the currency. We also have expanded our budget allocations for social assistance, even with the reduction in the fiscal deficit and stand ready, if social conditions deteriorate, to identify additional revenues to increase the funding of our most effective social assistance programs. Finally, even in these difficult circumstances, we maintain our commitment to create a level playing field for men and women and ensure that women and girls are afforded the economic opportunities that they are entitled to.

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

We remain, of course, committed to maintaining the usual close policy dialogue with IMF staff and to providing IMF staff with the data and information it requests for the purpose of assessing program implementation.

Reaffirming our commitment to transparency, we consent to the IMF's publication of this letter, the MEFP, the Technical Memorandum of Understanding, and the accompanying Executive Board documents.

Yours sincerely,

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

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies (Update)

This memorandum supplements and updates the Memorandum of Economic and Financial Policies dated June 12, 2018.

Following the approval of the Stand-By Arrangement in June, Argentina's financial markets saw some return of confidence, but this has proven to be temporary. Over the past few months, Argentina has come under significant market pressure with our costs of fiscal financing rising and our currency depreciating. At the same time, high frequency economic indicators have shown the toll taken by the drought and the market pressures we faced earlier in the year. In late August, these pressures came to a head with an abrupt depreciation of our currency and a jump in the market pricing of sovereign risk.

We regard these market movements as inconsistent with our economic fundamentals. Our track record is clear: we have unraveled a myriad of economic distortions put in place by the previous administration, built a statistics agency that can be trusted, reinstated Argentina's access to international markets, and, as chair of the G20, restored our country's place in the global economy.

Nonetheless, the message from the current bout of market volatility is clear. Argentina can no longer live beyond its means. It can spend only what it can raise in taxes. It cannot rely on the inequitable inflation tax as a source of revenue. It needs to take all necessary steps to propel growth and facilitate private economic activity in a way where the gains are shared by all Argentines.

Therefore, as will be described below, we have strengthened our policy plans to accommodate the more difficult environment we face. Our objectives, though, remain the same:

- To fully restore market confidence through macroeconomic policies that lessen the federal government's financing needs and put our public debt on a firm downward path.
- To redesign the Central Bank's policy strategy and reinforce its institutional framework to ensure that inflation falls to single digits by 2021.
- To lessen the strains on our balance of payments by allowing our exchange rate to operate flexibly as a shock absorber, increasing our international reserves, lowering our current account deficit, and reducing our external financing needs.
- To protect Argentina's most vulnerable citizens from the burden of this needed policy recalibration.

These objectives will be achieved through the following policies.

Fiscal Policy

The core of our fiscal objectives remains achieving fiscal balance so as to reduce our public debt over time and strengthen the basic pillars of a healthy economic growth process. We have accelerated the fiscal consolidation and have already submitted a 2019 Budget to Congress that is designed to achieve a zero-primary balance while mitigating the short-term adverse effects on growth and job creation. In addition, and per our commitment, the budget includes a statement of fiscal risks, an estimate of tax expenditures, and the elimination of article 27 of Law 11,672. To support our fiscal plan, we have also submitted to congress legislation increasing the rate and the base of the wealth tax, which will improve the progressivity of the tax system.

Political leaders from across the political spectrum, including provincial governors and key representatives in Congress have already expressed their support for our plan.

We have agreed on an updated Fiscal Pact with our provincial governments to double the collection of wealth taxes as percent of GDP, suspend the reduction in the financial transaction tax (*impuesto al cheque*), and allow provinces to suspend the reduction in stamp duties.

We intend to secure passage of the 2019 budget, which will further underscore the broad political consensus that has been secured among Argentine society for the policies that we are proposing in this memorandum.

Within the 2019 Budget, our fiscal measures include:

- An increase in export taxes and a reduction in export tax refunds.
- A wealth tax that is levied on the assets of the most affluent members of Argentina's society held both within Argentina and abroad.
- Scaling back energy subsidies and reallocating the responsibility for transportation subsidies and the social tariff on electricity to provincial governments which are better placed to judge how best to design and fund such supports.
- A containment of capital spending, which will be compensated for by Private-Public Partnership projects and higher capital spending by provinces.
- The expansion of PIT coverage to some categories of public employees who are currently exempted, and the reduction of tax expenditure on the corporate income tax by limiting exemptions for cooperatives and mutual organizations.
- A reduction of discretionary transfers to provinces, and a 6 percent real cut to other current spending.
- A freeze in the new hiring of public employees, that will result in a drop in the overall public payroll.

- A reduction in other goods and services spending of the federal government by 18 percent in 2018 and a further 5 percent in 2019 in real terms. Strict control over commitments will prevent accumulating arrears.

- A reduction on transfers associated with the operating deficit of Government enterprises that are not related to public utility tariffs by 68 percent in real terms.

We intend to continue to strengthen our public finances in 2020 by taking the necessary measures to increase the primary surplus to 1 percent of GDP. By end-October 2018, we will submit to congress a three-year budget, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program.

To continue strengthening budget execution and oversight, we commit to ensuring that the newly created CBO (*Oficina de Presupuesto del Congreso*) will have sufficient resources so that it can effectively evaluate macroeconomic and budgetary forecasts (including those contained in the annual budget and MTFF), provide independent costing to Congress of new policy initiatives, assess the government's fiscal plans (including the annual budget), and monitor public finances at the central level.

In the area of revenue administration, we have already requested technical assistance from the IMF as we continue to work towards designing a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.

In the coming year, we will continue to engage with IMF staff and domestic constituents to identify lasting and high-quality reforms (including improvement in budgetary and tax collection processes, and revisions to the current distortive systems of taxes and subsidies, and beginning to examine a much needed pension reform) that will not only achieve the targeted strengthening of the fiscal position but will also be socially equitable and will support economic growth and job creation over the medium-term.

Protecting Society's Most Vulnerable

We remain absolutely committed to protecting Argentina's most vulnerable in light of the worsening economic situation and rising inflation. We cannot accept an increase in the levels of poverty and we will continue to find the resources needed to support our most vulnerable citizens. We have already decided to increase spending in 2018 on our universal child allowance (*Asignación Universal por Hijo*) social assistance program by making two additional payments to each of the nearly 4 million beneficiaries under the program.

In the 2019 budget, we continue this commitment by protecting benefits in family allowances per capita in real terms, and with a real increase in the budget allocations for the provision of basic products, such as food supplies for vulnerable sectors –with an increase of 19 percent in real terms- and pharmaceutical products and vaccines –that will grow 44 percent in real terms-. Social spending in nominal terms will grow more than 10 percentage points faster than overall primary expenditure and will remain at about record-high levels in 2019.

Going forward, we are ensuring that the social safety net covers all those who need it by regularly monitoring multi-dimensional social indicators including poverty, employment, and the number of social program beneficiaries and expanding government services to the most vulnerable. We are working to identify eligible children who are currently not covered by Universal Family Allowances and have introduced a multi-transit public transport tariff that will particularly benefit those with low incomes.

In addition, we are working to improve the targeting of social tariffs for energy, through the better use of data sharing across agencies and by expanding the number of qualification criteria. The government is regularly monitoring multi-dimensional social indicators including poverty, employment, and number of social programs beneficiaries to make sure that the existing social programs will allow us to achieve our goal of limiting the impact of the stabilization plan on the most vulnerable To ensure coherence, an umbrella social protection strategy—to improve efficiency, optimize our structure of programs, and better target benefits—will be developed by end-2019, with assistance from the World Bank.

Supporting Gender Equity

As noted in our MEFP dated June 12, 2018 and published in *Argentina – Request for Stand-By Arrangement*, we remain committed to address long-standing gender inequalities that are embedded in the Argentine economic system. The 2019 budget includes a 12 percent expansion of public childcare facilities, in an effort to raise female labor force participation and help level the playing field for women in the labor market (particularly for lower income households). The *Comision Nacional de Valores* is setting up a registry of gender balance in the Board and managerial positions of listed companies and we will urge legislators to accelerate discussion and approval of legislation that extends paternity and maternity leave.

Monetary Policy

We recognize that our chosen approach to monetary policy has not delivered the desired results in reducing inflation. We think that the inflation targeting approach is the appropriate regime for Argentina to pursue once inflation becomes significantly lower. With current levels of inflation and unanchored inflation expectations, we believe it is time to shift to a simpler approach that can deliver short-run results that can be judged each month by Argentine society.

Specifically, we have announced a shift to targeting the growth rate of the monetary base (issued banknotes and coins plus commercial banks' peso reserves held at the central bank). We commit to putting in place all necessary measures to ensure that the monetary base will remain stable until June 2019, adjusted for the seasonality in December and June, and to grow no faster than 1 percent per month thereafter. The supply of pesos in the economy will be guided by this target each month. Our belief is that this policy will quickly bring inflation and inflation expectations down. Open market operations (issuance of 7-day LELIQ) using fixed allotment, variable rate auctions will be calibrated so as to achieve the base money target on average each month.

Further, to guard against any unintentional loosening of monetary conditions in the coming months, we are committed to keeping short-term rates (as measured by the 7-day LELIQ rate) at or above 60 percent, at least until the average inflation expectations reported in the REM survey at a 12-month horizon have declined decisively for two consecutive months. At the start of the implementation of this policy, we anticipate that there may be some volatility in short-term interest rates. In this regard, the 60 percent level will act only as a floor on the level of the interest rate but in no way will constrain upward movements in short-term interest rates. Over time, we expect confidence in the peso to grow, the rate of inflation to fall rapidly, and interest rates to decline as stability is restored.

We intend to operate this quantity-based framework as a transitional arrangement. In time, we anticipate that our nominal anchor will become fully established which will facilitate a return to an inflation targeting regime. A decision on the timing of this transition will be taken at some future date, yet undetermined, once economic conditions warrant.

Consistent with this choice of the supply of pesos as the nominal anchor, we commit to operating a fully flexible exchange rate where the level of the peso will be determined by market forces, without intervention by the central bank.

In the event, though, that the currency strengthens significantly, we will have the option (but do not ex-ante commit) to purchase FX in a transparent and market-based way to rebuild our international reserves to more prudent levels. Likewise, if the currency depreciates excessively over a short period of time the Central Bank will also have the option to offer daily auctions to provide liquidity to the market and help smooth a transition to a more sustainable exchange rate. Therefore, we will be prepared to intervene in a limited and transparent way, in spot or deliverable forwards markets to prevent disorderly market conditions only if there is a significant overshooting of the exchange rate, which we define as the peso moving outside a non-intervention zone that is approximately ± 15 percent around AR$39 per U.S. dollar. Outside this zone, we can choose to announce a competitive auction to either sell or buy FX up to US$150 million per day. The limits of the zone will be adjusted daily by a 3 percent monthly growth until December 2018. All such FX intervention, if it occurs, will be unsterilized.

We commit not to undertake FX sales through state-owned banks. At present, we have no intention to conduct FX sales of the Fund disbursements for the remainder of the year. A system for the orderly conversion and use of these disbursements for peso-denominated budgetary financing needs will be worked out before such needs arise, and in the context of the next review.

In addition, we will reduce our participation in the forwards market by keeping our total stock of non-deliverable forwards at or below its end-September level until end-December, and gradually reducing it thereafter.

We will continue our steadfast efforts at improving the operational autonomy of the BCRA and reducing its vulnerabilities. We expect to have transferred the BCRA's counterparties for the sale of LEBACs, open market operations and repos, to domestic banks by end December 2018, although market conditions may require that this takes until the beginning of 2019.

To strengthen the monetary policy framework and central bank governance, we will submit a draft of a new BCRA charter to Congress by end-March 2019, which will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability. We further commit to work towards obtaining the necessary approvals with the objective of injecting the necessary amount of peso-denominated, interest-bearing marketable securities onto the central bank's balance sheet to achieve an adequate level of capital by end-December 2019.

Debt Management

We are determined to continue developing the local peso-denominated securities market with regular benchmark issuances and improving market depth through the introduction of market making arrangements. We will seek IMF technical assistance support in this context.

To enhance coordination between the ministry of finance and the BCRA on debt issuances and foster market development, we have established a senior-level debt management coordinating committee. This committee meets weekly and coordinates activities linked to sterilization and debt issuance plans.

To preserve our net international reserves position and foster the development of FX markets, we commit to depositing all proceeds from FX issuances into the Treasury account at the BCRA.

Banking Sector

We continue to view the risks of the current macro-economic circumstances on the banking sector as limited because of the small size of the sector, its high level of capital and liquid assets, as well as the limited exposure of banks to the sovereign. However, given recent development in the exchange rate, we will continue to closely monitor developments in the financial sector and prepare ourselves to respond promptly to any sign of deterioration in this sector.

The Economic Outlook

It is foreseeable that our strengthened approach on both fiscal and monetary policies will have implications for economic growth in the coming months. We expect quarter-on-quarter economic growth to be negative until the first quarter of 2019. However, the re-establishment of macroeconomic stability and the faster downward trajectory of our debt-GDP ratio will restore confidence and eventually result in a V-shaped recovery starting in the second quarter of 2019. This growth acceleration will be supported also by a strong rebound in agricultural output as the farming sector recovers from this year's damaging drought.

We now expect growth to contract by between 2 and 3 percent in 2018 and between 0.5 and 2 percent in 2019. Reflecting the V-shaped recovery that we expect, growth shall rebound to 8½ percent on a year-on-year basis in the fourth quarter of 2019. During 2019 there will also be a rotation of demand out of domestic consumption and investment and toward an export-led recovery. The competitive level of the real exchange rate, which will boost exports and compress imports, will facilitate this swing in the trade balance from a deficit of 0.9 percent of GDP in 2018 to a 1.2 percent of GDP trade surplus in 2019. Similarly, our current account deficit will be cut by more than half to end 2019 at between 0.5 and 1.5 percent of GDP.

With our disinflationary monetary policy stance and the decline in demand our expectation is that year-on-year inflation will fall rapidly. Headline inflation should peak at slightly above 40 percent by January 2019 and begin falling quickly to slightly above 20 percent by end-2019. Inflation will continue falling at a steady pace to reach single digits by end 2021, as was originally envisaged under our economic plan.

Supply Side Policies

As noted in our MEFP dated June 12, 2018 and published in *Argentina – Request for Stand-By Arrangement,* a central commitment of our administration is to increase growth and private investment as a means to raising living standards for all of Argentina's people.

Work is continuing on strengthening the anti-corruption regime, focusing on its effective implementation, improving the institutional framework, and strengthening prosecutorial and judicial proceedings. Our work with the OECD will help design general strategies and efficient public policies on improving integrity in Argentina.

We remain committed to further strengthening the AML/CFT frameworks and ensuring their effective implementation, including to assist with our anticorruption efforts. While there have been some delays, we will accelerate efforts to design concrete measures to this effect in consultation with Fund staff. We would welcome technical assistance by the IMF in these and other areas noted in the June 2018 MEFP, as soon as possible.

In the area of improving our statistical system to further align it with the internationally accepted methodologies and reporting standards, we reiterate our commitment to continued collaboration with international organizations, including the OECD and IMF.

In addition to the areas above, we fully acknowledge the importance of developing domestic credit markets, reforming competition policy, and continuing to cut red tape as key for making Argentina an attractive destination for local and international businesses alike. The administration will accelerate its efforts in these areas and new measures will be incorporated into the reform program at the second and third reviews.

Meeting the Government's Financing Needs

The elimination of our primary fiscal deficit will be instrumental in bringing our debt burden under control. While our intention is to make every effort to finance our needs from issuance of bonds in financial markets on reasonable terms, we wish to prepare for a more adverse scenario. As such, we are asking the IMF to increase its support for Argentina until end-2019 by US$19 billion. We are also requesting that all tranches should be given as direct budget support. This will provide us with the certainty we would be able to finance our budget needs even in the event of inhospitable market conditions for a prolonged period.

Given the uncertainties that we face on a number of fronts, we also ask that in the near-term, the IMF increase the frequency of its program reviews so that they occur on a bi-monthly basis (based on end-October and end-December performance criteria) and on a quarterly basis thereafter. This will provide an opportunity for the international community to judge our performance on a more regular basis and, if needed, for us to quickly deepen our efforts to achieve our policy objectives.

Table 1. Argentina: Schedule of Reviews and Purchases

Available on or after	Original Amounts		Proposed Augmentation and Rephasing		Conditions 1/
	SDR millions	% Quota	SDR millions	% Quota	
June 20, 2018	10,613.71	333%	10,613.71	333%	Approval of Arrangement
October 26, 2018	2,063.78	65%	4,100.00	129%	First Review and end-September 2018 performance criteria
December 15, 2018	2,063.78	65%	5,500.00	173%	Second Review and end-October 2018 performance criteria
March 15, 2019	2,063.78	65%	7,800.00	245%	Third Review and end-December 2018 performance criteria
June 15, 2019	2,063.78	65%	3,900.00	122%	Fourth Review and end-March 2019 performance criteria
September 15, 2019	2,063.78	65%	3,900.00	122%	Fifth Review and end-June 2019 performance criteria
December 15, 2019	2,063.78	65%	700.04	22%	Sixth Review and end-September 2019 performance criteria
March 15, 2020	2,063.78	65%	700.04	22%	Seventh Review and end-December 2019 performance criteria
June 15, 2020	2,063.78	65%	700.04	22%	Eighth Review and end-March 2020 performance criteria
September 15, 2020	2,063.78	65%	700.04	22%	Ninth Review and end-June 2020 performance criteria
December 15, 2020	2,063.78	65%	700.04	22%	Tenth Review and end-September 2020 performance criteria
March 15, 2021	2,063.78	65%	700.04	22%	Eleventh Review and end-December 2020 performance criteria
June 1, 2021	2,063.71	65%	700.05	22%	Twelfth Review and end-March 2021 performance criteria
Total	35,379	1110%	40,714	1277%	

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

Table 2a. Argentina: Quantitative Performance Criteria, Indicative Targets, and Consultation Clauses - Outturns 1/2/

(In billions of Argentine pesos unless otherwise stated)

	2018					
	end-Jun			end-Sep		
	PC	Adjusted PC	Actual	PC	Adjusted PC	Actual
Fiscal targets						
Performance Criteria						
1. Primary balance of the federal government (floor) 3/ 9/	-148.0	-155.1	-122.6	-256.0	n.a.	n.a.
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0		0.0	0.0		0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	8.2		-1.9	14.9		n.a.
4. Social assistance spending (floor) 3/	87.7		87.7	131.1		n.a.
Indicative targets						
5. Primary balance of the general government (floor) 3/ 9/	-163.0		-47.9	-272.0		n.a.
Monetary targets						
Performance Criteria						
6. Change in net international reserves (floor) 6/ 9/	5.5	2.0	2.7	5.5	-2.0	-8.7
7. Change in stock of non-deliverable FX forwards (ceiling) 4/ 6/	1.0		0.4	0.0		1.3
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	-78.0		-39.4
9. Central bank financing of the government (ceiling) 4/	0.0		0.0	0.0		0.0
Inflation Consultation Clause						
10. Inflation bands (in percent, y-o-y)						
Outer Band (upper)	32			32		
Inner Band (upper)	29			29		
Center inflation target	27		29.5	27		40.5
Inner Band (lower)	25			25		
Outer Band (lower)	22			22		
11. Change in net domestic assets of the central bank (ceiling) 8/ 9/	15.0	40.0	-98.0	64.0	251.2	441.7

1/ Targets as defined in the Technical Memorandum of Understanding (TMU) dated June 12, 2018.
2/ Based on program exchange rates defined in the TMU dated June 12, 2018.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on June 4, 2018.
7/ The change is measured against the value on end-May 2018, which stood at 2,204.4 billion pesos.
8/ The change is measured against the value on end-May 2018, which stood at AR$ 432.9 billion pesos.
9/ Targets subject to adjustors as defined in the TMU.

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

(In billions of Argentine pesos unless otherwise stated)

	2018				2019		
	end-Oct	end-Nov	end-Dec		end-Jan	end-Feb	end-Mar
	Proposed PC	IT	PC	Proposed Revised PC	IT	IT	Proposed PC
Fiscal targets							
Performance Criteria							
1. Primary balance of the federal government (floor) 3/ 9/	-290.0	n.a.	-362.5	-370.0	n.a.	n.a.	6.0
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	17.0	n.a.	21.6	24.4	n.a.	n.a.	30.0
4. Social assistance spending (floor) 3/	144.0	n.a.	177.5	173.0	n.a.	n.a.	60.0
Indicative targets							
5. Primary balance of the general government (floor) 3/ 9/	n.a.	n.a.	-382.4	-370.0	n.a.	n.a.	-14.0
Monetary targets							
Performance Criteria							
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	3.7	2.1	5.5	7.1	5.3	3.5	12.5
7. Change in stock of non-deliverable FX forwards (ceiling) 6/ 11/	0.0	0.0	-0.5	0.0	0.0	-0.7	-1.0
8. Change in central bank credit to government (ceiling) 7/	0.0	0.0	-156.0	0.0	0.0	0.0	0.0
9. Central bank financing of the government (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10. Change in net domestic assets of the central bank (ceiling) 8/ 9/	97.7	-55.7	166.0	-46.2	-112.1	-36.0	-185.6

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).
2/ Based on program exchange rates defined in the TMU.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on September 28, 2018.
7/ The change is measured against the value on September 28, 2018, which stood at 2,592.86 billion pesos.
8/ The change is measured against the average value for September 2018, which was AR$ 557 billion.
9/ Targets subject to adjustors as defined in the TMU.
10/ Increases reflect IMF budget support disbursements, which increase NIR.
11/ Continuous performance criterion until end-December 2018. Thereafter, this will become a quarterly performance criterion with indicative targets at end-January and end-February 2019.

Table 3. Argentina: Structural Program Conditionality

	Prior Actions	**Timing**	**Implementation status**
1	Present a 2019 budget to Congress targeting a zero primary balance and that includes details on the key policy measures that will be undertaken to achieve the 2019 primary balance objective, a statement of fiscal risks, an esimate of tax expenditures, and the elimination of article 27 of Law 11,672.	1st Review	Met
2	Submit to Congress legislation increasing the rate and base of the wealth tax (*Impusto sobre los Bienes Personales*).	1st Review	Met
	Structural Benchmarks	**Timing**	**Implementation status**
1	Publish a regulation to introduce a foreign exchange auction for BCRA intervention in the spot and forward markets.	Jun-2018	Met
2	Establish a senior-level debt management coordinating committee between Treasury-Finance-BCRA that would meet weekly and coordinate activities linked to sterilization and debt issuance plans.	Sep-2018	Not met. Implemented with one day delay.
3	Present a three-year budget document to Congress, with transparent medium-term objectives for the primary balance, that are consistent with the parameters of the program. The budget would include details on realistic and prudent macroeconomic assumptions underlying the medium-term budget.	Oct-2018	Proposed
4	Congress will pass the 2019 Budget targeting a zero primary balance.	Nov-2018	Proposed
5	Congress will pass the revenue legislation underpinning the 2019 fiscal plan, including the increase in rate and base of the wealth tax (Impueso sobre los Bienes Personales)	Nov-2018	Proposed
6	Provide sufficient resources to the newly created CBO (Oficina de Presupuesto del Congreso), so that it can effectively evaluate macroeconomic and budgetary forecasts (including those contained in the annual budget and MTFF), provide independent costing to Congress of new policy initiatives, assess the government's fiscal plans (including the annual budget), and monitoring public finances at the central level.	Dec-2018	
7	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Mar-2019	Proposed Change from Sep-2019 to Mar-2019
8	Submit to Congress a new charter for the central bank that will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability	Mar-2019	
9	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	
10	Recapitalize the central bank to ensure it has the adequate level of capital as percent of the monetary base plus the outstanding stock of LEBACs.	Dec-2019	

Attachment II. Technical Memorandum of Understanding

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

2. For program purposes, all foreign currency-related assets, liabilities and flows will be evaluated at "program exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. The program exchange rates are those that prevailed on September 28, 2018. Accordingly, the exchange rates for the purposes of the program are shown in Table 1.

Table 1. Argentina: Program Exchange Rates

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

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

3. Any variable that is mentioned herein for the purpose of monitoring a PC or IT and that is not explicitly defined, is defined in accordance with the Fund's standard statistical methodology, such as the Government Finance Statistics. For any variable or definition that is omitted from the TMU but is relevant for program targets, the authorities of Argentina shall consult with the staff on the appropriate treatment to reach an understanding based on the Fund's standard statistical methodology.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

4. **Definitions:** The Federal government (*Sector Público Nacional No Financiero*) for the purposes of the program consists of the central administration, the social security institutions, the

decentralized institutions (*Administración Nacional*), and PAMI, fiduciary funds, and other entities and enterprises of the federal government.

Cumulative Floor of the Federal Government Primary Balance

5. **Definitions:** The primary balance of the Federal government is defined in accordance with the monthly and annual reporting of the "*Esquema IMIG*". This is equivalent to total revenues (*ingresos totales*, according to "Esquema IMIG") minus primary spending (*gastos primarios*). Revenues are recorded on a cash basis and include tax revenues (*ingresos tributarios*), revenue income (*rentas de la propiedad*), other current revenues (*otros ingresos corrientes*), capital revenues (*ingresos de capital*), and imputed revenues associated with the 2008 nationalization of private pension assets. Revenues exclude financial transfers from the Central Bank (*Adelantos Transitorios*), interest income from intra-public sector holding of securities and debt obligations, and proceeds from the sale of other financial assets. Profit transfers from the central bank would, however, be regarded as revenues for program purposes.

6. Federal government primary expenditure is recorded on a cash basis and includes spending on social protection (*prestaciones sociales*), economic subsidies (*subsidios económicos*), operational expenses (*gastos de funcionamiento*), current transfers to provinces (*transferencias corrientes a provincias*), other current spending (*otros gastos corrientes*), and capital spending (*gastos de capital*), which includes capital transfers to provinces, and capital spending on *Programa de Inversiones Prioritarias* currently recorded under "*Adelantos a Proveedores y Contratistas*".

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

that is 20 years. The limit on the amount to be recognized as revenue shall be 0.4 percent of GDP per year.

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

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

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

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

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

Floor on Federal Government Spending on Social Assistance Programs

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

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

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

- *Asignaciones Familiares Activos*, which includes the *Asignación Prenatal, por Adopción, por Hijo, por Hijo Discapacitado, por Maternidad, por Matrimonio, por Nacimiento,* and the *Ayuda Escolar Anual.*

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

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

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

15. **Adjustor to the primary balance for social spending**: The floor on the primary balance of the federal government (cumulative since the beginning of the year) would be adjusted downward by an amount equivalent to the amount that expenditures, measured on a cash basis, in the Universal Allowances for Social Protection programs (*Asignación Universal para Protección Social*, which includes the *Asignación Universal por Hijo*, the *Asignación por Embarazo*, and the *Ayuda Escolar Anual*) exceed the programmed values defined in Table 2. The value of the adjustor would be capped at 13,500 million pesos in 2018, 35,800 million pesos in 2019, and the peso equivalent of 0.2 percent of GDP in each successive calendar year.

Table 2. Argentina: Social Spending Subject to Adverse Economic
(program baseline)

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

1/ Cumulative from January 1 of each year.

16. **Adjustor for external financing projects:** The floor on the primary balance of the federal government (cumulative since the beginning of the year) will be adjusted up (down) by the shortfall (excess) in the expenditure, measured on a cash basis, financed by disbursements of external project loans by International Financial Institutions and bilateral partners, compared to the capital

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

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

1/ Cumulative from January 1 of each year.

expenditures settled in the budget (Table 3). The value of the adjustor would be capped at cumulative 30,000 million pesos in 2018, 35,800 million pesos in 2019, and 0.2 percent of GDP in each successive calendar year. Starting in 2019 the benchmark will be the expenditure financed by disbursements of external project loans by IFIs and bilateral partners, as stated in the budget.

Ceiling on Federal Government Accumulation of Domestic Arrears

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

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

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

Federal Government Non-Accumulation of External Debt Payments Arrears

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

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

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

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

20. **Definition of external arrears:** External debt payment arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after May 30, 2018 that have not been paid, considering the grace periods specified in contractual agreements. Under the definition of debt set out above, arrears, penalties and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt.

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

Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

21. **Coverage:** This performance criterion covers the federal government. This performance criterion does not cover (i) arrears on trade credits, (ii) arrears on debt subject to renegotiation or restructuring; and (iii) arrears resulting from the nonpayment of commercial claims that are the subject of any litigation initiated prior to May 30, 2018.

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

Floor on the Change in Non-Borrowed Net International Reserves

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

24. **Definition:** The foreign exchange auction is a mechanism through which the BCRA sells US dollars to banks in exchange for Argentine pesos. All banks in Argentina can participate in the auction. Bids are allotted solely based on the rate proposed by the counterparties, starting from highest peso per US dollar rate until the pre-announced amount is exhausted. The auction weighted average rate, marginal rate, total bid amount, and the final allotment are published within one hour after the auction allotment.

25. **Gross official reserves** are defined consistently with the Sixth Edition of the Balance of Payments Manual and International Investment Position Manual (BPM6) as readily available claims on nonresidents denominated in foreign convertible currencies. They include the (i) monetary claims, (ii) free gold, (iii) holdings of SDRs, (iv) the reserve position in the IMF, and (v) holdings of fixed income instruments. Excluded from reserve assets are any assets that are pledged, collateralized or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency vis-à-vis domestic currency (such as futures, forwards, swaps and options), precious metals other than gold, assets in nonconvertible currencies and illiquid assets.

26. **Gross official liabilities** in foreign currencies include (i) all borrowed reserves, including foreign currency swaps, loans, and repo operations with all counterparties (domestic and foreign), regardless of maturity, ii) other foreign currency liabilities including deposits of financial institutions, (ii) the use of Fund resources for Balance of Payments support extended in the context of the exceptional financing package, (iii) any deliverable forward foreign exchange (FX) liabilities on a net

basis—defined as the long position minus the short position payable in foreign currencies directly undertaken by the BCRA or by any other financial institutions on behalf of the BCRA. The Federal government's FX deposits at the BCRA are not considered gross foreign liabilities of the BCRA.

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

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

29. **Adjustors**:

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

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

Cumulative flows from end-September 2018	(In millions of US$)
Budget support loans from IMF	
end-October 2018	5,752
end-November 2018	5,752
end-December 2018	13,469
end-January 2019	13,469
end-February 2019	13,469
end-March 2019	24,412
Budget support loans from other multilateral sources	
end-October 2018	0
end-November 2018	1,000
end-December 2018	2,000
end-January 2019	2,000
end-February 2019	2,000
end-March 2019	2,000

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

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

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

- **Intervention rule:** The BCRA will have the option to sell U.S. dollars in the foreign exchange market only if the peso depreciates beyond the rate of 44 pesos per U.S. dollar and to buy U.S. dollars in the foreign exchange market only if the peso appreciates below the rate of 34 pesos per U.S. dollar. These limits will be adjusted daily by a 3 percent monthly growth until December 2018, starting on October 1, 2018. Beyond that point, the BCRA could decide (but is not committed) to sell or buy up to US$150 million per day as long as the exchange rate remains outside of this band. The limits above will be increased each calendar day by 0.10 percent until the end of 2018. All foreign exchange sales and purchases are expected to be unsterilized. As such, the decrease (increase) in NIR will be matched by a decrease (increase) in the monetary base equal to the peso equivalent of the foreign exchange sales, with the stock of sterilization instruments remaining unchanged.

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

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

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

Table 5. Argentina: Proceeds from FX Debt Issuances
(Baseline Projection)

Cumulative flows from end-September 2018	(In millions of US$)
end-October 2018	910
end-November 2018	2,588
end-December 2018	4,619
end-January 2019	5,485
end-February 2019	6,350
end-March 2019	7,216

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

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

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

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

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

Continuous Stop to BCRA's Financing of the Government

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

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

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

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

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

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

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

40. **Clarification:** All foreign exchange sales and purchases are expected to be unsterilized, meaning that the decrease (increase) in NIR will be matched by a decrease (increase) in the monetary base equal to the peso equivalent of the foreign exchange sales, while the stock of sterilization instruments should remain unchanged.

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

Ceiling on Central Bank Credit to the Government

42. **Definitions.** Central bank (BCRA) credit to the government is defined as the sum of the stock of government securities held by the BCRA (line *Títulos Públicos* in the summary account of the BCRA, as published on its web site) and overdraft transfers from the BCRA to the Federal Government (line *Adelantos Transitorios* in the summary account of the BCRA, as published on its

web site). Any decrease in the claim shall reflect cash payments of this amount in pesos by the Treasury to the BCRA; variation in the value of the claim due to changes in exchange rates or accounting practices are excluded.

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

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

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

Cumulative Floor on Primary Balance of the General Government

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

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

47. **Adjustor to the primary balance for social spending:** The floor on the primary balance of the general government (cumulative since the beginning of the year) would be adjusted downward by an amount equivalent to the amount that expenditures, measured on a cash basis, in the Universal Allowances for Social Protection programs (*Asignación Universal para Protección Socia*l, which includes the *Asignación Universal por Hijo*, the *Asignación por Embarazo*, and the *Ayuda Escolar Anual*) exceed the programmed values defined in Table 2. The value of the adjustor would be capped at 13,500 million of pesos in 2018, 35,800 million pesos in 2019, and 0.2 percent of GDP in each successive calendar year.

48. **Adjustor for external financing projects:** The floor on the primary balance of the general government (cumulative since the beginning of the year) will be adjusted up (down) by the shortfall (excess) in the expenditure, measured on a cash basis, financed by disbursements of external project

loans by International Financial Institutions and bilateral partners, compared to the capital expenditures settled in the budget (Table 3). The value of the adjustor would be capped at cumulative 30,000 million pesos in 2018, 35,800 million pesos in 2019, and 0.2 percent of GDP in each successive calendar year. Starting in 2019 the benchmark will be the expenditure financed by disbursements of external project loans by IFIs and bilateral partners, as stated in the budget.

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

PERFORMANCE CRITERION ON THE INTRODUCTION OR MODIFICATION OF MULTIPLE CURRENCY PRACTICES

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

FX INTERVENTION

BCRA's and the Federal Government's Foreign Currency Sales in Both Spot and Deliverable Forwards Markets

51. **Definitions.** Foreign exchange interventions are defined as spot and deliverable foreign currency sales by the BCRA either directly or through any institution they use as their financial agent.

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

OTHER INFORMATION REQUIREMENTS

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

A. Daily

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

- Individual banks' gross foreign exchange positions by currencies.
- Individual banks' foreign currency accounts with the BCRA.

B. Weekly

- BCRA balance sheet.
- Daily balances of all bank accounts of the national treasury.
- Analysis on the use of IMF budget support in accordance with the Memorandum of Understanding between the Treasury and the BCRA.
- FX operations of Banco Nacion on a weekly basis.

C. Monthly

- Federal government operations including monthly cash flow from the beginning to the end of the current fiscal year (and backward revisions as necessary), with a lag of no more than 25 days after the closing of each month, according to both the format of the *Informe Mensual de Ingresos y Gastos* (IMIG) and to the format of the *Cuenta Ahorro Inversion Financiamiento* (AIF). On Federal and Provincial Debt:
    - The expected monthly federal government and provincial government debt amortization and repayments (local currency and FX bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans). This would include both direct and guaranteed debt. In the case of issuance of government guaranteed debt, include the name of the guaranteed individual/institution.
    - Federal government and provincial government debt stock by currency, as at end month, including by (i) creditor (official, commercial domestic, commercial external; (ii) instrument (local currency and FX denominated bonds, treasury bills, Eurobonds, domestic loans, external commercial and external official loans); and (iii) direct and guaranteed.
- The balances of the (federal) government at the central bank and in the commercial banking system needed to determine the cash position of the (federal) government.

- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.

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

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

ARGENTINA

ASSESSMENT OF THE RISKS TO THE FUND AND THE FUND'S LIQUIDITY POSITION: UPDATE

October 19, 2018

EXECUTIVE SUMMARY

This note updates the assessment in Supplement to the Staff Report for the program request in June, of the risks to the Fund and its liquidity position from Argentina's Stand-By Arrangement with the Fund. The update reflects also the main economic developments since the approval of the SBA in June, including weaker-than-expected macroeconomic conditions, the larger deprecation of the peso, and the resulting worsening of Argentina's debt and debt service indicators. Against this background, the authorities no longer intend to treat the arrangement as precautionary.

Overall, staff assesses that the proposed augmented arrangement will further increase the Fund's elevated credit exposure to Argentina and continue to have a significant though manageable impact on the Fund's liquidity. These risks are significant even by the standards of other large exceptional access cases. Managing these risks will crucially depend on steadfast delivery of program commitments and successful program implementation.

Approved By
Andrew Tweedie and Zuzana Murgasova

Prepared by the Finance and Strategy, Policy, and Review Departments.

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INTRODUCTION

1. **This note updates the assessment of risks to the Fund arising from the Stand-By Arrangement (SBA) for Argentina and its effects on the Fund's liquidity, in light of the proposed augmentation and rephasing.**[1] On June 20, 2018, the Executive Board approved Argentina's request for a 36-month SBA with access equivalent to SDR 35.379 billion (1,110 percent of quota). Under the arrangement, access was significantly frontloaded, with a first purchase equivalent to SDR 10.614 billion (333 percent of quota) available upon approval. The authorities made the first purchase, using one-half of the available Fund resources (SDR 5.307 billion) for budgetary support, and intended to treat the remainder of the arrangement as precautionary, with 12 equal quarterly installments (Table 1). Under the proposed augmentation and rephasing of access the arrangement would become more frontloaded. The first purchase would be followed by two additional purchases in 2018 for a total amount of SDR 9.6 billion (301 percent of quota), four purchases in 2019 for a total amount of SDR 16.3 billion (511 percent of quota), and six equal disbursements over the remainder of the program of SDR 0.7 billion (22 percent of quota) each. Total access would increase to SDR 40.714 billion (1,277 percent of quota), and the authorities would no longer intend to treat the arrangement as precautionary.

Table 1. Argentina: SBA—Access and Phasing

		Original Amounts			Proposed Augmentation and Rephasing		
			Percent of quota			Percent of quota	
Availability	Date 1/	SDR millions	Purchase	Cumulative	SDR millions	Purchase	Cumulative
2018	June	10,613.71	333.0	333.0	10,613.71	333.0	333.0
	September	2,063.78	64.8	397.8			
	October				4,100.00	128.6	461.6
	December	2,063.78	64.8	462.5	5,500.00	172.6	634.2
2019	March	2,063.78	64.8	527.3	7,800.00	244.7	878.9
	June	2,063.78	64.8	592.0	3,900.00	122.4	1001.3
	September	2,063.78	64.8	656.8	3,900.00	122.4	1123.6
	December	2,063.78	64.8	721.5	700.04	22.0	1145.6
2020	March	2,063.78	64.8	786.3	700.04	22.0	1167.6
	June	2,063.78	64.8	851.0	700.04	22.0	1189.5
	September	2,063.78	64.8	915.8	700.04	22.0	1211.5
	December	2,063.78	64.8	980.5	700.04	22.0	1233.5
2021	March	2,063.78	64.8	1045.3	700.04	22.0	1255.4
	June	2,063.71	64.7	1110.0	700.05	22.0	1277.4
	Total	35,379.0	1,110.0		40,714.0	1,277.4	

Source: Finance Department

1/ After approval of the arrangement, all subsequent purchases will depend on the completion of a review and compliance with performance criteria and consultation clause to be established under the arrangement.

[1] For the initial assessment see *Argentina - Assessment of the Risks to the Fund and the Fund's Liquidity Position* (6/15/18) and the relevant policy on exceptional access see paragraph 5 of Decision No 14064-(08/18), adopted 2/22/2008, as amended, and The Acting Chair's Summing Up of the Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy (3/5/03).

2. The update focuses on major changes since the approval of the original SBA and their impact on the risks to the Fund and to its liquidity position. The note covers first recent economic developments that have a major bearing on the risks to Fund finances. This is followed by an update of the risks to the Fund and its liquidity position, including the impact of the proposed SBA augmentation and rephasing. The final section provides an updated staff assessment.

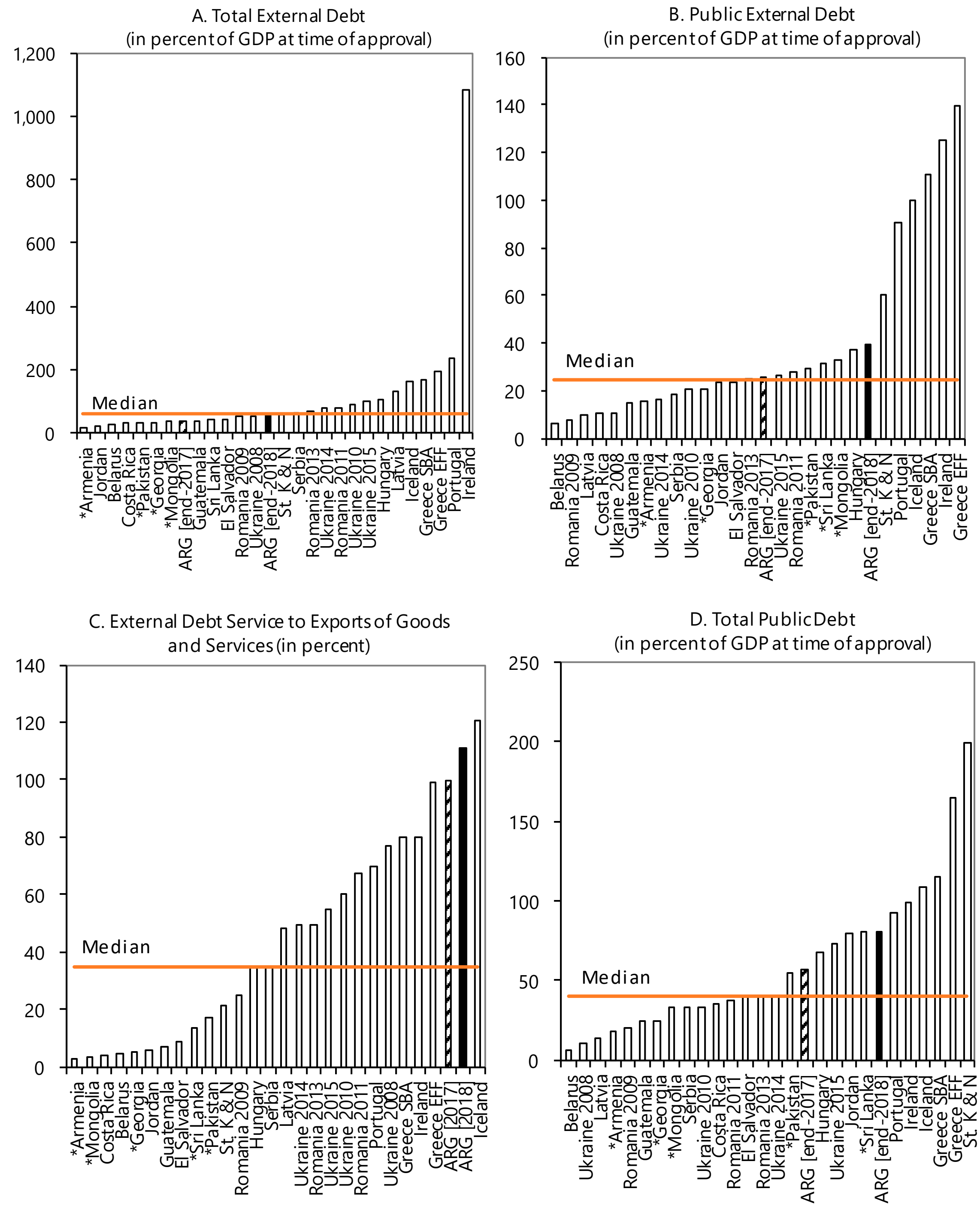
AUGMENTATION AND REPHASING OF THE STAND-BY ARRANGEMENT—RECENT DEVELOPMENTS, AND IMPACT ON FUND'S FINANCES

A. Recent Developments

3. Since Board approval of the SBA in June, macroeconomic conditions in Argentina have deteriorated. As discussed in more detail in the staff report, the recession is now likely to be deeper and more prolonged, and GDP growth for 2018 and 2019 have been revised down by 3.2 percentage points in each year compared to growth forecasts at the SBA approval. Amid an erosion of market confidence, the peso has depreciated much more than originally expected, and the real effective exchange rate is now expected to decline by well over 30 percent in 2018, almost twice the rate assumed at the time of the SBA approval. Market interest rates have also risen sharply since June.

4. Reflecting mainly the larger-than-anticipated depreciation and the high share of FX denominated debt, Argentina's debt and debt service ratios have increased markedly. For example, public debt is expected to exceed 80 percent of GDP by end-2018 (versus 65 percent at SBA approval), putting Argentina at twice the median of recent exceptional access cases (Figure 1). The changes in macroeconomic conditions have also resulted in a considerable rise in debt service payments. Total external debt service for 2018 is now expected to reach around 17 percent of GDP (versus 16 percent at SBA approval) and exceed exports of goods and services in 2018, the second highest level by this metric after Iceland among recent exceptional access cases.

Figure 1. Debt Ratios for Recent Exceptional Access Arrangements[1/ 2/]



Source: Argentine Authorities and IMF staff estimates
1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. For Argentina, ratios reflect end-2018 data.
2/ Asterisks indicate PRGT-eligible countries at the time of the program.

B. Risks to the Fund

5. With access under the SBA as approved in June already among the highest on a number of indicators, the proposed augmentation, rephasing, and Argentina's intention to purchase the full amount of available Fund financing, would increase exposures further. The peak Fund exposure in percent of gross international reserves, and peak debt service to the Fund and total external debt service as a share of exports would be the highest among recent exceptional access cases.

- The initial SBA was the largest arrangement in nominal terms in the Fund's history, excluding arrangements under the Flexible Credit Line (FCL), and Argentina became the Fund's largest borrower, with 22 percent of total Fund credit outstanding, upon approval of the arrangement.

- At the program request, the authorities intended to draw only the first tranche and treat the remaining access under the program as precautionary. With the increased financing needs under the revised macroeconomic framework, the authorities now request the full amount of access under the revised SBA to be made available as budget support.

- If all purchases were made according to the proposed revised schedule, Argentina's outstanding use of GRA resources would rise to 634 percent of quota at end-December 2018 (463 percent of quota under the initial schedule) and 1,146 percent of quota at end-December 2019 (722 percent of quota under the initial schedule). It would peak at 1,277 percent of quota in June 2021 (Figure 2). This level of access relative to quota would be more than 50 percent above the median of peaks in recent exceptional access cases. It would, however, be below recent exceptional access peaks in arrangements with euro area members (Greece, Ireland, Portugal).

- If all purchases were made in accordance with the proposed schedule, peak Fund exposure to Argentina would exceed across a range of indicators the corresponding medians in recent exceptional access cases. Fund exposure would peak around the projected level of gross international reserves, which is the highest among recent exceptional access cases and well above twice the median peak of recent exceptional access cases.[2] As a share of total external debt, peak Fund exposure would be 20 percent, compared with the median peak of recent exceptional access cases of 11 percent. As a share of GDP, peak Fund exposure would be 11.4 percent, compared with the median of 10.7 percent (Table 2 and Figure 3).

- If all purchases were made in accordance with the proposed schedule, projected payment obligations to the Fund would peak in 2023 at SDR 16.9 billion and reach around one-third of projected gross international reserves over two consecutive years. Debt service to the Fund as a share of exports of goods and services would peak at about 26 percent, three and a half times

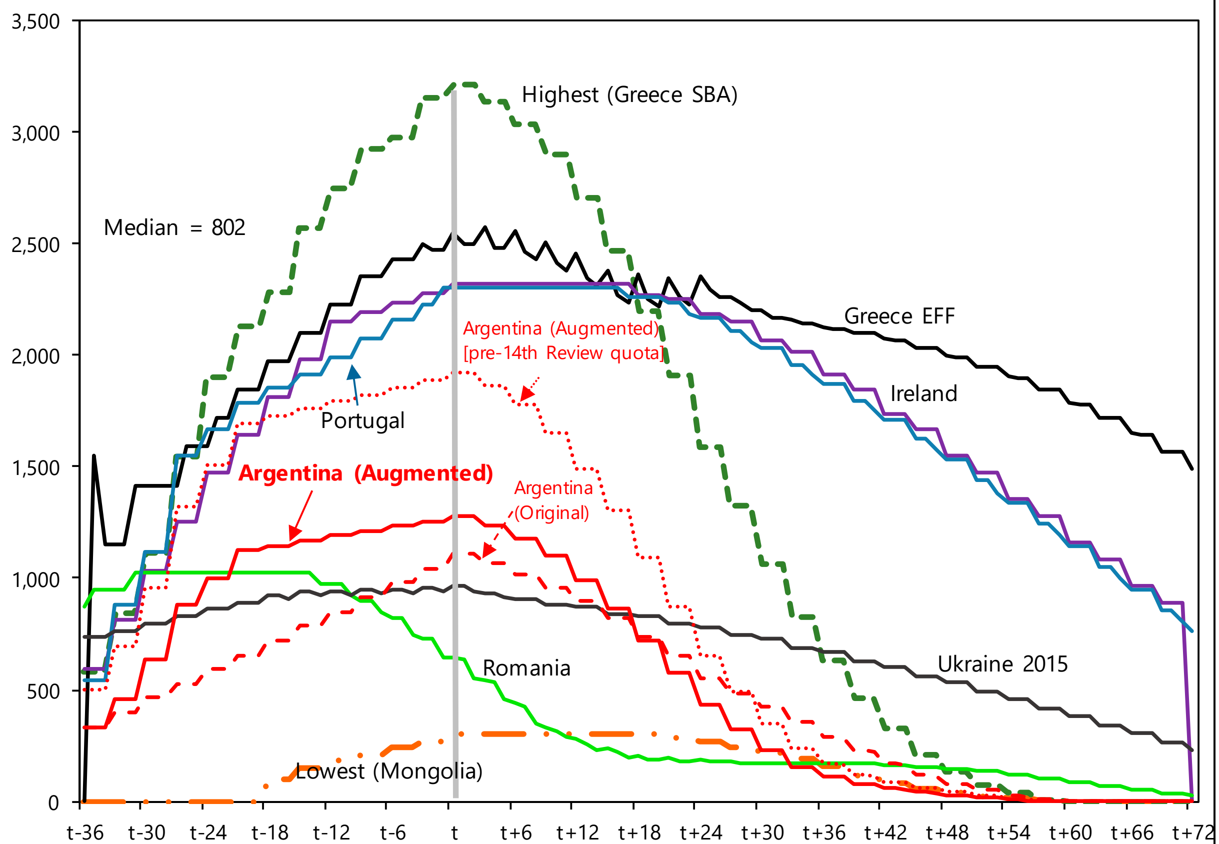
[2] Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

the median peak level for recent exceptional access cases. Total external debt service is projected to peak at almost twice the level of projected exports of goods and services. Both these ratios as a share of exports are the highest among recent exceptional access cases (Table 2 and Figure 3).

Figure 2. Credit Outstanding in the GRA Around Peak Borrowing[1/]

(In percent of quota)

Selected Exceptional Access Cases since September 2008 [2/]

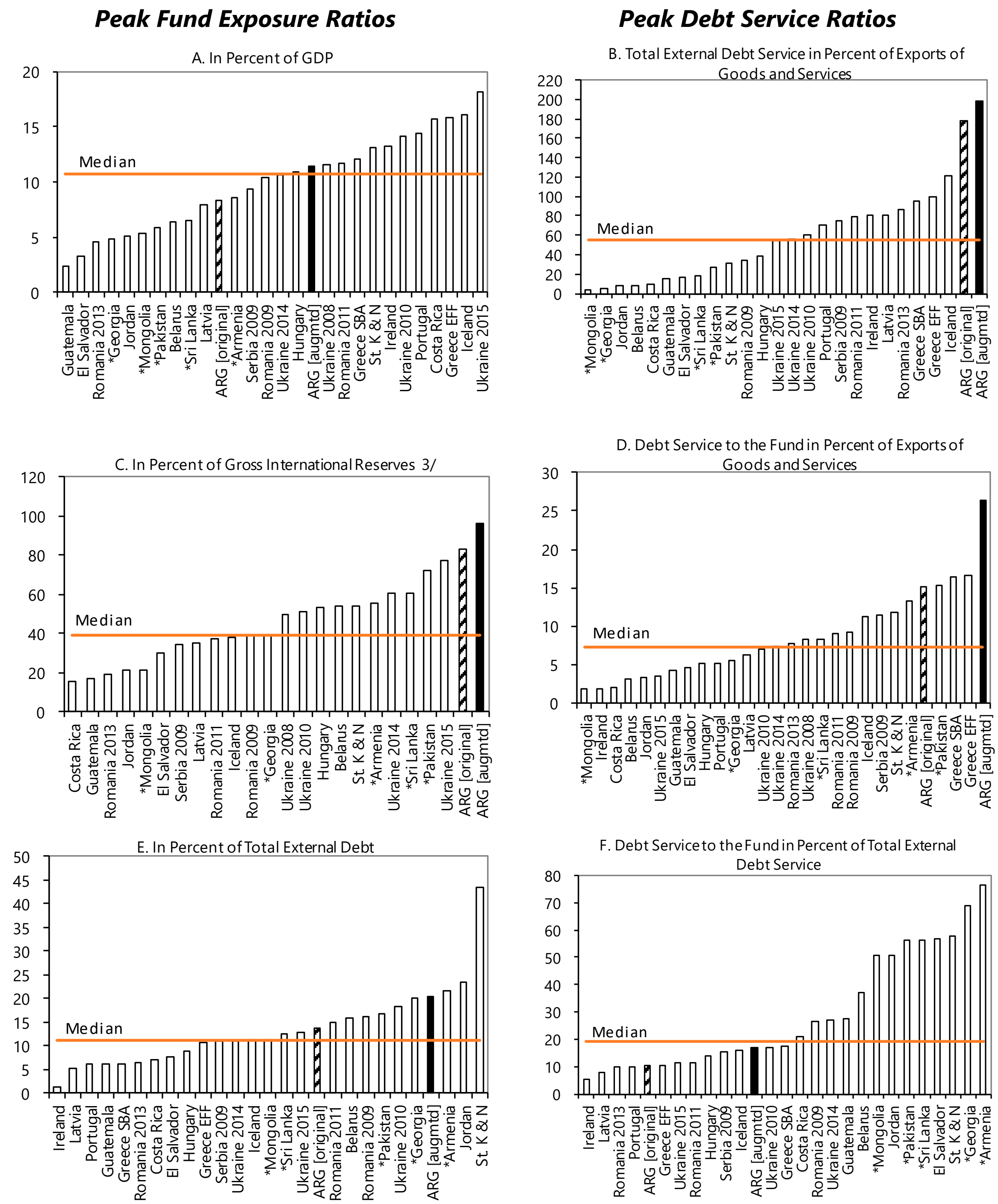


Source: Finance Department and IMF staff estimates.

1/ Peak borrowing "t" is defined as the highest level of credit outstanding for a member. Repurchases are assumed to be on an obligations basis.

2/ Based on quotas at the time of approval, i.e., pre-14th Review quotas for all countries except Argentina. Median credit outstanding at peak is 802 percent of quota; average is 1,048 percent of quota.

Figure 3. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases[1/ 2/]



Source: Argentine authorities and IMF staff estimates, and World Economic Outlook.

1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008.
2/ Asterisks indicate PRGT-eligible countries at the time of the program.
3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.

Table 2. Argentina: Capacity to Repay Indicators[1/]

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Exposure and Repayments (In SDR millions)									
GRA credit to Argentina	20,213.7	36,513.8	39,313.9	38,060.6	23,566.2	7,437.7	1,837.6	262.5	0.0
(In percent of quota)	(634.2)	(1,145.6)	(1,233.5)	(1,194.1)	(739.4)	(233.4)	(57.7)	(8.2)	(0.0)
Charges due on GRA credit 2/	214.0	1,021.0	1,384.2	1,603.9	1,553.7	760.9	138.4	27.0	2.8
Debt service due on GRA credit 3/	214.0	1,021.0	1,384.2	4,257.3	16,048.0	16,889.4	5,738.6	1,602.1	265.3
Debt and Debt Service Ratios 4/									
In percent of GDP									
Total external debt	56.1	60.1	55.4	52.8	49.0	45.2	41.8	38.7	35.8
External debt, public	39.7	41.2	36.9	34.1	30.1	25.7	22.3	19.2	16.6
GRA credit to Argentina	5.9	11.4	11.2	10.1	5.8	1.7	0.4	0.1	0.0
Total external debt service	16.9	20.4	21.3	22.4	23.7	24.6	25.8	26.9	28.1
Public external debt service	9.0	10.9	11.4	12.0	12.7	13.1	13.8	14.4	15.0
Debt service due on GRA credit	0.1	0.3	0.4	1.1	4.0	3.9	1.2	0.3	0.1
In percent of Gross International Reserves									
Total external debt	482.4	506.6	463.0	433.8	408.5	380.1	355.8	332.1	310.4
External debt, public	342.0	347.1	308.3	280.4	250.5	216.0	189.6	164.9	144.1
GRA credit to Argentina	50.2	96.2	94.0	83.2	48.8	14.6	3.4	0.5	0.0
Debt service due on GRA credit	0.5	2.7	3.3	9.3	33.2	33.0	10.6	2.8	0.4
In percent of Exports of Goods and Services									
Total external debt service	111.3	121.4	133.1	144.9	157.1	165.2	176.3	186.8	198.7
Public external debt service	59.4	64.8	71.1	77.4	83.9	88.2	94.1	99.7	106.1
Debt service due on GRA credit	0.4	1.9	2.5	7.3	26.4	26.3	8.5	2.3	0.4
In percent of Total External Debt									
GRA credit to Argentina	10.4	19.0	20.3	19.2	11.9	3.8	1.0	0.1	0.0
In percent of Total External Debt Service									
Debt service due on GRA credit	0.4	1.6	1.9	5.0	16.8	15.9	4.8	1.2	0.2
In percent of Total Public External Debt									
GRA credit to Argentina	14.9	27.6	30.5	29.6	19.4	6.7	1.8	0.3	0.0
In percent of Total Public External Debt Service									
Debt service due on GRA credit	0.7	2.9	3.5	9.4	31.4	29.9	9.0	2.3	0.3

Source: Argentine authorities, Finance Department, and IMF staff estimates.

1/ Assumes full drawings and indicators based on the adverse macroeconomic scenario presented in the staff report.

2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges. Of the 2018 figure, SDR 127.1 million is for the period subsequent to the Executive Board discussion of the staff report for the proposed augmentation of the SBA.

3/ Includes charges due on GRA credit and repurchases. Of the 2018 figure, SDR 127.1 million is for period subsequent to the Executive Board discussion of the staff report for the proposed augmentation of the SBA.

4/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, are based on the staff report for the proposed augmentation of the SBA up to 2023 and extended to 2026.

C. Impact on the Fund's Liquidity Position and Risk Exposure

6. The SBA's significant impact on the Fund's liquidity and credit risk exposure would be further elevated under the proposed augmented and rephased arrangement.

- The initial arrangement reduced the Fund's forward commitment capacity (FCC) by 16.0 percent from SDR 222 billion to SDR 186 billion. The proposed augmentation would reduce the FCC by a further 2.8 percent from the current SDR 189 billion to SDR 184 billion (Table 3).

- After Argentina's scheduled first-review purchase, its share of outstanding GRA credit would increase from 21.8 percent to 27.9 percent. The share of the top five borrowers in total GRA credit would increase to 76.8 percent (Figure 4).

- After Argentina's scheduled second-review purchase in December 2018, GRA exposure to Argentina would exceed the Fund's precautionary balances (Table 3). If all purchases are made as scheduled, Fund exposure to Argentina as a share of the current level of precautionary balances would rise from 84.6 percent after the first program review to 210 percent by end-2019 (compared with 132 percent previously). It would peak at 234 percent in June 2021.

- Due to the proposed further substantial frontloading, Argentina's repurchase obligations would be more bunched than before. Repurchase obligations would amount to SDR 14.5 billion in 2022 and SDR 16 billion in 2023, representing more than 70 and 80 percent, respectively, of projected precautionary balances each year.[3] These amounts are well above peak repurchase obligations for other recent exceptional access cases (Figure 5).

- As with the initial SBA, the Fund's burden sharing mechanism would remain clearly insufficient were Argentina to accrue arrears on charges after drawings under the proposed augmented arrangement. In the current environment of relatively low interest rates, GRA charges for Argentina, which are projected at SDR 127 million for the remainder of 2018, and to average SDR 1,077 million a year over 2019–2024 if all purchases are made as scheduled, significantly exceed the Fund's limited current capacity to absorb charges in arrears through the burden sharing mechanism.

[3] For the purpose of the calculation, projections for precautionary balances are capped at the current Board approved medium term indicative target level of SDR 20 billion.

Table 3. Argentina: Impact on GRA Finances
(Millions of SDR unless otherwise noted)

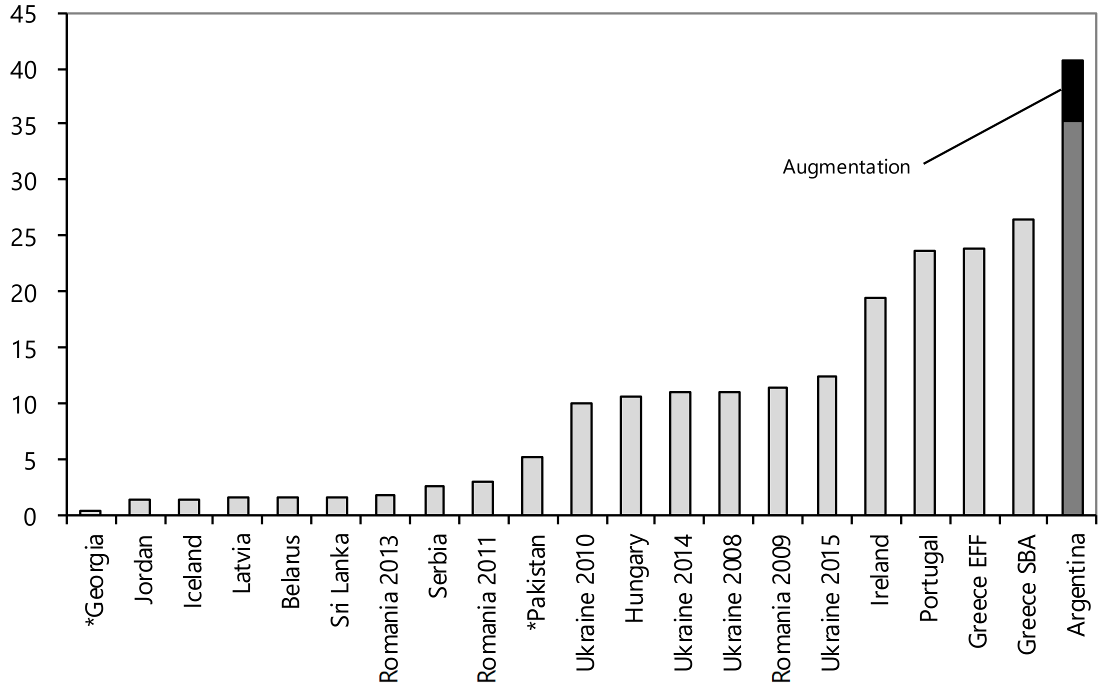
	As of 9/27/2018
Liquidity measures	
One-year Forward Commitment Capacity (FCC) at program approval 1/	221,590.8
Impact of the approval on the FCC 2/	-35,379.0
(in percent of one-year FCC at program approval)	-16.0
Current one-year Forward Commitment Capacity (FCC) 1/	189,161.7
Impact of the augmentation under the 1st review on the FCC 2/	-5,335.0
(in percent of current one-year FCC)	-2.8
Prudential measures	
Fund GRA credit outstanding to Argentina 3/	14,713.7
In percent of current precautionary balances	84.6
In percent of total GRA credit outstanding	27.9
Fund GRA credit outstanding to top five borrowers	
In percent of total GRA credit outstanding	74.8
In percent of total GRA credit outstanding including Argentina's first-review purchase	76.8
Argentina's annual GRA charges in percent of Fund's residual burden sharing capacity for 2018	89.4
Memorandum items	
Fund's precautionary balances (FY 2018)	17,400
Fund's residual burden-sharing capacity 4/	142.1

Sources: Argentine authorities, Finance Department, and IMF staff estimates.

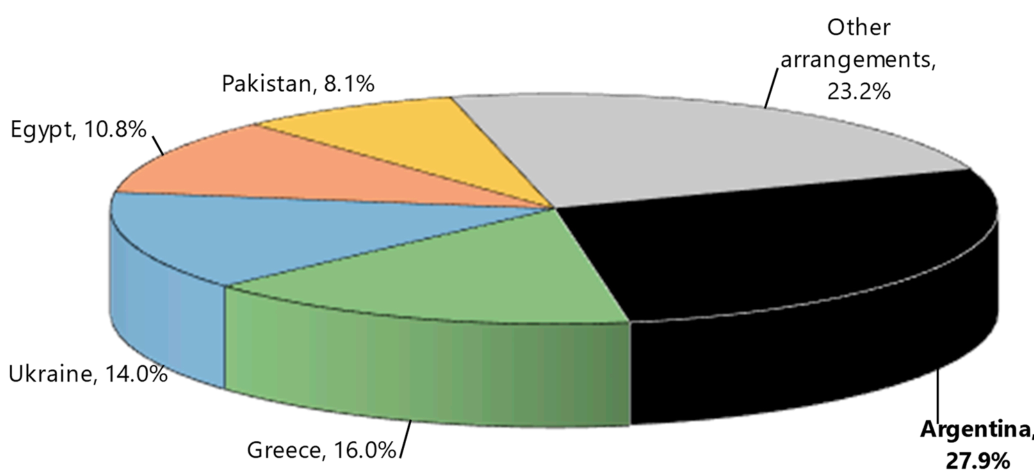
1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC is currently not including resources under the New Arrangements to Borrow for new commitments or resources under 2016 Bilateral Borrowings Agreements.
2/ A single country's negative impact on the FCC is defined as the country's sum of Fund credit and undrawn commitments minus repurchases one-year forward.
3/ Projected credit outstanding for Argentina at the time of completion of the first review, which includes the scheduled second purchase under the proposed augmented arrangement.
4/ Burden-sharing capacity is calculated based on the floor for remuneration which, under current policies, is 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges.

Figure 4. Exceptional Access Levels and Credit Concentration

A. Total Access of Recent Exceptional Access Arrangements 1/
(In billions of SDRs)



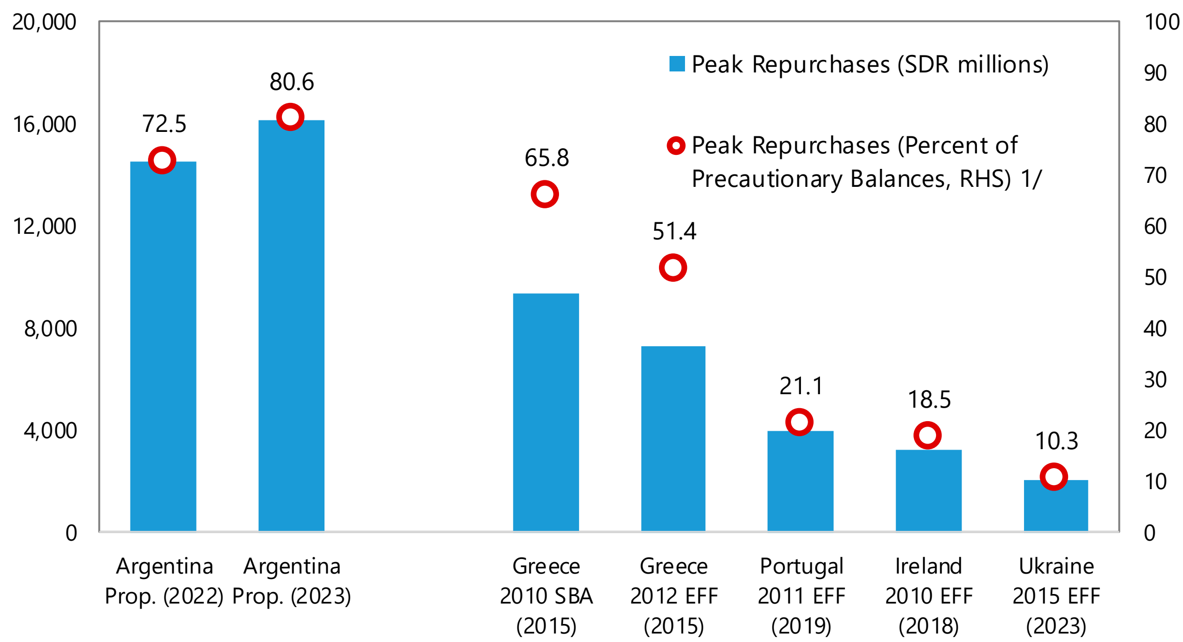
B. Credit Concentration of Fund GRA Exposure 2/
(As a percentage of total credit outstanding)



Source: Finance Department.

1/ Does not include FCL arrangements as well as arrangements with relatively low access in SDRs. Asterisks indicate countries that were PRGT-Eligible at the time of approval.
2/ Total credit outstanding refers to credit outstanding as of September 27, 2018 plus Argentina's second purchase under the proposed augmented arrangement.

Figure 5. Comparison of Peak Repurchases



Source: Finance Department.
1/ Projection for FY 2019 - 2023, capped at Board approved indicative medium-term target of SDR 20 billion.

ASSESSMENT

7. The proposed augmented arrangement will further increase the Fund's elevated credit exposure to Argentina and continue to have a significant though manageable impact on the Fund's liquidity. The risks for the Fund and the Fund's liquidity position are significant even by the standards of other large exceptional access cases. Staff's assessment remains that managing associated risks will crucially depend on steadfast delivery of program commitments and successful program implementation.

- As highlighted in the staff report and in the debt sustainability analysis, the program faces substantial risks, and gross financing needs and debt vulnerabilities are expected to remain high.

- With the proposed revised access and schedule of purchases and repurchases, the Fund would be highly exposed to Argentina for an extended period in terms of both the stock of outstanding credit and debt service falling due. Some indicators on Fund exposure and debt service, including the peak Fund exposure in percent of the gross international reserves, and peak debt service to the Fund and total external debt service as a share of exports would be the highest among recent exceptional access cases.

- Steadfast program implementation will be crucial for containing these risks. This will also depend on the authorities' ability to garner broad political support and their readiness to recalibrate their policies in reaction to potential adverse shocks. Also, if financing conditions do not improve as assumed in the revised program, even the proposed increase and front-loading of Fund resources would be unable to fully finance the balance of payments and fiscal needs. Stabilizing the economy and regaining sustained meaningful market access and financing from other official lenders during the program period and beyond will remain key to reduce financial risks to the Fund arising from the proposed augmented arrangement.

- The proposed augmented arrangement will continue to pose significant risks to the Fund and the augmentation would further increase the impact on the Fund's liquidity, but its effect remains manageable. While the Fund's liquidity position would remain adequate, rising uncertainties in the global economy could result in further demands for Fund resources and warrant a close monitoring of the Fund's liquidity position.

ARGENTINA

October 24, 2018

FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT; INFLATION CONSULTATION; FINANCING ASSURANCES REVIEW; AND REQUESTS FOR REPHASING, AUGMENTATION, WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION AND INFLATION CONSULTATION LETTER

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

Prepared by the Argentina team.

1. This supplement provides additional information that has become available since the Staff Report (EBS/18/92) was circulated to the Executive Board on October 18, 2018. The information does not alter the thrust of the staff appraisal.

2. All fiscal quantitative performance criteria for end-September were met. The primary deficit reached 1.3 percent of GDP, 0.6 percent of GDP above the floor, as revenue remain buoyant and spending has been cut 7 percent in real terms. Social spending was above the floor, as the authorities increased transfers to recipients of the Universal Child Allowance, a program targeted to the most vulnerable households (this also triggered the adjustor of the primary balance floor). The quantitative performance criterion on the accumulation of domestic arrears also was met. Therefore, the waivers of applicability for these targets that had been requested in the original staff report are no longer being requested.

3. Monetary conditions have tightened markedly following the shift to zero growth in base money. The BCRA is on track to achieve zero growth in the monetary base for October but the tightening of liquidity conditions has required a sharp increase in the 7-day LELIQ rate, whose weighted average rate is now at 71.4 percent but reached 73.5 percent in mid-October, 1200 basis points higher than at end-September. The peso has remained within the BCRA's zone of non-intervention, appreciating by about 10 percent since the beginning of October.

4. The BCRA continued its LEBAC retirement plan. AR$150 billion of the AR$255 billion in LEBACs coming due in October were rolled off with new, 1-month LEBACs issued at 57 percent. On the settlement date of the LEBAC, the Treasury issued peso LECAP with a maturity of 6 and 12 months. AR$ 75 billion pesos were issued, almost equally distributed across the two maturities. So far, the injection of liquidity from the reduction in BCRA liabilities has not translated into pressure on the currency (as in previous months) with much of the liquidity being re-intermediated into bank deposits and absorbed through an increased issuance of LELIQs. AR$160 billion in LEBACs, mostly held by mutual funds, will mature on November 21.

5. A letter from the BCRA is attached to this supplement. As stated in the Staff Report, the end-September y/y inflation breached the outer band of the inflation consultation clause. In line with the inflation consultation clause approved by the Board on June 20, 2018, the BCRA has provided a letter explaining the inflation deviation and its policy response.

Table 1. Argentina: Quantitative Performance Criteria, Indicative Targets, and Consultation Clauses - Outturns 1/2/

(In billions of Argentine pesos unless otherwise stated)

	2018					
	end-Jun			end-Sep		
	PC	Adjusted PC	Actual	PC	Adjusted PC	Actual
Fiscal targets						
Performance Criteria						
1. Primary balance of the federal government (floor) 3/ 9/	-148.0	-155.1	-122.6	-256.0	-273.0	-181.2
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0		0.0	0.0		0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	8.2		-1.9	14.9		-3.3
4. Social assistance spending (floor) 3/	87.7		87.7	131.1		133.9
Indicative targets						
5. Primary balance of the general government (floor) 3/ 9/	-163.0		-47.9	-272.0		n.a.
Monetary targets						
Performance Criteria						
6. Change in net international reserves (floor) 6/ 9/	5.5	2.0	2.7	5.5	-2.0	-8.7
7. Change in stock of non-deliverable FX forwards (ceiling) 4/ 6/	1.0		0.4	0.0		1.3
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	-78.0		-39.4
9. Central bank financing of the government (ceiling) 4/	0.0		0.0	0.0		0.0
Inflation Consultation Clause						
10. Inflation bands (in percent, y-o-y)						
Outer Band (upper)	32			32		
Inner Band (upper)	29			29		
Center inflation target	27		29.5	27		40.5
Inner Band (lower)	25			25		
Outer Band (lower)	22			22		
11. Change in net domestic assets of the central bank (ceiling) 8/ 9/	15.0	40.0	-98.0	64.0	251.2	441.7

1/ Targets as defined in the Technical Memorandum of Understanding (TMU) dated June 12, 2018.
2/ Based on program exchange rates defined in the TMU dated June 12, 2018.
3/ Cumulative flows from January 1 through December 31.
4/ Continuous performance criterion.
5/ The accumulation is measured against the average during Q4 2017, which stood at 45.6 billion pesos.
6/ In billions of U.S. dollars. The change is measured against the value on June 4, 2018.
7/ The change is measured against the value on end-May 2018, which stood at 2,204.4 billion pesos.
8/ The change is measured against the value on end-May 2018, which stood at AR$ 432.9 billion pesos.
9/ Targets subject to adjustors as defined in the TMU.

Attachment I. Inflation Consultation Clause

Madame Christine Lagarde
Managing Director
International Monetary Fund

October 24, 2018

Dear Madame Lagarde,

In September 2018, CPI inflation rose to an annual rate of 40.5 percent, breaching the upper limit of the inflation consultation clause's (ICC) band (32 percent) agreed under the original SBA by over 8 percentage points. This letter explains the drivers of the recent acceleration of inflation that has caused the breach of the inflation consultation band agreed under the SBA. It then describes the policy response that has been deployed by the BCRA to revert the acceleration of inflation, including the change to a new monetary policy framework implemented on October 1.

Recent Drivers of Inflation

1. Stubbornly high inflation was one of the key macroeconomic imbalances that Argentina's SBA-supported program set out to correct. In continuity with the inflation targeting framework that had been operating for two years, disinflation was incorporated into program conditionality through an ICC band that was centered slightly below the market's expectations for inflation that prevailed at the time of the staff-level agreement. These targets were ambitious and would have required maintaining tight monetary policy even in a context of external stability.

2. Since June, headline and core inflation accelerated substantially higher than anticipated under the program. This primarily reflected the pass-through from the depreciation of the peso to domestic prices, after the peso fell significantly in nominal termsbetween June and August. A consequence of this unexpected rise in inflation is that the stance of monetary policy has been difficult to assess in real time, with *ex ante* real interest rates appearing elevated, only to have them turn negative *ex post*.

3. Despite these developments, reforms under the program have eliminated important factors that had contributed to high structural inflation in the past. Monetary financing of the fiscal deficit was discontinued in June, and an accelerated fiscal consolidation path towards a primary balance in 2019 is removing pressure on inflation from aggregate demand.

The BCRA's Policy Response

4. In response to the deterioration of inflationary developments, the BCRA proactively implemented an aggressive tightening of its policy stance. These actions included (i) increasing

the policy interest rate by a total of 2000 bps, (ii) introducing commitments to keep the rate high until December 2018 and then until inflation expectations fell, and (iii) raising the reserve requirement on bank deposits. These actions were implemented during regularly scheduled policy meetings, as well as in unscheduled meetings that followed large swings in the exchange rate that were widely expected to exert strong pressure on inflation.

5. To address the disfunction of the foreign exchange market during this period—characterized by large daily movements in the peso-dollar parity, low trading volumes, and large bid-ask spreads—the BCRA sold reserves, exceeding program targets on FX intervention. In combination with the low demand faced by Treasury for its issuance of FX debt, net international reserves fell well below the program floor, and the BCRA's net domestic assets exceeded the ceiling established as part of the inflation consultation clause.

6. Notwithstanding these efforts, inflation and inflation expectations continued to deviate farther from the BCRA's inflation targets and the ICC's target band. Although the depreciation represented a one-off shock to the price level—thus generating only a transitory increase in inflation—private sector expectations viewed it as a more permanent shock to inflation. In the September central bank survey of market forecasters, expectations of inflation exceeded the ICC's outer band by over 200 bps at all horizons through December 2020.

7. The recent instability has severe consequences for the well-being of the Argentine population, and it is imperative to reestablish a strong nominal anchor. The failure of the BCRA's decisive policy response to re-anchor inflation expectations under the inflation targeting framework led us to conclude that the framework had lost the credibility needed to deliver its disinflation objective. While we believe that inflation targeting will be the appropriate monetary regime for Argentina in the longer term, we have determined that stabilization will require a shift to a simpler transitional approach.

A New Monetary Framework Aimed at Disinflation

8. On October 1—shortly after reaching a staff-level agreement for the conclusion of the first review of the SBA—the BCRA rolled out a new monetary framework centered on a target for the monetary base. To decisively reduce inflation, the targets were chosen to ensure a tight policy stance: the level of the monetary base will not grow from September 2018 to June 2019, besides limited corrections to accommodate seasonal demand for money in December and June. Given the high inflation that is expected through the rest of 2018, meeting this target will imply a strong contraction in real money balances during coming months.

9. A flexible exchange rate is a crucial element of the new framework and provides a shock absorber to shield domestic demand from the impact of external shocks. To solidify our commitment to flexibility, we have committed not to intervene in the foreign exchange market should the peso remain within the range of 34 to 44 pesos per US dollar (which will be adjusted daily at a monthly rate of 3 percent). If the exchange rate were to exceed (or fall below) this non-

intervention zone, the BCRA will have the option to sell (purchase) up to US $150 million per day to counter excessive overshooting of the currency that can produce disorderly market conditions. These sales (purchases) will not be sterilized, such that the stance of monetary policy will be correspondingly tightened (loosened) by the intervention.

10. Early implementation of this framework has proceeded successfully. The policy interest rate has risen endogenously by over 1200 bps, while the peso has appreciated by about 10 percent amid healthy volumes in the foreign exchange market. Both measures signal the desired tightening of monetary conditions, which bodes well for a quick re-anchoring of medium-term inflation expectations.

11. The BCRA will continue to conduct its monetary policy to reach its objective of consistent, steady disinflation. Through the steady implementation of this framework, we will deliver the nominal stability and predictability that the Argentine economy has lacked for many years. Once inflation is sufficiently low and stable—contributing to a macroeconomic environment that fosters inclusive growth and job creation—we will study a return to a fully-fledged inflation targeting framework.

/s/
Guido Sandleris
President, Central Bank of Argentina