

International Monetary Fund

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IMF

Argentina: Letter of Intent, Memorandum of Economic Financial Policies,
and Technical Memorandum of Understanding

Press Release:

[IMF Executive Board
Completes Second
Review Under
Argentina's Stand-By
Arrangement,
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Billion Disbursement](#)

December 11, 2018

December 19, 2018

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Letter of Intent

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

December 11, 2018

Dear Madame Lagarde,

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic objectives and policies of the Government of Argentina that have changed since the time of the approval of the first review of the Stand-By Arrangement on October 26, 2018. Also attached is an addendum to the Technical Memorandum of Understanding.

The reformulated policy plan that our government implemented prior to the first review of the SBA is off to a good start. Markets have been relatively calm over the past few months, a sign of confidence in the policy program we are implementing. Passage of the administration's 2019 Budget with a large margin at the Senate shows the broad political support for eliminating the fiscal deficit as an essential foundation for inclusive growth and stability.

We continue to maintain a close policy dialogue with IMF staff. We remain committed to maintaining this close collaboration, including through the sharing of data and information that are needed to assess program implementation.

From the start, this economic program has been fully owned by the Argentine government. We will continue to work to build a broad consensus around its objectives and policies. We are certain that, as the dividends of macroeconomic stability become evident, public and political support for our policy plans will grow in the months ahead.

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

We are fully committed to transparency in our economic policy plans. As such, we consent to the publication of the Executive Board documents for the review as well as this letter and our memorandum of economic and financial policies.

Your sincerely,

/s/
Nicolas Dujovne
Minister of Finance

/s/
Guido Sandleris
President, Central Bank of Argentina

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

This memorandum supplements and updates the Memorandum of Economic and Financial Policies (MEFP) dated October 17, 2018.

The Economic Outlook

1. The recession currently affecting Argentina reflects the impact of the severe drought our country endured in the first half of 2018 as well as the tightening of external financial conditions that we have faced. Given the shifting financial conditions, it has been necessary to recalibrate both our fiscal and monetary policies to ensure macroeconomic stability. This will inevitably take a toll on the real economy over the near-term as inflation is brought down and we begin to live within our means. We are conscious of the shared burden this is placing on the Argentine people and we have put in place policies to support those that are most at risk (see below). However, we are convinced that these policies will lay a solid foundation for future growth and stability.

Fiscal Policy

2. We remain committed to the targets we have announced for reaching a primary balance in 2019. We are making steady progress toward this objective, including through the recent passage of the 2019 Budget by Congress. We stand ready, if needed, to implement additional measures to ensure that our target, of primary balance, is reached in 2019. The submission of the medium-term budget to congress was delayed but it was completed in mid-November as a prior action for the completion of the second review.

3. The Fund's budget support will be used solely to meet primary balance needs and the interest and amortization payments on the debt of the Treasury. We commit not to undertake FX sales through state-owned banks. At present, we have no intention to conduct FX sales of the Fund disbursements in the market for the remainder of the year. We may convert part of the disbursements into pesos through the BCRA to build buffers during 2018. A system for the orderly conversion and use of the disbursements for peso-denominated budgetary financing needs in 2019 will be worked out before such needs arise, and in the context of the next review.

Monetary Policy

4. The new monetary policy framework that we have put in place in October has been effective in stabilizing financial markets. The currency has appreciated and there are early signs that the disinflationary process is under way.

5. We remain committed to our goal of keeping the stock of base money unchanged in nominal terms from September 2018 to June 2019 with a seasonal adjustment for the spike in currency in circulation in December and in June 2019. The last data from the Central Bank survey showed that average 12-month inflation expectations has fallen for three consecutive months, with a cumulative decline of 4.4 pps between September and November. As a result, we have removed the 60 percent floor on the LELIQ interest rate, that is now fully determined by market forces.

6. Going forward, if the peso appreciates below the lower edge of the nonintervention zone, we will ensure that non-sterilized purchases of FX will be calibrated so that the monetary policy stance remains conducive to a rapid reduction of inflation and inflation expectations. Any such purchases will be clearly presented to the public in the BCRA's fortnightly review of monetary policy, separately from the base-money target.

7. We recognize that multiple rates and exemptions make the reserve requirement system relatively costly to implement for the banks. We therefore intend to simplify the reserve requirement regulation, but with no impact to the overall amount of reserves. We recognize that multiple rates and exemptions make the reserve requirement system relatively costly to implement for the banks. We therefore intend to simplify the reserve requirement regulation, in agreement with the IMF as specified in the TMU. The changes will have no impact to the overall amount of reserves.

8. We remain committed to a floating exchange rate, where the level of the peso will be determined by market forces, without intervention by the central bank. Outside of the non-intervention zone, we will be prepared to intervene in a transparent and fully anticipated way to prevent disorderly market conditions, in line with the announced monetary policy framework. Lastly, given the falling inflation expectations, the limits of the non-intervention zone will be adjusted daily at a monthly rate of 2 percent during the first quarter of 2019.

9. Once inflation has fallen toward single digits and inflation expectations are well-anchored, our intention is to return to an inflation targeting framework.

10. 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, that 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 to permit an injection 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. Lastly, we also commit to continue to opportunistically reduce the BCRA's net credit to government, financing conditions permitting.

Social Safety Net and Gender Equality

11. We remain committed to take all the necessary measures to protect the most vulnerable from the effect that the current conjuncture may have on their lives.

12. Higher inflation and weaker economic activity tend to affect especially families with children and parents that have an informal job. To support these families, we provided one-off payments in September and December to the beneficiaries of the Universal Child Allowance (AUH). With its emphasis on children education and health, this program plays a key role in reducing poverty among children. In addition, to support poor people without children, we have provided a one-off payment in December to the beneficiaries of the Employment Support Program (*Apoyo al Empleo*).

13. Income support alone is not enough, though. In a weak economy, the most vulnerable find it more difficult to satisfy basic needs and might have adverse consequences in terms of health and other outcomes. To prevent this from happening, in the 2019 Budget we have i) expanded by 50 percent (in nominal terms) programs that provide direct and indirect food assistance to the poor, ii) more than doubled the program of control and prevention of immune-preventable diseases, iii) increased in real terms the provision of medicines under the universal health coverage system, and, finally, iv) increased tenfold our spending aimed at expanding the provision of universal health coverage.

14. To make these benefits and services more accessible we have strengthened the program *El Estado en Tu Barrio*, through which mobile stations provide administrative services to those that live in the most remote parts of the country and established a one-window system that also allows the public administration to provide services more effectively (by crossing information on beneficiaries). Also, we made good progress in simplifying and standardizing the certification of the education and health requirements for the AUH, which reduces exclusion errors.

15. We will continue to work with the World Bank, the Inter-American Development Bank, and other international and regional organizations to explore ways to strengthen our social protection strategy.

16. We are also committed to ensuring that women have equal opportunities in the job market and in the society at large. To this end, we have

- established a national plan for equal opportunity
- designed a voluntary system to score companies on their gender policies and recommend improvements
- sent legislation to congress that equalize maternity and paternity leave
- strengthened the program to provide public infant care and give mothers the possibility to remain in the labor market.
- Finally, we are committed to publishing by end-March 2019 a public monitoring paper of the gender balance in executive boards and management positions at listed companies.

Debt Management

17. Over the past six months, we have eliminated most of the BCRA's LEBAC securities and alleviated an important vulnerability that faced the Argentine economy. We intend to strengthen our debt management strategy in the coming months to provide clear guidance to investors and offer a predictable approach to our budget financing operations. As such, we intend to publish a comprehensive debt management strategy that will outline our objectives and plans for 2019 by end-December 2018 (proposed end-December structural benchmark). In arriving at this strategy, we are coordinating closely with local financial institutions to provide incentives for institutions to become more effective market makers so as to increase the liquidity of the local markets.

Governance and AML/CFT

18. As the recent scandals have brought to light and recognizing the advances in new legislation and administrative measures taken recently, Argentina's governance regime needs to be strengthened, including through more resources devoted to anti-corruption and AML/CFT efforts. In 2019, we will begin implementing an action plan addressing, among other key topics, the integrity, transparency, and proper management of procurement activities, including within State Owned Enterprises (SOEs) (*"Estrategia y Plan Nacional Anticorrupcion – 2019-2023"*). In consultation with Fund staff, we also plan to finalize and publish the Executive's National Anti-corruption strategy, and its respective action plan.

19. In the context of AML/CFT efforts, by end of February 2019, the Financial Intelligence Unit (FIU), in consultation with Fund staff, will propose amendments to the legal framework enabling the FIU, with immediate communication to a competent judge, to order the administrative freezing of funds and other assets identified in the context of money laundering suspicions, in line with international standards and best practices. These amendments to the legal framework will be implemented accordingly at a later stage.

20. In addition, we will redouble efforts to achieve the operational implementation of the company registry ("*Registro Nacional de Sociedades, Concursos y Quiebras*"), created by Law 27.444 in 2018, In 2019, it will be implemented using the register of the AFIP (Tax agency) which provides information on company name, single tax payer identification code, legal address, real address and representative to AFIP. Meanwhile, provincial registers will continue working on the digitalization and publishing online information. This last action is focused on the largest cities where more commercial activity is registered.

21. Furthermore, by May 2019, the Anti-Corruption Office, in collaboration with other relevant authorities and Fund staff, will pilot the new electronic system for submission of asset and interest declarations that has been developed following international good practices. The pilot will only comprise a small number of high-level officials from the Executive (i.e., President, Vice-president, Ministers and Secretaries of State) to test the tool before it is finalized for full implementation.

Table 1. Argentina: Schedule of Reviews and Purchases

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

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

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

(In billions of Argentine pesos unless otherwise stated)

	2018						2019								
	end-Oct			end-Nov			end-Dec			end-Jan	end-Feb	end-Mar	end-Apr	end-May	end-Jun
	PC	Adjusted PC	Actual	IT	Adjusted	Actual	PC	Proposed Revised PC	IT	IT	PC	IT	IT	Proposed PC	
Fiscal targets															
<i>Performance Criteria</i>															
1. Primary balance of the federal government (floor) 3/ 9/	-290.0	-299.1	-200.1	n.a.	n.a.	n.a.	-370.0	-378.0	n.a.	n.a.	6.0	n.a.	n.a.	40.0	
2. Federal government accumulation of external debt payment arrears (ceiling)	0.0		0.0	0.0	0.0	0.0	0.0	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		11.6	n.a.	n.a.	n.a.	24.4	24.4	n.a.	n.a.	30.0	n.a.	n.a.	40.0	
4. Social assistance spending (floor) 3/	144.0		148.8	n.a.	n.a.	n.a.	173.0	173.0	n.a.	n.a.	60.0	n.a.	n.a.	110.0	
<i>Indicative targets</i>															
5. Primary balance of the general government (floor) 3/ 9/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-370.0	-378.0	n.a.	n.a.	-14.0	n.a.	n.a.	30.0	
Monetary targets															
<i>Performance Criteria</i>															
6. Change in non-borrowed net international reserves (floor) 6/ 9/ 10/	3.7	4.3	5.3	2.1	1.4	2.2	7.1	7.1	4.1	2.9	12.5	8.0	4.2	5.8	
7. Change in stock of non-deliverable FX forwards (ceiling) 6/ 11/	0.0		-2.0	0.0		-2.3	0.0	0.0	0.0	-0.7	-1.0	-1.2	-1.5	-1.7	
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
9. Central bank financing of the government (ceiling) 4/	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
10. Change in net domestic assets of the central bank (ceiling) 8/ 9/	97.7	97.7	28.9	-55.7	-16.5	-121.6	-46.2	-46.2	-112.1	-36.0	-185.6	-300.3	-156.1	-101.5	
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\$ 571 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 monthly indicative targets.															

Table 3. Argentina: Structural Program Conditionality

Prior Action		Timing	Implementation status
1	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.	2nd 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	Not met. Implemented with delay.
4	Congress will pass the 2019 Budget targeting a zero primary balance.	Nov-2018	Met
5	Congress will pass the revenue legislation underpinning the 2019 fiscal plan, including the increase in rate and base of the wealth tax (Impuesto sobre los Bienes Personales)	Nov-2018	Not met. Implemented with delay.
6	Publish a debt management strategy with the goal of on increasing the predictability, pricing, and liquidity of treasury issuances	Dec-2018	Proposed
7	Provide sufficient resources to the newly created CBO (Oficina de Presupuesto del Congreso), so that it can effectively evaluate macroeconomic and budgetary forecasts (including those contained in the annual budget and MTFE), provide independent costing to Congress of new policy initiatives, assess the government's fiscal plans (including the annual budget), and monitoring public finances at the central level.	Dec-2018	Met
8	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Mar-2019	
9	Submit to Congress a new charter for the central bank that will ensure operational autonomy, strengthen the BCRA's monetary policy mandate, enhance decision-making structures, and buttress transparency and accountability	Mar-2019	
10	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	
11	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.
4. Inflation expectations will be monitored for the purpose of the program based on the information reported in the survey of professional forecasters organized each month by the BCRA, which is called *the Relevamiento de Expectativas de Mercado* (REM). Unless otherwise indicated, the inflation expectation in program document will refer to the median of the forecasts included in the REM.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

Cumulative Floor of the Federal Government Primary Balance

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

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

8. The accounting of the revenues from pension assets held by the *Fondo de Garantía y Sustentabilidad* (FGS) as a result of the 2008 pension fund nationalization poses a complex methodological issue. While the budget reported an immediate increase in pension spending after 2008, it never reported the revenues (contributions) capitalized in the nationalized pension assets available in 2008. The authorities and staff agreed on an IMF technical assistance mission by June-2019, that will collect the necessary information and advise the authorities on the correct record keeping of the nationalization operation and of subsequent changes to the pension system that is consistent with sound statistical principles as embedded in the IMF's Government Finance Statistics. Should the mission's recommendations lead to any changes in the measurement of the budget balance, additional policy measures would be discussed in order to achieve the fiscal targets agreed under the IMF-supported program. For the time being, the value of pension fund assets seized in 2008 will be spread over time as revenue to partially offset future pension spending. In particular, the amount will be divided by the average life expectancy of contributors to those schemes at 2018, that is 20 years. The limit on the amount to be recognized as revenue shall be 0.4 percent of GDP per year.

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

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

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

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

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

Floor on Federal Government Spending on Social Assistance Programs

1. **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

- *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.*

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.

- *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*.

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

3. **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 14,000 million pesos in 2018, 37,000 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 Conditions
(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.

4. **Adjustor for external financing projects:** The floor on the primary balance of the federal government (cumulative since the beginning of the year) will be adjusted up (down) by the shortfall (excess) in the expenditure, measured on a cash basis, financed by disbursements of external project loans by International Financial Institutions and bilateral partners, compared to the capital expenditures settled in the budget (Table 3). The value of the adjustor would be capped at cumulative 30,000 million pesos in 2018, 37,000 million pesos in 2019, and 0.2 percent of GDP in each successive calendar year. Starting in 2019 the benchmark will be the expenditure financed by disbursements of external project loans by IFIs and bilateral partners, as stated in the budget.

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

	AR\$ millions 1/
end-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.

Ceiling on Federal Government Accumulation of Domestic Arrears

5. **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 (*transferencias*).

6. **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.

7. **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

8. **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:

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

- 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.

9. **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.

10. **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.

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

Floor on the Change in Non-Borrowed Net International Reserves

12. **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.

13. **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.

14. **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.

15. **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.

16. 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.

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

18. **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
end-April 2019	24,412
end-May 2019	24,412
end-June 2019	29,884
Budget support loans from other multilateral sources	
end-October 2018	0
end-November 2018	950
end-December 2018	1,550
end-January 2019	1,550
end-February 2019	1,550
end-March 2019	1,550
end-April 2019	1,550
end-May 2019	1,550
end-June 2019	2,950

- **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 sales and purchases. Only the BCRA will be allowed to implement foreign exchange intervention. State-owned banks will not be allowed to engage in official FX sales on behalf of the government. 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. The limits above will be increased each calendar day

by 0.10 percent until the end of 2018. Starting in 2019 and until end-March 2019, the limits will be adjusted daily by a 2 percent monthly growth.

- Beyond these limits, the BCRA could decide (but is not obligated) to sell or buy up to US\$150 million per day as long as the exchange rate remains outside of this band. 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.

Cumulative flows from end-September 2018	(In millions of US\$)
end-October 2018	1,310
end-November 2018	2,975
end-December 2018	5,001
end-January 2019	5,805
end-February 2019	6,770
end-March 2019	8,063
end-April 2019	9,716
end-May 2019	11,368
end-June 2019	13,021

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

19. **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.
20. **Monitoring.** Daily data will be provided to the Fund at the end of each day.
21. **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.

22. **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

23. **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.

24. **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

25. **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.

26. 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.

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

28. **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.

29. **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.

30. **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

31. **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.

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

33. 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

34. **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).

35. **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*.

36. **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 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 14,000 million of pesos in 2018, 37,000 million pesos in 2019, and 0.2 percent of GDP in each successive calendar year.

37. **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, 37,000 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.

38. **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

39. 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

SPOT AND FORWARD FX SALES

40. **Definitions.** Spot and deliverable foreign currency sales can be carried out by the BCRA either directly or through any institution they use as their financial agent.

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

OTHER INFORMATION REQUIREMENTS

42. 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.