International Monetary Fund

Argentina and the IMF

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

Press Release:
IMF Executive Board Completes First Review Under Argentina's Stand-Arrangement, Approves US$5.7 Billion Disbursement
October 26, 2018

October 17, 2018

> The following item is a Letter of Intent of the government of Argentina, which describes the policies that Argentina intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Argentina, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Country's Policy Intentions Documents

Letter of Intent

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

October 17, 2018

Dear Madame Lagarde:

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

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

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

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

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

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

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

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

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

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

Yours sincerely,

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

Attachments (2)

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

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

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

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

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

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

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

- To redesign the Central Bank's policy strategy and reinforce its institutional framework to ensure that inflation falls to single digits by 2021.

- To lessen the strains on our balance of payments by allowing our exchange rate to operate flexibly as a shock absorber, increasing our international reserves, lowering our current account deficit, and reducing our external financing needs.

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

These objectives will be achieved through the following policies.

Fiscal Policy

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

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

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

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

Within the 2019 Budget, our fiscal measures include:

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

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

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

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

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

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

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

Protecting Society's Most Vulnerable

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

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

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

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

Supporting Gender Equity

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

Monetary Policy

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

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

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

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

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

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

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

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

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

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

Debt Management

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

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

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

Banking Sector

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

The Economic Outlook

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

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

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

Supply Side Policies

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

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

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

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

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

Meeting the Government's Financing Needs

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

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

Table 1. Argentina: Schedule of Reviews and Purchases

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

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

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

(In billions of Argentine pesos unless otherwise stated)

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

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

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

(In billions of Argentine pesos unless otherwise stated)

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

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

Table 3. Argentina: Structural Program Conditionality

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

Attachment II. Technical Memorandum of Understanding

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

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

Table 1. Argentina: Program Exchange Rates

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

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

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

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

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

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

Cumulative Floor of the Federal Government Primary Balance

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

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

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

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

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

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

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

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

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

Floor on Federal Government Spending on Social Assistance Programs

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

---

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

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

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

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

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

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

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

Table 2. Argentina: Social Spending Subject to Adverse Economic

(program baseline)

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

1/ Cumulative from January 1 of each year.

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

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

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

1/ Cumulative from January 1 of each year.

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

Ceiling on Federal Government Accumulation of Domestic Arrears

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

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

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

Federal Government Non-Accumulation of External Debt Payments Arrears

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

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

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

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

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

---

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

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

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

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

Floor on the Change in Non-Borrowed Net International Reserves

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

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

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

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

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

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

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

29. **Adjustors**:

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

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

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

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

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

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

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

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

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

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

Table 5. Argentina: Proceeds from FX Debt Issuances

(Baseline Projection)

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

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

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

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

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

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

Continuous Stop to BCRA's Financing of the Government

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

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

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

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

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

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

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

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

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

Ceiling on Central Bank Credit to the Government

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

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

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

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

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

Cumulative Floor on Primary Balance of the General Government

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

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

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

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

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

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

PERFORMANCE CRITERION ON THE INTRODUCTION OR MODIFICATION OF MULTIPLE CURRENCY PRACTICES

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

FX INTERVENTION

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

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

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

OTHER INFORMATION REQUIREMENTS

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

A. Daily

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

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

B. Weekly

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

C. Monthly

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

- Deposits in the banking system: current accounts, savings and time deposits within six weeks after month end. Average monthly interest rates on loans and deposits within two weeks of month end; weighted average deposit and loan rates within six weeks after month end.
- Balance sheets of other financial corporations (non-deposit taking), including holdings of federal and provincial debt and of the BCRA instruments within one month after month end.
- Data on the total loans value of all new federal government-funded public private partnerships.