IMF Country Reports 21/279

Argentina: Ex-Post Evaluation of Exceptional Access Under the 2018 Stand-By Arrangement-Press Release and Staff Report

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ARGENTINA

December 2021

EX-POST EVALUATION OF EXCEPTIONAL ACCESS UNDER THE 2018 STAND-BY ARRANGEMENT—PRESS RELEASE AND STAFF REPORT

The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 22, 2021 consideration of the staff report.
- The **Ex-Post Evaluation of Exceptional Access Under the 2018 Stand-By Arrangement** prepared by a staff team of the IMF for the Executive Board's consideration on December 22, 2021. The staff report was completed on December 8, 2021.
- A **Statement by the Executive Director** for Argentina.

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PRESS RELEASE

PR21/401

IMF Executive Board Discusses the Ex-Post Evaluation of Argentina's Exceptional Access Under the 2018 Stand-By Arrangement

FOR IMMEDIATE RELEASE

Washington, DC – December 22, 2021: The Executive Board of the International Monetary Fund (IMF) met today to discuss the Ex-Post Evaluation (EPE) of Argentina's Exceptional Access Under the 2018 Stand-By Arrangement.

An Ex-Post Evaluation is required in all cases of IMF lending above normal borrowing limits to review performance against original program objectives, discuss whether the program design was appropriate, and assess whether the program was consistent with Fund policies. This EPE reviews the experience under Argentina's program, supported by the Stand-By Arrangement, and covers the period from June 2018 through to August 2019. It examines weaknesses and vulnerabilities of the Argentine economy, objectives and policies under the program, the balance of financing and adjustment, and the justifications for exceptional access to IMF financing by Argentina. The EPE also includes an appendix laying out the authorities' reaction to the report and views on the 2018 Stand-By Arrangement.

In early 2018, Argentina, like other emerging market economies, was experiencing challenging external financing conditions. The government announced in May 2018 that it would seek an IMF arrangement. In support of an economic program, the Executive Board approved in June 2018 the largest stand-by arrangement in the Fund's history. After an augmentation in October 2018, access under the arrangement amounted to US$57 billion (1,227 percent of Argentina's IMF quota).

The program aimed to restore confidence, reduce balance of payments and fiscal imbalances, and bring down inflation. Restoring confidence would, in turn, allow time for the authorities to return to dealing with longer-term challenges facing the Argentine economy. The strategy, underpinned by the large financial support from the Fund, centered on fiscal and monetary tightening, combined with targeted structural reforms, to catalyze renewed capital inflows. The program also included specific measures to support vulnerable segments of the population and to address gender inequality.

The Ex-Post Evaluation report concludes that relevant Fund policies and procedures, including those relating to financing, safeguards and program design, were adhered to. The report also finds that the program did not deliver on its objectives, despite significant modifications of economic policies. Mounting redemptions, along with capital flight by residents, put considerable pressure on the exchange rate. Despite FX interventions beyond program provisions, the exchange rate continued to depreciate, increasing inflation and the peso value of public debt, and weakening real incomes, especially of the poor. In sum, the report concludes that the program did not fulfil the objectives of restoring confidence in fiscal

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and external viability while fostering economic growth. The program went off track in August 2019 with only four of the planned twelve reviews completed by the Executive Board. The authorities decided to cancel the arrangement on July 24, 2020.

Executive Board Assessment[1]

Executive Directors welcomed the comprehensive ex-post evaluation (EPE) of exceptional access to Fund financing under the 2018 Stand-By Arrangement (SBA) with Argentina. While the EPE draws a number of important lessons, they noted that several of them are not new. Looking ahead, Directors emphasized that the EPE findings should inform the ongoing discussions on a potential follow-up program with Argentina.

Directors regretted that the 2018 program did not deliver on its objectives of restoring market confidence, bringing down external and fiscal imbalances, reducing inflation, and protecting the most vulnerable segments of the population. They considered that the program's strategy and conditionality was not sufficiently robust to address Argentina's deep-seated structural problems, including fragile public finances, dollarization, high inflation, weak monetary policy transmission, a small domestic financial sector, and a narrow export base.

Directors noted that the then government's redlines on certain policies may have ruled out potentially critical measures for the program. Among those measures were a debt operation and use of capital flow management measures. A number of Directors, however, questioned the feasibility of implementing these measures when a key objective of the program was to restore market confidence. Directors recognized that the emphasis on government ownership may have also led to overly optimistic forecasts, which weakened the program's robustness.

Directors noted that the SBA has created substantial financial and reputational risks to the Fund. Most Directors concurred that agreeing with the authorities upfront on contingency plans could have reduced risks to the program and to the Fund, but a few Directors noted the difficulties of handling such plans in practice given market sensitivities. Directors emphasized that better communication by the authorities could have boosted the catalytic effect of the program. They also underscored that greater burden sharing with other official creditors would have provided additional financing and signaled broader support from the international community, both of which could have bolstered confidence.

Directors generally agreed that the SBA was consistent with Fund policies and procedures but recognized that the application of some of these policies involved considerable judgment. A few Directors, however, questioned such consistency. While standard procedures to assess risks to the Fund were followed, Directors considered that broader risks could have featured more prominently, and the Board could have been involved earlier and more deeply in the process. Many Directors considered that an evaluation of the 2018 SBA with Argentina by the Independent Evaluation Office could complement the EPE findings. While the revised Exceptional Access Framework was followed, they noted that the application of the criteria on debt sustainability, market access, and capacity to implement the program was not straightforward and came down to finely balanced judgments.

Directors highlighted several lessons for Fund-supported programs. First, it is essential that they incorporate realistic assumptions. Second, programs should be tailored to country circumstances, including political economy considerations, which could entail using

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

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unconventional measures if standard macroeconomic policies are unlikely to deliver. Third, the analysis of risks underlying key judgments made when applying the Exceptional Access Framework should be clearly laid out and communicated to the Board. Fourth, ownership, which should be understood in a broader societal sense, should not preclude a candid assessment of possible better policy choices and program outcomes. Fifth, effective external communication is essential in securing proper buy-in at different levels and the intended catalytic effect. Finally, an appropriate burden sharing is needed when entering into exceptional access arrangements.

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INTERNATIONAL MONETARY FUND

ARGENTINA

December 8, 2021

EX-POST EVALUATION OF EXCEPTIONAL ACCESS UNDER THE 2018 STAND-BY ARRANGEMENT

EXECUTIVE SUMMARY

On June 20, 2018, the Executive Board approved the largest stand-by arrangement in the Fund's history, in support of Argentina's 2018-21 economic program. After an augmentation in October 2018, access under the arrangement amounted to US$57 billion (1,227 percent of Argentina's IMF quota). The program saw only four of the planned twelve reviews completed, and did not fulfil the objectives of restoring confidence in fiscal and external viability while fostering economic growth. The arrangement was canceled on July 24, 2020.

The government elected in late 2015 rapidly opened the capital account and borrowed abroad, while adopting a gradual approach to addressing economic imbalances—particularly fiscal deficits—setting the stage for a sudden stop and the SBA request. Upon assuming office, the government sought to strengthen relations with the international financial community, including the Fund. Capital inflows to Argentina—mainly portfolio flows—surged after its capital account was reopened. Meanwhile, macroeconomic imbalances and structural distortions persisted. The government relied on external borrowing to finance public deficits, in support of a deliberate choice of policy "gradualism" designed to limit adverse effects of fiscal consolidation. By early 2018, Argentina, like other EMs, was experiencing more challenging external conditions, resulting in the government announcement in May 2018 that it would seek IMF financial support.

The program was designed to deal with a temporary liquidity shock by catalyzing renewed capital inflows. The strategy, underpinned by the large financial support from the Fund, centered on fiscal and monetary tightening combined with targeted structural reforms. The program also included specific measures to support vulnerable segments of the population and to address gender inequality.

Government ownership was given high priority and, with that, potentially critical measures—notably a debt operation and reintroduction of capital flow management measures—were ruled out from the beginning. The complicated history of Argentina's relations with the Fund and the government's perception of limited political space in the run-up to the general elections in October 2019 severely constrained fiscal and structural

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policy choices. The IMF accepted the authorities' preferred macroeconomic projections, which proved too optimistic; assessments of exceptional access criteria were finely balanced; and fiscal consolidation was low quality and structural reforms unaspiring. Importantly, the authorities ruled out a debt operation and reintroduction of capital flow management measures, and there was no "Plan B" agreed with the authorities upfront.

The SBA represented substantial financial risks to the IMF, which increased with the enlarged and more frontloaded access approved at the First Review. With the exception of the disbursement at approval, the 2018 SBA was conceived as precautionary. Early disbursements were very large, owing to the overall size of the arrangement. Deteriorating financial conditions quickly prompted a switch to a fully disbursing arrangement. The resulting increase in access and frontloading incorporated at the First Review raised further the financial risks to the Fund.

Ultimately, the program's strategy proved too fragile for the deep-seated structural challenges and the political realities of Argentina. The fundamental problem was lack of confidence in fiscal and external sustainability. Weak public finances with rigid budgets and revenue sharing arrangements, high dollarization, feeble monetary policy transmission, a small domestic financial sector, and a narrow export base limited the economic policy options available in the short run. Standard consolidation measures were likely to be problematic—currency mismatches implied a vicious circle by which fiscal and monetary tightening had the potential to lower growth, raise risk premia and weaken the currency, worsening balance sheet positions and putting viability further out of reach. The authorities' redlines added to the constraints on policies. Moreover, truly restoring confidence would have required not only improving public finances, expanding the export base, and addressing other structural challenges, but also showing that the reforms to these ends would be durable—a complex challenge given Argentina's history and political economy.

As a result, the program did not succeed in improving confidence and delivering on its objectives. Despite the size of the arrangement, Argentina had to borrow considerable amounts in the markets—with little burden sharing and without a debt operation, it met rollovers at increasingly shorter maturities and higher interest rates until market access was lost in August 2019. Mounting redemptions, along with capital flight by residents, put considerable pressure on the exchange rate. Despite FX interventions beyond program provisions, the exchange rate continued to depreciate, increasing inflation and the peso value of public debt, and weakening real incomes, especially of the poor. Consequently, the program's growth and inflation objectives were missed.

Steps could have been taken to increase the program's chance of success. The program was well understood to be high-risk—from the beginning, public debt was assessed to be "sustainable but not with high probability." Given this assessment, an early debt operation, combined with reintroduction of capital flow management measures, could have delivered a more robust program. And more consistent communication by the authorities could have boosted the catalytic effect. Instead of the decade-long hiatus ahead of the program, maintaining closer collaboration between Argentina and the Fund—a two-way street, requiring stronger engagement by the country authorities—could have helped better align analysis and communication. Finally, greater burden

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sharing with other official creditors could have, besides providing additional financing, signaled broader support from the international community, both of which could have supported confidence.

The experience with Argentina's 2018 SBA highlights lessons from earlier Fund-supported programs, but also points to new lessons. In hindsight, general lessons include the importance of:

i. *Ensuring robustness of the program by using conservative yet plausible baseline assumptions and testing the sensitivity to alternative assumptions and explanations of the crisis.* The aim would be to make programs more robust to possible exogenous shocks and forecast errors, given the high levels of uncertainty prevalent in crises. Programs also need to guard against assumptions of unrealistic returns from reforms, especially when the political environment is uncertain. In some cases, agreement on contingency plans from the outset is warranted.

ii. *Tailoring the program to country circumstances, even if that means embracing unconventional measures when the policy space offered by traditional policies is limited.* Unconventional policies may be called for when circumstances are not "textbook," as is the case in many emerging market contexts. For instance, the Argentina program might have been more solid had it featured capital flow management measures.

iii. *Sharpening the application of the Exceptional Access Framework (EAF)*. Exceptional access cases inevitably involve technical judgments, especially given the elevated uncertainties and rapidly shifting sentiment characterizing crisis environments. This is particularly so for the assessment of a country's access to capital markets, notably in the context of the assessment of debt sustainability, and a government's political and institutional capacity to implement programs. The experience of the 2018 SBA highlights the importance of laying out the analysis and risks underlying key judgments as fully as possible when applying the EAF.

iv. *Carefully balancing ownership against the quality and appropriateness of program policies and risks to the Fund's reputation.* Ownership of a Fund-supported program by the authorities is crucial for its success, but the Fund should nevertheless question policy "redlines" that could compromise program objectives. This would, in some cases, require efforts to expand the political space so as to encompass a wider range of policy options. In particular, ownership should be understood in a broader societal sense, especially when a government has fragile political support.

v. *Ensuring effective external communication, so that a program is well understood by the population and in financial markets and has the intended catalytic effect.* Country authorities need to play the central role in communicating their Fund-supported program. This calls for a shared understanding facilitated by close policy dialogue with the Fund in normal times.

vi. *Revisiting the Fund's internal processes for assessment and mitigation of broader risks associated with large-scale Fund arrangements.* The goal would be to bring sufficient information to the Board to facilitate a robust discussion of program assumptions and

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alternative policy strategies in response to shocks, before a program is approved. Especially for high-risk programs, agreement with country authorities on contingency plans that define triggers and actions in the event of a shock that could derail a program would be imperative.

vii. *Considering the broader implications for the Fund's role in the global financial safety net, including burden sharing with other IFIs and private creditors.* Being the largest creditor to a relatively large country is both exceptionally risky to the Fund and potentially self-defeating to the purpose of catalyzing a return to market access. The Fund therefore needs to take a stand on burden sharing when entering into exceptional access arrangements, a consideration that raises important questions on when the Fund should be prepared to "pull the plug" on programs whose objectives can no longer realistically be met within the existing financing envelope or not enter into new programs.

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Acronyms

The following acronyms are used in the text and defined here.

AML-CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ARA	Assessing Reserve Adequacy
AREAER	Annual Report on Exchange Arrangements and Exchange Restrictions
BCRA	Banco Central de la República Argentina
BoP	Balance of Payments
CAC	Collective Action Clause
CFM	Capital Flow Management Measure
CGFN	Cumulative Gross Financing Needs
DSA	Debt Sustainability Analysis
EAC	Exceptional Access Criteria
EAF	Exceptional Access Framework
EFF	Extended Fund Facility
EM	Emerging Market
EMBIG	Emerging Market Bond Index Global
EPA	Ex-Post Assessment
EPE	Ex-Post Evaluation
FX	Foreign Exchange
FXI	Foreign Exchange Intervention
GRA	General Resources Account
ICC	Inflation Consultation Clause
IEO	Independent Evaluation Office
IFI	International Financial Institution
IMF	International Monetary Fund
IT	Inflation targeting
LEBAC	Letras del Banco Central
LECAP	Letras Capitalizables
LELIQ	Letras de Liquidez
LETES	Letras del Tesoro de la Nación
LIA	Lending Into Arrears
MEFP	Memorandum of Economic and Financial Policies
NDA	Net Domestic Assets
NIR	Net International Reserves
ORM	Office of Risk Management
PFM	Public Financial Management
PRGT	Poverty Reduction and Growth Trust
SBA	Stand-By Arrangement
SDR	Special Drawing Right
TA	Technical Assistance

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INTRODUCTION

1. This report reviews Argentina's 2018–21 Fund-supported program against its objectives and applicable Fund policies.

- The Stand-By Arrangement (SBA) supporting the program was approved by the IMF's Executive Board in June 2018, with the final purchase to become available in June 2021. The SBA was augmented in October 2018, providing Argentina with access to Fund financing of SDR 41 billion (equivalent to US$57 billion, or 1,277 percent of quota), the largest disbursing arrangement in Fund history. Implementation of the program went off track in August 2019, after only four out of the twelve planned reviews had been completed and with SDR 32 billion (currently US$45 billion) disbursed. The arrangement was cancelled by the authorities in July 2020.

- As required in exceptional access cases, this Ex-Post Evaluation (i) reviews performance against original program objectives; (ii) discusses whether the program design was appropriate; and (iii) assesses whether the program was consistent with Fund policies. The report reviews the experience under the program from its adoption in June 2018 through to its effective suspension. It examines weaknesses and vulnerabilities of the Argentine economy, objectives and policies under the program, the balance of financing and adjustment, and the justifications for exceptional access.[1]

2. The report proceeds as follows. After describing the program's goals and strategy, the report analyzes in detail program outcomes and design issues. It then evaluates whether the program was consistent with IMF policies and procedures. The penultimate section contains an overall assessment of the program, while the final section suggests lessons of general relevance. Appendices provide a detailed account of economic developments and policies leading up to the program request (Appendix I), summarize the 2004 Independent Evaluation Office report (Appendix II) and the 2006 Ex-Post Assessment and Ex-Post Evaluation on Argentina (Appendix III), and present the authorities' views on the EPE staff team's assessments (Appendix IV).

PROGRAM STRATEGY: OVERVIEW

The program supported by the SBA aimed to galvanize investor confidence, on the assumption that Argentina was facing a temporary liquidity crunch. To that end, fiscal and monetary policy would be tightened to demonstrate commitment to eliminating underlying imbalances, and substantial financing would be provided by the IMF. Considerable emphasis was placed on the administration's

[1] In line with the Guidance Note on Ex-Post Evaluations, the report does not review the decision-making process and the roles of management, staff, and the Board of the IMF, this being the more appropriate role for the Independent Evaluation Office. See *Ex Post Evaluation of Exceptional Access Arrangements—Revised Guidance Note* (February 25, 2010).

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ownership of program policies, with explicit provisions made for social protection. The program was considered risky from the outset, but contingency plans were not incorporated into the program upfront.

3. Policy decisions and economic imbalances set the stage for a "sudden stop" in the spring of 2018. (Appendix I provides an overview of economic developments and policies from 2015 through to the program request.) Capital inflows to Argentina—notably in the form of portfolio debt flows—surged after its capital account was reopened at the end of 2015, boosted also by easy global financial conditions. Meanwhile, the government pursued a deliberate policy of fiscal "gradualism" in an attempt to limit adverse effects of consolidation, notwithstanding some progress in cutting subsidies. Structural distortions remained. The authorities aimed to lower inflation under a nascent inflation targeting regime, despite persistent fiscal deficits, extensive dollarization, weak monetary transmission, and unanchored inflation expectations. Sovereign borrowing steadily increased to finance fiscal and external deficits. By early 2018, Argentina, like other emerging market economies, was experiencing more challenging external conditions. With foreign investors already concerned about sovereign debt sustainability, a tipping point seems to have been the implementation of a tax on financial assets in April 2018, which caused a sell-off, firstly of central bank bills (LEBACs) that had been the object of a profitable carry trade, then spreading to a more general run on Argentine assets. Facing a sharp exchange rate depreciation and rapidly worsening access to external financing, the government announced in May 2018 that Argentina would seek an IMF arrangement.

4. The program aimed to restore confidence, reduce balance of payments and fiscal imbalances, bring down inflation, and protect society's most vulnerable.[2] Restoring confidence would, in turn, allow time to return to dealing with longer-term challenges facing the Argentine economy. Specifically,

- To *restore market confidence*, the goal was to lessen short-term government financing needs substantially by providing Fund support to Argentina and putting public debt on a firm downward trajectory. The target in the program adopted in June 2018 was to reduce the federal government primary deficit from 3.8 percent of GDP in 2017 to 1.3 percent in 2019, and to achieve primary balance by 2020. After the First Review in October, more ambitious fiscal adjustment targets were adopted, aiming for primary balance already in 2019 and a surplus by 2020. (See paragraphs 11, 16, and 19–24 below for more details on fiscal policy.)

- To *protect the most vulnerable*, the program sought to strengthen the social safety net through redesigned assistance programs and also featured measures to increase female labor force participation. On the former, the level of social spending was protected through program conditionality in the form of spending floors and measures to support more effective and better targeted social safety nets (¶32–35). The latter included the elimination of tax disincentives and improvement in state-provided childcare.

[2] IMF Press Release 18/245 and IMF (2018a).

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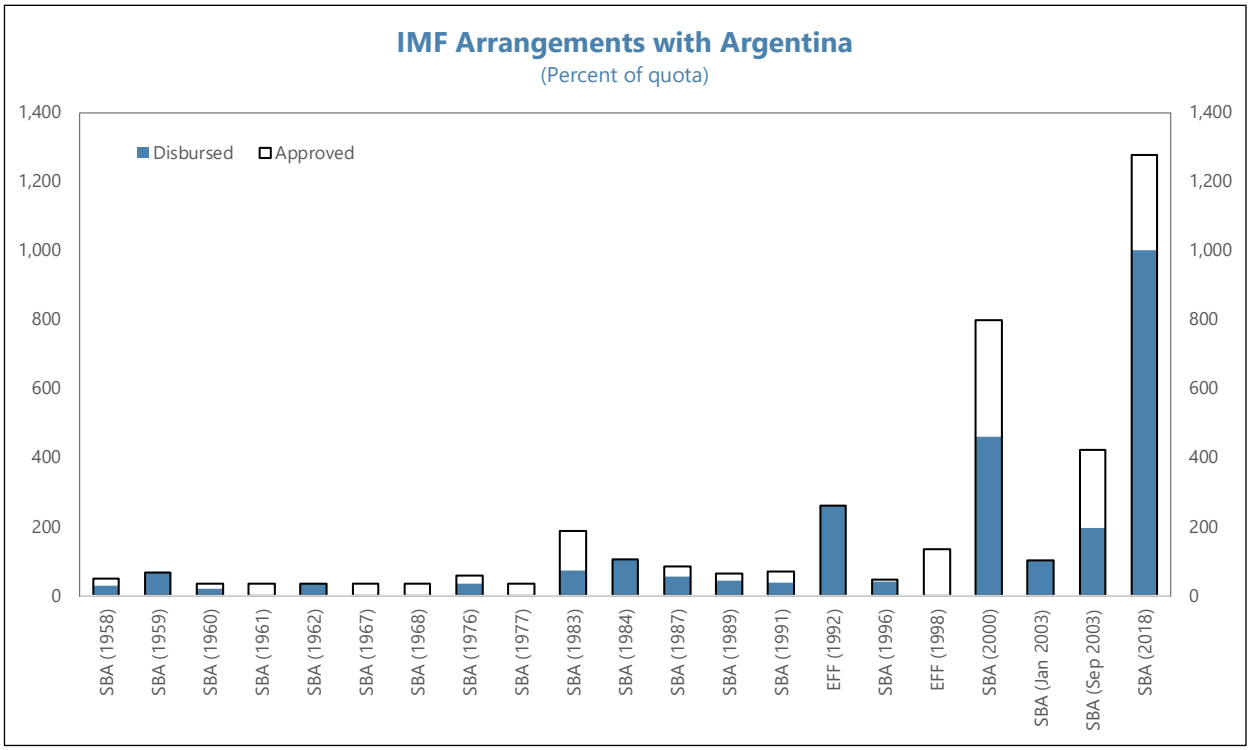
- To strengthen *monetary policy*, the program called for institutional and operational independence of the central bank and a flexible exchange rate, to underpin the formal inflation targeting framework. The goal was to achieve single-digit inflation by the end of the three-year program. Plans to strengthen the balance sheet of the central bank were also laid out. After the First Review, formal inflation targeting was replaced by monetary base targeting, to provide a simpler and more easily communicated anchor. Monetary base targeting was initially combined with a commitment on short-term policy interest rates, which were not to fall below 60 percent until inflation expectations had clearly declined. The rules on foreign exchange intervention (FXI) were adapted to provide more clarity on FXI and limit the scope for *ad hoc* interventions (¶11, 15, 25–31).

- To mitigate risks to the *balance of payments*, the central bank would rebuild foreign exchange reserves so as to have sufficient precautionary foreign currency liquidity (¶16).

- In comparison to other programs, the program included relatively few undertakings relating to *structural reforms* and the *financial sector* (¶36–38).

5. Argentina's complicated history with the IMF motivated a strong emphasis on government ownership in the design of program policies. Considerable deference was given by the Fund to the authorities' views on macroeconomic prospects and policies.

- The relationship between Argentina and the IMF had often been contentious (Appendices II and III). Prior to the 2018 SBA, Argentina had 21 programs supported by IMF arrangements, increasing in size over time, but only a few of these arrangements were fully disbursed (Annex I). Relations were distant for a decade from 2006—the authorities did not consult with the



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Fund under Article IV until 2016; Fund support for capacity development was minimal; in 2011, the Executive Board of the Fund found Argentina to be in breach of its obligations under Article VIII of the Articles of Agreement due to provision of inaccurate data; and the Fund's resident representative office was closed in 2013 (and reopened only in 2018). The image of the IMF in Argentina suffered from program involvement during the country's earlier economic crises, starting with the first IMF arrangement in 1958. This history limited the opportunities for the Fund to work with the authorities in analyzing economic developments and policy options, to engage with the Argentine public, and to address negative perceptions.

- Mindful of the public backlash that had accompanied previous programs, the Fund stressed the administration's ownership of the 2018 program, the message being that the government had requested IMF support to implement its own policy plans to address longstanding macroeconomic vulnerabilities, make debt sustainable, reduce inflation, and boost growth.[3] The program's conditions to safeguard spending on social protection were also highlighted.[4]

- In the same vein, the IMF moved quickly to provide rapid and substantial financing, but without the usual preliminary missions to resolve technical issues. It did not seek far-reaching changes in the government's economic policy plans or secure financial support from other IFIs. As the program was designed to restore confidence and deal with temporary illiquidity, structural reforms were not considered a priority for the short term, and so the program involved relatively limited structural policies.

6. The strategy was further shaped by domestic political considerations. The administration's perception of limited political space—together with the view that the economy was primarily facing acute liquidity pressures, rather than solvency issues—implied that faster fiscal consolidation would neither be feasible nor appropriate. Similarly, the administration judged that aiming for extensive structural reforms would risk making the program hostage to its fragile position in the legislature—such reforms were expected to be added to the policy agenda and SBA after the general election—and did not seek to build a broader coalition in support of reforms or the program more generally. The initial program had no prior actions, as these were viewed as inimical to ownership.[5] Critically, the administration ruled out reintroducing capital flow management measures (CFMs), engaging in a public debt operation, or introducing incomes policies.

7. The program was supported by a stand-by arrangement that was, in absolute terms, the largest in IMF history.

[3] See Staff Report for the SBA Request, pp. 2, 3, 39, and the MD's press releases 18/216, 18/234 and 18/245.

[4] Attempts to safeguard social protection had been made in other programs—see, for example, the Staff Report for the 2009 SBA Request for Latvia, pp.16, 23-24, 30, and 67-68.

[5] Fund policies call for policy measures—"prior actions"—to be taken to underpin the upfront implementation of important measures when critical for the successful implementation of the program.

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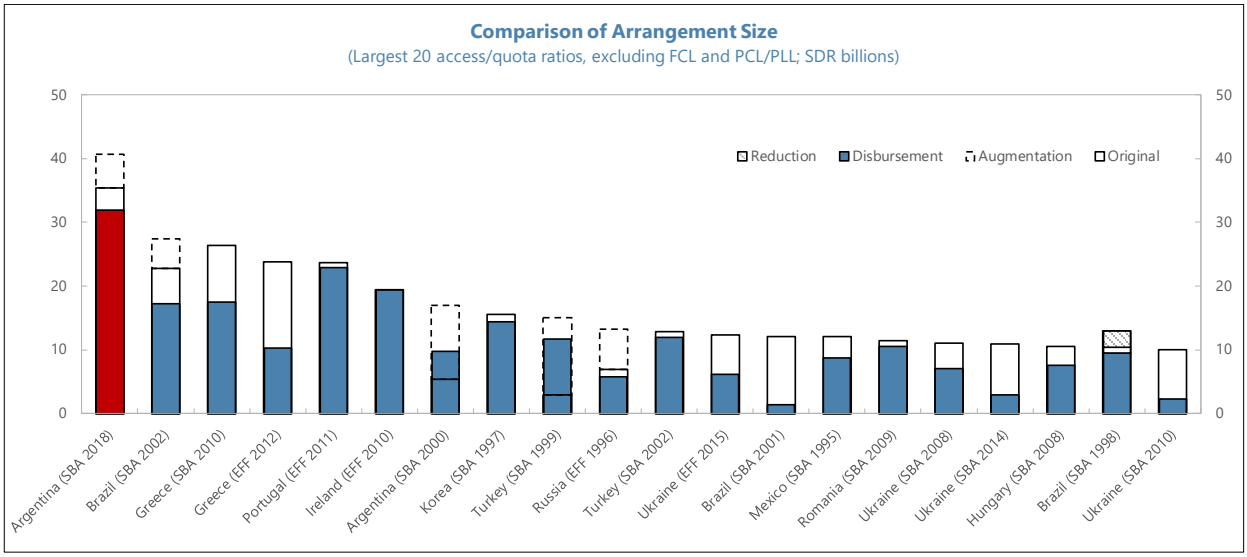
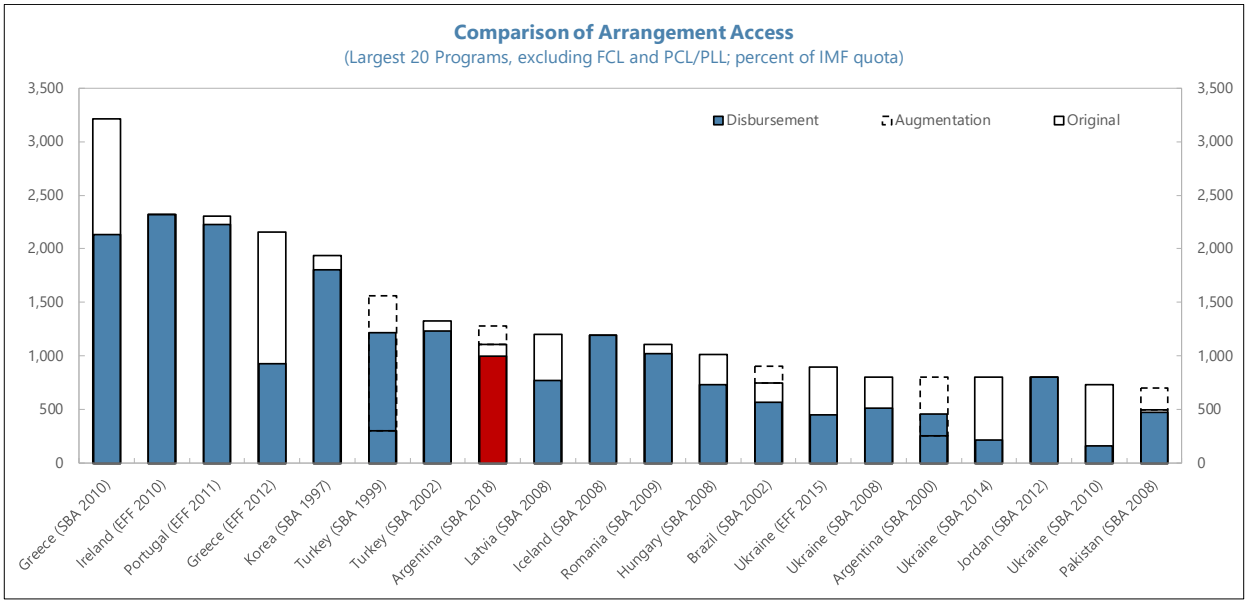
- Access was initially set at SDR 35.4 billion (approximately US$50 billion, or 1,110 percent of Argentina's Fund quota), and was increased to SDR 40.7 billion (approximately US$57 billion, or 1,227 percent of quota). This was the largest arrangement in IMF history in absolute terms (excluding Flexible Credit Lines), although other arrangements, including some during the euro area and Asian crises, had been larger in percent of quota (based on the country's quota at the time of the approval of the arrangement). Early disbursements were very large in SDR terms, giving the appearance of a front-loaded arrangement, but this reflects the exceptional size of the SBA; in fact, the relative size of early disbursements to the total arrangement was about average, even after the augmentation. (Although the shift to a disbursing arrangement and increase in access at the First Review made the arrangement more frontloaded—see ¶49.)





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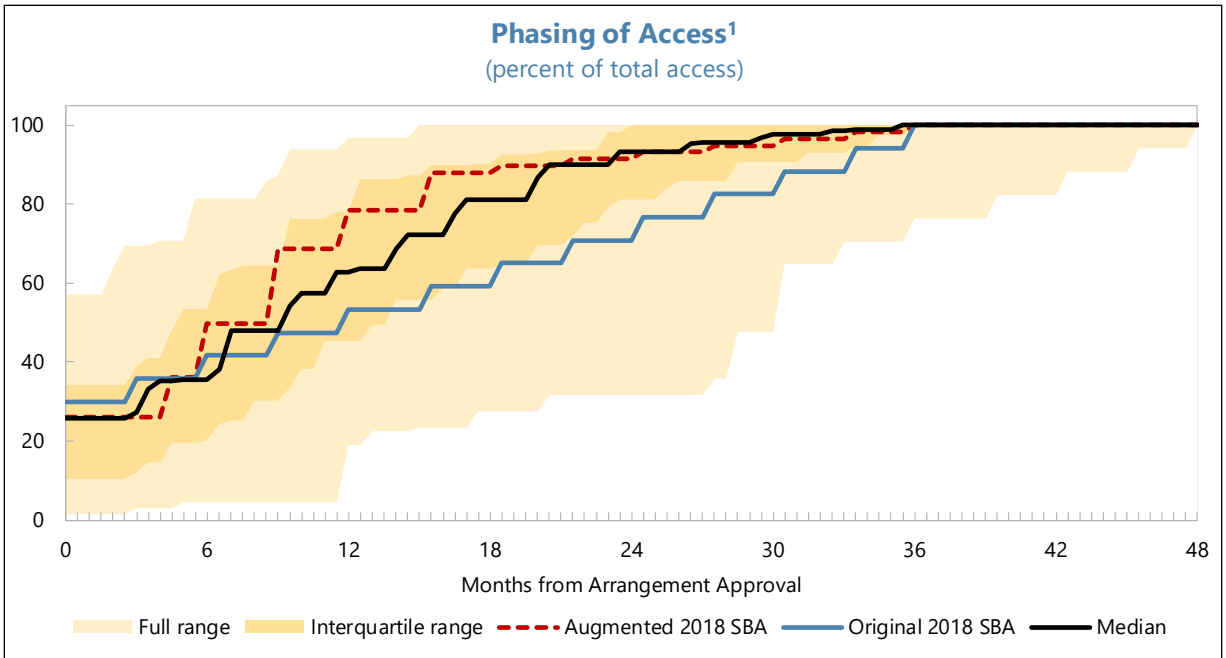

1/ Comparator ranges are based on the other 19 arrangements among the Fund's largest 20 arrangements (excluding FCL and PCL/PLL). Augmented phasing is considered when applicable.

- The SBA has been the workhorse IMF lending instrument for emerging and advanced economies, allowing the Fund to support a country's adjustment policies with short-term financing. The choice of an SBA was consistent with the diagnosis of a sudden liquidity shock. The SBA was also seen as the most suitable instrument to accommodate a request for urgent support under the IMF's Emergency Financing Mechanism. Given the shared diagnosis of Argentina's balance of payments problem, an Extended Fund Facility arrangement—which would have offered a longer repurchase period—was not requested, as that instrument is designed to support programs addressing structural challenges.

8. The SBA was initially to be treated as principally precautionary, to catalyze lending to Argentina from other sources, but was soon turned into a fully disbursing arrangement. The aim was to restore confidence by providing access, if needed, to substantial funds while giving the Fund's imprimatur to the administration's economic policies. Like with the program's policies, this approach was consistent with the initial belief that the shock to liquidity would not be persistent. Accordingly, at the outset, the bulk of the access was intended to be treated as precautionary: only the initial drawing (SDR 10.6 billion, or US$15 billion) was predicated on an actual balance of payments need, concentrated in the period from June to December 2018.[6] Access to the remainder of the Fund resources (SDR 24.8 billion, or US$35 billion) was to be evenly phased based on twelve quarterly reviews. As the program did not have the intended catalytic effect in the period

[6] Half of the proceeds of the initial disbursement (US$7.5 billion) was used by the authorities for budget support to cover the fiscal financing gap through December 2018, assuming between 75 and 100 percent debt rollover; the other half was used to bring gross reserves to about 100 percent of the ARA metric by end-2018.

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immediately following the approval in June, access was augmented in October 2018, in the context of the First Review, to US$57 billion; the augmentation entailed some frontloading and was combined with a shift to a disbursing arrangement, the proceeds of which the authorities used for budget financing.

9. From the outset, the program involved considerable risks.

- As with all programs, Argentina's 2018 SBA was susceptible to forecast errors, implementation risks, and political and external developments. General elections were scheduled for October 2019, effectively halfway through the program period, and some regional elections—a bellwether of public opinion—would take place only 11 months after the program was put in place. In terms of the macroeconomic strategy, the program faced a difficult balancing act: to pull back from excess borrowing without an overly-austere fiscal policy; to bring down inflation while not tightening financial conditions too much; and to let the exchange rate find its equilibrium without allowing inflation to surge. Most important, especially given Argentina's history of economic instability, was the assumption that the economic policy strategy and financial support under the program would restore confidence and reverse capital flight.

- Several of these risks were recognized from the outset, including those to macroeconomic projections, debt sustainability, and the political environment (IMF, 2018a). Less well appreciated at the time the program was adopted was the structure of debt. First, the Fund took assurance from estimates that only a fraction of existing foreign currency-denominated public debt would come due before 2020.[7] But available data obscured the short maturity of this foreign-currency debt. Despite its size, the SBA did not take Argentina fully out of the market—with little burden sharing and without debt reprofiling, the need to roll over debt and the consequent sequence of redemptions (along with capital flight by residents) put considerable pressure on the exchange rate. Inability to address persistent exchange rate pressures arising from high FX debt rollover needs and capital flight in turn undermined monetary and fiscal adjustment and damaged real incomes, given the high pass-through to inflation arising from extensive dollarization and indexation. Second, some of the existing debt instruments would prove highly problematic. The vulnerabilities arising from central bank liabilities (LEBACs) were not well understood at the time of the program request. Later, it would emerge that collateralized arrangements made by the government in 2016 and 2017 (so-called "repos") would not only have to be rolled over at higher rates in 2018 and 2019, but were also subject to margin calls and termination clauses, draining reserves and further undermining confidence at the height of the crisis.

10. Although the overall risks were well recognized, there were no contingency plans incorporated into the program early on. The staff reports for the SBA request and each of the program reviews laid out risks associated with the program, but it proved difficult to engage the authorities in contingency planning.

[7] The Fund initially estimated that 20 percent of existing foreign currency-denominated public debt held by the private sector would come due before 2020; by the time of the First Review, this was revised up to one quarter (about US$37 billion).

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- An IEO Report prepared in 2004 (summarized in Appendix II) noted that earlier IMF arrangements with Argentina had lacked contingency plans for when programs went off track, and recommended that such plans be included—with explicit triggers—at the outset of any future programs.[8] Developing a contingency plan early on could have helped to raise the authorities' awareness of policy alternatives and prepare Fund staff to respond to adverse developments. Nonetheless, contingency plans were not incorporated until the Fourth Review of the 2018 SBA, although the adverse scenario in the Staff Report for the SBA Request aimed to illustrate the consequences of downside risks materializing.

- The Fund recognized that if the program did not restore sufficiently favorable market access, a reassessment of the strategy would be required. But no easy option was available: in principle, the Fund could either have increased access further to eliminate the need for market borrowing for an extended period; suspended or delayed reviews, in effect pausing the program; or continued with the program only once the authorities agreed to embark on a debt operation. However, the additional financing required to eliminate the need for market access until after the October 2019 elections would likely have been beyond the IMF's tolerance, ruling out the first option. Exercising the second option would mean that the IMF had "pulled the plug" on the program, as it did in 2002, and would likely have worsened the crisis.[9] The need for a debt operation was not clear at the outset of the program, neither on the basis of the debt sustainability assessments at that time nor the diagnosis that the problem was a temporary liquidity shock. A debt operation would likely have required complementary CFMs to prevent further capital flight, but both debt operations and CFMs were ruled out by the administration.

- Within the Fund, deliberations on a "Plan B" began soon after the initial program was approved. In addition to identifying fiscal measures that could be deployed if the primary balance target appeared at risk, exercises were conducted to estimate "stop-loss" thresholds (such as minimum rollover rates) at which point additional sources of financing and/or a debt reprofiling would be required. The work recognized that reintroduction of CFMs would have been essential to buttress a debt operation; CFMs could also, by containing capital within the country, have limited the need for increases in interest rates. There were continuous efforts by the Fund, throughout the duration of the program, to engage the authorities in contingency planning. However, while the authorities acknowledged to the IMF Executive Board early in the program that a more fundamental rethink of policies to ensure debt sustainability would be required if financing conditions did not improve as envisaged, an understanding between staff and the authorities on the steps to be taken in such an event was not reached until the Fourth Review in July 2019.

[8] This was also a recommendation in a 2003 IMF Independent Evaluation Office report on the role of the IMF in capital account crises. In addition, the 2004 IEO Report recommended that, when debt and/or exchange rate sustainability are in doubt, IMF support should be conditional upon a meaningful shift in the country's policies.

[9] See Appendix II, ¶¶5, 11.

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PROGRAM DESIGN ISSUES AND OUTCOMES

The program was fragile from its inception and did not durably restore market confidence. Inconsistent policy implementation and communication missteps were partly responsible. More fundamentally, the authorities did not want to instigate fundamental reforms before the general election, meaning that the program was not able to provide assurances that underlying imbalances would be resolved and growth restored. Yet the arrangement was not sufficiently large to fully finance Argentina, which, given that a debt operation and CFMs were off the table, made the program vulnerable to rollover needs. The peso continued to depreciate, raising inflation, increasing the government debt burden, lowering real incomes and overwhelming the efforts to protect vulnerable households. Ultimately, the program did not achieve fiscal and external viability, while economic growth and employment faltered. The program was de facto suspended in August 2019, with only four of the planned twelve reviews completed.

A. Timeline: Program Approval and Reviews

11. The policy strategy evolved over time, as the program faced ongoing challenges in delivering the intended results. The program approval in June 2018 was followed by substantial revisions in strategy already in October. Additional, albeit less far-reaching, adjustments continued throughout the program:

- *Initial program (June 2018)*: The initial program envisaged a modest acceleration in fiscal consolidation; strengthening of the existing inflation targeting framework (including an end to monetary financing and more independence for the central bank); safeguarding of social protection; and policies to address gender inequality. The policy elements were designed to be complementary: for example, addressing fiscal dominance would support inflation targeting; safeguarding social protection would alleviate the impact of fiscal restraint on the poor, while remaining consistent with consolidation objectives; and increased female labor participation would provide a boost to the supply side. (See IMF, 2018a.) In contrast to some other large programs, financing from other IFIs was limited and no official bilateral financing was forthcoming.

- *First Review (October 2018)*. After the approval of the arrangement in June, financial conditions continued to deteriorate, the exchange rate depreciated sharply, and monetary targets were missed. The strategy was thus revamped at the First Review. The Board approved an augmentation of Fund financing, with frontloaded access and with the proceeds of the purchases under the arrangement used for budget financing. Also, the revamped program involved substantially revised macroeconomic targets, further acceleration of fiscal consolidation, and the adoption of a simpler monetary policy regime. (See IMF, 2018b.) However, the diagnosis that Argentina was facing a temporary liquidity shock was retained. Yet, additional financing from other IFIs or bilateral creditors remained elusive. Although debt sustainability indicators had worsened, the revised program did not include a debt operation.

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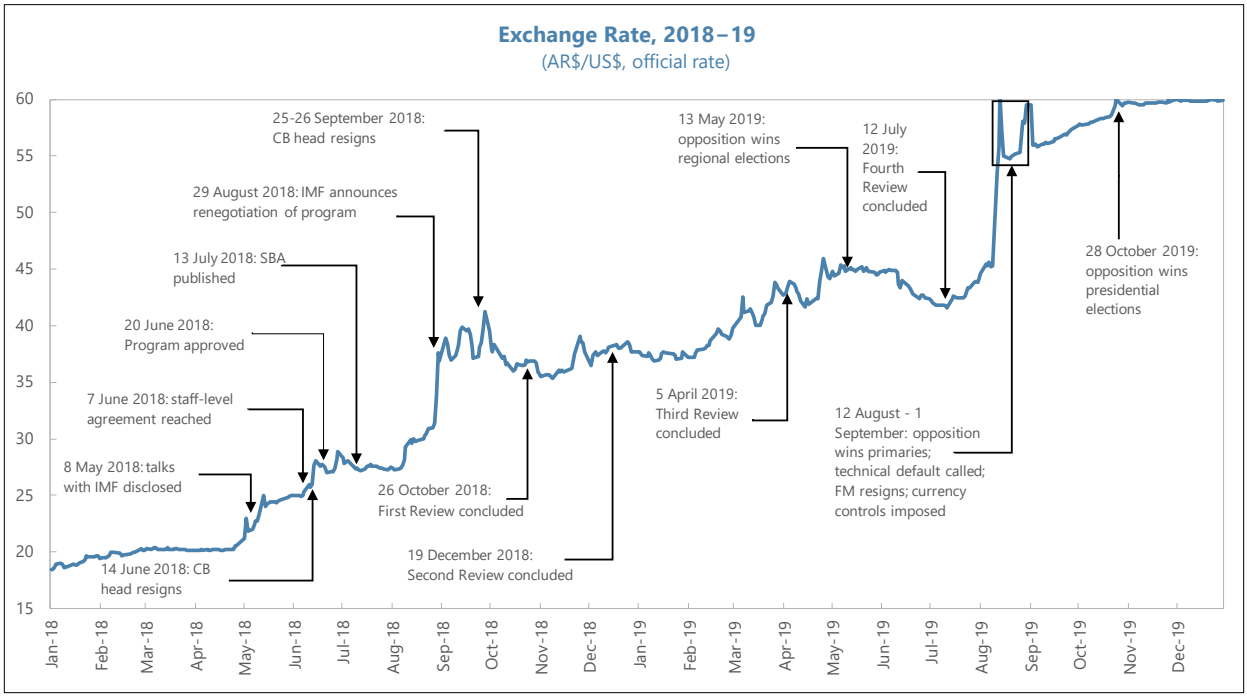
- *Second Review (December 2018)*. By the time of the Second Review, there were signs of stabilization: short-term interest rates had fallen back, albeit only to the level of September 2018, and the exchange rate had stayed within the non-intervention band. The 2019 budget, featuring more ambitious fiscal adjustment, had been passed. All quantitative performance criteria for end-October had been met, and most structural benchmarks had been observed, albeit with some delay. (See IMF, 2018c.)

- *Third Review (April 2019)*. The end-December 2018 and end-March 2019 performance criteria were met, and structural reforms relating to the debt strategy and the submission of a new BCRA charter were moving ahead as envisaged. However, inflation and inflation expectations were again increasing, following a *de facto* relaxation in monetary policy and firms' pass-through of costs arising from administered prices. Argentine financial assets were under renewed pressure, with markets viewing the continuing struggle to tame prices and revive the economy as potentially leading to a change in government following the October general elections. (See IMF, 2019a.)

- *Fourth Review (July 2019)*. As with previous reviews quantitative and structural program conditions had been met or were on track to be met, and exchange rate pressures had eased. However, the IMF noted that the most challenging period for the program was still to come—especially as gross financing needs remained high. Market sentiment was clearly skittish in advance of the general elections. (See IMF, 2019b).



12. After the Fourth Review, the program continued to struggle, and its implementation effectively ceased by August 2019. Following the Executive Board's completion of the Fourth Review in July 2019, Fund staff started preparations for the Fifth Review, to take place in September,

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ahead of the October general elections. However, financial turbulence returned following the August primary elections;[10] ratings agencies downgraded Argentina, the finance minister resigned, and the administration announced plans to reprofile domestic debt and imposed some capital controls. In September, ratings agencies called a selective default on Argentine sovereign debt. Fund staff work on the Fifth Review was aborted following the primary elections and after the government's effective suspension of program policies. This in practice marked the end of the program, with only four out of the twelve planned reviews completed. In effect, the program did not fulfil the objectives of restoring confidence in fiscal and external viability while fostering economic growth, one test of success of GRA-supported programs.[11] The new government that took office after the 2019 elections initiated the process to restructure its foreign-law governed debt in March 2020, defaulted on this debt in May, and finalized the restructuring of US$80.5 billion of foreign- and domestic-law FX-denominated debt held by private creditors in September. The new government cancelled the SBA on July 24, 2020.

B. External Communication

13. Uneven communication of program policies by the administration undermined confidence. Achieving consistent communication of the program was going to be crucial. Lack of consistent engagement at a technical level with the IMF in the years leading up to the program and erosion of institutional knowledge constrained the new government's understanding of Fund procedures. IMF staff established close relations and developed common outreach strategies for the SBA. However, these were only partially followed through on the side of the administration. For example, the publication of the Staff Report for the SBA request was delayed by the authorities for a month. (The authorities were concerned about the market reaction to the standard language used to characterize debt, as "sustainable but without high probability.") This restricted the Fund's ability to explain the program, notably the financing available and its nature, dampening the catalytic effect at a crucial moment for market confidence. Changes in central bank governors and finance ministers—along with significant FXI early in the program period that was inconsistent with the program and could not be explained in simple terms—did not help reassure investors of the durability of the program. The President's public address in late August 2018, in which he indicated that the Fund would support Argentina with full disbursements upfront—which had not been agreed—was meant to bolster confidence but instead unsettled financial markets, triggering a 14 percent exchange rate depreciation on the day of the address.

14. Communication challenges relating to the precautionary nature of the initial SBA may have hampered an early boost to confidence. Aware of the political risk of requesting help from the IMF, the administration was keen to emphasize the liquidity (rather than solvency) nature of the crisis and preferred a "precautionary" arrangement, which was the basis for the initial program

[10] Opposition candidate Alberto Fernández beat President Macri with a surprisingly large margin in the primary elections, leading investors to believe that a new government, including members from the previous administration, would come to power after the October general election. The peso depreciated, the Merval stock market index plummeted in peso terms, and risk premia increased.

[11] See Review of Program Design and Conditionality, IMF (2018d), pp. 8–17.

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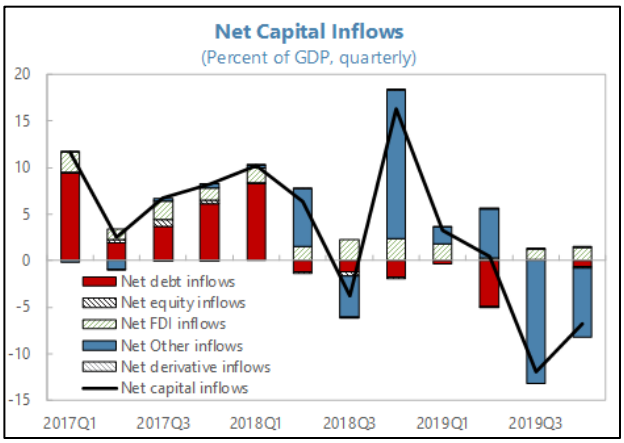
(changed after the First Review; ¶11). Precautionary SBAs are common, and generally signal an underlying strength of the economy when compared with disbursing arrangements. The initial program was, unusually, a hybrid of a precautionary and a disbursing arrangement. This approach appears to have created confusion in some circles about whether Argentina would—and under what conditions it could—draw on the financing, which may have reduced rather than boosted market confidence. Although the Staff Report for the SBA request (IMF, 2018a) explained that the intent to treat the SBA as precautionary after the first disbursement was not a binding commitment, and as such did not prevent Argentina from making purchases, there was lack of clarity, both in the government and in markets, surrounding the availability of the Fund financing. The delay in publishing the staff report for the program request hindered the Fund's ability to help explain the unusual nature of the financing structure.

C. Macroeconomic Targets, Projections and Outcomes

15. As confidence was not durably restored, balance of payments pressures and a depreciation of the currency caused significant damage to the program.



- Capital inflows had started to decline in early 2018, and net flows turned negative in the third quarter, the approval of the SBA in June notwithstanding. The revision of the program in October was initially viewed positively—net flows turned positive at the end of 2018 and beginning of 2019—but confidence then ebbed and net flows were negative through the remainder of the program. The largest capital outflows were not generated by flight from government debt, but rather by private flows. Capital controls were announced at the beginning of September 2019, after the volatility following the August 2019 primary election; the peso initially appreciated, but the controls were relatively loose and capital flight continued, causing a large reserve loss.

- Driven by capital flows, the depreciation of the peso accelerated after the announcement of the SBA request in May and continued until the revamp of the program was announced in late September. The exchange rate was more stable during the fourth quarter of 2018, but depreciation resumed at the beginning of 2019 and continued until modifications to the monetary and FXI framework in April-May. The volatility of August 2019 brought with it another significant decline in the value of the currency, which was by then trading at a third of its value at the time of the SBA request.

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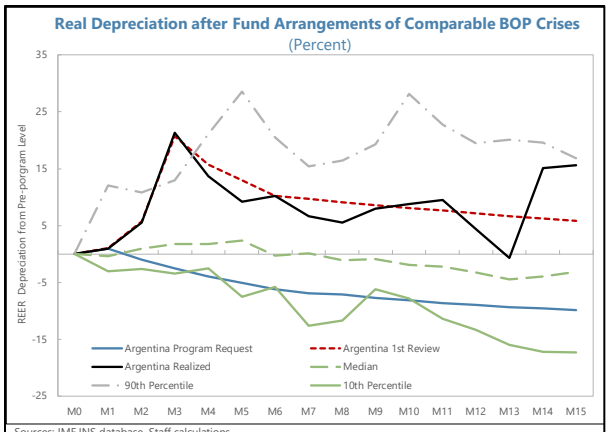
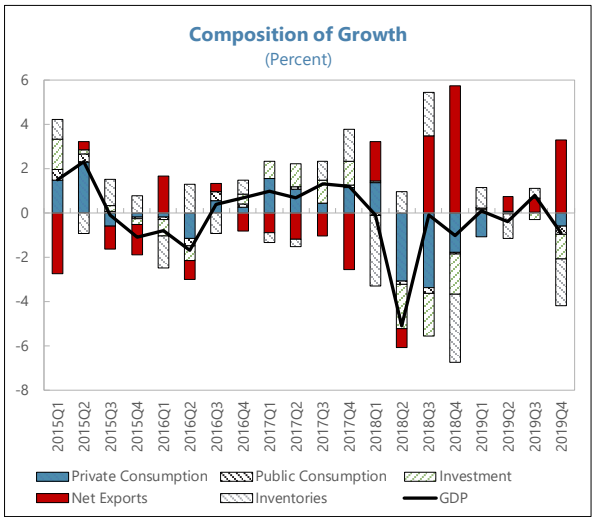
- In contrast to this outcome, the baseline underlying the original program framework, predicated on restored market confidence, had envisaged a stabilization of the nominal exchange rate, corresponding to a real exchange rate appreciation of 9 percent during the program period. (In the adverse scenario, the real exchange rate was assumed to depreciate slightly.) The real exchange rate had already depreciated by about 20 percent from its 2017 level by 2018Q2—hence, the estimated 17.5-32.5 percent overvaluation assessed in the 2018 External Sector Assessment had largely been eliminated by the time the program started. However, compared with other program episodes, the baseline real exchange rate projection was on the optimistic side, being in the 10th percentile of experiences under programs with countries experiencing sudden stops.



Sources: IMF INS database. Staff calculations.
Note: The figure shows the accumulated rate of REER depreciation starting from the onset of a comparable IMF program. IMF programs following sudden stop crises are chosen for this comparison, including Mexico (1995, 2009), Indonesia (1997), Korea (19970), Thailand (1997), Uruguay (1997, 2002), Philippines (1998), Panama (2000), Brazil (2002), Turkey (2002), Ukraine (2004, 2008, 2014), Pakistan (2008), Latvia (2008), Hungary (2008), Belarus (2009) and Jordan (2012).

16. Against this background, by most metrics, macroeconomic performance fell short of the initial program projections (Figure 1).

- *Economic growth:* The initial program envisaged a relatively mild slowdown in growth, from 2.9 percent in 2017 to 0.4 percent in 2018, followed by a rapid recovery from 2019 onwards. Although these assumptions were not clearly consistent with the program's procyclical monetary and fiscal policies applied to an economy with a large share of hand-to-mouth consumers, the Fund deferred to the government's views on the outlook.[12] At the First Review, projected growth was revised down to -2.8 percent in 2018 and -1.6 percent in 2019, close to the actual outcome of -2.6 percent and -2.1 percent, respectively.[13] Export values recovered in the second half of 2018, after the drought earlier in the year. But private demand fell considerably—especially private consumption,



[12] The IMF noted that the authorities were confident of a mild recession and quick rebound; see IMF (2018a), ¶37, p. 23).

[13] When the program was approved in June, a recovery in the terms of trade and exchange rate depreciation were assumed to result in a modest positive goods trade balance in 2018, while domestic demand would fall; in 2019, private consumption would grow; and in 2020, investment would rebound. The revised projections at the First Review envisaged a stronger recovery in the trade balance, but more severe and persistent weakness in private demand.

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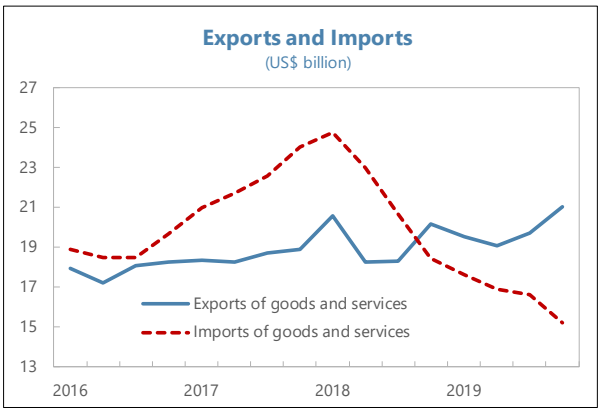
driven by a combination of precautionary savings and reduced real incomes as inflation surged as a result of peso depreciation—and did not recover during the program. Unemployment remained consistently above 9 percent throughout the program, peaking at 10½ percent in 2019Q2.

- *Inflation:* Despite a general tightening of monetary policy, inflation was not brought under control. By the time the program effectively ended, consumer prices were increasing at a rate of 54 percent per annum, three times the inflation rate envisioned under the initial program and double the revised rate envisioned at the First Review. The cumulative increase in consumer prices exceeded 80 percent over the course of the program, substantially eroding real incomes. The unexpectedly large exchange rate depreciation played a pivotal role, reflecting the passthrough to domestic prices. Wage indexation and regulated utility price increases also boosted inflation. By contrast, despite policy interest rates of 40–60 percent during the program, monetary policy is estimated to have had only limited effect on inflation, consistent with high pass-through of exchange rate movements and inflation expectations that remained elevated when the program commenced (Box 1. Argentina: Inflation Dynamics).

- *Fiscal balances and public debt:* The program's fiscal objectives were formulated as targets for the primary fiscal balance. These targets were met, despite disappointing growth outcomes (¶21). Nevertheless, public debt ratios far exceeded projections, mainly because of valuation effects, as nearly 70 percent of the government's debt was denominated in or linked to the U.S. dollar (¶23).[14] In addition, short maturities accentuated debt dynamics—the terms at which Argentina rolled over its debt became less favorable as time passed, with higher interest rates and shorter maturities adversely affecting debt ratios and debt sustainability (¶17 and Box 6. Argentina: Market Access During the 2018 SBA).

- The *current account* underperformed in 2018, but adjusted rapidly in 2019, exceeding the adjustment in the original program projections. However, the adjustment was concentrated in imports (especially of investment goods), which declined by more than a quarter between 2017 and 2019. Despite the substantial real exchange rate depreciation, export volumes remained flat. This outcome is partly explained by the drought of 2018, which hit agricultural exports hard. Moreover, nonagricultural export volumes did not respond to the peso depreciation, reflecting pervasive dollar invoicing—more than 95 percent (85 percent) of Argentine exports (imports) are denominated in U.S. dollars (Boz et al. 2020), implying limited



[14] In addition, public debt exceeded projections because of discovery (during the 3rd Review) of previously undisclosed debt amounting to 10 percent of GDP.

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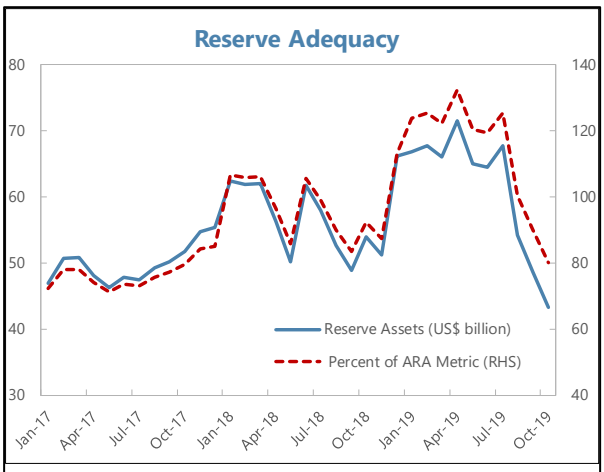
expenditure switching effects of exchange rate movements on exports, but high pass-through to import prices (Adler et al. 2020).[15]

- The underperformance of the current account and capital flight undermined the restoration of *international reserves*. Reserves were drawn down after the program was approved as the BCRA intervened heavily (Box 2. Argentina: FX Intervention Under the 2018 SBA). The program's target was for BCRA's foreign exchange reserves to exceed 100 percent of the IMF's ARA metric by the end of the program period, to mitigate risks to the balance of payments. This target was reached by the end of 2018, mostly as a result of official flows, mainly Fund disbursements. Reserves collapsed after the primary elections in August 2019, reversing the gains that had been achieved. The true adequacy of the reserve level of Argentina is difficult to evaluate. Reserves increased to over ten months of imports, a level which would typically indicate some flexibility to intervene and manage inflation more directly, as in many other emerging economies with inflation targeting regimes. However, the narrow and volatile export base in Argentina, extensive dollarization, and the history of capital flight may, all else equal, have called for higher reserves.



Sources: IMF WEO and IMF Staff Calculations.

Box 1. Argentina: Inflation Dynamics

Inflation increased during the program, driven mostly by persistently high inflation expectations, peso depreciation, and wage increases. This suggests that the targeted reduction in inflation was optimistic: the monetary policy regimes under the SBA were not robust to the challenges of dollarization and extensive indexation, as shown by the rapid pass-through from the nominal exchange rate depreciation that followed the sudden stop. In short, the preconditions for a successful implementation of a formal inflation targeting framework may not have been in place.

In Argentina inflation expectations by the general public have been persistently high, remaining above 20 percent since 2010.[1/] Over the past decade, they have moved closely with the peso depreciation. (By contrast, inflation and base money are not highly correlated; during some phases, they have been negatively correlated.) High inflation expectations, together with a high level of wage indexation, generate significant inflation inertia. In addition, the U.S. dollar has become *de facto* the unit of account for much of the economy and serves as a nominal anchor for inflation expectations. As a result, the pass-through from depreciation of the peso to an increase in prices is substantial and quick.

A simple empirical model that relates inflation to inflation expectations, the change in the exchange rate, nominal wage growth, regulated price increases, the real policy rate, and delayed effects of those factors suggests that the increase in inflation during the program reflected mainly a combination of higher inflation expectations, the large peso depreciation, and higher nominal wages. Of course, inflation expectations

[15] From the second quarter of 2018 to the third quarter of 2019, when the peso fell by over 100 percent in nominal terms against the US dollar, import prices in local currency increased by almost 100 percent, while export prices in US dollars only dropped by 7 percent.

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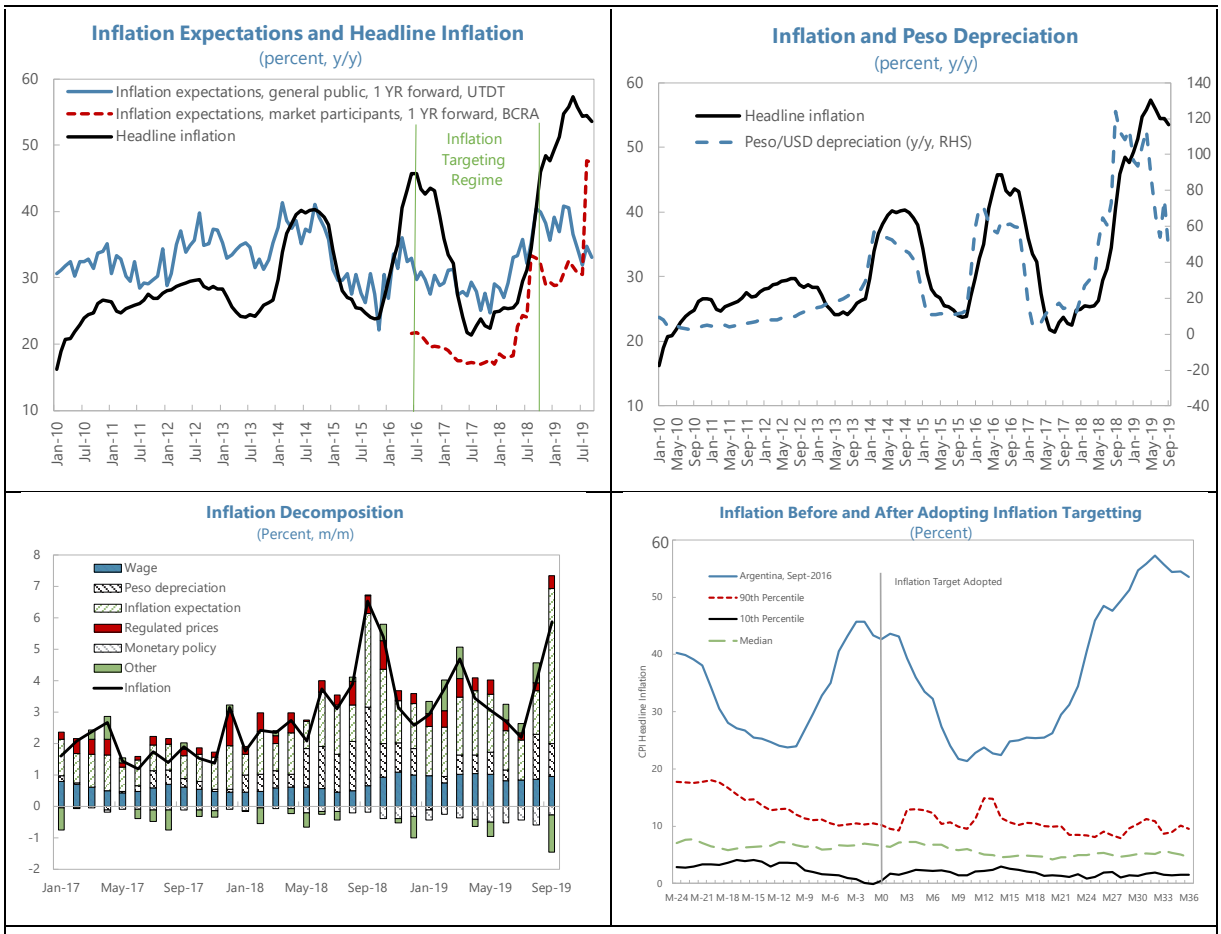
Box 1. Argentina: Inflation Dynamics (Continued)

themselves reflect underlying factors—including movements in the exchange rate, labor costs, regulated prices, and policy reactions by the central bank—so the estimates are only indicative. Nonetheless, this simple empirical analysis suggests that inflation expectations drove on average slightly less than half of inflation over the 15 months of the program, with peso depreciation and wage growth each accounting for slightly less than a quarter (as private sector unions obtained revisions to their *paritarias* that increased the annual average to 30–40 percent). Increases in regulated prices account for the remainder (nearly a tenth). Monetary policy had a dampening effect on inflation, but the magnitude was not large enough to curtail inflationary pressure from expectations and depreciations.



Sources: Banco Central de la República Argentina, Instituto Nacional de Estadística y Censos, INDEC, and IMF International Financial Statistics and IMF Staff Calculations.

Inflation quickly fell in 2016, which caused many to believe that the introduction of inflation targeting had been sufficient to anchor expectations. The results presented here suggest that this was more likely the result of exchange rate appreciation associated with capital inflows. Viewed this way, the target of single-digit inflation by 2021 was overly ambitious—the inflation rate was lower than previously at the time of the program request, but nonetheless reached 30 percent in June 2018, with a rapidly depreciating exchange rate—and as such created a tension between the need to gradually build confidence in the IT framework and achieving the inflation targets. By contrast, most inflation targeting regimes have been put in place after inflation had first been lowered to single-digit levels, often taking several years—that is, inflation targeting regimes have been used to consolidate, rather than achieve, disinflation (Svensson, 2008). In addition, without first reducing the degree of dollarization, monetary transmission would remain weak. Finally, the

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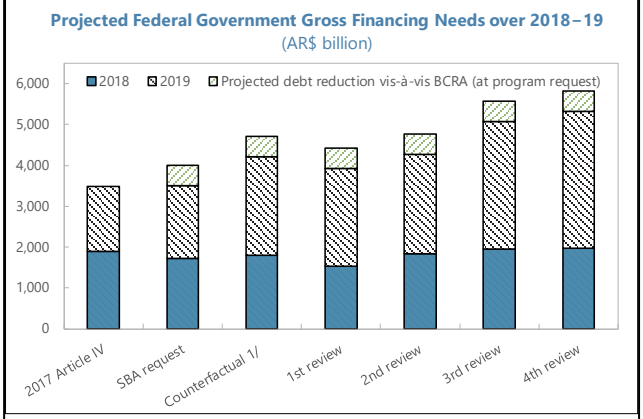
Box 1. Argentina: Inflation Dynamics (Concluded)

BCRA adopted a free-floating exchange rate regime—staff analysis, based on definitions in Ilzetzki et al. (2019), indicates extensive use of crawling bands in other cases. In other Latin American countries, inflation targeting has been accompanied by widespread foreign exchange interventions and unconventional policies including CFMs (Cespedes, et al, 2014). Studies also suggest that some degree of exchange rate management may improve inflation outcomes for inflation targeting emerging market economies, especially in cases of currency mismatch (Berganza and Broto 2012, Buffie et al 2018; Hofman *et al.* 2020 and Ostry *et al.* 2012).

1/ The measure shown is the survey of the general public conducted by UTDT. The survey of market participants conducted by the BCRA starts only in early 2016.

17. Financing needs in domestic currency increased over the course of the program. Total debt due and primary deficits over 2018 and 2019 came to US$66 billion, whereas disbursements used for budget support totaled US$37 billion. The difference would have to be financed in the market, with the short average maturities implying a need to refinance this amount about every six months. The Fund urged the authorities to extend the maturity profile of public debt and provided technical assistance on debt management, but maturity of debt held by foreign investors remained short, leaving the program with a crucial vulnerability.

- The initial program projections underestimated the ultimate *fiscal financing needs*. In June 2018, cumulative gross financing needs (CGFN) of the federal government for 2018 and 2019 were projected at about AR$3.5 trillion (US$134 billion using projected exchange rates at the time). Despite the progress in reducing the fiscal deficit, the fiscal CGFN steadily increased during the program, and remained at multiples of the access under the SBA,[16] exceeding AR$5.3 trillion (about US$146 billion) by the time of the Fourth Review. The underestimation reflected deviations in macroeconomic developments relative to the original assumptions, especially as regards the exchange rate and amortizations.



1/ Projected financing needs at program request with revised macro assumptions (growth, inflation, exchange rate, an dinteresyt rates) from 4th review.
Source: Public Debt Sustainability Analysis.

- Projected cumulative gross *external financing needs* for 2018 and 2019 stood at US$254 billion at the time of the 2017 Article IV consultation and remained around this level throughout the program, as they were mostly unaffected by the depreciation of the exchange rate. Exceptional

[16] The rollover of the federal government debt held by other public sector entities and the fact that part of the 2018 financing had already been secured by May 2018 reduced actual financing needs at the time of the program request.

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balance of payment pressures emerged soon after the program approval and remained until the Fourth Review. Although external financing needs remained large and stable throughout the program, portfolio inflows dropped substantially during 2018 and 2019.

18. All told, most outcomes were worse than laid out in the adverse scenario presented with the SBA Request (Figure 2). Growth fell well short of and inflation far exceeded the program objectives. As the SBA was initially treated as precautionary, an adverse scenario was developed for the SBA request to estimate potential balance of payment needs as a basis for determining the proposed access (Figure 2). The projected 1.3 percent contraction in GDP in 2018 and return to growth in 2019 in the adverse scenario turned out to be optimistic compared with actual growth. By the same token, inflation and exchange rate outcomes were considerably worse than assumed in the adverse scenario. Debt increased sharply with the exchange rate depreciation. The current account deficit was far worse in 2018 than what was projected at the program request, but smaller in 2019; across 2018 and 2019, cumulative external financing needs were broadly constant. However, fiscal financing needs increased as the currency depreciated. Rollover rates for public debt securities were close to those assumed under the adverse scenario (and in other precautionary arrangements), but Argentina did not succeed in raising significant funds externally during the program period—instead, it relied on issuing debt in domestic markets up until the *de facto* end of the program. The debt profile deteriorated significantly, with an increase in yields and concentration at shorter maturities in the lead-up to the August 2019 primary election (Box 6: Argentina: Market Access During the 2018 SBA and Figure 4).

D. Fiscal Policy

Fiscal dominance has been central to Argentina's economic challenges for decades. The 2018 Fund-supported program aimed to accelerate fiscal adjustment, both to signal a break with gradualism and to help reduce the government's financing needs. Fiscal policy had to contend with several constraints. The pace of adjustment needed to weigh short-term growth impacts against potential confidence effects. Moreover, as the scope for high-quality fiscal adjustment measures was constrained by political circumstances, an accelerated pace of adjustment might have entailed poorer quality and more distortionary measures. Finally, the government's financing needs were sensitive to movements in the exchange rate—as the exchange rate depreciated (and without a debt operation) the fiscal adjustment needed to offset the effects of currency depreciation on debt and debt service became untenable. All told, the program's fiscal balance targets were met, but financing needs and debt measured in domestic currency continued to increase. The fiscal measures were generally of low quality and the program did not durably address the long-standing weaknesses in Argentina's public finances.

19. Weak public finances have been at the heart of Argentina's longer-term economic problems. Argentina has a history of fiscal dominance and debt defaults. The undoing of the convertibility regime in 2001 (¶25 and Appendix II, section A) was lack of fiscal control, including at the provincial level. In the years prior to the 2018 SBA, primary spending had been ramped up, from 23 percent of GDP in 2003 to 39 percent in 2017. As part of its market-oriented reform efforts, the Macri administration reduced taxes early on but left more comprehensive tax reforms for later, resulting in primary deficits of nearly 5 percent of GDP in 2016 and just above 4 percent in 2017.

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Figure 1. Comparison of Actual and Projected Scenarios

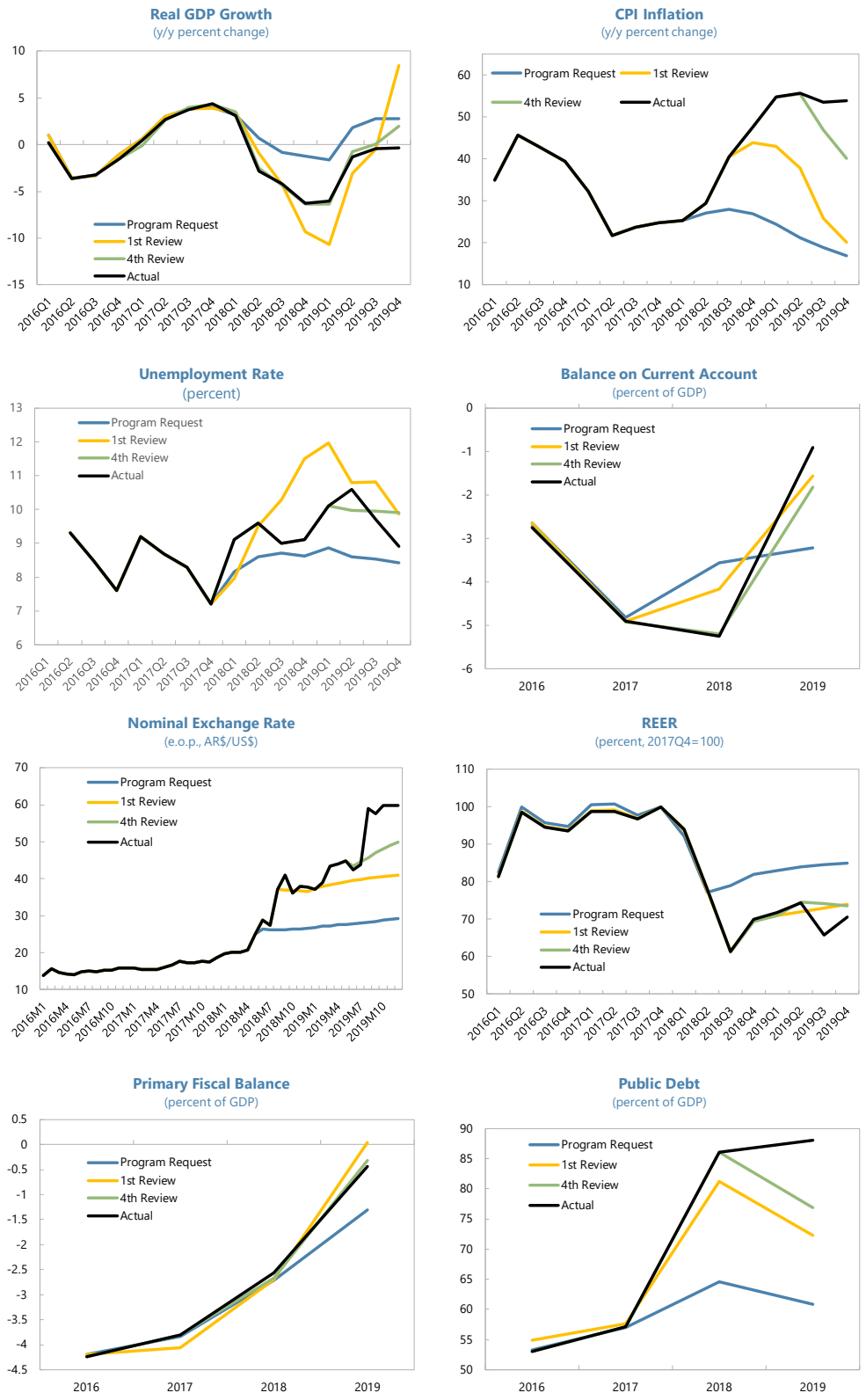

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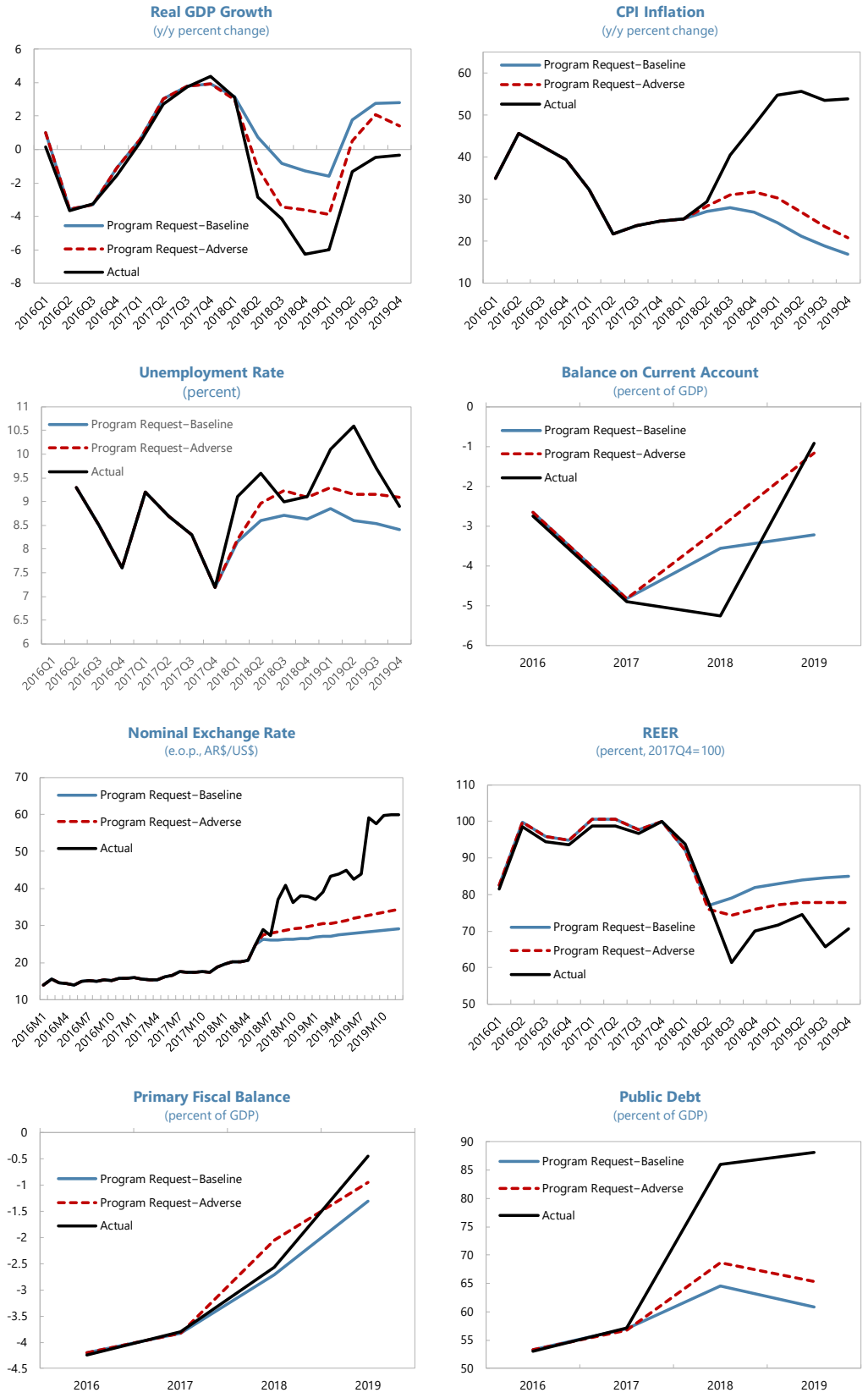
Figure 2. Actual, Baseline and Adverse Scenarios



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20. The fiscal adjustment under the program aimed to balance the need to strengthen the public finances against the short-term growth effects. With a debt reprofiling ruled out, the program aimed for somewhat accelerated fiscal adjustment, combined with proceeds of the Fund arrangement used for budget financing, and relied on the catalytic effect to maintain market access. The fiscal policy measures supporting short-term adjustment did not involve fundamental changes.

- At the time of the SBA request, Argentina's public debt was considered "sustainable but not with high probability." While the debt ratio *per se* did not stand out, the high share of foreign currency-denominated external debt, combined with a weak export base, shallow domestic financial system, and past history of defaults, suggested that Argentina's safe debt level was lower than the 50 percent benchmark for "high scrutiny" cases in the IMF's debt sustainability framework (IMF, 2013), as such pointing to substantial consolidation needs and/or a debt operation.[17] Further, Argentina's history of fiscal dominance called for demonstrating a commitment to budget discipline to help boost the credibility of monetary policy and the program more broadly.

- In the initial program, the planned primary balance improvement from 2017 to 2020 was 4.4 percentage points of GDP, with primary balance to be achieved in in 2020. At the First Review, the adjustment was increased to 5.6 percent of GDP and the achievement of primary balance brought forward to 2019. The adjustment envisaged was front loaded—2.4 percent of potential GDP in 2018, or about 40 percent of the total adjustment. The overall adjustment was not severe in comparison to other Fund-supported programs but was on the high side among exceptional access cases. Experience in other countries justified concerns about the implications of consolidation during a crisis; for instance, the 2015 Crisis Program Review had argued that fiscal adjustment above 5 percent of GDP over three years could be self-defeating.[18]

- The fiscal multipliers used for the projections were higher than those typically applied. Empirical evidence had generally found fiscal multipliers for emerging market economies to be lower than those in advanced economies.[19] However, experiences in other programs had raised concerns about the effects of ambitious fiscal adjustment (e.g., Baum et al., 2012), and the 2015 Crisis Program Review had noted that fiscal multipliers during IMF programs had tended to be high, and often higher than initially assumed. Instead of the common rule of thumb of 0.5, the fiscal multiplier assumed in the 2018 SBA was set at 0.8 on average for changes to spending and 0.6 for changes to tax revenues. These values were based on comparison with consolidations in other countries in the region and are broadly consistent with more recent studies of fiscal multipliers in Latin America—for example, Carrière-Swallow et al. (2018) found that fiscal consolidations in Latin American and Caribbean economies typically lead to an output contraction of 0.5 percent on impact and of 0.9 percent after two years, conditional on other

[17] Baldacci et al (2011) suggest a threshold of 40 percent of GDP. The IEO report on Argentina (IMF, 2004) similarly stressed that sustainable debt levels may be easily overestimated (Appendix II).

[18] See https://www.imf.org/external/np/pp/eng/2015/110915.pdf

[19] See Figure 1 and associated text in Carrière-Swallow et al. (2018).

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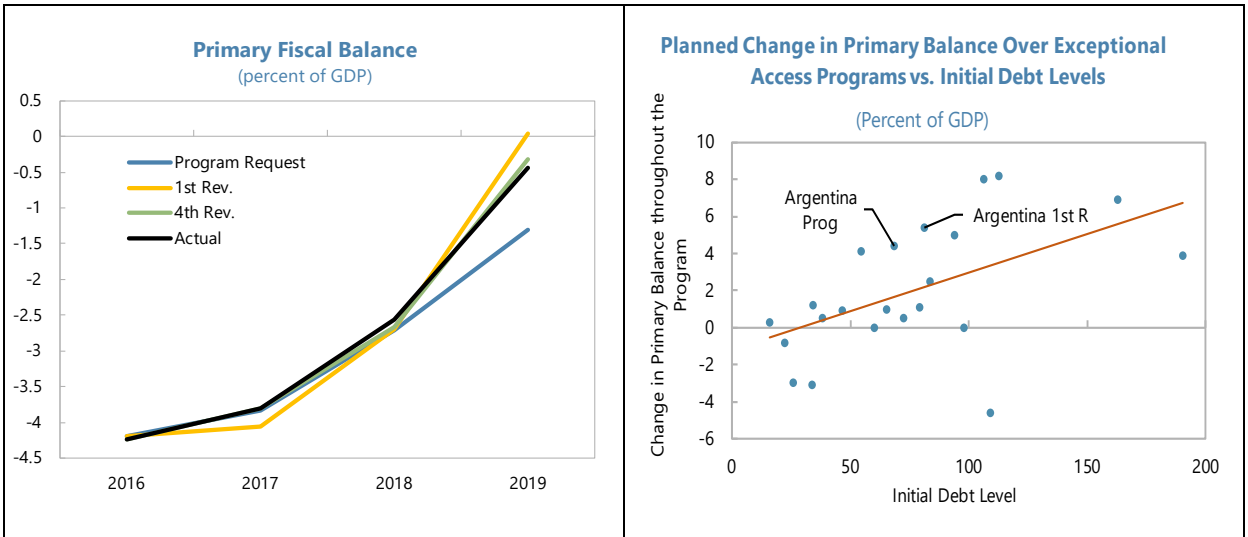
macroeconomic variables such as the exchange rate, output, and external balances. Somewhat larger multipliers could have been considered given negative output gaps (see Auerbach and Gorodnichenko, 2012) and the shift in the fiscal adjustment under the 2018 SBA towards decreases in higher-multiplier public investment and subsidies. However, analysis conducted early in the program period indicated that higher multipliers would have made little difference to the assessment of debt sustainability. This suggests that, although the projections may have moderately underestimated the negative overall output effects of fiscal consolidation, the adverse growth effects of other factors—namely currency depreciation, capital flight, and uncertainty—played a larger role.



Sources: Countries' Authorities, and IMF Staff Calculations and Projections.

21. The primary balance targets were met, mainly by lowering expenditures, although the measures were generally of low—and decreasing—quality throughout the program. Notwithstanding early efforts to reduce the wage bill and energy subsidies, most expenditure measures taken during the program period were temporary and relatively easy to reverse, undermining the credibility of the consolidation effort; moreover, revenue measures were limited and of low quality. The quality of measures deteriorated over time as the authorities sought to meet targets in a worsening macroeconomic environment; policy was later loosened in the run-up to the election.

- *Revenue:* Initial staff proposals included structural revenue reforms, such as expanding the scope of PIT on labor income and strengthening the VAT. These reforms were rejected by the authorities as politically sensitive. In the end, revenue measures were limited to a temporary tax on exports and some modest one-off measures. In a nod to the authorities' preferences, and recognizing Argentina's relatively high tax burden, revenue was further reduced through a lowering of the corporate income tax rate and cuts in other taxes in 2019 (initially decided in 2017). In early 2019, the authorities cancelled scheduled increases in utility tariffs and provided generous tax incentives to SMEs. In addition, Congress passed a law providing future tax

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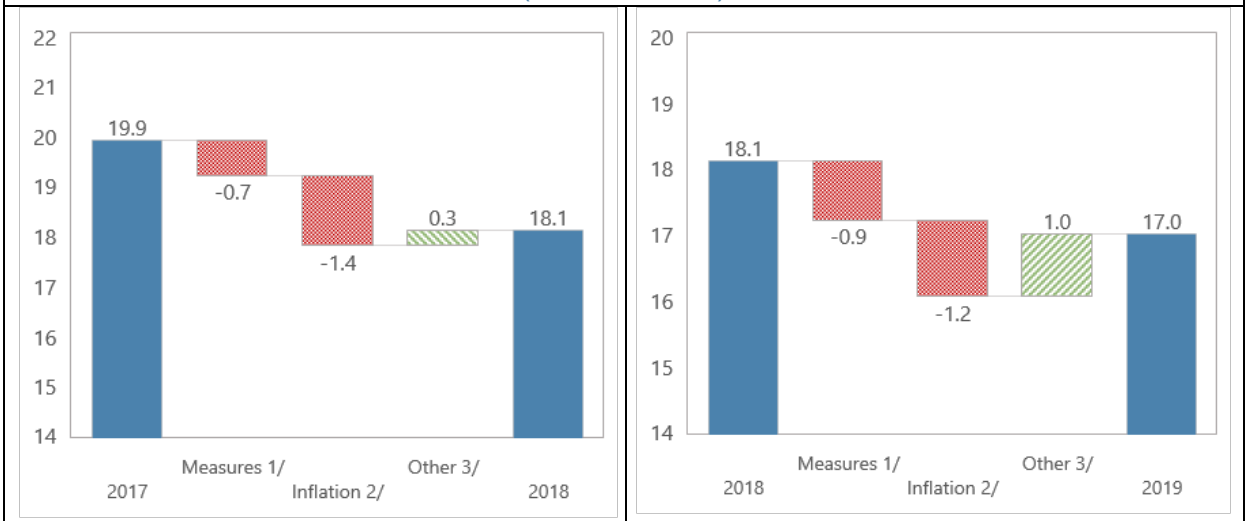
exemptions to a number of economic sectors, with effect from 2020 to 2029. Some actions were taken to improve tax compliance, but were not sufficient to offset the reduction in revenues. Revenues fell short of what was projected at program approval by about 1¼ percent of GDP for 2018 and 1¾ percent of GDP for 2019, in part reflecting cyclical factors (with tax buoyancy well below unity).

- *Expenditure:* Ultimately, the fiscal adjustment relied on inflation-induced reduction in public sector wages and pensions, subsidy cuts to bring utility tariffs closer to cost recovery levels, and a squeeze in current discretionary and capital spending. Although inflation, made more persistent by indexation, caused real incomes to deteriorate, the adjustment in primary spending in this period was helped by higher-than-expected inflation, which reduced—albeit temporarily—the real value of public wages (because of wage restraints) and pensions (because of backward looking pension indexation).

Changes in Current Primary Spending, 2017–19
(Percent of GDP)



Sources: Argentine Authorities, and IMF Staff Calculations and Projections.

1/ The impact of measures are those estimated at the time of the program approval (for 2017) and at the time of the Second Review (2018), compared, respectively, to outcome (for 2018), and expected outcome at the time of the Fourth Review (for 2019).

2/ Estimated impact from inflation surprise between the program approval and preliminary estimates at the time of the Fourth Review (2018), and between the first review of the projections at the time of the Fourth Review (2019). For example, if w is the wage bill (measures excluded) expected at the time of the program/review with an inflation rate of π and if the realized inflation rate is π' then unexpected inflation leads to a wage bill lower by $w-w[(1+\pi)/(1+\pi')]$. The impact applies to the wage bill and transfers, due, respectively, to restraint on real wages and backward indexation of pensions.

3/ Residual; includes other factors such as the difference between the actual and estimated impact of measures, and other autonomous factors (e.g., higher social protection spending when increasing number of households are covered).

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22. The program called for reforms to strengthen the credibility of budget processes, which were implemented largely as envisaged. The fiscal-structural reforms included the creation of a fiscal watchdog and the strengthening of medium-term fiscal planning, which were either met or implemented with delay. However, reforms to address risks from fiscal federalism were postponed.[20]

23. Debt sustainability was undermined by exchange rate depreciation; offsetting this shock through fiscal consolidation alone would have required a major additional adjustment.

- Improvements in the primary balance contributed to lowering the debt ratio. Higher-than-expected inflation also helped improve debt dynamics, as the nominal effective interest rates on debt (about 11 percent in 2018 and 6 percent in 2019) were far below nominal GDP growth rates (37 and 51 percent, respectively).[21] However, these effects were more than offset by the effects of exchange rate depreciation.

- Achieving the originally targeted debt level of 53 percent of GDP by 2023 would have required more than doubling the size of fiscal adjustment planned at the time of the First Review (see text table). Hence, without a debt reprofiling early on (i.e., at the time of the First Review) to lower the large refinancing needs of the short maturity debt, the scope for fiscal policy to address debt vulnerabilities and bolster confidence appears, *ex post*, very limited, especially given that the low-quality fiscal measures available were unlikely to have sustained effects. That said, Argentina's case is consistent with the general tendency to delay debt operations, even when ultimately unavoidable, substantially raising their costs (IMF, 2014 and 2020b). However, that possibility was ruled out by the administration.

	2023		
	Prog.	1st Rev.	4th Rev.
Stock of public debt	53.0	59.3	61.3
Underpinning fiscal adjustment	5.0	5.1	4.8
Additional fiscal adjustment required to achieve:			
53% debt-to-GDP ratio	0.0	6.3	8.3
40% debt-to-GDP ratio	13.0	19.3	21.3
Total fiscal adjustment required to achieve:			
53% debt-to-GDP ratio	5.0	11.4	13.1
40% debt-to-GDP ratio	18.1	24.4	26.1

Sources: Argentine authorities, and IMF staff estimates.

[20] In previous Fund-supported programs, reported fiscal performance was overstated, because of failure to take proper account of off-budget expenditures and weak controls of provincial finances (IMF, 2006a). For example, revenue was largely centralized while spending was decentralized, creating a bias in the reported data.

[21] The unexpectedly high inflation in 2019 also helped to meet the fiscal target, as pension spending was lower than expected as a share of GDP.

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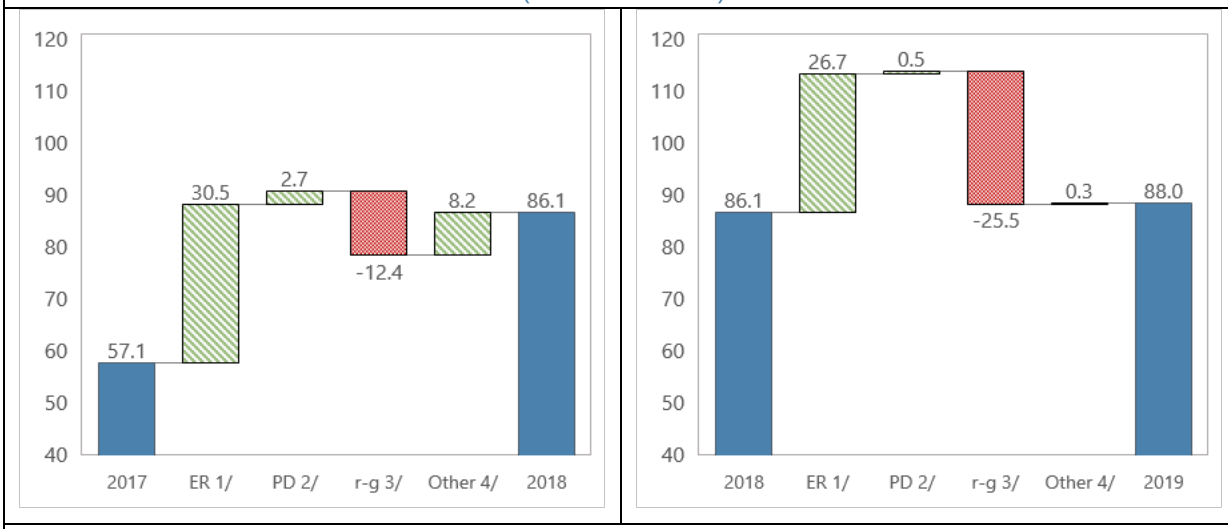
Change in Public Debt, 2017–19: Contributing Factors
(Percent of GDP)



Sources: Argentine Authorities; and IMF staff estimates and projections.

1/ Impact of exchange rate depreciation (mostly stock revaluation). Derived as ae(1+r)/(1+g)*d, where d is the previous debt ratio, r the nominal interest rate, g the nominal GDP growth rate, a the share of FX-denominated debt, and e the depreciation factor of the nominal exchange rate (measured by an increase in local currency per U.S. dollar). See IMF DSA template for more details.

2/ Impact of the primary balance (reduced with fiscal adjustment efforts, but still positive).

3/ Impact of the differential between the nominal interest rate and nominal GDP growth. Derived as (r-g)/(1+g)*d, where d is the previous debt ratio, r the nominal interest rate, g the nominal GDP growth rate, and e the depreciation factor of the nominal exchange rate (measured by an increase in local current of the US$).

4/ Includes asset changes, LEBAC operations, and errors and omissions.

24. In sum, the fiscal adjustment and reforms under the program did not achieve fiscal sustainability. The primary fiscal deficit was reduced from 3.8 percent of GDP in 2017 to 0.4 percent of GDP in 2019, close to the program target of zero. However, the adjustment was flattered by one-off revenue measures of 0.7 percent of GDP and cuts in capital spending, and did not lay the foundations for a durable increase in tax receipts and stabilization of expenditures. The recession hit income and consumption tax receipts, while decisions in early 2019 to freeze utility tariffs until the end of 2019 and provide generous tax incentives to SMEs created additional fiscal uncertainties. The federal government primary deficit therefore remained subject to significant risks. The exchange rate depreciation overwhelmed the fiscal targets, as the debt ratio escalated to nearly 90 percent of GDP. The low quality of the fiscal measures likely eroded confidence.

E. Monetary and Exchange Rate Policy

The initial program aimed to retain the inflation targeting (IT) framework and a flexible exchange rate, and pursued ambitious disinflation objectives. Recognizing the need to bolster confidence in the nascent IT framework, the program supplemented the standard inflation consultation clause (ICC) with net domestic asset (NDA) ceilings and an interest rate policy commitment linked to inflation, and also called for recapitalization of the BCRA to strengthen its balance sheet and legislative changes to bolster central bank independence. Limitations on foreign exchange intervention (FXI) were designed

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to promote exchange rate flexibility. The program did not have the catalytic effect intended, and continued exchange rate pressures in the wake of the SBA approval in June 2018 were met with ad hoc FXI inconsistent with the program. The program shifted to a simpler base money targeting approach at the First Review. The targeting of base money was coupled with some scope for FXI and a continuation of the inflation-linked interest rate policy. The new framework at first helped stabilize market conditions. However, inflation expectations did not become durably anchored. Changes to the framework, inconsistent interventions, and a premature reduction in interest rates, compounded by doubts about the durability of fiscal consolidation, undermined confidence. Ultimately, the program was not successful in containing exchange rate depreciation and reducing inflation.

25. Argentina's economic history has encompassed a full range of monetary regimes. Over time, most permutations of monetary and exchange rate policies have been tried, none proving durable. Starting in 1991, Argentina operated under a currency board arrangement, the *Convertibility Plan*, which ended amidst a debt, currency, and banking crisis in 2001 (Appendix II); from 2002, monetary aggregates were targeted; and from 2012 the BCRA was assigned "multiple objectives." At the time of the SBA request, the authorities were pursuing inflation targeting with a floating exchange rate, a nascent framework adopted only in 2016.[22]

26. Changes to the monetary framework, focused on bringing inflation under control, were central to the program strategy.

- In the first version of the program, with inflation running at 30 percent annually, the inflation targeting framework was retained. The BCRA charter was to be altered to formally define inflation as the goal of monetary policy and to safeguard central bank independence. The BCRA was set to target single-digit inflation by 2021. Given the historical experience of chronically high inflation, the lack of credibility of the central bank, and fiscal dominance, this disinflation path was ambitious. The program therefore included several features designed to strengthen the monetary policy regime. First, an ICC stipulated that a consultation with Fund staff on policy responses would be triggered if the 12-month inflation rate were to breach an inner inflation band, while the authorities would complete a consultation with the Executive Board in the event inflation outcomes were to exceed an outer band (text table).

Inflation Targets and Consultation Bands

	Dec-18	Dec-19	Dec-20	Dec-21
Outer Band - Upper Limit	32	21	16	11
Inner Band - Upper Limit	29	19	15	10
Midpoint	27	17	13	9
Inner Band - Lower Limit	25	15	11	8
Outer Band - Lower Limit	22	13	10	7

[22] The IMF's AREAER classified both the *de jure* and *de facto* exchange rate arrangements as floating, with the qualification that "the BCRA reserves the power to operate in the exchange market to manage its balance sheet and prevent unjustified fluctuations in the exchange rate."

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Second, under the program, the BCRA committed not to lower interest rates until there were clear signs of a decline in both end-2019 inflation expectations and in realized year-on-year inflation outcomes. Third, the program included a ceiling on net domestic assets of the BCRA, combined with a clause calling for consultation with the Fund in case of a breach. Finally, exchange rate flexibility was to be safeguarded by limitations on FXI via floors on net international reserves and limits on high-frequency FXI (Box 2. Argentina: FX Intervention Under the 2018 SBA).

- With continued exchange rate pressures and inflation and inflation expectations diverging sharply from target, the First Review brought a move to base money targeting, replacing the inflation targeting framework. The BCRA announced a zero base-money growth rate until June 2019. Base money targeting was seen as a simpler and hence a stronger anchor that would help to bring down inflation expectations more rapidly.[23] Given the common problems under money targeting in calibrating the stance of monetary policy in the face of instability in money demand, the BCRA also committed not to reduce the policy rate below 60 percent until one-year-ahead inflation expectations had fallen for two consecutive months. The authorities maintained their commitment to let the exchange rate float; the new arrangement allowed FX sales if needed to prevent the exchange rate from moving outside a defined band. This approach would automatically tighten or loosen monetary policy in response to balance of payments developments that would move the exchange rate outside the band; the reduced discretion under this mechanism was intended to bolster credibility.

27. To increase monetary policy space, the program called for a strengthening of the balance sheet of the central bank. To this end, the program included steps to recapitalize the BCRA and to reduce the vulnerabilities related to its LEBAC liabilities (Box 3. Argentina: Vulnerabilities Arising from LEBACs).

- The planned recapitalization ultimately did not take place. Estimates of recapitalization needs were under preparation by the time of the Fourth Review, but the new charter for the central bank required for recapitalization did not pass Congress before the program *de facto* ended.

- Under the program, the reduction in outstanding LEBACs was to be financed by government-issued peso-denominated securities in the local market (LECAPs). Moreover, the BCRA committed to limit the counterparties for sale of LEBACs, open market operations, and repos to local banks. In the event, the entire stock of LEBACs was eliminated by December 2018 and replaced by LELIQs, issuance of which was then calibrated to match the base money targets.

[23] The framework was to be temporary—the BCRA would return to inflation targeting once inflation was reduced.

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Box 2. Argentina: FX Intervention Under the 2018 SBA

The program specified limits to intervention in the FX market by the central bank. Initially, these limits were relatively strict, but over time they became looser, in effect allowing more weight to be put on the exchange rate in the central bank's reaction function.

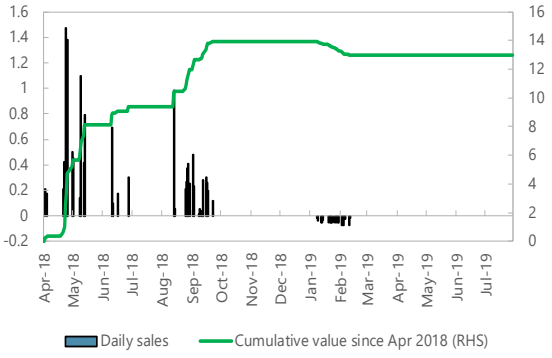
The BCRA adopted a formal inflation targeting regime in September 2016, having declared a short-term interest rate as its main tool earlier in the year. From December 2015 until the first trimester of 2018, there was relatively little FX intervention by the BCRA, although the central bank had built up international reserves. However, starting in May 2018, the BCRA reacted to capital flight by selling about US$9 billion into the market, while also raising interest rates aggressively, until the SBA was approved in June.

The initial program committed the central bank to maintaining a flexible exchange rate regime, with foreign currency sales restricted to periods of clear market dysfunction. Accordingly, the program included a floor on net international reserves of the central bank and a ceiling on the stock of non-deliverable forwards. Additionally, the program committed the central bank to initiate a consultation with the IMF if its net foreign exchange sales in spot and forward markets breached set limits. During August-September 2018, the BCRA exceeded those limits, carrying out *ad hoc* interventions. As a result, net international reserves fell below its end-September program floor and the stock of non-deliverable forwards rose above the ceiling.

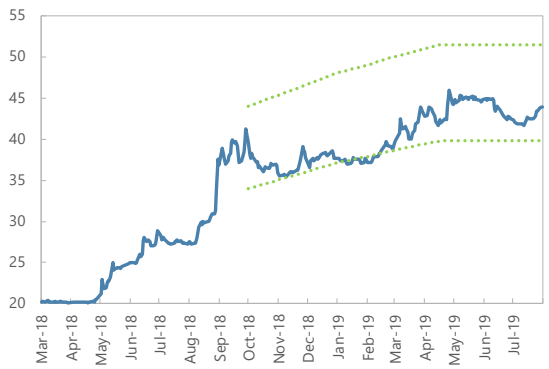
The FX intervention strategy was revamped in the context of the First Review, when base money targeting replaced the inflation targeting framework. Under the new approach, the BCRA had the option to intervene only when the peso moved outside a defined band. Initially, the band was set at AR$34-44 per U.S. dollar, with both ends of the band increasing by 3 percent per month through end-2018. The band implied a relatively wide (30 percent) non-intervention zone, which aimed to signal the authorities' intention to let the exchange rate be driven mainly by market forces. The growth rate of the band was an important component of the monetary policy strategy as it conveyed the broad inflation forecasts of the authorities for the near future. Whenever the exchange rate moved outside the non-intervention zone, the BCRA could sell or buy up to US$150 million per day. All foreign exchange purchases were expected to be unsterilized. As such, the change in NIR would be matched by an expansion or contraction of base money, providing an automatic adjustment of the monetary policy stance (while still observing the zero base money growth target). Moreover, the authorities committed to allowing only the BCRA to carry out FXI, not allowing state-owned banks to engage in official FX sales on behalf of the government.

On the back of a tighter monetary policy stance and higher interest rates following the adoption of the base money framework, the peso appreciated by 15 percent in October 2018 and hovered close to the higher edge of the non-intervention zone for most of November 2018. At the Second Review, completed in December 2018, the broad approach was retained, with a reduction of the monthly change of the non-intervention zone for 2019Q1 to 2 percent per month. The non-intervention limit was reduced to US$50 million per day, to avoid an excessive deviation from the zero-base money growth target (the deviation from the monthly target would be capped at 2 percent).

BCRA FX Intervention
(US$ billion)



AR$/US$
(Daily exchange rate from SIOPEL)



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Box 2. Argentina: FX Intervention Under the 2018 SBA (Concluded)

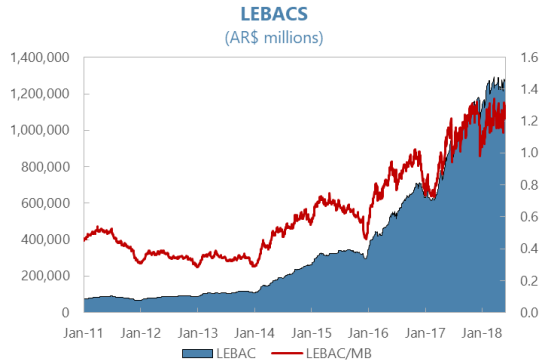
During January and early February 2019, the peso traded below the lower edge of the non-intervention zone, allowing the BCRA to buy close to US$1 billion from the market. The change in the slope of the non-intervention zone was reduced further, from 2 percent to 1¾ percent per month, in 2019 Q2.

Higher-than-expected March inflation and increased political uncertainty triggered a sharp sell-off in Argentine assets in April 2019. The FXI strategy was changed once more, reducing the monthly rate of change of the non-intervention zone from 1¾ to zero percent and committing not to buy FX in the event of appreciation. The BCRA would be prepared to sell up to US$250 million if the exchange rate were to depreciate beyond AR$51.5 per U.S. dollar and would undertake additional interventions to counteract episodes of excessive volatility, while keeping the option to sell dollars within the non-intervention zone depending on market dynamics. All FX sales would be unsterilized which would ensure a reduction in the monetary base, further tightening the monetary stance and supporting the exchange rate. After this announcement, the peso appreciated and remained broadly stable until August 2019.

Box 3. Argentina: Vulnerabilities Arising from LEBACs

The central bank used its own liabilities—LEBACs—to mop up excess liquidity. High yields attracted private non-institutional and foreign investors, fueling a carry trade and creating a flash point for a sudden reversal of flows.

The BCRA had for many years issued its own short-term peso-denominated liabilities (*Letras del Banco Central*, or LEBACs). These instruments were used to sterilize the effects on the money supply from FX interventions (Frenkel and Repetti, 2008). Starting in 2016, the issuance of LEBACs increased sharply with the increase in private capital inflows, particularly from issuance of foreign currency sovereign debt. By 2018, the total stock of LEBACs had reached 10 percent of GDP, or 120 percent of base money.



This was known to be a risky strategy; in other countries, use of central bank instruments to sterilize capital inflows had been associated with incentivizing additional capital inflows, inflationary bias (because of the high interest costs of sterilization), and stresses on central bank balance sheets (as the return on foreign reserves is typically less than sterilization costs).[1/] Generally, a central bank would sell government securities to withdraw excess liquidity from the banking system. However, the Argentine central bank's balance sheet was weak to begin with—the scale of sterilization needs was greater than could be covered by the central bank's holdings of marketable government securities, hence the use of central bank instruments.

Unusually, perhaps owing to Argentina's small domestic investor base, purchase of LEBACs was open to foreign and noninstitutional investors. Domestic investors perceived the central bank to have lower credit risk than the government, and invested heavily in LEBACs. Foreign investors were drawn to the relatively high yields. The recurrent monthly rollover of LEBACs therefore created the potential for significant volatility in both exchange rates and interest rates, especially around the LEBACs' maturity dates. The instability of the interest rates, in turn, threatened the ability of the BCRA to set interest rates in a predictable way consistent with its inflation objectives. Given the inherent volatility of capital flows, LEBACs therefore became a potential trigger point for sudden stops.

1/ See Mehotra (2012).

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28. Although wage setting and indexation represented obstacles to disinflation, incomes policies were not part of the program. The high degree of indexation and other rigidities posed a challenge to the success of inflation targeting, by making the effects of temporary movements to the exchange rate and one-time increases in regulated prices more persistent. Incomes policies—that is, tripartite agreements on wage increases, usually with *quid-pro-quo* agreements on taxes and administered prices, such as utility tariffs—could in principle have helped inflation expectations to settle, and were evaluated by IMF staff. However, given mixed experiences in other countries and difficulties in quickly agreeing on a complex range of issues, incomes policies were ultimately not considered suitable.

29. The inability to anchor inflation added to the program's struggles. Inflation outturns were much higher than envisaged: inflation had been targeted to fall from around 25 percent in 2017 to single-digit levels during the program period, but instead increased steadily to over 50 percent. Rapid exchange rate depreciation starting in mid-2018 made the targeted disinflation path unrealistic due to the high passthrough. After the First Review, inflation slowed towards end-2018. But this price stabilization was followed by increases in government transfers and salaries to support domestic demand, adjustments to utility prices, and loosening of monetary policy; the resulting higher inflation in early 2019 led to further exchange rate depreciation. The failure to contain inflation was instrumental to the damage to debt sustainability and real incomes under the program.

30. Although program actions aimed to bolster monetary policy credibility and strengthen the policy framework, the actual implementation of monetary policy was inconsistent. Between approval of the SBA and completion of the First Review, FXI was *ad hoc* and the program limits were breached.[24] After the monetary policy framework was revised in October, interest rates rose substantially and the exchange rate stabilized. However, the authorities abandoned the 60 percent floor on policy interest rates prematurely, in early December. Furthermore, the base money target for December was relaxed to accommodate a seasonal increase in money demand, but was not reversed subsequently. Also, the program's rules on FXI were changed—and breached—frequently. More consistent, on the other hand, was the steady decline in credit growth.

[24] The auctioning of FX provided for budget support also proved contentious; depending on the timing and terms, such auctions may have the effect of FX interventions.

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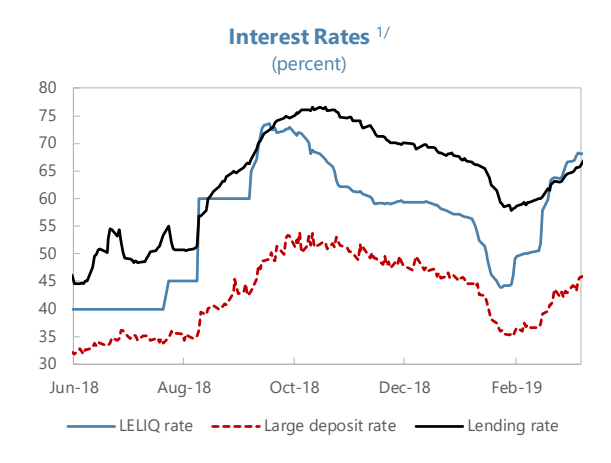

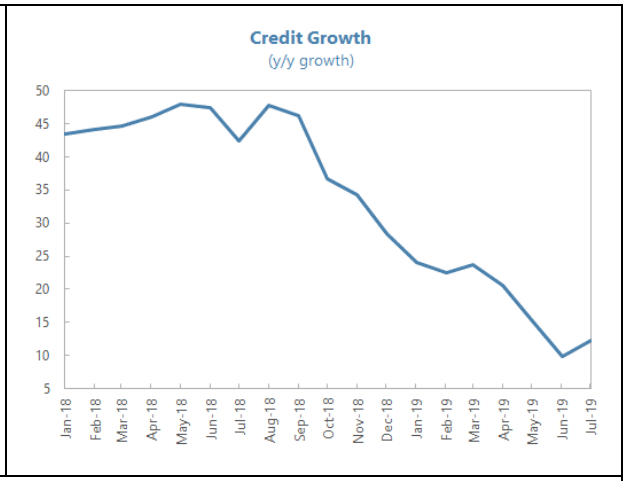

Source: BCRA.
1/ The lending rate corresponds to interest rates on loans granted to the non-financial private sector.

31. Even with consistent and well-calibrated implementation of monetary policy, bringing inflation down would have been challenging. At a fundamental level, monetary policy credibility was undermined by deep-seated fears of fiscal dominance. This was especially so for the recently adopted inflation targeting regime, given the dependence of that approach on anchoring expectations of future inflation. The inconsistent implementation and communication undermined the achievement of the inflation goals under both monetary regimes during the SBA. But given the political situation and underlying doubts about the durability of fiscal consolidation, it is unlikely that any particular monetary policy framework on its own would have been able to overcome these fears, which fed capital flight, furthering exchange rate depreciation, increasing inflation, and worsening debt in a vicious circle.

F. Social Protection and Gender Policies

The program included features to safeguard social protection and increase female labor force participation. These program elements were aimed both to support vulnerable households and build political support for the reform agenda. The outcomes did not meet the goals, in part because the more adverse general economic conditions outweighed the targeted social protection policies and in part because of a lack of follow through on the legislative agenda.

32. The program aimed to protect economically vulnerable households. To secure political support, the administration and the Fund were eager to distinguish the 2018 SBA from previous Fund-supported programs, which had been associated with increases in economic inequality. Consequently, protecting the vulnerable was one of the program's overarching goals described in the Letter of Intent. The program committed the administration to strengthen the social safety net and maintain the level of social spending, and noted the authorities' ambition to reduce poverty rates over the course of the program even if there were to be a slower-than-expected economic rebound.

33. Social policies were reformed to better target the poor and a floor on government social spending was applied—and respected—throughout the program. Specifically, the program aimed for: (i) an improvement in public childcare, not only to protect poor households, but

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also to raise female labor force participation; (ii) a better targeting—together with an broader reach to the population—of the universal child allowance; and (iii) a strengthened monitoring of social conditions of households to help address the needs of the most vulnerable. The SBA included a floor on social spending as a performance criterion, which was met throughout the program—indeed, the authorities increased social spending from the Third Review onwards, particularly in the area of childcare and social assistance, which was financed in part by other IFIs.

34. However, weaker-than-expected growth and higher-than-expected inflation undermined the efforts to mitigate poverty. Despite the increase in social spending, the share of the population living in poverty—disproportionately concentrated in children—rose from 27 percent in 2018H1 to 35 percent in 2019H1. The recession pushed real wages down and unemployment and informality up, exposing gaps in social protection (such as for younger workers in the informal sector). Higher inflation led to lower living standards, including for government workers and pensioners, in part reflecting backward-indexation of public wages and pensions (Box 4. Argentina: Pension Reform). To compensate, the authorities suspended the planned increase in energy prices. Overall, the program's specific social spending commitments were met, but were overwhelmed by the general impact of the crisis.

35. Features were introduced to reduce gender inequality, but progress fell short.

- Gender issues had been emphasized in the Staff Report for the 2017 Article IV Consultation, which noted the lower female labor participation rate in Argentina than in other Latin American countries and a pronounced gender wage gap. Women were also more likely to work in the informal sector, characterized by low pay, poor working conditions, and limited access to social protection.[25] Gender inequality was considered important not only for social cohesion and equity, but also macro critical—increasing participation and eliminating practices that resulted in wage gaps would increase output and productivity. Against this backdrop, the SBA Request committed to a range of measures to increase female labor force participation, such as eliminating the second-earner penalty in the current tax system. The increased support for households with children was also intended to raise female labor force participation, particularly for lower-income households.

- By the time of the Fourth Review, congressional approval of legislation to increase paternity leave and legal changes to eliminate tax disincentives for female labor force participation—potentially the most effective measure of those envisaged in the SBA Request—had not been passed. Wage differentials stayed roughly the same, and female labor force participation increased only marginally during the program.

[25] IMF (2017b), pp.78-90.

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Box 4. Argentina: Pension Reform

The Argentine pension system was actuarially unsustainable. Changes had been made to the pension indexation formula before the program, intended to reduce costs over the medium term while providing some protection of benefits. In the event, rising inflation resulted in a reduction in real pension benefits during the program.

Pension system costs reached 10 percent of GDP in 2018, a large number in light of Argentine demographic pressures. The main component of the system was a pay-as-you-go scheme covering nearly 40 percent of workers. The system was actuarially unsustainable. Pension benefits were not fully financed by current contributions, weighing on public finances—workers' and employers' contributions amounted to 5.2 percent of GDP in 2017, while contributory benefits stood at 7.5 percent of GDP. Non-contributory pensions, which had risen rapidly in the previous decade, accounted for the remaining share of pension spending. The old-age dependency ratio was projected to increase from 17 percent in 2017 to about 28 percent by 2050, adding to the stress on the system.

No changes were made to the parameters of the pension system during the program. However, changes to the pension indexation formula before the 2018 SBA was approved had important effects during the program: the formula used to calculate increases in pension benefits was revised at the end of 2017 from an indexation system based on semi-annual adjustments based on growth in wages and taxes (which had contributed to an increase in the pension cost-to-GDP ratio in the previous decade) to one of quarterly adjustments based on wage and price inflation (with weights of 30 and 70 percent, respectively). This change brought the indexation system more in line with international best practices. However, as inflation accelerated during the program, the real value of pensions fell (if inflation had decelerated as foreseen, the new formula would have delivered an increase the real value of pensions). This resulted in an unplanned reduction in pension spending as a share of GDP, which contributed to the fiscal adjustment under the program.

G. Structural Policies, Financial Sector Reform, and Governance

Consistent with its focus on short-term stabilization, and also reflecting the administration's constrained political space, the program contained relatively limited conditionality on structural policies. Moreover, the financial sector's small size and overall sound position motivated less focus on financial sector reform than in other similar programs. Governance frameworks and related vulnerabilities came increasingly into focus, in line with the Fund's renewed emphasis on these issues.

36. Structural reforms and related conditionality were narrowly targeted. The program had no structural policy prior actions at approval, but featured three such actions during the program, two under the First Review and one under the Second Review. A comparative analysis of structural conditionality suggests that the number of conditions in the SBA was lower than typical (see Box 5. Argentina: Structural Conditionality under the 2018 SBA).[26] The measures were well targeted in the context of the program's emphasis on short-term financial stabilization, with the

[26] Not all exceptional access SBAs have included prior actions—examples without prior actions include Armenia (2009), Georgia (2008), Hungary (2008), Jordan (2012), and Romania (2009).

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structural reform agenda focused on macroeconomic stabilization, fiscal reforms and monetary policy and with the actions singled out for conditionality focused on fiscal, PFM and central bank reforms. The design of structural conditionality was also a *de facto* acknowledgment of the existing political constraints as the administration's lack of majority in Congress would likely have hampered reforms requiring legislative action. The overall strategy was to support stability in the initial part of the program and move on to deeper reforms later. That said, the structural policy commitments included in the program went beyond those anchored on benchmarks and included supply side policy measures aimed at strengthening the anti-corruption regime and AML-CFT legal framework, develop domestic credit markets, increase competition, and reduce red tape.

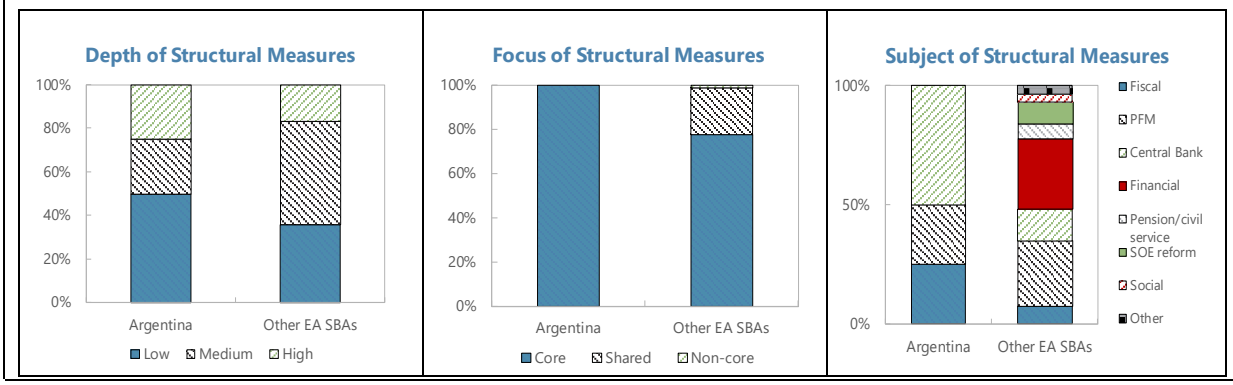
Box 5. Argentina: Structural Conditionality Under the 2018 SBA

This box looks at prior actions, structural benchmarks, and structural performance criteria.[1/] *A comparison of the Argentina SBA with other exceptional access cases shows that, although the structural benchmarks were relatively few and of relatively limited depth, they were well aligned with the program's emphasis on short-term macroeconomic stabilization.*

An assessment of structural reforms under the program points to relatively limited but well focused structural conditionality when compared with other exceptional access SBAs. Following the 2018 Review of Conditionality (IMF, 2019c), structural conditionality at the time of program approval is assessed by *volume*, *depth*, and *focus*. The volume of structural conditionality is defined as the number of conditions per program year. Depth is defined as the degree and durability of structural conditions, with measures separated into high-, medium-, and low-depth categories.[2/] Focus is assessed by categorizing structural conditions into core, shared, and non-core areas of Fund responsibility. Based on these three criteria, Argentina's 2018 SBA is compared below to other exceptional-access SBAs from 2008 to 2018.[3/]

The *volume of structural conditions* in the program was less than one third of other exceptional access SBAs. Moreover, the Argentina program did not include prior actions at the time of the request, which was the case in less than one third of comparable programs.

Structural conditions tended to be of *lesser depth* than in comparable programs. Half the structural benchmarks set at the time of program approval were assessed to be of low depth, a higher proportion than in other exceptional access SBAs. On the other hand, the share of high-depth measures was larger, while medium-depth structural conditions represented a smaller share of all structural conditions. High-depth measures planned included the recapitalization of the BCRA and the submission of a new central bank charter to Congress, albeit with relatively late test dates (end-December 2019 and end-March 2019 respectively) and no explicit commitment of fiscal resources, which also contributes to the assessment of "light" structural conditionality at the time of the program approval.



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Box 5. Argentina: Structural Conditionality Under the 2018 SBA (Concluded)

All structural conditions were *focused* on areas of core Fund responsibility.[4/] In terms of subject, half the measures concerned the central bank, and half fiscal and PFM issues combined. There were no structural conditions on the financial sector, which is atypical for exceptional access programs.

1/ Structural performance criteria were eliminated from the Fund's lending and conditionality framework in 2019.

2/ "High depth" designates reforms that lead to permanent institutional changes, such as involving legislative changes, or measures with long-lasting impact (e.g., pension reform, privatization). "Medium depth" corresponds to one-off measures that might bring immediate, but not lasting, effects, such as budget approval or one-time changes to controlled prices. "Low depth" involves reforms that could serve as intermediate steps but would not by themselves bring significant economic change, such as preparation and/or announcement of plans.

3/ Other exceptional-access SBAs include Armenia (2009), Belarus (2009), Georgia (2008), Greece (2010), Hungary (2008), Iceland (2008), Jordan (2012), Latvia (2008), Mongolia (2009), Pakistan (2008), Romania (2009), Sri Lanka (2009), St. Kitts and Nevis (2011), and Ukraine (2008, 2010, 2014).

4/ Areas of "core" Fund responsibility include fiscal, PFM, central bank, financial sector, and pension and civil service reform issues. See Appendix II in IMF (2019c).

37. The program featured limited coverage of the financial sector. Capital account crises have often been accompanied by financial sector crises, and in Argentina funding pressures on the sovereign could conceivably have spilled over to banks. However, Argentina's financial sector in 2018 was much smaller than it had been at the time of the previous crisis, and banks' business models were very conservative—banks typically held a high proportion of low-credit-risk assets (such as central bank securities) and had limited lending exposure to the sovereign. Moreover, financial soundness indicators were reassuring. This and few signs of bank stress motivated the relatively limited coverage of the financial sector; nevertheless, the work of Fund staff modelling the effects of capital flow restrictions and debt operations did cover the financial sector.

38. Governance measures became more prominent over time. The IMF's assessment of governance vulnerabilities focused on corruption and AML/CFT, and was relatively light on reforms of public financial management. The June 2018 program request included a general commitment to strengthen the anti-corruption regime and improve the AML-CFT legal framework. The program's emphasis on governance increased with the implementation of the Fund's new framework for enhanced engagement on governance approved by the Executive Board in April 2018,[27] which prompted the inclusion of a full section on tackling corruption in the Staff Report for the Second Review.

[27] See Review of 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement (3/9/2018) and IMF Press Release No. 18/142.

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CONSISTENCY WITH FUND POLICIES AND PROCEDURES

Fund policies and procedures relating to financing, safeguards and program design were adhered to. The approach to precautionary Fund financing and the associated communication challenges may have undermined the catalytic effect of the program. The Fund's Exceptional Access Framework was followed, but its application was challenging. The experience with the Argentina SBA highlights scope for taking a broader view of the risks to the Fund associated with exceptional access cases.

A. Financing

As the adverse scenario came to bear already by the time of the First Review, access was increased, and the program become fully disbursing with all proceeds of IMF resources used by the authorities for budget financing. The scale of Fund support matched the financing needs projected at that time and as such was appropriate. That said, rollover rates remained an element of considerable uncertainty when assessing actual financing needs. Moreover, the shift to a disbursing arrangement signaled an acknowledgement that the catalytic effect of the program had fallen short of expectations. The experience points to broader implications of exceptional-access Fund-supported programs for the global financial safety net and burden sharing amongst creditors.

39. The 2018 SBA was conceived as primarily precautionary, but deteriorating financial conditions quickly prompted a switch to a fully disbursing arrangement. The initial program assumed an external financing gap, concentrated between June and December 2018, of SDR 10.6 billion (approximately US$15 billion). The remainder of the Fund resources (SDR 24.8 billion, or approximately US$35 billion) were to be treated as precautionary, with access to be phased evenly based on twelve quarterly reviews over three years (see text chart). With very limited financing from non-Fund official sources, the projected financing gap relied critically on the assumed rollover rates of privately held debt.[28] Rollover rates deteriorated after program approval in June and through September. Treasury issuances in the domestic market were limited, and increasingly at short maturities as the authorities sought to avoid paying higher interest rates. Consequently, at the First Review in October, a change in the amortization schedule[29] called for an augmentation of the arrangement, some frontloading, and actual use of Fund resources to close the fiscal financing gap (which translated into a corresponding external gap). The revised purchase schedule involved concentrated access through the third quarter of 2019 (SDR 35.8 billion, or US$51 billion, slightly above the original arrangement) and envisaged the residual amount

[28] The baseline scenario in the initial program, which assumed rollover rates between 75 and 100 percent, projected a need for Fund resources only in 2018. The adverse scenario presented with the initial program request, which assumed rollover rates between 75 and 90 percent, justified access to the remaining resources. These rollover rates were in line with those observed in other countries during stress episodes , but did not account for additional financing needs not anticipated at the beginning of the program.

[29] Rollover rates assumptions were reduced to 50 percent in 2018, gradually increasing to 70 percent in 2019 for privately held bonds.

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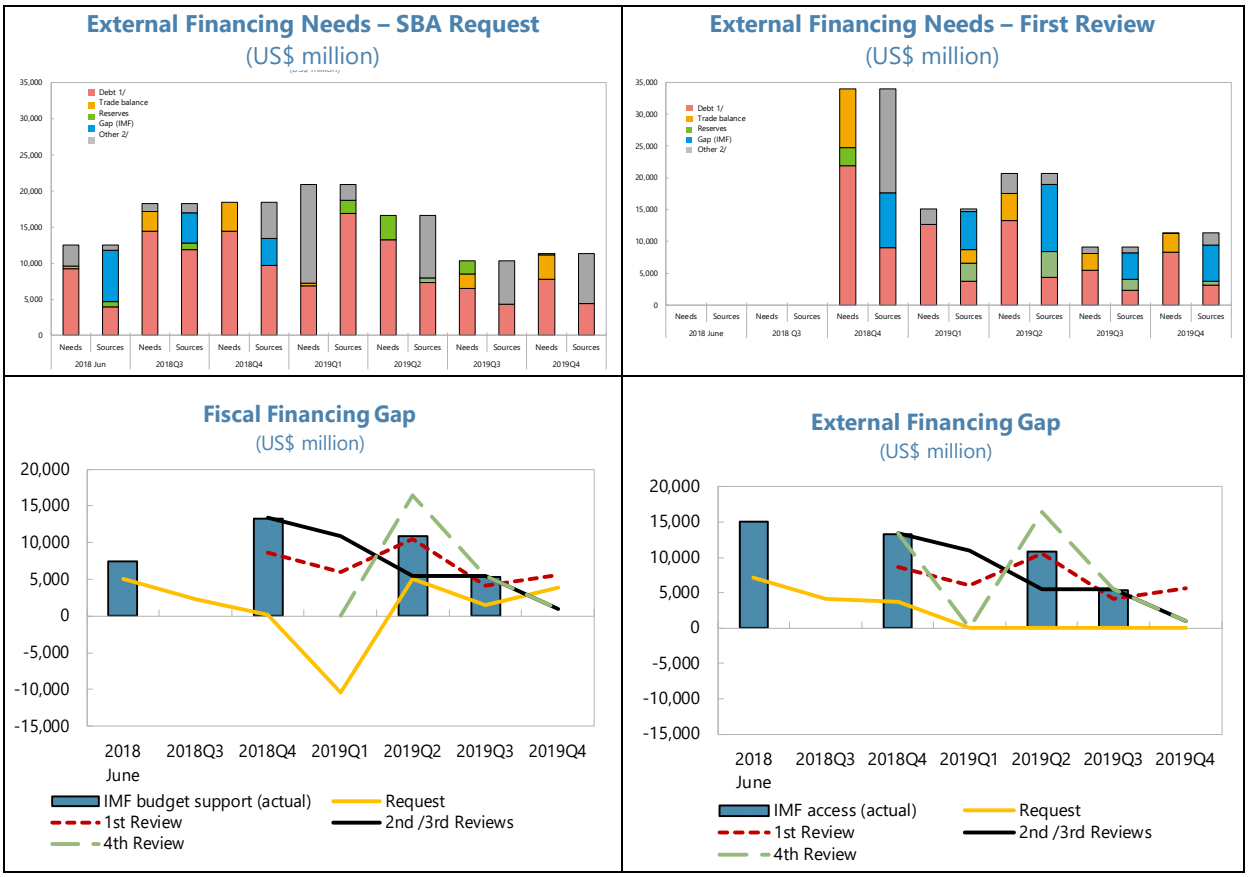
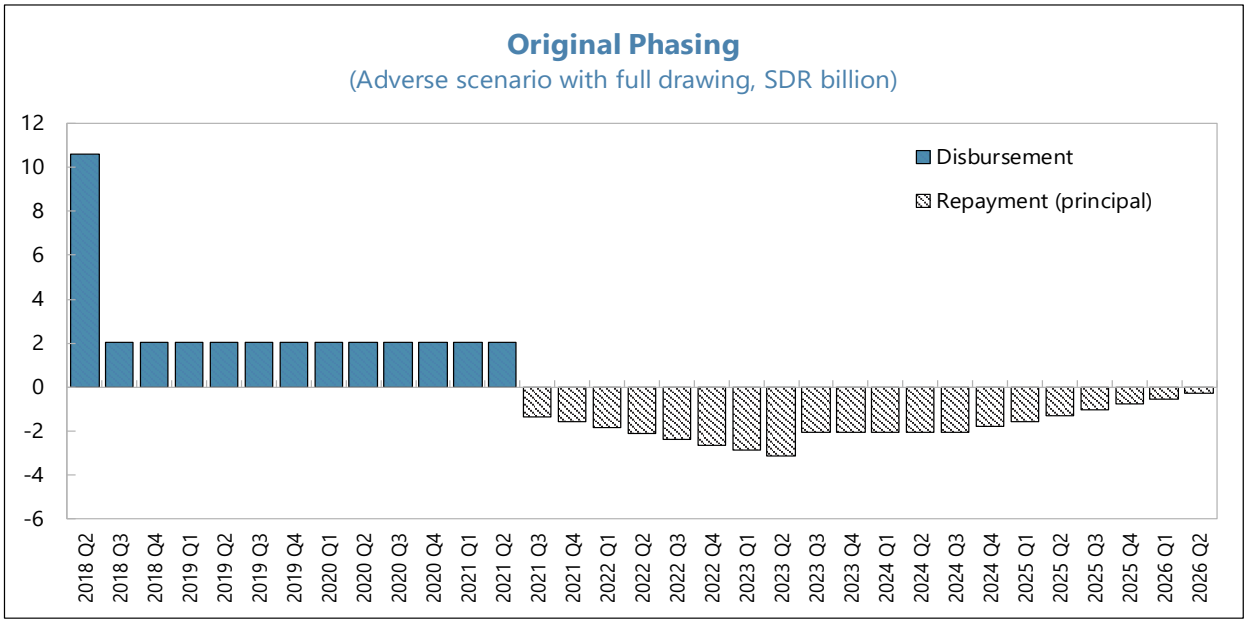
(SDR 4.9 billion or US$7 billion) being purchased over the remainder of the arrangement in seven equal installments.





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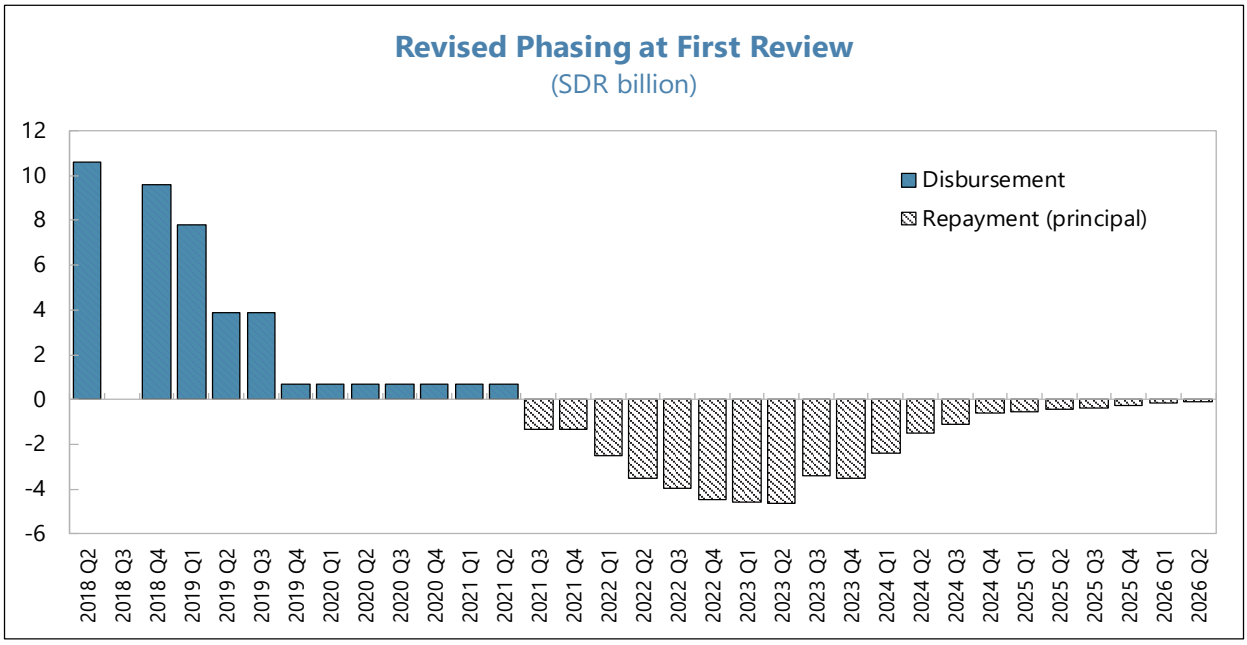

40. Burden sharing was limited, with the Fund providing the bulk of official financing. The IMF's financing assurances policy[30] requires that a program be "fully financed," with firm commitments of financing for the first 12 months of the arrangement (or the 12 months following a review) and "good prospects" thereafter. Under the SBA, Argentina's financing needs were to be met primarily through IMF financing and debt issuance in the domestic market (with participation of foreign creditors). Between end-March 2018 and end-2019, actual net financial support from other IFIs during the program period was set at about US$2.7 billion,[31] or about 6 percent of all additional financing from IFIs (including the Fund).[32] Program financing therefore depended on the debt rollover rates. At the time of the First Review, when rollover rates had fallen below those assumed in the initial program, program financing relied on the augmentation of the arrangement and the accelerated move to fiscal balance. Financing assumptions remained stable at both the Second and Third Reviews. By the time of the Fourth Review, financing needs had increased as a result of a steeper yield curve and reduced maturities of issuances (up to three months), but with an assumption of higher rollover rates, the program was deemed fully financed.

[30] See Annex I of Sovereign Debt Restructuring—Recent Developments and Implications for the Fund's Legal and Policy Framework (SM/13/100, 4/26/2013). The financing assurances policy aims at promoting effective balance of payments adjustment and ensuring the capacity to repay the Fund. At program approval, there must be (i) "firm commitments" of financing in place for the first 12 months of the arrangement, and (ii) "good prospects" of adequate financing for the remaining program period. Program reviews must determine full financing of successive 12-month periods beyond the initial 12 months (or whatever period is left under the arrangement).

[31] The Fourth Review estimated official financing of US$1.6 billion in 2018 and US$3.0 billion in 2019.

[32] In contrast, under the 2000 SBA for Argentina, the IMF engaged with other donors to put together a package of resources to act as shield ("blindaje"). By January 2001, there were pledges of US$40 billion in official support, with only about one third contributed by the IMF.

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41. Financing choices at the time of the SBA's approval were consistent with the initial diagnosis and strategy, but may nevertheless have worked against instilling confidence. The initial access and phasing were consistent with the diagnosis of a temporary liquidity shortage and the strategy of catalyzing market access to provide space for gradual implementation of policy reforms.

- The limited burden sharing can be seen as a consequence of the urgency to provide financing. The frontloading, augmentation of access and use of proceeds for budget financing at the time of the First Review (¶8, 40) signaled that a larger share of the near-term financing needs would be met by the Fund, *in lieu* of a catalytic effect on private flows. The lack of additional major sources of financing (other than a new swap line with the People's Bank of China) may have put in question the confidence-shock narrative. The frontloading of access may also have lessened the Fund's leverage to secure reforms, working against the catalytic effect.

- The increased access and frontloading incorporated at the First Review compressed the original Fund financing in the 15 months before the 2019 election, generating substantial financial risks to the Fund, and may have also played against its catalytic role.

42. The experience with the Argentina SBA poses broader questions on the role of the Fund in cases of large absolute financing needs. Challenges in the Argentina case were multiple: large and intertwined fiscal and external financing needs, very little room for adjustment, limited support from other official sources, a dispersed private creditor base, and pressure for swift action. Given that such conditions may resurface in other exceptional access cases, the Fund needs to be clear about the roles it is called to play, and which constraints should be challenged (considering that accepting constraints would tend to increase the size of arrangements).

- In the 2018 SBA, the Fund accepted being *de facto* the sole official creditor, in a context of highly uncertain financing needs. Going forward, the Fund may wish to revisit its stance towards burden sharing and scrutinize debt rollover assumptions.

- When a deterioration occurs, pulling out from a program is very difficult,[33] and the Fund could well face a choice between taking a forceful stance on debt reprofiling and accepting the high financial risk of taking a member country "out of the market."

- Given the weight of the initial financing decision, the speed of action (including resort to the Emergency Financing Mechanism) should be carefully weighed against the longer-term risks associated with a program engagement.

[33] As the 2000 Argentina SBA experience illustrates (Appendix I), exit costs to a program can be overwhelming—by denying access, the Fund may be seen as precipitating a crisis.

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B. Application of the Exceptional Access Framework

The application of the Exceptional Access Framework (EAF), updated by the Executive Board in 2016, proved challenging in the economic and political circumstances facing Argentina. The provisions of the updated EAF are intended to provide scope for flexibility and necessarily leave room for judgment about technical matters. Applying the updated EAF in the context of the 2018 SBA involved finely balanced assessments.

43. Because of its size, the SBA was subject to the Exceptional Access Framework. Normal access to Fund financial resources would have limited Argentina to 145 percent of quota for any 12-month period, and cumulatively to 435 percent of quota (net of repayments) over the period of the program. The 2018 SBA was nearly three times this cumulative limit. Under the EAF as updated by the Executive Board in early 2016, exceptional access arrangements are required to satisfy all four Exceptional Access Criteria (EAC):

> *EAC1*. The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account resulting in a need for Fund financing that cannot be met within the normal limits.
>
> *EAC2*. A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable *ex ante*, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the debt is considered sustainable but not with a high probability, exceptional access is justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.[34]
>
> *EAC3*. The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.
>
> *EAC4*. The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

Argentina was deemed to meet the EACs at the time of the Board approval of the SBA and in all four program reviews, although the assessment of three of the four criteria was finely balanced (Annex III).

[34] For purposes of the criterion, financing provided from sources other than the Fund may include, *inter alia*, financing obtained through any intended debt restructuring. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability is required to incorporate any relevant contingent liabilities, including those potentially arising from private external indebtedness.

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44. The balance of payments needs facing Argentina were evident, satisfying EAC1. At the time of the SBA request, Argentina faced an actual balance of payments need and had the potential to experience stronger pressures that warranted exceptional access. Argentina purchased about US$15 billion at the time of the SBA approval; soon after, exceptional balance of payment pressures emerged and remained through the program (¶17). The assessment was further underpinned by the low level of international reserves, which fell short of the Fund's ARA metric.

45. Despite steadily deteriorating public debt indicators during the program period, EAC2 was deemed to be met on the grounds that market access was retained and that private claims falling due during the program period were small. Debt was initially categorized as "sustainable but not with high probability" (referred to as being in the "gray zone"), and this assessment was maintained throughout the program. The provision of Fund financing under this category had been introduced under the EAF policy to provide flexibility and avoid potentially very costly and unnecessary debt restructurings.[35] The flexibility is not unconstrained—in such cases the policy calls for safeguards that would improve debt sustainability and reduce risks to the Fund, laying out a range of options that could meet these requirements, with no presumption that any particular option should apply.[36] For example, EAC2 could be satisfied if debt was not clearly sustainable with high probability but the member nonetheless either retained market access or the volume of private claims falling due during the program period would be small. This was the option relied upon during the 2018 SBA. Another option, if the member has lost market access and private claims falling due during the program would constitute a significant drain on available resources, would be to reprofile existing claims. This option was not acted upon under the 2018 SBA.[37] Based on the 2016 EAF, the Fund's final assessment relied on debt sustainability analysis, safeguards provisions and judgment:

- *Application of the IMF's Debt Sustainability Analysis (DSA)*. The DSA provides a bottom-line assessment of sustainability based on an array of indicators and tools, with the overall assessment ultimately relying on judgment. At the time of program approval in June 2018, the IMF assessed that debt was "sustainable, but not with a high probability." By the time of the First Review, and for the remainder of the program, this judgment had become finely balanced, and the indications from the DSA worsened throughout the program period (Annex II). During the first four months, from the approval of the SBA in June to the First Review in October, the debt-to-GDP ratio jumped from 65 to 81 percent of GDP. As this was above the benchmark

[35] Previously, for the purposes of EAC2, the choice was binary: debt was sustainable with high probability or not. A "systemic exemption" created in 2010 in the context of the Greece SBA had effectively established a third category of uncertain or "gray zone" cases, but it applied only to cases where there was a high risk of international systemic spillovers and as such did not extend to all cases in which debt sustainability was uncertain. The Fund's Exceptional Access Policy was amended in 2016 to allow for cases in which debt would be assessed as "sustainable, but not with high probability." In those cases, exceptional access would be granted only if the financing provided from sources other than the IMF improved debt sustainability and would sufficiently enhance the safeguards for IMF resources.

[36] See Figure 1 and associated text in IMF (2015).

[37] In general, "reprofiling" refers to a lighter form of sovereign debt restructuring in which maturities are extended while coupons and principal are not reduced. In the context of the EAF, it denotes a short extension of maturities falling due during the program (with normally no reduction in principal or coupons).

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threshold of 70 percent in the current and the first projected year, the first row of indicators in the DSA "heat map" turned from green to red. Over the same period, EMBIG spreads increased from 415 to 630 basis points, above the 600 bp threshold, causing the market perception indicator to change from yellow to red. Although gross financing needs under the baseline scenario remained below the 15 percent of GDP rule of thumb until the Third Review, at the time of the program request other structural characteristics indicated high vulnerability—Argentina's small banking system limited the ability to absorb additional borrowing requirements domestically, and the narrow export sector constrained the ability to carry debt in foreign currency (Figure 3). Overall, the level of debt, gross financing needs, external financing requirements, and risk premia increased during the program, raising questions of whether the liquidity crisis was becoming a solvency crisis. By the time of the Fourth Review in July 2019, 12 out of 15 cells in the DSA heat map were red.

- *Safeguards to Fund resources*. Against the backdrop of the considerations above, EAC2 was, on balance, deemed to be met in view of market access and the volume of private claims falling due during the program. With respect to market access, the Argentine Treasury was seen to be issuing bonds domestically during the program, although market access weakened over time (Box 6. Argentina: Market Access During the 2018 SBA). With respect to the volume of private claims, safeguards to the Fund, measured as the ratio of post-program restructurable debt relative to peak Fund credit, decreased relative to expectations at program approval, reflecting the augmentation. However, there is no clear guidance in the policy on when the volume of private claims falling due during a program is small enough (or when the volume of post-program restructurable debt can be deemed large enough) to sufficiently safeguard Fund resources.

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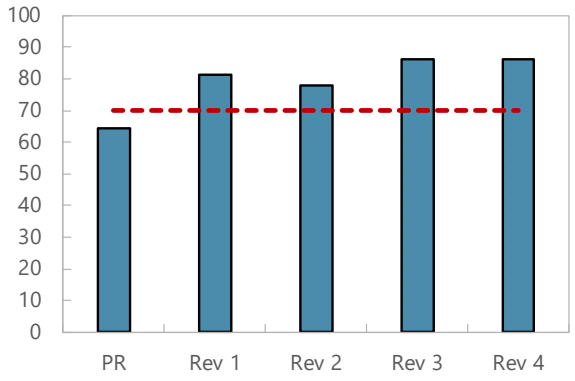
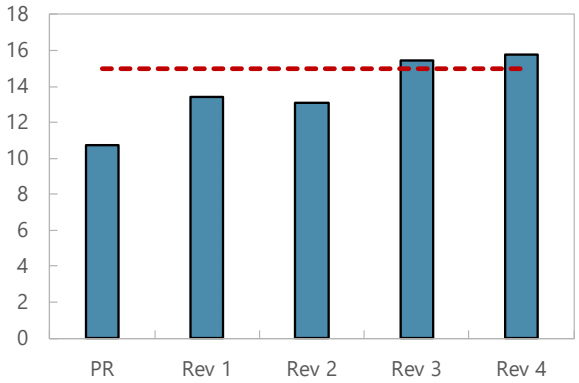
Figure 3. Debt Indicators[1]

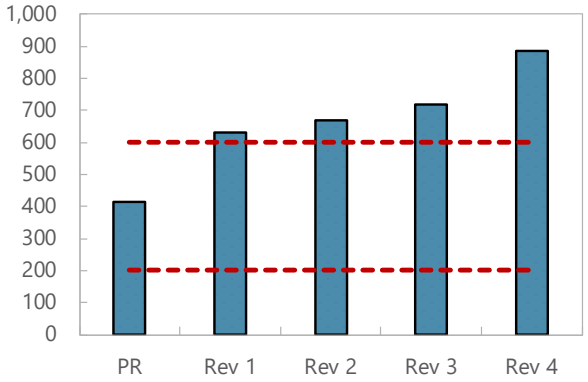
Gross Public Debt, 2018
(Percent of GDP)



Public Gross Financing Needs, 2019
(Percent of GDP)

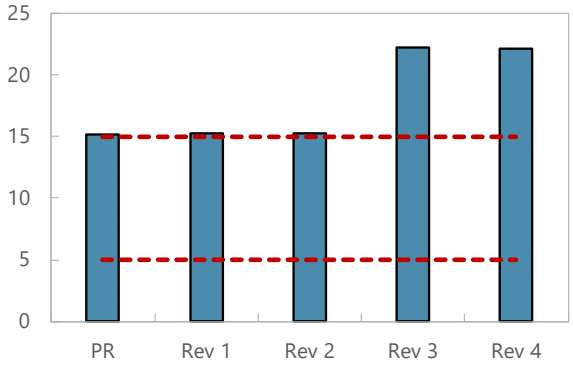


EMBIG
(basis points)[2]



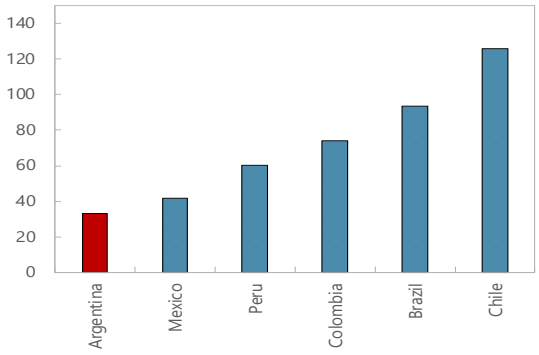
2/ In each review, an average over the previous 3 months is reported.

External Financing Requirements
(Percent of GDP)[3]

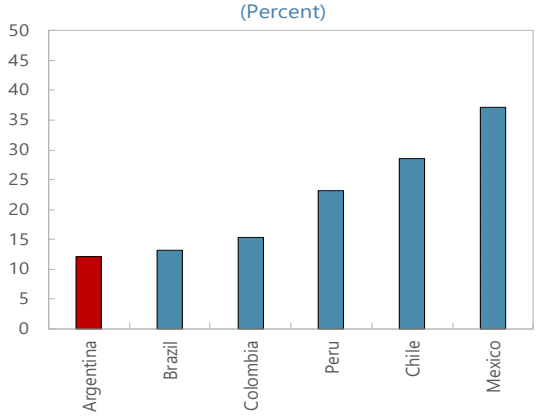


3/ Based on external financing requirements reported in DSA Template Charts. For the Program Request, First Review and Second Review, figures correspond to 2017. For the Third and Fourth Review figures correspond to 2018.

Domestic Bank Assets to GDP, 2015–18
(Percent)



Exports to GDP, 2015–18
(Percent)



1/ Dashed lines correspond to DSA benchmarks. This includes 70 percent for debt burden and 15 percent for gross financing needs. Lower and upper risk-assessment benchmarks are: 200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement.

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Box 6. Argentina: Market Access During the 2018 SBA

Argentina was not able to raise significant funds externally during the program period. It did, however, issue debt domestically up until the de facto end of the program, albeit with significantly higher yields and shorter maturities.

Argentina's market access deteriorated after January 2018, when a total of US$9 billion in external debt was successfully issued. In the following period, the Treasury no longer placed bonds externally. Nonetheless, in January 2018-July 2019, the Treasury continued to issue bonds (both in U.S. dollars and pesos) and short-term paper domestically (mostly LECAP and LETES; Figure 4, second row). Non-residents continued to participate in the domestic debt market while rebalancing their portfolio from LETES to LECAP. Domestic placements also came to an end after the primary elections in August 2019, when an attempt to issue short-term paper in pesos (LECAPs) and U.S. dollars (LETES) failed (Figure 4, first row).

Non-residents started to exit the LETES market, dropping their stock holdings by US$5.2 billion from end-March 2018 to end-March 2019 (Figure 4, third row). By then, LETES were a preferred option for residents that had savings in U.S. dollars with non-residents holding only 10 percent of the outstanding stock. Meanwhile, non-residents steadily increased their holdings of LECAP which peaked at US$6.7 billion (67 percent of the total stock) by end-March 2019. In the following months, non-residents started to exit the LECAP market, offloading 20 percent of their total holdings by end-June 2019 (with a broadly equal increase of the domestic private sector participation). Overall, LETES rollover rates dropped, with the total outstanding stock falling by US$4.2 billion from end-March to end-Dec 2018, but on average remaining stable until August 2019. Meanwhile, the outstanding stock of LECAP increased rapidly in 2018, with the U.S. dollar value fluctuating until August 2019.

Following the run on short-term BCRA paper at the end of April 2018, total issuance in dollars dropped to only US$1.1 billion in May, before recovering to US$3.4 billion in June after the announcement of a Fund staff-level agreement on an exceptional access Stand-By Arrangement. Issuance of peso-denominated debt continued during this period, but interest rates rose significantly from an average of 26 percent in January-April of 2018 to an average of 42 percent in May-August 2018. In 2019, the debt profile continued to deteriorate. Interest rates on peso-denominated debt reached 60 percent and the average maturity of LETES fell from 213 days in 2018 to 158 days in 2019. Moreover, maturities were concentrated: about two-thirds of LETES and LECAP 2019 issuances were due before the October presidential election, creating a significant refinancing need during a period of high uncertainty (Figure 4, fourth row). Risks were compounded by some government borrowing in the form of repos collateralized by government dollar-denominated debt securities, whose drop in market value led to margin calls and further increases in financing needs.

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Figure 4. Public Debt Issuances

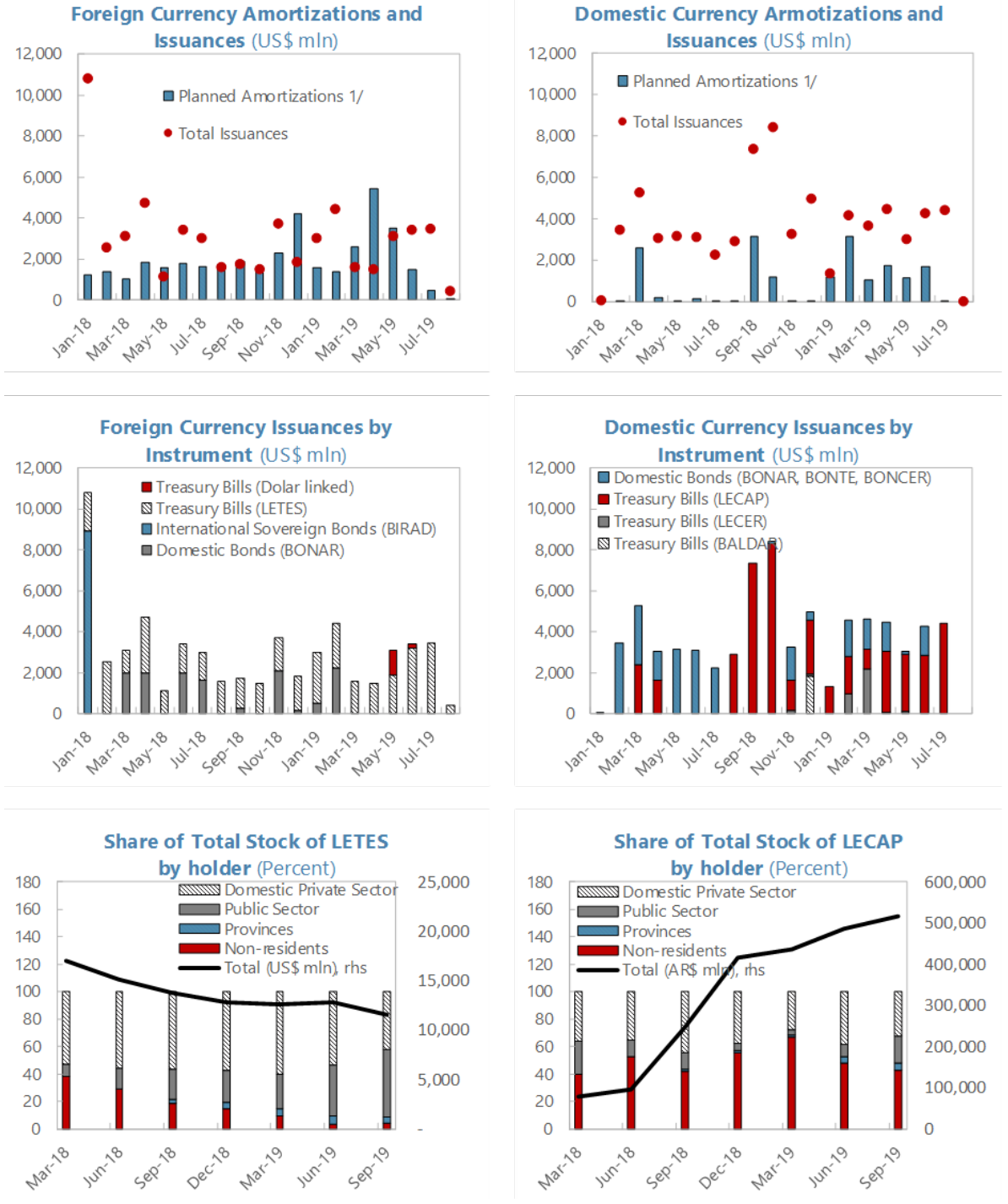

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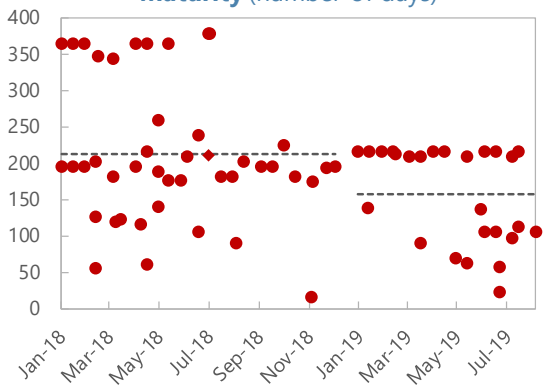
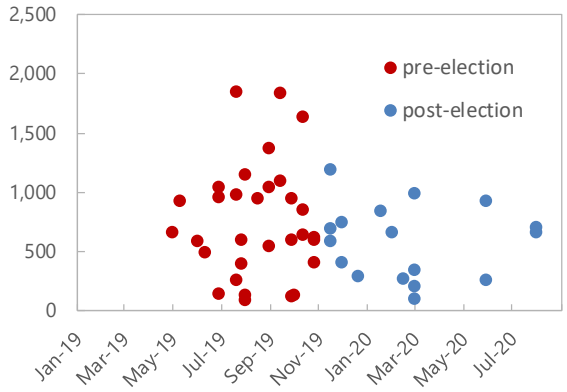
Figure 4. Public Debt Issuances (Concluded)

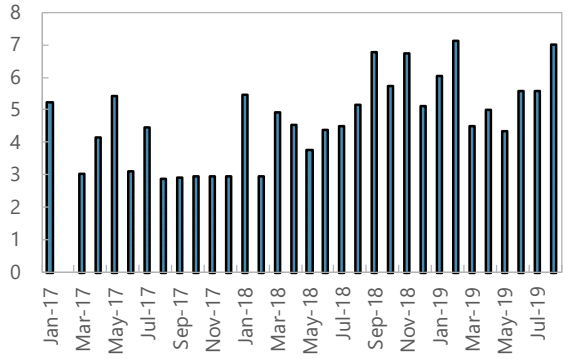
LETES: Issuance Date and Days to Maturity (number of days) 2/



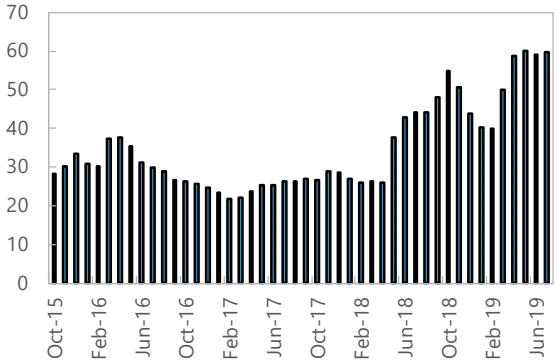
LETES and LECAP: Maturity Date and Issuances in 2019 (US$ mln) 2/



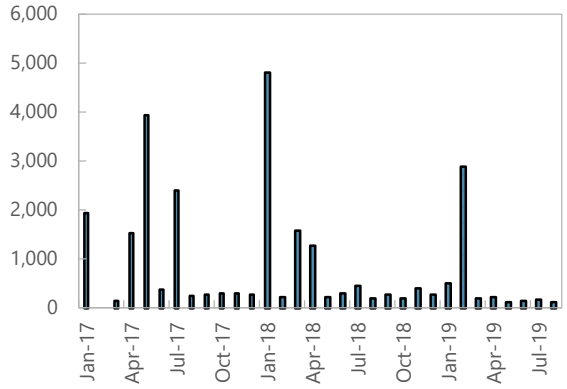
Average Interest rate of US$-denominated debt issuances (Percent)3/



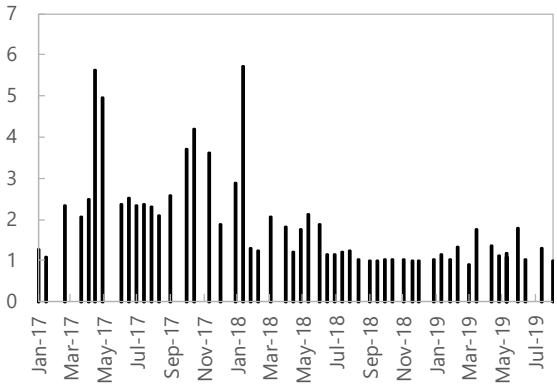
Average Interest rate of AR$-denominated debt issuances (Percent)



Average Maturity of US$-denominated debt issuances (number of days)



Bid-to-cover ratio for US$-denominated LETES issuances



Source: Argentinian authorities and staff calculations.
1/ Planned amortizations for 2018 as of 04/27/2018 (US$1 = AR$20.4) and planned amortizations for 2019 as of 12/30/2018 (US$1 = AR$37.8).
2/ Note that multiple issuances may occur or mature on the same date.
3/ Increases in the interest rate before May 2018 correspond to long-term debt issuances.

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46. Prospects of regaining market access on an adequate scale—and thereby being able to service debt to the Fund—were mixed, but on balance EAC3 was judged to be met. The assessment that the scale of access would be adequate to enable Argentina to meet its future Fund obligations was finely balanced. As market conditions deteriorated, the likelihood of attaining adequate access to private capital markets over the relevant time horizon for EAC3 also weakened. However, rollover rates recovered after the First Review. The assessment was that prospects were sufficient ; while noting the declining appetite of non-resident investors for Argentine sovereign debt, the Fund expected that the implementation of the program, with the support of the international community, would safeguard market access.

47. As regards the institutional and political capacity to implement the program called for under EAC4, assurances were deemed to be satisfactory, although commitments made were fairly light.

- As regards *political capacity,* in applying the EAF to cases in which a request for Fund resources (or completion of a review) is made in the lead-up to a national election, the Fund has required that the main opposition parties or candidates for premier express their commitment to the overall goals and key policies of a Fund-supported program. This is to ensure that the Fund has confidence that the program will be implemented after the elections, whichever party or coalition comes into power.[38] In the case of the 2018 SBA, the significance of this requirement markedly increased in March 2019 as polls began to suggest the possibility of a change in government after the October 2019 elections. In the run-up to the elections, political assurances were based on private consultations with two opposition candidates for president. However, the opposition candidates were publicly critical of the implementation of specific strategies and indicated that they would seek to renegotiate the program.[39] In principle, stronger assurances—such as written and published commitments—could have been sought.

- The IMF assessed the administration's *institutional capacity* to be sufficient to deliver the core elements of the program. Like under many Fund-supported programs, the SBA nevertheless aimed to strengthen the capacity in some important areas. The program reforms to this end covered budget and tax administration, the anti-corruption regime, and, in particular, the capacity, transparency and communication relating to debt management. (Two structural benchmarks focused on the latter, and the Fund provided TA in debt management.) Moreover, the Fund's support involved TA to improve official data.[40] A March 2019 structural benchmark called for a new central bank charter to end the BCRA's multiple mandates and establish operational independence. By the end of the program, the charter had not passed. At the same time, the high turnover of central bank governors, with three governors in office from May 2018

[38] While the Fund's policy on political assurances is separate from EAC4, and is part of the Fund's broader policies to safeguard its resources, it is used to inform the judgment of whether this criterion is met.

[39] See Staff Report for the Fourth Review.

[40] The IMF had previously officially censured Argentina for data quality. By the end of 2016, the publication of improved and credible data on inflation, trade, the labor market, and output by a rebuilt national statistics agency allowed the IMF to remove the Declaration of Censure. But during the program period, the reliability of the inflation data remained problematic and a national inflation series was not yet available.

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to August 2019, may have raised questions about policy continuity and added doubts over central bank independence.

48. All told, the application of the flexibility under the revised Exceptional Access Framework proved challenging—in hindsight, stricter implementation of EAC2 and EAC4 may have helped. The EAF is intended to provide transparency on how the Fund would handle exceptional access cases. Under the Argentina 2018 SBA, three of the four criteria required finely-balanced judgments. The SBA was the first case to test the revised treatment of "gray zone" cases of debt sustainability under EAC2. The short-term maturity structure of the public debt[41] combined with the non-trivial *dollar* amount of public debt falling due during the program, pointed to a debt reprofiling as envisaged in the 2016 EAF reform.[42] With this option ruled out and debt assessed to be sustainable but not with high probability, much depended on the assessment of whether Argentina could be deemed to have market access. In each of the reviews, the issuance of relatively small amounts of debt, domestically and at relatively short maturities, was considered to provide adequate safeguards to conclude that EAC2 was observed. However, it was not evident that market access was improving and that allowing more time would improve debt sustainability and lead to better macroeconomic outcomes, as intended under the provision for "gray zone" cases in the revised EAF. This situation points to the need for an unflinching assessment of debt sustainability, ideally before entering into a program, as—particularly in exceptional access cases—the pressure to not change course once an arrangement is underway can prove overwhelming. The importance of this consideration is compounded by the challenges of reaching agreement on contingency plans from the outset of programs (¶10). Finally, the 2018 SBA provided an illustration of the difficulties in reaching clear-cut assessments of political capacity under EAC4, and in putting in place commitment devices that have traction and are convincing.

C. Risks to the Fund

The high level of access under the SBA represented considerable financial, reputational and enterprise risks for the Fund. The safeguards policies were followed, including the preparation of a regular Safeguards Assessment and a supplementary review of fiscal safeguards as required when proceeds of IMF financial support are channeled to the government budget. The experience with the Argentina SBA points to possibilities for sharpening the risk assessment for Fund finances and taking a broader view of risks to the Fund associated with exceptional access cases.

49. The SBA represented substantial financial risks to the IMF, risks that increased with the enlarged and more frontloaded access approved at the First Review. Following the standard practice for exceptional access cases, staff reports for the program request and augmentation

[41] The average maturity of new issuances was about 7 and 5.2 months in 2018 and 2019 respectively; see Box 6.

[42] In cases where there is uncertainty as to whether a member's debt is sustainable or unsustainable, a less definitive debt restructuring would be acceptable provided that it satisfies two inter-related requirements: (a) it improves debt sustainability and (b) it sufficiently enhances the safeguards for Fund resources (IMF 2015).

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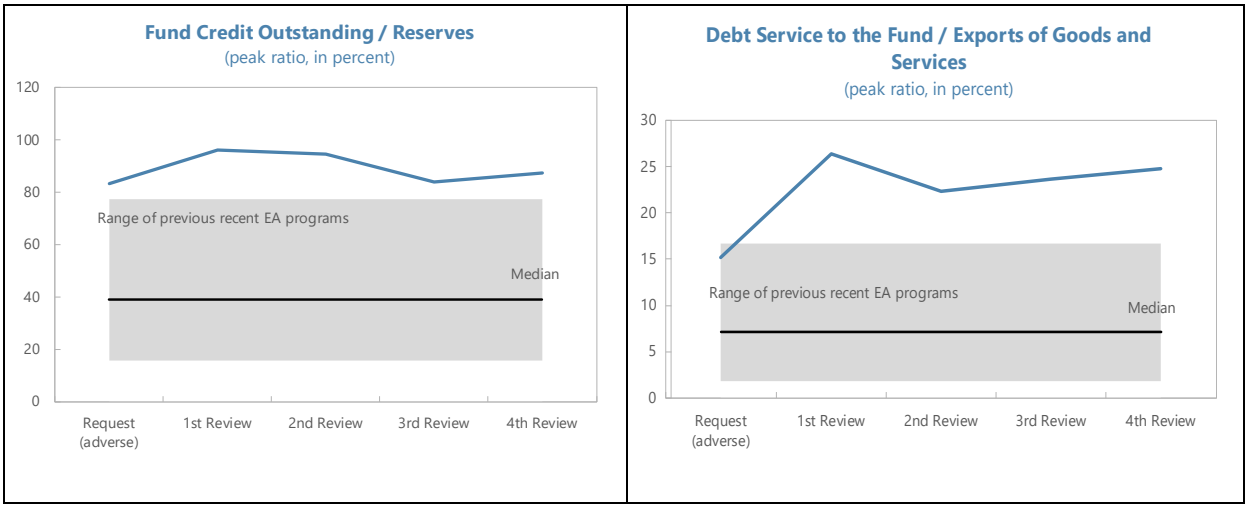
(First Review) were accompanied by a Supplement assessing the risks to the Fund and its liquidity position.[43]

- *At the time of the program request, capacity to repay was assessed as "good" under the baseline scenario and "adequate" under the alternative (full drawing) scenario*. Some risk indicators were worrisome: under full drawing, capacity to repay indicators (relative to reserves and exports) were above or at the higher end of the range of recent exceptional access arrangements, credit outstanding to Argentina would be around double the Fund's precautionary balances (SDR 16 billion at end-FY2020), and yearly charges would be considerably above the absorption capacity of the burden sharing mechanism.[44]



- *The augmentation and frontloading of access at the time of the First Review significantly increased the financial risks to the Fund.* At the First Review, the risk assessment was revised to "adequate although subject to heightened/sizable risks" and remained the same through all subsequent reviews. As repayments became more concentrated in 2022 and 2023, the capacity-to-repay indicators pointed to higher risks. Even though the SBA was not fully disbursed, capacity-to-repay indicators remained at risky levels. Despite these indications, actions to reduce or mitigate risks to Fund finances did not feature prominently in the program design nor in the discussions. Greater burden sharing could have reduced financial risks to the Fund, while signaling broader support from the international community and potentially instilling greater confidence.

[43] The analysis covered indicators on Argentina's external debt, comparison of access with other recent exceptional access arrangements, an in-depth set of capacity to repay indicators, liquidity impact on the Fund's Forward Commitment Capacity (FCC), credit concentration, and a comparison with the Fund's financial backstops (precautionary balances and burden sharing mechanism).

[44] The burden sharing mechanism can provide temporary financing (by adjusting the rate of charge and the remuneration rate) to compensate for unpaid charges. The maximum yearly burden sharing capacity is estimated by a simple formula (see IMF Financial Operations (2018), Box 6.3); by end-FY 2018, it was SDR 138 million. With the increase in program disbursements and SDR interest rate, the burden sharing capacity reached SDR 309 million at end-FY 2019.

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50. The Office of Risk Management (ORM) had limited involvement in assessing the broader risks related to the SBA. The ORM is responsible for assessing the IMF's *overall* risk profile, highlighting areas where risk mitigation efforts are required (e.g., strategic risks, core functions, cross-functional assets, and reputation). Risks arising from individual IMF operations, however, are intended to be addressed by internal controls and country reviews by other Fund departments. That said, a large arrangement such as the 2018 SBA poses significant broader risks to the Fund which may not have been considered. However, ORM was not involved in the formal review process during the program, nor was it consulted in real time.

51. Safeguards policies relating to Fund finances were followed, albeit entailing a lag.

- Since 2000, Fund policies require that the financial procedures of central banks of members under programs be assessed to ensure the proper use of Fund resources.[45] In addition, since 2015, fiscal safeguards reviews have been required for IMF arrangements in which a member requests exceptional access and there is significant channeling of the proceeds of Fund financial support to the government budget.[46] These assessments are conducted independently from program discussions.

- In the case of the Argentina SBA, a safeguards assessment prior to the emergency request for financing was not possible, but an assessment was concluded by the time of the First Review, in line with the policy. As the budget support component of the SBA was increased at the First Review, a fiscal safeguards review was required, and was completed before the Second Review. However, application of recommendations from the safeguards review lagged behind the front-loaded disbursements under the arrangement: the key recommendations to strengthen central bank independence (amendments to the BCRA charter and recapitalization) had not been implemented by the end of the program. The amendments were agreed with the authorities and submitted to Congress in March 2019, but did not progress, and a technical assistance mission to advise on recapitalizing the central bank (a structural benchmark for December 2019) did not take place. The central recommendation from the fiscal safeguards review was to move the treasury single account from a state-owned bank to the central bank to address vulnerabilities. The program envisaged this action by June 2020, with Fund TA support, but this was not implemented.

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[45] The assessment covers external audit, legal structure, financial reporting, internal audit and control mechanisms. See Summing Up by the Acting Chairman on Strengthening Safeguards on the Use of Fund Resources and Misreporting of Information to the Fund—Policies, Procedures, and Remedies—Preliminary Considerations, Executive Board Meeting 00/32, March 23, 2000 (BUFF/00/48, 3/30/2000); and The Acting Chair's Summing Up—Safeguards Assessments—Review of Experience and Next Steps, Executive Board Meeting 02/26, March 14, 2002 (BUFF/02/43 Rev. 1, 4/1/2002).

[46] See the 2015 Review of the Safeguards Assessment Policy: Safeguards Assessments—Review of Experience (SM/15/250, 9/24/2015); and The Acting Chair's Summing Up—Safeguards Assessments—Review of Experience, Executive Board Meeting 15/96, October 23, 2015 (BUFF/15/94, 10/28/2015). The review is required for IMF arrangements with exceptional access to IMF resources and an expectation that at least 25 percent of the funds will be used for budget support. The assessment covers the legal framework and budget formulation, government banking arrangements (treasury account), internal budget execution procedures and controls, fiscal monitoring and reporting, and audit procedures.

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D. Lending Into Arrears

The program was consistent with the requirements of the Fund's Lending Into Arrears (LIA) policy, which applied to a small amount of remaining arrears.

52. In compliance with the LIA policy, the Fund assessed that the Argentine authorities were making good-faith efforts during the program period to resolve debt owed to external private creditors. The debt exchange undertaken by the government in 2016 had resolved the bulk of arrears to private creditors,[47] but the program started with a residual amount of US$1.2 billion in principal, or about US$3.2 billion including accrued interest. The program was therefore subject to the IMF's LIA policy, which requires financing assurances at each review and assessment of efforts by the government to solve the arrears.[48] Throughout the program, the IMF judged that the authorities were making good-faith efforts, allowing the program to move forward. Some payments to holdout creditors were made during the program—for example, to Japanese intermediary banks.[49] There was also a smaller arrear to an official bilateral creditor in regard to which the program proceeded on a non-objection basis.[50]

E. Technical Program Design

The technical design of program conditions was consistent with Fund practices, which inter alia allowed appropriate targeting in support of program policies to accommodate "ownership." Relatively few structural benchmarks to support reforms were used, and these generally involved measures of narrow scope and durability.

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[47] In March 2016, Congress had passed a Debt Authorization Law repealing laws prohibiting payment or settlement on untendered debt. The Ministry of Finance designed a debt restructuring and cancellation program. including outreach to Germany, Japan, and Italy. The terms offered to untendered holders remained the same as those offered to the creditors who accepted in 2016.

[48] Under the LIA policy, the Fund can lend to a member in arrears to private creditors on a case-by-case basis and only where (i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program, and (ii) the member is pursuing appropriate policies that is, making a good faith effort to reach a collaborative agreement with its private creditors. Where the LIA policy applies, each disbursement under a Fund arrangement is subject to a financing assurances review in which the Executive Board considers, *inter alia*, whether adequate safeguards remain in place for further use of the Fund's resources, and whether the member's adjustment efforts are undermined by developments in debtor-creditor relations. See Fund Policy on Lending into Arrears to Private Creditors—Further Consideration of the Good Faith Criterion (SM/02/248, 7/30/2002); The Acting Chair's Summing Up—Fund Policy on Lending into Arrears to Private Creditors—Further Consideration of the Good Faith Criterion, Executive Board Meeting 02/92, September 4, 2002 (BUFF/02/142, 9/9/2002); Sovereign Debt Restructuring—Recent Developments and Implications for the Fund's Legal and Policy Framework (SM/13/100, 4/26/2013).

[49] The 2019 budget law included a provision for the settlement of claims under Argentine law (US$90 million in original principal amounts eligible), of which agreements to settle or dismiss US$26 million were reached between the Second and Third Reviews. Additionally, in February 2019, the majority of holders of Japanese yen bonds accepted the 2016 standard offer, making way for the payment to the Japanese intermediary banks and clearing all Japanese claims on Argentina.

[50] The French export credit agency claimed arrears of approximately US$30 million (principal) under arbitration, which required non-objection from the French authorities for the program to proceed. At the Third Review, arrears to Paraguay of US$120 million were reported to have been resolved.

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53. To help convey ownership, the program made limited use of prior actions. At the time of the SBA approval, there were no prior actions. However, two measures—announcement of the program primary balance target and communication to formally adopt program inflation targets—would have met the test for prior actions but were not proposed as such because they had already been taken prior to the start of the SBA negotiations. Later, the program included three prior actions, two in the context of the First Review and one in the context of the Second Review (Annex III). In addition, the program included several structural benchmarks (Box 5 and Annex V).

54. The program conditions were generally observed. During the program, all of the three prior actions were met, while seven out of ten structural benchmarks were met (three with a delay). After the First Review and revamp of the program, all performance criteria were met, except for the end-December 2018 NDA ceiling (Annex IV). That said, the initial fiscal balance targets were not met through a recovery in revenues as envisaged but rather via an inflation-induced reduction in wages and pensions, subsidy cuts, and a squeeze in current discretionary spending. Also, the design of the formal monetary policy conditionality did not prevent *ad hoc* policy implementation that undermined the achievements of the inflation target.

55. The specification of monetary policy conditionality was unusual, but justified on safeguards grounds. Conditionality on monetary policy has generally taken the form of quantitative targets, such as ceilings on net domestic assets and base money. In keeping with other programs featuring inflation targeting frameworks, the 2018 SBA initially applied an Inflation Consultation Clause (ICC). However, Fund policies stipulate that an ICC is appropriate only in cases in which, *inter alia*, the central bank has a track record of commitment to low inflation, inflation expectations are well anchored and the transmission mechanism from interest rates to prices is well understood. The addition of an NDA ceiling in the context of the inflation targeting regime, while uncommon, was deemed warranted in the case of Argentina as a safeguard given the fragility of the IT regime. The interest rate commitments in the LOI were intended to further underpin the monetary policy frameworks.

56. The perimeter of fiscal policy was narrow. The program covered only central government debt, whereas the finances of the provinces are a long-standing issue in Argentina. Although provincial debt was low at the start of the program (at about 6 percent of GDP), provincial FX-denominated debt rose during the program period, posing risks to external debt service capacity and to contingent central government liabilities. Moreover, sterilization needs increased quasi-fiscal costs, suggesting that a consolidated approach that included the central bank could have given more credibility to fiscal and monetary policy.

ASSESSMENT

The assessment set out below benefits from hindsight. The policy options and decisions may have looked different ex ante, when they had to be considered in the face of great and shifting uncertainties. The structural characteristics of the Argentine economy and the domestic political constraints on the program, taken together, severely limited the range of policy options available. And even in hindsight,

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not all conclusions regarding policy choices are clear cut. Following the Guidance Note on Ex-Post Evaluations, the discussion focuses on economic policy design and application of internal Fund policies, rather than on decision-making processes.

57. The crisis and the outcome of the Argentina SBA are familiar. An assessment of the 2001-2002 Argentina crisis and program concluded that the "crisis stemmed from a combination of fragility in balance sheets and the inability to mount an effective policy response. In Argentina, the critical fragility was in public sector debt dynamics, which were made explosive by the effects of a prolonged economic slump and the difficulties in rolling over debt. The inability to mount a policy response stemmed from a combination of economic constraints and political factors."[51] Despite this experience, strengthened analytical toolkits, reforms to access criteria, and reviews of program conditionality, the 2018 SBA proceeded and foundered. This raises questions: Did the IMF diagnose the problem correctly? Was the program well designed? Why was the program not successful? What could have been done to improve the program? And were IMF procedures followed properly?

A. Did the IMF Diagnose the Problem Correctly?

58. The Fund had highlighted Argentina's vulnerabilities before the program, but took as given the administration's decision to open the capital account and pursue inflation targeting. The Article IV consultation reports in 2016 and 2017 emphasized the underlying problems of unsustainable public finances and a weak supply side. The pivotal role of the exchange rate in the highly dollarized economy was noted, as were the challenges of reigning in inflation. In retrospect, it is clearer that the combination of a swift opening of the capital account, fiscal gradualism, and limited structural reforms led to a widening current account deficit and debt build-up while failing to boost investment and capacity, thus leaving the economy vulnerable to a sudden stop.[52] Policies could have been devised to slow inflows, but the administration was committed to an open capital account. The 2017 Article IV consultation report took the overall policy strategy as given while warning that not enough was being done to address macroeconomic imbalances, and presciently noted the dangers of a repricing of sovereign risk.[53]

59. The program's diagnosis of a temporary liquidity shock was not unreasonable at first, but became less tenable as the program proceeded. The stop in May 2018 was clearly sudden and at first appeared to be confined to the LEBACs. Moreover, it was not unreasonable at the time to conclude that Argentina had been hit by a common global repricing of risk. But the Argentine economy was burdened by long-standing fiscal weaknesses and riddled with distortions, and it was well understood that liquidity stresses can rapidly generate solvency problems when such

[51] Daseking et al. 2004, p1.

[52] The implications of LEBACs as a flashpoint for such shocks did not appear to be fully understood.

[53] The prescription in the Staff Report for the 2017 AIV Consultation was for tighter fiscal and looser monetary policies—this would facilitate "lower interest rates, better-anchored inflation expectations, less upward pressure on the peso, a more sustainable path for the public debt, and reduced vulnerability to a tightening of external financing conditions"—and warned that aggressive pursuit of lower inflation targets would have significant growth and employment costs. IMF, 2017a, p 1.

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economies experience sudden stops.[54] The diagnosis of a temporary liquidity crisis continued to frame the analysis and policy choices in each of the four program reviews, perhaps hindering a more fundamental reassessment of the program after the changes made at the First Review.[55]

B. Was the Program Well Designed?

60. The program design followed the initial diagnosis of the problem. The program aimed to restore market confidence by closing the fiscal deficit, reducing inflation, and increasing reserves. The goal was to achieve sufficient adjustment to eliminate imbalances while not incurring a sharp downturn—to this end, the assumption that the underlying problem was a temporary liquidity shock was felt to justify holding back on more ambitious macroeconomic adjustment and deferring structural measures. It also reflected a belief that a large financing arrangement would catalyze a return to market access sufficient to meet rollover needs. This did not happen, and pressures on the exchange rate continued. Interest rates did not fall as anticipated but instead increased significantly, as the assumed path of the exchange rate and inflation proved untenable in the face of diminishing market access. The quality of the fiscal measures was poor, falling short of the fundamental public sector reforms called for. In part, this reflected policy redlines and poor implementation of agreed policies, and the challenging structure of debt, but also that the program was intrinsically fragile owing to the structure of Argentina's economy and its politics.

61. The program's attempts to protect the vulnerable proved insufficient as the crisis unfolded. Focusing on social protection was the right thing to do *per se*, and mitigating inequality was also intended to underpin growth and impart political robustness to the program. Although the program targets on social spending were met, cuts in other spending and subsidies affected the public perception of the program. Even more important, the recession and the failure to bring down inflation as targeted sharply reduced living standards and eroded popular support for the program.

62. The size, phasing and precautionary nature of Fund financing generated challenges. While in line with the projected financing needs, the unprecedented size of the arrangement caused surprise, signaling to some that the crisis was more severe than previously understood; raised unusual financial, operational, and reputational risks to the Fund; and possibly suppressed the catalytic effect by introducing a large share of senior financing that would imply sizeable haircuts on private creditors in the event of default. The original plan to disburse US$15 billion upfront and keep the remaining access of US$35 billion as precautionary was intended to show strength; instead, markets were concerned that the government did not in reality have access to the precautionary financing, and the authorities' communications may have added to confusion about the availability of Fund resources.

[54] See IMF (2006a) and Appendix III.

[55] The assumption of a liquidity crisis had been at the heart of the failure of the 2000 SBA with Argentina. "The appropriate response to Argentina's request for IMF support depended critically on which diagnosis was correct. If the country were indeed facing a liquidity crisis, and had good prospects for regaining market access on appropriate terms in the near future, the provision of large IMF financing, combined with some adjustment, was warranted on catalytic grounds. On the other hand, if there were a large misalignment of the real exchange rate or if the debt were unsustainable, the IMF should not provide large access without requiring a fundamental change in the policy regime, possibly involving devaluation, debt restructuring, or most likely both." (IEO, 2004)

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C. Why Was the Program Not Successful?

63. The program was fragile from the outset, with the structure of the Argentine economy limiting the policy choices available. The fundamental problem was a lack of confidence in fiscal and external sustainability. But restoring confidence on a lasting basis would require not merely bringing public and external finances to balance but also demonstrating that this would be sustained. This may have been beyond what could have been achieved even under the best of circumstances, given the country's deep-seated challenges, but more so with general elections only 16 months ahead when the program was approved. In addition, the underlying structural problems facing Argentina—notably dollarization, feeble monetary policy transmission, a narrow export base, and very limited capacity for the state to borrow domestically, especially in pesos—meant that focusing on one problem risked worsening another. For instance, letting the exchange rate go would raise the peso value of debt and hit real incomes, while exports would not respond very much. Alternatively, trying to defend the exchange rate would raise concerns about burning through reserves (and, ultimately, the exposure of the sovereign to the balance sheet of the central bank). Finally, domestic and foreign investors were alert to Argentina's history of crises, making them notably quick to switch from buying a 100-year bond to withdrawing their funds.

64. The fragility was compounded by political constraints on policy design and by interaction between politics and market confidence. The administration's redlines removed policy options that could have improved the chance of success. The IMF deferred to the authorities' growth assumptions—more realistic growth projections, although they were to come at the First Review, may have benefited discussions over program strategy and design. Crucially, the risks of sharper depreciation—and the consequences for inflation and debt servicing—were not adequately factored into alternative projections and contingency planning at an early stage. The nascent inflation targeting framework was initially retained, even though the preconditions for success were not in place. The program did not envisage broader structural reforms (consistent also with the view that the immediate problem was primarily a short-term liquidity shock) and accommodated low-quality fiscal measures. Debt reprofiling and CFMs were off the table. The Fund wanted to avoid excessive fiscal austerity, but completely eschewing budget cuts would have required taking Argentina out of the market for an extended period and providing support multiples higher than the record access provided. Despite the clear understanding of previous experiences, and in the absence of policy alternatives (debt reprofiling and CFMs), the program ended up with a procyclical policy stance, arguably worsening capital flight rather than boosting confidence. The political space became narrower as the program proceeded and the elections came closer, interacting with market sentiment.

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

65. The revisions to the strategy adopted at the time of the First Review in October 2018 raised the chances of success. In particular, the revised strategy simplified and clarified the objectives, notably of monetary policy, which should have facilitated communication, and was combined with a fully disbursing program with augmented access. Indeed, the redesign was followed by tentative signs of revived confidence, although modest against the losses of the

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previous 10 months. However, the economy was weaker by the time of the First Review—notably, the debt sustainability assessment had deteriorated markedly—making the program even more vulnerable to implementation errors and shifts in market sentiment, both of which happened. Moreover, financing needs had increased and, in the absence of burden sharing by official creditors other than the Fund, meeting those needs relied ever more on domestic issuances and shorter maturities.

66. With limited policy space available through conventional measures, a debt operation combined with reintroduction of CFMs could have made the strategy more robust. The scope for effective fiscal and monetary policy measures was curtailed by structural characteristics of the economy and political economy constraints. Whether a more ambitious fiscal adjustment would have boosted market confidence is uncertain, given the scale of fiscal adjustment that would have been needed to offset the effects of exchange rate depreciation on the domestic-currency value of debt. The program could have pushed harder on structural reforms, but this would have tested the limits of the administration's political space, and with payoffs only well after general elections. While allowing more foreign exchange intervention could in principle have stemmed depreciation and hence inflation, it is not clear that international reserves were sufficient; any doubts would have accelerated capital flight. The rapid shifts in market sentiment towards Argentina highlight the country's vulnerability to capital flows. Given these constraints, it could have been better to undertake a debt operation at an early stage—combined with CFMs—to extend maturities and lower repayments. Although the outcomes are impossible to state with certainty, this step could have taken pressure off the exchange rate, allowing room for lower interest rates and more growth-friendly fiscal policy, and delivered a safer and more robust program.

67. Agreeing with the authorities on a contingency plan early on could have reduced risks, but in practice proved very difficult to achieve. As recommended in reviews of earlier Fund-supported programs with Argentina and other countries, such a plan should include specific triggers and defined actions, such as debt operations and CFMs, when developments suggest that the program is off track. It would also signal upfront that the IMF might face the decision of not continuing to finance a program. However, in the case of the 2018 SBA such a plan would have run counter to the administration's basic economic strategy. Moreover, public disclosure of contingencies could itself have worsened the crisis. The Fund may have stayed with the original strategy for too long; alternative plans were being formulated beginning in the immediate aftermath of the SBA approval in June 2018, but staff agreement with the authorities on the broad outlines of a contingency plan was reached only at the time of the Fourth Review in July 2019.

68. More consistent communication led by the authorities might have boosted the catalytic effect of the program. The Fund's terminology that debt was sustainable "but not with high probability" might initially have undermined confidence. In the first phase of the program, *ad hoc* high-level political statements and lingering uncertainties about exchange rate policy may have prevented confidence from taking root. Confusion surrounded the precautionary nature of the SBA and what it meant for the availability of Fund financing, which may have undermined the catalytic effect of the SBA.

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69. Closer Fund relations with Argentina in the period before the program could have improved program design and external communication. There had been a ten-year hiatus in Article IV consultations, ending only in 2016. Moreover, the resident representative office in Buenos Aires was opened in 2018, after a gap of five years and after the SBA had been requested. In principle—and as seen in practice in many member countries—an IMF office could have boosted the Fund's understanding of market developments and political realities and the authorities' understanding of IMF policies and procedures. Also lacking was regular technical assistance, which may have improved the dialogue. All this would of course have required a two-way commitment.

E. Were Fund Procedures Followed Properly?

70. Program conditionality covered the appropriate areas to support the program strategy. Prior actions and structural benchmarks were fewer than usual but well focused. The technical specifications of program conditionality were generally aligned with, and well directed towards, the intermediate policy targets.

71. The updated Exceptional Access Framework was followed, but its application was not straightforward. The SBA with Argentina was the first test of the revised EAF adopted in 2016. It was clear that the balance of payments need criterion was met, but applying the other three criteria—on debt sustainability, market access, and capacity to implement the program—came down to finely balanced judgments. The revised EAF provides flexibility in assessing debt sustainability in "gray zone" cases—albeit limited to cases in which allowing more time would likely improve debt and macroeconomic outcomes, and with the explicit recognition that debt reprofiling might still be needed. In practice, the technical tools used to assess debt sustainability proved sensitive to small variations in assumptions, including those for the exchange rate.[56] Optimistic macroeconomic projections may also have hindered a robust evaluation of debt sustainability. Once Argentina's debt was assessed to be "sustainable but not with high probability" and a debt reprofiling was ruled out, the assessment of the exceptional access criterion hinged, in significant part, on whether the government could be deemed to have market access. The general principles for assessing market access have been established, but are not categorical and acknowledge the need for judgment.[57] In this case, the assessment of whether market access was retained was skewed towards the ability to issue *some* form of debt. In hindsight, the ability to access capital markets was not sustained consistently, across a range of maturities, suggesting that the application of the criterion could have been more stringent.[58] Argentina's institutional and political capacity to implement the program also proved hard to assess with precision; in hindsight, perhaps given the wish for ownership and

[56] Improvements of the DSA underway will help better align it with the IMF's lending framework. The new Sovereign Risk and Debt Sustainability Framework for Market Access Countries (MAC SRDSF) was approved by the Board in January 2021 and is expected to be rolled out by end-Q1 of 2022. The new framework enhances the ability to identify risk of sovereign stress and support probabilistic debt sustainability assessments. The framework also includes broader and more consistent debt coverage, a longer projection horizon, new tools at multiple horizons based on superior analytical methods, and enhanced transparency in the bottom-line assessments, including the exercise of judgment.

[57] See IMF (2015).

[58] See the principles laid out in IMF (2015).

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the decade-long pause in relations with the IMF, the assessment may have been too generous. In any event, putting in place convincing political assurances during the election period proved difficult; indicating that such accords, especially in a polarized environment, would be more effective before or at the start of a program, the political calendar permitting.

72. Standard procedures to assess risks to the IMF were followed, but broader risks could have featured more prominently in the deliberations. Traditional program risks were spelled out clearly in the staff reports for the SBA Request and all subsequent reviews. Financial risks were detailed in the staff supplements for the SBA Request and First Review, although the message in the main reports may have been diluted by the bottom-line capacity to repay assessment of "adequate (but subject to risks)." Importantly, the heightened financial risks did not elicit mitigation actions in terms of program design. Additionally, some other types of risks seem not to have been taken fully into account. Not supporting Argentina once the program request had been made public carried risks, but so too did the negotiation of the program under extreme time pressure. Reputational risks were high: the desire to agree on a program and the emphasis on ownership constrained the program design options from the outset. Most fundamentally, the experience highlights that the Fund may trigger a full-blown crisis or contagion by exiting a program, and decisions at each review may be constrained by these exit costs.

GENERAL LESSONS

73. The experiences under the Fund's 2018 SBA with Argentina underscore several lessons from earlier EM programs, and also suggest new ones. The program was designed to deal with a situation that shared characteristics with the EM crises of the late 1990s and early 2000s. Lessons for the Fund from those crises have been drawn, broadly and for Argentina itself (including in the 2004 IEO report and the 2006 EPE/EPA on Argentina; Appendices II and III). The 2018 Review of Conditionality (IMF, 2019c) also highlighted lessons from IMF programs that are germane to Argentina's 2018 SBA, such as avoiding overly optimistic macroeconomic assumptions, ensuring the quality of policy measures, the imperative of confronting debt sustainability issues earlier rather than later, and the need for contingency planning (a point also made in the 2020 Risk Report; see IMF 2020a). In hindsight, the experience of the 2018 SBA highlights the importance of:

i. *Ensuring robustness of the program by using conservative baseline assumptions and testing the sensitivity to alternative assumptions and explanations of the crisis*. Basing programs on conservative yet plausible macroeconomic assumptions, coupled with scenario analysis, would help make programs robust to policy slippages and exogenous shocks. Programs need to be guarded against assumptions of unrealistic returns from reforms. Robustness is especially important when the political backdrop is uncertain and program success depends on catalytic effects on market financing. In such cases, upfront agreement on contingency plans is desirable.

ii. *Tailoring programs to country circumstances, even if that means embracing unconventional measures when the policy space offered by traditional policies is limited*. The idiosyncrasies and

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specific challenges of each country need to feature centrally in program design, which might imply embracing unconventional policies when circumstances are not "textbook," as is the case in many emerging market contexts. For instance, the Argentina program might have been more solid had it featured CFMs.

iii. *Sharpening the application of the Exceptional Access Framework*. The 2016 EAF helped focus attention on the right issues and provided the basis for a flexible approach, as intended. However, its implementation was not straightforward, particularly as regards EAC2 and EAC4. Exceptional access cases inevitably involve technical judgments, especially given the uncertainties and rapidly shifting sentiment characterizing a crisis environment. The experience of the 2018 SBA highlights the importance of laying out the analysis and risks underlying key judgments as fully and broadly as possible when applying the EAF. In particular, the consistency and depth of market access, across a wide range of maturities and at sustainable yields, may be crucial to the assessment of EAC2. The experience of the 2018 SBA also highlights the need for rigorous analysis of the adequacy of non-Fund debt obligations in assessing safeguards to Fund resources. To support the implementation of the EAF in future exceptional access cases, the improvements in the DSA framework could be helpful, as would a thorough and systematic analysis of market access prospects. The Fund could also consider how to assess more robustly country authorities' political and institutional capacity to implement programs (EAC4). Regardless of the specific formulation of the EAF criteria, however, the Fund's assessment will inevitably rely on judgment. When applying the EAF, the Fund will therefore need to pay due regard to the spirit and objectives of the exceptional access policy, rather than focusing narrowly on technical and procedural requirements, both when deciding whether or not to enter into an arrangement and complete program reviews.

iv. *Carefully balancing government ownership against the quality and appropriateness of program policies and risks to the Fund's reputation*. Ownership of a program by the authorities is crucial for success. A well-designed program needs to be based on a shared understanding with the Fund of policy priorities and strategies; Fund surveillance well integrated with its capacity development assistance and an IMF resident representative based in the country have important roles to play in this regard. The Fund should question political "redlines" that would compromise program objectives—enhancing ownership should not be understood as a willingness to defer to country authorities' preference for suboptimal policy choices, which ultimately may not be consistent with the principles of uniformity of treatment.[59] This will, in cases, require efforts by the Fund to expand the political space to encompass a broader range of policy options. In particular, ownership should be understood in a broader societal sense, especially when authorities have fragile political support.

[59] The Guidelines on Conditionality (IMF, 2002) require that Fund lending decisions be both tailored and evenhanded. During the 2018 Review of Program Design and Conditionality (IMF, 2018d), Executive Directors noted concerns among some stakeholders regarding the perceived lack of evenhandedness in program access, both within and between the GRA and PRGT.

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v. *Ensuring effective external communication, so that a program is well understood by the population and in financial markets and has the intended catalytic effect*. In the case of the Argentina SBA, Fund staff redoubled their efforts to ensure consistent external communication between the Fund and the authorities. However, country authorities need to play the central role in communicating their program, which calls for a close policy dialogue also in normal times. That said, communication is no substitute for sound program design; fundamentals will eventually assert themselves.

vi. *Revisiting the Fund's internal processes for assessment and mitigation of broader risks associated with exceptional access arrangements*. The staff reports for the Argentina SBA were candid about "traditional" risks to program objectives and Fund finances. But existing procedures did not provide for a broader assessment of risks to the Fund. More transparency about the risk tradeoffs made at each stage of the decision-making process within the institution is important, and would serve to mitigate the risks stemming from the flexibility provided under the EAF. The risk assessment framework for exceptional access arrangements could also give financial and liquidity risks a more prominent role in program design, possibly under a revised and more structured framework. The approach to assessing financial risks and the capacity to repay could be strengthened, with a comprehensive review of the aggregate impact on the Fund's financial risk profile. In general, the goal would be to bring sufficient information to the Board to facilitate a robust discussion of program assumptions and alternative policy strategies in response to shocks, before a program is approved. Risk management could also be improved by use of contingency plans that define triggers and actions in the event of a shock that could derail the program. That said, as the Argentina experience highlights, since such a plan in its nature might run counter to the basic strategy of the program, it could be hard to convince country authorities; such plans are also highly market sensitive.

vii. *Considering the broader implications for the international financial safety net.* The experience underscores the need for the Fund to take a stand on burden sharing when entering into exceptional access arrangements—being the largest and most senior creditor to a relatively large country is both exceptionally risky to the IMF and potentially self-defeating to the basic purpose of catalyzing a return to market access. (See also IMF, 2020a.) This in turn raises important questions on when the IMF should be prepared to "pull the plug" on programs whose objectives can no longer realistically be met within the existing financing envelope or not enter into programs from the outset.

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Annex I. History of Fund-Supported Programs

Arrangement	Key dates			Amount agreed		Amount Drawn		
	Approval	Original Expiration	Actual Expiration	SDR million	Percent of quota	SDR million	Percent of quota	Percent of agreed
SBA (1958)	12/19/58	12/18/59	12/2/59	75	50	43	28	57
SBA (1959)	12/3/59	12/2/60		100	67	100	67	100
SBA (1960)	12/12/60	12/11/61		100	36	60	21	60
SBA (1961)	12/12/61	12/11/62	5/16/62	100	36	-	-	-
SBA (1962)	6/7/62	6/6/63	10/6/63	100	36	100	36	100
SBA (1967)	5/1/67	4/30/68	4/14/68	125	36	-	-	-
SBA (1968)	4/15/68	4/14/69		125	36	-	-	-
SBA (1976)	8/6/76	8/5/77		260	59	160	36	61
SBA (1977)	9/16/77	9/15/78		160	36	-	-	-
SBA (1983)	1/24/83	4/23/84	1/23/84	1,500	187	601	75	40
SBA (1984)	12/28/84	3/27/86	6/30/86	1,419	127			
Reduction	3/10/86			1,183	106	1,183	106	100
SBA (1987)	7/23/87	9/30/88		1,113	100			
Reduction	3/18/88			948	85	617	55	65
SBA (1989)	11/10/89	3/31/91		1,104	99			
Reduction	5/25/90			920	83			
Reduction	11/28/90			736	66	506	45	69
SBA (1991)	7/29/91	6/30/92	3/31/92	780	70	439	39	56
EFF (1992)	3/31/92	3/30/95	3/30/96	2,149	193			
Augmentation	12/1/92			2,483	162			
Augmentation	4/6/95			4,020	262	4,020	262	100
SBA (1996)	4/12/96	1/11/98		720	47	613	40	85
EFF (1998)	2/4/98	2/3/01	3/10/00	2,080	135	-	-	-
SBA (2000)	3/10/00	3/9/03	1/23/03	5,399	255			
Augmentation (2nd Review)	1/12/01			10,586	500			
of which SRF	*1/12/01*	*1/11/02*		*2,117*	*100*			
Augmentation (4th Review)	9/7/01			16,937	800	9,756	461	58
of which SRF	*9/7/01*			*6,087*	*287*	*5,875*	*277*	*97*
SBA (January 2003)	1/24/03	8/31/03		2,175	103	2,175	103	100
SBA (September 2003)	9/20/03	9/19/06	1/5/06	8,981	424	4,171	197	46
SBA (2018)	6/20/18	6/19/21	7/24/20	35,379	1,110			
Augmentation (1st Review)	10/26/18			40,714	1,277	31,914	1,001	78

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Annex II. Debt Sustainability Analysis Heat Maps During the 2018 SBA

Program Request

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

First Review

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

Second Review

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

Third Review

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

Fourth Review

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

Source: IMF staff.

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

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

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

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

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Annex III. Application of Exceptional Access Framework under 2018 SBA[1/ 2/]

	Criterion	Overall Assessment	Program Request	First Review	Second Review	Third Review	Fourth Review
1	The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.	The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account resulting in a need for Fund financing that cannot be met within the normal limits.	The tightening of global financial conditions and a shift in portfolio preferences away from peso assets have led to exceptional capital account pressures. It is expected that, with the credible policy plan presented by the Argentine government and support from the international community, these pressures will dissipate. However, there is a risk that such a reversal in sentiment could occur over a more protracted period. Given the large size of Argentina's external financing need over the course of the proposed arrangement, this would give rise to a substantial external financing need that would not be able to be met within the normal limits of access.	Tighter global financial conditions since the approval of the program in June have reinforced the shift in portfolio preferences away from peso assets and intensified capital account pressures. The return of market confidence has not materialized as envisaged at the time of Board approval and has resulted in a weaker-than-expected exchange rate and a lower rollover rate of private holdings of public debt. This gives rise to a larger financing need than was envisaged at the time the program was designed which cannot be met within the normal limits of Fund access.	The return of market confidence has been broadly as expected since the conclusion of the First Review, albeit with somewhat better-than-expected rollovers. Nonetheless, under current assumptions, Argentina's sizable external financing need over the course of the arrangement cannot be met within the normal limits of access.	The return of market confidence has been somewhat better than expected since the conclusion of the Second Review. In fact, rollovers of most maturing debt in 2019 so far has been near or over 100 percent. Nonetheless, under current assumptions, Argentina's large external financing needs over the course of the arrangement cannot be met within the normal limits of access.	Still fragile market confidence implies that Argentina's sizable external financing needs (which are largely driven by the interest and amortization obligations of the federal government) over the course of the arrangement cannot be met within the normal limits of access.
2	A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided	A rigorous and systematic analysis indicates that debt is sustainable but not with a high probability; exceptional access is justified as financing from sources other than the Fund improves debt sustainability and sufficiently	In the baseline scenario—which assumes a partial draw—Argentina's federal government debt and gross financing needs are projected to remain below the respective risk thresholds (70 and 15 percent, respectively); and federal debt-GDP, after peaking this year, falls steadily over the medium term. There are, however, risks around this baseline: the large share of foreign currency debt, alongside significant rollover needs,	Under staff's new baseline, Argentina's federal government debt is projected to increase above the high-risk threshold (70 percent). Gross financing needs (GFN) are high but remain below the 15 percent of GDP high-risk threshold during the projection period. The end-2018 federal debt-to-GDP ratio forecast for end-2018 is 16 percentage points higher than at program approval (due to depreciation, and to a lesser extent, lower growth rate). Notwithstanding this, the debt-GDP ratio is projected to fall	Projected debt dynamics and risks remain in line with those at the First Review. With public debt assessed as sustainable but not with a high probability, exceptional access requires the existence of non-Fund financing that improves debt sustainability and ensures sufficient safeguards for Fund resources. Staff judges that the required safeguards are in place. Notably, prospects for	The starting position for the debt ratio is weaker (due to the large upward revision to the end-2018 level), and financing needs are also more elevated than at the Second Review. However, as before, debt is projected to remain on a downward path and fall below 60 percent by 2024. With public debt assessed as sustainable, albeit not with a high probability, exceptional access requires the	With public debt assessed as sustainable, but not with a high probability, exceptional access requires the existence of non-Fund financing that improves debt sustainability and ensures sufficient safeguards for Fund resources. Despite risks to debt sustainability from the high levels of gross (and external) financing needs and large share of FX debt, staff judges that the required safeguards are in place.

1/ The Fund's Exceptional Access Policy was amended, effective January 20, 2016. See the Fund's Lending Framework and Sovereign Debt - Further Considerations (4/9/15). The Fund's Lending Framework and Sovereign Debt - Further Considerations - Supplementary Information (1/6/16), and Decision No. 15931-(16/4), adopted January 20, 2016.

2/ Source: Exceptional Access Criteria sections of Program Request and First-through-Fourth Review Staff Reports.

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	Criterion	Overall Assessment	Program Request	First Review	Second Review	Third Review	Fourth Review
	from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources. For purposes of this criterion, financing provided from sources other than the Fund may include, inter alia, financing obtained through any intended debt restructuring. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any relevant contingent liabilities, including those potentially arising from private	enhances the safeguards for Fund resources.	leaves Argentina vulnerable to changing market sentiment; and there are potential contingent liabilities from the broader public sector. In an adverse scenario where events trigger a full draw of the arrangement, debt is likely to stabilize at a later date and at a higher level, with continued risks around this trajectory. Staff's assessment, therefore, is that debt is sustainable but not with a high probability under both the baseline and adverse scenarios. Exceptional access in such situations requires the existence of non-Fund financing that improves debt sustainability and enhances sufficient safeguards for Fund resources. Staff judges the requisite safeguards to be in place. Notably: (i) The long maturity of Argentina's privately-held foreign currency-denominated debt improves the prospects of adequate private creditor exposure being maintained throughout the program. Of the outstanding stock of the federal government's foreign currency debt held outside the public sector (US$156 billion), only about one fifth is expected to mature by end-2020. (ii) Argentina has access to both domestic and foreign financial markets. Provided such access continues to be on favorable terms and fiscal targets are met, debt sustainability should	over the medium term as a result of the fiscal efforts of the government, a return to growth, and a reversal of the overshooting of the real exchange rate. There are, however, sizable risks around this baseline: the high actual level of debt to GDP, the large share of foreign currency debt, significant rollover needs, and implementation risks around the proposed fiscal consolidation all leave Argentina vulnerable to changing market sentiment and movements in the real exchange rate. There are also potential contingent liabilities from the broader public sector, including (as yet undetermined) BCRA recapitalization needs. On the other hand, the large share of public debt held by other public sector entities serves as an important mitigating factor. All in all, staff's assessment is that debt is sustainable but not with a high probability. Exceptional access in such situations requires the existence of non-Fund financing that improves debt sustainability and ensures sufficient safeguards for Fund resources. Staff judges that the required safeguards are in place. Notably, prospects for market access under the program are expected to strengthen, despite the recent strains, and the long maturity of Argentina's privately-held foreign currency-denominated debt [15] improves the prospects of adequate private creditor exposure being maintained throughout the program. [15] Of the outstanding stock of the federal government's foreign currency debt held outside the public	market access under the program are expected to continue strengthening and the long maturity of Argentina's privately-held foreign currency-denominated debt[3] improves the prospects of adequate private creditor exposure being maintained throughout the program. [3] As of end-September 2018, the stock of the federal government's privately held foreign currency denominated debt is approximately US$120 billion, of which about one quarter is expected to mature by end-2020. Prior staff reports had used a broader definition for this context, i.e. of the federal government's foreign currency denominated debt excluding debt held by Argentina's social security sector, the BCRA and multilaterals (approx. US$147 billion).	existence of non-Fund financing that improves debt sustainability and ensures sufficient safeguards for Fund resources. Staff judges that the required safeguards are in place. Notably, prospects for market access under the program are expected to continue strengthening and the long maturity of Argentina's privately-held foreign currency-denominated debt improves the prospects of adequate private creditor exposure being maintained throughout the program.[14] [14]As of end-2018, the stock of the federal government's privately-held foreign currency denominated debt is approximately US$112 billion, of which about one quarter is expected to mature by June 2021 (the expiry of the SBA).	Argentina maintains access to domestic markets and continues to issue new liabilities to both resident and non-resident investors. A significant share of liabilities is held by classes of investors, including domestic financial institutions, retail investors and other public entities, who are expected to continue investing in Argentine debt even amid stressed conditions. Also, the long maturity of Argentina's privately-held foreign currency-denominated debt improves the prospects of adequate private creditor exposure being maintained throughout the program.[4] [4]Of the outstanding stock of the federal government's foreign currency debt held by the private sector (US$117 billion), only about one quarter is expected to mature by June 2021 (the expiry of the SBA).

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	Criterion	Overall Assessment	Program Request	First Review	Second Review	Third Review	Fourth Review
	external indebtedness.		improve. The availability of market financing allows for some smoothing of the adjustment path, supporting higher growth and maintaining political and social consensus for the program. Argentina is expected to maintain substantial market access under a range of scenarios, which reduces the risk of Fund resources being used to pay out private creditors.	sector (US$147 billion), only about one quarter is expected to mature by end-2020.			
3	The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.	(Program Approval) Staff judges that the member has access to private capital markets on a scale that would enable the member to meet its obligations falling due to the Fund. (First-Fourth Review) Staff judges that the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.	Argentina continues to maintain access to both domestic and foreign financial markets, as evidenced by recent peso- and U.S. dollar-denominated bond placements in domestic markets and the rollover of 100 percent of the central bank's paper that came due on May 16. Global and domestic factors have, however, tightened external financing conditions and average yields on Argentina's external bonds have risen. Staff expects that with the successful implementation of Argentina's policy program, combined with support from the international community, there should be a steady restoration of confidence and a decline in costs of budgetary financing.	Despite the recent tightening of financial conditions, Argentina continues to maintain access to domestic financial markets, where resident and non-resident investors have continued to participate in recent peso- and U.S. dollar-denominated bond placements. Global and domestic factors have, however, tightened external financing conditions and average yields on Argentina's external bonds have risen. Nonetheless, staff expects that the successful implementation of Argentina's policy program, combined with support from the international community, will help reestablish Argentina's access to international capital markets on reasonable terms.	Argentina continues to maintain access to domestic financial markets, where resident and non-resident investors have continued to participate in recent peso- and U.S. dollar-denominated bond placements. Rollover rates have improved in September to November and non-residents have purchased nearly US$2.3 billion of peso denominated LECAPs. Nonetheless, average yields on Argentina's external bonds remain high. Sustained implementation of Argentina's policy program, combined with support from the international community, will help reestablish Argentina's access to international capital markets on reasonable terms.	Argentina continues to maintain access to domestic financial markets with both resident and non-resident (institutional) investors continuing to participate in recent peso- and U.S. dollar-denominated bond placements.[15] Rollover rates have improved, and non-residents have purchased over US$2 billion of peso-denominated LECAPs in the past five months. Nonetheless, average yields on Argentina's external bonds remain elevated. Sustained implementation of Argentina's policy program, combined with support from the international community, will help restore Argentina's full access to international capital markets on reasonable terms. [15]Argentina has never lost access to foreign institutional investors, not even at the	Argentina continues to maintain access to domestic financial markets, where resident and non-resident investors have continued to participate in peso- and U.S. dollar- denominated bond placements. Also, in June, the state-owned oil and gas company successfully issued a 10-year global bond. After averaging over 100 percent in Q1, private sector rollover rates fell in April (reflecting market volatility and the non-rollover of the Global 2019 bond) but have since rebounded in May/June. While average yields on Argentina's external bonds remain elevated, the sustained implementation of Argentina's policy program, combined with support from the international community, will help ensure Argentina has full access to private capital markets, on reasonable terms and on

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	Criterion	Overall Assessment	Program Request	First Review	Second Review	Third Review	Fourth Review
						height of last year's financial crisis.	a scale that will allow Argentina to meet its obligations to the Fund as they fall due.
4	The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.	Staff judges that the policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.	The Macri administration, which took office in December 2015, has shown its adeptness over the past two years in delivering on its policy priorities and unwinding a significant set of distortions while protecting the most vulnerable from the burden of adjustment. The administration is committed to prudent policy making, transparent government, and a strong governance framework. Staff deems the administration's institutional capacity and technical competence to be strong and fully able to deliver the core elements of the expected reform program. However, there is a concern linked to the government's ability to build support for possible policy measures that need to be passed by Congress (given that the governing coalition has a minority in both houses of Congress). Building a social consensus around the main elements of the program will be both critical and challenging, particularly given the difficult history of IMF lending to Argentina and very divided social and political views on the net benefits of seeking Fund support. Failing to do so would raise serious questions about the	The initial implementation of the program showed a mixed picture of the authorities' commitment to their policy plans. But despite the difficult political situation, weaker economic environment, and unfavorable market conditions the government has reinforced its ownership of the fiscal adjustment that is needed under the program (although there is space for improving the quality of the adjustment). In addition, the government has been working within Congress and with regional governors to build political support for its policy efforts, particularly as regards fiscal policies. Indeed, the majority of provincial Governors have publicly expressed their willingness to share the burden of the fiscal adjustment with the federal government and, in a recent addendum to the 2017 Fiscal Pact, have recognized the importance of the federal government reaching primary balance in 2019. In addition, the head of the Justicialista party block in the Senate has public indicated his support for the government's announced fiscal plan underlying the Stand-By Arrangement, which should help facilitate the passage of the 2019 Budget. Despite a complicated economic situation and a difficult history of IMF lending to Argentina, social opposition to the program has been more subdued than might have been expected. On the	The passage of the 2019 budget by Congress – both earlier than expected and with a wider-than-expected margin in the Senate – demonstrates a strong commitment to the policies underlying the Stand-By Arrangement and should help ensure policy continuity in 2019. Furthermore, this validates the authorities' efforts at building consensus across party lines for the need for reforms. Despite a complicated economic situation and a difficult history of IMF in Argentina, social opposition to the program remains subdued. On the monetary side, the central bank's implementation of the tighter monetary policy framework announced in late September has led to an initial large spike in short-term interest rates and an appreciation of the peso. In addition, the BCRA has not intervened in FX markets since announcement of the new framework, adhering to its transparent FX intervention rule. Although broader	The passage of the 2019 budget by Congress – both earlier than expected and with a wider-than-expected margin in the Senate – demonstrated a strong commitment to the policies underlying the Stand-By Arrangement and will help ensure policy continuity in 2019. Furthermore, the congressional approval validates the authorities' efforts at building consensus across party lines. Despite a complicated economic situation and a difficult history of the IMF in Argentina, social opposition to the program remains subdued. On the monetary side, the central bank's implementation of the monetary policy framework announced in late September is supporting a path to disinflation. In addition, the BCRA has adhered to its transparent FX intervention rule, purchasing FX in limited amounts once the peso moves outside the strong side of the non-intervention zone. During the last two missions, staff held meetings with members of the	The authorities' implementation of the policy plan supported by the Stand-By Arrangement confirms their commitment to restore fiscal discipline and macroeconomic stability. The central bank has fully implemented the monetary policy framework announced last October which will serve to lower inflation, restore macroeconomic stability, and rebuild the central bank's credibility. Furthermore, the passage of the BCRA charter will help in these efforts. Contacts with key members of the opposition revealed clear support for the objectives of the program including reducing the fiscal deficit, lowering inflation, returning Argentina to robust and sustained growth, and protecting the vulnerable. Nonetheless, candidates were critical of the achievements of the Macri administration and indicated that, if elected, the Fund program would need to continue but that they would want to renegotiate the details of the Stand-By Arrangement to be more consistent with their own policy plans. The

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	Criterion	Overall Assessment	Program Request	First Review	Second Review	Third Review	Fourth Review
			political sustainability of the authorities' reform efforts. Therefore, strong, sustained and consistent policy implementation will be crucial, and broad societal ownership of the government's economic plan, including in Congress, will be essential for program success. Discussions with the authorities already point to strong ownership of their policy framework and a high-level political commitment to partnering with the Fund in their efforts. There are, however, already significant domestic criticisms of the Fund's involvement in supporting Argentina and this is likely to present an ongoing challenge throughout the course of the arrangement.	monetary side, the central bank has raised policy rates by a cumulative 20 percent since the time of program approval, increased reserve requirements in an effort to anchor inflation and inflation expectations, and (on October 1) rolled out a simpler and tighter monetary policy framework, which immediately led to a rise in short-term interest rates, and committed to a freely floating exchange rate regime with a transparent FX intervention rule. This demonstrates the authorities' commitment to taking action, as needed, to achieve their monetary goals. Although broader statements of support from the IMF-backed program have not been expressed by all political factions, the concrete actions on the fiscal and monetary fronts, the statements of support on the fiscal adjustment, and the BCRA's well-executed communication of the new monetary policy provide sufficient assurances at this stage that the authorities are committed and able to implement the program. Finally, the authorities continue to demonstrate strong ownership of their policy framework and a high-level political commitment to partnering with the Fund in their efforts. Strong, sustained and consistent policy implementation will be crucial, and broad societal ownership of the government's economic plan continues to be essential, for program success.	statements of support for the IMF-backed program have not been expressed by all political factions, there seems to be a widespread consensus that the financial assistance by the Fund is an essential element for regaining market confidence and pave the way for a new season of structural reforms. Strong, sustained and consistent policy implementation and broad societal ownership of the government's economic plan continue to be crucial for program success.	opposition. These discussions revealed a broad consensus that the financial assistance by the Fund will remain an essential element for regaining market confidence. Strong, sustained and consistent policy implementation and broad societal ownership of the government's economic plan continue to be crucial for program success.	opposition candidates showed support for structural reforms to support stronger and more sustainable growth (although there were different views on the details and appropriate sequencing of such reforms).

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Annex IV. Performance Criteria under the 2018 SBA 1/ 2/

2018	end-Jun				end-Sep				end-Oct				end-Nov			end-Dec					
	PC	Adjusted PC	Actual	Status	PC	Adjusted PC	Actual	Status	PC	Adjusted PC	Actual	Status	IT	Adjusted	Actual	PC	Rev1 PC	Rev2 PC	Adjusted	Actual	Status
Fiscal targets																					
Performance Criteria																					
1. Primary balance of the federal government (floor) 3/ 8/	-148.0	-155.1	-122.6	Met	-256.0	-273.0	-181.2	Met	-290.0	-299.1	-200.1	Met	n.a.		n.a.	-362.5	-370.0	-378.0	-404.4	-374.3	Met
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0		0.0	Met	0.0		0.0	Met	0.0		0.0	Met	0.0		0.0	0.0	0.0	0.0		0.0	Met
3. Federal government accumulation of domestic arrears (ceiling) 5/	8.2		-1.9	Met	14.9		-3.3	Met	17.0		11.6	Met	n.a.		n.a.	21.6	24.4	24.4		11.9	Met
4. Social assistance spending (floor) 3/	87.7		87.7	Met	131.1		133.9	Met	144.0		148.8	Met	n.a.		n.a.	177.5	173.0	173.0		184.9	Met
Indicative targets																					
5. Primary balance of the general government (floor) 3/ 8/	-163.0		-47.9		-272.0		n.a.		n.a.	n.a.	n.a.		n.a.		n.a.	-382.4	-370.0	-378.0	-404.4	-303.2	
Monetary targets																					
Performance Criteria																					
6. Change in non-borrowed net international reserves (floor) 6/ 8/ 9/	5.5	2.0	2.7	Met	5.5	-2.0	-8.7	Not Met	3.7	4.3	5.3	Met	2.1	1.4	2.2	5.5	7.1	7.1	6.5	7.2	Met
7. Change in stock of non-deliverable FX forwards (ceiling) 6/	1.0		0.4	Met	0.0		1.3	Not Met	0.0		-2.0	Met	0.0		-2.3	-0.5	0.0	0.0		-3.6	Met
8. Change in central bank credit to government (ceiling) 7/	0.0		0.0	Met	-78.0		-39.4	Not Met	0.0		0.0	Met	0.0		0.0	-156.0	0.0	0.0		-432.3	Met
9. Central bank financing of the government (ceiling) 4/	0.0		0.0	Met	0.0		0.0	Met	0.0		0.0	Met	0.0		0.0	0.0	0.0	0.0		0.0	Met
10. Change in net domestic assets of the central bank (ceiling) 7/ 8/ **	15.0	40.0	-98.0	no EB consultation	64.0	251.2	441.7	EB Consultation	97.7	97.7	28.9	Met	-55.7	-16.5	-121.6	166.0	-46.2	-46.2	-10.6	24.5	Not Met
11. Change in monthly average monetary base (ceiling) 7/																			-	-	
Inflation Consultation Clause																					
12. Inflation bands (in percent, y-o-y)	32				32											32					
Outer Band (upper)	29				29											29					
Inner Band (upper)	27		29.5	Staff Consultation	27		40.5	EB Consultation								27					
Center inflation target	25				25											25					
Inner Band (lower)	22				22											22					
Outer Band (lower)																					

**The ceiling in the change in NDA of the Central Bank is set as a QPC starting in the First Review. Prior to that, as complement to the Inflation Consultation Clause, if net domestic assets of the central bank were to exceed the thresholds established in the program, the clause would be triggered, requiring a consultation with the Executive Board on the authorities' proposed policy response

before being eligible for further purchases under the program.

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. See Quantitative Performance Criteria Table (Staff Report Program Request-Fourth Review) for the reference of each review.
7/ See Quantitative Performance Criteria Table (Staff Report Program Request-Fourth Review) for the reference of each review.
8/ Targets subject to adjustors as defined in the TMU.
9/ Increases reflect IMF disbursements, which increase NIR.

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2019

	end-Jan			end-Feb			end-Mar					end-Apr			end-May			end-Jun						end-Jul		end-Aug		end-Sep		end-Oct	end-Nov	end-Dec
	IT	Rev IT	Actual	IT	Rev IT	Actual	IT	PC	Adjusted	Actual	Status	IT	Rev IT	Actual	IT	Rev IT	Actual	IT	PC	Rev PC	Adjusted	Actual	Status	IT	Rev IT	IT	Rev IT	PC	Rev PC	IT	IT	PC
Fiscal targets																																
Performance Criteria																																
1. Primary balance of the federal government (floor) 3/ 8/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-32.0	6.0	6.0	10.5	Met	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-100.0	40.0	20.0	-17.3	30.2	Met	n.a.	n.a.	n.a.	n.a.	60.0	70.0	n.a.	n.a.	0.0
2. Federal government accumulation of external debt payment arrears (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	Met	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/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.1	30.0		5.6	Met	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	39.7	40.0	45.0		13.0	Met	n.a.	n.a.	n.a.	n.a.	53.2	53.2	n.a.	n.a.	58.5
4. Social assistance spending (floor) 3/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	60.0	60.0		72.7	Met	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	112.6	110.0	132.0		157.6	Met	n.a.	n.a.	n.a.	n.a.	205.0	223.5	n.a.	n.a.	325.0
Indicative targets																																
5. Primary balance of the general government (floor) 3/ 8/	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-40.0	-14.0	-14.0	78.0		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-110.0	30.0	10.0		n.a.		n.a.	n.a.	n.a.	n.a.	80.0	95.0	n.a.	n.a.	30.0
Monetary targets																																
Performance Criteria																																
6. Change in non-borrowed net international reserves (floor) 6/ 8/ 9/	5.3	4.1	7.4	3.5	2.9	8.8	5.5	12.5	4.4	5.5	Met	8.0	9.0	10.5	4.2	6.2	3.8	7.5	5.8	9.0	0.7	4.0	Met	8.4	8.4	8.2	8.2	13.1	13.1	11.5	10.5	9.8
7. Change in stock of non-deliverable FX forwards (ceiling) 6/	0.0	0.0	-3.6	-0.7	-0.7	-3.6	-1.0	-1.0		-3.3	Met	-1.2	-1.2	-2.6	-1.5	-1.5	-5.2	-1.5	-1.7	-1.7		-6.6	Met	-2.0	0.0	-2.3	0.0	-2.6	0.0	0.0	0.0	0.0
8. Change in central bank credit to government (ceiling) 7/	0.0	0.0	0.0	0.0	0.0	0.0	-234.0	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	-312.0	0.0	0.0		0.0	Met	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	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	Met	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) 7/ 8/ **	-112.1	-112.1	-157.5	-36.0	-36.0	-177.5	173	-185.6	-154.5	-212.6	Met	-300.3	-	-	####	-	-	184	-101.5	-	-	-		-	-	-	-	-	-	-	-	-
11. Change in monthly average monetary base (ceiling) 7/		-	-		-	-		-	-	-			0.0	-18.4		0.0	-0.6		-	0.0		-1.1	Met	0.0	0.0	0.0	-18.0	0.0	-33.0	-45.0	-45.0	38.0
Inflation Consultation Clause																																
12. Inflation bands (in percent, y-o-y)							28											26														
Outer Band (upper)							26											24														
Inner Band (upper)							24											22														
Center inflation target							22											20														
Inner Band (lower)							20											18														
Outer Band (lower)																																

**The ceiling in the change in NDA of the Central Bank is set as a QPC starting in the First Review. Prior to that, as complement to the Inflation Consultation Clause, if net domestic assets of the central bank were to exceed the thresholds established in the program, the clause would be triggered, requiring a consultation with the Executive Board on the authorities' proposed poli

under the program.

1/ Targets as defined in the Technical Memorandum of Understanding (TMU).

2/ Based on program exchange rate 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. See Quantitative Performance Criteria Table (Staff Report Program Request-Fourth Review) for the reference of each review.

7/ See Quantitative Performance Criteria Table (Staff Report Program Request-Fourth Review) for the reference of each review.

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

9/ Increases reflect IMF disbursements, which increase NIR.

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Annex V. Structural Benchmarks Under the 2018 SBA

	Prior Action	Timing	Implementation status
1	Present a 2019 budget to Congress targeting a zero primary balance and that includes details on the key policy measures that will be undertaken to achieve the 2019 primary balance objective, a statement of fiscal risks, an esimate of tax expenditures, and the elimination of article 27 of Law 11,672.	1st Review	Met
2	Submit to Congress legislation increasing the rate and base of the wealth tax (*Impusto sobre los Bienes Personales*).	1st Review	Met
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	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	Met
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 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	Met
8	Limit the BCRA's counterparties for sale of LEBACs, open market operations and repos to domestic banks.	Changed from Sep-2019 to Mar-2019	Met
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	Met
10	Design a compliance improvement plan and risk mitigation strategies around taxpayer segments, taxpayer obligations, and core taxes.	Jun-2019	Met
11	Finalize a time-bound plan for transferring the Treasury Single Account (TSA) from Banco Nacion to the BCRA in June 2020. The plan will include all operational details of the new TSA at the BCRA, the timeline for the transfer process, and a deleveraging plan for Banco Nacion.	Sep-2019	
12	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	
13	Implement an integrated auditing action plan for the Simplified Taxpayer Regime (Monotributo), covering 20 percent of taxpayers under this regime.	Dec-2019	

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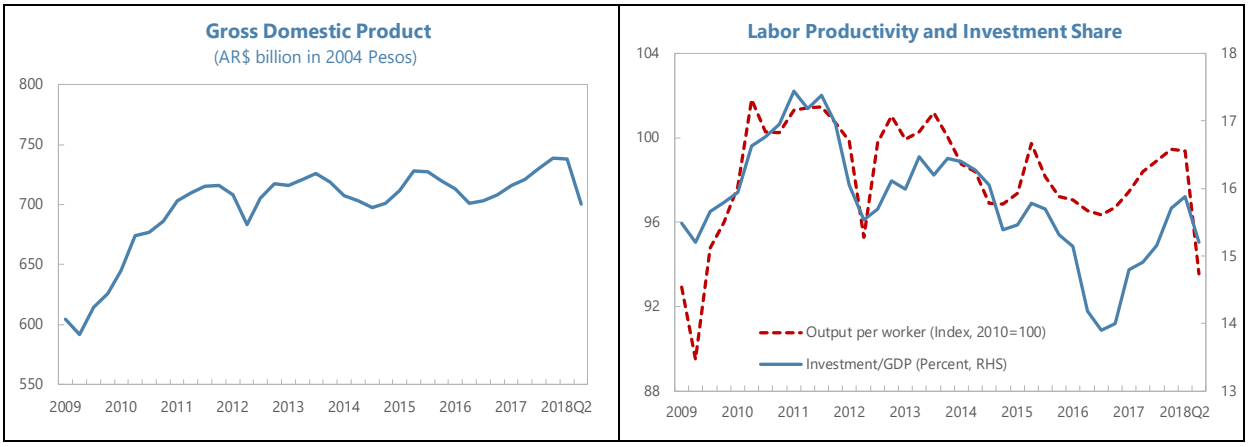
Appendix I. Economic Developments Leading Up to the Request for the 2018 SBA

1. The *Cambiemos* coalition of Mauricio Macri won the 2015 general elections on a platform of a more open, less protectionist, and more market-oriented economy. A priority of the new government was to reset the relationship with international financial markets, after years of stand-off with foreign creditors. Goodwill from the international financial community towards the new government was high. But the administration's domestic position was not commensurately strong: it had come to power with a narrow margin and without majority in Congress, and would soon face the test of mid-term elections in late 2017.

2. At the time the administration took power in late 2015, Argentina's economy was marked by macroeconomic imbalances, structural distortions, and fragile institutional frameworks. The economy was undermined by micro-level distortions that included extensive administrative controls (including trade barriers, foreign exchange restrictions, and price controls), rigid and dual labor markets, and a weak business environment. Output had been stagnant since 2011; the investment share in GDP had been steadily declining. Large fiscal deficits, financed by money creation, contributed to high inflation and an overvalued exchange rate. This in turn led to robust consumption, which, in the context of a small export base and the fiscal deficit, led to widening current account deficits. The financial sector was underdeveloped and the economy highly dollarized. Foreign exchange reserves were running low. Finally, the institutional framework for economic policymaking had been weakened—for instance, the Executive Board found Argentina to be in breach of its obligations under Article VIII of the Articles of Agreement due to provision of inaccurate data—and the central bank was not independent.



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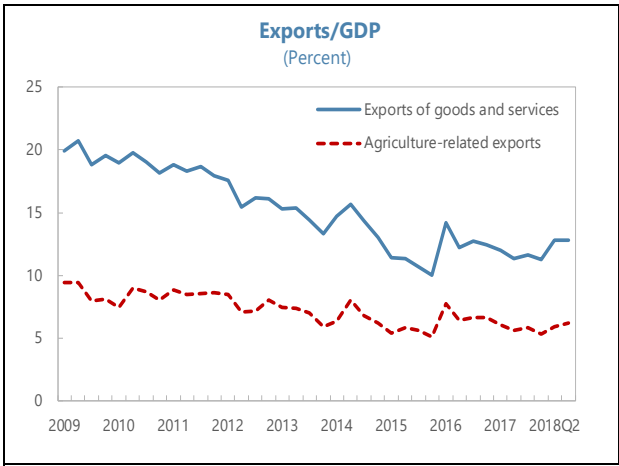
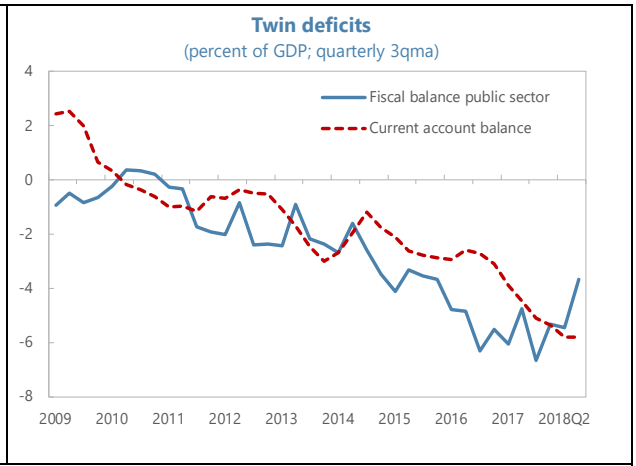
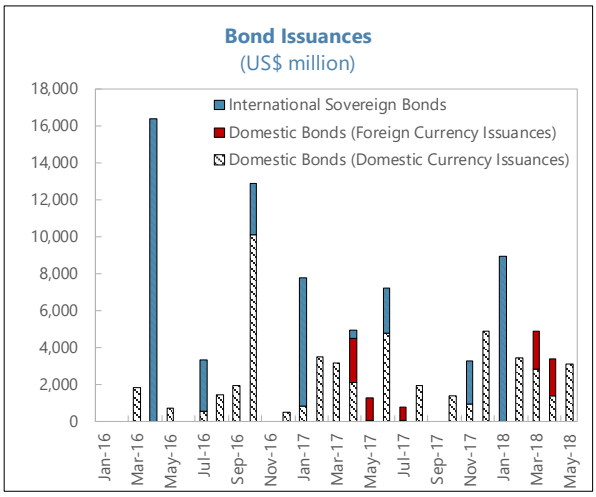




Sources: INDEC, Haver Analytics and Ministerio de Economía y Producción.
Note: Agriculture-related exports include agricultural exports and manufacturing exports of agricultural origin.

3. The administration moved swiftly to normalize relations with international financial markets, resulting in substantial capital inflows. By 2015, formal and informal restrictions affected nearly every foreign exchange transaction, and capital inflows and outflows were small, with a pronounced difference between official and parallel exchange rates. The administration lifted capital controls and let the exchange rate float. It substantially eased restrictions on residents' purchases of currency and foreign assets, effectively unifying the foreign exchange market. A settlement reached with external creditors on outstanding debt, allowing a return to international capital markets by both the private and public sectors. The new administration restored relations with the IMF—the first Article IV consultation since 2006 was conducted in 2016[1]—and also chaired the G20 in 2018.

- The administration aimed to break from monetizing the fiscal deficit; with only a small domestic investor base—and wanting to avoid a substantial fiscal tightening to reduce budget deficits—this meant a return to external borrowing. Low yields elsewhere made Argentina attractive to investors. Argentina was able to issue debt relatively easily, as exemplified by the issuance of a 100-year bond in 2017, and bond yields declined toward those of other emerging markets in the region.



[1] IMF (2016a, 2016b).

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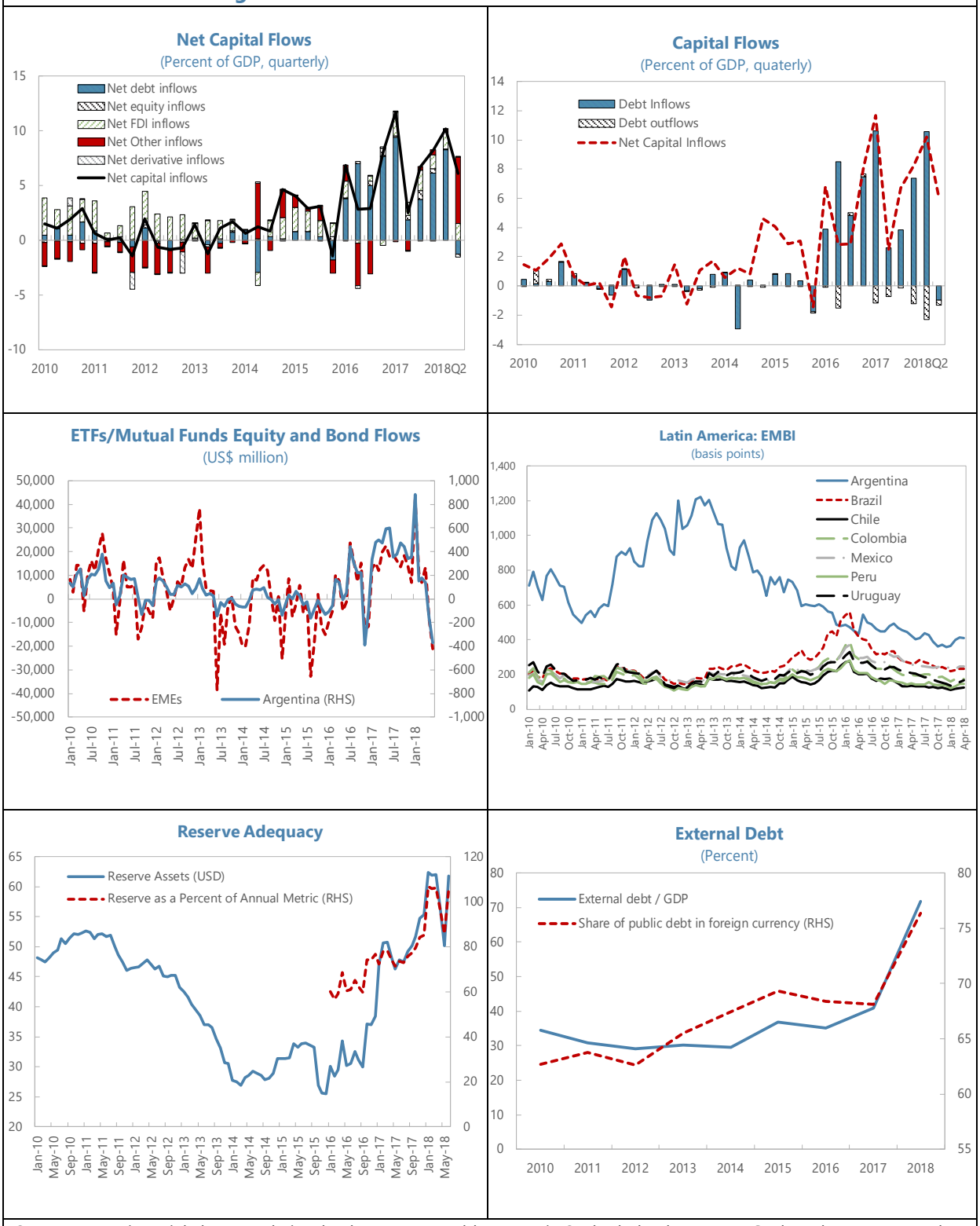
Figure A1.1. Financial Indicators Before the 2018 SBA



Sources: IMF Financial Flows Analytics database, IMF World Economic Outlook database, INDEC, Bloomberg, EPFR, and IMF Staff Calculations.

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- The resulting capital inflows were sufficient to restore central bank reserves. However, the flows came mainly in the form of portfolio debt, while typically-more-stable FDI flows decreased somewhat. Notably, much of the new debt was denominated in foreign currency, mainly U.S. dollars. Resident outflows also increased. The capital account liberalization was welcomed by the IMF as part of a transition away from the unsustainable policies of the past, albeit with the recommendation that it be accompanied by policies to restore fiscal balances, bring inflation under control, and boost the supply side.[2]

4. The administration adopted a gradual approach to the implementation of structural reforms and reduction in fiscal and external imbalances. The administration changed the indexation formula for pensions and social transfers, linking them to past inflation, and put in place some tax and subsidy reforms.[3] But it chose to avoid fiscal consolidation and broader structural reforms, judging that it did not have sufficient political support. Argentina's public finances had been a persistent stumbling block for previous governments and for monetary policy, with fiscal dominance frequently leading to inflation bursts and rendering exchange rate regimes unsustainable.[4] Primary spending had nearly doubled between 2000 and 2015; public debt was rapidly increasing again, after having been cut back substantially by the restructuring of 2005. Against this backdrop, the IMF noted that the administrations' tax cuts were increasing deficits and warned against the risks of "gradualism," both in fiscal and structural policies, especially if external financing were to become more expensive.[5]

5. On the monetary policy side, tensions over interest and exchange rate setting emerged. The reopened capital account posed a fundamental dilemma for monetary policy: should the central bank fix (or tightly manage) the exchange rate, or should it pursue an independent monetary policy? To an important extent, transactions were conducted in U.S. dollars, and private citizens were highly attuned to the exchange rate. Extensive inflation indexation created powerful cost-push mechanisms. Monetary transmission was weak and high inflation expectations entrenched, suggesting a large sacrifice ratio. Against this backdrop, the administration introduced an inflation targeting regime in 2016, aimed at re-anchoring inflation at a lower level. This change came without many of the steps commonly understood to be required for a successful transition to inflation targeting, notably a period of sustained disinflation, reduction of fiscal dominance, and assurance of central bank independence.[6]

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[2] 2016 Staff Report for the Article IV Consultation, pp. 5-14.

[3] Staff Report for the 2016 Article IV Consultation, especially pp.13 and 17.

[4] Buera and Nicolini (2019) documents monetary regimes in Argentina between 1969 and 1991 and notes that "after several monetary reforms, thirteen zeros had been removed from its currency … all these events are the symptom of a recurrent problem: Argentina's unsuccessful attempts to tame the fiscal deficit."

[5] Staff Report for the 2017 Article IV Consultation, especially Key Messages, pp. 4-10, Staff Appraisal (p. 31), and Risk Assessment Matrix (p. 33).

[6] For its part, the IMF did not endorse the inflation targeting framework *per se*, nor did it advise on the specific inflation targets, although it welcomed the commitment to lower inflation; Staff Report for the 2016 Article IV Consultation, pp. 21.

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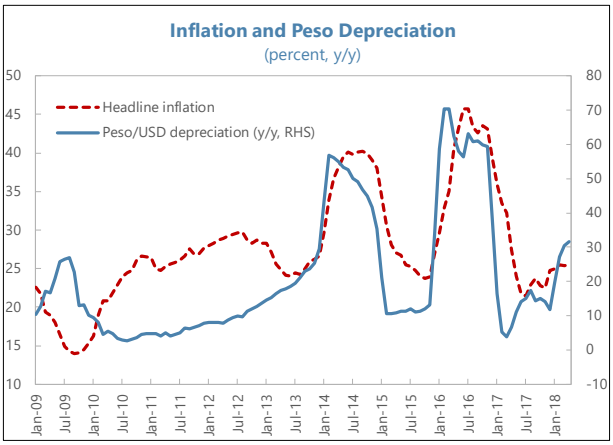
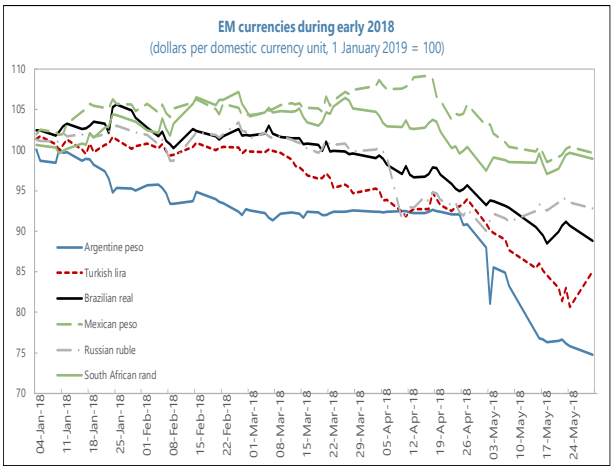
- These circumstances created a tension over the priorities for monetary policy. In principle, focusing on inflation would imply letting the exchange rate adjust flexibly. As the real exchange rate was estimated to be overvalued, this would likely imply a nominal exchange rate depreciation.[7] But nominal exchange rate depreciation would pass through into higher prices—rapidly so, given the extensive dollarization and indexation in the economy[8]—and increase the peso value of dollar-denominated debt.

- In practice, this tension manifested itself in an inconsistent implementation of monetary policy. The central bank wanted to focus purely on inflation, disregarding the exchange rate; it was optimistic that inflation could be anchored at historically-low levels without too much cost from higher interest rates, although arguably the fall in inflation observed in 2017 was as a result of exchange rate appreciation driven by capital inflows. The Treasury feared the impact of high domestic interest rates on its ability to finance the deficit. By December 2017, it became clear that the inflation target was likely to be missed; the government reacted by raising the inflation target to facilitate lower interest rates. Some observers consider this step a policy mistake that signaled a weak resolve to lowering inflation.



Sources: Banco Central de la Republica Argentina, Instituto Nacional de Estadística y Censos.

6. By early 2018, Argentina, like other emerging market economies, was experiencing more challenging external conditions. The open capital account combined with the gradual approach towards reducing macroeconomic imbalances had rendered the Argentine economy vulnerable to external shocks. The U.S. Federal Reserve was expected to tighten monetary policy, and geopolitical events were causing investors to reprice riskier assets. Many emerging market currencies came under pressure during 2018, with a sell-off in April, but the Argentine peso was the focus of particular skepticism, reflecting concern over macroeconomic imbalances and weak policy frameworks. In addition, the Argentine export sector, heavily weighted to agriculture, was hit by a major drought. Argentina found itself unable to place new debt at the same terms as previously, with the last large external placement in January 2018.



[7] In 2017, the IMF assessed the real exchange rate to be 10 to 25 percent overvalued; Staff Report for the 2017 Article IV Consultation, External Sector Assessment, pp. 41-49.

[8] For this reason, Baliño et al. (1999) argue that in dollarized economies "the prevalence of currency substitution (the use of foreign-currency-denominated assets for transactions) tends to strengthen the case for a fixed-rate system."

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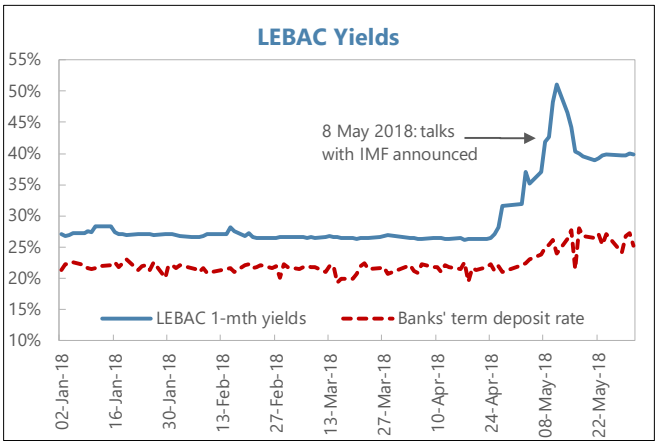
7. Facing rapidly worsening access to budgetary and balance of payments financing, Argentina announced in May of 2018 that it would seek an IMF arrangement. With foreign investors already concerned about sovereign debt sustainability, the tipping point was the implementation of a withholding tax on interest earned by nonresidents on financial assets on April 24, 2018. Although the tax had been approved the previous year, investors—many of them foreign—rapidly sold off Argentine assets upon its application, especially central bank bills (Box 3: Vulnerabilities Arising from LEBACs), sending yields on those instruments sharply higher. The central bank responded by intervening heavily in the foreign exchange market and increasing interest rates to 40 percent. However, this did not contain what became a more general run on peso assets, and the exchange rate depreciated markedly. The government approached the IMF with a request for financing on May 8, 2018. A program, to be supported by a standby arrangement, was negotiated quickly and approved by the IMF Executive Board on June 20, 2018.



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Appendix II. The IMF and Argentina, 1991–2001—Summary of IEO Evaluation Report[1]

A. Economic Developments

1. Argentina had gone through a period of economic stagnation and high inflation between 1975 and 1990. Under successive interactions of fiscal and currency crises, real GDP declined 6 percent over the period and inflation remained often above 100 percent. Gradualist approaches, shock therapies, and price controls all failed to tame inflation. In July 1989, a new attempt based on devaluation and structural reforms had early good results, but implementation slippages made way to wage increases, speculative attacks and hyperinflation at the end of the year. The government reacted with a debt conversion to U.S. dollars, measures to strengthen public finances and privatizations, but depreciation and inflation remained.

2. The adoption of a peg to the U.S. dollar under the Convertibility Law (April 1991) was followed by a relatively long period of growth and stability. The peg was accompanied by structural reforms on deregulation, trade openness, and privatization. Through 1998 growth was high (about 6 percent per year) and fiscal deficits were contained (about 1 percent). Inflation declined to single digits by 1994 and remained low for the rest of the decade. Under the peg, Argentina performed well in the aftermath of the 1994 Mexican crisis, supported by an adjustment program and favorable external developments (weak U.S. dollar and Mercosur tariff reductions). Capital inflows (portfolio and FDI) were strong, even shortly after the 1997 Asian crisis.

3. However, the supporting polices for the peg were not put in place, and vulnerabilities built up. The peg was a risky move, as initial conditions were not ideal: Argentina had a small and homogeneous export base; trade and economic cycle links to the U.S. were limited; and prevailing product and labor market rigidities indicated that any adjustment would be through output contraction. Although the peg required a strong fiscal position to endure potential liquidity crises, Argentina maintained fiscal deficits throughout the 1990s (except for 1993). The actual fiscal stance was even more relaxed due to the impact of off-budget liabilities (notably the pension reform), but political pressures and structural deficiencies stood in the way of fiscal discipline. Finally, the limited domestic market made Argentina reliant on external and foreign-currency denominated borrowing, and the country was vulnerable to sudden stops despite the careful maturity management.

4. Between 1998 and 2000, a combination of external shocks and policy slippages raised sustainability concerns and Argentina lost market access. Financing conditions tightened with the capital reversal after the August 1998 Russian crisis and the increase in the Fed funds rate. Argentina's competitiveness took a toll from lower commodity prices, the 1999 devaluation in Brazil, and the U.S. dollar appreciation relative to the euro. The response to the growth slowdown in 1999 was election-driven fiscal spending, which resulted in a sharp increase in debt levels. Under the

[1] IMF (2004).

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combination of solvency concerns, further tightening in external conditions, and inability to adjust under the peg, Argentina lost market access in late 2000 and shifted toward augmented IMF financing.

5. The response to the crisis was erratic, culminating in a full-blown currency and debt crisis and the disorderly abandonment of the peg. The authorities took a series of steps in 2001 without coordination with the Fund. The banks' position was weakened by allowing government securities to meet reserves requirements. The peg anchor was changed to a dollar/euro basket. Heterodox tax exemptions attempted to restore competitiveness. A market-based bond exchange ("mega-swap") improved maturities but at high financing costs. Late in the year, the fiscal strategy hinged on an inefficient and unsustainable "zero-deficit" plan. Market access could not be restored and in December 2001 the Fund withheld further support. Under political turmoil, Argentina imposed capital controls and a partial deposit freeze, and partially defaulted on external debt. After a short period under a dual exchange rate, the regime was reunified with an asymmetric asset/liability rate conversion which damaged heavily the banking sector. In March, debt under Argentine law was converted into pesos and a devaluation unfolded as the exchange rate reached AR$4 per dollar.

B. Fund Involvement

6. There were only a few months in the decade between 1991 and 2001 when Argentina was not under a Fund-supported program. In July 1991, Argentina entered a 12-month SBA to support the move to the peg (SDR 780 million, 56 percent drawn). The program was cut short in March 1992, to give place to a 3-year EFF arrangement (SDR 2.1 billion), which was augmented (to SDR 4.0 billion, fully drawn) and extended by one year to weather the 1994 Mexican crisis. This was followed by a 21-month SBA in April 1996 (SDR 720 million, 85 percent drawn) and a precautionary 3-year EFF arrangement in February 1998 (SDR 2.1 billion, undrawn). In March 2000 a 3-year precautionary SBA (SDR 5.4 billion) replaced the off-track EFF arrangement. With the intensification of the crisis, the arrangement was augmented in January 2001 (to SDR 10.6 billion) and September 2001 (to SDR 16.9 billion, 58 percent drawn). The program effectively ended with the decision not to complete a program review in December 2001.

7. Several chances to exit the peg were missed, and by the second half of the 1990s the Fund became supportive of the peg. The Fund initially regarded the peg as a stabilization device and did not analyze its medium-term sustainability, although there were concerns about appreciation, overheating and inadequate fiscal adjustment. In 1994, low inflation and a depreciating U.S. dollar led to a real depreciation and provided the first window of opportunity to exit the peg, but at the time staff had stopped voicing concerns about the exchange rate regime. Following the good performance after the Mexican crisis, staff reports and public statements became clearly favorable towards the peg. Despite some limited internal discussions, there were no substantive discussions with the authorities. In hindsight, the 1996-97 period was the last chance for a low-cost exit, as peso-dollar spreads were low and the required depreciation would have been small. Not even the financial tightening in late 1998, followed by the Brazilian depreciation in early

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1999, triggered a discussion on the regime. Conversely, staff reiterated support for the peg, did not question the authorities' proposal for "full dollarization," and temporarily embraced the argument of "automatic adjustment" (external shock leads to money base contraction). Analytical work on possible exit strategies only started with the deepening recession in the second half of 1999. Even at that point, the conclusion was to boost confidence and competitiveness with fiscal adjustment, structural reforms and official support. The cost of an exit was deemed too high, and alternatives were not explored.

8. The Fund did not convey the extent and urgency of the fiscal consolidation required by the peg. Fiscal targets were regularly missed and accommodated for a combination of factors. An excessive focus on flow variables prevented the Fund from requiring an earlier course correction and underestimated the impact of off-budget expenditures on debt. Although provinces had a combined spending comparable to the federal government, fiscal targets until 1998 were based only on the federal side, and structural reforms to address weak provincial fiscal controls were limited. Finally, Argentina's initial low debt levels and good ability to borrow masked deficiencies in the debt structure (high share of foreign currency and external debt, elevated spreads, and vulnerability to market sentiment). Given these blind spots and optimistic growth projections, staff did not explore in detail risks for fiscal solvency.

9. While the Fund properly identified areas for structural reform, the light-touch approach resulted in little progress. On the structural-fiscal front, despite some successful distortion-reducing tax reform measures in the EFF arrangements (1992 and 1998), reform of the federal-provincial revenue-sharing system was extensively discussed but never concluded, and consistent technical assistance work on tax compliance could not overcome political and cultural constraints. Labor market reform, critical to remove nominal rigidities, did not garner sufficient political support until May 2000. The 1994 social security reform, which introduced a (voluntary) fully-funded system, was in effect debt-financed as the authorities and the IMF failed to grasp the transition costs. The financial system, which was a model in banking supervision and prudential policy, had an authority-led agenda. The main vulnerability was the exposure to a devaluation, but staff did not press on this issue until late 1999, when there was no more room for remedial action.

10. When entering into crisis mode under the 2000 SBA, the Fund's initial response did not properly address relevant risks. Upon the loss of market access and Argentina's request for additional financial support in late 2000, the Fund had two possible diagnoses: a liquidity crisis from a temporary confidence shock, or a fundamental overvaluation with large debt implications. Following the first option, the Fund announced in December 2000 a package with growth, competitiveness, and medium-term fiscal discipline measures; augmented and frontloaded access; and financing from other official and private sources (a US$40 billion shielding or *blindaje* package). The strategy was risky and in practice involved a "market test," as official financing did not cover all needs. However, the program did not address thoroughly the impact of potential external shocks and policy slippages, did not speak to the large current account deficit, and did not elaborate an exit strategy in case the catalytic approach failed.

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11. As the confidence effect did not materialize, the Fund doubled down on the same approach and did not seriously consider alternatives until it was too late. The recovery of market conditions was short-lived, as fiscal performance slipped and structural reforms were challenged in courts. Reshufflings in the Ministry of Economy made way to more heterodox approaches and meeting fiscal targets was increasingly unlikely. Although chances of success continuously deteriorated and markets became skeptical of the strategy, the Fund proceeded with and further augmented the program. Giving the benefit of doubt, avoiding blame for triggering a crisis, and preventing contagion were important factors in the decisions. Financial risks to the Fund were overlooked in the process (e.g., the second augmentation was completed without a capacity to repay assessment). Alternative strategies were discussed in an internal task force (set up in mid-1999), but often dismissed as too costly without deeper analysis and not developed into a workable contingency plan until late 2001. As a "stop-loss" trigger, the authorities agreed to consider alternatives if reserves went below Fund credit, but this was not conveyed to the Executive Board. Although it was clear to staff by October 2001 that the December review requirements would not be met, discussions with the authorities on debt restructuring or the exchange rate regime did not happen until the decision not to complete the review. The sudden program exit left no space for dialogue to influence critical policies at the end of the peg.

C. Lessons and Recommendations

12. The shortcomings in the Fund's involvement with Argentina encompassed the broader decision-making process (Table A2.1)**.** From a conceptual standpoint, the Fund fell short in two core aspects: it was reluctant to discuss the exchange rate regime and the fiscal advice missed key elements of debt dynamics. By overemphasizing ownership, the Fund did not use its leverage at critical points and acted in excessive deference to the authorities. Programs approved without a clear balance of payments need had reduced traction and weakened market discipline. When the crisis abated, the Fund did not evaluate properly the costs and implementation of alternatives to the confidence-based strategy and did not involve the Board in a timely and effective manner.

13. Some lessons from the IEO evaluation may be applicable to the 2018 SBA:

- *Exchange rate/debt sustainability nexus:* Although the Fund's external sector and debt sustainability tools have improved markedly, the 2018 SBA once again saw the materialization of exchange rate risk moving debt into unsustainable territory.

- *Catalytic approach:* Like in earlier programs, the confidence effect did not materialize under the 2018 SBA. Strong fundamentals and sustainable debt and exchange rates remain of paramount importance for market confidence.

- *Ownership, precautionary access, and program standards:* Also like in earlier programs, the 2018 SBA was marked by a degree of Fund deference to the Argentinian authorities' policies and reluctance to question assumptions and policy choices.

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- *Fallback strategy and timely action:* While internal discussions took place at an early stage of the 2018 SBA, concrete alternative policies were agreed only towards the effective end of the program. Engagement by the Executive Board on a "Plan B" was limited.

Table A2.1. Argentina: Lessons and Recommendations from the 2004 IEO Evaluation

	Lessons	Recommendations
Surveillance and Program Design/Relationship	**1.** The IMF must exercise firm, candid and routine **surveillance over the exchange rate regime** to ensure it is **consistent with other policies** and constraints. **2.** The level of **sustainable debt** for emerging market economies **may be lower** than had been thought. **3.** The authorities' decision to treat an arrangement as **precautionary may involve a risk of weakened standards** for IMF support. **4. Ownership is not sufficient** if it is based on misguided or excessively weak policies. **5.** Favorable macroeconomic performance can **mask underlying institutional weaknesses** that may become insuperable obstacles to any quick restoration of confidence.	**1. Medium-term exchange rate and debt sustainability** should form the **core focus** of IMF surveillance. **2.** The IMF should **refrain from program** relationship with a member country **without immediate balance of payments need** and **with serious political obstacles** to policy adjustment or structural reform. **3. Exceptional access** should entail a presumption of **close cooperation** between the authorities and the IMF, possibly with: - **mandatory disclosure to the Executive Board** of any critical issue or information that the authorities refuse to discuss with (or disclose to) staff or management, and - presumption that the IMF would **not endorse publicly** measures not subject to prior consultation.
Crisis management	**6.** Decisions to support a policy framework involve a **probabilistic judgment**, but it is important to make this judgment as **rigorously** as possible, and to have a **fallback strategy in place from the outset**. **7.** The **catalytic approach** to the resolution of a capital account crisis works only under quite **stringent conditions**. **8. Financial engineering** in the form of voluntary, market-based debt restructuring is costly and **unlikely to improve debt sustainability** if it is undertaken under crisis conditions and without a credible, comprehensive economic strategy. **9. Delaying the action** required to resolve a crisis can significantly **raise its eventual cost**.	**4.** The IMF should have a **contingency strategy** from the outset of a crisis, including in particular **"stop-loss rules"**. **5.** Where the sustainability of debt or the exchange rate is in question, the IMF should indicate that its **support is conditional upon a meaningful shift** in the country's policy.
Decision-making process	**10. Risk analysis, accountability, and predictability** must be improved.	**6.** To strengthen the role of the Executive Board, procedures should be adopted to encourage: (i) effective Board **oversight of decisions under management**'s purview; (ii) provision of **candid and full information to the Board** on all issues relevant to decision making; and (iii) **open exchanges of views between management and the Board** on all topics, including the most sensitive ones. IMF shareholders—especially the largest ones—should collectively uphold the role of the Executive Board as the prime locus of decision making in the IMF.

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Appendix III. 2003 Stand-By Arrangements—Summary of Ex-Post Assessment and Ex-Post Evaluation[1]

A. Economic Developments

1. Following the disorderly end of the peg, the Argentine economy contracted sharply in the first half of 2002, but a rebound started in the second half of the year. Real GDP fell by 14 percent in the first half of 2002 and depreciation triggered a spike in inflation (the April monthly rate was 10½ percent). The banking system fell into crisis and, despite the freeze, continued large deposit outflows required central bank liquidity support. Signaling stabilization, inflation started to decelerate in May, while net outflows from the banking system ceased and then reversed in the second half of 2002 although gross outflows remained large. Interest rates were gradually lowered, and economic activity began to pick up. Nevertheless, at end -2002 the impact of the crisis was still substantial: the unemployment rate was above 20 percent (from less than 13 percent in 1998), half of the population was below the poverty line (one quarter in extreme poverty), and the inflation rate exceeded 40 percent.

2. Policies in the aftermath of the crisis sent worrying signals, but the worst outcomes were avoided. On the external front, a dual exchange rate was in place until February 2002, authorities sold dollars against staff advice, and comprehensive export surrender requirements and exchange controls were imposed. In the banking sector, the asymmetric conversion of banks' balance sheets into pesos eroded bank capital, but avoided a widespread corporate and household debt crisis. Confidence in legal institutions deteriorated with a freeze in privatized utilities prices and the weakening of creditor rights under the corporate insolvency law. In the fiscal area, despite the extensive financial bailout to subnational governments, bilateral agreements between the federal and provincial authorities on fiscal adjustment took long to be effective. On the positive side, growth in quasi-monies issued by provincial governments was controlled by the bilateral agreements, liquidity support to banks was contained, credit to the government was curtailed, the exchange rate was eventually allowed to float, and the feared hyperinflation did not materialize.

3. In line with other post-crisis episodes, the recovery remained strong from 2003 to 2005. Growth was rapid through end-2005 (8.8 percent on average), supported by strong private consumption and investment, a steady improvement in the trade balance (driven by exchange rate depreciation and booming commodity prices), and firm macroeconomic policy implementation. Unemployment and inflation rates declined from their peaks, although inflation picked starting in early 2005. International reserves increased and restrictions on international transactions and external payments were gradually lifted. Poverty rates also dropped, but remained high. The recovery in Argentina was in line with other post-crisis countries, except for the persistence of the

[1] IMF (2006a).

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real effective exchange rate depreciation (due to failure to adjust regulated prices, export taxes, moral suasion, and exchange rate intervention).

4. The period was marked by a contentious debt restructuring. After three years in default, in January 2005 the authorities launched a debt exchange offer to swap US$82 billion in eligible claims for new bonds, with an estimated haircut of 75 percent. This was set as a final offer, supported by legislation forbidding the executive branch from reopening the offer or reaching private settlements with nonparticipating creditors. The authorities reported a 76 percent participation rate at the time.

B. Fund Involvement

5. Negotiations of the 2003 SBAs were difficult due to policy disagreements and rising external obligations. The Fund's core advice following the crisis included: (i) floating exchange rate and phasing out of payments restrictions; (ii) fiscal adjustment; (iii) retirement of quasi-monies issued by provincial governments; (iv) normalization of relations with private creditors; (v) restoring legal certainty; and (vi) fiscal and banking structural reforms. However, some of the government policies (involving congressional and judiciary decisions) were contrary to staff advice and constituted major obstacles to arriving at a new program, both for their direct economic effects and for their message on ownership and implementation. The large repurchases in 2003 confronted the Fund with a difficult choice: agree to a program with modest policy objectives but refinancing these repurchases; or run the risk of a default on obligations to the Fund, undermining the preferred creditor status and impacting other emerging markets.

6. The reengagement with Argentina after the crisis took a two-step approach—a short bridge program before the presidential elections, followed by a 3-year program, which however went off-track in less than one year. The initial stand-by arrangement, from late January to August 2003, was intended as a bridge to a longer-term arrangement to be agreed after the April 2003 presidential elections. The program mirrored the repayment schedule and had limited structural measures. Staff had concerns about ownership and implementation capacity, but major shareholders supported the program. A more ambitious three-year SBA was approved in September 2003. The latter aimed to restore macroeconomic stability, comprised structural reforms in the fiscal, banking and utility areas, and sought a resolution of external arrears. Just two reviews were completed, with waivers. Absent a policy agreement with authorities, the third review was not completed, and negotiations were suspended in mid-2004. The authorities repaid their outstanding Fund obligations on January 4, 2006 and cancelled the arrangement the following day.

7. Overall, macroeconomic performance under the programs exceeded expectations, but progress on structural reforms was limited. Supported by strong macroeconomic policy implementation, quantitative targets were met, and growth and inflation outcomes were consistently better than projected. A conservatism in forecasts (after the emerging markets crises), the supportive external sector, and "frozen" utility prices helped the overperformance. In contrast, implementation of structural reforms was poor, reflecting lack of ownership and weak

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implementation capacity, as well as a reduced sense of urgency stemming from the strong economic rebound and the frontloaded access to Fund financial support.

8. Fiscal outcomes were positive, but the composition of adjustment was a concern. Performance was helped by rapid revenue growth—led by export and financial transactions taxes—and a temporary compression of spending on wages and federal pensions. The additional space allowed a sharp increase in primary spending, particularly on capital goods. The outcome represented a tightening relative to the September SBA assumptions, but short of the compression of primary spending envisaged in the January SBA. This relative loosening of the fiscal stance could be justified by the severe social needs that Argentina confronted. Worryingly, the compression of real wages and pensions began to be unwound in 2004-05, increased expenditures turned the fiscal stance significantly expansionary in 2005, and alternative revenue sources to the distortive export and financial transactions taxes remained elusive.

9. Monetary policy achieved price stability, but there were tensions surrounding exchange rate policy. Strong money demand and reserve accumulation required target adjustments, but facilitated liberalization of exchange controls, lifting of restrictions on bank deposits, and redemption of quasi-monies issued by local governments, while still allowing a reduction in inflation to low single digits in 2003 and 2004. Staff and the authorities disagreed over nominal exchange rate flexibility and the proper objective of monetary policy - exchange rate stability or price stability. The authorities argued that rapid accumulation of reserves would strengthen the external position, stabilize government finances, and aid the recovery of the industrial sector. Staff viewed that resisting the pressure for currency appreciation (as a correction of the crisis overshooting) could lead to real appreciation through higher inflation, eroding central bank credibility—price pressures indeed rose steadily during 2005. While staff pushed for exchange rate flexibility, monetary tightening and productivity-enhancing structural reforms, focused on growth, the authorities emphasized price controls, export restrictions, reduction in severance packages, and moral suasion.

10. Progress on structural reforms was limited and uneven. Although structural conditionality was in line with comparator programs, most targets were not met. Differences of opinion between staff and authorities led to protracted negotiations. Politically complex reforms requiring coordination with provinces and a broader social support fell behind, and the mismatch between frontloaded access and backloaded reforms reduced incentives. The key areas of Fund advice were:

- **Fiscal:** Advice focused on improving relations between the central and provincial governments and tax reform. The revenue sharing arrangements undermined fiscal discipline and created incentives for distortive non-shared federal taxation. Bilateral agreements hardening provincial finances were signed but on an *ad hoc* and voluntary basis. A fiscal responsibility law was approved but it did not guarantee consistency between provincial budgets and fiscal policy. A comprehensive tax reform was not implemented, partly due to the gradualist approach and the entrenchment of high-yield export and financial transaction taxes.

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- **Banking:** There was broad agreement between the authorities and staff on weaknesses and scope of reforms. The strategy comprised comprehensive reform – covering bank diagnosis and resolution, central bank autonomy, prudential regulation, lender of last resort, public bank reform - and short-term forbearance to address the post-crisis weaknesses of the system. There was limited progress during the program period, but afterwards the authorities reached agreements with banks on business plans and compensation for the asymmetric "pesoization". Institutional and public bank reforms continued lagging.

- **Public services:** Despite this not being a core are of Fund expertise, staff deemed reform of the utilities sectors to be crucial, and the September SBA aimed to grant the executive fast track power for contract negotiation and to establish a general framework law for public services. Fast track powers were given, but the renegotiation of concessions was slow and controversial. A general framework was submitted to congress but not approved by the time of the evaluations.

11. Access to Fund financing mirrored the repayment schedule and was inconsistent with *ex ante* projections of financing needs. The program assumed no resumption of market access and large capital outflows (the latter assumption turned out to be pessimistic). Under those assumptions, access was too low: reserves would increase by just US$5 billion, and indicators of adequacy (relative to imports and debt obligations) would deteriorate. The need to safeguard Fund resources played a role in containing access, as there were risks to the capacity to repay, credit concentration, and insufficient financial buffers (precautionary balances and burden sharing). The access granted kept credit outstanding to the Fund broadly constant at around SDR 10-11 billion, requiring frontloading and lumped repayments in 2007–08. Despite the low access to Fund support, Argentina was able to accumulate reserves faster than projected; end-2005 reserves were US$16 billion above target.

12. The Exceptional Access Framework was observed in procedure but not in spirit. Although the balance of payment needs was clear (EAC1), the level of access did not address underlying issues. Two criteria were not clearly met from the outset—that on debt sustainability without restructuring (EAC2) and that on resumption of market access (EAC3)—but the policy allowed flexibility when a restructuring is needed and the member was unable to make large repurchases to the Fund. Finally, while there were several risks to implementation (EAC4), Argentina was given the benefit of doubt due to the "considerable ownership" and personal involvement of President Kirchner. The decision to move forward with exceptional access under these conditions — i.e., perception of defensive lending, lack of definition of economic program policies due to policy disagreement, and not clearly met criteria—undermined the confidence buildup, did not provide medium-term assurances, created moral hazard, and disincentivized preemptive action by other members. The perception was that non-economic factors may play an important role in exceptional access decisions.

13. The application of the lending into arrears (LIA) policy was hampered by the lack of a full-fledged macroeconomic framework and Argentina's contentious engagement with creditors. Among others, the LIA policy required that Fund lending occurred within a Fund-defined medium-term adjustment, and that authorities engaged in "good faith" with creditors. However,

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neither of the two programs contained a fully quantified medium-term fiscal framework (the September SBA had primary surpluses only for 2004). There were differences between authorities and staff on the medium-term surplus, as the authorities believed that a pre-defined path would compromise their negotiation position. Additionally, major shareholders pushed for a "market-oriented" approach to debt restructuring with private creditors. On the good faith criterion, creditors perceived that Argentina was not prepared to negotiate with them and claimed that the authorities' final offer was not a result of a collaborative dialogue. The authorities, however, argued that they introduced important refinements to their exchange offers in response to suggestions from creditors. In this context, assessing good faith proved difficult as objective indicators were hard to identify (e.g., minimum participation measures could also reflect a "take it or leave it" approach), and the absence of an Executive Board-endorsed primary surplus path made evaluations of "reasonableness" impractical.

C. Lessons and Reactions

14. While the basis for proceeding with the programs was considered adequate, the September SBA suffered from inconsistent design and, more importantly, lack of ownership. The complicated circumstances of the January SBA made the short-term, transitional program a reasonable approach to retain engagement, keep appropriate macro policies, a contain financial risks to the Fund. The September SBA did not succeed in reconciling competing concerns, resulting in delayed structural reforms, phasing out of line with balance of payments needs and the timing of key measures, and a diminished role for the Fund in debt restructuring negotiations. Beyond these issues, lack of ownership by all branches of government was fatal for the program.

15. Although the 2003 SBA's lessons are difficult to map into the 2018 SBA due to their different contexts, some lessons remain relevant.

- *Implementation of difficult reforms can be improved by accelerating their pace.* Gradually phasing in reforms can entrench distortions and hinder progress. A similar backloading of reforms took place in the 2018 SBA.
- *Phasing should be consistent with reform commitments.* Frontloaded access can reduce incentives for backloaded reforms. The purchase schedule of the 2018 SBA reflected the profile of projected financing needs, rather than considerations relating to the Fund's policy leverage.
- *Fund engagement in debt restructuring cases requires a primary surplus path and a medium-term balance of payments need.* These elements are key for meeting the LIA policy's objectives.
- *Meeting the procedures but not the essence of the Exceptional Access Policy can undermine its objectives.* The 2018 SBA highlighted the technical challenges in applying the flexibility of the EAF introduced as part of its 2016 revision.

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Appendix IV. The Authorities' Views on the Ex-Post Evaluation of Exceptional Access Under the 2018 Stand-by Arrangement

A. Introduction

1. The Argentine authorities would like to begin by thanking the authors of the Ex-Post Evaluation Report of Exceptional Access Under the 2018 Stand-By Arrangement (EPE), namely Odd Per Brekk, Juliana Araujo, Olivier Basdevant, Henrique Chociay, Gunes Kamber, Frederic Lambert, Nan Li and Alasdair Scott. We appreciate the extensive efforts made in preparing this detailed report. We consider this evaluation of key importance to build understandings that contribute to avoid falling into economic and social destabilizing situations from failed programs in the future. While the EPE makes important efforts and progress in analyzing the fundamentals and implications of the 2018 Stand-By Arrangement (2018 SBA or "the Program"), the authorities consider that it falls short in the assessment of its flaws and biases, as well as in recognizing the significant damage that the 2018 SBA itself inflicted to the country.

2. The original SBA granted to Argentina was approved in June 2018 for an outstanding amount of US$50 billion (SDRs 35.379 billion), which is equivalent to about 1,110 percent of Argentina's quota at the IMF and represented the largest loan granted by the Fund to a single country in its history. The SBA was supposed to have a three-year duration and its disbursement was conditional on the fulfillment of a number of targets related to the evolution of fiscal accounts and monetary policy.

3. The Program had five disbursements and only four reviews (of twelve expected). The initial disbursement amounted US$15 billion. Half was earmarked for budget support, and the remaining half to strengthen the Central Bank's foreign exchange reserve position, with the expectation that this would reduce pressures on the capital account. Instead, the Program failed to restore "confidence" and it was revised. After the first review of the program in October 2018, the authorities were allowed to draw the equivalent of about US$5.7 billion. The IMF also approved an augmentation of the SBA to increase access to US$56.3 billion (about 1,277 percent of Argentina's quota).

4. In December 2018, the second review was completed and allowed the authorities to draw the equivalent of an additional US$7.6 billion, bringing total purchases since June to about US$28.09 billion. In April 2019, the Fund completed the third review, and Argentina's government was able to draw the equivalent of US$10.8 billion, bringing total disbursements since June 2018 to about US$38.9 billion.

5. The fourth and final review was completed in July 2019, prior to Argentina's primary presidential elections. At that time, and even in a context in which the economic crisis was clearly worsening in Argentina, the country passed the review. A new disbursement of US$5.4 billion was approved, bringing total and final disbursements from June 2018 to July 2019 to US$44.1 billion.

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6. The numbers are striking. To visualize the orders of magnitude of the loan, it is worth noting that during COVID-19 pandemic the Fund assisted 87 countries and provided debt relief for 29 including the poorest, for a total of circa US$160 billion. Of that, the IMF net disbursements for the entire 2020 (which includes mostly pandemic support) totaled US$46 billion, an amount equivalent to what was given to a single country, Argentina, during the course of a year.

7. The Program was intended to help Argentina overcome its crisis on the basis of arguably four main pillars: restoring market confidence; protecting society's most vulnerable; strengthening the credibility of the Central Bank's inflation targeting framework; and progressively lessening the strains on the balance of payments. None of the objectives of the four-pillar Program were achieved.

8. The view of the Argentine authorities is that the 2018 SBA was built on a paradigm that fundamentally stood in the way of achieving its main objectives. Thus, the Program was based on a set of flawed premises and assumptions for the Argentine case, which include the neglect of external vulnerabilities, narrow views on the inflationary process and its own drivers, the effects of contractionary monetary and fiscal policies in the macroeconomic context that prevailed, as well as an inappropriate definition of ownership of a program by a sovereign nation.

9. The economic philosophy that underlied the SBA followed a "one size fits all" logic, meaning (i) a set of hypotheses about how economies in general function, that has increasingly been called into question, partly as a result of a series of crises and responses to those crises that were short of the mark; and (ii) a failure to construct an economic framework that pays due regard to the specificities and idiosyncrasies of the economic, social, and political system in which economic interactions occur.

10. The authorities consider that the assessment and diagnosis of Argentina's problems at the moment of the design of the 2018 SBA were either incorrect—if the Program was to achieve the goals it laid out—or functional for favoring vested interests—as those that benefitted from a delayed restructuring of the public debt denominated in foreign currency or from the massive formation of foreign assets with the financing provided by the 2018 SBA. We learnt from the EPE that the IMF staff disagreed with the views of the then Argentine authorities on the need for a debt operation that restored public debt sustainability and on the need for capital flow management measures—the EPE makes clear that the Fund's decision, despite the differing views, was to support the then Argentine authorities' position that resulted in the lack of debt restructuring or capital flow management measures, and still continue the disbursements that financed a capital flight of a historic size. The discrepancy between the technical views of the staff and the decisions made by the IMF reinforce the view that the program constituted a "political loan"—a loan that meant to support the electoral chances of the incumbent Administration, neglecting the medium and long-term consequences for the people of Argentina. The ultimate consequences for the country were disastrous and will be long-lasting.

11. As a member of the IMF, the Argentine authorities also consider the EPE evaluation of importance for improving the workings of the international financial institution as well. In today's world, the international community needs a strong, effective, and well-equipped IMF to face the

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many economic and financial challenges that lie ahead. Thus, strengthening the IMF requires a revision of the institutional culture that hinders alternative views, thoughtful and diverse opinions, that stood in the way of achieving the objectives of Argentina's SBA. A failure to do so will leave the international community ill equipped to tackle the challenges it is facing.

12. Looking ahead, for Argentina, the basis for moving towards sustainable long-term growth needs to include a gradual fiscal consolidation, based on the genuine growth of economic activity, which will be more robust if it is supported by the international community. Tackling inflation will also be necessary, understanding it as a multi-causal problem that cannot be addressed by monetary policy alone. Above all, carrying out policies that improve Argentina's tradable sector performance and strengthening local currency capital markets will be crucial.

13. In the spirit of contributing to consistent communication between the IMF and Argentine authorities and maintaining closer collaboration, the starting point for a new program should be the revision of the premises on which IMF recommendations were based. The view of the Argentine authorities expressed in the following sections is grounded on the foundational assumption that any set of policies adopted going forward should respect budgetary and external constraints to be able to guarantee a long-term sustainable recovery, which would lay the basis for the country's long-term development.

14. The rest of the Authorities Views chapter is organized as follows. Section 2 briefly summarizes the 2018 SBA and its consequences in the view of the authorities. Section 3 offers an analysis of the premises on which the program rested. The authorities argue that the 2018 SBA neglected Argentina's external fragility, was based on a set of narrow views on inflation and monetary policy and placed unwarranted emphasis on fiscal consolidation during a deep downturn, ignoring the key role of external sustainability and the need to resort to macro prudential measures and a timely debt restructuring. The Program also failed to recognize the limits of the "catalytic approach" to resolve a capital account crisis and the endogenous effect of the SBA on investor confidence, while insisting on structural reforms that did not respond to Argentina's needs. Other shortcomings of the Program were the neglect of governance and gender objectives that were formally included but were not implemented. Finally, the conclusion highlights the political use to which the 2018 SBA was put and identifies important lessons to be drawn from Argentina's experience for future crises.

15. Argentina's experience suggests that to effectively respond to the challenges the international community faces in a post-Covid world, the IMF will have to revise the premises on which its programs are based. This entails being aware of the political use to which their programs can be put, revising programs' definition of success, and reconsidering the meaning of real ownership.

B. Summary of the 2018 SBA Program and its Consequences

16. The SBA between Argentina and the IMF was signed in June 2018 as a response to a sudden stop in capital flows. The Program arguably contained four main pillars: restoring market confidence;

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protecting society's most vulnerable; strengthening the credibility of the Central Bank's inflation targeting framework; and progressively lessening the strains on the balance of payments.

17. The Program was supposed to play a "catalytic role" and help Argentina restore confidence and regain market access to overcome its balance of payment crisis. An underlying assumption was that Argentina was only undergoing a liquidity crisis and did not have a solvency problem[1]. However, the US$50 billion provided by the IMF, initially for foreign exchange reserves support, did not stop the run on the peso. The SBA was then reinforced in September 2018 with an additional US$7 billion, and Argentina's previous Administration was allowed to draw the funds to meet its scheduled debt payments. Nevertheless, the crisis continued to worsen. In March 2019, amid fears of another run on the peso, the IMF authorized the Central Bank of Argentina to sell up to US$9.6 billion of its foreign-exchange reserves to help support the exchange rate.

18. Additional nominal anchors and measures to support economic activity (or at least prevent a further fall) were added with little success. Between March and May 2019, the authorities introduced a series of exceptional measures that intended to avoid a deeper collapse of the economy, including a freeze of utility tariffs for the remainder of 2019 and measures to contain price increases for mass consumption goods (expanded to cover 60 basic food items).

19. The primary elections of August 2019 manifested a strong popular discontent with the implementation of the Program and its preliminary results. For many, the motivation of the agreement had been political, and the economic results did not imply a breakthrough in the external crisis. As it became clear that the Administration in power would lose the general elections (which took place in October), and although Argentina was meeting the numerical criteria established in the Program and continued to receive a positive assessment in the performance reviews, an additional tranche that was stipulated for September 2019 (about US$5.4 billion), was never disbursed.

20. After the primary elections, foreign exchange purchases by the private sector gained momentum, and there was a large drop in dollar denominated deposits from the commercial banks. The authorities only then reintroduced a set of Capital Flows Management measures (CFMs), including capital controls. These required producers to surrender export proceeds on short notice and monthly purchases of foreign exchange for non-commercial purposes were restricted to US$10,000 per person (which were later reduced to US$200 per capita after the general elections).

21. In sum, none of the objectives of the four-pillar Program were achieved. The Program was a failure. The most clear proof of its failure is that Argentina passed all the four reviews (October 2018, December 2018, April 2019, and July 2019) under the Stand-By Arrangement and met all the fiscal targets. The shortcomings of the program did not originate in the unwillingness or incapacity of the

[1] In practice, illiquidity and insolvency are not independent. The standard distinction between solvency and liquidity (e.g. as a criterion for bailouts) is somewhat confused: if it were unambiguous that a debtor was solvent, it would generally not face a problem of illiquidity. Illiquidity arises out of a concern for insolvency and perceptions of solvency depend in turn on the price of liquidity.

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authorities then in power to satisfy the agreed conditionalities. Rather, it was the outcomes of those policies that failed to achieve its stated objectives. Confidence and market access were never restored. Output contracted sharply and inflation increased. As the currency depreciated sharply, despite the massive official injections of foreign currencies into to the market, public debt rose substantially as a fraction of GDP.

22. More specifically, regarding pillar one, rather than restoring market confidence, Argentina's EMBI+ index grew by 264 points between the establishment of the agreement and the 4th review (from 507 to 771 basis points). The 2018 SBA also failed to protect the most vulnerable, with an increase of the population below the poverty line by 8.1 percentage points (from 27.3% of the population in the first semester of 2018 to 35.4% in the same period of 2019). The credibility of the Central Bank's inflation targeting framework was further eroded, with year-on-year inflation increasing by 24 percentage points between the signing of the agreement, in June 2018 (29.9%) and the fourth review of the Program in July 2019 (53.9%). Finally, regarding pillar four, while the balance of payments improved significantly (falling from US$-8.4 billion in the second quarter of 2018 to -1.8 billion in the second quarter of 2019), this was mainly due to the exchange rate adjustment and the contraction of domestic demand, which significantly reduced the demand for imports. This can hardly be qualified as success in rebuilding Argentina's international accounts, international reserves and reducing the country´s vulnerability to pressures on the capital account.

23. While the Program's intention was to revert expectations, conversely, its policies resulted in an IMF-financed bailout to private creditors and to investors that had been speculating over carry trade opportunities during the two years that preceded the Program, increasing Argentina's debt burden—as well as changing the composition of the debt in foreign currency—without having any positive consequences on the real economy. Between the end of 2015 and the implementation CFMs in 2019, residents' Foreign Asset Formation (FAF) reached over US$86 billion, a remarkable concentration of wealth in the hands of a few economic actors. A small group of 100 agents made net purchases for US$24.679 billion. In turn, the FAF of the 10 main buyers accounted for US$7,945 million.[2]

24. The contraction of GDP during 2018 and 2019 was -2.6% and -2%, respectively. The recession impacted commercial sectors (down 4% in 2018 and 7.8% in 2019), industry (down 4.8% in 2018 and 6.2% in 2019), construction (down 4.3% in 2019) and was only offset by the agricultural sector in 2019 (+23.2%) in the real year-on-year comparison.[3] The progressive reduction of the fiscal deficit met the targets established in the Arrangement, but brought increases in the levels of poverty and unemployment, the latter reaching double digits in the first half of 2019.

[2] According to a report made by Central Bank of Argentina ("Mercado de cambios, deuda y formación de activos externos, 2015-2019")

[3] The agricultural sector had suffered a severe drought during 2018 that strongly impacted the production of the country's main crops (causing a 15.6% drop that year) and implied a very low comparison base that generated the increase in 2019.

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C. The Flawed Premises of the 2018 SBA Program

25. As stated previously, the shortcomings of the Program did not originate in the unwillingness or incapacity of the previous Administration to satisfy the agreed conditionality. All the four reviews (October 2018, December 2018, May 2019, and July 2019) were passed and the then authorities were praised for the progress, specifically on the fiscal policy front. Throughout, the IMF and Argentina's authorities maintained the view that fiscal and monetary contractions would restore financial markets' confidence. Instead, the policies adopted made the crisis worse.

26. The Argentine authorities' view is that the failure of the Program stems from the fact that it was conceived under premises that were ill founded—and that rather than pursuing the objectives that had been laid out, by financing a massive formation of foreign assets and bailing out private creditors the Program favored other interests in detriment of the medium-term and long-term welfare of the people of Argentina. The narrow premises on which it was based, notably the overoptimistic assumptions regarding the effects of the policy recommendations of the Program on output and inflation and the overreliance on catalytic effects, combined with a lack of a proper understanding of the balance of payments problems and of inflation in Argentina, led to an incorrect diagnosis and an inadequate policy setting.

Neglected External Fragility

27. The 2018 SBA ignored the risks of building up external fragility. It was assumed that restoring confidence would reestablish market access, as if the poor performance of the tradable sector with increasing debt ratios would be of no consequence for capital flows, or as if fiscal adjustment would produce the preconditions for the private sector to expand tradable supply.

28. The idea that capital account liberalization is a desirable policy rests on foundations that are not supported by the empirical evidence and does not take into consideration the specific conditions of a country such as Argentina. The conditions under which capital account liberalization would allow consumers to smooth consumption plans and companies to access to a broader source of stable financing to diversify risks are hardly ever present. A rich literature suggests that the benefits of unregulated capital flows are limited, while the risks of currency crashes and financial crises are large. Capital account liberalization exposes emerging market economies to the volatility in international financial markets, which are significantly pro-cyclical, thereby increasing macroeconomic instability. The IMF Research Department has produced important work on the potential problems of capital account liberalization (Kose et. al., 2009), on the possible roles of capital controls (Ostry et. al., 2010; Habermeier et. al., 2011) and on the effects of capital account liberalization on income distribution (Furceri and Loungani, 2015, 2018).

29. In Argentina's recent economic experience, capital account liberalization favored the massive inflow of short-term speculative portfolio capital in 2016-2017 and left the economy extremely vulnerable to the event of a sudden stop, which effectively materialized in 2018. It also left the economy vulnerable to further volatility in the exchange rate, which fueled the inflationary process. The design of the SBA downplayed and dismissed the risks of capital account liberalization and the

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rationale for placing regulations on international financial transactions. The yardstick to measure program success was its ability to restore "confidence". But this is problematic, as it is often synonymous with the presence of short-term and highly volatile portfolio flows. Not only those flows are reversible; they are typically associated with conditions that discourage foreign direct investment, in particular when short-term flows were triggered by high domestic interest rates.

30. This is in line with what the IEO stressed a few years earlier, "in many crisis programs, internal devaluation itself proved hard to achieve and the desired recovery in growth and exports did not materialize (IEO, 2021; p.69). Moreover, as noted by IEO's recent report on IMF Advice on Capital flows, "in Argentina in 2015, the staff could have been more forceful in warning about risks involved in the rapid removal of capital account restrictions and the need to strengthen the macroeconomic framework to be consistent with an open capital account" (IEO, 2020: p.34).

31. The Program achieved nothing for Argentina other than massively aggravating a balance of payment problem. Due to its front-loaded nature, the US$44 billion effectively disbursed helped the Administration to sustain an open capital account during 2018 and most of 2019. By missusing IMF resources, The SBA allowed capital flight at convenient rates and the payment of unsustainable public debt, effectively postponing the adoption of capital controls and the debt restructuring process.

Narrow Views on Inflation and Monetary Policy

32. The 2018 SBA was based on the conception that inflation is a purely monetary phenomenon that should therefore be curbed solely with monetary instruments. Shortly after the SBA was approved, the inflation targeting framework was abandoned. However, the exclusive reliance on monetary policy to curb inflation continued. The arrangement established a policy of zero growth of the monetary base which was endorsed by the first review of the Program in October 2018. Expectations were to achieve a quick reduction in inflation under these policies, but the policy failed to do so. In fact, what happened was exactly the opposite: inflation escalated quickly in the context of a large depreciation of the currency. Besides, the contractionary monetary policy led to sharp increases in the interest rates that in turn signalled that higher seignorage would be needed to meet the consolidated public sector's budget constraints.

33. The premise that zero growth of the monetary base would underpin private sector expectations left aside the specific analysis of the devaluation impact on Argentina's price dynamics and the strong inertia component that this process entails. It presumed that freezing the monetary base would translate quickly into changes in prices and that money demand would remain steady (an unreliable assumption given the uncertain environment).

34. The EPE clearly recognizes those flaws and sets an appropriate basis for the discussions that underpin the negotiations for a successor program: "Inflation increased during the Program, driven mostly by persistently high inflation expectations, peso depreciation, and wage increases. This suggests that the targeted reduction in inflation was not feasible: the monetary policy regimes under the SBA were not robust to the challenges of dollarization and extensive indexation, as shown

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by the rapid pass-through from the nominal exchange rate depreciation that followed the sudden stop." (EPE, Box 1, p.24)

35. The EPE also acknowledges that relevant features of the inflationary process were disregarded in favor of an oversimplified picture in which stability was expected to emanate automatically from signs of fiscal and monetary discipline that would also induce a rebound of economic activity. Nevertheless, and given the sluggish nature of inflation, price increases continued despite a zero-growth rate of the monetary base, implying a positive inflation tax without seigniorage. Real money balances fell, and the cost of credit went up, creating a further contractionary impulse that aggravated the recession.

36. The attempt to achieve a considerable disinflation resorting only to monetary restraint ignored the country's recent economic history and was unlikely to succeed. Inflation in contemporary Argentina has a marked inertial component that monetary restraint by itself cannot curb quickly and at low real costs. Pressures emanating from exchange rate or tariffs adjustments have significant effects on the consumer price index that can be long-lived and can be compounded by expectation effects.

37. During times of macroeconomic inconsistencies and coordination failures, there is a clear role for coordination policies that can help to anchor expectations around a lower rate of inflation, as it is also recognized by the EPE: "The high degree of indexation and other rigidities posed a challenge to the success of inflation targeting, by making the effects of temporary movements to the exchange rate and one-time increases in regulated prices more persistent. Income's policies—that is, tripartite agreements on wage increases, usually with quid-pro-quo agreements on taxes and administered prices, such as utility tariffs—could in principle have helped inflation expectations to settle and were evaluated by IMF staff. However, given mixed experiences in other countries and difficulties in quickly agreeing on a complex range of issues, income policies were ultimately not considered suitable" (EPE, ¶28, p.41).

38. Achieving stabilization is a very complex task due to the "multifaceted nature of inflation" and its reduction "requires both consistent macroeconomic policies and coordination efforts to help anchor inflation expectations" (IMF, 2021). More precisely, it needs a combination of fiscal and monetary tools with actions that facilitate the coordination of behaviors in goods and labor markets, leading to a widespread slowdown in price increases. Income policies or exchange rate pegs cannot achieve a long-lasting stabilization in the absence of a consistent fiscal and monetary program, but fiscal and monetary restraints without other anchors could be a highly ineffective choice. The attempt to achieve a considerable disinflation resorting only to monetary restraint and seemingly expecting a smooth transition has already proven to be ineffective.

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Neglected Pro-cyclical Effects of Fiscal Consolidation

39. Fiscal and monetary contraction were supposed to restore confidence, but instead reduced aggregate demand and forced many indebted firms into bankruptcy. This, in turn, led to a severe economic contraction, worsening debt sustainability prospects, undermining social conditions, and increasing uncertainty. The SBA effectively worsened market expectations and increased risk premiums.

40. The contractionary effects of fiscal policy were compounded by contractionary effects of depreciation and inflation. The Program established a floating exchange rate system that was supposed to act as a shock absorber. However, the depreciation of the currency increased the burden of the debt measured in foreign currency, and fueled inflation. In a nutshell, the 2018 SBA assumptions placed unwarranted emphasis on fiscal contraction in the midst of a deep downturn, ignoring the key role of external sustainability and the macroeconomic nature of inflation for the Argentine case, and refusing to introduce CFMs and conduct a debt restructuring.

41. According to the EPE, "Achieving the originally targeted debt level of 53 percent of GDP by 2023 would have required more than doubling the size of fiscal adjustment planned at the time of the First Review" (EPE, ¶23, p.35). It is worrisome that the thought remains that fiscal tightening could have been implemented even more strongly without creating a counterproductive contraction and negative socioeconomic consequences. Besides, in the Argentine economy, with widespread poverty and low access to credit, fiscal multipliers are likely to be higher, entailing larger contractionary effects of fiscal austerity.

42. The 2018 Program assumed that there is such a thing as "expansionary fiscal contraction" in a recession, ignoring that this is highly unlikely (see for instance Guajardo et. al., 2011) and practically impossible with high capital mobility and unsustainable debt burdens. The contractionary stance of fiscal policy continued even as the crisis unfolded, without any acknowledgement of its negative effects. This suggests a rigid attachment to the flawed premises of the Program and echoes the misguided policy prescriptions of the IMF in Argentina during the late ´90s, which led to a protracted recession and the worst economic and social crisis of the country's history in 2001. When attachment to this paradigm is inflexible, no evidence is enough to show that fiscal contractions are contractionary; a spiraling recession is interpreted as an indication that fiscal adjustment was not large enough.

43. Ultimately, a successor program for refinancing the IMF loan should account for the premise that the stabilization of the economy requires that the economy continues along a path of recovery—which in turn requires both a countercylical fiscal policy and a recovery of real wages. The reduction of the fiscal deficit as a proportion of GDP will need to be done in a way that does not jeopardize economic recovery—or else it will not be sustainable.

44. Looking ahead, the unwinding of some aspects of the current CFMs, which if properly done would improve investment and growth prospects, must be consistent with the pace at which the stock of foreign exchange reserves is rebuilt. Not all regulations should be avoided: macroprudential

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policies should be a permanent feature of a macroeconomic framework that aims to minimize the destabilizing effects of short-term portfolio capital flows and, in the current set-up, prevents the dilapidations of foreign exchange.

45. As stated by the EPE, fiscal consolidation was doomed to fail due to the lack of public debt sustainability: "without a debt reprofiling early on (i.e., at the time of the First Review) to lower the large refinancing needs of the short maturity debt, the scope for fiscal policy to address debt vulnerabilities and bolster confidence appears, ex post, very limited, especially given that the low-quality fiscal measures available were unlikely to have sustained effects. That said, Argentina's case is consistent with the general tendency to delay debt operations, even when ultimately unavoidable" (EPE, ¶23, p.35).

46. In line with the EPE, a debt restructuring operation and the introduction of capital controls came in very late. These observations are important stepping stones that can help to build a correct diagnosis on the nature of the failure of the Program. Moreover, a solid understanding of inflation, the role of CFMs and macroprudential policies and the need for a debt operation, probably could have prevented Argentina from resorting to the Fund in the first place.

Regressive tax reform

47. The 2018 SBA was approved a few months after the National Congress passed a tax reform (December 2017) which, together with other tax measures implemented since 2016, significantly reduced the progressivity of the tax system and undermined its collection capacity.

48. In 2016, a gradual reduction of personal property tax rates was established, the scheme of increasing marginal rates was eliminated and the application of the tax was suspended for three years for people who did not enter the 2016 Tax Amnesty Law. It is worth to consider that in Argentina approximately 750,000 taxpayers are subject to Personal Property Tax, which represents the 2.5% more wealthy of the Economically Active Population.

49. Another initiative in the same direction was the reduction in the corporate income tax rates, which fell from 35% in 2017 to 30% in 2019 (it would have continued to fall to 25% in 2020 but this reduction was suspended by the introduction of Social Solidarity Law in December 2019).

50. As a result, the share of progressive taxes on total tax revenues was significantly reduced. Taxes where revenues fell the most between 2015 and 2019 were those that tax income, profits and capital gains (from 6.46% to 5.14% of GPD) and property (from 0.32 to 0.15% of GDP).

51. The tax reform implemented by the then Administration was intended to improve the primary balance through lower tax rates, under the assumption that they would promote greater investment and production, and therefore greater tax revenues. This did not happen and instead caused greater underfinancing, which impacted on the need to reduce public expenses even more to achieve the fiscal primary balance targets. This need was partly covered by the application of export taxes to all goods and services, a highly distorting measure. In fact, the generalized

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reductions in tax rates plus the economic crisis produced a fall in the resources of the Treasury as a share of GDP from 20.36% in 2015 to 17.02% and 18.17% in 2018 and 2019 respectively.

Over-optimism and the Limits of the "Catalytic View"

52. With the 2018 SBA, financial markets' confidence was never restored. The strong conviction that the "catalytic approach" was reliable to deal with Argentina's capital account crisis, regardless of the circumstances proved to be misconceived. The IMF Independent Evaluation Office (IEO) report on "The IMF and Argentina, 1991–2001" had already recognized limitations to the underlying view of the SBA: "The catalytic approach to the resolution of a capital account crisis works only under quite stringent conditions. When there are well founded concerns over debt and exchange rate sustainability, it is unreasonable to expect a voluntary reversal of capital flows" (IEO, 2018; p. 6).

53. A second misconception had to do with the view of the endogenous effect of the agreement itself on investor confidence. Since debt with the IMF is generally perceived to be preferred debt, private creditors may perceive the IMF support as increasing their risk rather than reducing it. This is especially problematic when a program lacks political consensus. The Argentine 2018 SBA was negotiated without any efforts to involve the society in a broad social discussion that would create knowledge about the consequences that such a program would entail. The largest loan in the history of the IMF was decided in a rush and without any discussion in the National Congress: 77 representatives rejected the agreement and even sent a letter criticizing the Program.

54. IMF staff were unable to fully consider certain measures or policies, and ended up determining a set of measures to be implemented that did not fit the Program's purpose. This, in turn, closed off valuable policy space and did not allow resources to be invested in achieving the four pillars of the SBA.

Structural Reforms

55. The SBA between Argentina and the IMF also failed to restore financial markets' confidence, and the sharp contraction in economic activity undermined public debt sustainability. However, the IMF maintains that if the previous Administration would have adopted additional "market-friendly" structural policies and a stronger fiscal consolidation, the Program would not have failed. These so-called "structural reforms" include a whole set of policies that seek to boost the supply side, by removing obstacles to the functioning of goods and factor markets. According to this stance, to minimize the negative impacts on those segments of the population that cannot participate from the benefits of the reformed economy, a social safety net should be provided.

56. This suggestion reflects an underlying ideological view under which market economies should "aspire" to a structure that gets as close as possible to the paradigm of perfect markets—and leaves a role for the state to correct the so-called "market failures", often just of static nature under this view—one that ignores that markets do not work in a vacuum but rather in environment that are shaped by power.

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57. The experience drawn from the long relationship between Argentina and the IMF suggests that there is no direct link between the implementation of IMF recommendations and the exit of crises. While certain structural reforms may have some positive effects, the overall benefits of structural reforms that our country undertook in the past were overstated and their risks minimized—at the end, what actually happened in previous programs, as in the 2001 crisis and the 2018 SBA, was a massive transfer of risk to the most vulnerable.

58. A healthy economy is not necessarily a "reformed" economy under what has been the conventional IMF criterion in the last decades. The accumulation of human capital (associated for instance with spending in health and education), the expansion of trade, improved infrastructure, and financial deepening, which can clearly have a more direct and positive effect on growth and social conditions, can be achieved in a myriad of ways, with very different degrees of public-sector involvement, but hardly under the preconceptions stipulated in the Agreement and leaving aside the specific needs associated with Argentina's economic and social structure.

59. In our view, the ultimate answer to social problems is not transfer schemes, but job creation through inclusive and sustainable economic growth. To achieve that goal, Argentina needs to implement tailor made initiatives and policies that address the particularities of our social and economic structure.

60. First, Argentina needs to expand its supply of tradable goods. In an economy that lacks an adequate growth in the supply of tradable goods, its overall macroeconomic performance cannot be satisfactory. To accelerate economic growth while improving social conditions, Argentina needs to diversify its productive system. This requires a higher rate of investment in critical activities to once and for all overcome the external constraint that periodically suffocates economic growth. Only with an economic structure that leaves behind the external constraint, generates enough foreign exchange and has market access, a steady growth dynamic with creation of formal employment for the vast majority can materialize.

61. In order to develop those sectors, additional investment should be stimulated via the combination of correct incentives, including those created by productive policies since the correct incentives may not be fully provided by free markets, and macroeconomic stability. Profit rates between sectors do not adequately reflect the social benefits of the different economic activities, and not all the sectors that Argentina needs can progress without support.

62. Economic development involves producing new goods with new technologies, as well as transferring resources across sectors. This process does not take place automatically and as a result of market forces alone. The productive policies that help critical activities emerge and grow are of utmost importance. The question is not whether governments should engage in productive policy, but how to do it right.

63. A deep and stable domestic currency capital market is also critical for development. Overcoming the limited existence of profitable investment options in domestic currency contributes to avoid channeling excess liquidity to exert pressure on the exchange rate. The development of a

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domestic currency capital market is hence necessary to reduce the demand for foreign currency; moreover, a well-functioning, deep domestic capital market will also contribute to increase domestic savings, which are critical to promote economic growth while minimizing volatility.

64. Both the reestablishment of the local currency debt market and the widening of the range of options in pesos offered to domestic investors are essential for addressing the problem of currency mismatches and foster domestic investment and sustainable growth.

Lip Service to Governance and Gender Equity Policies

65. At the time of presenting the agreement to the Argentine society and the world, a series of conditions aimed at improving institutions and protecting the most vulnerable were boasted. Particularly, the issues of governance and gender equity were given particular importance. However, the view of the Argentine authorities' today is that these banners were raised with the political objective of generating consensus while in practice no concrete progress was made.

Absence of Governance Improvements

66. Improvements in governance were one of the crucial elements posited when making the case for exceptional access criteria. In this regard, the staff considered that "The administration is committed to prudent policy making, transparent government, and a strong governance framework. Staff deems the administration's institutional capacity and technical competence to be strong and fully able to deliver the core elements of the expected reform program." (IMF, 2018; p. 32). However, little progress in terms of governance during the 2018 SBA was made: the work carried out in those years by the Financial Intelligence Unit (FIU) and the General Justice Inspection (GJI), two institutions dedicated to improving governance in legal and financial terms, did not generate any substantial change in governance.

67. The role of the FIU was expected to be strengthened and to be endowed with more capacity to foster parliamentary initiatives oriented to rearrange the funds' administrative freeze and other assets identified, in a context of suspicious money laundering cases as well as to adapt the Unit's functions to the best practices mandated by FATF. However, no legislation was introduced in that regard to the National Congress.

68. The FIU lacked initiative in critical areas. It abandoned the pursuit of advancing on several judicial cases initiated prior to 2016 and had a scarce exercise of its power to file complaints (the paralysis in money laundering cases of an important internationally sanctioned financial institution is worth mentioning). The intensity of supervision on registered regulated entities was reduced, particularly with respect to the financial sector.

69. As for the IGJ, during the implementation of the agreement, all guidelines aimed at exercising control and oversight functions over companies, trusts and legal entities under the agency's jurisdiction were deregulated. The main general Resolutions issued by the agency during this period had a common denominator: they eliminated or restricted all the control mechanisms

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that the IGJ had implemented over local companies, foreign companies and trusts. This prevented the agency from having an effective policy to know the companies or trusts operating in the City of Buenos Aires. Compliance with AML regulations was only formal and was not consistent with the best practices in the field.

70. Related to anticorruption policies, no actions were carried out to disseminate, implement or control actions. There was no registry or validation of compliance programs, no training, permanent communication or empowerment policies, and no serious investigation of conflicts of interest related to public officials. A participatory process of preparation of a new law on Ethics in the Public Service was carried out, but it did not receive any impulse or political support to reach parliamentary treatment. The professed objectives of the Anticorruption Office were denied by its political superiors.

71. These facts highlight the lack of action and policies aimed at improving governance conditions during the period under analysis. On the contrary, lack of action and deregulation were the common denominator at this policy level.

Absence of Gender Equity Improvements

72. Another relevant condition of the 2018 SBA laid in protecting the most vulnerable and supporting gender equity. Unfortunately, neither of these two aspects were seriously taken into account in the implementation of public policies during the years of the Program.

73. In a nutshell, gender equality policies were considered under the same umbrella as the social protection network and poverty, and not as a crosscutting axis of all public policies implemented. In this sense, social protection and gender equity were used as political flagships, but the Program and its results did not reflect an effective study, analysis and implementation of the necessary measures to improve these aspects. During the implementation period of the 2018 SBA, there were no studies on the diagnosis of the situation faced by women, the differential impact the crisis had on gendered lines, nor was there a strategy for implementing policies to improve women's situation or monitor actions.

74. Even under this narrow understanding of what gender equity entails, the 2018 Program did not achieve any of the gender equity and social security objectives that it announced and promised. The quantitative criteria, goals, and consultation clauses did not consider a gender perspective: there were no specific indicators within the dimension of "spending on social assistance", contemplated in the axis of evaluation criteria of fiscal objectives. There was also no data or diagnosis that served as an initial reference point. Likewise, there were no compliance indicators for gender goals, nor were there any monitoring indicators. Although the Memorandum contemplated some commitments regarding gender equity, they lacked targets and monitoring indicators for this vital issue.

75. These aspects reveal a political use of fundamental considerations for Argentine society without them being translated into concrete public policies. While lip service was paid to

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governance reform and gender equity, no real effort was made to turn these ideals into reality. During the period of implementation of the 2018 SBA, no progress was made in terms of governance improvements, no policies with a cross-cutting gender perspective were implemented, and no real gender equity pursued.

D. Conclusion

76. Learning from Argentina's experience with its 2018 SBA is crucial to strengthen the international community's readiness to effectively tackle the challenges the Covid-19 pandemic brought about. Argentina's authorities are convinced that the IMF would be most effective in managing the current international crisis if it were to revise the broad principles upon which its programs are often based and address the mismatch between program recommendations and developing countries' diverse realities. With the aim of further strengthening the close collaboration between Argentina and the Fund and the hope to avoid history repeating itself, Argentina's authorities conclude by highlighting central lessons to be considered in the revision of the 2018 SBA.

77. A proper revision of the frameworks of IMF-supported programs requires an instrospective analysis of the definition of success. Success is often qualified as the recovery of market access, as if "markets knew it all"—if that was the case, we should not observe waves of disappointments in market expectations as often as it happens. Market access is certainly one dimension of Program success, as the IMF is not supposed to be an institution that provides eternal financing, but one that should be dealt with care when the demands from financial markets are in contradiction with what would lead to success from a more comprehensive social and economic viewpoint.

78. In the 2018 SBA, compliance with the "market access" requirement was understood to be met if significant holdings of local paper were in the hands of international investors. This is tantamount to a travesty, in that a feature of Argentina's debt structure that was (and still is) a clear source of instability, namely, the domestic currency debt in the hands of portfolio investors that had been exploiting carry trade opportunities, was reputed to be a tranquilizing source of stability (an indicator of "access")—and, as stated previously, a significant portion of the 2018 SBA financing went to finance the partial flight of these holders.

79. In this regard, and while it is not the subject of this evaluation, compliance with Article VI of the IMF Articles of Agreement should be investigated. In the view of the authorities, a thorough assessment of whether the SBA policy recommendations were not in clash with the mandates of the Institution is in necessary to ensure a correct functioning of the institution.

80. Given that Argentina had lost market access by May 2018, and has not regained it since, even under the premises of the Program, the results of the policies and of each of the four reviews, should have diagnosed a clear failure that should have warranted a change in strategy and policies. Yet, this did not occur. Each of the reviews repeated the assessment that the (failed) policies would turn into "successful" ones.

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81. The failure to admit the Program's ineffectiveness in tackling Argentina's real problems, in turn, served the purpose of tacitly justifying the unwarranted monetary contraction that gave rise to unconscionable interest rates and maintain the position of holders in Argentina's domestic instruments. Even if contractionary monetary policy was proven ineffective to contain inflation and harmful for output dynamics, the decision of avoiding a debt operation meant that policy design within the Program would remain attached to high interest rates as a way to sustain the perception of "market access."

82. The political use given to the Program, recognizable in its definition of success, is a second important lesson the IMF should consider. Both defenders and detractors of the Argentine 2018 SBA have suggested that it ultimately pursued political motives. In reviewing the Exceptional Access initial assessment, the Program and its four initial reviews, it becomes clear that a focus of the SBA was on how to continue to finance the policy priorities of the previous Administration. The analysis of the nature of the balance of payment crisis that Argentina was facing, together with the diagnosis and policies were thus "result oriented": the main objective was to avoid a very much needed debt restructuring operation, and the reintroduction of CFMs at all costs, while the central issue of tackling a mounting crisis was neglected. The structure of the Program was hence upside down. It was not that the most efficient way of tackling the balance of payments crisis was assessed with a view to overcoming such crisis. Rather, the real objective was to maintain the chosen policies—i.e. the "economic and political model" adopted by the incumbent Administration—at all costs, with IMF financing.

83. The final result was that IMF resources ended up servicing unsustainable debt and financing a massive capital flight. Between May 2018 and until strict exchange controls were established in October 2019, close to US$44.5 billion were disbursed. Together with the international reserves, these funds sustained a capital flight from the private sector, which reached US$45.1 billion from May 2018 to October 2019. What is more, in the context of the current international finance architecture, it is not unfounded to presume that a portion of the formation of foreign assets may have been located in tax havens, which would make matters even worse.

84. The objective of maintaining a chosen set of policies can be recognized in the underlying assumptions of the Program. That the financial markets exuberance of 2016/2018 should have been viewed as the new normal of the Argentine economy was ill-conceived in the view of the current authorities. This assumption is contrary to the structure, history and functioning of the Argentine economy. It also shows a total disregard for the lessons of the 2001 crisis. In effect, to consider that the feverish international indebtedness process is an indication of the virtuosity of a set of policies or reforms, making the "restauration of confidence" a main element of the 2018 SBA, was tantamount to doubling a bet on a model that had already proved ineffective to address the fundamental problems of the Argentine economy—and this bet neglected that portfolio investment in Argentina is not (and particularly was not in the period 2016/2019) catalytic of investment in the real economy or FDI. It is noteworthy that the policies of the SBA compounded the problem of Argentina's external position, rather than contributing to a solution. In fact, only four months after the first disbursement of US$15 billion, international reserves had returned to the previous level.

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85. The final lesson that the authorities draw from the 2018 SBA is the importance of defining the concept of Program ownership appropriately. The only relevant feature to state that the 2018 SBA had "ownership" is that it was custom tailored by the prior Administration. Yet, it did not entail a wider sense of ownership that encompassed Congress, civil society, unions, political parties, and society at large. In fact, it is clear that greater societal engagement was purposefully avoided. In the light of the relevance the IMF staff itself has given to this issue, "ownership" should not be narrowly defined. Programs have long-term implications for societies.

86. As such, the debate is not and should not be on whether a program has "too much" or "too little ownership". Rather, the focus should be on defending a more demanding notion of ownership which includes program support from Congress, civil society, unions, political parties and society at large. The current authorities have contributed to strengthen ownership in the future by submitting to the National Congress the so-called "Ley de Fortalecimiento de la Sostenibilidad de la Deuda Pública"—law that was approved by the House of Representatives on February 11th 2021, and that implied that the approval of Congress of any future agreement between the Republic of Argentina and the IMF for a program supported by the multilateral institution will be mandatory. This is a major achievement for the Argentine society, as it will prevent that in the future any government moves forward at its discretion with the signing of deals that have the potential to create dramatic consequences for generations—as the 2018 SBA did, and sets conditions that will strengthen the notion of ownership of the sovereign nation of its deals with the multilateral institution. On the other hand, it will ensure that the support that the international community provides through the IMF is not a political support to an incumbent government, but to a member nation as a whole, thus contributing to a more respected and reliable multilateralism.

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Statement by Sergio Chodos, Executive Director for Argentina
and Bernardo Lischinsky, Senior Advisor to Executive Director
December 22, 2021

We thank staff for the *Ex-Post Evaluation Report of Exceptional Access Under the 2018 Stand-By Arrangement* (EPE) report and for the efforts in preparing it. We are grateful for this opportunity to discuss the derailed 2018 SBA program. This exercise is a required building blocks to move ahead and finalize the much-needed successor Program of the derailed SBA 2018. The SBA2018 left devastating consequences for Argentina, including a more than sizeable contribution to the current balance of payments problem that Argentina faces. We are also thankful for the opportunity to engage with our colleagues in a constructive dialogue that will surely enrich us all. This discussion is of critical importance for our country for three main reasons:

i. The devastating impact of the program on the Argentinean economy and social fabric.
ii. The relevant lessons it leaves to the IMF.
iii. It gives the basis to avoid past mistakes and to build-up a successful EFF successor of the failed 2018SBA.

As part of the devastating impact of the 2018 SBA program, the GPA was negative during the years of the program. The GDP contracted in 2018 and 2019 by -2.6 percent and -2.0 percent, respectively. In both years, commercial activity decreased by -11.8 percent and industrial activity decreased by -11 percent and agriculture grew by 7.6 percent, but the latter has no incidence on employment. Resources of the Treasury were reduced from 20.36 percent in 2015 to 17.02 percent in 2018 and 18.17 percent in 2019. Unemployment in 2015 was 7.61 percent (female unemployment 8.68 percent) and raised in 2019 to 9.84 percent (female 10.7 percent).

The derailed 2018 SBA also failed to protect the most vulnerable, one of its goals. The population below the poverty line increased by 8.1 percentage points (from 27.3 percent of the population in the first semester of 2018 to 35.4 percent in the same period of 2019). Gini coefficient was 41.6 in 2014 and 42.9 in 2019, while the per capita income decreased from US$ 13,789.1 in 2015 to US$ 9,912.3 in 2019.

The Program was intended to help Argentina overcome its crisis on the basis of arguably four main pillars: restoring market confidence; protecting society's most vulnerable; strengthening the credibility of the Central Bank's inflation targeting framework; and progressively lessening the strains on the balance of payments. None of the objectives of the four-pillar Program were achieved.

More specifically, regarding pillar one, rather than restoring market confidence, Argentina's EMBI+ index grew by 264 points between the establishment of the SBA agreement and the 4th review (from 507 to 771 basis points). The credibility of the Central Bank's inflation targeting framework was further eroded, with year-on-year inflation increasing by 24 percentage points between the signing of the agreement, in June 2018 (29.9 percent) and the fourth review of the Program in July 2019 (53.9 percent). Finally, regarding pillar four, while the balance of payments improved significantly (falling from US$ -8.4 billion

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in the second quarter of 2018 to -1.8 billion in the second quarter of 2019), this was mainly due to the exchange rate adjustment and the contraction of domestic demand, which significantly reduced the demand for imports. This can hardly be qualified as success in rebuilding Argentina's international accounts, international reserves, and reducing the country´s vulnerability to pressures on the capital account.

The Argentine authorities' view is that the failure of the Program stems from the fact that it was conceived under premises that were ill founded—and that rather than pursuing the objectives that had been laid out, by financing a massive formation of foreign assets, and bailing out private creditors, the Program did not favor the welfare of the people of Argentina.

Our chair and our authorities have discussed and reviewed in depth this EPE and we have a comprehensive and holistic view on it. That it is why we believe that to fully understand what occurred with the 2018SBA, it is best to analyze the Authorities´ Views in its entirety. Therefore, we put forward below the Authorities´ Views, as part of this Buff

Authorities' Views

1. Introduction

The Argentine authorities would like to begin by thanking the authors of the *Ex-Post Evaluation Report of Exceptional Access Under the 2018 Stand-By Arrangement* (EPE), namely Odd Per Brekk, Juliana Araujo, Olivier Basevant, Henrique Chociay, Gunes Kamber, Frederic Lambert, Nan Li and Alasdair Scott. We appreciate the extensive efforts made in preparing this detailed report. We consider this evaluation of key importance to build understandings that contribute to avoid falling into economic and social destabilizing situations from failed programs in the future. While the EPE makes important efforts and progress in analyzing the fundamentals and implications of the 2018 Stand-By Arrangement (2018 SBA or "the Program"), the authorities consider that it falls short in the assessment of its flaws and biases, as well as in recognizing the significant damage that the 2018 SBA itself inflicted to the country.

The original SBA granted to Argentina was approved in June 2018 for an outstanding amount of US$50 billion (SDRs 35.379 billion), which is equivalent to about 1,110 percent of Argentina's quota at the IMF and represented the largest loan granted by the Fund to a single country in its history. The SBA was supposed to have a three-year duration and its disbursement was conditional on the fulfillment of a number of targets related to the evolution of fiscal accounts and monetary policy.

The Program had five disbursements and only four reviews (of twelve expected). The initial disbursement amounted US$15 billion. Half was earmarked for budget support, and the remaining half to strengthen the Central Bank's foreign exchange reserve position, with the expectation that this would reduce pressures on the capital account. Instead, the Program failed to restore "confidence" and it was revised. After the first review of the program in October 2018, the authorities were allowed to draw the equivalent of about US$5.7 billion. The IMF also approved an augmentation of the SBA to increase access to US$56.3 billion (about 1,277 percent of Argentina's quota).

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In December 2018, the second review was completed and allowed the authorities to draw the equivalent of an additional US$7.6 billion, bringing total purchases since June to about US$28.09 billion. In April 2019, the Fund completed the third review, and Argentina's government was able to draw the equivalent of US$10.8 billion, bringing total disbursements since June 2018 to about US$38.9 billion.

The fourth and final review was completed in July 2019, prior to Argentina's primary presidential elections. At that time, and even in a context in which the economic crisis was clearly worsening in Argentina, the country passed the review. A new disbursement of US$5.4 billion was approved, bringing total and final disbursements from June 2018 to July 2019 to US$44.1 billion.

The numbers are striking. To visualize the orders of magnitude of the loan, it is worth noting that during COVID-19 pandemic the Fund assisted 87 countries and provided debt relief for 29 including the poorest, for a total of circa US$ 160 billion. Of that, the IMF net disbursements for the entire 2020 (which includes mostly pandemic support) totaled US$ 46 billions, an amount equivalent to what was given to a single country, Argentina, during the course of a year.

The Program was intended to help Argentina overcome its crisis on the basis of arguably four main pillars: restoring market confidence; protecting society's most vulnerable; strengthening the credibility of the Central Bank's inflation targeting framework; and progressively lessening the strains on the balance of payments. None of the objectives of the four-pillar Program were achieved.

The view of the Argentine authorities is that the 2018 SBA was built on a paradigm that fundamentally stood in the way of achieving its main objectives. Thus, the Program was based on a set of flawed premises and assumptions for the Argentine case, which include the neglect of external vulnerabilities, narrow views on the inflationary process and its own drivers, the effects of contractionary monetary and fiscal policies in the macroeconomic context that prevailed, as well as an inappropriate definition of ownership of a program by a sovereign nation.

The economic philosophy that underlied the SBA followed a "one size fits all" logic, meaning (i) a set of hypotheses about how economies in general function, that has increasingly been called into question, partly as a result of a series of crises and responses to those crises that were short of the mark; and (ii) a failure to construct an economic framework that pays due regard to the specificities and idiosyncrasies of the economic, social, and political system in which economic interactions occur.

The authorities consider that the assessment and diagnosis of Argentina's problems at the moment of the design of the 2018 SBA were either incorrect—if the Program was to achieve the goals it laid out—or functional for favoring vested interests—as those that benefitted from a delayed restructuring of the public debt denominated in foreign currency or from the massive formation of foreign assets with the financing provided by the 2018 SBA. We learnt from the EPE that the IMF staff disagreed with the views of the then Argentine authorities on the need for a debt operation that restored public debt sustainability and on the need for capital flow management measures—the EPE makes clear that the Fund's decision, despite the differing views, was to support the then Argentine authorities' position that resulted in the lack of debt restructuring or capital flow management measures, and still continue the disbursements that financed a capital flight of a historic size. The discrepancy between the technical views of the staff and the decisions made by the IMF reinforce the view that the program constituted a "political loan"—a loan that meant to support the electoral chances of the incumbent Administration, neglecting the medium and long-term consequences for the people of Argentina. The ultimate consequences for the country were disastrous and will be long-lasting.

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As a member of the IMF, the Argentine authorities also consider the EPE evaluation of importance for improving the workings of the international financial institution as well. In today's world, the international community needs a strong, effective, and well-equipped IMF to face the many economic and financial challenges that lie ahead. Thus, strengthening the IMF requires a revision of the institutional culture that hinders alternative views, thoughtful and diverse opinions, that stood in the way of achieving the objectives of Argentina's SBA. A failure to do so will leave the international community ill equipped to tackle the challenges it is facing.

Looking ahead, for Argentina, the basis for moving towards sustainable long-term growth needs to include a gradual fiscal consolidation, based on the genuine growth of economic activity, which will be more robust if it is supported by the international community. Tackling inflation will also be necessary, understanding it as a multi-causal problem that cannot be addressed by monetary policy alone. Above all, carrying out policies that improve Argentina's tradable sector performance and strengthening local currency capital markets will be crucial.

In the spirit of contributing to consistent communication between the IMF and Argentine authorities and maintaining closer collaboration, the starting point for a new program should be the revision of the premises on which IMF recommendations were based. The view of the Argentine authorities expressed in the following sections is grounded on the foundational assumption that any set of policies adopted going forward should respect budgetary and external constraints to be able to guarantee a long-term sustainable recovery, which would lay the basis for the country's long-term development.

The rest of the Authorities Views chapter is organized as follows. Section 2 briefly summarizes the 2018 SBA and its consequences in the view of the authorities. Section 3 offers an analysis of the premises on which the program rested. The authorities argue that the 2018 SBA neglected Argentina's external fragility, was based on a set of narrow views on inflation and monetary policy and placed unwarranted emphasis on fiscal consolidation during a deep downturn, ignoring the key role of external sustainability and the need to resort to macro prudential measures and a timely debt restructuring. The Program also failed to recognize the limits of the "catalytic approach" to resolve a capital account crisis and the endogenous effect of the SBA on investor confidence, while insisting on structural reforms that did not respond to Argentina's needs. Other shortcomings of the Program were the neglect of governance and gender objectives that were formally included but were not implemented. Finally, the conclusion highlights the political use to which the 2018 SBA was put and identifies important lessons to be drawn from Argentina's experience for future crises.

Argentina's experience suggests that to effectively respond to the challenges the international community faces in a post-Covid world, the IMF will have to revise the premises on which its programs are based. This entails being aware of the political use to which their programs can be put, revising programs' definition of success, and reconsidering the meaning of real ownership.

2. Summary of the 2018 SBA program and its consequences

The SBA between Argentina and the IMF was signed in June 2018 as a response to a sudden stop in capital flows. The Program arguably contained four main pillars: restoring market confidence; protecting society's most vulnerable; strengthening the credibility of the Central Bank's inflation targeting framework; and progressively lessening the strains on the balance of payments.

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The Program was supposed to play a "catalytic role" and help Argentina restore confidence and regain market access to overcome its balance of payment crisis. An underlying assumption was that Argentina was only undergoing a liquidity crisis and did not have a solvency problem[1]. However, the US$50 billion provided by the IMF, initially for foreign exchange reserves support, did not stop the run on the peso. The SBA was then reinforced in September 2018 with an additional US$7 billion, and Argentina's previous Administration was allowed to draw the funds to meet its scheduled debt payments. Nevertheless, the crisis continued to worsen. In March 2019, amid fears of another run on the peso, the IMF authorized the Central Bank of Argentina to sell up to US$ 9.6 billion of its foreign-exchange reserves to help support the exchange rate.

Additional nominal anchors and measures to support economic activity (or at least prevent a further fall) were added with little success. Between March and May 2019, the authorities introduced a series of exceptional measures that intended to avoid a deeper collapse of the economy, including a freeze of utility tariffs for the remainder of 2019 and measures to contain price increases for mass consumption goods (expanded to cover 60 basic food items).

The primary elections of August 2019 manifested a strong popular discontent with the implementation of the Program and its preliminary results. For many, the motivation of the agreement had been political, and the economic results did not imply a breakthrough in the external crisis. As it became clear that the Administration in power would lose the general elections (which took place in October), and although Argentina was meeting the numerical criteria established in the Program and continued to receive a positive assessment in the performance reviews, an additional tranche that was stipulated for September 2019 (about US$5.4 billion), was never disbursed.

After the primary elections, foreign exchange purchases by the private sector gained momentum, and there was a large drop in dollar denominated deposits from the commercial banks. The authorities only then reintroduced a set of Capital Flows Management measures (CFMs), including capital controls. These required producers to surrender export proceeds on short notice and monthly purchases of foreign exchange for non-commercial purposes were restricted to US$10,000 per person (which were later reduced to US$200 per capita after the general elections).

In sum, none of the objectives of the four-pillar Program were achieved. The Program was a failure. The most clear proof of its failure is that Argentina passed all the four reviews (October 2018, December 2018, April 2019, and July 2019) under the Stand-By Arrangement and met all the fiscal targets. The shortcomings of the program did not originate in the unwillingness or incapacity of the authorities then in power to satisfy the agreed conditionalities. Rather, it was the outcomes of those policies that failed to achieve its stated objectives. Confidence and market access were never restored. Output contracted sharply and inflation increased. As the currency depreciated sharply, despite the massive official injections of foreign currencies into to the market, public debt rose substantially as a fraction of GDP.

More specifically, regarding pillar one, rather than restoring market confidence, Argentina's EMBI+ index grew by 264 points between the establishment of the agreement and the 4th review (from 507 to 771 basis points). The 2018 SBA also failed to protect the most vulnerable, with an increase of the population

[1] In practice, illiquidity and insolvency are not independent. The standard distinction between solvency and liquidity (e.g. as a criterion for bailouts) is somewhat confused: if it were unambiguous that a debtor was solvent, it would generally not face a problem of illiquidity. Illiquidity arises out of a concern for insolvency and perceptions of solvency depend in turn on the price of liquidity.

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below the poverty line by 8.1 percentage points (from 27.3% of the population in the first semester of 2018 to 35.4% in the same period of 2019). The credibility of the Central Bank's inflation targeting framework was further eroded, with year-on-year inflation increasing by 24 percentage points between the signing of the agreement, in June 2018 (29.9%) and the fourth review of the Program in July 2019 (53.9%). Finally, regarding pillar four, while the balance of payments improved significantly (falling from US$ -8.4 billion in the second quarter of 2018 to -1.8 billion in the second quarter of 2019), this was mainly due to the exchange rate adjustment and the contraction of domestic demand, which significantly reduced the demand for imports. This can hardly be qualified as success in rebuilding Argentina's international accounts, international reserves and reducing the country´s vulnerability to pressures on the capital account.

While the Program's intention was to revert expectations, conversely, its policies resulted in an IMF-financed bailout to private creditors and to investors that had been speculating over carry trade opportunities during the two years that preceded the Program, increasing Argentina's debt burden—as well as changing the composition of the debt in foreign currency—without having any positive consequences on the real economy. Between the end of 2015 and the implementation CFMs in 2019, residents' Foreign Asset Formation (FAF) reached over US$ 86 billion, a remarkable concentration of wealth in the hands of a few economic actors. A small group of 100 agents made net purchases for US$ 24.679 billion. In turn, the FAF of the 10 main buyers accounted for US$ 7,945 million.[2]

The contraction of GDP during 2018 and 2019 was -2.6% and -2%, respectively. The recession impacted commercial sectors (down 4% in 2018 and 7.8% in 2019), industry (down 4.8% in 2018 and 6.2% in 2019), construction (down 4.3% in 2019) and was only offset by the agricultural sector in 2019 (+23.2%) in the real year-on-year comparison.[3] The progressive reduction of the fiscal deficit met the targets established in the Arrangement, but brought increases in the levels of poverty and unemployment, the latter reaching double digits in the first half of 2019.

3. The Flawed Premises of the 2018 SBA Program

As stated previously, the shortcomings of the Program did not originate in the unwillingness or incapacity of the previous Administration to satisfy the agreed conditionality. All the four reviews (October 2018, December 2018, May 2019, and July 2019) were passed and the then authorities were praised for the progress, specifically on the fiscal policy front. Throughout, the IMF and Argentina's authorities maintained the view that fiscal and monetary contractions would restore financial markets' confidence. Instead, the policies adopted made the crisis worse.

The Argentine authorities' view is that the failure of the Program stems from the fact that it was conceived under premises that were ill founded—and that rather than pursuing the objectives that had been laid out, by financing a massive formation of foreign assets and bailing out private creditors the Program favored other interests in detriment of the medium-term and long-term welfare of the people of Argentina. The narrow premises on which it was based, notably the overoptimistic assumptions regarding the effects of the policy recommendations of the Program on output and inflation and the overreliance

[2] According to a report made by Central Bank of Argentina ("Mercado de cambios, deuda y formación de activos externos, 2015-2019")

[3] The agricultural sector had suffered a severe drought during 2018 that strongly impacted the production of the country's main crops (causing a 15.6% drop that year) and implied a very low comparison base that generated the increase in 2019.

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on catalytic effects, combined with a lack of a proper understanding of the balance of payments problems and of inflation in Argentina, led to an incorrect diagnosis and an inadequate policy setting.

3.1 Neglected external fragility

The 2018 SBA ignored the risks of building up external fragility. It was assumed that restoring confidence would reestablish market access, as if the poor performance of the tradable sector with increasing debt ratios would be of no consequence for capital flows, or as if fiscal adjustment would produce the preconditions for the private sector to expand tradable supply.

The idea that capital account liberalization is a desirable policy rests on foundations that are not supported by the empirical evidence and does not take into consideration the specific conditions of a country such as Argentina. The conditions under which capital account liberalization would allow consumers to smooth consumption plans and companies to access to a broader source of stable financing to diversify risks are hardly ever present. A rich literature suggests that the benefits of unregulated capital flows are limited, while the risks of currency crashes and financial crises are large. Capital account liberalization exposes emerging market economies to the volatility in international financial markets, which are significantly pro-cyclical, thereby increasing macroeconomic instability. The IMF Research Department has produced important work on the potential problems of capital account liberalization (Kose et. al., 2009), on the possible roles of capital controls (Ostry et. al., 2010; Habermeier et. al., 2011) and on the effects of capital account liberalization on income distribution (Furceri and Loungani, 2015, 2018).

In Argentina's recent economic experience, capital account liberalization favored the massive inflow of short-term speculative portfolio capital in 2016-2017 and left the economy extremely vulnerable to the event of a sudden stop, which effectively materialized in 2018. It also left the economy vulnerable to further volatility in the exchange rate, which fueled the inflationary process. The design of the SBA downplayed and dismissed the risks of capital account liberalization and the rationale for placing regulations on international financial transactions. The yardstick to measure program success was its ability to restore "confidence". But this is problematic, as it is often synonymous with the presence of short-term and highly volatile portfolio flows. Not only those flows are reversible; they are typically associated with conditions that discourage foreign direct investment, in particular when short-term flows were triggered by high domestic interest rates.

This is in line with what the IEO stressed a few years earlier, "in many crisis programs, internal devaluation itself proved hard to achieve and the desired recovery in growth and exports did not materialize (IEO, 2021; p.69). Moreover, as noted by IEO's recent report on IMF Advice on Capital flows, "in Argentina in 2015, the staff could have been more forceful in warning about risks involved in the rapid removal of capital account restrictions and the need to strengthen the macroeconomic framework to be consistent with an open capital account" (IEO, 2020: p.34).

The Program achieved nothing for Argentina other than massively aggravating a balance of payment problem. Due to its front-loaded nature, the US$ 44 billion effectively disbursed helped the Administration to sustain an open capital account during 2018 and most of 2019. By misusing IMF resources, The SBA allowed capital flight at convenient rates and the payment of unsustainable public debt, effectively postponing the adoption of capital controls and the debt restructuring process.

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3.2 Narrow views on inflation and monetary policy

The 2018 SBA was based on the conception that inflation is a purely monetary phenomenon that should therefore be curbed solely with monetary instruments. Shortly after the SBA was approved, the inflation targeting framework was abandoned. However, the exclusive reliance on monetary policy to curb inflation continued. The arrangement established a policy of zero growth of the monetary base which was endorsed by the first review of the Program in October 2019. Expectations were to achieve a quick reduction in inflation under these policies, but the policy failed to do so. In fact, what happened was exactly the opposite: inflation escalated quickly in the context of a large depreciation of the currency. Besides, the contractionary monetary policy led to sharp increases in the interest rates that in turn signalled that higher seignorage would be needed to meet the consolidated public sector's budget constraints.

The premise that zero growth of the monetary base would underpin private sector expectations left aside the specific analysis of the devaluation impact on Argentina's price dynamics and the strong inertia component that this process entails. It presumed that freezing the monetary base would translate quickly into changes in prices and that money demand would remain steady (an unreliable assumption given the uncertain environment).

The EPE clearly recognizes those flaws and sets an appropriate basis for the discussions that underpin the negotiations for a successor program: "Inflation increased during the Program, driven mostly by persistently high inflation expectations, peso depreciation, and wage increases. This suggests that the targeted reduction in inflation was not feasible: the monetary policy regimes under the SBA were not robust to the challenges of dollarization and extensive indexation, as shown by the rapid pass-through from the nominal exchange rate depreciation that followed the sudden stop." (IMF, 2021b; p.23)

The EPE also acknowledges that relevant features of the inflationary process were disregarded in favor of an oversimplified picture in which stability was expected to emanate automatically from signs of fiscal and monetary discipline that would also induce a rebound of economic activity. Nevertheless, and given the sluggish nature of inflation, price increases continued despite a zero-growth rate of the monetary base, implying a positive inflation tax without seigniorage. Real money balances fell, and the cost of credit went up, creating a further contractionary impulse that aggravated the recession.

The attempt to achieve a considerable disinflation resorting only to monetary restraint ignored the country's recent economic history and was unlikely to succeed. Inflation in contemporary Argentina has a marked inertial component that monetary restraint by itself cannot curb quickly and at low real costs. Pressures emanating from exchange rate or tariffs adjustments have significant effects on the consumer price index that can be long-lived and can be compounded by expectation effects.

During times of macroeconomic inconsistencies and coordination failures, there is a clear role for coordination policies that can help to anchor expectations around a lower rate of inflation, as it is also recognized by the EPE: "The high degree of indexation and other rigidities posed a challenge to the success of inflation targeting, by making the effects of temporary movements to the exchange rate and one-time increases in regulated prices more persistent. Income's policies—that is, tripartite agreements on wage increases, usually with quid-pro-quo agreements on taxes and administered prices, such as utility tariffs—could in principle have helped inflation expectations to settle and were evaluated by IMF staff. However, given mixed experiences in other countries and difficulties in quickly agreeing on a complex range of issues, income policies were ultimately not considered suitable" (IMF, 2021b; 39).

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Achieving stabilization is a very complex task due to the "multifaceted nature of inflation" and its reduction "requires both consistent macroeconomic policies and coordination efforts to help anchor inflation expectations" (IMF, 2021a). More precisely, it needs a combination of fiscal and monetary tools with actions that facilitate the coordination of behaviors in goods and labor markets, leading to a widespread slowdown in price increases. Income policies or exchange rate pegs cannot achieve a long-lasting stabilization in the absence of a consistent fiscal and monetary program, but fiscal and monetary restraints without other anchors could be a highly ineffective choice. The attempt to achieve a considerable disinflation resorting only to monetary restraint and seemingly expecting a smooth transition has already proven to be ineffective.

3.3 Neglected pro-cyclical effects of fiscal consolidation

Fiscal and monetary contraction were supposed to restore confidence, but instead reduced aggregate demand and forced many indebted firms into bankruptcy. This, in turn, led to a severe economic contraction, worsening debt sustainability prospects, undermining social conditions, and increasing uncertainty. The SBA effectively worsened market expectations and increased risk premiums.

The contractionary effects of fiscal policy were compounded by contractionary effects of depreciation and inflation. The Program established a floating exchange rate system that was supposed to act as a shock absorber. However, the depreciation of the currency increased the burden of the debt measured in foreign currency, and fueled inflation. In a nutshell, the 2018 SBA assumptions placed unwarranted emphasis on fiscal contraction in the midst of a deep downturn, ignoring the key role of external sustainability and the macroeconomic nature of inflation for the Argentine case, and refusing to introduce CFMs and conduct a debt restructuring.

According to the EPE, "Achieving the originally targeted debt level of 53 percent of GDP by 2023 would have required more than doubling the size of fiscal adjustment planned at the time of the First Review" (IMF, 2021b; p. 33). It is worrisome that the thought remains that fiscal tightening could have been implemented even more strongly without creating a counterproductive contraction and negative socioeconomic consequences. Besides, in the Argentine economy, with widespread poverty and low access to credit, fiscal multipliers are likely to be higher, entailing larger contractionary effects of fiscal austerity.

The 2018 Program assumed that there is such a thing as "expansionary fiscal contraction" in a recession, ignoring that this is highly unlikely (see for instance Guajardo et. al., 2011) and practically impossible with high capital mobility and unsustainable debt burdens. The contractionary stance of fiscal policy continued even as the crisis unfolded, without any acknowledgement of its negative effects. This suggests a rigid attachment to the flawed premises of the Program and echoes the misguided policy prescriptions of the IMF in Argentina during the late ´90s, which led to a protracted recession and the worst economic and social crisis of the country's history in 2001. When attachment to this paradigm is inflexible, no evidence is enough to show that fiscal contractions are contractionary; a spiraling recession is interpreted as an indication that fiscal adjustment was not large enough.

Ultimately, a successor program for refinancing the IMF loan should account for the premise that the stabilization of the economy *requires* that the economy continues along a path of recovery—which in turn requires both a countercyclical fiscal policy and a recovery of real wages. The reduction of the fiscal deficit

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as a proportion of GDP will need to be done in a way that does not jeopardize economic recovery—or else it will not be sustainable.

Looking ahead, the unwinding of some aspects of the current CFMs, which if properly done would improve investment and growth prospects, must be consistent with the pace at which the stock of foreign exchange reserves is rebuilt. Not all regulations should be avoided: macroprudential policies should be a permanent feature of a macroeconomic framework that aims to minimize the destabilizing effects of short-term portfolio capital flows and, in the current set-up, prevents the dilapidations of foreign exchange.

As stated by the EPE, fiscal consolidation was doomed to fail due to the lack of public debt sustainability: "without a debt reprofiling early on (i.e., at the time of the First Review) to lower the large refinancing needs of the short maturity debt, the scope for fiscal policy to address debt vulnerabilities and bolster confidence appears, ex post, very limited, especially given that the low-quality fiscal measures available were unlikely to have sustained effects. That said, Argentina's case is consistent with the general tendency to delay debt operations, even when ultimately unavoidable" (IMF, 2021b; p. 33).

In line with the EPE, a debt restructuring operation and the introduction of capital controls came in very late. These observations are important stepping stones that can help to build a correct diagnosis on the nature of the failure of the Program. Moreover, a solid understanding of inflation, the role of CFMs and macroprudential policies and the need for a debt operation, probably could have prevented Argentina from resorting to the Fund in the first place.

3.3.1 Regressive tax reform

The 2018 SBA was approved a few months after the National Congress passed a tax reform (December 2017) which, together with other tax measures implemented since 2016, significantly reduced the progressivity of the tax system and undermined its collection capacity.

In 2016, a gradual reduction of personal property tax rates was established, the scheme of increasing marginal rates was eliminated and the application of the tax was suspended for three years for people who did not enter the 2016 Tax Amnesty Law. It is worth to consider that in Argentina approximately 750,000 taxpayers are subject to Personal Property Tax, which represents the 2.5% more wealthy of the Economically Active Population.

Another initiative in the same direction was the reduction in the corporate income tax rates, which fell from 35% in 2017 to 30% in 2019 (it would have continued to fall to 25% in 2020 but this reduction was suspended by the introduction of Social Solidarity Law in December 2019).

As a result, the share of progressive taxes on total tax revenues was significantly reduced. Taxes where revenues fell the most between 2015 and 2019 were those that tax income, profits and capital gains (from 6.46% to 5.14% of GPD) and property (from 0.32 to 0.15% of GDP).

The tax reform implemented by the then Administration was intended to improve the primary balance through lower tax rates, under the assumption that they would promote greater investment and production, and therefore greater tax revenues. This did not happen and instead caused greater underfinancing, which impacted on the need to reduce public expenses even more to achieve the fiscal primary balance targets. This need was partly covered by the application of export taxes to all goods and

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services, a highly distorting measure. In fact, the generalized reductions in tax rates plus the economic crisis produced a fall in the resources of the Treasury from 20.36% in 2015 to 17.02% and 18.17% in 2018 and 2019 respectively.

3.4 Over-optimism and the limits of the "catalytic view"

With the 2018 SBA, financial markets' confidence was never restored. The strong conviction that the "catalytic approach" was reliable to deal with Argentina's capital account crisis, regardless of the circumstances proved to be misconceived. The IMF Independent Evaluation Office (IEO) report on "The IMF and Argentina, 1991–2001" had already recognized limitations to the underlying view of the SBA: "The catalytic approach to the resolution of a capital account crisis works only under quite stringent conditions. When there are well founded concerns over debt and exchange rate sustainability, it is unreasonable to expect a voluntary reversal of capital flows" (IEO, 2018; p. 6).

A second misconception had to do with the view of the endogenous effect of the agreement itself on investor confidence. Since debt with the IMF is generally perceived to be preferred debt, private creditors may perceive the IMF support as increasing their risk rather than reducing it. This is especially problematic when a program lacks political consensus. The Argentine 2018 SBA was negotiated without any efforts to involve the society in a broad social discussion that would create knowledge about the consequences that such a program would entail. The largest loan in the history of the IMF was decided in a rush and without any discussion in the National Congress: 77 representatives rejected the agreement and even sent a letter criticizing the Program.

IMF staff were unable to fully consider certain measures or policies, and ended up determining a set of measures to be implemented that did not fit the Program's purpose. This, in turn, closed off valuable policy space and did not allow resources to be invested in achieving the four pillars of the SBA.

3.5 Structural reforms

The SBA between Argentina and the IMF also failed to restore financial markets' confidence, and the sharp contraction in economic activity undermined public debt sustainability. However, the IMF maintains that if the previous Administration would have adopted additional "market-friendly" structural policies and a stronger fiscal consolidation, the Program would not have failed. These so-called "structural reforms" include a whole set of policies that seek to boost the supply side, by removing obstacles to the functioning of goods and factor markets. According to this stance, to minimize the negative impacts on those segments of the population that cannot participate from the benefits of the reformed economy, a social safety net should be provided.

This suggestion reflects an underlying ideological view under which market economies should "aspire" to a structure that gets as close as possible to the paradigm of perfect markets—and leaves a role for the state to correct the so-called "market failures", often just of static nature under this view—one that ignores that markets do not work in a vacuum but rather in environment that are shaped by power.
The experience drawn from the long relationship between Argentina and the IMF suggests that there is no direct link between the implementation of IMF recommendations and the exit of crises. While certain structural reforms may have some positive effects, the overall benefits of structural reforms that our country undertook in the past were overstated and their risks minimized—at the end, what actually happened in previous programs, as in the 2001 crisis and the 2018 SBA, was a massive transfer of risk to the most vulnerable.

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A healthy economy is not necessarily a “reformed” economy under what has been the conventional IMF criterion in the last decades. The accumulation of human capital (associated for instance with spending in health and education), the expansion of trade, improved infrastructure, and financial deepening, which can clearly have a more direct and positive effect on growth and social conditions, can be achieved in a myriad of ways, with very different degrees of public-sector involvement, but hardly under the preconceptions stipulated in the Agreement and leaving aside the specific needs associated with Argentina's economic and social structure.

In our view, the ultimate answer to social problems is not transfer schemes, but job creation through inclusive and sustainable economic growth. To achieve that goal, Argentina needs to implement tailor made initiatives and policies that address the particularities of our social and economic structure.

First, Argentina needs to expand its supply of tradable goods. In an economy that lacks an adequate growth in the supply of tradable goods, its overall macroeconomic performance cannot be satisfactory. To accelerate economic growth while improving social conditions, Argentina needs to diversify its productive system. This requires a higher rate of investment in critical activities to once and for all overcome the external constraint that periodically suffocates economic growth. Only with an economic structure that leaves behind the external constraint, generates enough foreign exchange and has market access, a steady growth dynamic with creation of formal employment for the vast majority can materialize.

In order to develop those sectors, additional investment should be stimulated via the combination of correct incentives, including those created by productive policies since the correct incentives may not be fully provided by free markets, and macroeconomic stability. Profit rates between sectors do not adequately reflect the social benefits of the different economic activities, and not all the sectors that Argentina needs can progress without support.

Economic development involves producing new goods with new technologies, as well as transferring resources across sectors. This process does not take place automatically and as a result of market forces alone. The productive policies that help critical activities emerge and grow are of utmost importance. The question is not whether governments should engage in productive policy, but how to do it right.

A deep and stable domestic currency capital market is also critical for development. Overcoming the limited existence of profitable investment options in domestic currency contributes to avoid channeling excess liquidity to exert pressure on the exchange rate. The development of a domestic currency capital market is hence necessary to reduce the demand for foreign currency; moreover, a well-functioning, deep domestic capital market will also contribute to increase domestic savings, which are critical to promote economic growth while minimizing volatility.

Both the reestablishment of the local currency debt market and the widening of the range of options in pesos offered to domestic investors are essential for addressing the problem of currency mismatches and foster domestic investment and sustainable growth.

3.6 Lip service to governance and gender equity policies

At the time of presenting the agreement to the Argentine society and the world, a series of conditions aimed at improving institutions and protecting the most vulnerable were boasted. Particularly, the issues

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of governance and gender equity were given particular importance. However, the view of the Argentine authorities' today is that these banners were raised with the political objective of generating consensus while in practice no concrete progress was made.

3.6.1. Absence of governance improvements

Improvements in governance were one of the crucial elements posited when making the case for exceptional access criteria. In this regard, the staff considered that "The administration is committed to prudent policy making, transparent government, and a strong governance framework. Staff deems the administration's institutional capacity and technical competence to be strong and fully able to deliver the core elements of the expected reform program." (IMF, 2018; p. 32). However, little progress in terms of governance during the 2018 SBA was made: the work carried out in those years by the Financial Intelligence Unit (FIU) and the General Justice Inspection (GJI), two institutions dedicated to improving governance in legal and financial terms, did not generate any substantial change in governance.

The role of the FIU was expected to be strengthened and to be endowed with more capacity to foster parliamentary initiatives oriented to rearrange the funds' administrative freeze and other assets identified, in a context of suspicious money laundering cases as well as to adapt the Unit's functions to the best practices mandated by FATF. However, no legislation was introduced in that regard to the National Congress.

The FIU lacked initiative in critical areas. It abandoned the pursuit of advancing on several judicial cases initiated prior to 2016 and had a scarce exercise of its power to file complaints (the paralysis in money laundering cases of an important internationally sanctioned financial institution is worth mentioning).). The intensity of supervision on registered regulated entities was reduced, particularly with respect to the financial sector.

As for the IGJ, during the implementation of the agreement, all guidelines aimed at exercising control and oversight functions over companies, trusts and legal entities under the agency's jurisdiction were deregulated. The main general Resolutions issued by the agency during this period had a common denominator: they eliminated or restricted all the control mechanisms that the IGJ had implemented over local companies, foreign companies and trusts. This prevented the agency from having an effective policy to know the companies or trusts operating in the City of Buenos Aires. Compliance with AML regulations was only formal and was not consistent with the best practices in the field.

Related to anticorruption policies, no actions were carried out to disseminate, implement or control actions. There was no registry or validation of compliance programs, no training, permanent communication or empowerment policies, and no serious investigation of conflicts of interest related to public officials. A participatory process of preparation of a new law on Ethics in the Public Service was carried out, but it did not receive any impulse or political support to reach parliamentary treatment. The professed objectives of the Anticorruption Office were denied by its political superiors.

These facts highlight the lack of action and policies aimed at improving governance conditions during the period under analysis. On the contrary, lack of action and deregulation were the common denominator at this policy level.

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3.6.2. Absence of gender equity improvements

Another relevant condition of the 2018 SBA laid in protecting the most vulnerable and supporting gender equity. Unfortunately, neither of these two aspects were seriously taken into account in the implementation of public policies during the years of the Program.

In a nutshell, gender equality policies were considered under the same umbrella as the social protection network and poverty, and not as a crosscutting axis of all public policies implemented. In this sense, social protection and gender equity were used as political flagships, but the Program and its results did not reflect an effective study, analysis and implementation of the necessary measures to improve these aspects. During the implementation period of the 2018 SBA, there were no studies on the diagnosis of the situation faced by women, the differential impact the crisis had on gendered lines, nor was there a strategy for implementing policies to improve women's situation or monitor actions.

Even under this narrow understanding of what gender equity entails, the 2018 Program did not achieve any of the gender equity and social security objectives that it announced and promised. The quantitative criteria, goals, and consultation clauses did not consider a gender perspective: there were no specific indicators within the dimension of "spending on social assistance", contemplated in the axis of evaluation criteria of fiscal objectives. There was also no data or diagnosis that served as an initial reference point. Likewise, there were no compliance indicators for gender goals, nor were there any monitoring indicators. Although the Memorandum contemplated some commitments regarding gender equity, they lacked targets and monitoring indicators for this vital issue.

These aspects reveal a political use of fundamental considerations for Argentine society without them being translated into concrete public policies. While lip service was paid to governance reform and gender equity, no real effort was made to turn these ideals into reality. During the period of implementation of the 2018 SBA, no progress was made in terms of governance improvements, no policies with a cross-cutting gender perspective were implemented, and no real gender equity pursued.

4. Conclusion

Learning from Argentina's experience with its 2018 SBA is crucial to strengthen the international community's readiness to effectively tackle the challenges the Covid-19 pandemic brought about. Argentina's authorities are convinced that the IMF would be most effective in managing the current international crisis if it were to revise the broad principles upon which its programs are often based and address the mismatch between program recommendations and developing countries' diverse realities. With the aim of further strengthening the close collaboration between Argentina and the Fund and the hope to avoid history repeating itself, Argentina's authorities conclude by highlighting central lessons to be considered in the revision of the 2018 SBA.

A proper revision of the frameworks of IMF-supported programs requires an introspective analysis of the definition of success. Success is often qualified as the recovery of market access, as if "markets knew it all"—if that was the case, we should not observe waves of disappointments in market expectations as often as it happens. Market access is certainly *one* dimension of Program success, as the IMF is not supposed to be an institution that provides eternal financing, but one that should be dealt with care when the demands from financial markets are in contradiction with what would lead to success from a more comprehensive social and economic viewpoint.

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In the 2018 SBA, compliance with the "market access" requirement was understood to be met if significant holdings of local paper were in the hands of international investors. This is tantamount to a travesty, in that a feature of Argentina's debt structure that was (and still is) a clear source of instability, namely, the domestic currency debt in the hands of portfolio investors that had been exploiting carry trade opportunities, was reputed to be a tranquilizing source of stability (an indicator of "access")—and, as stated previously, a significant portion of the 2018 SBA financing went to finance the partial flight of these holders.

In this regard, and while it is not the subject of this evaluation, compliance with Article VI of the IMF Articles of Agreement should be investigated. In the view of the authorities, a thorough assessment of whether the SBA policy recommendations were not in clash with the mandates of the Institution is in necessary to ensure a correct functioning of the institution.

Given that Argentina had lost market access by May 2018, and has not regained it since, even under the premises of the Program, the results of the policies and of each of the four reviews, should have diagnosed a clear failure that should have warranted a change in strategy and policies. Yet, this did not occur. Each of the reviews repeated the assessment that the (failed) policies would turn into "successful" ones.

The failure to admit the Program's ineffectiveness in tackling Argentina's real problems, in turn, served the purpose of tacitly justifying the unwarranted monetary contraction that gave rise to unconscionable interest rates and maintain the position of holders in Argentina's domestic instruments. Even if contractionary monetary policy was proven ineffective to contain inflation and harmful for output dynamics, the decision of avoiding a debt operation meant that policy design within the Program would remain attached to high interest rates as a way to sustain the perception of "market access."

The political use given to the Program, recognizable in its definition of success, is a second important lesson the IMF should consider. Both defenders and detractors of the Argentine 2018 SBA have suggested that it ultimately pursued political motives. In reviewing the Exceptional Access initial assessment, the Program and its four initial reviews, it becomes clear that a focus of the SBA was on how to continue to finance the policy priorities of the previous Administration. The analysis of the nature of the balance of payment crisis that Argentina was facing, together with the diagnosis and policies were thus "result oriented": the main objective was to avoid a very much needed debt restructuring operation, and the reintroduction of CFMs at all costs, while the central issue of tackling a mounting crisis was neglected. The structure of the Program was hence upside down. It was not that the most efficient way of tackling the balance of payments crisis was assessed with a view to overcoming such crisis. Rather, the real objective was to maintain the chosen policies—i.e. the "economic and political model" adopted by the incumbent Administration—at all costs, with IMF financing.

The final result was that IMF resources ended up servicing unsustainable debt and financing a massive capital flight. Between May 2018 and until strict exchange controls were established in October 2019, close to US$ 44.5 billion were disbursed. Together with the international reserves, these funds sustained a capital flight from the private sector, which reached US$ 45.1 billion from May 2018 to October 2019. What is more, in the context of the current international finance architecture, it is not unfounded to presume that a portion of the formation of foreign assets may have been located in tax havens, which would make matters even worse.

The objective of maintaining a chosen set of policies can be recognized in the underlying assumptions of the Program. That the financial markets exuberance of 2016/2018 should have been viewed as the new

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normal of the Argentine economy was ill-conceived in the view of the current authorities. This assumption is contrary to the structure, history and functioning of the Argentine economy. It also shows a total disregard for the lessons of the 2001 crisis. In effect, to consider that the feverish international indebtedness process is an indication of the virtuosity of a set of policies or reforms, making the "restauration of confidence" a main element of the 2018 SBA, was tantamount to doubling a bet on a model that had already proved ineffective to address the fundamental problems of the Argentine economy—and this bet neglected that portfolio investment in Argentina is not (and particularly was not in the period 2016/2019) catalytic of investment in the real economy or FDI. It is noteworthy that the policies of the SBA compounded the problem of Argentina's external position, rather than contributing to a solution. In fact, only four months after the first disbursement of US$15 billion, international reserves had returned to the previous level.

The final lesson that the authorities draw from the 2018 SBA is the importance of defining the concept of Program ownership appropriately. The only relevant feature to state that the 2018 SBA had "ownership" is that it was custom tailored by the prior Administration. Yet, it did not entail a wider sense of ownership that encompassed Congress, civil society, unions, political parties, and society at large. In fact, it is clear that greater societal engagement was purposefully avoided. In the light of the relevance the IMF staff itself has given to this issue, "ownership" should not be narrowly defined. Programs have long-term implications for societies.

As such, the debate is not and should not be on whether a program has "too much" or "too little ownership". Rather, the focus should be on defending a more demanding notion of ownership which includes program support from Congress, civil society, unions, political parties and society at large. The current authorities have contributed to strengthen ownership in the future by submitting to the National Congress the so-called "Ley de Fortalecimiento de la Sostenibilidad de la Deuda Pública"—law that was approved by the House of Representatives on February 11th 2021, and that implied that the approval of Congress of any future agreement between the Republic of Argentina and the IMF for a program supported by the multilateral institution will be mandatory. This is a major achievement for the Argentine society, as it will prevent that in the future any government moves forward at its discretion with the signing of deals that have the potential to create dramatic consequences for generations—as the 2018 SBA did, and sets conditions that will strengthen the notion of ownership of the sovereign nation of its deals with the multilateral institution. On the other hand, it will ensure that the support that the international community provides through the IMF is not a political support to an incumbent government, but to a member nation as a whole, thus contributing to a more respected and reliable multilateralism.

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