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ARGENTINA

PROGRAM TO SUPPORT FISCAL SUSTAINABILITY AND GROWTH

(AR-L1402)

LOAN AND REFORMULATION PROPOSAL

4265/OC-AR (AR-L1267), 5660/OC-AR (AR-L1352), 4841/OC-AR (AR-L1307), 5570/OC-AR (AR-L1360), 5521/OC-AR (AR-L1336)

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ABBREVIATIONS	
BCRA	Central Bank of Argentina
BOPREAL	Bonos para la Reconstrucción de una Argentina Libre (Bonds for the Reconstruction of a Free Argentina)
CCLIP	Conditional Credit Line for Investment Projects
CIPPEC	Centro de Implementación de Políticas Públicas para la Equidad y el Crecimiento (Center for the Implementation of Public Policies for Equity and Growth)
EFF	Extended Fund Facility
EIRR	Economic internal rate of return
ESSR	Environmental and social risk rating
FIEL	Foundation for Latin American Economic Research
IMF	International Monetary Fund
INDEC	Instituto Nacional de Estadística y Censos (National Institute of Statistics and Censuses)
INIDEP	Instituto Nacional de Investigación y Desarrollo Pesquero (National Institute for Fisheries Research and Development)
IRR	Internal rate of return
MSMEs	Micro-, small, and medium-sized enterprises
NPV	Net present value
OECD	Organisation for Economic Co-operation and Development
PAIS	Impuesto Para una Argentina Inclusiva y Solidaria (Tax for an inclusive and solidarity-based Argentina)
QPC	Quantitative performance criteria
SDL	Special Development Lending
SDR	Special Drawing Rights
SENASA	Servicio Nacional de Sanidad y Calidad Agroalimentaria (National Agrifood Health and Quality Service)
SEPyMEyE	Secretaría de la Pequeña y Mediana Empresa y Los Emprendedores (Secretariat for Small and Medium-Sized Enterprises and Entrepreneurs)
SIRA	Sistema de Importaciones de la República Argentina (Import System of the Argentine Republic)
SIRASE	Sistema de Importaciones de la República Argentina y Pagos de Servicios al Exterior (Import and Foreign Service Payments System of the Argentine Republic)
SOFR	Secured Overnight Financing Rate
VAT	Value-added tax
WEO	World Economic Outlook, IMF

PROGRAM SUMMARY

ARGENTINA

PROGRAM TO SUPPORT FISCAL SUSTAINABILITY AND GROWTH

(AR-L1402)

Financial Terms and Conditions				
Borrower:			**Special development lending**[b]	
Argentine Republic			**Amortization period:**	7 years
Executing agency:			**Disbursement period:**	1 year
Ministry of Economy			**Grace period:**	3 years
Source	**Amount (US$)**	**%**	**Interest rate:**	SOFR-based, plus 1.15%, plus the IDB variable funding margin for Ordinary Capital
IDB (Ordinary Capital):[a]	647,500,000	100	**Front-end fee:**	1% of the loan principal, payable within 30 days after the contract comes into effect
			Commitment fee:	0.75%[c]
Total:	647,500,000	100	**Weighted average life:**	5 years
			Approval currency:	United States dollar

Program at a Glance

Program objective/description: The program's general development objective is to support the recovery of macroeconomic sustainability in Argentina. The specific development objectives are to: (i) strengthen public finances; and (ii) strengthen the balance of payments.

The program is structured as a Special Development Lending operation, aligned with the Extended Fund Facility 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 set forth in the corresponding loan contract to be entered into between the borrower and the Bank, including the requirement that the IMF has made the disbursement corresponding to the eighth review of the Extended Fund Facility, as well as fulfillment of the policy conditions set forth in the policy matrix (Annex II) and in the policy letter (paragraph 4.2).

Exceptions to Bank policies: None.

Strategic alignment							
Objectives:[d]	O1 ☒			O2 ☐		O3 ☐	
Operational focus areas:[e]	EO1 ☐	EO2-G ☐ EO2-D ☐	EO3 ☒	EO4 ☐	EO5 ☐	EO6 ☐	EO7 ☐

[a] The total amount of the loan will be financed with resources redirected from a portion of the uncommitted and available balances in the Bank's loan portfolio with Argentina under the additional financing facility provided for in document AB-3134. The total amount of up to US$647,500,000 in uncommitted and available balances comprises: (i) up to US$400 million from loan 4265/OC-AR; (ii) up to US$80 million from loan 5660/OC-AR; (iii) up to US$80 million from loan 4841/OC-AR; (iv) up to US$56 million from loan 5570/OC-AR; and (v) up to US$31.5 million from loan 5521/OC-AR (see paragraph 2.4).

[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-3134, 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 loans 4265/OC-AR, 5660/OC-AR, 4841/OC-AR, 5570/OC-AR, and 5521/OC-AR. Within 60 days of the loan contract signature date, a 0.75% commitment fee will apply to the loan amount.

[d] O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Promote sustainable regional growth).

[e] EO1 (Biodiversity, natural capital, and climate action); EO2-G (Gender equality); EO2-D (Inclusion of diverse population groups); EO3 (Institutional capacity, rule of law, and citizen security); EO4 (Social protection and human capital development); EO5 (Productive development and innovation through the private sector); EO6 (Sustainable, resilient, and inclusive infrastructure); EO7 (Regional integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, and rationale

1.1 **Change of course in macroeconomic management.** Argentina's macroeconomic crisis deepened sharply in 2023, reflected in a drop in activity of 1.6%, a primary deficit of 2.9% of gross domestic product (GDP),[1] inflation that reached 211.4%,[2] negative net reserves of almost US$11.2 billion, [3] and extraordinary social challenges associated with the erosion of real wages and increasing poverty (estimated at 41.7% at year-end 2023). The country does not have access to international capital markets and faces significant imbalances in the balance sheet of the Central Bank of Argentina (BCRA), which until year-end 2023 continued resorting to monetary issuance to finance the State's deficit and pay interest on interest-bearing liabilities arising from monetary sterilization efforts. By year-end 2023, a debt of US$42.6 billion had accumulated with importers as a result of inefficient foreign trade controls and foreign currency purchases. In addition to the extraordinary macroeconomic challenges, deep distortions beset the functioning of the country's markets and relative prices, which have led to low levels of productivity and private investment, as well as high labor informality. As a result, since 2011, Argentina's GDP per capita has fallen by 11%, GDP in real terms has remained virtually constant, and potential growth has stagnated.

Table 1. Argentina: Selected Economic Indicators, 2022-2025
(IMF Program Quarterly Reviews)

Indicator		7th review	8th review	7th review	8th review	7th review	8th review
	2022	2023	2023	2024	2024	2025	2025
GDP growth (average, %)	5.0	-1.1	-1.6	-2.8	-3.5	5.0	5.0
Non-agricultural GDP	5.7	-0.3	-0.8	-5.2	-6.0	5.0	5.0
Inflation (end of period, %)	94.8	211.4	211.4	149.4	139.7	45.0	45.0
Primary fiscal balance (% GDP)	-2.4	-3.0	-2.9	2.1	1.7	2.5	2.3
Overall fiscal balance (% of GDP)	-4.2	-5.2	-4.6	0.0	0.0	0.4	0.5
Current account balance (% of GDP)	-0.7	-3.5	-3.4	0.9	0.6	0.9	0.8
Change in net international reserves (US$ billions)1/	4.8	-16.4	-16.4	7.0	7.0	6.0	5.0
Monetary financing (% of GDP) 2/	3.1	5.0	5.0	0.0	0.0	0.0	0.0

Sources: National authorities and technical staff estimates and projections.

1/ Net international reserves are cash reserves placed in swap lines, deposit insurance, reserve requirements on foreign currency deposits, and other reserves for liabilities at current prices.

2/ For 2023, this includes profit transfers, advances, and secondary market purchases. For 2024, it also includes issuance of new nonmarketable government bonds and securities repurchases.

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1 The fiscal deficit was 6% of GDP in 2023 including debt interest payments.

2 National Institute of Statistics and Censuses of Argentina (INDEC), 2024.

3 International Monetary Fund (2024), data as of 7 December 2023.

1.2 The current Argentine administration, which took office in December 2023, has clearly stated that returning to a path of macroeconomic sustainability and growth will require reducing the fiscal deficit, strengthening the BCRA's balance sheet, and restoring access to international markets. Specifically, in fiscal terms, the government has embarked on a significant rationalization and improvement of the quality of public spending, an improvement in the efficiency of the tax architecture to support investment and job creation and strengthening the tax administration to enable it to meet its objectives of improving tax compliance and combating tax evasion. On the monetary policy side, the BCRA's balance sheet is being strengthened through measures to curb the growth of its interest-bearing liabilities by eliminating the financing of the fiscal deficit through monetary issuance and by assisting the growth of net reserves. In parallel, efforts are needed to eliminate structural barriers to growth arising from capital and price controls and over regulation of product and labor markets that constrain economic growth. The so-called "cepo," i.e., the array of restrictions on foreign currency transactions, including the setting of the official exchange rate, has had distorting effects on the economy, fostered a parallel foreign exchange market, and discouraged investment.

1.3 On 25 March 2022, Argentina agreed on a macroeconomic, fiscal, and monetary policy reform program with the International Monetary Fund (IMF) to address Argentina's challenges. The program, with total Special Drawing Rights (SDRs) of SDR 31,914 billion (US$44 billion), is designed to support fiscal and monetary consolidation efforts and assist with IMF debt maturities. As part of a concerted international financing initiative, the Bank initially supported the efforts of the Argentine government by financing the "Program to Support the Improvement of Fiscal Management and Economic Reactivation" (PR-5028; PR-4509-1; and PR-4708-1) under the Special Development Lending (SDL) category in the amount of US$700 million, approved on 12 October 2022 (5609/OC-AR). The program supported the government's initial efforts in fiscal deficit containment and reserve accumulation, which were sustained until the June 2023 quarterly review. In view of the persistence of the country's macroeconomic crisis, its worsening, and the significant scope of the current macroeconomic and fiscal reforms agreed with the IMF for implementation as part of the execution of its approved program in 2022, the Argentine government has requested a second operation from the Bank under the SDL category for up to US$647.5 million to continue addressing the macroeconomic crisis that is deeply impacting the country's economic and social progress and, thus, continue to protect its social development goals by including the public spending floor for social assistance and reinforcing the social, institutional, and economic reforms.

1.4 **Growth trajectory.** Following the postpandemic economic recovery (with GDP growth of 10.7% in 2021 and 5% in 2022), the Argentine economy has entered a stage of contraction. Compounding the 1.6% fall in GDP in 2023, there will be an estimated 3.5% drop in GDP in 2024, continuing a long-term trend of alternating cycles of high growth and deep recession. Between 2011 and 2023, real GDP per capita fell by around 11% as a result of deep declines in aggregate productivity. Over the same period, the Argentine economy grew at an annual average rate of 0.6%, while its Southern Cone peers managed an average growth rate of 2.2%.[4]

1.5 Addressing structural fiscal challenges is essential, not only to counter the negative effects of the macroeconomic crisis, but also to generate and increase the country's potential for growth and economic and social progress. This includes addressing the unsustainable increase in consolidated public spending from 29% of GDP in 2002 to 42% in 2022. Although Argentina has faced cyclical challenges to economic growth in recent years—from the COVID-19 pandemic to the invasion of Ukraine, and, in 2023, the drought that badly affected agricultural exports—the anemic growth since 2011 has to do more with structural issues, including persistent fiscal and exchange rate instability and rising inflation levels. Crucially, growth potential has been limited by economic over-regulation, trade barriers, and governance weaknesses that stifle investment and constrain the development of an enabling environment for private enterprise. In addition, the fundamentals for future growth are weak.

1.6 **Inflationary slowdown.** Until year-end 2023, Argentina was hampered by high and increasing inflationary pressures. Inflation in Argentina has multiple causes. The recent devaluations combined with the increase in monetary issuance and the drop in money demand are largely behind the recent increase in inflation. Following the August 2023 devaluation of around 20%, inflation for that month reached 12.4%, the highest monthly rate in three decades, strengthening expectations of triple-digit levels. In December 2023, the government devalued the peso against the U.S. dollar by 54%.

1.7 At year-end 2023, inflation stood at 211.4%, compared to 95% in 2022. This upward trend began to reverse in 2024. After monthly inflation of 25.5% in December 2023, it dropped to 20.6% in January, 11% in March, and 4.6% in June 2024, for an aggregate of 79.8% for the first half of 2024. The faster-than-expected inflationary slowdown is associated with a major, government-led fiscal austerity in public spending, a slump in economic activity, exchange-rate stability after the initial devaluation, and measures to liberalize the market for goods and services. The inflationary trend continues to affect real wages, which shrank by 20% between March 2023 and March 2024. The minimum wage in Argentina is equivalent to about US$230,[5] the lowest in the region behind only Venezuela.

1.8 The activity rate stood at 48.6% in the last quarter of 2023, which also saw the level of unemployment reach a historical low of 5.7%. Concern is focused on the high level of labor informality (about 35% of total salaried employment and about 42% of the total employed population). Some 35.8% of salaried workers are informally employed, which creates considerable challenges in an inflationary climate due to the difficulties faced in negotiations over real wages, further exacerbating inequality and poverty. In fact, the drop in real wages in the 12 months to January 2024 was 37% for informal workers and 18% for formal workers (INDEC, 2024).

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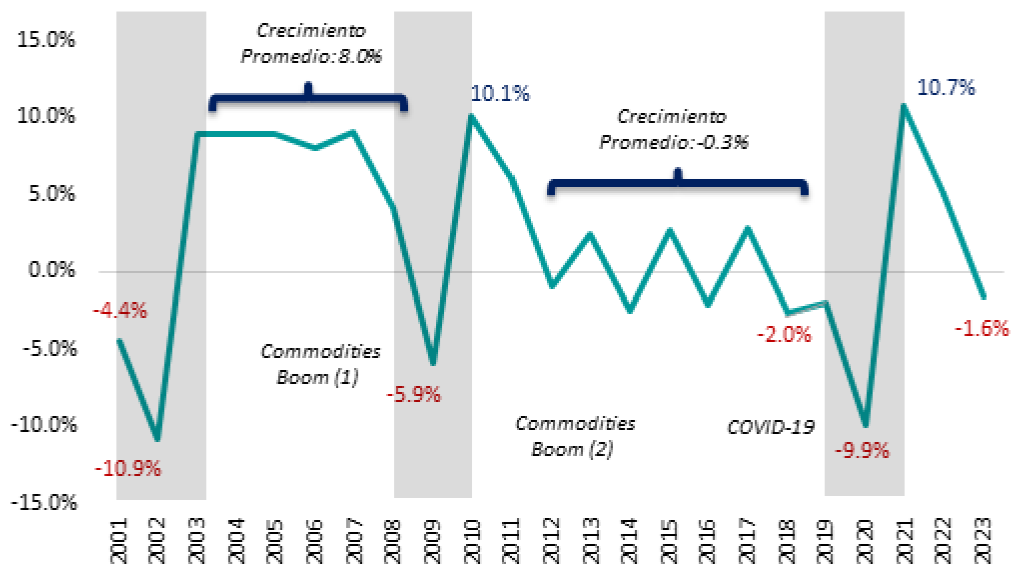
[4] IDB calculations (Institutions for Development Sector, Fiscal Management Division) with World Economic Outlook (WEO) data (April 2024).

[5] Consejo Nacional del Empleo, la Productividad y el Salario Mínimo, Vital y Móvil (2024).

1.9 **Increasing levels of poverty and extreme poverty.** After the reduction in the poverty rate observed during the postpandemic recovery (it fell to 37.3% in the second half of 2021),[6] high inflation and the attendant decline in real wages have once again reversed the dynamics. In the second half of 2023, around 41.7% of the population and 31.8% of households were living below the poverty line. That accounts for approximately 12.3 million people. More worryingly, some 3.5 million people (11.9% of the population and 8.7% of households) were living in extreme poverty as of that period, a substantial increase that reflects the impact of high inflation rates on the most vulnerable households and individuals. Once again, inequality has exacerbated. While the Gini index reported a level of 0.413 in the fourth quarter of 2021, by the fourth quarter of 2023 it had risen to 0.435 (INDEC, 2024).

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



Sources: IDB calculations (Institutions for Development Sector, Fiscal Management Division) with INDEC data (2024).

1.10 **Marked improvement in the fiscal balance.** In 2023, the primary deficit of the Argentine public sector reached 2.9% of GDP, well above the 1.9% target set in Argentina's program with the International Monetary Fund (IMF).[7] The accumulation of short-term debt, estimated at 1.5% of GDP in December 2023, suggests that the deficit could have been even higher. Factoring in interest payments on public debt, the financial result was -6.1% of GDP.[8] Consolidated public spending in the country swelled from 29% of GDP in 2002 to 42% in 2022. This was accompanied by an increase in the consolidated tax burden, which grew from 18% of GDP in 2002 to 28% in 2023,[9] and which, owing to the high level of informality in the Argentine

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6 INDEC, 2022.

7 As a benchmark, the typical primary balance for countries in Latin America and the Caribbean was a surplus of 0.1% of GDP in 2023 (WEO, April 2024).

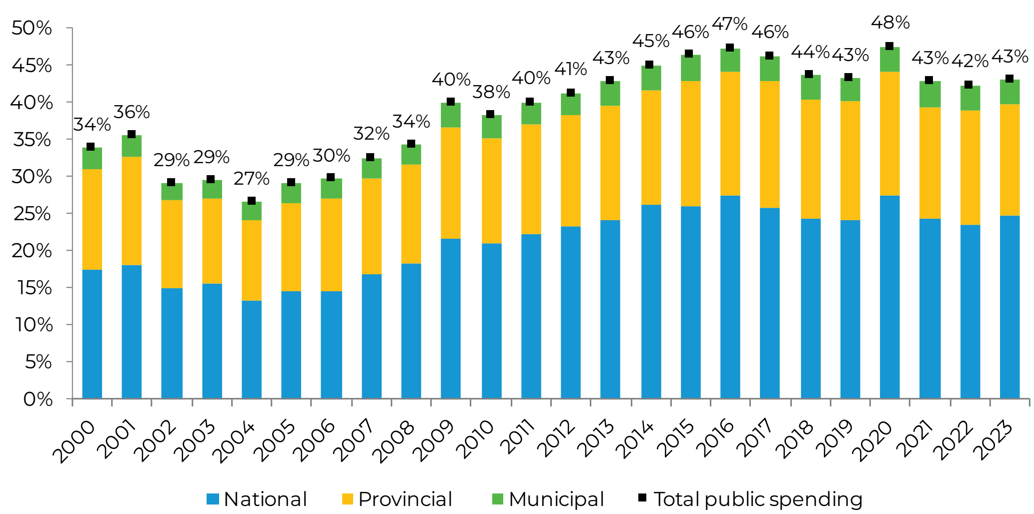
8 This deficit level is double the values observed for the typical country in Latin America and the Caribbean in 2023 (WEO, April 2024).

9 Ministry of Economy, Undersecretariat of Public Revenues (2024).

economy, a formal sector hampered by a complex tax structure with numerous distorting instruments struggles to support. In the first four months of 2024, however, the government managed to achieve fiscal surpluses and reach two-thirds of the five-percentage-point fiscal adjustment planned for the whole of 2024.

1.11 **Public spending rationalization efforts.** In the last four months of 2023, a series of measures were adopted that helped accelerate spending growth. These included nominal salary increases for public employees (below the level of inflation), a new moratorium on pensions, and a freeze on energy and transportation prices. The fiscal imbalance was further deepened by measures that eliminated fourth category income tax and introduced a value-added tax (VAT) refund on a basic basket of products.[10] The fiscal expansion during 2023 also included increases in transfers under various social assistance and pension programs, price containment measures, and other fiscal benefits. The fiscal cost of these measures is estimated at 1.4% of GDP, which made it harder to meet the targets agreed on in the program with the IMF. Since the new administration took office in December 2023, the reduction of subsidies and cuts in discretionary transfers have mainly yielded fiscal surpluses.

Figure 2. Consolidated public spending at the national, provincial, and municipal levels



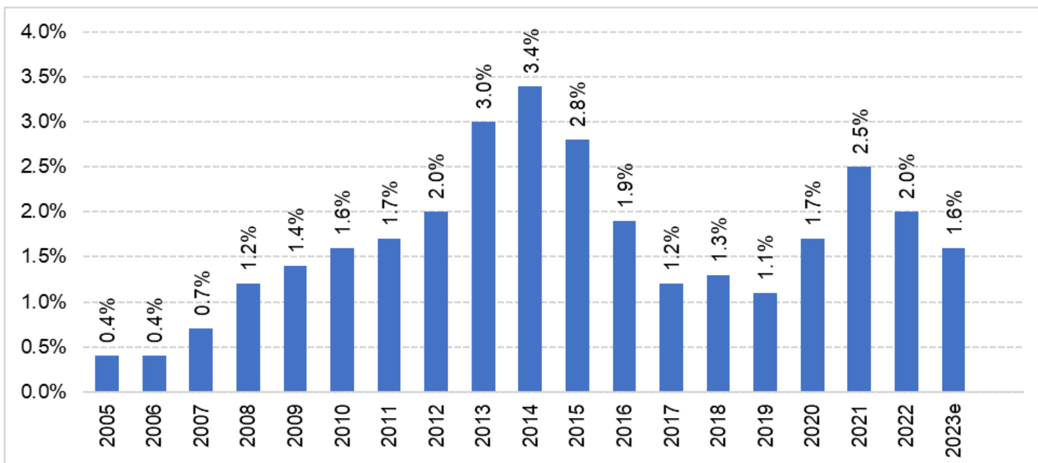
Source: Compiled by the authors with data from the Ministry of Finance.

1.12 Of vital importance in improving the quality of public spending in Argentina is the rationalization of energy subsidies, which in 2023 accounted for 1.5% of GDP (1 percentage point in electricity and 0.5 of a percentage point in hydrocarbon subsidies, mainly gas) and more than 50% of the State's primary deficit. The amounts of energy subsidies in Argentina have shown great volatility over the last two decades (see Figure 3), climbing to 2.5% of GDP in 2022 as a result of a tariff under-indexation. To address this situation, a new tariff system was introduced at the end of 2022, which divided the population into three income segments (N1 "high"

[10] The minimum taxable income level was increased to around 15 times the minimum wage, which meant in practice that only 1% of formal workers paid the tax, which, in addition, did not index its brackets and forced the payment of very high marginal rates.

income, N2 "low" income, and N3 "middle" income) to which different electricity tariffs were applied. Under this arrangement, even the high-income segment benefited from the subsidy system. The new energy tariffs were quickly outdated by inflation and, as a result of the December 2023 devaluation, the gap between the cost of production and the price faced by demand widened considerably. It is estimated that in January 2024, households in the N1 segment were paying about 40% of the cost of electricity, while the N2 and N3 segments were paying less than 6%. In the case of gas, the N1 segment paid around 23% of the cost, while the N2 and N3 segments paid less than 10%. These significant tariff subsidies were extended to the nonresidential sector. Recent government resolutions have reduced subsidies to higher income groups while sustaining support to the most vulnerable households.

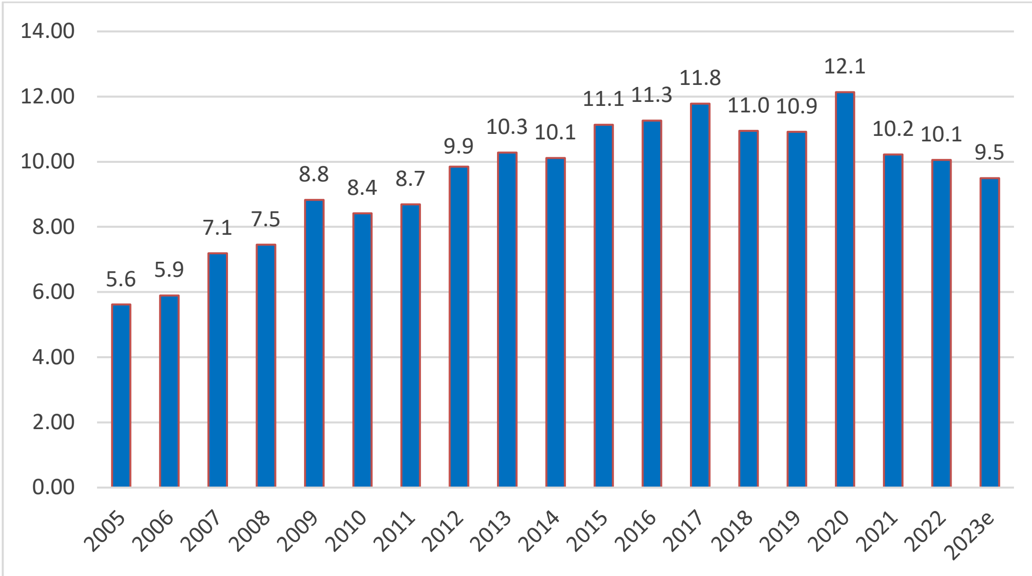
Figure 3. Energy subsidies (% of GDP)



Source: Compiled by the authors with data from ASAP, Center for the Implementation of Public Policies for Equity and Growth (CIPPEC), Foundation for Latin American Economic Research (FIEL), and INDEC. The 2023 figure is a preliminary estimate.

1.13 The sustainability of public spending on pensions remains a key fiscal challenge. Spending on consolidated social security benefits began to increase significantly from 2005 onwards. This was compounded by the enactment of the first pension moratorium—which increased the number of retirees and pensioners from 2.9 million in 2005 to 4.9 million in 2010—and an increase in spending of 2.8 percentage points of GDP. Successive moratoriums expanded the ranks of retirees and pensioners to 7 million, of which 57% (4 million) came from a single moratorium, an essentially noncontributory regime (or one with very low contributions), with the remaining 33% or 3 million belonging to the general regime. Spending continued to rise before peaking in 2020 at 12.1% of GDP. Currently (2023) it stands at around 10.7% of GDP, higher than the Organisation for Economic Co-operation and Development (OECD) average and well above the expected increase in the old-age dependency ratio.

Figure 4. Consolidated public spending on pensions, 2005–2023



Source: Compiled by the authors with data from the Secretariat of Economic Policy, MECON and the Social Security Statistics Bulletin of the Ministry of Labor, CIPPEC, FIEL, INDEC, and several press articles. The 2023 figure is a preliminary estimate.

1.14 Personnel spending was set at around 2.7% of GDP in 2023 for the consolidated Argentine public sector. The proportion of total spending is much lower at the national level than in the provinces,[11] since in recent decades the Argentine public sector has basically become a payer of fiscal transfers (e.g., pensions and transfers to families, companies and provinces), while the provincial public sector is in charge of providing services that require a greater involvement of human resources (e.g., education, health care, and security). Cumulative population growth between 2011 and 2022 has been 12%, while the number of public employees rose by 36.5% in that period (39.5% at the national level and 35.7% at the provincial and municipal levels), when the Argentine economy was either stagnant or in decline. In 2023, state hiring increased and the dynamics of salary adjustment for inflation contributed in real terms to the increase in this expenditure item.

1.15 Transfers to provinces (solely including transfers for current expenditure) have likewise fluctuated from their peak of 1.6% of GDP in 2005 to 0.8% in 2023. These resources come not from national taxes that are part of the federal co-participation or from specific allocations determined by law, but from spending programs included in the annual national budget and are allocated to provincial governments. Their design suffers from flawed distribution mechanisms, alignment with subnational horizontal equity objectives, and weak monitoring instruments.

1.16 In the 12 months to March 2024, the national administration's total accrued expenses contracted 40.6% in real terms (adjusted for the consumer price index), in which the 83.8% decrease in capital expenses, social security benefits (-36.9%), and current transfers (-35.3%) were particularly significant, the latter two accounting for 80% of national expenditure. Thus, during the first quarter of 2024, the financial

[11] Provincial and municipal public employment accounts for 8 in 10 government jobs.

result of the national public administration was a surplus to the tune of 0.2% of GDP, compared to the deficit of 0.5% of GDP for the same period in 2023.

1.17 **High tax burden but inefficient instruments.** The tax burden in Argentina is among the highest in Latin America. While taxes in Latin American and Caribbean countries account for 21.7% of GDP, on average, in Argentina, for the national and provincial levels alone, it is 29.1% (OECD, 2022), to which about 1.5 percentage points from municipalities and around 1.5 percentage points of income from provincial pension systems should be added. This level of average tax burden in Argentina conceals some unique characteristics: on the one hand, the tax system relies on very distortionary taxes, which contribute close to 30% of the total tax intake; very high evasion, between 40% and 50% for some taxes;[12] and very high labor informality (around 45%).[13] This leads to a very high effective tax burden on some formal sectors.

1.18 In the 12 months to March 2024, tax collection fell by approximately 16% in real terms as a result of the slump in economic activity and fiscal austerity measures, while the relative weight of distortionary taxes increased. In 2024, an estimated 5.3% of GDP will be collected through a series of taxes that cause significant distortions in economic activity: the tax for an inclusive and solidarity-based Argentina (PAIS) on foreign currency transactions (1.8% estimated for 2024), the tax on bank debits and credits (1.6%), export duties (1.7%), and low-collection taxes (0.2%). VAT, income tax (personal and corporate), and social security contributions—which together accounted for more than 17 percentage points of revenue in 2023—will be affected by the expected drop in GDP, which is initially estimated at 2.8% for 2024. The government has made explicit its willingness to correct this imbalance in the tax system with a tax reform that increases the relative weight of nondistortionary taxes.

1.19 **High indebtedness.** Argentina's public debt-to-GDP ratio increased in 2023 as a result of exchange rate variations. The Argentine peso has devalued steadily since the 2016 collapse in commodity prices, increasing foreign-currency denominated debt and putting greater pressures on interest payments. According to information published by the Ministry of Economy in December 2023, the central government's public debt stood at US$370.673 billion, about 157.9% of GDP,[14] mainly due to the devaluations in August and December that year. After the last devaluation, the government announced that its priority would be to improve its debt profile and not seek net financing in the market. In terms of its composition, about 71% of the debt was denominated in foreign currency as of December 2023, according to IMF estimates. The distribution of debt by holder shows that public agencies held 48% of the total debt, while 33% was held by private creditors, and 20% by multilateral and bilateral agencies.

1.20 Interest payments as a proportion of tax revenues have continued a downward trend. It stood at 18.4% in 2019, significantly increasing the country's short-term obligations. Since the restructuring in 2020, these obligations have come to represent 11.2% of revenues, a trend that continued in 2021, when they recorded payments equivalent to 7.7% of tax revenues. The 2024 financial program puts them

[12] See Centro de Estudios Tributarios (2023), Diagnóstico de la informalidad de la economía argentina, Serie: Informalidad, Informe 1, October 2023.

[13] International Labour Organization (2022), VII Seminario sobre Economía Informal.

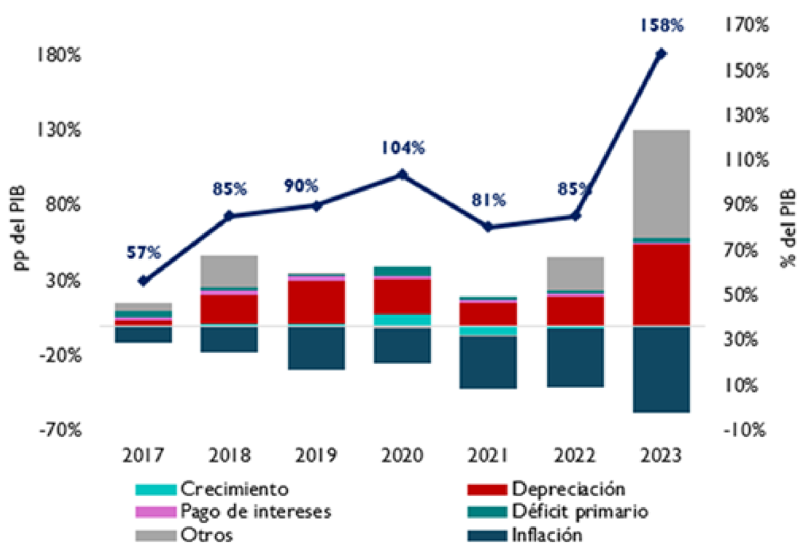
[14] Ministry of Economy of Argentina (2024).

at 2.1% of GDP. Future gross financing needs are estimated at about 10% of GDP, alleviated by a drop in country risk of about 50% in the last 12 months.

Figure 5. Gross debt and average economic growth

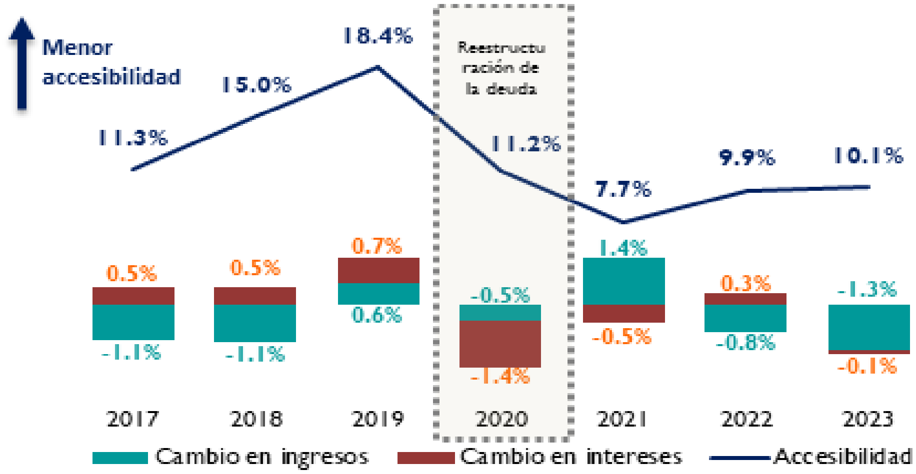
Sources: IDB (Institutions for Development Sector, Fiscal Management Division) with data from WEO (April 2024), INDEC, and the Ministry of Economy.

Figure 6. Historical breakdown of changes in debt (% of GDP)



Source: IDB (Institutions for Development Sector, Fiscal Management Division) with data from WEO (April 2024), INDEC, and the Ministry of Economy. Right axis measures gross debt.

Figure 7. Debt affordability (interest payments/tax revenues)



Source: IDB (Institutions for Development Sector, Fiscal Management Division) with data from WEO (April 2024), INDEC, and the Ministry of Economy.

1.21 **Elimination of deficit financing with monetary issuance.** In terms of GDP, monetary expansion to finance the national treasury in 2023 (based on annualized data available in October 2023) amounted to approximately 5.9 points of GDP, 1.1 percentage points of which was for direct assistance to the treasury, 1.7 percentage points for the purchase and sale of government securities, and 3.1 percentage points for changes in the stock of government securities eligible for reserve requirements. Excluding 2020, when the COVID-19 pandemic required an exceptional spending effort to address the fiscal challenges arising from the lockdown measures, monetary expansion in 2023 was the highest in recent decades. Between 11 December 2023, when the current government took office, and the end of February 2024, net issuance had, however, decreased by Arg$0.2 trillion due to the ongoing fiscal retrenchment, the reduction in the stock of BCRA interest-bearing assets and the issuance of Bonds for the Reconstruction of a Free Argentina (BOPREAL) to face the debt accumulated with importers. The current government maintains its commitment to reduce deficit financing with monetary issuance to zero.

1.22 The BCRA's interest-bearing liabilities, the response designed to sterilize the monetary expansion derived from the high fiscal deficit, reached a level of nearly Arg$33 trillion in April 2024.[15] In order to reduce their financial burden, the annual interest rate on these liabilities has been substantially reduced and now stands at 40% (down from 133% in December 2023), below the level of inflation. This means that the financial burden of interest payments is being reduced. This decrease in rates is enabled by the stability of the dollar, inflationary deceleration, and the slowdown in economic activity, and could help stimulate consumption with a low inflationary impact, albeit at the cost of having to sustain the cap due to the negative impact on demand for peso assets. At the same time, the government has been

[15] These liabilities comprise various instruments, including LEBACs (central bank letters), swaps, LELICs (central bank liquidity notes), and NOBACs (central bank notes).

addressing the debt accumulated with importers by issuing BOPREAL bonds, while a new import authorization arrangement is being implemented. BOPREALs, which are denominated in dollars, have an annual rate of between 5% and 3% on their third issue and may be subscribed in pesos, helping to sterilize their issue in local currency.

1.23 **Strengthening of monetary policy.** The main causes of Argentina's recent inflationary trend include the excessive monetary issuance associated with the direct and indirect monetary financing of the Treasury (which reached 5% of GDP in 2023), the quasi-fiscal deficit of the BCRA, and the absence of nominal anchors. The monetary base expanded by 90% in 2023, contained by the BCRA's sterilization measures. The BCRA's short-term interest-bearing liabilities (Leliq and reverse swaps) swelled by 130%, reaching a stock of Arg$25.8 trillion by year-end 2023, equivalent to 9% of GDP and 268% of the monetary base. Regulated prices increased 164.9% in 2023, some 47 points below headline inflation, influenced by lagging energy, transportation, and healthcare prices. Money demand continued its slump, retreating 15 percentage points in the year to the third quarter of 2023 and reaching 2019 levels.

1.24 The real interest rate has been in negative territory since August 2023, due to accelerating inflation and declining interest rates since December. The monetary policy rate was increased to 118% (209% in effective annual terms) in August 2023, resulting in a monthly rate of 9.8%, which was still behind the inflation rate for that month (12.4%). In December, the change of monetary policy instrument led the real interest rate to fall even further, reaching a low of -12.4%, and -10% in January after inflation slowed in that month. This strategy is in line with the government's intention to encourage the migration of the financial system to Treasury securities. The government is also working on the transition to a new exchange rate regime, looking to make monetary policy rates positive in real terms, eliminating inefficient exchange rate controls, and strengthening banking regulation.

B. Program with the International Monetary Fund

1.25 In March 2022, the IMF Executive Board approved an agreement with Argentina under the Extended Fund Facility (EFF) program for approximately US$44 billion.[16] The overall objective of the program is to help Argentina's economic and social recovery, while continuing to meet the challenges of long-term sustainable growth. The program's specific objectives include: (i) the gradual and sustained improvement of public finances to ensure debt sustainability without compromising the recovery, as well as reducing the country's social and infrastructure gaps; (ii) the lasting reduction of high, stubborn inflation through a multidimensional strategy that includes fiscal, monetary, and price policy measures; (iii) strengthening the country's balance of payments; and (iv) boosting the sustainability and resilience of Argentina's growth.

[16] The EFF is an instrument that was created to support countries experiencing balance of payments problems due to structural weaknesses or sluggish growth. This type of program is structured based on the fulfillment of certain policy conditions. Under this type of arrangement, countries implement policies that help them reach a path to sustainable growth, while enabling the IMF to respond to the external financing needs of countries in crises. The program was approved by the Argentine Congress.

1.26 The program is subject to quarterly reviews which, if successfully completed, clear the way for the disbursement of resources.[17] To date, eight quarterly reviews of the program have been completed. The last was approved by the IMF Executive Board on 13 June 2024, allowing the IMF to disburse US$797 million. The EFF program was structured based on the fulfillment of quantitative performance criteria (QPC), indicative targets, prior actions, and structural benchmarks. The policy matrix for the SDL includes the QPC required under the IMF program.

1.27 Argentina's macroeconomic imbalances and distortions worsened following the sixth review on 30 June 2023, causing the program to deviate significantly from its targets, mainly as a result of highly expansionary policies.[18] The fiscal deficit increased, international reserves reached worrisome net negative levels, and dependence on interventionist market measures intensified. As a result, inflation reached triple digits, the BCRA's balance sheet deteriorated further, and importers' trade debt deepened.

1.28 **Quick results and achievement of objectives.** Days after taking office, the current government of Argentina publicly announced its intention to achieve fiscal balance by 2024. The announced fiscal adjustment plan included, among other components, spending cuts of 2.9 percentage points of GDP and revenue measures of 2.3 percentage points with the objective of reaching fiscal balance in 2024 after missing the 1.9% deficit targets in 2023. In particular, the announced spending cuts included a 0.7 of a percentage point reduction in subsidies, mainly in electricity, gas, and transportation; a 0.7 of a percentage point reduction in public investment; a reduction of 0.5 of a percentage point of GDP in discretionary transfers to the provinces, a reduction of 0.5 of a percentage point of GDP in government administration expenses; a 0.4 of a percentage point reduction in pensions, and a realignment of social assistance programs that would adding an additional 0.1 of a percentage point in spending cuts. Likewise, revenue measures included an increase of 0.8 of a percentage point on the collection of the PAIS emergency tax introduced in 2019 on imports; 0.5 of a percentage point on export taxes; 0.4 of a percentage point from the reinstatement of personal income tax on salaried workers; and 0.6 of a percentage point from a tax amnesty and measures aimed at bringing forward revenues from the wealth tax (personal assets).

1.29 The measures announced by the new government seek to restore macroeconomic stability and address many of the long-standing impediments to growth and investment. The government's commitment to fiscal adjustment, coupled with its firm resolve to protect the groups most disadvantaged by fiscal consolidation measures, enabled the reactivation of the program and the completion of the seventh quarterly review in January 2024.

1.30 Following this review, the program's goals were substantially recalibrated in order to align them with the government's aspirations. In its fiscal pillar, the program now aims for a primary surplus of 2.1% of GDP in 2024 (compared to the initial primary deficit target of 0.9% of GDP). To that end, the performance criteria defined for end-September 2024 are a primary balance floor of Arg$8.956 billion and that the

[17] The program's last quarterly review is expected to take place between November and December 2024; it will be based on a 30 September 2024 cutoff data.

[18] Seventh quarterly review of the IMF's extended debt program with Argentina.

accumulation of arrears does not exceed Arg$4,946.4 billion. The program seeks to avoid the accumulation of external debt arrears by the central government and to maintain spending on social assistance programs at a minimum of Arg$4,308.1 billion as of September 2024. In its monetary pillar, the program aims to achieve an increase in the level of net international reserves at the BCRA of US$7.6 billion and to reduce the cumulative financing of the federal government deficit by the BCRA to zero (see required link 3). The program also includes structural performance criteria.

1.31 **Measures to strengthen fiscal policy.** The government has expressed a commitment to achieve a 2% primary surplus by 2024 through a fiscal consolidation of 5 percentage points of GDP.[19] The fiscal adjustment is anchored in a series of temporary spending measures complemented by revenue level measures to ensure a rapid convergence towards such an outcome.[20] It is also hoped that consolidation will be implemented somewhat gradually to ensure that the most vulnerable are protected. With that in mind, the 2023 budget was extended, allowing strict control of nominal spending and the "*licuación*" (an accounting-based reduction) of important items that were not subject to inflation indexation, including national government salaries and social security benefits. The government has also presented a first tax package with which to approach the 2024 revenue targets and has committed to structural reforms in tax policy and public spending in the medium term.

1.32 The government has taken steps to contain public spending by rationalizing energy subsidies,[21] as well as water and transportation tariffs. Following recent tariff increases, the government has announced a reform anchored in a new tariff structure based on the concept of the "basic energy basket," which will determine the level and recipients of consumption subsidies while optimizing price signals. Similarly, public investment spending is being strictly prioritized (which is requiring a reprioritization of loan operations with multilateral agencies) and discretionary transfers to the provinces and State-owned enterprises are being reduced. By reducing the number of ministries and streamlining numerous state agencies, the government also aims to contain the operating costs of the national government and the cost of salaries.

1.33 Spending cuts will be complemented by initiatives to strengthen protection systems for the most vulnerable social groups. To that end, the government is committed to streamlining social programs distributed through intermediaries and increasing allocations to programs with solid results, such as the Universal Child Allowance or the Food Card. In addition, the government has committed to a reform of the pension system that includes the elimination of the pension indexation formula and measures to help preserve the real value of pensions while eliminating moratoriums; a new pension mobility formula was also approved in March 2024.

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[19] In comparative terms, this level of planned fiscal adjustment represents more than five times the size of the typical fiscal consolidation observed in Latin America and the Caribbean in the last 15 years (David and Leigh, 2018).

[20] Evidence suggests that fiscal consolidations based primarily on public spending measures have a lesser impact on economic activity than those based on taxes (Alesina et al., 2019; Guajardo et al., 2014).

[21] Some tariff increases have been postponed in order to revive consumer spending.

1.34 On the revenue side, a temporary increase in trade taxes has been implemented and a staggered indexation mechanism has been implemented on the liquid fuels tax to update the amounts frozen since 2023. The ongoing extension of the PAIS tax has led to an increase in its collection. The recent tax package submitted to the Congress proposes to partially reverse the large increase in the minimum income tax rate by expanding the structure of income tax brackets, improving its gradual implementation, and reducing tax expenditures. The package of proposals under consideration by the Congress also includes tax simplification measures, a progressive lowering of personal property tax, and a reform of the "monotributo" [single tax]. The government has committed to making a considerable effort to reduce tax expenditures and has recently completed a standardized diagnosis of its tax administration with the aim of increasing its collection efficiency.

1.35 Additional program measures through the end of 2024 include spending controls, including reducing floating debt, restoring the quality of public credit to private suppliers, and improving cash management.[22] To that end, the government publicly announced its willingness to transfer Banco Nación's balances to the BCRA and has consolidated under the authority of the Ministry of Economy the management of trust funds, which will be included in the Treasury's single account. The fiscal balance commitment will be extended to 2025 and the following year's budget will be prepared under those parameters. The government has shown its commitment to streamlining the State-owned enterprises system; improving the efficiency of public employment through a review of employment in the national administration and decentralized public entities; improving the targeting and governance of the social safety net; and modernizing the fiscal framework by improving coordination and information sharing between the different levels of government.

1.36 **Financial policy support measures.** Reaching the fiscal balance target will make it possible to eliminate deficit financing with monetary issuance. The Treasury is in the process of refinancing existing peso denominated debt obligations in a sustainable manner through the domestic capital markets by repurchasing public debt held by the BCRA to maintain net-zero credit to the government, including put options. The objective is to strengthen the domestic public debt market by gradually reviving fixed-rate instruments, building the Treasury bond yield curve, and preemptively extending maturities.

1.37 The government faces a period of large foreign currency debt service payments to private bondholders and official creditors, implementing policy adjustments aimed at increasing reserves, and mobilizing official support from multilateral institutions. The core objective in the short term is to regain access to international capital markets to manage external obligations in a way that supports resilience and growth. The current government program aims to have market access restored by year-end 2025.

1.38 **Measures to strengthen monetary and exchange rate policy.** The BCRA has streamlined its operational framework to support stabilization efforts. Auctions of 28-day BCRA securities (Leliq) ceased in mid-December, and the overnight interest

[22] Floating debt is a State liability in that it represents certain outstanding obligations. However, under the Argentine regulatory framework, it is not part of the public debt, which operates through the issuance of securities and the securing of loans.

rate (reverse swaps) became the only policy instrument. Under the program, the government aims to improve the monetary policy framework and operations, ensuring their anchoring with clear and well-communicated medium-term objectives to ensure price stability. Similarly, the government will strengthen the BCRA's balance sheet by eliminating all monetary financing of the fiscal deficit and boosting the accumulation of international reserves. Efforts to contain inflation will help restore real demand for money, currently at historical lows. To improve monetary transmission and credit allocation, the program will support efforts to eliminate financial sector controls and policy distortions. To that end, commercial interest rates (minimum deposit limits/loan limits) and loan quotas will be revised, while credit incentive programs will be phased out. The objective of these reforms is to simplify deductions on reserve requirements, improve monetary policy transmission, and enhance credit allocation and banks' ability to adapt to the evolving monetary policy framework.

1.39 The program includes a commitment to align the exchange rate regime to increase reserves and support stabilization efforts. Following the devaluation of 12 December 2023 (which increased the nominal exchange rate from 360 Arg$/US$ to 800 Arg$/US$), the PAIS tax has been temporarily expanded and the export promotion system has been maintained, with a reduced share of revenues (20%) temporarily channeled to the parallel exchange rate market (cash settlement). The official monthly crawling peg was set at 2% in order to serve as a complementary nominal anchor in the price formation process, as fiscal consolidation and reserves accumulation progress. As a result of these policies, reserves had increased by US$7.5 billion at end-March 2024. The government has shown its commitment to abandoning an interventionist approach to the parallel or futures currency markets by eliminating regulations that hamper their smooth operation.

1.40 To assist in the elimination of complex distortions, inefficiencies, and discretionary and opaque controls related to trade and the exchange rate, the government replaced the Import System of the Argentine Republic (SIRA) as well as the country's Import and Foreign Service Payments System (SIRASE) with a transparent, rules-based system that includes an automatic mechanism for import payments over time. In addition, the number of exchange restrictions and associated distortions are being simplified. With a view to solving the problem of accumulated debt with importers, the BCRA created three series of new instruments denominated in foreign currency (BOPREAL), with maturities of up to four years and variable interest rates; the rigorous, independent commercial registration process associated with them provides transparency and avoids the perception of an excessive declaration of commercial debts. The new security is intended to offer predictability to importers, while absorbing peso liquidity and relieving short-term exchange rate pressures. The main objective of these measures is to eventually unify the exchange rate and eliminate exchange controls once conditions permit.

1.41 **Market liberalization measures.** In order to eliminate excessive regulation and market distortions, the government issued Urgent Need Decree (Decreto de Necesidad y Urgencia – DNU) 70/2023, containing more than 300 measures aimed at improving competition in many sectors, including housing, transportation, aerospace, health, pharmaceuticals, and tourism. The urgent need decree, currently being processed by the lower house of the National Congress, aims to repeal laws that discourage investment and/or distort markets. Essentially, the urgent need decree changes the legal status of State-owned enterprises to facilitate future privatizations, modifies the customs code to remove limits on exports, and aims to strengthen the power of private contracts. Among other legislative measures promoted by the government, the urgent need decree is complemented by the following bills: Bases and Starting Points for the Freedom of Argentinians and the Palliative and Relevant Fiscal Measures to support pro-market and tax policy reforms. In addition, regulation and incentives for long-term investment in strategic sectors, such as energy and mining, will be strengthened.

1.42 The proposed bills submitted to the National Congress combined with the urgent need decree, the May Pact Proposal with the provincial governments, and the publicly declared macroeconomic objectives incorporated in the program with the IMF, signal the current government's desire to move towards a vision that includes three key, sustained macroeconomic pillars under its administration: (i) a strong fiscal anchor based on a commitment to zero deficit, zero net BCRA financing, and a reformulation of social security assistance and subsidy systems that protect vulnerable groups while allowing for efficient and transparent control of public finances; (ii) strengthening of the monetary policy framework, including control of inflation, the sustained rebuilding of international reserves and the strengthening of the BCRA's balance sheet with the reduction of its stock of interest-bearing liabilities, while moving towards a regime of currency competition and the elimination of inefficient exchange controls; and (iii) the implementation of structural reforms that promote productivity and private investment (including an increase in private participation in public works), and with it job creation. In that context, the program helps to inject the necessary liquidity to achieve this scenario of macroeconomic stability.

II. ELIGIBILITY CRITERIA

2.1 **Special Development Lending (SDL) eligibility criteria.** The SDL[23] is a budget support lending instrument aimed at contributing to addressing the effects of a macroeconomic crisis on a country's economic and social progress.[24] To be eligible for an SDL, a country must have been affected by a macroeconomic crisis and have a loan contract approved by the IMF Executive Board. In addition, the SDL policy matrix must include the same conditions agreed upon by the country and the IMF for the IMF program. This SDL meets these eligibility criteria given that: (i) the country remains in a macroeconomic crisis that deepened in 2023 (paragraph 1.1), as evidenced by falling GDP, a high fiscal deficit, sustained inflationary pressure, rising poverty rates, lack of access to sufficient financing to meet its international payments, and difficulties in maintaining a prudent level of reserves; and (ii) Argentina continues to have a financing arrangement approved by the IMF (paragraph 1.25) in March 2022. Furthermore, the policy matrix of this SDL program includes the same conditions agreed on by Argentina and the IMF (QPC projected

23 Established via the Proposal to Create a Special Development Lending Category (document AB-3134).

24 Defined as a situation in which a country effectively or potentially lacks sufficient access to financing on affordable terms to meet its net international payment obligations, such as payment of imports or repayment of external debt, while maintaining prudent levels of reserves (GN-2031-17).

as of 31 March 2024).[25] In addition, the disbursement of proceeds under this SDL will be synchronized with the disbursement already made by the IMF following the eighth quarterly review of the EFF approved by the IMF Executive Board on 13 June 2024, in the amount of US$797 million (paragraph 1.26).

2.2 **Additional financing mechanism.** The country's macroeconomic crisis has resulted in different kinds of challenges and difficulties, some of which, such as budgetary restrictions, have had an impact on the progress of project execution and consequently on the portfolio of operations in the country. Through this operation, it is proposed that the total loan amount of US$647.5 million be financed with resources redirected from a portion of the uncommitted and available balances of the country's loan portfolio (paragraph 2.4) under the additional financing mechanism set forth in document AB-3134.[26] Redirecting resources from operations with low disbursement levels or that have not begun disbursing will contribute to improving the effectiveness of the country's portfolio development. The total amount of resources to be redirected to finance this SDL will enable a balance of more than 60% of the total uncommitted balances in the country's portfolio (which at present amount to approximately US$3.671 billion, as detailed in Argentina's Investment Operations Portfolio) to be kept for investment loan financing, and for long-term financial projections to remain in line with the Bank's capital adequacy mandate, regulations, and income management model, since the redirected resources are not part of the two-year financing framework of US$29 billion for 2023/2024.[27] (Required link 9).

2.3 As of 28 May 2024, the Bank's loan portfolio in Argentina consisted of 78 operations with a current approved amount of US$11.858 billion, with a total disbursed amount of US$6,696,900,000, an undisbursed balance of US$5,161,100,000, and a total uncommitted amount of US$3,671,100,000, all of which were investment loans. The uncommitted amount was obtained in consultations with the executing agencies. After redirecting funds from the five proposed operations for US$647.5 million, the portfolio will have a current approved amount of US$11,210,500,000, an undisbursed balance of US$4,513,570,000, and a total uncommitted amount of US$3,023,600,000, representing 82% of the original uncommitted amount.

2.4 **Reformulation of loans 4265/OC-AR (AR-L1267), 5660/OC-AR (AR-L1352), 4841/OC-AR (AR-L1307), 5570/OC-AR (AR-L1360), and 5521/OC-AR (AR-L1336).[28] Redirection of resources.** In accordance with paragraph 4.10 of document AB-3134, the criterion used for the selection of projects whose funds are redirected to the SDL was to maximize the development effectiveness of the country's portfolio by selecting loans that have not begun to be disbursed or of which only a small percentage of resources have been disbursed. Likewise, the SDL's

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[25] The QPC as of 31 March were reported in the IMF program's eighth quarterly review for the release of the eighth disbursement under the EFF (optional link 6).

[26] The special portfolio review in which the agreement was concluded took place on 13 May 2024.

[27] In accordance with document AB-3134 (paragraph 4.8), uncommitted balances to be redirected to SDLs must be within a maximum ceiling that ensures that at least 60% of the uncommitted balances of the remaining loans in the country's portfolio are investment loans and that long-term financial projections are in line with the Bank's capital adequacy mandate, regulations, and Income Management Model.

[28] The loans were identified in a special portfolio review, in accordance with the SDL guidelines (document GN-2031-17).

liquidity injection helps to protect the floor of public spending on social security assistance and thus mitigate the effects of the crisis on poor and vulnerable groups.[29] The program will also leverage the government's efforts to fight inflation and strengthen monetary and financial policies to facilitate access to credit. For the purposes of this operation, the composition of the total amount of the Bank's financing (US$647.5 million) is as follows: (i) up to US$400 million (total amount) from loan 4265/OC-AR (General San Martín Railroad Improvement Project: Retiro-Pilar Branch Line);[30] (ii) up to US$80 million (partial amount) from loan 5660/OC-AR (Program for the Strengthening of Agricultural Health Services and the Sustainable Management of Maritime Resources in Argentina); (iii) up to US$80 million (partial amount) from loan 4841/OC-AR (Federal Program for Regional Transport Infrastructure);[31] (iv) up to US$56 million (partial amount) from loan 5570/OC-AR (Program to Support the Digital Transformation of MSMEs to Industry 4.0);[32] and (v) up to US$31.5 million (partial amount) from Loan 5521/OC-AR (Development, Investment, and Facilitation Program for Argentine Nature Tourism: the Nature Route).[33] The aforementioned loans are reformulated as indicated in paragraphs 2.5 to 2.21 of this document. The redirection of uncommitted and available balances from those operations to finance this operation will make it possible to redouble efforts to restore the country's macroeconomic sustainability, make the financing of the Bank's portfolio loans with the country viable, and, in that way, help ensure the social development goals outlined.

1. Development, Investment, and Facilitation Program for Argentine Nature Tourism: the Nature Route (loan 5521/OC-AR)

2.5 **Background and progress in the Development, Investment, and Facilitation Program for Argentine Nature Tourism: the Nature Route (loan 5521/OC-AR).** The project, for US$33 million, was approved by the Board of Executive Directors on 27 April 2022 and declared eligible for disbursement on 24 November 2022. The program has disbursed US$1.5 million, equivalent to 4.5% of the total amount, and this amount is expected to be fully executed by the closing date. The following have been carried out under the project: (i) activities to facilitate tourism planning; (ii) activities to strengthen MSMEs of the tourism sector; and (iii) development and implementation of an investment platform. None of the three tenders envisaged in this multiple works program were awarded while it has been under execution, mainly as a result of the price mismatch between the bids and the official budgets allocated, in a context of high inflation that precludes carrying out all the works originally planned for the projects with finalized designs. Against this backdrop, in 2023, the operation was assigned an "alert" classification in the Bank's project performance monitoring system, due to the deviation between what was initially planned and what

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29 Measured by the amount spent through the Universal Social Protection Allowance, Food Card, and Progresar (IMF 2024) programs.

30 This loan has been selected because its execution has not yet begun.

31 This loan has been selected in view of its low execution and disbursement level and its flexibility, given that it is a multiple works program in which activities can be scaled down without fear of leaving unfinished investments; in such cases, the remaining balances not redirected will continue to be used to finance the execution of the activities originally envisaged in the program.

32 This loan has been selected in view of its low level of execution and disbursement. The program is oriented to nonrefundable contributions to MSMEs that are not considered a priority for the government at this time.

33 This loan has been selected in view of its low level of execution and disbursement.

was actually executed. In the 13 May 2024 portfolio review of investment programs, the Ministry of Economy requested the redirection of the total undisbursed resources (see required links 7 and 8). The operation currently has no other committed resources in addition to those disbursed, so 95.5% of the financing, amounting to US$31,5 million, can be redirected. The ex ante cost-benefit analysis performed at the time the operation was designed envisioned economic benefits associated with an increase in international and domestic nature tourism spending in the selected tourism corridors: the net present value was estimated at US$30.7 million, and the internal rate of return at 17.7%. Given the low level of project execution, this reorientation does not entail any change in the results matrix, nor does it require a project completion report. The team conducted a risk analysis on the redirection of proceeds, which identified two low-level risks with corresponding mitigation measures. The Bank will continue to support tourism development, including nature tourism, through the provinces. Likewise, in coordination with other national or subnational programs with related sectors, the Bank will support the development of tourism infrastructure, applied innovation, and business and territorial development, which will take aspects of environmental and social sustainability into account.

2.6 **Environmental and social risks for the project in execution.** Based on the socioenvironmental assessment carried out, it has been determined that no works were started in operation (5521/OC-AR) and there are no current activity commitments related to the funds to be redirected. In that sense, it has been verified that there are no environmental and social liabilities. The operation was originally classified under Category "B" and there is no change in category as a result of redirecting the total remaining balance. The Bank will call on the executing agency to inform the relevant stakeholders of the government's decision to redirect the loan proceeds for SDL financing.

2.7 Recently submitted documentation confirmed that there are no liabilities associated with the resettlement plan for the two families of the Campo Quijano project in accordance with Involuntary Resettlement Policy (Operational Policy OP-710), as well as the closure of the activities of the socioenvironmental action plan pending from the 2023 mission, which will not require an additional supervision mission. Accordingly, the operation closes with a "satisfactory" performance rating. The operation's environmental and social risk rating remains moderate.

2. Federal Program for Regional Transport Infrastructure (loan 4841/OC-AR)

2.8 **Background and progress in the Federal Program for Regional Transport Infrastructure (loan 4841/OC-AR).** The program's general objective is to help make the provinces more competitive. Its specific objective is to improve the quality of service on the Provincial Road Network and the Municipal Road Network. This is a global of multiple works operation (GOM) for US$300 million that was approved by the Board of Directors on 31 July 2019. It was reformulated on 12 October 2022, in order to redirect US$70 million that co-financed an SDL program 5609/OC-AR). Due to delays caused by the COVID-19 pandemic and the macroeconomic environment, program execution did not attain the pace anticipated during preparation of the operation. Currently, the program has disbursed US$44.2 million (19% of the total amount), and US$145 million has been committed. For these reasons, the Argentine government requested the Bank to redirect US$80 million to co-finance this program, as agreed on in the 13 May 2024 portfolio review of investment programs (see required links 7 and 8). Redirecting these resources will not entail changes to the program's general or specific objectives. The program will continue to finance three works that will improve service quality of the Provincial Road Network (RVP) and the Municipal Road Network (RVM), namely, the paving of Provincial Route 23, the construction of the Zonda tunnel, and the construction of a bypass in Gualeguaychú. As this is a multiple works program, redirecting resources does not affect the likelihood of achieving the program's expected results. However, the reduction in available resources for the program reduces the overall scope of the expected results, since the number of kilometers subject to works is reduced compared to what was originally foreseen. In addition, the Bank continues to support the country in developing road infrastructure, through a portfolio of seven road operations in execution for US$1.4 billion.

2.9 **Results matrix and economic evaluation.** The reformulation of operation 4841/OC-AR requires the following changes: (i) elimination of results indicators, since no rehabilitation works will be carried out; (ii) updating the baselines and targets of outcome and output indicators, reflecting the decrease in available financial resources, the current costs of the works to be financed, and the reduction in the number of kilometers of roads subject to program works; (iii) adjustments to the schedule for measuring outcomes and outputs; and (iv) adjustments to the cost table. Prior to the eligibility of each of the works, ex ante economic evaluations were carried out that showed rates of return above 12%. These economic analyses have been reviewed in this reformulation to consider the trends in investment costs and vehicle operating costs, both quantified in constant Argentine pesos. For this purpose, the sensitivity analyses were revised to incorporate already materialized variations in investment costs, as well as possible contingencies or unforeseen events that might arise during the remainder of the execution of the works.[34] As a result of the above, the overall profitability analysis, estimated at 16.32%, was updated with a net present value of US$36.98 million as of February 2024. In addition, a combined sensitivity analysis was performed for a possible 20% increase in costs and a 20% decrease in benefits, which produced a consolidated internal rate of return (IRR) of 12.41% (see more details on the reformulation in required link 12).

2.10 **Environmental and social safeguard risks resulting from the reformulation.** Based on the Environmental and Social Risk Management Unit's analysis of operation 4841/OC-AR, it was determined that the operation has no pending environmental and/or social commitments related to the planned activities at the time of the reformulation, and that it has resources available to execute and complete the contracted works. The operation was originally classified under Category "B" and there is no change in category as a result of its reformulation. The operation's environmental and social risk rating is substantial. The Bank will call on the executing agency to inform the stakeholders of the partial cancellation of resources and to carry out dissemination actions for those projects that were preliminarily consulted and that will not be financed under this program. Likewise,

[34] The estimate of contingencies or unforeseen expenses refers to additional expenses that could occur if unknown risks and uncertainties materialize during the execution of the works. In this case, it is calculated considering the degree of physical progress (less than 20%), the technical complexities, and the level of detail in each of the tender projects.

the executing agency has the required team to carry out these actions and to environmentally and socially manage the works that remain in the program. With support from the Environmental and Social Risk Management Unit, the Bank will carry out continuous environmental and social oversight of the operation to ensure that the executing agency adopts any corrective measures needed.

2.11 **Strategic alignment.** The reformulated program (loan 4841/OC-AR) is consistent with the IDB Group's Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objective of fostering sustainable regional growth, as the program will finance investments that facilitate infrastructure connectivity at the provincial level and improve the productivity of provincial economies through greater efficiency in transportation operations. The program is also aligned with the following operational focus areas: (i) Gender equality and inclusion of diverse population groups; (ii) Institutional capacity, rule of law, and citizen security; and (iii) Sustainable, resilient, and inclusive infrastructure. At the time of its approval, this program was aligned with the IDB Group Country Strategy with Argentina 2016-2019 (GN-2870-1), specifically the strategic objective of improving infrastructure for investment and inclusion. Currently, the operation is aligned with the IDB Group Country Strategy with Argentina 2021–2023 (GN-3051), which remains in effect in 2024, and, in particular, the strategic objectives of reducing infrastructure gaps and improving habitat and mobility conditions of the population. The reorientation of resources does not affect the operation's alignment with the objectives of the country strategy; however, it reduces the scope of the program's contribution to those objectives and the associated indicators.

3. General San Martín Railroad Improvement Project: Retiro-Pilar Branch Line (loan 4265/OC-AR)

2.12 **Background and progress on the General San Martín Railroad Improvement Project: Retiro-Pilar Branch Line (loan 4265/OC-AR).** This specific investment loan program, structured for a total of US$400 million, was approved by the Bank's Board of Executive Directors on 24 August 2017 and is the second operation under the "Metropolitan Railway Recovery Program" Conditional Credit Line for Investment Projects (CCLIP) (AR-X1018).[35] The loan contract was signed on 20 February 2018, and eligibility for disbursement attained on 6 August 2018. The operation retains the total amount financing resources originally approved, since no amounts have been committed or disbursed to date. The executing agency launched two contracting processes for the planned works through international public tenders. The first operation was launched on 19 June 2017 and subsequently terminated by the executing agency due to changes in market conditions for similar railroad works. On 17 October 2022, the executing agency launched a new procurement process for the works but the tender has not been awarded.[36] As agreed on during the investment program portfolio review of 13 May 2024 (see required links 7 and 8) the

[35] Its objective is to support the government of Argentina in its metropolitan railroad recovery efforts, contributing to an improvement in public transportation services in the Buenos Aires metropolitan area and people's quality of life. The first operation under this CCLIP is the "Railroad General Roca Improvement Program, Constitución–La Plata Line" (operations 2982/OC-AR/5320/OC-AR), the execution of which is ongoing. Operation 2982/OC-AR is fully disbursed, whereas operation 5320/OC-AR has 95% of its funds committed.

[36] Open until 9 August 2024, when the offer received in the framework of the process expires.

full amount (US$400 million) of loan 4265/OC-AR will be redirected to finance this SDL operation. The team conducted a risk analysis for the redirection of the funds and identified the following high-level risks: (i) social risk, if, as a result of the full redirection of IDB loan proceeds for the works on the railroad, those works are not executed or experience significant delays, it could generate a negative perception among various important stakeholders, which could result in complaints from the community. In this regard, the executing agency will be called on to inform the relevant stakeholders of the government's decision to redirect the loan funds to finance the SDL; and (ii) technical risk, if, as a result of the total redirection of IDB financing resources for the railroad works, those works are not executed or are significantly delayed, the operation of various components of the branch line's railroad system could be affected, which could result in a significant deterioration in the standard of service provided to users. In this regard, the Bank and the executing agency are engaged in a technical dialogue regarding the metropolitan railways of Buenos Aires, within the execution framework of the first operation under CCLIP AR-X1018 (2982/OC-AR/5320/OC-AR Comphensive Improvement of the General Roca Railway Project: Plaza Constitución–La Plata branch), which is currently in execution.

2.13 **Environmental and social safeguard risks resulting from the reformulation.** Operation 4265/OC-AR has no outstanding environmental commitments related to the resources that will be redirected to the SDL operation, given that these constitute the totality of resources originally approved and no funds have been committed to date. This is an operation that was originally classified under Category "B" and there has been no category change as a result of its reformulation. There are no unattended environmental and/or social liabilities, nor are there pending corrective actions, since none of the works financed by the loan have been executed.[37] The executing agency team has the capacity to carry out dissemination actions. The operation's environmental and social risk rating is moderate.

4. Program to Support the Digital Transformation of MSMEs to Industry 4.0 (loan 5570/OC-AR)

2.14 **Background and progress in the Program to Support the Digital Transformation of MSMEs to Industry 4.0 (loan 5570/OC-AR).** The program's general objective is to help increase the productivity, competitiveness, and market access of beneficiary MSMEs. Its specific development objectives are to: (i) promote the innovative and environmentally sustainable productive development of beneficiary MSMEs; (ii) promote the digital transformation of MSMEs; and (iii) strengthen assistance to MSMEs in all regions of the country, and the decentralization of the programs of the Secretariat for Small and Medium-Sized Enterprises and Entrepreneurs (SEPyMEyE). The program, approved by the Board of Executive Directors on 5 August 2022 for US$80 million, is an investment loan for specific projects structured in three components: Strengthening innovation processes in MSMEs (Component 1), for US$28 million; Digital transformation of MSMEs to Industry 4.0 (Component 2), for US$32 million; and Strengthening the federal network of support services and decentralization of SEPyMEyE instruments (Component 3), originally for US$16 million. The program also includes

[37] The last disbursement date is 20 August 2024.

US$4 million for administration costs. The last disbursement date is 12 January 2028. Due to delays caused by successive leadership changes in the executing agency and the macroeconomic environment, which affected the eligibility process, as well as program implementation, this operation has disbursed US$4 million, equivalent to 5% of the total amount, while US$450,000 (0.6%) has been committed.

2.15 **Results matrix and economic evaluation.** Loan 5570/OC-AR will be reformulated to redirect a portion of its uncommitted funds (US$56 million) to finance this SDL operation, prioritizing and limiting the scope of the program for the current administration. In this case, the reformulation of the loan will involve: (i) a reduction in the scope of the general development objective; (ii) the elimination of the specific objectives; (1) promote innovative and environmentally sustainable productive development of beneficiary MSMEs; and (2) strengthen assistance to MSMEs in all regions of the country and decentralize SEPyMEyE programs; (iii) the elimination of the co-financing instruments for technical assistance projects in the areas of innovation, adaptation to climate change, and gender mainstreaming at the company (Component 1), and the cancellation of the regional institutional strengthening lines (Component 3); (iv) an adjustment in the way in which the indicators associated with the specific objective remaining from the original operation are calculated; by prioritizing programs to strengthen education and training program offerings over co-financing for corporate digital transformation projects; (v) the incorporation of new output indicators for better measurement of the reformulated program, by incorporating training and capacity building for individuals and companies; and (vi) baselines and targets, reflecting the reduction in available financial resources. It will also adjust the cost table, the results matrix, and other operational documents, which will be included in the amended loan contract to be signed by the borrower and the Bank (see more details on the reformulation in required link 13). In short, the reformulated operation contributes to increasing the productivity and access to markets of the beneficiary MSMEs, by promoting the digital transformation of these enterprises, concentrating activities on improving the supply of training services in digital transformation and the training of MSMEs and individuals. The original economic evaluation estimated a social net present value (NPV) of US$205 million, which was reflected in an IRR of 21%. As a result of the reformulation, and considering the remaining execution period, the estimates point to an IRR of 20.08%, and an NPV of US$47.7 million over a 10-year horizon.

2.16 **Environmental and social safeguard risks resulting from the reformulation.** The Program to Support the Digital Transformation of MSMEs to Industry 4.0 (loan 5570/OC-AR), has no pending environmental and/or social commitments related to the resources that will be redirected to the SDL operation, as those resources are uncommitted and not related to the activities originally envisaged at the time of reformulation. The partially reoriented operation, whose execution will continue, was originally classified under Category “B” and there is no change in category as a result of its reformulation. In that regard, the reformulation leaves unchanged the type of activities to be executed, the types of impacts and risks identified during preparation, and the safeguard management mechanisms established in the original operation; in addition, the executing agency retains the necessary equipment and budget to carry out the above-cited tasks and ensure that there are no unattended environmental or social liabilities. With the support of the project team, the Bank will monitor the operation to ensure that the executing agency adopts any corrective measures needed. The operation's environmental and social risk rating is moderate.

2.17 **Strategic alignment.** The reformulated program (5570/OC-AR) is consistent with the IDB Group's Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objective of fostering sustainable regional growth, as the program will accelerate the adoption of technologies and increase the productivity of MSMEs, positively impacting economic growth. The program is also aligned with the following operational focus areas: (i) Social protection and human capital development; and (ii) Productive development and innovation through the private sector. Lastly, the program continues to be aligned with the IDB Group Country Strategy with Argentina 2021–2023 (GN-3051), which remains in force in 2024, in particular with the strategic objective of fostering the adoption and effective use of digital technologies and innovation by companies.

5. Program for the Strengthening of Agricultural Health Services and the Sustainable Management of Maritime Resources in Argentina (loan 5660/OC-AR)

2.18 **Background and progress made in the Program for the Strengthening of Agricultural Health Services and the Sustainable Management of Maritime Resources in Argentina (5660/OC-AR).** The program was approved by the Board of Executive Directors on 16 November 2022 for US$125 million and became eligible for disbursement on 17 November 2023. This is a specific investment loan structured in two components: (i) Component 1. Strengthening the institutional capacities and infrastructure of the National Agrifood Health and Quality Service (SENASA) for the sustainable management of zoosanitary-phytosanitary resources (US$44.6 million); (ii) Component 2. Strengthening the institutional capacities and infrastructure of the National Institute for Fisheries Research and Development (INIDEP) for the sustainable management of oceanographic, marine, and fisheries resources (US$78.5 million); and (iii) Management and evaluation, for US$1.9 million. The program has disbursed US$10.1 million (8.08% of the total amount) based on Component 1 investment planning, for which some bidding processes have begun (equivalent to US$3.8 million). No resources have been disbursed or executed under Component 2 or the management and evaluation category.

2.19 **Results matrix and economic evaluation.** In the 13 May 2024 review of the investment programs portfolio (see required links 7 and 8), the Ministry of Economy informed the Bank that: (i) the investments planned to strengthen SENASA's zoosanitary-phytosanitary services under Component 1 will continue to be of interest due to their impact on exports and agricultural productivity; while (ii) the investments planned under Component 2, comprising a fisheries research vessel and the associated minor works, were not a priority for the government. Accordingly, the reformulation of operation 5660/OC-AR will involve the following: (i) US$80 million (64% of the total loan amount) will be redirected to Component 2 (US$78.5 million) and to management and evaluation (US$1.5 million), canceling the investment in a fisheries research vessel and the associated minor works; and (ii) with respect to this redirection of resources, adjustments will be made to the vertical logic, results matrix, monitoring and evaluation plan, and economic assessment will be carried out for the remaining resources of operation

5660/OC-AR. The reformulated operation will focus on its initial specific objectives, which are to: (i) improve the effectiveness of surveillance, control and prevention of the introduction of pests and diseases that affect the country's zoosanitary-phytosanitary heritage; (ii) increase the diagnostic capabilities of plant and animal health laboratories and improve quality control of agrifood products; (iii) improve the quality of certification services, payments, and procedures offered by SENASA. The reformulation entails the elimination of the specific objective of improving research capabilities in relation to oceanographic resources, marine ecosystems, and the coastline. Likewise, the redirection of resources (80% of the original loan) does not affect the vertical logic of Component 1 of the program, and the probability of achieving the expected outcomes associated with this component remains high. The probability of achieving the outcomes associated with Component 2, however, was low because the investments envisaged in this component have not been prioritized by the current administration, which has advised that these activities will not be carried out due to the economic emergency and the management priorities defined. Specifically, the reformulation entails the following: (i) the name of the operation will be changed to "Program for the Strengthening of Agricultural Health Services"; (ii) changes will be made to the results matrix, including the elimination of Component 2 and its respective output indicators; the specific objective associated with Component 2 will be eliminated, along with all of its output indicators; the general objective will be edited, eliminating the part associated with INIDEP's specific objective and its impact indicators; (iii) adjustments will be made to the monitoring and evaluation plan; (iv) adjustments will be made to the economic evaluation; and (v) the cost table will be modified.

2.20 The ex ante cost-benefit analysis of the program at the time of its design in 2022 yielded an economic internal rate of return (EIRR) of 23.1% and an NPV of US$185.3 million. In addition, the cost-benefit analysis of the reformulated operation was updated to take into account the changes in investments. The main benefits are the prevention of the entry of pests and diseases that impair both the capacity to operate in the international trade sphere and productive performance in the agricultural and food sector, and the reduction in production losses caused by these pests and/or diseases that harm crops and livestock. Considering the investments to be made during the 5 years of execution and with a 15-year horizon, the EIRR is 32.7% and the NPV, US$121.3 million. Sensitivity analyses performed on the main variables confirmed continued economic viability under the different scenarios (more details about the reformulation are available at required link 14).

2.21 **Environmental and social risks for the program in execution.** The operation has no pending environmental or social commitments related to the resources that will be redirected to the SDL operation. The operation (5660/OC-AR) was originally classified under Category "B" and there is no change in category as a result of its reformulation. In that regard, the reformulation leaves unchanged the type of activities to be executed, the types of impacts and risks identified during preparation, and the environmental and social management mechanisms established in the original operation; in addition, the executing agency retains the necessary equipment and budget to carry out the above tasks and ensure that there are no unattended environmental or social liabilities. With support from the Environmental and Social Risk Management Unit, the Bank will retain the environmental and social oversight of the operation to ensure that the executing agency adopts any corrective measures needed. The operation's environmental and social risk rating is substantial.

2.22 **Strategic alignment.** The reformulated program (5660/OC-AR) is consistent with the IDB Group's Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objectives of: (i) addressing climate change; and (ii) fostering sustainable regional growth. The program will contribute to the adaptation of agriculture to climate change, strengthen the country's zoosanitary-phytosanitary protection capabilities, and maintain and improve the agrifood sector's access to international markets. The program is also aligned with the following focus areas: (i) Institutional capacity, rule of law, and citizen security; (ii) Biodiversity, natural capital, and climate action; (iii) Productive development and innovation through the private sector; (iv) Regional integration; and (v) Gender equality and inclusion of diverse population groups. The reorientation of the resources of Component 2 implies less alignment of the operation with the focus area of "Productive development and innovation through the private sector," since the investments initially planned for fisheries and oceanographic research (which are important for the sustainable management of fisheries) are eliminated. It also remains aligned with the IDB Group Country Strategy with Argentina 2021–2023 (GN-3051), which remains in effect in 2024 and, in particular, will continue to contribute to the strategic objective of promoting engagement in foreign trade with products and services of value. The reorientation of Component 2 resources does not affect the operation's alignment with the objectives of the country strategy.

Table 2. Summary of operations with resources redirected to the SDL

Loan agreement	Dept/Div	Approved currently (US$ millions)	Undisbursed as of 12/31/23 (US$ millions)	Percentage disbursed	Last disbursement date	Available (US$ millions)	Amount reallocated (US$ millions)
5521/OC-AR	CSD/RND	33.0	31.5	5	06-Sep-27	31.50	31.50
4841/OC-AR	INE/TSP	230.0	185.8	19	24-Apr-27	80.0	80.0
4265/OC-AR	INE/TSP	400.0	400.0	0	20-Aug-24	400.0	400.0
5570/OC-AR	IFD/CTI	80.0	76.0	5	12-Jan-28	79.55	56.0
5660/OC-AR	CSD/RND	125.0	114.9	8	17-Mar-28	125.0	80.0
TOTAL						**716.05**	**647.5**

2.23 **The Bank's operational work and technical support in the country.** The Bank continues to provide sustained support to the Argentine government in strengthening fiscal policy and its institutions. In 2022, the Bank supported efficiency gains for tax policy, including the recent reform of the "monotributo" and VAT tax on digital platforms, based on international best practice (ATN/OC-17497-AR for operational support, approved in 2019 for US$300,000). It continues to support the strengthening of the National Public Investment System, specifically the processes of ex ante and ex post evaluation of investment projects and the integration of public investment management systems with the budget execution system (ATN/OC-19300-AR, for operational support, approved in 2022 for US$200,000). The Bank also assists in strengthening fiscal management at the provincial level (3835/OC-AR, approved in 2016 for US$120 million; and 4753/OC-AR, approved in 2019, for US$150 million) in the areas of tax administration, financial information systems, and cadaster management, among others. In addition, it promotes improvements in preinvestment in public works (2851/OC-AR, approved in 2012 for US$20 million, concluded; and recently approved in 2022, 5490/OC-AR for US$37 million, the execution of which has begun). The Bank has also supported the improvement of the Argentine government's financial management and information systems through operation 4802/OC-AR for US$40 million, and a new loan operation in preparation (AR-L1405 for US$60 million) for the design and implementation of a new integrated financial information system that incorporates new analytical capabilities based on artificial intelligence and machine learning.

2.24 **The Bank's experience in the region and lessons learned.** The Bank has developed extensive experience in assisting countries of the region grappling with severe macroeconomic crises with special development loans. All told, 11 operations totaling approximately US$3,326,200,000 for nine countries have been approved using the SDL instrument; this is the second such operation for Argentina. Argentina's first SDL (5609/OC-AR) also included the use of the EFF for US$200 million, increasing the Bank's liquidity support for the country's financing and reserve accumulation objectives. The operation, approved on 12 October 2022, supported the achievement of quarterly primary deficit and reserve accumulation targets and assisted the implementation of the EFF program through August 2023, when the fifth and sixth quarterly reviews were completed. At that time, the program reported substantial deviations from the fiscal deficit and reserve accumulation targets. The reactivation of the program in January 2024, with the necessary update of its goals, will allow better results to be achieved in terms of fiscal balance and reserve accumulation than originally anticipated in the 2022 operation, in a context of decelerating inflation.

2.25 Use of the SDL financial instrument has yielded lessons that have been incorporated into the design of this operation: (i) the flexibility in the use and design of the Bank's SDL instrument has enabled its effective use in channeling budget support resources quickly in a situation of deepening macroeconomic crisis; (ii) integrated into a strategy to support the improvement of fiscal management that includes various instruments, it has allowed the IMF program to be leveraged and facilitated additional technical support to the government for implementing the agreed measures; (iii) the importance of support in the form of technical cooperation and constant dialogue with the authorities to support and fulfill the commitments with the IMF; and (iv) the importance of recurrent coordination with the IMF in the preparation of the operation, including shared technical analysis and joint missions to support the implementation of structural reforms, which has assisted in the preparation of this operation. Regarding use of the EFF mechanism, the experience from operation 5609/OC-AR has shown the need for the redirection of resources to be addressed in a coordinated manner between the Bank's different departments and the country, so as to ensure the consistency of the reformulated operations and identify the developmental impact of the redirection of funds.

2.26 **Bank Additionality.** The Bank is working with the new government on the diagnostic assessment, design, and implementation of structural fiscal reforms to assist efforts to achieve fiscal balance while protecting the most vulnerable. Initially, this work has included proposals for streamlining the system of transfers to the provinces and for supporting the development of a first tax reform package (including the reduction of tax expenditures) with technical cooperation operation AR-T1381, which is in preparation. The Bank also provides technical assistance to the Federal Administration of Public Revenues (Administración Federal de Ingresos Públicos—AFIP), which, in coordination with the IMF, supported it in carrying out an assessment using the Tax Administration Diagnostic Assessment Tool. It is also supporting the implementation of a digital maturity assessment through operation ATN/OC-19396-RG. The Bank is providing technical assistance for developing a new tariff structure and a new energy subsidy targeting system through the following technical cooperation operations: ATN/OC-18657-RG, ATN/OC-19445-RG, ATN/OC-19222-AR, and the project Economic and Sector Work (RG-E1789). The Bank also supports the streamlining of social assistance programs through technical cooperation operation ATN/OC-18389-AR. With nonrefundable resources from the International Climate Initiative Fund for Fiscal Policy and Climate Change, technical cooperation operation ATN/FC-19903-AR has supported efforts in the implementation of climate change budget markers and assists the implementation of climate risk monitoring systems in macroeconomic and budgetary policy management. The Provincial Management Strengthening Program (4753/OC-AR), assists in strengthening subnational public finances and improving the efficiency of public investment, key pillars for the achievement of the program's long-term sustainable growth objectives (see required link 11).

2.27 **Coordination with other donors.** The operation has been closely coordinated with the IMF's mission team for Argentina. With the approval of the eighth quarterly review of the program on 13 June 2024, the IMF disbursed US$41,517.[38] The Bank actively coordinates its contributions for financing the government's reform program with other donors. Additional disbursements in the amount of US$1.082 million are anticipated in the second half of 2024 for the IMF program, which would thus conclude. Additional multilateral support with freely available resources is being processed: (i) in December 2023, the Development Bank for Latin America and the Caribbean (CAF) approved a US$960 million contingent liquidity line and a US$400 million support program for food provisioning; (ii) in April 2024, the Plata Basin Financial Development Fund (FONPLATA) approved a US$200 million support program for food security in Argentina. The coordination by the IDB and other multilaterals in monitoring the IMF arrangement will include monitoring of the two quarterly reviews of the EFF and more specific activities at the sector level. In order to assist the government's reform efforts and protect the most vulnerable, the Bank is processing four programs and targeted investments in coordination with the World Bank: Energy Sustainability: Integrating Social Protection and Efficiency (AR-L1406, for US$700 million); Program to Improve Early Childhood Literacy (AR-L1377, for US$150 million); Program for the Social Protection of Children (AR-L1409, for US$700 million); and Program to Support the Sustainability of Public Transportation in Argentina (AR-L1410, for US$500 million). This coordination effort includes the organization of joint operation design missions and coordinated execution plans.

2.28 **Complementarity with other Bank operations.** In 2024, the Bank's program in Argentina anticipates new funding approvals for approximately US$2.045 billion. This operation contributes to the Bank's multidimensional strategy in Argentina and to the objective of providing the greatest possible support to the government's efforts

[38] The proposed disbursements (in SDR millions) are: 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.

to achieve macroeconomic stability, while ensuring protection of the most vulnerable. The added value of the operation includes its contribution to closing the funding gap,[39] and technical inputs for monitoring the implementation of the measures and achievement of the EFF objectives. The Bank's fiscal strategy in Argentina in 2024 is reinforced by a Programmatic Fiscal Policy Reform Support Loan (AR-L1404), which is in preparation and will support specific fiscal reform measures through its tax policy and administration and expenditure quality improvement components, and an investment loan (AR-L1405), which is also in preparation and will support the improvement of the State's information and financial administration systems by promoting improvements in the technical efficiency of spending, its transparency, and coordination of financial management between the national and provincial governments. The operation will also support the government's efforts to provide child social protection by helping to increase the number of beneficiaries of the Universal Child and Pregnancy Allowance, as well as increasing the number of households with pregnant women and/or children up to age 3 participating in Family Work Programs. The Bank will support the improvement of early childhood literacy (measured as basic level to third grade of primary school) and the implementation of the digital health strategy, which will aim to reduce the time between the request for a medical appointment and the actual consultation.

2.29 **Strategic alignment.** The program is consistent with the IDB Group's Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objective of reducing poverty and inequality by promoting policies that facilitate fiscal and monetary stability and, thereby, support private investment, job creation, and growth. The program is also aligned with the following operational focus area: Institutional capacity, rule of law and citizen security. In addition, the program is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2) in the area of strengthening fiscal management; and it is consistent with the Fiscal Management Sector Framework Document (GN-2831-13), as it promotes measures to strengthen medium-term fiscal sustainability. In addition, the program is aligned with the IDB Group Country Strategy with Argentina 2021–2023 (GN-3051) (which is currently in effect and in transition) through the priority area of macroeconomic stability and the effectiveness of public policy, and the expected outcomes of the operation respond directly to the following strategic objectives: (i) move toward greater macroeconomic stability; (ii) improve the technical and allocative efficiency of public spending; and (iii) improve the tax structure to boost investment and employment. The current strategy identified the following risks that this program seeks to address: (i) dependence on monetary issuance to assist the Treasury; (ii) headroom for greater spending on social protection; (iii) lack of access to international markets; (iv) capital controls impacting activity and investment; and (v) high exchange rate volatility.

2.30 The financing of the program through the redirection of a portion of the uncommitted and available balances of the country's loan portfolio mentioned in paragraphs 2.4 through 2.21 makes it possible to increase the Bank's impact on the recovery of macroeconomic stability through policies that facilitate fiscal and monetary stability. Macroeconomic stability is essential to support economic growth and employment

[39] They include US$9.069 billion in debt interest, US$40.613 billion in amortizations, and a primary surplus of US$12.618 billion.

and thereby reduce poverty and inequality. The operations whose resources are redirected to finance this operation continue to be strategically aligned with the institutional objectives and those contained in the country strategy.

2.31 **Gender and diversity considerations.** It is not possible to align the operation with gender and diversity issues, since the program's policy matrix includes the quantitative performance criteria (QPC) required under the IMF program, and those criteria do not measure performance with regard to gender and diversity. However, the program includes the reformulation of five operations, four of which were originally aligned with gender and/or diversity. Three operations remain strategically aligned: 5660/OC-AR (AR-L1352), 4841/OC-AR (AR-L1307), 5570/OC-AR (AR-L1360); in operation 5521/OC-AR (AR-L1336) the entire budget was redirected.

2.32 **Alignment with the Paris Agreement.** Given the nature and purpose of the operation, it does not fall within the scope defined by the IDB Group Paris Alignment Implementation Approach (GN-3142-1, paragraph 2.11);[40] therefore, it does not require information analyzing its alignment with the Paris Agreement mitigation and adaptation targets.

A. Objectives, components, and cost

2.33 **Program objective.** The program's general development objective is to support the recovery of macroeconomic sustainability in Argentina. Its specific development objectives are to: (i) strengthen public finances; and (ii) strengthen the balance of payments.

2.34 The program's objectives and components are aligned with the IMF's EFF program (paragraph 1.25), which was approved on 25 March 2022. The policy matrix (Annex II) is structured in a single disbursement tranche, and its conditions include QPC as of 31 March 2024 in accordance with the EFF program. The SDL is therefore synchronized with the disbursement corresponding to the eighth quarterly review of the IMF's EFF. SDL budget support will help support the government's efforts to achieve macroeconomic stability, address structural impediments to growth, and address the risks of balance of payments imbalances, while protecting the most disadvantaged individuals and households. The following components will be funded:

2.35 **Component 1. Strengthening of public finances.** The objective of this component is to strengthen public finances. This component includes the following QPC (in Arg$ billions): (i) the accumulated primary balance of the federal government should not be less than Arg$3,868,900,000;[41] (ii) the ceiling on the balance of domestic arrears of the federal government should not exceed Arg$1,563,000,000;[42] and

[40] Consistent with the practice of other multilateral development banks, the Paris Alignment Implementation Approach does not apply to technical assistance or short-term financial instruments. More precisely, the Paris Alignment Implementation Approach does not cover technical cooperation operations, contingent credit facilities for natural disasters and public health emergencies, or SDLs.

[41] The indicator target was adjusted upward in the eighth quarterly review of the IMF program, from its original level of Arg$962.4 billion.

[42] The indicator target was adjusted downward in the eighth quarterly review of the IMF program from its original level of Arg$5,264,600,000.

(iii) the federal government should not have accumulated arrears of external debt payments.

2.36 **Component 2. Strengthening of the balance of payments.** The objective of this component is to strengthen the balance of payments through policies that support the accumulation of reserves. This component includes the following QPC: (i) the BCRA's net international reserves floor (cumulative) should not be less than US$8.7 billion; [43] and (ii) the BCRA's federal government funding ceiling (cumulative) should not be higher than Arg$2,119,400,000.

B. Key results indicators and program beneficiaries

2.37 The operation's general development objective will be measured through the GDP growth rate. Its specific development objectives will be measured using the following indicators: (i.a) improvement in the primary balance to a surplus of 1.7% of GDP, (i.b) increase in the cumulative floor of spending on social programs by the federal government to Arg$3,826,900,000; and (ii) increase in the level of net international reserves to US$8.7 billion by the end of September 2024.

2.38 The program will benefit:

a. The Argentine government: (i) by ensuring fast-disbursing resources to meet reserve accumulation needs; and (ii) by providing a strategic framework to advance the reform program.

b. The general populace, by supporting policies that will enable it to reach a path of fiscal stability by improving the quality of public spending while protecting the most vulnerable social segments, assisting reforms that stimulate investment and the creation of quality jobs, and maintaining the stability of the monetary and financial system.

III. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

3.1 The loan amount is US$647.5 million, to be financed under the SDL category with resources redirected from a portion of the uncommitted and available balances of the country's loan portfolio (paragraph 2.4) under the additional financing facility provided for in document AB-3134 (paragraph 2.2). The operation has been prepared in coordination with the IMF-approved EFF. The single disbursement tranche structure and supplementary financing arrangements with the IMF provide a flexible and effective mechanism to support policy reforms and meet short-term financing needs. The SDL resources will be transferred to the government in a single disbursement to the bank account indicated for that purpose by the executing agency.[44]

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[43] The indicator target was adjusted upward in the eighth quarterly review of the IMF program from its original level of US$6 billion.

[44] The structure of the single disbursement is consistent with the policy creating the SDL (AB-3134).

3.2 In determining the amount of the loan, consideration was given to, among other things: the size of the package of measures needed to address the macroeconomic crisis, short-term government financing and balance of payments gaps, and the limit applicable to uncommitted balances in the country's loan portfolio that can be redirected to the SDL (paragraphs 3.3 and 4.1 of the SDL category operational guidelines (GN-2031-17)). The Argentine government's gross financing requirements for 2024 are estimated at approximately US$51.839 billion (IMF 2024). This operation represents 1.2% of the requirements envisaged by the Ministry of Economy for 2024. IMF program disbursements in 2024, of approximately US$6.53 billion, will represent 12.6% of those needs. Official financing (excluding IMF financing) is estimated at US$4.02 billion in 2024, or 7.7% of gross financing needs.

B. Environmental and social risks

3.3 In accordance with the Environmental and Social Policy Framework (ESPF), the operation was classified under Category "C" as it is expected to cause minimal or no negative environmental or social impacts. Environmental and Social Performance Standards 1 and 2 were triggered and actions will be considered during project design.

C. Fiduciary risks

3.4 No fiduciary risks have been identified for this program. The loan proceeds will be disbursed directly to the Treasury. The executing agency has the necessary financial management instruments and control systems for that purpose. The funds will be disbursed upon fulfillment of the conditions established in the loan contract.

D. Other risks and key issues

3.5 **Economic-financial environment risks.** The following high-level risks were identified: (i) if the intensification of risks arising from geopolitical conflicts has an impact in terms of increasing raw material prices, the increase in energy subsidies could impair the achievement of expenditure containment objectives and undermine the attainment of inflation reduction objectives; and (ii) if adverse weather events occur that have an impact on economic activity, especially agriculture, they could jeopardize the objectives of reserve accumulation by affecting the export base. In addition, the following medium-high-level risks were identified: (i) if the economic and fiscal reform measures take time to deliver the expected results, that could jeopardize the achievement of program results, requiring contingency actions; and (ii) if financial market conditions tighten, that could put pressure on public spending targets by increasing debt service and thus jeopardize the fiscal balance objective. To mitigate the risks, the Bank will monitor the macroeconomic context (and the impacts of potential adverse weather events on it, in the case of natural environment risk) and maintain a continuous dialogue with government authorities and other multilateral agencies, in order to provide the technical support required to identify additional measures to bring about a return to fiscal sustainability. For this purpose, technical cooperation resources are available (paragraph 2.26).

3.6 **Political environment risks.** A high-level risk identified is if the structural reforms needed to reinforce the macro-fiscal stability path and assist growth are not approved due to political divisions, the achievement of program goals and the sustainability of the government's efforts could be jeopardized. To mitigate this risk, the Bank provides technical assistance to the government in the identification of reform measures under the authority of the country's executive branch to support those objectives.

3.7 **Sustainability of reforms.** Financial and technical support from the Bank and other multilaterals will facilitate the implementation of reforms and the subsequent achievement of program objectives. The Bank's monitoring of fiscal policy formulation and implementation is structured through a policy-based lending operation in preparation and the technical cooperation associated with it. Similar support is committed in key reform sectors, such as social assistance, education, and energy.

IV. Implementation and Management Plan

A. Summary of implementation arrangements

4.1 **Borrower and executing agency.** The borrower is the Argentine Republic. The executing agency will be the Ministry of Economy, which will be responsible for: (i) providing evidence that the loan disbursement commitments agreed on by the borrower and the Bank have been fulfilled; (ii) promoting measures to achieve the objectives defined in the program; and (iii) compiling, maintaining, and providing the Bank with the necessary information, indicators, and parameters for monitoring and evaluating the program's results.

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 set forth in the corresponding loan contract to be entered into between the borrower and the Bank, including the requirement that the IMF has made the disbursement corresponding to the eighth review of the EFF, as well as fulfillment of the policy conditions set forth in the policy matrix (Annex II) and in the policy letter.**

4.3 The Bank's financing will be disbursed to, and executed by, the Ministry of Economy. The planned expenditures are aligned with the areas of support envisaged for SDLs in the relevant operational guidelines (GN-2031-17); in particular with efforts to mitigate the effects of the crisis on poor and vulnerable sectors, support the gradual implementation of a progressive fiscal adjustment to ensure debt sustainability, and protect spending targeted to vulnerable groups.

B. Summary of arrangements for monitoring results

4.4 **Monitoring.** The borrower and the Bank will hold regular meetings to monitor the conditions described in the policy matrix. The Bank will also be in regular contact with the IMF mission for Argentina and will take note of any IMF decision regarding the EFF and any potential new 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, as well as through the IMF's quarterly program reviews. Consulting engagements to verify results matrix and policy matrix indicators will be financed with IDB administrative funds.

4.5 **Evaluation.** Upon the conclusion of the EFF, the Bank will prepare an evaluation of the agreed indicators and respective targets for this operation, as input for an assessment of the SDL instrument's overall effectiveness.

4.6 **Policy letter.** The policy letter will be issued by the Argentine government, in which it will reiterate its commitment to the objectives of the present operation, and is aligned with the program's policy matrix and the results matrix.

RESULTS MATRIX

PROGRAM OBJECTIVE	The specific development objectives for this operation are to: (i) strengthen public finances; and (ii) strengthen the balance of payments. Achieving these objectives will contribute to the overall development objective of supporting the recovery of macroeconomic sustainability in Argentina.

GENERAL DEVELOPMENT OBJECTIVE

Indicators	Unit of measure	Baseline (2023)	Target (2025)	Means of verification	Comments
General development objective: Support the recovery of Argentina's macroeconomic sustainability					
GDP growth	%	-1.6	5.0	FMI quarterly review reports	The baseline was set in the IMF quarterly program review on 31 January 2024. The EFF arrangement with the IMF has a duration of 30 months from March 2022 onward. The target value corresponds to IMF projections for Argentina based on the policy measures to be implemented.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline (2023)	Project completion (2024)	Means of verification	Comments
Specific development objective 1: Strengthening of public finances					
Primary balance as a percentage of GDP	%	-2.9	1.7	FMI quarterly review reports	The source of the baseline is the IMF Management Report (Eighth Review of the EFF) Target for end-2024
Cumulative floor of federal government spending on social programs	Arg$ billions	1,677.4	3,826.9	FMI quarterly review reports	The source of the baseline is the IMF Management Report (Eighth Review of the EFF) Target for end-September 2024
Specific development objective 2: Strengthening of the balance of payments					
Change in the level of net international reserves	US$ billions	-17.3	8.7	FMI quarterly review reports	The source of the baseline is the IMF Management Report (Eighth Review of the EFF) Target for end-September 2024

OUTPUTS[1]

Indicators	Unit of measure	Baseline value	Baseline year	Project completion	Means of verification
Component 1: Strengthening of public finances					
1.1 Fulfillment of the following QPC (in Arg$ billions): (i) The floor of the federal government's cumulative primary balance is not less than 3,868.3. (ii) The ceiling on the federal government's balance of domestic arrears does not exceed 1,563. (iii) The federal government has not accumulated any external debt payment arrears.	Report	0	2023	1	IMF Management Report (Eighth Review of the EFF) verifying condition fulfillment, approved by its Executive Board.
Component 2: Strengthening of the balance of payments.					
2.1 Fulfillment of the following QPC: (i) The BCRA's NIR floor (cumulative) is not less than US$8.7 billion. (ii) The BCRA's federal government funding ceiling (cumulative) is not higher than Arg$2,119,400,000.	Report	0	2023	1	IMF Management Report (Eighth Review of the EFF) verifying condition fulfillment, approved by its Executive Board.

[1] The quantitative criteria included in this matrix refer to the levels at 31 March 2024.

POLICY MATRIX[1]

PROGRAM OBJECTIVE	The specific development objectives for this operation are to: (i) strengthen public finances; and (ii) strengthen the balance of payments. Achieving these objectives will contribute to the general development objective of supporting the recovery of macroeconomic sustainability in Argentina.

Policy components/objectives	Conditions for the single-tranche operation	Fulfillment of conditions[2]
Component 1. Strengthening of public finances		
Strengthening of public finances	1.1 The borrower has met the following QPC (in Arg$ billions): (i) The floor of the federal government's cumulative primary balance is not less than 3,868.3. (ii) The ceiling on the federal government's balance of domestic arrears does not exceed 1,563.0. (iii) The federal government has not accumulated any external debt payment arrears.	**Fulfilled** **(March 2024)**
Component 2. Strengthening of the balance of payments.		
Strengthen the balance of payments	2.1 The borrower has met the following QPC: (i) The BCRA's NIR floor (cumulative) is not less than US$8.7 billion. (ii) The BCRA's federal government funding ceiling (cumulative) is not higher than Arg$2,119,400,000.	**Fulfilled** **(March 2024)**

[1] The policy matrix is aligned with the quantitative performance criteria (QPC) in the IMF's EFF program as of 31 March 2024.

[2] The disbursement of the SDL proceeds will be subject to fulfillment of the conditions set out in the corresponding loan contract and in this policy matrix, including the requirement that the IMF has made the disbursement of the resources corresponding to the eighth release of funds under the EFF program, within the framework of the eighth quarterly review of the implementation of the EFF program.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24

Argentina. Loan ____/OC-AR to the Argentine Republic. Program to Support Fiscal Sustainability and Growth

The Board of Executive Directors

RESOLVES:

1. 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 Program to Support Fiscal Sustainability and Growth. Such financing will be for the amount of up to US$647,500,000 from the Bank's Ordinary Capital, from the redirection of uncommitted resources of the following loans: (i) up to US$ 400,000,000 from Loan No. 4265/OC-AR; (ii) up to US$ 80,000,000 from Loan No. 5660/OC-AR; (iii) up to US$80,000,000 from Loan No.4841/OC-AR; (iv) up to US$56,000,000 from Loan No. 5570/OC-AR; and (v) up to US$31,500,000 from Loan No. 5521/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.

2. Authorize the President of the Bank or such representative as he shall designates, so that in the name and representation of the Bank, he proceeds to adopt all the measures and sign the agreements, as appropriate, that are pertinent to implement the modifications described in Chapter II of the Loan Proposal concerning the loans referred to in paragraph 1 of this Resolution.

(Adopted on _______________ 2024)

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