

June 12, 2018

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

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.

The Argentine government requests the IMF's support for this policy program. It is a plan that has been designed by the Argentine government in a way that we judge best fits our current political, economic and social situation.

As part of that support, we are formally requesting an IMF Stand-By Arrangement for a period of 36 months, in the amount of SDR 35,379 million (equivalent to around US\$ 50 billion, or 1,110 percent of Argentina's quota with the IMF). We plan to draw the first tranche (US\$ 15 billion) upon approval of the arrangement, half of which will be used as budget support, while treating the remaining of the arrangement as precautionary.

We consider that the plan that we have designed is strong and will help build confidence, reduce uncertainties and strengthen Argentina's economic prospects.

Importantly, we are 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 protect our spending on social assistance and, in the unlikely event that social conditions deteriorate, we are committed to identifying additional resources to increase the funding of our most effective social assistance programs.

Consistent with the priorities of President Macri's administration, included in our G20 agenda, we also intend to use this opportunity to take important steps to address long-

standing gender inequities that are embedded in the Argentine economic system. One of our goals for this program is to ensure that women are treated equitably and are afforded the economic opportunities that they are entitled to. We especially seek your personal backing in this matter.

In sum, we ask that the IMF stands with Argentina through this more challenging international environment. We view the objectives of the plan described in the attachments as mileposts that should be used in the design of the requested Stand-By Arrangement. To demonstrate our commitment to this plan, on June 7 we announced our intention to accelerate the convergence to a primary fiscal balance and to lower inflation within a more consistent and institutionally sound monetary policy framework.

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 monitoring 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

We trust that we can count on your support.

Yours sincerely,



Nicolas Dujovne  
Minister of the Treasury



Federico Sturzenegger  
President, Central Bank of Argentina

Attachments (2)

## ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Argentina's financial markets came under sudden pressure in April, an unfortunate confluence of a range of factors. A severe drought led to a sharp decline in agricultural production and export revenue, world energy prices increased, and global financial conditions tightened through an appreciation of the U.S. dollar and an upward shift in the U.S. yield curve.

These unexpected changes interacted with the known vulnerabilities that our policy path had embedded. Our decision to gradually reduce the macroeconomic imbalances inherited from the previous administration implied significant fiscal and external financing requirements.

These forces have manifested themselves in the form of pressure on our currency, market anxiety about the roll-over of short-term central bank paper, and an increase in our sovereign risk premium. Even though the economy was showing healthy growth rates at the time of seeking the assistance of the IMF, these events convinced us that this assistance was needed to moderate the impact of the increased international financial volatility on our economy.

The message we have taken from these unfortunate circumstances is the need to deepen and accelerate the economic reforms that our administration has been committed to since taking office in December 2015.

Our objectives are:

- 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 strengthen the central bank's institutional and inflation targeting framework by reinforcing its autonomy and setting a realistic path for inflation that takes into account the implications of the recent market volatility but, nonetheless, seeks to bring down inflation to single digits by the end of 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.

Ultimately, these efforts will raise our economic dynamism, create new jobs, encourage investment in our economy, reduce poverty, improve social cohesion, and raise the living standards for all Argentines.

Further, we are committed to transparency and integrity and will continue sharing fully with the Argentine public all the details of our economic plan. This has been a fundamental principle of this administration. Our commitment to this approach is evidenced by the announcement of the full details of our policy proposals on June 7 and the publication of this document.

## **A. Fiscal Policy**

### **Medium-term Fiscal Goals**

At the core of our economic program is our intention to accelerate the pace at which we have been reducing the federal government's primary deficit since 2016. We reaffirm our longstanding commitment to reaching fiscal equilibrium and we will bring the primary balance of the federal government to zero by 2020.

We will reduce public spending to appropriate and sustainable levels as this is fundamental in order to attain both fiscal and macro-economic balance.

We started with an oversized primary expenditure in 2015. Before the 2001-2002 crisis, the consolidated primary spending of the three levels of government (federal, provincial and municipal) represented 26 percent of GDP, and by 2015 it had reached 42 percent of GDP (increase driven mainly by the public wage bill, pension benefits, and energy and transportation subsidies). From that peak, we have brought down primary expenditure during 2017 by almost 2 points of GDP.

In 2017 we over-achieved the fiscal target of the Federal government by 0.4 percent of GDP with primary expenditures increasing slower than revenues for the first time since 2004. Primary spending last year was reduced by 1.3 percent of GDP, a decrease which had not been seen since 1991. During the first 5 months of 2018 we managed to reduce the federal primary deficit by 40 percent with revenues growing 5 percentage points faster than expenditures. Primary spending contracted by 6 percent in real terms year-over-year.

Our assessment is that our chosen medium-term fiscal framework will ensure that gross public debt to GDP will fall from 2018 onwards, reaching 55.8 percent of GDP by end-2021. We are also committed to undertaking proactive debt management to lengthen maturities,

optimize the cost of our liabilities, and increase the share of our federal public debt that is denominated in pesos.

We intend to achieve this more front-loaded fiscal trajectory by meeting the fiscal target in 2018 that we have already announced (primary deficit of 2.7 percent of GDP) and making important additional effort in the 2019 budget. Specifically, by October 2018 we will submit to Congress a federal budget that targets a primary fiscal deficit of 1.3 percent of GDP in 2019, and this is a structural benchmark for our program.<sup>1</sup>

In light of the uncertainties we currently face, we will ensure that our revenue forecasts in the budget are appropriately conservative and we intend, as a prudent contingency, to build in some spending reserves that will only be drawn in case of unexpected developments. If circumstances change and economic outcomes are not in the direction we currently expect, we stand ready to identify additional fiscal measures to achieve our intended primary balance targets in 2018 and 2019. On the other hand, if economic and fiscal outturns evolve in a more positive direction, we would be prepared to undertake a more front-loaded elimination of distortive taxes in order to better support growth and investment (in line with the pace that was outlined in the tax reform that was adopted in late 2017).

This pace of convergence to a balanced budget at the federal level will be matched by the provinces with the consolidated primary balance of the provinces expected to go from a deficit of 0.4 percent of GDP in 2017 to a surplus of 1/4 percent of GDP by the end of the Stand-By Arrangement.

### **Fiscal Policies**

These fiscal targets will be supported by several key policy measures:

- We will continue to make progress on the reduction of subsidies on energy and transport with the objective of increasing the proportion of the cost of producing those services that is covered by prices charged to the consumer from around 80 percent in 2017 to 90 percent in 2020, on average, for gas, and from almost 60 percent in 2017 to 90 percent in 2020, on average, for electricity. At the same time, we will continue working towards eliminating the differences across regions. We will maintain the social tariff component that will protect those that cannot afford the higher tariffs.

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<sup>1</sup>The budget balance for program purposes is defined in the TMU.

- We will continue our efforts to rationalize public sector employment, which will be reduced through: (i) the sustained attrition of non-priority employees, (ii) a commitment to freeze new hiring in the federal civil service for two years, and (iii) permanently closing redundant positions. Our goal is that spending on personnel declines from 3.2 percent of GDP in 2017 to 2.7 by the end of the program.
- We will reduce other goods and services spending of the federal government by 15 percent in 2018, in real terms, relative to the 2017 outturn. We will continue this process in 2019. Strict control over commitments will prevent accumulating arrears.
- While we will continue executing the public infrastructure projects that are key to foster the competitiveness of the country, we will delay those that are not deemed crucial.
- We will reduce transfers associated with the operating deficit of Government enterprises that are not related to public utility tariffs, from their current level of 0.1 percent of GDP in 2017 to almost zero in 2021.
- We remain pledged to the commitment that we took with the *Ley de Reparación Histórica* to work within the appropriate parliamentary Commission towards improvements in the pension system that will make it financially sustainable and fairer for both current and future generations.
- While we remain committed to the reduction and eventual elimination of distortive taxes in line with the Tax reform adopted in late 2017, we will extend the implementation period of some of these changes as necessary to achieve our fiscal targets.
- We remain committed to improving Argentina's federal fiscal structure. The automatic transfers from the Federal Government to the Provinces have increased in recent years, and will continue to increase through 2020. The discretionary transfers to Provinces associated with expenditure responsibilities that have been assigned to each Province by the Constitution will be reduced going forward, as the Provinces take over those responsibilities. These identified reductions in spending are designed to ensure that the incidence is not borne by social assistance or other poverty alleviation programs that are executed at the provincial level.
- We do not expect the reduction of discretionary transfers to Provinces to lead to larger fiscal deficits at the Provincial level. The Fiscal Responsibility Law passed in late 2017 contributes towards achieving a sustainable fiscal path for the federal government and the provinces. Under the provisions of the law, the contemplated increase in automatic transfers to the provinces will offset the anticipated reduction in discretionary transfers to the provinces. In addition, the law establishes that primary spending cannot be increased in real terms. This implies that, for the first

time in many years, we foresee that the aggregate fiscal position of the provinces will show a balanced primary budget in 2018 and a surplus by the end of the Stand-By Arrangement. As described in the TMU, a floor for the primary federal fiscal deficit at a general government level is an indicative target of the program.

- We will continue working towards rationalizing tax expenditure in the corporate income tax. We will also continue to publish a complete accounting of all tax expenditures in the budget.
- We will amortize pension fund assets that are currently held by the government as a mean to help finance the government payment of pensions, including those contained in the *Ley de Reparación Histórica*.

In case the economy were to underperform and federal tax collection were to be affected, we have identified a further 0.2 percent of GDP in contingent expenditure cuts (largely on infrastructure) that will be drawn upon in order to meet the fiscal targets.

### **Improving the fiscal framework**

Beyond the fiscal path itself, we have been working on strengthening our fiscal and budgetary framework in a way that increases transparency, provides the public with a more complete view of our fiscal position and risks, helps build credibility, and guides expectations. Specifically, our plan contemplates:

- That the annual budget provide simple and transparent medium-term objectives for the primary balance that are consistent with the parameters of the program. The budget shall include details on realistic and prudent macroeconomic assumptions underlying the medium-term outlook, a statement of fiscal risks and of tax expenditures, and details on the key policy measures that will be undertaken to achieve the 2019 primary balance objective. The budget will contain a classification of revenues and of current and capital spending that is consistent with the most modern methodologies of fiscal reporting. In addition, we commit to include in the budget law the elimination of Article 27 of Law 11,672. This is a structural benchmark for our program (Table 3).
- To introduce a new mid-year fiscal report, starting in June 2019, that contains updated estimates of fiscal outturns and revised macroeconomic and fiscal projections for the medium-term.
- To make sure that the Federal Council of Fiscal Responsibility (FCFR) and the recently created Congress Budgetary Office (CBO, *Oficina de Presupuesto del Congreso*) have sufficient funding and capabilities to pursue their missions. The CBO is tasked with periodically evaluating macroeconomic and budgetary forecasts,

providing independent costing to Congress of new policy initiatives, assessing the government's fiscal plans (including the annual budget). This is a structural benchmark in the program. The FCFR is mandated to monitor and evaluate fiscal performances of Federal and provincial governments, including compliance with the Fiscal Responsibility Law.

- To develop a fiscal risk analysis framework with a view to include it in the 2020 budget documents. The framework shall contemplate the publication of a fiscal risk scenario analysis, a long-term fiscal sustainability analysis (undertaken for the federal and consolidated government), and an analysis of contingent liabilities (explicit and implicit), including those related to the financing of PPP projects and to the unfunded pension obligations of the government.
- To support reaching our fiscal targets we will strengthen our revenue administration. We will continue working within our Tax Administration Agency (AFIP, *Administración Federal de Ingresos Públicos*) on improving our compliance plans and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes. This is a structural benchmark for our program.

## **B. Protecting Society's Most Vulnerable**

Past fiscal reforms in Argentina have floundered because insufficient attention was given to building the needed social consensus for reform and, particularly, to protecting society's most vulnerable from the burden of the needed changes. We will not make this mistake. This is particularly pressing given the intolerable situation with regards to poverty that we inherited from the previous administration.

A central plank of our policy plan is to put in place measures that will offer opportunity and support to those living in poverty and for the less well-off members of Argentine society. We will concentrate our efforts on the protection of children and young people, whose poverty levels are substantially higher than those of any other group in our society.

We will adopt a set of social indicators to be monitored within the periodic reviews as a central component of the program. During the duration of the program we intend to continue improving Argentina's social safety net. The protected social expenditure and safeguards will be channeled through existing automatic, well-targeted cash transfer programs that reach most of the poor and vulnerable population.

We will maintain a floor on social assistance spending of 1.3 percent of GDP, a level that safeguards program coverage for 2019-20 while allowing benefits to rise according to the existing indexation formula. This is a performance criterion in the program. The floor will

involve a defined set of programs that cover children through the existing social safety net: the *Asignación Universal por Hijo* (AUH) conditional cash transfer program and the *Asignación por Embarazo* (AUE – pregnancy allowance) which are included under the budgetary program named “*Asignación Universal para Protección Social*.” Both programs are efficiently administered, have ample coverage, and have been shown to be well targeted and to induce positive socioeconomic outcomes in the target population. In addition, the floor will also protect social spending on Contributive Family Allowances (including allowances to “*monotributistas*”). All the allowances mentioned in this paragraph are included under the budgetary program named “*Asignaciones familiares*”.

In addition, as future prospects are uncertain, we may well need to spend more resources on the “*Asignaciones Universales para Protección Social*” (high quality social assistance programs that are specifically designed to protect the most vulnerable) in case social conditions worsen. Hence, we intend to build into our plan a provision to allow additional spending of up to AR\$13.5 billion in 2018 and the equivalent of 0.2 percent of GDP on these highly targeted and well administered programs.

We will also revise the design of social protection programs to make them more efficient and better targeted, where needed. Specifically:

- We will work together with IFIs in order to strengthen programs that protect households or singles with no children, as this part of the population is less satisfactorily reached by existing social safety net.
- We will continue working with the provinces to integrate the provision of services, reduce duplication, improve targeting and lower the administrative costs of the social programs.
- We will revise the social tariffs system to make it better targeted (in particular toward the bottom 4 deciles of the income distribution).

### **C. Supporting Gender Equity**

Enabling Argentine women to live up to their potential is not only a moral issue it also makes economic sense. Women in Argentina earn less than men on average for similar posts, are more likely to work in the informal economy, are less likely to participate in the labor force, and suffer poorer employment conditions. Addressing this situation has been a concern since the start of our administration, and we will continue to do so as part of our policy efforts. We will reinforce the steps we have already taken in order to level the playing field and provide women with the economic opportunities and support that every Argentine citizen is entitled to.

Specifically, we intend to:

- Work towards reforming the current tax system so as to reduce the disincentives for women to participate in the labor force.
- Continue implementing our projects and initiatives on actions to promote equal pay, a more equal system of paternity and maternity leave (both in our *Propuesta de Ley de Equidad de Género*, submitted to Congress this year).
- Continue building infrastructure for childcare and early child education.
- Require listed companies to publish data annually on the gender balance on their Board and among their managerial positions.
- Continue working on our initiatives to fight gender-based and domestic violence and provide support networks for victims of such violence (*Plan Nacional de Acción para la Prevención, Atención y Erradicación de Violencia contra las Mujeres*).

#### **D. Monetary Policy**

We will redouble our efforts to reduce inflation, which has placed hardship on the Argentine population. To that end, we remain committed to an inflation targeting framework for monetary policy. While the monetary policy managed to reduce inflation in the second half of 2016 and in 2017, the results fell short of what we would have liked. We will strengthen the institutional framework for monetary policy, and steadily build credibility through actions that show our commitment to our inflation objectives.

#### **Reinforcing the BCRA's autonomy**

To reinforce our commitment to low and stable inflation, we will strengthen the central bank. By March 2019, we will submit to Congress a new charter for the central bank. This is a structural benchmark for our program. This charter will give the central bank more operational autonomy and will also increase accountability and transparency at the institution. Among other features, the new charter will:

- Reinforce price stability as the key mandate of the BCRA.
- Give the BCRA the authority to set, in consultation with the Ministry of the Treasury, the inflation targets for the three years ahead.
- In order to improve accountability, in case of material deviations from the targets the BCRA will send a public letter to Congress and the President, explaining the reasons for the deviation and how it intends to address it.

- Provide for well-defined and limited grounds by which the Governor, Vice-Governor, and Board members could be dismissed from their positions.
- Improve transparency by restoring international accounting standards, to ensure a transparent report of the Central Bank's balance sheet.
- Discontinue all direct or indirect central bank financing of the Government and reduce the credit exposure of the central bank to the government in a predictable and phased manner.
- Clarify the legal status of the BCRA's official foreign reserves, which should only serve to implement exchange rate and monetary policies.
- Limit transfers to the Treasury only to realized profits, which will only take place when the BCRA's capital exceeds an adequate level. Unrealized profits and losses from foreign currency revaluation would be booked separately on a revaluation account and not distributed.

In order to show our commitment to these principles, we have committed on June 7 to immediately end all new direct or indirect central bank transfers to the Treasury. The continued adherence to this policy represents a performance criterion within the program. The BCRA will also begin working on improving transparency and accountability by introducing the International Financial Reporting Standards within the next two years.

### **Central Bank Balance Sheet**

Under the previous two administrations, the central bank's financial structure has been severely compromised. Non-interest bearing, non-marketable securities were built up on the central bank's balance sheet, in detriment of international reserves, in an effort to mask the real magnitude of the government's debt.

The time has come to reverse these measures and provide the central bank with a solid balance sheet to achieve its price stability objective. This will start with an independent assessment of its balance sheet and the adoption of international accounting standards, including a more transparent valuation of the BCRA's assets and liabilities. By December 2019, the government is committed to provide the BCRA with financial autonomy in the form of an adequate level of capital. This is a structural benchmark under the program (Table 3).

As part of this process, the Ministry of Finance intends to gradually repurchase a sizable portion of the non-marketable government securities held by the Central Bank, starting in June 2018. The objective is to reduce the BCRA's net claim on the government by at least US\$25 billion by May 2021, which is a performance criterion within the program (Table 2).

The BCRA is committed to reducing the vulnerability attached to an excessively large stock of LEBAC securities, and to fostering the re-intermediation of the financial sector. To this end, the repayment of government liabilities held by the central bank will be used to drain peso liquidity, lessening the central bank's reliance on issuing LEBAC securities. To facilitate this process, we will establish a senior-level debt management coordinating committee between Treasury-Finance-BCRA that shall meet weekly and coordinate activities linked to sterilization and debt issuance plans. This is a structural benchmark under the program (Table 3). Moreover, the BCRA intends to limit its counterparties to local banks by the end of September 2019, which represents a structural benchmark for the program.

### **Inflation Goals**

In the context of its strengthened independence, the BCRA has decided to re-establish realistic and meaningful inflation targets. While it is regrettable to again reset our targets to a higher path for inflation, this change is inevitable given the financial market volatility that Argentina has experienced and the inflationary impulse that is underway following recent depreciation of the exchange rate and increases in world energy prices.

With a new and stronger fiscal plan, we believe that now is the right moment to set our inflation targets for the next three years, and commit to do whatever it takes to meet them. The program includes consultation bands surrounding the inflation target and net domestic assets of the central bank, a way of stepping up our commitment to the disinflation process (Table 2).

We have formally adopted new targets for the BCRA to achieve a year-on-year rate of consumer price (IPC) inflation. The target will be equal or below current market expectations (REM) for end 2018 (27 percent), and then 17 percent, 13 percent and 9 percent by the end of the following 3 years.

Given the uncertainties in the initial stage of this effort, we are committed to maintaining our current restrictive monetary policy until we see a tangible sign that both realized inflation and end-2019 inflation expectations are starting to move lower.

We will calibrate our monetary policy in a forward-looking manner to ensure that inflation converges to our targets. Once inflation expectations are well anchored to our targets, in the event of an identifiable adverse supply or external shock, we would adjust policies to bring inflation back to the target over a time horizon that is consistent with our understanding of the lags in monetary policy and is sensitive to the size, nature, and persistence of that shock.

## **Exchange Rate**

As part of our inflation targeting framework we are fully committed to a flexible and market-determined exchange rate. We intend to limit the sales of foreign currency reserves to periods when there is clear market dysfunction. Even then, we plan to absorb such external pressures through a flexible exchange rate and very limited foreign currency sales to accommodate such market-driven pressures on the peso.

Over the medium-term, our intention is to build international reserves to levels that are prudent given Argentina's exposure to global shocks on both the current and capital accounts. As part of a mechanism to achieve this reserve build-up, we will not let net international reserves fall below a floor that provides some space for the decumulation of reserves during the current period of market volatility but which also rises over time until reaching an adequate level (Table 2).

In the unlikely event that our intervention in foreign exchange markets (both spot and forwards) is above what is consistent with meeting this path we will engage with the IMF staff to discuss the conditions in foreign exchange markets and our policy response.

The BCRA will publish by the end of June 2018 a regulation that introduces a foreign exchange auction to intervene in the spot and forward markets, a structural benchmark for the program (Table 3).

The BCRA, at the request of the Treasury, will announce a program to sell in the market part of the IMF budget support to fund the peso denominated obligations of the Treasury. The program will consist of preannounced daily sales, which will be executed through a foreign exchange auction.

## **E. Banking Sector**

We 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. We will, however, closely monitor developments in the financial sector and prepare ourselves to respond promptly to any sign of deterioration in this sector.

## **F. The Economic Outlook Underpinning the Program**

Recent financial market volatility, the drought that affected our agricultural economy, and higher world energy prices are taking a toll on the economy. So, our expectation is that growth will be between 0.4 percent and 1.4 percent for the year as a whole. As has been characteristic of this administration at the time of planning fiscal performance, we rather err on the conservative side, for which reason we are working with an assumption of economic growth being 0.4 percent for fiscal projection purposes.

We expect the combined effect of our economic program and the IMF's support for Argentina to quickly rebuild confidence allowing for a reduction in the cost of financing and supporting a return of capital inflows. Both factors, together with the weaker real exchange rate, should facilitate an increase in capital investment and job creation. Growth for 2019 as a whole is expected to be around 2 percent. Stronger investment and efforts in the program to lessen distortions will likely lead to an acceleration of potential GDP through the medium-term, supported by greater capital formation, an increase in the labor supply, and higher efficiency and productivity.

The prospects for the balance of payments are good with our policy program likely to lead to a rapid reversal of the recent rise in the current account deficit. The current account deficit is likely to continue falling through 2020 which should be comfortably financed by foreign direct investment inflows. Additional portfolio capital inflows are expected, which, as discussed above, the central bank intends to absorb through an increase in the stock of international reserves.

## **G. Supply Side Policies**

Our administration is committed to increasing growth and private investment as a means to raising living standards for all of Argentina's people. To do this we need to make Argentina an attractive destination for local and international businesses alike. Much has been achieved in reversing the distortions put in place by the past administration and in rooting out corrupt practices. However, there is more to be done.

We will continue strengthening the anti-corruption regime, focusing on its effective implementation, improving the institutional framework, and strengthening prosecutorial and judicial proceedings. We are working with the OECD on a study on integrity in Argentina, which will help design general strategies and efficient public policies.

On AML-CFT, we want to improve the legal framework in certain areas, including the regime of penalization of noncompliance with prescriptions of the law, and strengthen information-

sharing, and asset freezing and administration capabilities. On the regulatory and supervisory front, the Financial Intelligence Unit will continue strengthening its operations leaning on a risk-based approach and strategic analysis to fight crime. In this regard, we are committed to further strengthening the AML and anticorruption frameworks and ensuring their effective implementation, and we will design concrete measures to this effect in consultation with Fund staff by the first review date. In all these matters, we would welcome technical assistance by the IMF.

Our administration has made major progress in rebuilding statistical information about the economy and regaining credibility in this area. We will continue our efforts to improve our statistical system to further align it with the internationally accepted methodologies and reporting standards, in collaboration with international organizations, including the OECD and IMF.

### **Developing Domestic Credit Markets**

The newly enacted *Ley de Financiamiento Productivo* aims at developing financing for small sized corporations and household mortgages, while promoting savings and strengthening transparency and certainty in credit markets. Key instruments to develop financing for small and medium-sized firms are new electronic invoices to facilitate factoring, simplified debentures, and tradable IOUs. For enhancing access to housing, the law allows for inflation-adjusted mortgages, which will facilitate securitization, covered bonds, and new insurance instruments for mortgages. To promote long-term savings and investment, the law eliminates double taxation in closed-end mutual funds which anchor productive and real-estate investments. Enhancing transparency and reducing uncertainty, the national securities commission (CNV) is empowered to issue regulations to avoid conflicts of interest in the asset management industry, reduce systemic risk, simplify administrative processes, and pursue faster sanctions for noncompliance. Importantly, the CNV has lost previous powers to intervene corporations and appoint overseers to their boards with veto powers on corporate actions. We enjoy the benefits of a stronger capital markets regulator with less discretionary powers.

### **Competition Reform**

The new antitrust regulatory framework, approved by Congress in May 2018, adopts best international practices to deter collusion and strengthens the independence, transparency, efficiency and predictability of the agency in charge of overseeing these matters. One of the main objectives of the new law is the creation of an independent authority, the National Competition Authority (the “ANC”), with sufficient powers to adopt its own decisions, control its own budget, and function without political interference.

Regarding mergers and acquisitions, the new law includes an ex-ante control, which would replace the current ex-post regime. This change comes to solve a current problem of mergers and acquisitions, which are submitted for evaluation after deals are closed. This also creates new important challenges for the antitrust authority, in terms of timing for decision making, which will be addressed through a fast-track procedure for those mergers and acquisitions that fall into a specific scope of low potential impact on competition. This change serves the purpose of speeding up the procedure in those cases, as well as dedicating more resources to more complex cases.

Following international best practices, the new law includes a leniency program, with the purpose of facilitating proper detection, prosecution and sanction of cartels. Argentina has a poor record of cartel sanctioning compared to other countries in Latin America which have already implemented their own leniency programs.

Finally, the law also provides for the creation of a specialized court (the Appellate Court in Antitrust Matters) to deal with competition matters, in order to improve the judicial review of the competition authority decisions. This specialized court shall act under the scope of the Federal Courts of Appeals in Civil and Commercial Matters.

### **De-bureaucratization**

The government remains committed to improving the relationship between the State and Argentina's citizens and productive sectors, through administrative simplification and de-bureaucratization efforts. To this end, Congress recently approved a law to remove useless regulations and costly norms. Among others, the law allows simplified incorporation of corporations, allows for digital accounting record keeping, simplifies the process of granting patents, expedites the establishment of ports, unifies air traffic control, removes restrictions on road cargo transportation and circulation of agricultural equipment, and removes barriers for access to financial services. The law also upgrades bureaucratic procedures resulting in shorter processing times and allowing for digital files and electronic signatures at all levels of the federal government.

Table 1. Argentina: Schedule of Reviews and Purchases

Available on or after	Amount of Purchase		Conditions 1/
	SDR millions	% Quota	
June 20, 2018	10,613.71	333%	Approval of Arrangement
September 15, 2018	2,063.78	65%	First Review and end-June 2018 performance criteria
December 15, 2018	2,063.78	65%	Second Review and end-September 2018 performance criteria
March 15, 2019	2,063.78	65%	Third Review and end-December 2018 performance criteria
June 15, 2019	2,063.78	65%	Fourth Review and end-March 2019 performance criteria
September 15, 2019	2,063.78	65%	Fifth Review and end-June 2019 performance criteria
December 15, 2019	2,063.78	65%	Sixth Review and end-September 2019 performance criteria
March 15, 2020	2,063.78	65%	Seventh Review and end-December 2019 performance criteria
June 15, 2020	2,063.78	65%	Eighth Review and end-March 2020 performance criteria
September 15, 2020	2,063.78	65%	Ninth Review and end-June 2020 performance criteria
December 15, 2020	2,063.78	65%	Tenth Review and end-September 2020 performance criteria
March 15, 2021	2,063.78	65%	Eleventh Review and end-December 2020 performance criteria
June 15, 2021	2,063.71	65%	Twelfth Review and end-March 2021 performance criteria
<b>Total</b>	<b>35,379</b>	<b>1110%</b>	

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

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

(In billions of Argentine pesos unless otherwise stated)

	Proposed Performance Criteria		Indicative Targets		
	2018		2019		
	end-Jun	end-Sep	end-Dec	end-Mar	end-Jun
<b>Fiscal targets</b>					
<i>Performance Criteria</i>					
1. Primary balance of the federal government (floor) 3/ 10/	-148.0	-256.0	-362.5	-32.0	-100.0
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0	0.0	0.0	0.0	0.0
3. Federal government accumulation of domestic arrears (ceiling) 5/	8.2	14.9	21.6	27.1	39.7
4. Social assistance spending (floor)	87.7	131.1	177.5	60.0	112.6
<i>Indicative targets</i>					
5. Primary balance of the general government (floor) 3/	-163.0	-272.0	-382.4	-40.0	-110.0
<b>Monetary targets</b>					
6. Change in net international reserves (floor) 6/ 10/	5.5	5.5	5.5	5.5	7.5
7. Change in stock of non-deliverable FX forwards (ceiling) 7/	1.0	0.0	-0.5	-1.0	-1.5
8. Change in central bank credit to government (ceiling) 8/	0.0	-78.0	-156.0	-234.0	-312.0
9. Central bank financing of the government (ceiling) 4/	0.0	0.0	0.0	0.0	0.0
<b>Inflation Consultation Clause</b>					
10. Inflation bands (in percent, y-o-y)					
Outer Band (upper)	32	32	32	28	26
Inner Band (upper)	29	29	29	26	24
Center inflation target	27	27	27	24	22
Inner Band (lower)	25	25	25	22	20
Outer Band (lower)	22	22	22	20	18
11. Change in net domestic assets of the central bank (ceiling) 9/ 10/	15	64	166	173	184

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 June 4, 2018.

7/ In billions of U.S. dollars. The change is measured against the value on June 4, 2018.

8/ The change is measured against the value on end-May 2018, which stood at 2,204.4 million pesos, as defined in the TMU.

9/ The change is measured against the value on end-May 2018, which stood at 432.9 million pesos, as defined in the TMU.

10/ Targets subject to adjustors as defined in the TMU.

Table 3. Argentina Structural Program Conditionality

	Structural Benchmarks	Timing	Implementation status
1	Publish a regulation to introduce a foreign exchange auction for BCRA intervention in the spot and forward markets.	Jun-2018	Proposed
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	Proposed
3	Present a 2019 budget 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, a statement of fiscal risks and of tax expenditures, and details on the key policy measures that will be undertaken to achieve the 2019 primary balance objective. The budget will include the elimination of article 27 of Law 11,672.	Oct-2018	Proposed
4	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	Proposed
5	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	Proposed
6	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Sep-2019	Proposed
7	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	Proposed
8	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	Proposed

## ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the performance criteria (PCs), indicative targets (ITs), and consultation clauses, that will be applied under the Stand-by Arrangement, as specified in the Memorandum of Economic and Financial Policies (MEFP) 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 May 31, 2018. Accordingly, the exchange rates for the purposes of the program are shown in Table 1.

**Table 1. Program Exchange Rates 1/**

Argentine Pesos to the US dollar	24.96
Argentine Pesos to the SDR	35.36
Argentine Pesos to the Euro	29.14
Argentine Pesos to the Canadian dollar	19.22
Argentine Pesos to the British pound	33.16
Argentine Pesos to the Renminbi	3.89
Gold prices (US\$/ounce)	1298.29

1/ Average daily selling rates at the end of May 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.

### *General Definitions*

4. **Pre-announced BCRA foreign exchange sale of the counterpart of Fund resources to be used for budgetary purposes definition:** the BCRA sells for the Treasury a pre-announced amount of US dollars on a daily basis to fund Treasury obligation denominated in pesos. The program is fixed for a month and the daily fixed amount is announced at least three business days ahead of time.
5. **Foreign exchange auction definition:** the auction is a mechanism in which the BCRA sells US dollars to banks for Argentine pesos. All banks in Argentina can participate in the auction. Bids are allotted solely based on the price proposed by the counterparties, starting

from highest peso per US dollar rate until the pre-announced amount is exhausted. The auction weighted average, marginal rate, total bid amount, and the final allotment are published one hour after the auction allotment.

#### QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

6. **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*

7. **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.

8. 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*”.

9. 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 end-2018, 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, no

additional policy measures would be sought or applied for the purposes of 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.

10. 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).

11. 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.

12. 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 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, and payments of arrears as per ICSID or similar arbitration rulings.

13. 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.

14. **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*

15. **Definition:** Social spending for the purpose of the program is computed as the sum of all federal government spending (both recurrent and capital) on the following social protection programs:

- *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*.

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

#### *Adjustors to the floor on the primary balance*

17. **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 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 of pesos in 2018 and 0.2 percent of GDP in each successive calendar year.

**Table 2. Social Spending Subject to Adverse Economic Conditions**  
(program baseline)

	AR\$ millions 1/
end-June 2018	37,187
end-September 2018	55,368
end-December 2018	74,836
end-March 2019	25,818
end-June 2019	47,735

1/ Cumulative from January 1

18. **Adjustor for external financing projects:** The target for the primary balance of the budget sector will be adjusted up (down) by the shortfall (excess) in the expenditure 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, and 0.2 percent of GDP in each successive calendar year. Starting in 2019 the benchmark will be the expenditure financed by disbursements of external project loans by IFIs and bilateral partners, as stated in the budget.

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

	AR\$ millions 1/
end-June 2018	15,171
end-September 2018	20,025
end-December 2018	30,341

1/ Cumulative from January 1

### **Ceiling on Federal Government Accumulation of Domestic Arrears**

19. **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 sector 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 (*transferencias*).

20. **Measurement:** The arrears are measured on a daily basis. The program will cap the quarterly average of arrears at 0.5 percent of GDP, that is at 67,500 million pesos by the end of December 2018.

21. **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**

22. **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”<sup>2</sup> 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,

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

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.

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

24. **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.

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

#### *Floor on the Change in Net International Reserves*

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

27. **Gross official reserves** are defined consistently with the Sixth Edition of the Balance of Payments Manual and International Investment Position Manual (BPM6) as readily available claims on nonresidents denominated in foreign convertible currencies. They

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

28. **Gross official liabilities** in foreign currencies include (i) foreign currency liabilities with original maturity of one year or less, (ii) the use of Fund resources 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 foreign liabilities are not considered as gross foreign liabilities of the BCRA. The foreign currency swap with the People’s Bank of China would be considered, for program purposes, as a foreign exchange liability of the BCRA with a maturity of one year or less.

29. The change in net international reserves will be measured as the change in the stock of NIR at each test date relative to the stock on June 4, 2018, which stood at US\$23.1 billion.

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

31. **Adjustors:**

- The NIR targets will be adjusted upward (downward) by the surplus (shortfall) in program loan disbursements from 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. External Program Disbursements (Baseline Projection)**

Cumulative flows from end-May 2018	(In millions of US\$)
<b>Budget support loans from multilateral sources</b>	
End-June 2018	0
End-September 2018	0
End-December 2018	900
End-March 2019	900
End-June 2019	900

- The NIR targets will be adjusted downward by the total amount of dollars sold by the Treasury through transparent, pre-announced, BCRA-run auctions undertaken each business day to the market (to meet the peso obligations of the government) plus the total amount of net cash payments made from the accounts financed from the accounts numbered 20501, 20502, 20503, 20504, 20505, 20506, 20518 on FX-denominated debt of the federal government. This cumulative amount of this adjustor would be capped at US\$7.5 billion.

**Table 5. Net Issuance of Federal Government FX Debt**  
(Baseline Projection for NIR Adjustment)

Cumulative flows from end-May 2018	(In millions of US\$)
End-June 2018	0.0
End-September 2018	0.0
End-December 2018	0.0
End-March 2019	0.0
End-June 2019	0.0

***Ceiling on the change in the BCRA's stock of non-deliverable forwards (NDF)***

32. **Definitions.** The stock of non-deliverable forwards (NDF) will be defined as the 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.
33. **Monitoring.** Daily data will be provided to the Fund at the end of each day.
34. The change in the stock of NDF will be measured as the change in the stock of NDF at each test date relative to the stock on June 4, 2018, which stood at US\$2.3 billion.

***Continuous Stop to BCRA's Financing of the Government***

35. **Definitions.** Central bank (BCRA) financing to the government includes overdraft transfers from the BCRA to the Federal Government (line *Adelantos Transitorios* in the summary account of the BCRA, as published on its web site), advance distribution of unrealized profits, and the acquisition of government debt on the primary market or by purchase from public institutions. The BCRA will extend zero net financing to the government for the duration of the program.
36. **Monitoring.** Daily data will be provided to the Fund within two days. This target will be monitored on a continuous basis.

### *Ceiling on Central Bank Credit to the Government*

37. **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). Starting in July 2018, the stock of central bank credit to the government shall decrease by the peso equivalent of US\$ 3.125 billion per quarter until end-June 2019, and then per semester until end-April 2021. By end-May 2021, the total decrease will correspond to US\$ 25 billion. This 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.
38. **Monitoring.** Daily data will be provided to the Fund within two days.

### QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

#### *Cumulative Floor on Primary Balance of the General Government*

39. **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).
40. **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*.
41. **Reporting:** Data will be provided to the Fund with a lag of no more than 60 calendar days after the end of each quarter.

### INFLATION CONSULTATION CLAUSE

42. **Definitions.** Inflation is defined as the change over 12 months of the end-of-period headline national consumer price index (*Indice de Precios al Consumidor, IPC*), as measured and published by INDEC.
43. **Monitoring.** Data will be provided to the Fund on a monthly basis with a lag of no more than 20 calendar days after the end of each month.

44. The quarterly consultation bands on inflation are specified as follows:

**Table 6. Inflation Consultation Band**

	2018			2019			
	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Outer Band - Upper Limit	32	32	32	28	26	23	21
Inner Band - Upper Limit	29	29	29	26	24	21	19
<i>Midpoint</i>	<i>27</i>	<i>27</i>	<i>27</i>	<i>24</i>	<i>22</i>	<i>19</i>	<i>17</i>
Inner Band - Lower Limit	25	25	25	22	20	17	15
Outer Band - Lower Limit	22	22	22	20	18	15	13

45. Inflation prospects will be a critical part of each review under the arrangement. The BCRA will discuss with the Fund staff the appropriate policy response should the 12-month rate of IPCA inflation exceed the upper limit of the inner band specified in the table above. Should the 12-month rate of IPCA inflation exceed the upper limit of the outer band specified above, the authorities will complete a consultation with the Executive Board of the IMF on their proposed policy response before purchases under the arrangement would become available. Specifically, that consultation with the Executive Board will explain (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for deviations from the specified band, considering compensating factors; and (iii) proposed remedial actions, as deemed necessary.

46. **Definition:** The BCRA's net domestic assets (NDA) are defined as the difference between the monetary base and the net international reserves of the BCRA (NIR), converted into Argentine pesos at the program's exchange rate.

- The **monetary base** includes currency in circulation and the accounts denominated in Argentine pesos at the BCRA of the banks subject to the reserve requirement.
- The **NIR** are defined as in this TMU.

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

48. **Adjustor:** The NDA ceiling will be adjusted if the minimum reserve requirement on commercial banks is changed. The ceiling will be increased (decreased) by the same peso amount as the increase (decrease) in required reserves.

49. **Adjustor:** The NDA ceiling will be adjusted in line with any adjustments made to the floor on the change in Net International Reserves at program exchange rates, as described in this TMU, in the section on Quantitative Performance Criteria. The NDA ceiling will be

increased (decreased) by the same amount as the decrease (increase) in the floor on the change in NIR.

50. Should the NDA of the BCRA exceed the upper limit, specified in Table 2 of the MEFP, the authorities will complete a consultation with the Executive Board of the IMF on their proposed policy response before purchases under the arrangement would become available. Specifically, that consultation with the Executive Board will explain (i) the reasons for deviations from the specified ceiling, considering compensating factors; and (ii) proposed remedial actions, as deemed necessary.

#### INTERVENTION STAFF CONSULTATION CLAUSE

##### *Ceiling on BCRA's and the Federal government's foreign currency intervention 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. The BCRA commits to not loosen monetary conditions, particularly by lowering the policy rate, in the context of foreign exchange interventions until there has been such a discussion with IMF staff.

52. **Monitoring.** Daily data will be provided to the Fund at the end of each day. This consultation clause applies on a continuous basis.

##### *Ceiling on the change in the BCRA's stock of non-deliverable forwards (NDF)*

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

54. If net sales exceed an accumulated amount, the BCRA commits to not loosen monetary conditions, particularly by lowering the policy rate, until there has been such a discussion with IMF staff.

55. **Monitoring.** Daily data will be provided to the Fund at the end of each day. This consultation clause applies on a continuous basis.

#### OTHER INFORMATION REQUIREMENTS

56. **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), and BOTES; total currency issued by the BCRA; deposits held by financial institutions at the BCRA; required and excess 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.
- Weekly: BCRA balance sheet.

**B. 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.