

**PUBLIC DEBT - ARRANGEMENT WITH THE
INTERNATIONAL MONETARY FUND**

IMPACT ON SOLVENCY AND SUSTAINABILITY

SPECIALIZED AUDIT OF PUBLIC DEBT

2018 – 2019

Record No. 294/2020

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Public Debt Control Management

Executive Summary

On June 12, 2018, the Ministry of Treasury (“MH”) signed, together with the President of the Central Bank of the Argentine Republic (“BCRA”) a Stand-By Arrangement (“SBA”) with the IMF, which was amended on October 17 that same year, thereby resulting in the addendum to the Arrangement. As a complementary measure, the MH and the BCRA signed an Agreement (June) and its subsequent addendum (November) on their respective responsibilities in relation to the SBA.

The IMF loan constitutes **direct external debt** and, due to the characteristics of the creditor, it has been classified under **Multilaterals**. The BCRA serves as financial agent of the National Government and signs the Letter of Intent as Alternate Governor before the IMF.

The SBA of June authorized a 36-month borrowing for an amount of SDR 35.379 billion (approx. US\$ 50 billion), which was extended in the Addendum to SDR

40.714 billion (approx. US\$ 57 billion), 15% higher than the original amount. The actual amount disbursed was SDR 31.914 billion (approx. US\$ 44.210 billion). Funding far exceeded the **maximum amount defined** under normal access conditions (defined as a percentage of the member country's quota)¹. There is no record in the files, nor is there any mention in the Arrangement, of any background analysis in relation to the exceptional grant made to Argentina.

Relative importance of the Stand-By Agreement

Indicator	2018	2019
SBA / Direct debt	9%	14%
SBA / Multilateral debt	57%	67%
SBA / Government bonds	11%	20%
SBA / Exports	45%	68%

Source: Compilation based on ME

The purchase of foreign currency under the Program (the amount and composition of which are determined by the MH) generates a **Letra Intransferible** in Argentine pesos in favor of the IMF, and adjustable for the equivalent to the

¹ The amount effectively requested resulted a 634% of quota in 2018, and 1,001% in 2019, with the limit under normal access conditions being 435%. The excess over quota was equivalent to SDR 3.162 billion in 2018 and SDR 14.862 billion in 2019.

requested disbursement, which is deposited with the BCRA in the name of the IMF until payment thereof is required, by crediting the IMF's account.

The SBA is framed in a set of **conditionalities**², as described in the Letters of Intent (“LoI”) and Memoranda, reflecting the country's commitment to adjusting its economic policies in order to ensure progress in the implementation of the program. In the event of non-compliance with the quantitative criteria, the IMF may consider moving forward with the program and grant disbursements through a formal waiver. In this respect, in the addendum to the Arrangement, the authorities stated the impossibility of meeting the objectives proposed in the first LoI and requested a waiver from the performance criteria, which were changes agreed upon with the IMF. However, there was no evidence of compliance with the

² They consist of *quantitative conditionalities* -upon the observance of which IMF disbursements are conditional, unless the Executive Board decides to suspend their application- or *structural measures* - the progress of which is comprehensively assessed through benchmarks in key policy areas, among others-.

quantitative performance criteria that would allow subsequent disbursements made or any waivers by the Fund.

The SBA was entered into in the midst of several changes in the administrative structure of both the MH and the BCRA³, thus affecting their internal control, especially their control environment component.

Applicable Regulations

The SBA subscribed in 2018 was governed by regulations dated 1975 (Decree 227) and the Law of Ministries, since the IMF's

³ Consistent with the risks detected in the planning stage, during 2018 and 2019 there were 9 modifications in the administrative structure of the Ministry: 3 ministerial modifications, 4 Undersecretariat modifications, and 2 modifications at the first and second operative levels. It should be pointed out that the 3 ministerial changes and 3 of the Undersecretariat level changes occurred during the term of the Arrangement. During the period between March 5, 2018 and June 26, 2018, the Undersecretariat of Finance was eliminated, so the National Office of Public Credit (“ONCP”) became directly reporting to the Secretariat of Finance (“SF”). The most significant change consisted in the split of the Ministries: Ministry of Treasury (“MH”) and Ministry of Finance (“MF”), to later be unified again as of June 21, 2018. Meanwhile, at the BCRA, 13 changes were made to its administrative structure, resulting in the elimination of 15 areas or divisions, the incorporation of 9, and a change in the reporting lines of 6 areas.

Articles of Agreement provide for the Fund's negotiations with the Ministry of Treasury (MH) (although without taking into account the division of ministries and its corresponding duties).

In addition, other relevant regulations were not taken into consideration, such as the Financial Administration Law (“**FAL**”) in effect since 1993 and Resolution 108/09 of the **MEyFP** (Ministry of Economy and Public Finance) -which governs all public credit operations undertaken with international financial institutions, and which was approved after the previous to last SBA between Argentina and the IMF (2003)-⁴.

Regarding the application of this Resolution, the information provided does

⁴ Regardless of whether the purpose of the financing is an investment project or not, such regulation provides for cases where investment projects are not involved, along with the steps to be followed. Likewise, in practice, the aforementioned resolution was applied to the CAF (Andean Development Corporation, now the Development Bank of Latin America) loan approved by Decree 764/18, even though it did not qualify as an investment project. Furthermore, the then Minister of Treasury mentioned that both loans (CAF and IMF) would serve as "budgetary support" to "meet the objective of the Plan".

not indicate any consultations made to the legal service or to the enforcement authority (“**DNFOIC**”: *Dirección Nacional de Financiamiento con Organismos Internacionales de Crédito*, the National Office for Financing with International Credit Organizations) to rule out its application. This regulation is subsequent to the previous SBAs and was issued within the same Executive Branch by the then MEyFP to regulate the management procedure of such debt instruments.

Authorization and Signing

The arrangement with the IMF was neither authorized nor signed by a competent authority as required by the regulations applicable to public credit management, since it was signed by the MH, which was not regulatory entrusted with the duties related to public credit, and it was not the “**OCSAF**”⁵ (*Órgano Coordinador de los Sistemas de Administración Financiera*, the Coordinating Body for Financial

⁵ Public debt must be authorized by the Coordinating Body for Financial Administration Systems (OCSAF) (Section 59 of the FAL).

Administration Systems), thus failing to comply with Section 3 of Law 19,549 (exercise of competence) and Section 59 of the FAL (authorization by the OCSAF). At the time of entering into the Arrangement, such duties rested with the Ministry of Finance (“**MF**”) and were later assigned to the Ministry of Treasury (**MH**) as of the effective date of Emergency Decree (“**DNU**”) 575/18 (June 21, 2018).

As regards the BCRA, its President had the authority to sign the Arrangement, despite the lack of Senate concurrence and no opinion issued by the Bank's legal service on his/her competence (taking into account the initial signing of the Arrangement).

Compliance with Section 61 of the Financial Administration Law

The BCRA did not issue an opinion regarding the impact of the transaction on the balance of payments as required by Section 61 of the FAL. Such opinion was required, as it constituted an external public debt resulting from a public credit transaction under the terms of Section

57(c) of the FAL. In addition, given the SBA's status as a Multilateral loan, the procedure regulated by Resolution MEyFP 108/09 was applicable, which procedure states that the BCRA's opinion must be submitted (Stage 2, Step 1).

The Bank explained that it had not issued an opinion "*since this was not required by the Ministry of Economy, public sector entity issuing or engaging in the transaction*", an instance that did occur in the issuance of other debt instruments.

Approval of the SBA by higher authority rule

The IMF loan was not approved by a decree, a requirement derived from the application of the FAL (Section 60) to express the will of the National Executive Power (“**PEN**”), and also expressly required by Resolution MEyFP 108/09.

Section 60 of the FAL provides that multilateral financing does not need to be approved by means of a budget law or any specific law, delegating this power to the

PEN, which "formalizes" such transactions by means of a decree as an expression of the will of the PEN. Accordingly, all multilateral loans (covered by the exception of Section 60 of the FAL) comply with this requirement and are approved by a decree, regardless of whether they are signed by authorized and competent officials for such purpose (which did not occur in this case, either). In this regard, Resolution MEyFP 108/09 provides for the approval procedure for a Decree once the negotiations with the international organization have been completed (stage 3).

Although the ME explained that "*(...) in all cases, the manner of execution of these arrangements has been the one used for these cases, i.e., not by means of the execution of a single document by the parties, but by means of the execution of the respective letter of intent by the competent Argentine authorities and the subsequent approval by the governing body of the international financial institution*", it should be noted that in the

case of the previous SBAs (2000 and 2003), Resolution MEyFP 108/09 was not yet in force.

It should be made clear that Law 27,612⁶ on the Strengthening and Sustainability of the Public Debt was subsequently enacted, providing that all arrangements with the IMF must be approved by means of a special law.

Processes associated with the signing of SBA at the "MECON" (Ministry of Economy)

The auditee did not implement the procedure applicable to multilateral debt (Res. MEyFP 108/09). Furthermore, the real processes associated with foreign exchange disbursement and purchase that were implemented, although similar, were not homogeneous in terms of the areas involved, the type of interventions or procedures applied, and the sequence in which they were carried out.

⁶ Argentine Official Gazette dated March 3, 2021.

The auditee did not *provide evidence of the existence* of procedure manuals *related to* transactions with the International Monetary Fund. Nor did the auditee describe the procedures actually applied (actual process, i.e., the sequence of steps or work routine actually performed)⁷.

Processes associated with the signing of SBA at the BCRA

The BCRA had specific standardized procedures (process maps and procedural instructions) for operational matters related to disbursement, purchase and sale of SDRs, which do not include the preliminary stage of negotiation and signing of the SBA. For the preliminary stage of negotiation and signing, the BCRA did not establish specific regulated procedures⁸.

⁷ AGN Note 676/20 (question 6). Consultation restated in AGN Note 610/21 (question 13).

⁸ The BCRA stated that it has intervened in operational matters. For such purposes, it has the following Procedural Instructions (“PI”) (Response to AGN Note 674/20, question 5):

1. Annual reassessment of IMF's local currency holdings at the end of its financial year (PI 625, P018)

Although the process maps were in force at the time of the signing, the procedural instructions were somewhat outdated and were adapted, but after the signing of the SBA⁹. The real processes are in line with BCRA's process maps and procedural instructions, except for the first and third foreign currency purchases.

Versions of the SBA and Transparency

The evidence does not clearly show the final version of the Arrangement (there exist multiple versions of the text of the SBA, but it is not possible to determine which one is the final version).

Not all final versions of the Arrangement and its amendments were translated in accordance with Law 20,305 and published in official media. (Except for the SBA of June 2018, neither the MECON nor the BCRA have the SBA and amendments thereto publicly and officially translated

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2. Execution of financial arrangements negotiated with the IMF (PI 637, P019)
 3. SDR Purchase and Sale Transactions (PI 626, P150).

⁹ P018 updated on 23/Sep/2020, P019 updated on 23/Oct/2020, and P150 updated on 28/Sep/2020.

into Spanish, in breach of Section 6 of Law 20,305 on Sworn Translators¹⁰, and of Decree 336/17 on administrative procedures¹¹).

With regard to transparency, the SBAs of June 12, 2018 and of October 17, 2018 are published on the ME website, except for their amendments (without certainty as to whether they are the final versions). As for the BCRA, the SBA is not published on the Bank's website.

It should be noted that the text of the Arrangement document does not detail all the loan conditions: while the amount, term, and currency are stated in the letter of intent, the rate and repayment schedule

¹⁰ Section 6 of Law 20.305 provides that "Any document submitted in a foreign language to public, judicial, or administrative offices, entities, or agencies of the National Government, of the Municipality of the City of Buenos Aires, or of the National Territory of Tierra del Fuego, Argentine Antarctica and South Atlantic Islands, must be accompanied by the respective translation into the national language, signed by a sworn translator registered in the jurisdiction where the document is submitted".

¹¹ Paragraph 2, clause "f", of the annex to the Decree states as follows: "In the event that the agreements, treaties, etc., have not been written in Spanish, a translation into Spanish, certified by a national sworn translator, must be attached, which shall also be included in the corresponding project."

are not explicitly stated in the document itself, whereas they were found in the IMF's factsheets.

With respect to confidential information¹² referred to in Section 8(b) of Law 27,275, although the General Department of Legal Affairs ("GPEJ") concluded that "considering the integrity of the information, confidentiality must be specified in the publication", this was not mentioned in the published versions.

Processes associated with the MH-BCRA Agreement

Neither the MH nor the BCRA had a regulated process for the preparation and execution of the Agreement and its

¹² It refers to the **Intervention Consultation Clauses**:

"12. Staff consultation clause on intervention in spot and deliverable forwards 10/

13. Staff consultation clause on new non-deliverable forwards 10/".

The BCRA's Office of the Deputy General Manager of Operations was of the opinion that it is "sensitive information that, if known by market participants, could create disruptions in its normal operation and/or reduce the effectiveness of the tools available to this institution to operate in the foreign exchange market" (IF-2018-00157087-GDEBCRA-SGO#BCRA, electronic file EX-2018-00154908- -GDEBCRA-GG#BCRA).

addendum. However, the MH implemented uniform sequences that determine the existence of a real process for the execution of the Agreement and its addendum, a fact that could not be verified for the BCRA, since there is no related documentation in the files submitted.

Compliance with MH-BCRA Agreement by the MH

Non-compliance with Article 1, item 1, of the MH-BCRA Agreement was detected in connection with the timelines established in the request for disbursement (dates of notification by the MH to the BCRA, and of the transmission of the BCRA's SWIFT requesting IMF disbursement of foreign currency).

In the 1st, 3rd and 5th disbursements, the SWIFT from the BCRA to the IMF is prior to the purchase request from the requesting agency (MH). It should be outlined that although the first disbursement was effectively made on June 22 when the SBA had already been approved (June 20), the BCRA's request to the IMF (SWIFT) for

the first purchase of foreign currency was made before that date (June 18).

With respect to the rest of the articles of the agreement, compliance with all the terms and conditions could not be ascertained, since the files do not contain information about all the provisions.

Areas involved

The actual process does not include the intervention of all the areas that are critical due to the competence assigned to them by law, with the lack of intervention of the Ministry of Finance (area with competence in public credit matters) being particularly noteworthy.

In this respect, it was verified that the areas specified in Resolution MEyFP 108/09 as participating in the process of credit management with multilateral organizations (National Office for Financing with International Credit Organizations -**DNFOIC**-, Cabinet Chief's Office -**JGM**-, National Budget Office -**ONP**-, National Public Credit Office -**ONCP**-, **BCRA**, National Office of Public

Investment -DNI-) did not intervene, and that those areas which, because of the duties assigned to them in public credit matters, should intervene in order to ensure an efficient management of the SBA (ONCP, Financial Information and Programming Office, Undersecretariat for International Financial Relations, Secretariat of Legal and Administrative Affairs, and Undersecretariat for Legal and Regulatory Affairs) failed to intervene as well.

It should be stressed that the National Office for Projects with International Credit Organizations (“DNPOIC”), which is the implementing authority of Resolution MEyFP 108/09, under the Secretariat of Economic Policy of the then MEyFP (Ministry of Economy and Public Finance), did not intervene in the SBA. However, at the time of entering into the SBA, the Ministry of Economy had been spun off and the said DNPOIC was within the Ministry of Finance (MF).

In relation to the Cabinet Chief’s Office (JGM), its intervention was required under

Res. MEyFP 108/09 and because the JGM has the duty to "coordinate and control the priorities and interjurisdictional relations related to the management and execution of financing from international lending agencies", among others (Law 22,520, as per DNU 513/2017, Section 5).

On the other hand, the National Treasury Prosecutor's Office ("PTN") did not intervene in the negotiation, authorization and signing stage of the SBA with the IMF¹³, as it does with other types of borrowing (e.g., international government securities and multilateral debt with the IBRD). Consistent with its duty to intervene in "complex legal matters of institutional involvement and economic relevance" given its institutional status and technical expertise, its intervention would have provided a fundamental supervisory

¹³ Pursuant to Law 24,667, the PTN is a decentralized agency of the PEN, whose administrative structure and budget are within the structure and budget of the Ministry of Justice of the Nation (Section 2). However, the National Treasury Attorney reports directly to the President of the Nation. He/she has a hierarchy equivalent to that of Minister and exercises his/her powers with technical independence (Section 1).

instance that could have mitigated operational risks, particularly those related to non-compliance with regulations. Neither the MH nor the BCRA requested the intervention of the PTN.

Likewise, the Internal Audit Unit (“IAU”) was not required to intervene at any time during the SBA negotiation process. At the time of the signing of the Arrangement, the existing IAU was under the authority of the MH, but did not have any authority in public credit matters¹⁴.

Legal advice and intervention of the permanent legal services of the MH and BCRA

¹⁴ It should be mentioned that at the time of the spin-off of the former Ministry of Economy, the creation of an Internal Audit Unit for the former MF was provided for (by virtue of the provisions of Administrative Decision (“DA”) 309/2018 as amended by DA 787/2018), and the transfer of the projects and activities that were approved in the Annual Plan for the fiscal year 2018 as well as the transfer of the personnel were considered, but such Unit was not effectively created (although its existence and duties were provided for in the regulations and were in effect). Also, after the issuance of DNU 575/2018, such measure became null and void, as a consequence of the elimination of the aforementioned ministerial office and the concentration of its competences in the MH.

The legal advice provided by the Office of Contractual, Legislative and Tax Affairs (“DACLyT”, of the former MH) and the General Department of Legal Affairs (“GPEJ” of the BCRA) was neither effective nor timely in relation to the SBA.

The legal services did not carry out a thorough and in-depth analysis of the legal situation in relation to the SBA, which are attributes that the PTN's doctrine advocates. There are no minimum requirements for the analysis of the opinions; therefore, not all the regulations in force were duly considered, as established by the PTN, particularly those that were finally breached. Also, the intervention of the legal services occurred after the signing of the June Arrangement and on the same day as that of October.

Most notably, the DACLyT ruled on the competence of the MH to sign the first the SBA based on regulations that were not in force at the time of signing¹⁵.

¹⁵ For the first SBA of June 12, 2018, the legal service gave its opinion on June 22, 2018 based on

With respect to the BCRA-MH Agreement, the BCRA's legal service (GPEJ) did not intervene prior to the signing of the Agreement; however, it did intervene in the amendment thereof at the request of the BCRA General Management.

Advice in terms of cost/risk

At the time of deciding to request the loan from the IMF, the MH did not perform any analysis to determine the characteristics of the requested loan, to evaluate its terms and conditions, to support the decision to sign the Arrangement, nor did it carry out any analysis in terms of the financial costs/risks of the borrowing, or of solvency/sustainability.

This is despite the fact that there were analyses detected that could have been considered as inputs for this purpose or as a basis for analysis for decision making¹⁶.

the DNU 575/18 (in force as of the day before and published on the date of the opinion), and not based on the regulations in force at the time of signing (DNU 2/17).

¹⁶ In these analyses, the MF prepares debt projections as well as sensitivity and scenario

There were also specific areas with resources and specific duties defined by the regulations that admitted the preparation of this type of analysis, particularly the National Office of Public Credit (“ONCP”) and the Office of Coordination of Risk Analysis and Financial Programming (“CARyPF”). Regarding the ONCP, the Ministry of Economy explained that the only interventions by the ONCP were those recorded in the files, and were limited to preparing the *Letras Intransferibles* as requested by the Secretariat of Treasury (“SH”).

It should be pointed out that the lack of such technical advice is the result of the non-intervention of the MF (Ministry of Finance) in the negotiation and signing stage and of the failure to apply Resolution 108/2009 of the MEyFP.

analyses for the total debt and the financial gap to be covered in the international market with respect to economic growth, the primary result, and the interest rate. Although the ONCP (National Public Credit Office) refers to them as "sustainability exercises", these do not conform to the debt sustainability analysis postulated by the IMF.

On the other hand, the Ministry did not provide a copy of the fiscal risk analyses and the long-term fiscal sustainability analysis referenced in the Memorandum of Economic and Financial Policies of the Arrangement.

Traceability and reporting of the use and application of funds

The process was not effective to comply with the stipulations of the BCRA-MH Agreement, since there is no record of reports sent to the IMF by the MH under Article 1, item 6, of the MH-BCRA Agreement¹⁷, and there was no process designed to comply with said obligation. The auditee does not specify which area was in charge of providing this information.

The intended purpose was budgetary use, a broad concept that encompasses all

¹⁷ This article establishes that the MH will provide the IMF with details on the use of the loan proceeds ("daily" as set forth in the first version, and "weekly" as amended in the addendum), providing traceability of the associated costs (a commitment that disappears in the addendum).

financial applications of the public administration.

The auditee did not establish the reason for the need of the financing from the IMF for budgetary purposes in advance, except in the text of the Letters of Intent itself and in a document of the MINISTRY OF TREASURY (*Ministerio de Hacienda*, or MH) after the signing.

Regarding the regulatory backing to the inclusion of the SBA resources in the 2018 Budget -which did not originally contemplate this source of resources-, it appears from the auditee's information that not all the resources were included in the 2018 Budget by means of a formal budget increase. Two of the SBA loan disbursements effected in 2018 (representing 30% of the loan resources - AR\$ 499.758 billion out of a total of AR\$ 911.788 billion received in 2018-) were not entered in the budget via Decree or Administrative Decision. In 2019, instead, the resources received and applied had a budgetary authorization as they were

contemplated in the 2019 Budget Law and in the DA 12/19 (AR\$ 474.362 billion) and DNU 740/19 (AR\$ 225.875 billion).

With respect to the type of expenditure financed with these funds, the auditee informed that a portion of the funds received from the Arrangement were applied to the payment of debt servicing, expenses, and fees. Another portion was applied to the payment of foreign trade obligations related to the energy market, all budgetary items.

Part of the first disbursement was held on deposit in a special account with the BCRA (Reserve Strengthening Account) during 2018 (US\$ 7.5 billion) until October 2019, when it was also applied to the payment of debt servicing and expenses (budgetary use).

The rest of the funds were kept in operating accounts of the National Treasury opened at the BCRA, with no exclusive account available to receive and apply the SBA funds. In this sense, the process was also inefficient in terms of

accountability and traceability of the use of funds, which was reported through Excel manually operated spreadsheets.

In relation to the use of resources for the cancellation of public debt servicing, it is observed that 71% of the resources were used to cancel debt servicing costs issued during the 2016-2019 period (short-term), with a highlight of the payments for services of debt issued in 2018 and 2019, the years when the same financing provided by the SBA was taken (almost 39% of the SBA funds).

Action taken in connection with the provisions of Article VI of the IMF's Articles of Agreement (“AA”)

During the SBA period, considerable and continuous capital outflows were observed, reaching the maximum of the decade and the maximum of the period of easing of foreign exchange regulations (2016-2019).

The implementation of measures to prevent capital outflows took place in September

2019¹⁸, after the five disbursements of the funds under the IMF loan were made, and such implementation was not timely under the terms of the IMF's Articles of Agreement¹⁹.

On the other hand, there is no evidence that the IMF has requested Argentina to adopt control measures to comply with the provisions of Article VI, Section 1, of the IMF's AA in relation to capital outflows. It is worth mentioning that such prohibition is not contained in the text of the Arrangement nor of the MH-BCRA Agreement.

SBA's impact on solvency and sustainability

¹⁸ Communication "A" 6770 of the BCRA, dated September 1, 2019, which reestablishes exchange controls that had been eliminated as of December 2015.

¹⁹ Article VI of the IMF states that the resources provided by the IMF may not be used to meet a large or sustained outflow of capital (Section 1(a)), without defining such concept. This Article states that members may exercise such controls as they deem necessary to regulate international capital movements (Section 3) and that the IMF may require the member to adopt control mechanisms to prevent such use of the general resources of the Fund (Section 1).

The SBA years saw an increase in the level of indebtedness with respect to GDP.

	2014	2015	2016	2017	2018	2019
D/GDA	43%	50%	52%	56%	85%	89%

Source: Compilation based on INDEC (National Institute of Statistics and Censuses) and CGN (National Accounting Office) (Table 1A of the Investment Account)

This resulted in a greater need for resources to repay debt, increasing the risk of illiquidity in the short to medium term, particularly in the years 2022 and 2023.

Maturity Year	Without-IMF	With-IMF	Var %
	Maturities	Maturities	
2021	24,994.51	30,089.04	20%
2022	27,171.05	46,142.32	70%
2023	22,706.22	41,927.54	85%
2024	22,117.59	26,961.47	22%
		Average	49%

Source: Compilation based on ME

In addition, the signing of the SBA had an adverse impact on the debt structure by significantly increasing the composition of foreign currency and variable rate debt, reducing the term of the debt, and increasing the degree of debt concentration in a single creditor for which there are no repurchase/restructuring mechanisms, thus

affecting diversification and the potential for debt restructuring or renegotiation.

The SBA loan conditions analyzed (currency, amount and term) increase the risk of debt unsustainability by increasing the proportion of resources intended for repayment of SBA maturities to such an extent that these maturities exceed the payment capacity (measured on the basis of Gross National Savings -“GNS”-).

Payments to IMF in connection with GNS ¹								
Indicator	2018	2019	2020	2021	2022	2023	2024	
Payments to IMF	1%	2%	2%	7%	27%	28%	7%	
Average GNS								73%
R								

Source: Compilation based on INDEC and ME

The amount of the SBA funding -given the term and currency- increases the significant exposure to local currency devaluations and generates high refinancing risks (need to obtain a high volume of resources in foreign currency in a very short period of time) which, if having difficulties in obtaining the necessary resources, would entail the

requirement of a strong increase in the primary surplus, a situation that affects debt sustainability (according to the IMF's definition).

The lack of a debt strategy - defined in terms of best practices²⁰- setting out

²⁰ The debt management strategy is the plan that the government seeks to implement over the medium term (3-5 years) to achieve a particular composition in the debt portfolio, reflecting its preferences regarding cost/risk trade-offs. The strategy allows the government to translate its debt management objectives into reality and to place special emphasis on managing the risk exposure implicit in the debt portfolio, specifically, the potential variations in debt servicing costs and its effect on the budget. The debt management strategy should cover all the current debt of the central government and all planned borrowing, including borrowing from the BCRA, for a minimum of three years; it should therefore be updated annually. In particular, debt management strategy identifies how costs and risks vary as the composition of the debt portfolio changes.

The document of the debt management strategy should preferably include the following:

- a description of the market risks being managed (risks related to the exchange rate, interest rate, and refinancing or renewal) and of the historical context of the debt portfolio;
- a description of future debt management environment covering fiscal and borrowing projections, exchange rate and interest rate assumptions, and constraints on portfolio choices, including those related to market development and monetary policy implementation;
- a description of the analysis performed to support the recommended debt management strategy, which should clarify

objectives regarding the level and structure of the debt, as well as the lack of prior analysis of technical areas as observed in the SBA signing process, contributed to the adverse impact of the SBA on the debt structure and its sustainability.

Conclusion

The SBA did not comply with the procedural and process guidelines that ensure efficiency and effectiveness in debt management, resulting in legal non-compliance, affecting sound debt management, violating the adequate supervision of financing, and impacting solvency and sustainability.

Failure to comply with regulations, the lack of intervention of critical areas, the lack of timely and effective technical evaluations, as well as the quality of advice, affected the adequate management

of operational and financial risks related to the process of design, negotiation, authorization, signing, administration of resources, and rendering of accounts. Consequently, the auditee made decisions without having the necessary information regarding the cost and risk assumed, thereby impacting the solvency and sustainability of the public debt.

Finally, the late implementation of restrictive measures on capital movements impaired the effectiveness of preventing the Fund's resources from being used to face significant or continuous capital outflows, which is in contradiction to the provisions of the IMF's Articles of Agreement.

the assumptions used and any limitations of the analysis;

- recommended strategy and substantiation.

Source: World Bank-IMF, "Formulation of a Medium-Term Debt Management Strategy: Guidance Note for National Authorities"; February 24, 2009.