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ARGENTINA

SUPPORT PROGRAM TO IMPROVE FISCAL MANAGEMENT AND ECONOMIC RECOVERY

(AR-L1347)

LOAN AND REFORMULATION PROPOSAL

4338/OC-RG (RG-L1116), 4841-OC-AR (AR-L1307

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ABBREVIATIONS

BCRA	Central Bank of the Argentine Republic
CAF	Development Bank of Latin America
CCLIP	Conditional Credit Line for Investment Projects
DNIP	Dirección Nacional de Inversión Pública [National Public Investment Office]
EFF	Extended Fund Facility
GDP	Gross domestic product
IMF	International Monetary Fund
PIMA	Public Investment Management Assessment
SDL	Special Development Lending
SDRs	Special Drawing Rights
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]
SOFR	Secured Overnight Financing Rate
WEO	World Economic Outlook

PROGRAM SUMMARY

ARGENTINA
SUPPORT PROGRAM TO IMPROVE FISCAL MANAGEMENT AND ECONOMIC RECOVERYSUPPORT PROGRAM TO IMPROVE FISCAL MANAGEMENT AND ECONOMIC RECOVERY
(AR-L1347)

Financial Terms and Conditions				
Borrower:			**Special Development Lending**[b]	
Argentine Republic			**Amortization period:**	7 years
Executing agency:			**Disbursement period:**	1 year
Ministry of the Economy			**Grace period:**	3 years
Source	**Amount (US$)**	**%**	**Interest rate:**	SOFR-based, plus 1.15%, plus the IDB variable funding margin for Ordinary Capital resources
IDB (Ordinary Capital):	700 million	100	**Front-end fee:**	1% of the principal amount on the loan, payable within 30 days after the contract's entry into effect
			Commitment fee:[c]	0.75%
Total:	700 million	100	**Weighted average life:**	5 years
			Approval currency:	U.S. dollar

Program at a Glance
Program objective/description: The general development objective of the program is to support economic and social recovery in Argentina. The specific development objectives are to: (i) strengthen public finances; (ii) contribute to price stability; and (iii) strengthen the balance of payments. The program is structured as Special Development Lending (SDL) and is aligned with the Extended Fund Facility (EFF) approved by the International Monetary Fund (IMF) on 25 March 2022.
Special contractual conditions precedent to the disbursement of the loan proceeds: The sole disbursement of the loan proceeds will be subject to the provisions established in the corresponding loan contract between the borrower and the Bank, including the requirement that the IMF has disbursed the funds corresponding to the second review of the EFF, and fulfillment of the policy conditions set out in the policy matrix (Annex II) and the policy letter (paragraph 4.2).
Exceptions to Bank policies: None.

Strategic Alignment					
Challenges:[d]	SI ☐		PI ☐		EI ☐
Crosscutting themes:[e]	GE ☐ and	DI ☐	CC ☐ and	ES ☐	IC ☒

(a) Up to US$500 million of the total financing will be provided from the Bank's Ordinary Capital resources, above the regular lending program approved in the Long-term Financial Projections – 2022 (document FN-736-2), and up to US$200 million will come from the reallocation of uncommitted funds from the following loans: (i) Loan 4338/OC-RG (US$130 million); and (ii) Loan 4841/OC-AR (US$70 million), under the additional financing mechanism established in document AB-3134 (see paragraph 2.1 and paragraphs 2.4 through 2.8).

(b) Under the Special Development Lending category (document AB-3134) and its Operational Guidelines (document GN-2031-17), this operation will be documented under the Flexible Financing Facility with limited debt management options. The borrower has the option of requesting currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests. The applicable amortization schedule for this loan will consist of equal, semiannual installments that begin to accrue at the end of the grace period.

(c) In accordance with document AB-3431, within 60 days of the loan contract signature date, the borrower will pay a commitment fee, at the regular Ordinary Capital commitment fee rate, on the redirected balance of loan 4841/OC-AR. Within 60 days of the loan contract signature date, a 0.75% commitment fee will apply to the entire loan amount.

(d) SI (Social Inclusion and Equality); PI (Productivity and Integration); and EI (Economic Integration).

(e) GE (Gender Equity) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 Argentina is facing extraordinary economic and social challenges, including elevated poverty levels, high public debt, persistently high inflation, declining international reserves, and limited access to financial markets. The structural challenges identified were exacerbated by the 2018-2019 crisis and, subsequently, by the coronavirus disease (COVID-19) pandemic. Sustainable growth will necessitate the reprioritization of fiscal policy, improved efficiency and compliance with the tax system, and the structure and quality of public spending, with a view to protecting assistance to the most underserved sectors. Argentina is facing long-standing structural vulnerabilities, including improvement of the investment climate, transparency and efficiency of government measures, and the development of local financial markets. This will also help to gradually reduce monetary financing of the deficit.[1] Reducing inflation will require comprehensive actions on various fronts as mentioned above, such as fiscal policy, financing policy, and a monetary policy framework that increases demand for pesos. To rebuild reserves to a sustainable level, a competitive exchange rate and sustained trade surpluses must also be maintained. Facing the aforementioned economic and social challenges, which have been exacerbated by the implications of the war in Ukraine, will require balance of payments and budget support that was committed by the International Monetary Fund (IMF) on 25 March 2022 for a total of Arg$31.914 billion (US$44 billion) in Special Drawing Rights (SDRs). The program will help address debt maturities (US$2.726 billion as of October 2021[2]) and prevent a default situation that would complicate the transition to a sustainable growth path. Accordingly, the Argentine Government has requested a Special Development Lending (SDL) program in the amount of US$700 million.[3]

1.2 **Macroeconomic situation.** Argentina's economy has been characterized in recent years by low growth and rising debt. From 2015 to 2019, Argentina experienced an economic slowdown of 0.3% per year on average, while its Southern Cone counterparts saw average growth of 1.5%. This is primarily due to the 12.8% and 8.3% average contraction of the manufacturing and trade sectors, respectively, which together accounted for 35% of the country's added value in the 2015-2019 period.[4] Although the considerable depreciation of the exchange rate has driven exports, which rose by an annual average of 3%, investment fell by 2.6% and private consumption by 0.3% over the same period. The COVID-19 pandemic had a significant impact on the economy, causing GDP to decline by 9.9% in 2020. However, a return to growth was observed in 2021, largely due to the recovery of sectors such as manufacturing, construction, and services (the ones most affected by the pandemic), which led GDP to increase by 10.4% (see Figure 1). On the demand side, growth has been driven by

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[1] Since August 2022, there has been no monetary financing, and thus far in 2022, it has amounted to one third of peso-denominated Treasury financing, while in 2021 it amounted to two thirds of financing needs.

[2] Repayment of the Stand-By Arrangement to the IMF.

[3] Includes up to US$200 million by redirecting uncommitted funds from two loans.

[4] National Statistics and Census Institute (2022). Annual average for the 2015-2019 period.

investment (which grew at an annual rate of 33.4%), while the recovery in public and private consumption has been slower. The monthly Economic Activity Estimator Index (EMAE) projects 6.5% year-on-year growth for the second half of 2022. During the first quarter of the year, Argentina's economy grew by 6.3% with respect to the same period of the previous year, and GDP growth is projected to reach 4% in 2022. In the first quarter of 2022, the real growth rate was 6% compared with the first quarter of 2021. This growth has been partially driven by demand for investment, the consumption of durable goods, and the effect of subsidized lines of credit for consumers and companies.

1.3 Inflation in Argentina has been persistently high, with significant impacts on real salaries. During the pandemic, unemployment, poverty, and inequality rose considerably. The country has seen double-digit inflation since 2012, which reached a high of 71% in July 2022.[5] In real terms, interest rates in the country have been consistently negative since end-2019. Due to the pandemic and the disruption to global demand, inflation fell in most countries of the region in 2020, including in Argentina, although prices rose and remained high, closing the year with a 36.1% increase. In 2021, inflation began trending upward once again as a result of money issuance to finance the fiscal deficit, rising global commodity prices, and the readjustment in relative prices of goods and services during the post-pandemic transition. Since July 2022, both the Ministry of the Economy and the Central Bank of the Argentine Republic (BCRA) have taken steps to bring real interest rates into positive territory. Accordingly the 28-day "Leliq" rate currently stands at 69.5% (up 1,750 basis points since end-July), while the minimum retail fixed rate is also 69.5%. After the latest auction, the short-term (90-day) treasury bill rate stood at 75.3% (nominal annual rate). The economic slowdown caused by the pandemic had a direct negative impact on employment, especially the informal sector, which was paralyzed during the pandemic. Moreover, inactivity increased, with the activity rate falling from 47.2% in the final quarter of 2019, to 45% at year-end 2020, reaching an unparalleled low of 38.4% in the second quarter of 2020. The unemployment rate rose from 8.9% in the last quarter of 2019 to 11% in the last quarter of 2020. This increase in inactivity and unemployment, coupled with the deterioration of income in real terms, were reflected by rising poverty, which increased from 25.7% in 2017 to 42% in the second half of 2020. The sectors most affected by the pandemic were mainly those requiring low-skilled labor, as well as informal employment activities, which heightened social inequalities. Nevertheless, labor market indicators improved markedly during 2021 and into the first quarter of 2022. The unemployment rate had dropped to 7%, which was its lowest level in the last five years. The poverty rate had decreased to just below 37.3%[6] in the second half of 2021, but remained above its prepandemic level. Inequality improved during the same period, with a Gini coefficient of 0.413 in the final quarter of 2021, its lowest level since 2017.

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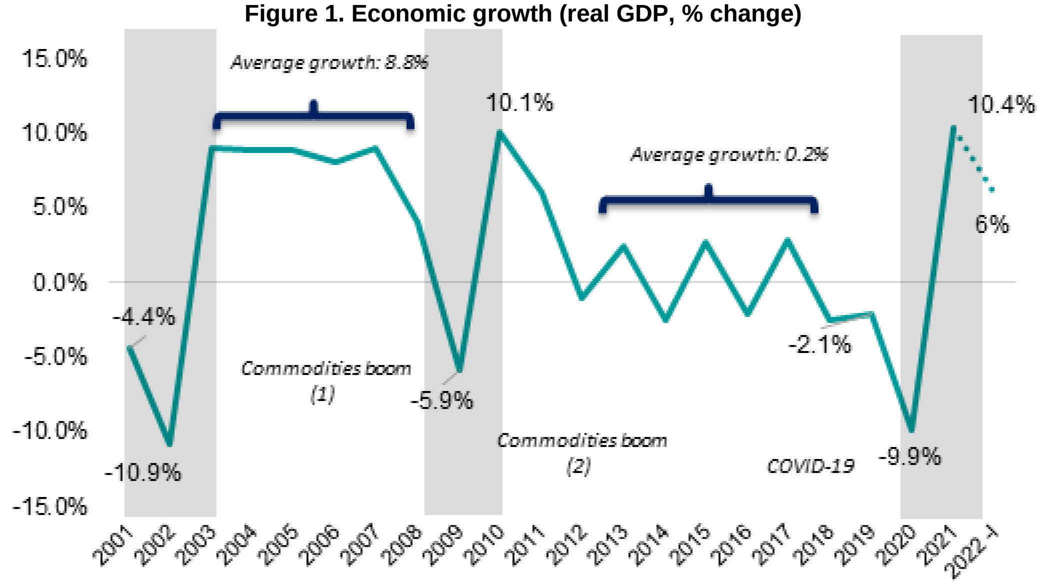
[5] Source: Ministry of the Economy.

[6] National Institute of Statistics and Census of Argentina (2022).

Figure 1. Economic growth (real GDP, % change)



Sources: IDB (Institutions for Development Sector, Fiscal Management Division), with data from the October 2021 World Economic Outlook (WEO).

1.4 **Fiscal context.** In the years prior to the pandemic (from 2017 to 2019), the primary balance stabilized due to significant adjustments to current expenditure. Since 2020, debt service payments and the package of assistance measures to address the COVID-19 crisis led to fiscal pressures that limited the fiscal consolidation process. Over the five years prior to the pandemic, the primary balance had corrected by 4 percentage points, reaching -0.4% of GDP in 2019. However, rising public debt levels (with debt service increasing by 2.4 percentage points) limited the adjustment to the fiscal balance. The renegotiation of the debt in 2020 made it possible to lower interest payments by 1.6 percentage points of GDP. In 2021, the reduction in interest payments amounted to 0.6 of a percentage point of GDP.[7] In 2022, the debt as a percentage of GDP stood at approximately 80% of GDP.[8]

1.5 Because tax collection has mainly been procyclical in Argentina, the economic slowdown has led to a decrease in revenue. Aside from a brief period of economic recovery in 2017, when Argentina's economy grew by 2.8% of GDP, tax revenue experienced a steady decline from 35.6% of GDP in 2015 to 34.4% of GDP in 2019. Meanwhile, primary public spending decreased as a result of reductions in all components, from 39.8% of GDP in 2015 to 33.1% in 2019. During that period, primary expenditure in Argentina fell by 6.1 percentage points, including a reduction of 5 percentage points in current expenditure and an adjustment of 1 percentage point of GDP to public investment. The government's response to the COVID-19 emergency was reflected by an increase in primary public expenditure to 37.9% of GDP in 2020, an increase of 5.2 percentage

7 Source: April 2022 WEO.

8 Source: Ministry of Economy of Argentina.

points in current expenditure, and a decrease of 0.4 of a percentage point of GDP in public investment.[9]

1.6 In real terms, tax revenue bounced back with the economic recovery in 2021, while public spending decreased slightly. After the debt restructuring in 2020, Argentina had limited access to external financing. As a result, the debt was financed by issuing more currency, stepping up domestic borrowing, and pursuing fiscal consolidation efforts. Given the negative trend in tax collection, the reduction of the fiscal deficit focused on containing current expenditure through 2020. Revenue bounced back in 2021 due to the economic recovery and the special measures taken to address the crisis, such as the draft law imposing a wealth tax—"*Aporte Solidario y Extraordinario*" to help mitigate the effects of the pandemic—and obtaining SDRs, which in 2021 enabled real growth in total revenue to increase by 18.3% without SDRs and by 23.6% with them, compared to the previous year.[10] The agribusiness sector also generated more fiscal revenue, driven partly by higher commodity prices. This enabled the national government to keep its aid packages focused on more vulnerable sectors and even increase investment in social inclusion, employment assistance measures, and incentives to certain economic sectors.

1.7 In the first seven months of 2022, fiscal revenue fell slightly, due to reductions in nontax revenue that offset the 3.6% increase in tax collection during the year. Total expenditure posted a real year-on-year cumulative increase of 8.3% as of July 2022, driven primarily by spending on energy subsidies (24%), social programs (23%), personnel costs (12%), and retirements and pensions (3.8%). Furthermore, spending on goods and services has decreased 18% in real terms. Consequently, the cumulative primary fiscal deficit as of July was 1.2% of GDP (estimated GDP for the year).[11]

1.8 Energy subsidies continue to put pressure on public spending. Although an effort was made to reduce subsidies prior to the pandemic, they accounted for 1% to 2% of GDP from 2010 to 2019. Recent inflationary pressures, volatile commodity and energy prices, and constant depreciations put upward pressure on public spending.[12] In 2021, total subsides amounted to 3% of GDP, 76% of which were for energy. Cumulative spending on subsidies in 2022 stands at 1.5% of GDP (expected to reach 2.6% for the year), most of which continues to be for energy subsides. This has led the government to implement a rate increase as well as improve targeting of the most vulnerable segments through the "segmentación energética" initiative."[13]

[9] Calculated on a cash basis. Ministry of the Economy (2022).

[10] Department of Finance, Ministry of the Economy of Argentina (2022).

[11] The GDP benchmark is Arg$76.439 billion, with a final exchange rate for the end of the period of Arg$166,30 per U.S. dollar, according to the August 2022 Consensus Forecast.

[12] Although the fiscal impact of the recent invasion of Ukraine has yet to be determined, significant increases have been observed in the price of Argentina's gas imports.

[13] Ministry of the Economy (2022).

1.9 The sustainability of public spending on the pension system is a major fiscal challenge.[14,15] Since 2007, public expenditure on the pension system has trended upward, rising from 6% of GDP in 2007 to 10% in 2017 (real growth of 95%). Part of this increase can be explained by the introduction of a semi-contributory scheme that increases public sector obligations. In 2018, the agreement with the IMF led Argentina to reform this system through changes to indexation formulas and adjustments that aimed to reduce costs in the medium term. The pension indexation formula introduced in 2020 has made pension spending procyclical, so as to protect pension purchasing power. However, since the reform was not structural in nature, the system continues to incur high costs.[16] In 2020 and 2021, retirement and pension spending accounted for 9.6% and 8% of GDP, respectively.

1.10 Argentina's debt reached 104% of GDP in 2020.[17] Since the decline in commodity prices in 2016, the Argentine peso has been depreciating steadily, which has increased debt denominated in foreign currency and put more pressure on interest payments. Thus, from 2011 to 2020, the debt experienced a considerable 64-percentage-point increase, but has recently improved to its current level of 80% of GDP. Before the health crisis, Argentina's position was fragile, and the debt posed a growing refinancing risk. In this context, the sharp contraction of the economy in 2020 eroded Argentina's financial position significantly, given the tremendous resources needed to address the health crisis (approximately 4% of GDP). The surge in debt and debt service was limited partly by the process of renegotiating foreign debt. After an extensive round of negotiations, the government was able to restructure US$66.137 billion, which corresponded to nearly 46.5% of total debt denominated in foreign currency and 20.5% of total gross debt. The main points of the agreement included the renegotiated currency swap for new bonds maturing between 2029 and 2046; a reduction in the average annual interest rate from 7% to 3.1%; and a haircut of 45% in the value of the debt.[18]

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14 Cetrángolo O. and C. Grushka (2020). El sistema de pensiones en la Argentina. Institucionalidad, gasto público y sostenibilidad financiera. Economic Commission for Latin America and the Caribbean. Macroeconomic Development Series 208.

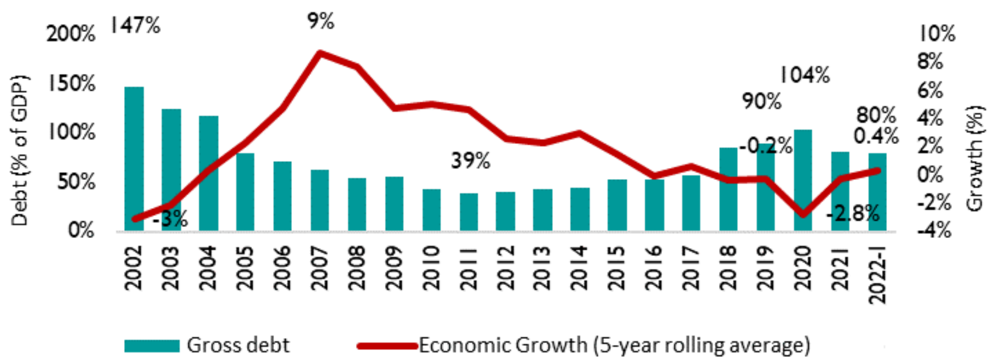
15 The Troubled State of Pension Systems in Latin America, Augusto de la Torre and Heinz P. Rudolph. Global Economy & Development, Working Paper, March 2012.

16 Better Spending for Better Lives, IDB (2018).

17 Department of Finance, Ministry of the Economy of Argentina (2022).

18 Decree 701 of 2020. Amends the document "Condiciones de Emisión de los Nuevos Títulos" [Conditions for the Issue of New Securities] of 27 August 2020. Argentine Republic.

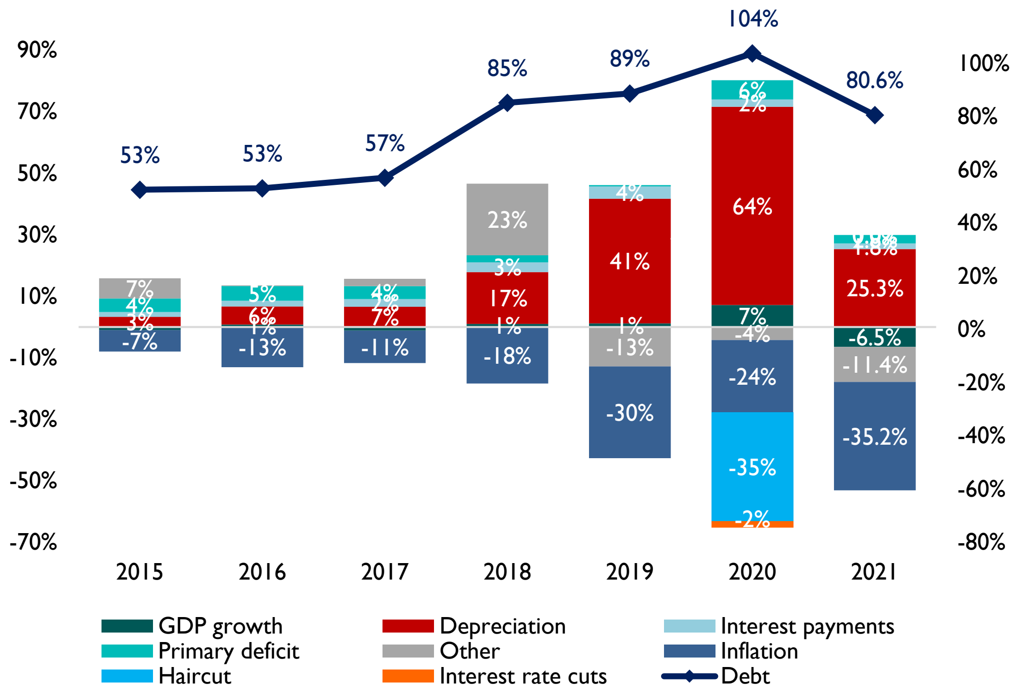
Figure 2. Gross debt and average economic growth



Sources: IDB (Institutions for Development Sector, Fiscal Management Division), with data from the October 2021 WEO.

1.11 In Argentina, major currency devaluations are one of the main factors behind the rising debt. In the five years prior to the pandemic, currency mismatches were responsible for increasing the debt by an average of 15 percentage points of GDP. In contrast, inflation decreased the real value of the debt by an average of 16 percentage points of GDP. Constant primary deficits and high interest payments also raised debt levels, albeit to a lesser extent. During the COVID-19 crisis, the decline in economic activity lowered inflation but was not enough to offset the pressure that depreciation put on the debt, which rose by 64 percentage points of GDP. The debt renegotiation led to lower interest payments and a haircut on the debt, which together reduced the debt by 35 percentage points of GDP.

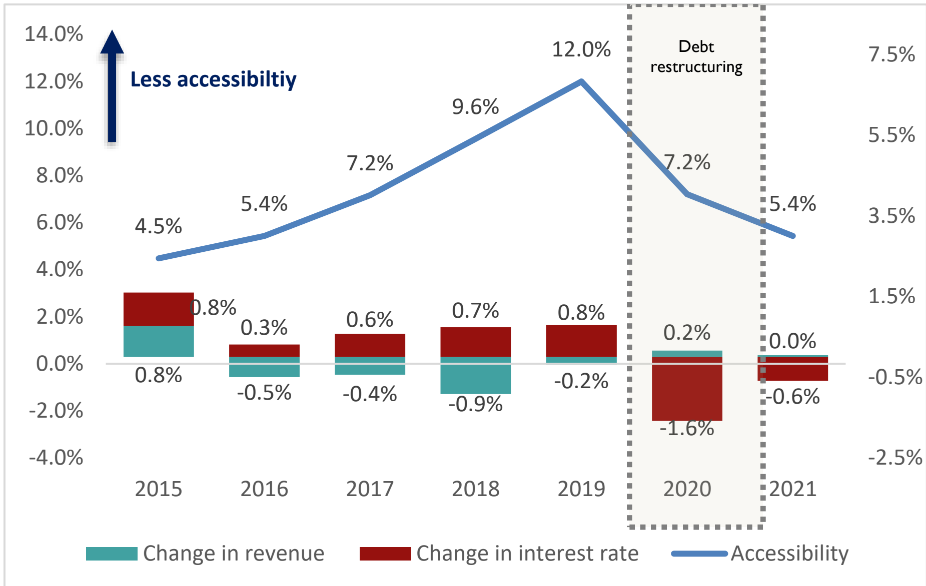
Figure 3. Historical breakdown of changes in the debt (% of GDP)



Source: IDB (Institutions for Development Sector, Fiscal Management Division), with data from the October 2021 WEO. Gross debt is measured on the right-hand axis.

1.12 Interest payments as a proportion of fiscal revenue have decreased. The 2020 restructuring lowered the effective interest rate, but did not improve fiscal revenue. Since 2015, Argentina has had limited access to financial markets due to the continued decline in fiscal revenue and ongoing rise in interest payments. Interest payments rose from 4.5% of fiscal revenue in 2015 to 12% in 2019, which significantly increased the country's short-term obligations. With the economic crisis in 2020 caused by the pandemic, interest payments would have continued to climb upward had it not been for the haircut obtained from restructuring the debt. Accordingly, these accounted for 7.2% of revenue in 2020, a trend that continued in 2021, with payments equivalent to 5.4% of fiscal revenue.

Figure 4. Debt accessibility (interest payments/fiscal revenue)



Source: IDB (Institutions for Development Sector, Fiscal Management Division), with data from the October 2021 WEO.

1.13 **Monetary policy and exchange rate regime.** Monetary policy reforms have been a cornerstone of the strategy for macroeconomic reform. In 2019, the country's liquidity problems were exacerbated by international commodity prices and inflationary pressures. The flight of investor capital in response to the economic situation, coupled with high demand for foreign currency, meant that high levels of depreciation and inflation (58.4% and 54% in 2019, respectively) remained latent. The BCRA conducted interventions that significantly reduced its international reserves, which fell by 31.8% in 2019, and it imposed certain capital controls. In 2020, the monetary base expanded considerably as a result of the fiscal measures taken in response to the pandemic. Inflationary pressures persisted in 2021 and 2022, stemming mainly from outside the country, including logistical problems and production bottlenecks at the global level upon emerging from the pandemic, as well as increases in the international prices of food and energy. Internally, these pressures were attributable to changes in consumption patterns and price adjustments as part of the post-pandemic economic recovery, monetary financing of the fiscal deficit, and the creation of endogenous money from interest payments on BCRA remunerated liabilities. In addition, monetary policy is expected to operate in a somewhat delayed manner. Coupled with negative interest rates and capital controls, currency issues have significant impacts in terms of widening of the spread, loss of reserves, and once again, the persistence of inflationary pressures.[19] Argentina continues to have trouble accumulating international reserves and obtaining net capital inflows. Even with the high trade surplus (roughly US$8 billion) amassed thus far in 2022, the

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19 The government recently created an exchange rate exclusively for exports of soy and its byproducts. Benefits in the form of more foreign exchange inflows are expected, but, on the downside, an increase in the BCRA's treasury debt is also expected.

objective of accumulating international reserves continues to be adversely impacted.

1.14 The depreciation of the Argentine peso has increased the value of debt denominated in foreign currency. In recent years, the Argentine peso has depreciated sharply in nominal terms, from a rate of Arg$8.5 per dollar in 2014 to Arg$84.1 per dollar in 2020, a depreciation of over 880% in nominal terms over the last six years. The country's exchange rate policy has been characterized by the use of an active crawling peg[20] during most of 2021, with the aim of returning to a passive crawling peg in November 2021, as was the case in 2020. This strategy has been supported by strict capital and current account controls, which have made it possible to consistently keep nominal exchange rate depreciation below the inflation rate, and maintaining negative real rates. In this context, the real multilateral exchange rate appreciated 17.9% in 2021 and 10.6% thus far in 2022. Consequently, the exchange rate gap has averaged 83% since 2021. This trend continues to put pressure on debt denominated in foreign currency, which accounts for roughly 69.2% of Argentina's total debt (March 2022).

1.15 **Stand-By Arrangement with the IMF in 2018.** To address a temporary liquidity shock by catalyzing new capital inflows, Argentina received a Stand-By Arrangement on 20 June 2018 in the amount of US$57 billion, the largest such arrangement in IMF history.[21] The strategy of the arrangement focused on tightening fiscal and monetary policy, as well as on structural reforms to bolster confidence in the country's fiscal and financial sustainability. It also included specific measures to support vulnerable segments of the population, reduce inequality, and stimulate economic growth. The program was not successful and was canceled in July 2020 after completion of only four of the twelve reviews that had been planned.[22] In spite of the extent of the arrangement, Argentina continued increasing its debt levels with private market loans. This ultimately led to renewals with short maturities and higher interest rates, which in turn culminated in the loss of access to the financial market in August 2019. Private capital outflows depreciated the Argentine peso, which drove up inflation and the value of the public debt, while economic growth remained below the program objectives.

1.16 Shortly after the new administration began its term in office, these continuing challenges grew more daunting with the economic crisis caused by COVID-19, which followed two consecutive years of declining output, an occurrence not seen since the 2001 crisis. The new administration gave priority to maintaining spending programs to aid more vulnerable sectors, households, and small and medium-sized enterprises. In addition to debt restructuring, other measures were taken to support the recovery in 2021, such as a successful vaccination campaign, stabilization of the primary deficit, and improvement of the trade balance and labor markets.

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[20] Progressive devaluation managed by the BCRA.

[21] IMF (2018). Argentina: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding.

[22] IMF (2021). Argentina: Ex-Post Evaluation of Exceptional Access Under the 2018 Stand-By Arrangement - Press Release and Staff Report.

1.17 However, Argentina continued to face serious challenges. In addition to the ongoing need for macroeconomic stabilization, it had to contend with the persistence of significant social and infrastructure gaps, and the necessity of meeting the payment deadlines of the 2018 Stand-By Arrangement. It was against this backdrop that Argentina negotiated an arrangement with the IMF under the Extended Fund Facility (EFF).

B. Program with the International Monetary Fund

1.18 On 25 March 2022, the IMF Executive Board approved an arrangement with Argentina under the EFF for approximately US$44 billion.[23] The general objective of the program is to support Argentina's economic and social recovery while continuing to address the challenges of sustainable growth over the long term. The specific objectives of the program include: (i) gradually and sustainably improve public finances to secure debt sustainability without compromising the recovery, while also addressing the country's social and infrastructure gaps; (ii) durably reduce persistent high inflation through a multipronged strategy involving fiscal, monetary, and price-related policy measures; (iii) strengthen the country's balance of payments; and (iv) ensure the sustainability and resilience of growth in Argentina. The program will last 30 months and is subject to quarterly reviews, which if completed successfully will provide access to program resources. Approval of the program allowed for an immediate disbursement of SDR 7 billion (equivalent to US$9.656 billion). The first disbursement was made on 25 March 2022. Later, in June 2022, the IMF concluded its first quarterly review, triggering the program's second disbursement on 28 June 2022. The second quarterly review of the program, a condition upon which the disbursement of Bank resources is contingent, should be completed in October 2022.[24]

1.19 The EFF is structured upon the fulfillment of quantitative performance criteria, indicative targets, prior actions, and structural benchmarks. The fiscal pillar of the program aims to reduce the primary deficit to 0.9% of GDP by 2024 (from 3% in 2021). For that purpose, the performance criteria for the end of 2022 are defined as a maximum primary deficit of Arg$2,015,700,000 and accumulated arrears of no more than Arg$654 billion. The program also seeks to reach at least Arg$10,347,600,000 in federal government revenue and maintain at least Arg$823.2 billion in spending on social assistance programs. Under the monetary pillar, the program aims to increase BCRA net international reserves by US%5 billion, reduce BCRA financing of the federal government deficit to a maximum of Arg$654 billion, and a impose a ceiling of US$9 billion on BCRA stock of nondeliverable forward contracts (see required link 3). In addition, the program includes structural benchmarks in the policy areas described below.

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[23] The EFF is an instrument that was created to provide assistance to countries experiencing payment imbalances because of structural deficiencies or slow growth. This type of program is based on the fulfillment of policy conditions. Under this type of arrangement, countries implement policies to achieve a sustainable growth path, and the IMF is able respond to the external financing needs of countries facing crisis situations. The program was approved by the Argentine Congress.

[24] This disbursement is consistent with the synchronized timing required in the Proposal to Create a Special Development Lending Category (document AB-3134) and in the Special Development Lending Category Operational Guidelines (document GN-2031-17).

1.20 **Measures to strengthen public finances and government financing mechanisms.** To support improvements to public finances that contribute to growth and debt sustainability, the budget law will be amended to include the target of reducing the 2022 deficit to 2.5% of GDP. Financing of the deficit will be supported by increased net financing on the peso market and contributions from the international financial community.

1.21 In the area of tax policy, the program supports greater tax collection by increasing the progressivity of the personal wealth tax. The process of updating property valuations will be completed in 2022 to help increase collection from that point forward. The program sets limits on additional taxes on financial transactions and will support improvements to tax administration through the Federal Administration of Public Revenue, which should lead to a substantial boost in tax revenue intake. This includes preparing an action plan to reduce tax compliance gaps and improve compliance risk management of key domestic taxes and customs duties.

1.22 On the expenditure front, the program includes important measures to improve the targeting of current expenditure and redirect spending toward public investment. The program aims to maintain real expenditure growth and improve the efficiency and progressivity of spending through four key pillars: (i) reducing energy subsidies, especially for high-income segments; (ii) protecting social assistance spending through the *Asignación Universal para Protección Social*, *Tarjeta Alimentar*, and *Progresar* programs by reorienting savings obtained from better targeting toward job creation and vocational training programs, while improving budgeting systems to ensure a gender focus; (iii) raising spending on public investment by up to 2% of GDP, with emphasis on the provision of housing and sanitation services in disadvantaged urban areas; the improvement of road, energy, digital, and logistics infrastructure; and the protection of science and technology activities; and (iv) limiting discretionary transfers to provinces and State-owned enterprises, and efficiently managing the wage bill of the public sector.

1.23 As an additional measure to improve the efficiency of spending, and based on the recommendations of the Public Investment Management Assessment (PIMA) prepared by the IMF jointly with the IDB and the World Bank, the program supports strengthening of the National Public Investment System (SNIP), including: (i) reinforcing monitoring and availability of information on the use of public investment funds; (ii) improving the selection of projects; and (iii) strengthening procurement processes for public works. It will also help strengthen the treasury single account, the transparency and credibility of the budget process, and fiscal coordination between the federal government and the provinces.

1.24 The government financing strategy will focus on strengthening the peso-denominated debt market. It will gradually reduce reliance on inflation-indexed debt instruments, expand the portfolio of securities, and lengthen maturity profiles. The strategy will continue to strengthen public debt management systems to establish a deep sovereign debt market. To that end, the program will support the preparation of a medium-term debt management strategy and an annual borrowing plan. The program anticipates that these measures, coupled

with efforts by the Argentine government to mobilize external financial support, will enable an unwinding of monetary financing of the deficit.

1.25 **Measures to help lower inflation.** The policy measures aimed at strengthening fiscal sustainability and the public financing system will be accompanied by monetary, price, and income policy measures to help lower inflation in a lasting, sustained manner. To that end, the program has supported the interest rate hike to boost demand for peso assets and the signature of a new price stabilizing agreement ("Precios Cuidados"). This reflects the BCRA commitment to maintaining a positive real interest rate while taking into account the current inflationary context and the evolution of reserves. It also aims to improve monetary policy transmission and simplify the reserve management regime.

1.26 The program supports measures to improve the effectiveness of capital market management, including the easing of regulations limiting securities trading in foreign exchange. This will be supplemented by measures to: (i) strengthen transparency and reduce compliance costs with respect to the foreign exchange market; (ii) boost surveillance mechanisms and enforcement of exchange control measures; and (iii) improve the sanctioning framework with respect to the foreign exchange market. The program will also support the gradual easing of foreign exchange controls, with a view to helping Argentina to gradually resume access to the international capital market in 2025.

1.27 **Measures to support sustainable and inclusive growth.** The program will support a range of measures that aim to: (i) increase investment and productivity; (ii) enable balanced regional and local development; (iii) improve job creation and labor inclusion; (iv) strengthen the efficiency and sustainability of the energy sector; (v) implement climate change mitigation and adaptation measures; and (vi) promote the development of capital markets.

1.28 In terms of energy policy, the program will support steps to expand energy production and reduce the cost of electricity generation. The subsidy scheme will be segmented to reduce subsidies for households with greater payment capacity, and gas and electricity rates will be revised to achieve reasonable levels that are updated in an equitable manner. Additionally, the program will support the development of a medium-term plan to reduce energy subsidies and improve the efficiency of the energy matrix.

1.29 Narrowing gender gaps will be a key pillar of the program's growth strategy. This will include the expansion of social protection programs targeting women; increased access to childcare programs, housing, and other social infrastructure for mothers; and promote their integration into the labor market. The program supports the efficient allocation of fiscal resources to promote programs that address gender equity by enhancing the gender budgeting approach, which made considerable progress in 2021.

1.30 To strengthen climate change mitigation and adaptation policies, the program will support: (i) preparation of a new electric transportation law (Ley de Promoción de Electromobilidad); (ii) implementation of the Green Productive Development Plan; and (iii) incorporation of a climate change tagging system in the Budget Preparation Manual.

1.31 The program will support measures to improve financial inclusion and promote sustainable finance. As part of the National Strategy for Financial Inclusion, this includes: (i) expanding and improving access to financial services; (ii) promoting the use of digital financial media and instruments; (iii) enhancing financial literacy; and (iv) prioritizing the financial inclusion of vulnerable and excluded groups. To safeguard financial sustainability, steps will be taken to discourage the use of cryptocurrencies and strengthen consumer protection.

1.32 Lastly, to strengthen transparency and governance of the State, the program will support the publication of information on: (i) companies awarded COVID-19 contracts by the central government; and (ii) external audits of COVID-19 spending by the Office of the Auditor General. Additionally, the program will support measures to combat money laundering and the financing of terrorism.

II. ELIGIBILITY CRITERIA

2.1 **Eligibility criteria for Special Development Lending.** Special Development Lending (SDL)[25] is a financial instrument that provides budgetary support to address macroeconomic crises[26] and preserve social gains and economic growth in the countries of the region. The country meets the eligibility criteria for SDL because: (i) it is experiencing a macroeconomic crisis; and (ii) the IMF approved a financing arrangement (paragraph 1.15). The amount of this operation (US$700 million) will be financed as follows: (i) up to US$500 million[27] in fresh funds from the Bank's Ordinary Capital resources, above the regular lending program approved in the Long-term Financial Projections – 2022 (document FN-736-2); and (ii) up to US$200 million from the reallocation of uncommitted funds,[28] under the additional financing mechanism established in document AB-3134.

2.2 Argentina is facing extraordinary pressure on its balance of payments account in a context of low net international reserves, in spite of its trade surpluses and strict capital controls. Inflation remains high (at 71% year-on-year as of July 2022) and unanchored, and the country does not have access to international capital markets at a time when it is facing significant balance of payments needs, including those stemming from the previous program with the IMF. The country's social situation remains fragile, with over 37% of the population living below the poverty line, and a high degree of informality (especially among women and low-skilled workers). Argentina has a limited export base with a low degree of diversification, a highly dollarized economy, underdeveloped domestic financial

[25] Document AB-3134, Proposal to Create a Special Development Lending Category.

[26] Defined as a situation in which the country lacks or potentially lacks sufficient financing on affordable terms to meet its net international payments, such as paying imports or external debt redemptions, while maintaining prudent reserve buffers (document GN-2031-17).

[27] According to document AB-3134, the maximum limit on fresh funds per country and per event is US$500 million or 2% of a country's GDP, whichever is less.

[28] Of the total amount of redirected resources, up to US$130 million, will come from the reformulation of Loan 4338/OC-RG (Agua Negra Pass International Tunnel Construction Program) and up to US$70 million from the reformulation of Loan 4841/OC-AR (Federal Program for Regional Transportation Infrastructure).

markets, and barriers to investment. At the same time, it needs to continue its efforts to reduce the fiscal deficit. Meeting its external debt obligations during the 2022-2024 period requires exceptional access to the IMF financing and related financing contained in this operation.

2.3 This program's policy matrix includes the prior actions defined for approval of the IMF's EFF with Argentina, as well as the quantitative performance criteria to be achieved by 30 June 2022 for the disbursement corresponding to the second quarterly review of the EFF. The disbursement of the SDL financing is synchronized with the disbursement of the second quarterly review of the EFF, completed in October 2022.[29] The operation is part of a broader financing package, of which the main component is the IMF program and other multilateral financing sources.

2.4 **Additional financing mechanism (reformulation of Loans 4338/OC-RG and 4841/OC-AR).** In accordance with document AB-3134, a portion of the uncommitted balances available in the country's loan portfolio can be used to finance SDL operations. For the current operation, up to US$200 million will be used for that purpose. That amount is comprised as follows: (i) up to US$130 million (total amount) from Loan 4338/OC-RG (Agua Negra Pass International Tunnel Construction Program)[30] and up to US$70 million (partial amount) from Loan 4841/OC-AR (Federal Program for Regional Transportation Infrastructure).[31] The above-mentioned loans are being reformulated as indicated in paragraphs ¶2.5 and ¶2.7 hereof. These two operations were identified by the borrower in consultation with the Bank, pursuant to the criteria established in document AB-3134.

2.5 **Background and progress on the Agua Negra Pass International Tunnel Construction Program (4338/OC-RG)**. Conditional Credit Line for Investment Projects (CCLIP) RG-O1655[32] and the first operation thereunder (loans 4338/OC-RG and 4339/OC-RG),[33] to finance the construction of the Agua Negra Pass International Tunnel between Argentina and Chile, were approved by the Board of Executive Directors on 18 October 2017.[34] The first operation was structured for a total of US$280 million, and was comprised of two loans: one for Argentina in the amount of US$130 million (loan 4338/OC-RG) and the other for Chile in the amount of US$150 million (loan 4339/OC-RG). Chile signed the CCLIP agreement on 12 January 2018, but later notified the Bank of its decision to forgo the resources of Loan 4339/OC-RG, corresponding to the first individual

[29] The quantitative performance criteria as of 30 June 2022 will be reported in the second quarterly review of the IMF program in order to release the third disbursement under the EFF.

[30] This loan was selected because its execution has not been initiated and the activities to be financed are not current priorities.

[31] This loan was selected for its flexibility, as it is a multiple works program that is adaptable enough for activities to be scaled back without leaving incomplete investments; in such cases, the remaining amounts that are not redirected (US$230 million) will continue to be used to finance execution of the program's originally planned activities.

[32] Proposal (PR-4509).

[33] Resolutions DE-64/17, DE-65/17, and DE-66/17.

[34] Proposal (PR-4509).

operation under the CCLIP. Argentina has neither signed the CCLIP agreement nor the loan contract for Loan 4338/OC-RG, corresponding to the first individual operation under the CCLIP. Importantly, this reformulation will not affect the CCLIP, which will remain available for future eligible financing requests from both countries.

Table 1. Original operation amounts for the Agua Negra Pass International Tunnel Construction Program (US$)

Source	CCLIP (RG-O1655)	First operation (4338/OC-RG and 4339/OC-RG)
Argentina (Ordinary Capital)	1.08 billion	130 million
Chile (Ordinary Capital)	420 million	150 million
Total	1.5 billion	280 million

Source: Prepared by the authors.

2.5 Loan 4338/OC-RG is being reformulated to ensure that all of its uncommitted funds (US$130 million) are redirected to finance the current SDL operation, in accordance with the contractual terms and conditions, and the financial conditions established in this document.

2.6 **Background and progress made on the Federal Program for Regional Transportation Infrastructure (Loan 4841/OC-AR).** The general objective of the program is to make the provinces more competitive. The specific objective is to improve the quality of services for the Provincial Road Network and the Municipal Road Network. Approved by the Board of Executive Directors on 31 July 2019 for US$300 million, this global multiple-works investment loan is structured into two components: Component 1., Civil works, the original amount of which was US$292.5 million, and currently has a balance of US$291 million to finance road works on the Provincial Road Network, the Municipal Road Network, and municipal road network; technical and socioenvironmental inspections of works; and preinvestment studies; and Component 2., Institutional strengthening, the original amount of which was US$3 million, has a current balance of US$3 million for the design and implementation of trainings for provincial officials involved in implementing public works; and program administration and management, the original amount of which was US$4.5 million, has a current balance of US$4.5 million for program administration, that will include contracting the necessary professionals to strengthen the team of the Federal Trust Fund for Regional Infrastructure in the areas of technical project management and fiduciary management; monitoring and evaluation; and external financial audit. The date of the last disbursement is scheduled for 24 April 2025. To date, and due to delays caused by the COVID-19 pandemic, the program has disbursed US$1.5 million, equivalent to 0.5% of the total amount, and has works contracting processes under way for a total of US$164.7 million.

2.7 Loan 4841/OC-AR is being reformulated to ensure that a portion of its uncommitted funds (US$70 million) are redirected to finance this SDL operation, in accordance with the contractual terms and conditions, as well as the financial conditions established in this document. In this case, the reformulation of Loan 4841/OC-AR will not only entail a change with respect to the use of the resources included in the operation as originally approved, but also in: (i) the formulation and measurement methodology of the indicators associated with the specific objective; (ii) the incorporation of new output and result indicators that facilitate better measurement of program objectives; and (iii) baselines and targets that reflect the decrease in available financial resources and the current costs of the works to be financed. Moreover, adjustments will be made to the table of costs, the results matrix, and other operational documents of the operation, which will be set out in the corresponding amendatory contract to be signed between the borrower and the Bank. Furthermore, an extension of the loan disbursement period is being considered for period of 24 months, owing to the delays experienced in the startup of execution mentioned above. For more information on this project, please consult required link 12.

2.8 **Social and environmental risks resulting from the reformulation.** At the time of the reformulation, the operations that are being reformulated—i.e. Loans 4338/OC-RG and 4841/OC-AR—did not have pending environmental and/or social commitments related to the originally planned activities. The operation to be partially redirected (operation 4841/OC-AR), which was originally classified as a Category "B" operation, will continue in execution and its category will not change as a result of its reformulation. Accordingly, the reformulation maintains: the type of activities to be executed; the type of impacts and risks identified during preparation; the safeguards management mechanisms established in the original operation; and the executing agency maintains the teams and budget necessary to carry out the above-mentioned tasks and ensure that there are no unaddressed environmental and/or social liabilities.

2.9 **The Bank's operational work and technical support in the country.** The Bank has been supporting the government with the diagnostic assessment, design, and implementation of structural reforms aimed at strengthening fiscal sustainability. First, the Bank has a long trajectory of collaborating with the National Public Investment Office (DNIP) to help strengthen the SNIP, particularly by improving ex ante and ex post evaluation procedures for investment projects and by integrating public investment management systems into the budget execution system (technical cooperation ATN/OC-16721-AR for operational support, approved in 2018 in the amount of US$350,000). Second, this technical assistance is supported by the implementation of investment programs at the provincial level (loan 3835/OC-AR, approved in 2016 in the amount of US$120 million, and loan 4753/OC-AR, approved in 2019 in the amount of US$150 million) at advanced stages of execution; and programs to enhance the efficiency of preinvestment actions for public works projects (loan 2851/OC-AR, approved in 2012 for US$20 million and now completed, and the recent approval in 2022 of loan 5490/OC-AR in the amount of US$37 million, now starting execution). In addition, the Bank supports improvements in the efficiency of tax policy, including the recent reform of the simplified regime for small taxpayers ("monotributo") and value-added tax on digital platforms, based

on international best practices (technical cooperation ATN/OC-17497-AR for operational support, approved in 2019 in the amount of US$300,000). The Bank also supported post-COVID-19 economic recovery with the Global Credit Program for Reactivation of the Productive Sector (loan 5057/OC-AR), which redirected nine loans in the active portfolio totaling US$500 million.

2.10 **Bank experience in the region and lessons learned.** The Bank has experience assisting countries of the region in overcoming macroeconomic crises similar to those that Argentina is currently facing. Through its SDL instrument, the Bank supported Ecuador in its efforts to reestablish macroeconomic stability, restore fiscal sustainability, and safeguard social expenditure in support of the vulnerable population through the Emergency Program for Macroeconomic Sustainability and Prosperity (loan 4771/OC-EC, approved in 2019) and the Emergency Program for Macroeconomic Sustainability and Social Protection (loan 5403/OC-EC, approved in 2021). Likewise, in Barbados, the Macroeconomic Emergency Programme to Protect Economic and Social Progress (loan 4656/OC-BA, approved in 2018) provided support for the government's efforts to regain macroeconomic stability and foster a sustainable fiscal balance in the short and medium term, protecting social spending to safeguard social gains achieved. Both operations were approved under EFF programs, like this operation and the Emergency Program for Fiscal Strengthening and Restoring Growth in Costa Rica (loan 5264/OC-CR, approved in 2021). In the context of the Bank's immediate response to the COVID-19 pandemic, the SDL contributed to efforts aimed at containing the health crisis and mitigating its effects on the economies of Honduras (loan 5069/BL-HO, approved in 2020), the Dominican Republic (loan 5066/OC-DR, approved in 2020), and Panama (loan 5055/OC-PN, approved in 2020), under the IMF's Rapid Financing Instrument and Stand-By Arrangement.

2.11 This experience has yielded several lessons learned that have been incorporated into the design of this operation: (i) the Bank's SDL instrument is an effective vehicle for swiftly channeling budget support resources in crisis situations; (ii) its main value-added, other than the financial value-added, is that it leverages the IMF program and adds a layer of technical support to help the government implement the agreed-upon measures; (iii) it is important to align operation preparation timelines with the timing of discussions with the Argentine Congress in cases where the regulatory framework prescribes prior ratification (paragraph 1.18); and (iv) providing support through technical cooperation and maintaining an ongoing dialogue with the authorities are key to supporting and meeting the commitments assumed with the IMF.

2.12 **Bank additionality.** The Bank provides technical and financial assistance to strengthen public finances in key program areas. Through ongoing strengthening of the DNIP, the Bank has helped improve the efficiency of the SNIP and implement the structural reforms in this area defined in the IMF program, including the enhancement of preinvestment actions through loan 2851/OC-AR. Similarly, it has helped generate new fiscal revenue through a key tax reform[35]

[35] Through technical assistance, the Bank has supported the "monotributo" reform and is supporting the reform of value-added tax on digital service platforms.

and an update to real property asset values. Through the Provincial Management Strengthening Program (loan 4753/OC-AR), the Bank provides support for the strengthening of public finances at the subnational level and improving the efficiency of public investment, key pillars for achieving the program's objectives for long-term sustainable growth. The Bank also supports comprehensive expenditure management, improvement, and transparency through loan 4802/OC-AR and the management of strategic expenditure priorities through loan 5084/OC-AR. To provide technical assistance to the Ministry of the Economy, regional technical-cooperation operation ATN/OC-18056-RG will contribute to the implementation of reforms and fulfillment of this operation's objectives. Additionally, a technical-cooperation operation to improve the public investment cycle is in process, and nonreimbursable funding from the International Climate Initiative (IKI) for fiscal policy and climate change is in preparation.

2.13 **Coordination with other donors.** Since the SDL is an instrument that must be accompanied by an approved IMF program that is disbursing funds, preparation of this operation required coordination with the IMF mission team for Argentina. Disbursements under the IMF program are frontloaded to increase international reserve levels, and approximately 55% of program resources will be disbursed in the first nine months.[36] The Bank is actively coordinating with other donors that will help finance the balance of payments gap. In addition to the US$24.398 billion from the EFF that will be disbursed in 2022, direct disbursements to the national treasury are anticipated the same year, with US$170 million from the World Bank, US$300 million from the Development Bank of Latin America (CAF), US$250 million from the Central American Bank for Economic Integration (CABEI), and US$100 million from the European Investment Bank. As a whole, multilateral support plays a significant role in closing the financing gap in a context of tighter financial conditions. In 2022, the budget support anticipated from World Bank and CAF programs in the execution and/or design phase includes: (a) World Bank support: (i) improvement of education inclusion in secondary and higher education; (ii) social protection programs for children and youth; and (iii) digital inclusion and innovation in public services, all of which are operations currently in execution; (b) CAF operations are anticipated to support: (i) the National Hunger Plan; (ii) environmental and climate action; and (iii) the road system. Thus, both institutions will contribute to the objective of continuing expenditure on social assistance, which is one of the program's strategic areas. The European Investment Bank will assist in implementing the Strategic Plan for COVID-19 Vaccination. The IDB will coordinate with the other multilaterals to monitor the agreement with the IMF, which will include monitoring of the quarterly reviews of the EFF (10 reviews over 30 months), as well as more specific activities, such as implementing the recommendations from the PIMA that was carried out jointly by the IMF, the IDB, and the World Bank in February 2022.

[36] The proposed disbursements are as follows (in millions of SDRs): 7,000 in March 2022; 3,000 in June 2022; 3,000 in September 2022; 4,500 in December 2022; 4,000 in March 2023; 3,000 in June 2023; 2,500 in September 2023; 2,500 in December 2023; 800 in March 2024; 800 in June 2024; and 814 in September 2024.

Table 2. Sources of multilateral financing in 2022 (budget support)

Source	Amount (US$ millions)	Status
IMF	24.398	Approved
IDB (SDL)	700	In preparation
CAF	300	In preparation
BCIE	250	In preparation
World Bank	170	In execution
European Investment Bank	100	In preparation
Total	**25.918**	

Source: Prepared by the authors.

2.14 **Complementarity with other Bank operations.** In 2022, the Bank's program in Argentina anticipates approvals of over US$2 billion. This operation is thus part of the Bank's multidimensional strategy in Argentina and helps to restore fiscal sustainability in response to the legacy of the COVID-19 shock on the public finances. Its value-added lies in not only financial considerations (e.g. helping to close the 2022 financing gap)[37] but technical ones as well by offering an additional degree of monitoring for the implementation of measures and achievement of targets under the EFF. Through the Multisector Program to Strengthen the Public Investment Cycle (loan 5490/OC-AR), which is currently in execution, the Bank will continue to support the strengthening of preinvestment processes for public works. It will also support economic recovery activities that generate new export resources in areas such as tourism and agribusiness. The Bank has created support channels for technical assistance to mainstream climate change adaptation and mitigation objectives in Argentina, both in terms of establishing fiscal policies (e.g. adding Argentina as a beneficiary of the new Fostering Fiscal Policy for Climate Change in Latin America and the Caribbean Fund) and addressing other dimensions of development, including efforts to strengthen sustainable finance and achieve Argentina's decarbonization objectives. To that end, the Bank recently approved an operation (loan 5564/OC-AR) that will help implement the Federal Plan for Electric Transportation, among other activities. This array of operational and technical assistance will contribute to the sustainability of the reforms supported by this operation and achievement of the program's outcome targets.

2.15 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2), as it is aligned with the crosscutting theme of institutional capacity and rule of law through the implementation of reforms to strengthen government capacity for fiscal management (strengthening of public finances) and monetary policy. The program will contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) through the "*Countries with strengthened tax and expenditure policy and management*" indicator. The program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), in the area of strengthening fiscal management, and is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), as it promotes actions to

[37] Includes US$8.4 billion in debt interest and US$52.3 billion in amortizations, plus a primary deficit of US$12.25 billion.

strengthen fiscal sustainability in the medium term. Moreover, the program is aligned with the IDB Group Country Strategy with Argentina 2021-2023 (document GN-3051) through the priority area of macroeconomic stability and public policy effectiveness. The operation's expected outcomes directly address the strategic objectives of: (i) moving toward greater macroeconomic stability; (ii) improving the technical and allocative efficiency of public spending; and (iii) improving the tax structure to boost investment and employment. Lastly, the operation is included in the Update of Annex III of the 2022 Operational Program Report (document GN-3087-2).

A. Objectives, components, and cost

2.16 **Program objective.** The general development objective of the program is to support economic and social recovery in Argentina. The specific development objectives are to: (i) strengthen public finances; (ii) contribute to price stability; and (iii) strengthen the balance of payments.

2.17 The program objectives and components are aligned with the EFF approved by the IMF on 25 March 2022 (paragraph 1.18). The policy matrix (Annex II) is structured as a single disbursement tranche, and its conditions include the prior actions fulfilled by Argentina before the EFF was approved by the IMF's Executive Board on 25 March 2022, as well as quantitative performance criteria as of 30 June 2022, in accordance with the EFF. Therefore, the SDL is synchronized with the disbursement corresponding to the second quarterly review of the IMF's EFF. The budget support provided by the SDL operation will help meet short-term financing needs and support economic and social recovery in Argentina, while providing backing for the government's reform program to restore debt sustainability, thus protecting spending on vulnerable groups and infrastructure investment. Financing will be provided under the following components.

2.18 **Component 1. Strengthening public finances.**[38] The objective of this component is to strengthen public finances by ensuring the sustainability of debt and reducing social and infrastructure gaps. This component takes into account the following qualitative performance criteria (in billions of Argentine pesos): (i) the cumulative floor on the federal government primary balance is not less than -Arg$849 billion;[39] (ii) the ceiling on the federal government stock of domestic arrears does not exceed Arg$612.2 billion; and (iii) the federal government has not accumulated external debt payments arrears.

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[38] The performance criteria for strengthening the public finances as of 30 September 2022, established in the IMF's EFF, i.e. (i) Primary balance of the federal government (floor) of no more than -Arg$1,142,100,000; and (ii) federal government accumulation of domestic arrears (ceiling) of no more than Arg$612.2 billion, will be waived by the IMF (waiver of applicability) to authorize the third disbursement corresponding to the completion of the second quarterly review of the EFF's implementation, inasmuch as the IMF does not have the data required to measure it. Regarding the continuous performance criteria as of 30 September 2022 (federal government accumulation of external debt payment arrears), the IMF issued a waiver of nonobservance in connection with the second quarterly review report on EFF implementation, so that the IMF could authorize the third disbursement under the EFF.

[39] In the quarterly review of the IMF program, the target for this indicator was adjusted upward from its original level of -Arg$874.4 billion.

2.19 **Component 2. Contributing to price stability.**[40] The objective of this component is to help reduce inflation. This component takes into account the following policy measures: (i) the effective annual monetary policy rate has been raised by 365 basis points; and (ii) certain regulations limiting securities trading in foreign exchange have been eased.[41]

2.20 **Component 3. Strengthening the balance of payments**.[42] The objective of this component is to strengthen the balance of payments through policies that support reserve accumulation, trade surpluses, promotion of net exports, capital inflows over the long term, and the future return to international capital markets. This component considers the following qualitative performance criterion: (i) the cumulative ceiling on BCRA federal government financing does not exceed Arg$475.8 billion.

B. Key results indicators and program beneficiaries

2.21 The operation's general development objective will be measured based on the GDP growth rate. The specific objectives will be measured through indicators showing: (i.a) improvement in the primary balance, to reach a deficit of 0.9% of GDP; (i.b) a cumulative spending floor for the federal government's social programs; (ii) a reduction in annual inflation to 44%; and (iii) an increase in net international reserves of up to US$5 billion as of year-end 2024.

2.22 The program will benefit:

a. The Government of Argentina, in two ways: (i) by obtaining fast-disbursing resources to meet short-term financing needs; and (ii) by having a strategic framework to advance the reform program.

b. The population at large, by supporting policies that preserve macroeconomic and fiscal stability and enable sustainable economic and social recovery, by protecting spending on vulnerable groups and infrastructure investment and maintaining the stability of the monetary and financial system.

[40] The policy measures included in Component 2 are prior actions that, owing to their early fulfillment, facilitated the first disbursement under the IMF's EFF, following its approval on 25 March 2022.

[41] Through Omnibus Resolution 923, the National Securities Commission eliminated the provisions of Omnibus Resolutions 907 and 910, which had established limits on the terms (30 days between transactions) and volume (nominal Arg$50,000 per week in foreign currency) of securities trading in foreign exchange. These measures sought to support the government's commitment to maintaining a positive real interest rate, taking into account the updated monthly inflation indicators. Based on these actions, the government continues to deepen the objective of improving the effectiveness of the monetary policy framework.

[42] The cumulative level of net reserves as of 30 June was US$2.66 billion, falling short of the US$2.95 billion adjusted target due to higher-than-expected growth in the volume of imports and delays in obtaining external financing. The IMF acknowledged that the authorities had taken decisive steps to correct setbacks and rebuild credibility. This quantitative criterion had not been considered by the IMF's Executive Board in the second review report on EFF implementation for purposes of authorizing the corresponding disbursement. Consequently, that criterion will not be considered for the disbursement of the Special Development Financing. As of the distribution date of the second quarterly review report on EFF implementation, no information was available on the performance criteria relative to the change in the floor of the BCRA's net international reserves, or the ceiling on BCRA financing of the federal government as set forth in the 30 September 2022 EFF.

III. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

3.1 The loan amount is US$700 million. This SDL will provide financing of up to US$500 million from the Bank's Ordinary Capital resources, above the Bank's regular lending program approved in the Long-term Financial Projections – 2022 (document FN-736-2) and up to US$200 million by redirecting uncommitted funds from loans 4338/OC-RG (Agua Negra Pass International Tunnel Construction Program)[43] and 4841/OC-AR (Federal Program for Regional Transportation Infrastructure),[44] under the additional financing mechanism established in document AB-3134. The Bank's capital metric is in surplus capital. The operation was prepared in coordination with the EFF approved by the IMF and with other multilateral institutions, including the World Bank and CAF. The single-tranche structure and complementary financing arrangements with the IMF provide a flexible and efficient mechanism for supporting policy reforms and meeting short-term financing needs. The SDL resources will be disbursed to the government in a single tranche[45] into the bank account indicated for this purpose by the executing agency.

3.2 In determining the loan amount, consideration was given to: the size of the package of measures needed to address the macroeconomic crisis; the short-term government financing and balance of payment shortfalls; and the threshold for funds per country (paragraphs 3.3 and 4.1 of the SDL guidelines, document GN-2031-17). The total financial requirements of the Argentine government for 2022 are estimated to be approximately US$72.9 billion. This operation covers 0.9% of those requirements and accounts for 2.5% of the net external financing expected by the Ministry of the Economy for 2022.

B. Environmental and social risks

3.3 Pursuant to the Environmental and Social Policy Framework (document GN-2965-23), no ex ante impact classification is required for this program. The operation supports the development of policies, regulations, management instruments, and other institutional strengthening actions, so no significant direct impacts on the environment or natural resources are expected.

C. Fiduciary risks

3.4 No fiduciary risks have been identified for this program. The proceeds will be disbursed directly to the treasury, which the Ministry of the Economy will use to cover financing needs. The executing agency has the necessary financial management tools and control systems for this purpose. The proceeds will be disbursed once the conditions set out in the loan contract have been fulfilled.

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[43] Up to US$130 million.

[44] Up to US$70 million.

[45] The single-tranche structure is consistent with the policy that established the SDL (document AB-3134).

D. Other risks

3.5 **Economic/financial environment risks.** High-level risks include: (i) intensification of geopolitical risks stemming from the invasion of Ukraine and its observed impact in the form of rising commodity prices, which could affect the achievement of spending targets, such as reducing energy subsidies and meeting targets for lowering inflation; (ii) a possible tightening of market conditions could jeopardize the targets aimed at reducing the deficit and inflation; and (iii) lack of confidence may not make it possible to generate sufficient demand for peso assets that would help meet the targets related to net financing on the domestic market. A medium-high risk that has also been identified concerns the possibility that the pandemic may become more severe, which could jeopardize the attainment of macro-fiscal stabilization targets, given the associated restrictions on mobility and trade.

3.6 **Political risks.** A high-level risk has been identified that is related to delays in the approval of the reforms required to meet program objectives, which could compromise the fiscal consolidation process.

3.7 **Natural risks.** A high-level risk has been identified that pertains to the occurrence of adverse weather events and their impact on economic activity, especially agriculture, which could jeopardize the reserve accumulation targets by affecting the export base.

3.8 To mitigate these risks, the Bank will monitor the macroeconomic context (and the impacts of possible adverse weather events, in the case of natural risk) and will maintain an ongoing dialogue with government authorities and other multilateral organizations to provide the technical support required to identify additional measures to ensure a return to fiscal sustainability. Technical-cooperation resources are available for this purpose (paragraph 2.13).

IV. IMPLEMENTATION AND MANAGEMENT PLAN

E. Summary of implementation arrangements

4.1 **Borrower and executing agency.** The borrower is the Argentine Republic. The executing agency will be the Ministry of the Economy, which will be responsible for: (i) submitting evidence that the commitments agreed upon by the borrower and the Bank have been met; (ii) promoting measures to achieve the objectives set in the program; and (iii) compiling, maintaining, and providing to the Bank the necessary information, indicators, and parameters for the monitoring and evaluation program outcomes.

4.2 **Special contractual conditions precedent to the disbursement of the loan proceeds: The sole disbursement of the loan proceeds will be subject to the provisions established in the corresponding loan contract between the borrower and the Bank, including the requirement that the IMF has disbursed the funds corresponding to the second review of the EFF, and fulfillment of the policy conditions set out in the policy matrix (Annex II) and the policy letter.**

4.3 The Bank's financing will be disbursed to and executed by the Ministry of the Economy. The expected expenditures are aligned with the areas of support envisaged for the SDL in the respective operational guidelines (document GN-2031-17), especially as regards support for efforts to mitigate the effects of the crisis on the poor and vulnerable, supporting the gradual implementation of a progressive fiscal adjustment to ensure debt sustainability, and protecting expenditure on vulnerable groups and infrastructure investment, while maintaining flexibility to increase emergency-related expenditure in 2022, where necessary.

F. Summary of arrangements for monitoring results

4.4 **Monitoring.** The borrower and the Bank will meet regularly to monitor the conditions described in the policy matrix. The Bank will also maintain regular contact with the IMF's mission in Argentina, taking note of any IMF decision related to the EFF and/or any new potential program with the country. The executing agency will compile and process all data necessary for program monitoring and evaluation in its regularly published fiscal and monetary bulletins and through the quarterly reviews of the IMF program. Consulting engagements to verify results matrix and policy matrix indicators will be financed with the Bank's administrative funds.

4.5 **Evaluation.** After the EFF has concluded, the Bank will evaluate the agreed-upon indicators and respective targets of this operation, which will constitute inputs for the overall evaluation of the effectiveness of the SDL instrument.

4.6 **Policy letter.** The policy letter issued by the Government of Argentina, reiterating its commitment to the objectives of this operation, is aligned with the program's policy matrix and results matrix.

RESULTS MATRIX[1]

PROGRAM OBJECTIVE:	The specific development objectives for this operation are to: (i) strengthen public finances; (ii) contribute to price stability; and (iii) strengthen the balance of payments. The achievement of these objectives will contribute to the general development objective of supporting economic and social recovery in Argentina.

GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measurement	Baseline (2015-2019 average)	Target (2024)	Means of verification	Comments
General development objective: Support economic and social recovery					
GDP growth	%	-0.2	2	IMF quarterly review reports	The baseline source is the IMF Memorandum of Economic and Financial Policies, dated 3 March 2022. The end-of-program target will be obtained from the second quarterly review of the Extended Fund Facility (EFF), completed in October 2022. The duration of the EFF agreement with the IMF is 30 months, starting in March 2022. The target value corresponds to IMF projections for Argentina, as a result of the policy measures that will be implemented.

[1] The policy matrix is aligned with the prior actions fulfilled by Argentina before the IMF's Executive Board approved the EFF on 25 March 2022, and with the quantitative performance criteria as of 30 June 2022.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measurement	Baseline (2021)	End of program (2024)	Means of verification	Comments
Specific development objective 1: Strengthen public finances					
Primary balance as a percentage of GDP	%	-3.0	-0.9	IMF quarterly review reports	The baseline source and end-of-program target will be obtained from the second quarterly review of the EFF, completed in October 2022. The means of verification will be the EFF quarterly review reports.
Specific development objective 2: Contribute to price stability					
Annual inflation	%	50.9	44	IMF quarterly review reports	Measured at the end of the period (not an average). The baseline source and end-of-program target will be obtained from the second quarterly review of the EFF, completed in October 2022. The means of verification will be the quarterly reviews of program compliance.
Specific development objective 3: Strengthen the balance of payments					
Change in the level of net international reserves	US$ billions	-2.3	5	IMF quarterly review reports	The baseline source and end-of-program target will be obtained from the second quarterly review of the EFF, completed in October 2022. The means of verification will be the quarterly reviews of program compliance.

OUTPUTS

Indicator	Unit of measurement	Baseline value	Baseline year	End of program	Means of verification
Component 1: Strengthening public finances[2]					
1.1 Compliance with the following quantitative performance criteria: (i) The cumulative floor on the federal government primary balance is not less than -Arg$849 billion;[3] (ii) The cumulative ceiling on the federal government stock of domestic arrears does not exceed Arg$612.2 billion; and (iii) The federal government has not accumulated external debt payment arrears.	Report	0	2022	1	IMF staff report (second review of the EFF) verifying compliance with the condition, approved by the IMF Executive Board
Component 2: Contributing to price stability[4]					
2.1 Raising the effective annual monetary policy rate by 365 basis points	Report	0	2022	1	IMF Staff Report (March 2022)
2.2 Easing certain regulations limiting securities trading in foreign exchange	Report	0	2022	1	IMF Staff Report (March 2022)

[2] The performance criteria for strengthening the public finances as of 30 September 2022, established in the IMF's EFF, i.e. (i) Primary balance of the federal government (floor) of no more than -Arg$1,142,100,000; and (ii) federal government accumulation of domestic arrears (ceiling) of no more than Arg$612.2 billion, will be waived by the IMF (waiver of applicability) to authorize the third disbursement corresponding to the completion of the second quarterly review of the EFF's implementation, inasmuch as the IMF does not have the data required to measure it. Regarding the continuous performance criteria as of 30 September 2022 (federal government accumulation of external debt payment arrears), the IMF issued a waiver of nonobservance in connection with the second quarterly review report on EFF implementation, so that the IMF could authorize the third disbursement under the EFF.

[3] The indicator target was adjusted upward from its original -Arg$874.4 billion in the first quarterly review of the IMF EFF.

[4] The policy measures included in Component 2 are prior actions that, owing to their early fulfillment, facilitated the first disbursement under the IMF's EFF, following its approval on 25 March 2022.

Component 3: Strengthening the balance of payments[5]					
3.1 Compliance with the following quantitative performance criterion: (i) The cumulative ceiling on BCRA financing of the federal government does not exceed Arg$475.8 billion.	Report	0	2022	1	IMF Staff Report (second review of the EFF) verifying compliance with the condition, approved by the IMF Executive Board

[5] The cumulative level of net reserves as of 30 June was US$2.66 billion, falling short of the US$2.95 billion adjusted target due to higher-than-expected growth in the volume of imports and delays in obtaining external financing. The IMF acknowledged that the authorities had taken decisive steps to correct setbacks and rebuild credibility. This quantitative criterion had not been considered by the IMF's Executive Board in the second review report on EFF implementation for purposes of authorizing the corresponding disbursement. Consequently, that criterion will not be considered for the disbursement of the Special Development Financing. As of the distribution date of the second quarterly review report on EFF implementation, no information was available on the performance criteria relative to the change in the floor of the BCRA's net international reserves, or the ceiling on BCRA financing of the federal government as set forth in the 30 September 2022 EFF.

POLICY MATRIX[1]

PROGRAM OBJECTIVES:	The general development objective of the program is to support economic and social recovery in Argentina. The specific development objectives are to: (i) strengthen public finances; (ii) contribute to price stability; and (iii) strengthen the balance of payments.

Components/ Policy objectives	Conditions for the single-tranche operation	Fulfillment of conditions[2]
Component 1: Strengthening public finances[3]		
Strengthen public finances by ensuring debt sustainability and reducing social and infrastructure gaps	1.1 The borrower will have complied with the following quantitative performance criteria: (i) The cumulative floor on the federal government primary balance is not less than -Arg$849 billion;[4] (ii) The ceiling on the federal government stock of domestic arrears does not exceed Arg$612.2 billion; and (iii) The federal government has not accumulated external debt payment arrears.	Fulfilled (June 2022)
Component 2: Contributing to price stability[5]		

[1] The policy matrix is aligned with the prior actions fulfilled by Argentina before the IMF's Executive Board approved the Extended Fund Facility (EFF) on 25 March 2022, and with the quantitative performance criteria as of 30 June 2022.

[2] The disbursement of the Special Development Lending (SDL) resources will be subject to fulfillment of the conditions established in the corresponding loan contract and in this policy matrix, including the requirement that the IMF will have disbursed the resources corresponding to the third disbursement of the EFF, in connection with the completion of the second quarterly review report on EFF implementation.

[3] The performance criteria for strengthening the public finances as of 30 September 2022, established in the IMF's EFF, i.e. (i) Primary balance of the federal government (floor) of no more than -Arg$1,142,100,000; and (ii) federal government accumulation of domestic arrears (ceiling) of no more than Arg$612.2 billion, will be waived by the IMF (waiver of applicability) to authorize the third disbursement corresponding to the completion of the second quarterly review of the EFF's implementation, inasmuch as the IMF does not have the data required to measure it. Regarding the continuous performance criteria as of 30 September 2022 (federal government accumulation of external debt payment arrears), the IMF issued a waiver of nonobservance in connection with the second quarterly review report on EFF implementation, so that the IMF could authorize the third disbursement under the EFF.

[4] In the quarterly review of the IMF program, the target for this indicator was adjusted upward from its original level of -Arg$874.4 billion.

[5] The policy measures included in Component 2 are prior actions that, owing to their early fulfillment, facilitated the first disbursement under the IMF's EFF, following its approval on 25 March 2022.

Components/ Policy objectives	Conditions for the single-tranche operation	Fulfillment of conditions[2]
Help reduce inflation	2.1 The effective annual monetary policy rate has been raised by 365 basis points.	Fulfilled (March 2022)
	2.2 Certain regulations limiting securities trading in foreign exchange have been eased.[6]	Fulfilled (March 2022)
Component 3: Strengthening the balance of payments[7]		
Strengthen the balance of payments through policies that support reserve accumulation, trade surpluses, promotion of net exports, capital inflows over the long term, and the future return to international capital markets	3.1 The borrower will have complied with the following quantitative performance criterion: (i) The cumulative ceiling on BCRA financing of the federal government does not exceed Arg$475.8 billion.	Fulfilled (June 2022)

[6] Through Omnibus Resolution 923, the National Securities Commission eliminated the provisions of Omnibus Resolutions 907 and 910, which had established limits on the terms (30 days between transactions) and the volume (nominal Arg$50,000 per week in foreign currency) of securities trading in foreign exchange.

[7] The cumulative level of net reserves as of 30 June was US$2.66 billion, falling short of the US$2.95 billion adjusted target due to higher-than-expected growth in the volume of imports and delays in obtaining external financing. The IMF acknowledged that the authorities had taken decisive steps to correct setbacks and rebuild credibility. This quantitative criterion had not been considered by the IMF's Executive Board in the second review report on EFF implementation for purposes of authorizing the corresponding disbursement. Consequently, that criterion will not be considered for the disbursement of the Special Development Financing. As of the distribution date of the second quarterly review report on EFF implementation, no information was available on the performance criteria relative to the change in the floor of the BCRA's net international reserves, or the ceiling on BCRA financing of the federal government as set forth in the 30 September 2022 EFF.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/22

Argentina. Loan ____/OC-AR to the Argentine Republic. Support Program to Improve Fiscal Management and Economic Recovery

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Argentine Republic, as borrower, for the purpose of granting the former a financing aimed at cooperating in the execution of the Support Program to Improve Fiscal Management and Economic Recovery. Such financing will be for the amount of up to US$700,000,000, which will consist of: (i) up to US$500,000,000 from the resources of the Bank's Ordinary Capital; and (ii) up to US$200,000,000 from the resources of the Bank´s Ordinary Capital, from the redirection of uncommitted resources of Loans No. 4338/OC-RG and No. 4841/OC-AR, in accordance with the provisions of the Loan Proposal. The financing will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _______________ 2022)

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