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BACKGROUND PAPER

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The IMF's Exceptional Access Policy in the 2018 Stand-By Arrangement for Argentina

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ABBREVIATIONS

BCRA	Banco Central de La República Argentina (Central Bank of Argentine Republic)
BOP	Balance of Payments
CFM	Capital Flow Management Measure
DSA	Debt Sustainability Analysis
EA	Exceptional Access
EAC	Exceptional Access Criterion
EAP	Exceptional Access Policy
ED	Executive Director (IMF)
FIN	Finance Department (IMF)
FX	Foreign Exchange
GFN	Gross Financing Needs
LEG	Legal Department (IMF)
MCM	Monetary and Capital Markets Department (IMF)
MD	Managing Director (IMF)
RES	Research Department (IMF)
SBA	Stand-By Arrangement
SPR	Strategy, Policy and Review Department (IMF)
WHD	Western Hemisphere Department (IMF)

EXECUTIVE SUMMARY

This paper analyzes the experience with the IMF's Exceptional Access Policy (EAP) during the 2018 Stand-By Arrangement (SBA) for Argentina. The arrangement was the largest in the Fund's history and the first in which debt fell in the so-called "gray zone," that is, debt was assessed to be *sustainable but not with high probability*.

The arrangement was designed, negotiated, and implemented against a complex background. Major factors included the unconventional and heavily scrutinized relationship of Argentina with the IMF, the highly polarized domestic political situation, and the strong support and expectations of the international community regarding the program.

Views were divided on the diagnosis of the problems, on the policies chosen to address them and, closer to the core of this paper, on the fulfillment of the four criteria of the EAP. Eventually, the program failed in its macroeconomic objectives, giving rise to strong external and internal criticism.

The paper finds that, on the positive side, the EAP was a useful tool for systematic and critical thinking, providing a benchmark for decision making. The framework forced a deliberate assessment of debt sustainability, market access, and institutional and political capacity for program implementation. This, in turn, led to the elaboration of program documents that clearly laid out the known risks involved in the program, most notably the chances of policy discontinuity after the 2019 presidential elections.

The case, however, also reveals problems with both the design and implementation of the EAP. The four exceptional access criteria were too vague, sometimes confusing, and incorporated too much room for judgment, leading to internal and external disagreements and uncertainty about their applicability and fulfillment. Therefore, while the IEO did not find evidence that the EAP was violated, as it is often claimed, the framework generally failed in three out of four of its objectives: (i) it did not provide an anchor strong enough to shape the expectations of members and markets; (ii) it did not sufficiently reduce risks to safeguard the Fund resources; and (iii) it did not prevent the perception of a relatively more favorable treatment to Argentina. Moreover, positive assessments of the criteria may have provided a misleading sense of reduced risks.

I. INTRODUCTION

1. **This paper analyses the implementation and functioning of the IMF's exceptional access policy (EAP) during the 2018 Stand-By-supported program for Argentina (2018 SBA),** in support of the IEO evaluation "The IMF's Exceptional Access Policy." Its main objective is to evaluate the application and usefulness of the EAP and draw general lessons for the policy itself. The 2018 Argentina SBA constitutes a key case study because it was the largest arrangement in IMF history, one of the three cases under the current EAP design, and the first in which debt sustainability fell into the so-called "gray zone" after the 2016 reform of the policy (see Erce, 2024). Argentina's 2018 SBA has been heavily scrutinized by internal and external observers.[1] This report uses this body of work as a starting point and complements it by focusing on the decision-making processes.[2]

2. **The paper draws on a variety of sources**: (i) a desk review of IMF documents, both public and confidential, including briefing papers, staff reports, EPEs, and back-to-office reports; (ii) review of external literature; (iii) interviews with IMF staff and management, IMF Executive Directors (EDs), country authorities, and other stakeholders; and (iv) a sentiment analysis exercise using natural language processing (see Annex IV).

3. **The paper is structured as follows**. Section II analyzes the relevant factors that framed program negotiations; Section III studies program design and its interaction with the EAP; Section IV evaluates the performance of the EAP; Section V evaluates program outcomes through the lens of the EAP; and Section VI offers findings and conclusions.

II. CONTEXT

4. **Upon taking office, the Macri administration set out to implement a reformist agenda with ample support from the international community**. In December 2015, the Argentinian economy suffered from deep macroeconomic and structural imbalances. While public debt was low, inflation was high, the Peso was overvalued, reserves buffers were low, and primary spending had doubled between 2003 and 2015 in the context of large twin deficits. Argentina had also stopped growing since 2012 as tailwinds from high commodity prices faded and structural constraints to growth were exposed. The new administration developed an economic program, based on the rule-of-law and market-oriented principles, including the reversal of policies that had distanced Argentina from the IMF and international financial institutions and private lenders for more than a decade. The agenda was well received by the

[1] The IMF conducted two internal evaluations: the ex post evaluation (EPE), discussed by the Board in December 2021 (IMF, 2021a) and an internal evaluation report prepared in 2022 (not published). Outside the Fund, the 2018 SBA was examined, inter alia, by Werner (2023), and Auditoría General de la Nación (2023).

[2] EPEs reviewed programs' design and outcomes, the application of Fund policies, and the achievement of program objectives. For more details on EPEs, see Chopra and Li (2024).

Fund and praised by the international community at large, notably by the U.S. administration.[3] This global goodwill was amplified when Argentina took over the G20 presidency in 2018.

5. **A complex historical relationship between Argentina and the IMF would also be part of the backdrop for the arrangement.** The 2001 "Convertibility Program" had ended in crisis and the following IMF-supported program (2003) did not prevent a decade of detachment and negative views of the Fund, during which Article IV consultations were not conducted and that peaked with the Fund's 2013 Declaration of Censure.[4] The Executive Board, management and staff were keen to put behind this period of strained relations and offered their support to the incoming Macri administration, intent as it was on pushing through a "much needed set of reforms" (IMF, 2017). The authorities welcomed this endorsement but were also aware of the social and political sensitivities around the Argentina-IMF relationship. Many in the new administration also felt that the Fund had been too lenient when previous governments had violated the Articles of Agreement. The guarded rapprochement meant that staff was kept at arm's length in the design of the new government's policies and that, when the time came to design the 2018 program, some key issues were unclear to the IMF.

6. **The new government's macroeconomic policy was designed to balance the need for broad economic reform with the specific mandate the authorities perceived they had received in the elections.** The administration took quick and decisive actions where it had political space, including unwinding the restrictions on the capital account and foreign exchange (FX) market, fighting inflation, and reaching an agreement with foreign creditors. Reforms that lacked the necessary political and social support—for example, defining a clear path to end monetary financing, cutting fiscal expenditures and reducing subsidies—were tabled to take place once the first wave of reforms had generated a virtuous circle of investment, growth and employment. Indeed, the government´s coalition substantially increased its Federal and Local representation in the October 2017 midterm elections. Reading the result as an endorsement of its policies, the government presented and passed a tax and pension reform that, however, precipitated substantial political and social protests. Although the fiscal impact of the reforms was not particularly large, their symbolism and the government's steadfast resolution to approve them would be later read by staff, management and the Executive Board as supporting the political capacity assurances needed under the EAP.

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[3] See, for example, President Macri's appreciation for the support of the U.S. Administration during his Washington visit on November 30, 2018: "…it's a great opportunity to thank you—to thank you for the huge support we have received from the United States and from your government, especially during this past year. We've been going through some difficult times, and your support and your support for the deal with the IMF has helped us build a better future and start taking steps in that direction." https://trumpwhitehouse.archives.gov/briefings-statements/remarks-president-trump-president-macri-argentine-republic-bilateral-meeting/

[4] The Board found Argentina to be in breach of its obligation under Article VIII, Section 5 on July 13, 2011, due to the inaccurate reporting of official data to the Fund. Having failed to fully implement remedial measures, the Fund censured Argentina on February 1, 2013. Decision No. 15318-(13/10).

7. **Despite the inherent risks to this "gradualist" approach, capital markets were keen to finance a policy program which offered attractive returns and was praised by outside observers, including the IMF.** The economic program rested on a strategy to liberalize the capital account, adopt inflation targeting and implement gradual fiscal adjustment. Relatively low levels of government debt, an open capital account and positive market sentiment comforted investors. Attracted by the high interest rates set by Banco Central de La República Argentina (BCRA) to reach its ambitious inflation target, during 2016–17 a deluge of short-term carry-trades financed the fiscal and trade deficits and the build-up of international reserves.[5] These positions would quickly rush for the exit once conditions became unfavourable.

8. **Internal and external factors compounded the structural vulnerabilities of the Argentinian economy and set the stage for a sudden stop**. These shocks included a historic drought and high temperatures in the Pampas;[6] the reduced appetite for emerging market risk following a change in the U.S. Federal Reserve's policy stance; the enactment of a tax on capital gains; and, as detailed in Sturzenegger (2019), poorly coordinated and communicated changes to the monetary policy framework in December 2017 and January 2018.

9. **Although these macro vulnerabilities had been well identified by IMF surveillance, relevant knowledge gaps existed around the authority's policy preferences**. The 2017 Article IV accurately identified the "surge in foreign currency borrowing" as a serious risk and called for "a recalibration of the policy mix—a faster reduction in the fiscal deficit, lower taxes, and a less restrictive monetary policy." However, according to interviewees, the Fund did not have an accurate understanding of the authority's aversion to exchange rate depreciation or the use of capital controls and debt operations. Likewise, the Fund had a partial grasp of the sterilization operations of the BCRA. These issues would prove consequential in the program's design and the use of Fund resources.

10. **The decision to approach the IMF for financing in the Spring of 2018 was made in a tight-knit circle and its announcement was unexpected by Argentina's Congress, financial markets, and the Fund.** The authorities defended the request as a temporary measure to get to the new fiscal equilibrium and, crucially, to provide credibility to their economic program. The lack of broader prior consultations had the unintended consequences of creating a sense of urgency, made negotiations messier, and gave rise to miscommunications that added to an already tense situation in markets. In Argentina, most of the political opposition reacted negatively to the request, a response that would later affect the assessments of Exceptional Access Criterion 4 (EAC4).

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[5] For a discussion on the design and implementation of the inflation targeting framework, see Sturzenegger (2019).

[6] https://www.undrr.org/publication/2017-18-drought-argentine-pampas-impacts-agriculture-0.

11. **Internally, the Fund perceived the request as a positive, pre-emptive development, but the constraints faced by the government, including a compressed timeline, would ultimately have negative consequences for program design.** The early unilateral request was interpreted as a positive initiative, coming before a full-blown crisis had erupted, as had been the case in previous programs for Argentina. Despite this, in the absence of a more developed, agreed policy framework and with mounting pressure from markets, Argentina would end up accepting elements of the program it did not completely agree with. Likewise, the Fund would yield on issues the authorities presented as red lines (see the following section on Program Design).

12. **The Argentine team approached the negotiation with a strong conviction that it would get support from the IMF, but not with the presumption that it would be an easy undertaking**. The authorities were convinced that international support and the Fund's recognition of its reformist agenda would provide the required elements to engage in productive negotiations. Indeed, within staff and management, there was a general conviction, at the outset of negotiations, that the Fund had the mandate to help a member that was addressing its problems through adequate measures.

13. **Large shareholders' backing for the Fund to support Argentina was strong from the onset.** Large parts of the membership, including a broad range of G20 countries, favored an arrangement for Argentina. Members expressed their full support both in the two restricted sessions that preceded formal approval of the program and bilaterally.[7] For example, on the eve of the negotiations, Argentinian authorities met senior U.S. Treasury officials to explain their situation and to lobby for support once the program came up for a vote in the Executive Board. This exchange, which is not unusual for large emerging market countries that have required Fund assistance, further convinced the authorities that they would get IMF support.

III. PROGRAM DESIGN

14. **The Executive Board approved the SBA for Argentina on June 20, 2018, with a duration of three years and total access amounting to US$50 billion, or 1,110 percent of quota.** The program rested on four high-level pillars: (i) restoring market confidence by lessening federal financing needs and putting public debt on a firm downward trajectory; (ii) strengthening the credibility of the central bank's inflation targeting framework; (iii) progressively lessening the strains on the balance of payments (BOP); and (iv) protecting society's most vulnerable. These objectives remained unchanged from program approval (June 2018) to the fourth and last review (July 2019). US$15 billion were made available to Argentina immediately, of which half could be used for budget support. Eventually, US$45 billion were disbursed under the SBA. (Figure 1 presents the chronology of key events and Annex II shows the full timeline of the case).

[7] Adhering to EAP requirements, informal sessions to engage with the Executive Board were held on May 18 and June 7.

Figure 1. Timeline of Key Events

Key IMF Events		Other Events
	2018	
SBA request; MD Lagarde welcomes President Macri's statement	May 8	President Macri's message to the nation
Official delegation meets MD Lagarde in Washington, DC; Informal Session to Brief	May 10	
Informal Session to engage	May 18	
SBA staff-level agreement reached; Informal Session to Engage	June 7	
SBA approved by the Executive Board	June 20	
SBA request published	July 13	
Informal Session to Brief	August 1	
MD Lagarde meets President Macri	August 29	President Macri's non-agreed announcement
SBA First Review and augmentation	October 26	
SBA Second Review	December 19	
	2019	
SBA Third Review	April 5	
SBA Fourth Review	July 12	
	August 11	Primary elections (PASO)
SBA goes off track	August	
	2020	
New arrangement request	August 26	

15. **Significant political pressure by parts of the membership weighed on the program discussions, although evidence indicates that Management acted as a buffer to staff.**[8] Senior staff members reported in interviews that staff's recommendations at program approval and reviews rested on the economic merits of the program. However, the perception was that management was convinced from the outset of the importance of supporting Argentina. Management was also very involved in the program negotiations and design, which led to the perception among some staff of what they referred to as "intensified supervision." Some also thought, for these same reasons, that the decision to lend had been taken in May and the program's design and justification for the fulfilment of EAP criteria were reverse-engineered (see Section IV). Additionally, and despite the shield management provided from direct external pressure, many in staff perceived—especially from the first review onwards—that political considerations prevailed over technical ones in internal assessments. This perception was stoked by public signs of key shareholders' support for Argentina and by the very positive statements of key Directors at the Executive Board.

[8] The IEO has evaluated similar issues in the past. See de Las Casas (2016).

16. **The program was initially put together under the widely held view that Argentina was facing a liquidity shock that could be weathered with Fund financing**. Market spreads were interpreted as pointing to a liquidity/confidence problem, rather than a typical adjustment/financing problem and the Fund's debt sustainability analysis (DSA) machinery showed that debt was sustainable. The liquidity diagnostic called for a program that would catalyze private sector reengagement by signalling confidence in the authority's economic agenda and reverse investor's flight from Argentina. The short-term nature of the shock, as initially diagnosed, made the SBA the appropriate choice of instrument. However, as the nature of the crisis evolved, some in staff believed a transition to an Extended Fund Facility (EFF) would have been more appropriate to support a program that needed to be more ambitious in addressing structural vulnerabilities. Nevertheless, this option was not explored in detail.

17. **The program was redesigned at the time of the first review in October 2018, in response to implementation gaps and weaker outcomes than envisaged**. Indications that the liquidity constraints might evolve into a full solvency crisis had become evident shortly after approval: financing conditions significantly deteriorated, the peso depreciated sharply against the U.S. dollar, inflation shot up, and growth plummeted. To salvage the program, the authorities reengaged with staff in June to negotiate changes to be announced in the context of the first review, planned for September.

18. **The revised program corrected many of the shortcomings of the original design, although by its approval in October 2018, risks were more acute.** The revised program had a tighter fiscal path and adopted a new and enhanced monetary policy framework. It also increased the amount of financing and frontloaded disbursements, amongst other measures. President Macri also carried out a major reshuffle of the economic team that would implement the new package. The following months would register intermittent progress, including more stabilized macroeconomic conditions and all subsequent reviews were completed. However, as time went by, program success became increasingly dependent on the results of the upcoming primary elections to be held in August 2019.

19. **In the period leading up to the first review, two narratives around the policy actions and inherent risks of the program emerged within the Fund.** On the one hand, some departments thought the IMF's mandate required it to assist Argentina as long as the underlying program had some reasonable chance of success. Under this view, embraced by many member countries, the Fund had the mandate to accept risks and seek to manage them in an efficient way. The implication of this logic is that the Fund needs sufficient operational flexibility, including under the EAP. The EAP is thus seen as a set of guidelines that allows for flexibility in application and judgment. On the other hand, when reviewing the Argentina program, some other departments believed the Fund was undermining its mandate if it did not apply the EAP strictly and consistently, protecting its resources and assuring uniformity of treatment. These divergent views deepened as conditions in Argentina deteriorated, straining the working relations between and within departments. Management found itself increasingly arbitrating disputes, especially on whether Argentina continued to meet the EAP criteria.

20. **At initial program request, the authorities approached the Fund intending to get the largest possible financing package. They considered the EAP requirements to be internal IMF procedures.** Their reference point for access was based on their upcoming financing needs and they expected similar terms to those of past Fund-supported programs. Internally, staff generally agreed that high access was needed to restore market confidence, and that frontloading would send the right signal to bring back private financing. Many staff members concurred during the interviews that the EAP played a crucial role in constraining the access level, which, under some scenarios, could have been larger.

21. **Even with the benefit of hindsight, there is still no consensus on whether the large size of the program was partially responsible for its rapid unravelling**. Contrary to the confidence-inducing effect expected from the historically large SBA and its significant frontloading, many of the interviewees argued that the large amount ended up concerning debt holders, as private investors worried that, in the event of a debt restructuring, they would be last in line, given the Fund's preferred creditor status. However, others pointed out that "the crowding-out effect had no bearing whatsoever" in the decision of market participants to exit sovereign risk positions. Rather, the speculative nature of these funds determined their exit as soon as uncertainty increased beyond their risk thresholds (Figure 2).

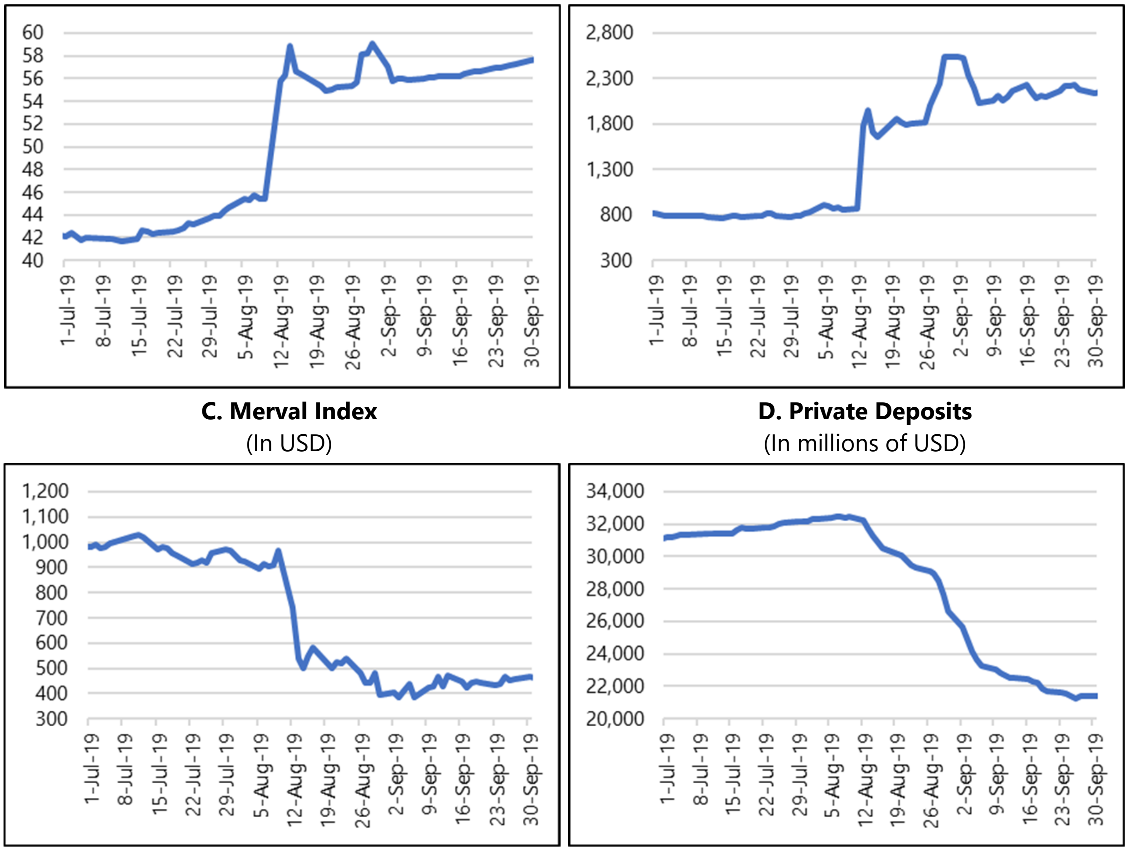
22. **Not enough attention was given to securing financial support from other IFIs or partner countries, following only loosely the enhanced safeguards required under the EAP criteria once debt was assessed to be sustainable but not with a high probability.** The IMF engaged with other IFIs and left it mostly to the Argentinian authorities to garner bilateral support. However, staff and management did not press upon the government the importance of securing substantial backing. Bilateral support was brought up by EDs in the informal and formal Board sessions prior to approval, but it was framed more as a "nice to have" rather than an imperative. In the end, only the Inter-American Development Bank (IADB) and Banco de Desarrollo de América Latina y el Caribe (CAF) pledged around US$6 billion of support.

23. **The "precautionary" nature of the original program was meant to boost market confidence but ended up creating confusion and undermining its objectives.** The original design of the arrangement stated that the first tranche of US$15 billion would be drawn upon "but the authorities will treat the arrangement as precautionary thereafter." The IEO found contradictory evidence on whose initiative it was to label the arrangement as precautionary: the authorities or the Fund. In any case, after a series of flawed communications, market participants ended up doubting whether the "precautionary" label meant that the total amount of resources under the SBA would in fact be available to Argentina, undermining the intended confidence effect. When the baseline scenario did not materialize a couple of months after approval, markets perceived that Fund resources were not going to be available to cover the increasing fiscal financing gap. The sentiment analysis carried out by the IEO seems to confirm this interpretation and the subsequent correction, as international perceptions tended to improve and stabilize after the first review (Figure 6, Panels A and B).

Figure 2. Financial Indicators

A. USD to Argentine Peso Exchange Rate **B. EMBI**

C. Merval Index (In USD) **D. Private Deposits** (In millions of USD)



Source: IEO calculations.

24. **One of the significant adjustments to the program would address this shortcoming by agreeing to the authority's request that all tranches should be given as direct budget support, together with higher access and more frontloading.** Facing increasing stressed market conditions, in the Fall of 2018, staff presented management with three options: (i) stopping the program; (ii) doubling the size of the program to at least US$100 billion to cover Argentina's financing needs for the next two years; and (iii) revamping the original program. Management judged the first option as politically unfeasible and against the Fund's mission. The second option was discarded as financially unviable for the Fund, especially with no sizeable burden-sharing at hand. Revamping the original program, the third option, had itself two possibilities: a US$50+ billion program with more upfront financing and larger policy adjustments, or reducing the program to ~US$10 billion and forcing debt restructuring. Some in staff judged that this last scenario would have resulted in a "2001-like crisis, starting with the corralito" and warned that the authorities would "walk away" from this option.[9] In a decision taken during the Fund's Annual Meetings in Bali, management ruled out a debt operation and

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[9] The "corralito" refers to the economic measures the Argentine authorities took to stop a bank run in 2001, including limits on cash withdrawals.

decided to present to the Executive Board a revamped US$57 billion program with more frontloading (US$36 billion vs. US$23 billion originally contemplated to be disbursed in the 15 months after approval of the first review).

25. **Ownership was judged to be critical for program success. Hence, a handful of issues that were non-negotiable for the authorities became central tenets of the program.** President Macri had campaigned on the promise of removing distortions to the economy and respecting property rights; hence, the administration was adamant in avoiding debt operations and capital flow management measures (CFMs) in the original design of the program, which many saw as "redlines." Later, during negotiations for the revamped program, management and the authorities agreed that CFMs would be formally considered if traction was not achieved. However, this understanding was not shared internally at the IMF nor publicly disclosed for fear of a negative market and political reaction. Although the program's design and outcomes might have been similar, during interviews many staff members felt that the Fund should have pushed back harder on these redlines, especially the adoption of CFMs, and insisted on articulating a "Plan B." Instead, the prevailing feeling is that, in the name of ownership, the full range of alternatives was never fully considered. Indeed, with foresight, the IEO's evaluation report, *The IMF and Argentina, 1991–2001* (IEO, 2004) had already flagged "emphasis on country ownership" as a potential source of "misguided or excessively weak policies."

26. **Internally, the discussion around CFMs and debt operations hindered contingency planning and eventually confronted staff.** At the request stage, staff and management did not think these measures were necessary to achieve a successful program. Later, between program approval and the first review, departments adopted opposing views that would continue to deepen as time passed (see Section IV). Throughout the duration of the program, the Western Hemisphere Department (WHD) and management believed that a feasible path to success existed without crossing these redlines. During the interviews carried out by the IEO, they clarified that, had they not believed such a path was feasible, they would not have proposed the program for approval to the Executive Board.

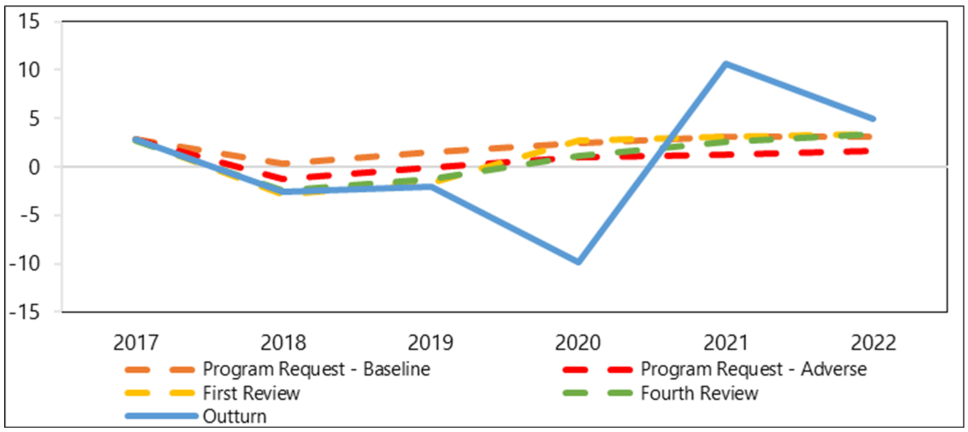
27. **The government was also intent on showing positive growth numbers at program request**. Argentina's negotiating delegation disagreed with staff on the merits of "under-promising and over-delivering." The issue was settled by management asking staff to find a reasonable scenario within the authorities' range. This gave rise to side conversations between staff and certain members of the Executive Board in which staff was more forthright about the risks to the central growth scenario and the implications for program evolution, including the assessment of debt sustainability. The overoptimistic projections (see Figure 3) contributed to the skepticism the program was initially met with in financial markets.

28. **A compressed negotiation period, internal political constraints, and the Fund's intent to show good faith in negotiations resulted in a limited set of prior actions and conditionality.** Several interviewees pointed to the absence of the usual on-the-ground missions during negotiations as a factor preventing staff's deeper knowledge of the situation during

program design. At approval, the program had no structural policy prior actions (it would later incorporate two under the first review and one under the second). Some departments wanted more prior actions at inception and sensed that these were rejected to avoid undermining the trust of the authorities. The EPE highlights the limited number of structural benchmarks and conditionality compared to other exceptional access (EA) cases, but also stresses that they were focused and well aligned to the program's short-term goals.

Figure 3. Real GDP Projections and Outturns

(In y/y percent change)



Sources: Staff reports, World Economic Outlook, and IEO staff calculations.

29. **Supporting the vulnerable population and addressing gender inequality was favored by the government and by management**. To achieve this objective, the authorities committed to maintaining the level of social spending (a performance criterion, met throughout the program), reduce gender inequality and improve the social safety net. Authorities and management believed past Fund programs had not been successful, in part, because their social impact was not anticipated. The 2018 SBA offered an opportunity to right that wrong and, thus, management would press upon staff and the Executive Board the need to keep in mind the vulnerable segments of the population when putting together and assessing the program.[10]

30. **Fiscal policy had the overarching goal of reducing short-term financing needs and putting debt on a medium-term downward trajectory, "a bold and ambitious commitment"** according to the Staff Report that accompanied the request. At program approval, the Federal Government's primary fiscal balance was forecast to reach zero by 2020 (a reduction of 4.4 percent of GDP in three years from 2017 levels). At first review, the adjustment was increased to 5.6 percent of GDP and the zero-deficit target was brought forward to 2019.[11] For the fourth review, fiscal targets had been "well-exceeded," although the outlook remained challenging because of the

[10] The Argentina 2018 SBA is included as a country case in the IMF's guidance note on "Engagement in Social Spending Issues" (IMF, 2024).

[11] The Fund's Crisis Program Review found that programs approved in the period of 2008–15 had, on average, primary fiscal consolidation targets of about 3 percentage points of GDP, in total, over a three-year period.

impact from lower growth and some pre-election subsidies. For this last review, staff would point out the "low quality" means by which fiscal targets were being met. Later, the EPE would concur, stating that the temporary and easy to reverse measures undermined the consolidation effort.

31. **The Fund would have preferred a policy framework that addressed Argentina's long-standing fiscal imbalances but deferred to the authorities' judgment on its political viability.** The government did not hold a majority in Congress and insisted on postponing structural measures until after the election. When assessed only by its numerical results, the fiscal effort throughout the 14 months of the program was indeed significant. However, its short-term and one-off nature ultimately left the fiscal balance open to significant risks and "eroded confidence" in its viability. Staff and management were aware of these suboptimal policy efforts, interpreted the government's willingness to strengthen the framework at first review as a good signal for stronger measures in the future and ultimately decided to endorse the strategy. In this context, compared with other program issues, negotiations on fiscal policy and its targets proceeded relatively smoothly.

32. **Staff's optimistic assumptions on public financing were compounded by gaps in understanding of debt market dynamics**. Important aspects of the debt market would come to light in the months between program approval and the second review. These included: (i) the speculative nature of the foreign investors that had entered Argentina before the onset of the crisis; (ii) the aversion to risk from domestic investors once political uncertainty began to set in; and, most notably in the opinion of several of the interviewees, (iii) the inherent vulnerabilities in the market for LEBACs, the main sterilization instrument used by the Central Bank.[12] In fact, had the speculative nature of many of the holders of LEBACs been known, some in staff would later argue, a more traditional program would have been designed instead of one based on a liquidity/confidence diagnostic (Figure 4).

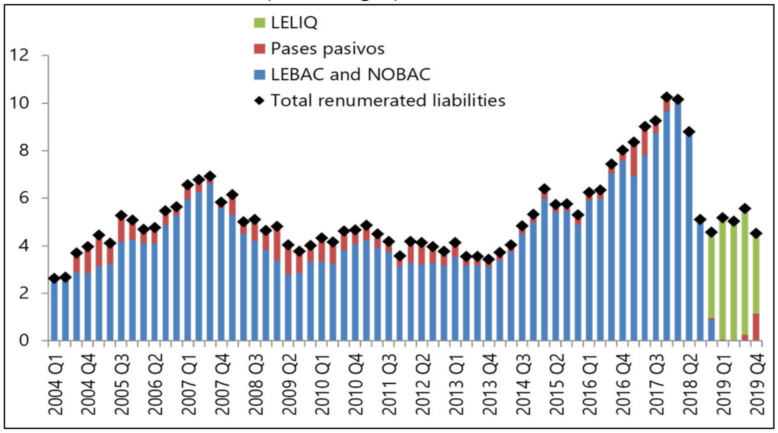
33. **Market access was difficult to judge and the Fund consistently overestimated rollover rates.** A few months before the government requested the SBA, Argentina had placed large amounts of debt on favorable terms in international markets. Internally, the large proportion of intra-public sector borrowing, including from BCRA, provided a stronger-than-warranted picture of investor appetite. In fact, once the large carry trade seemed anything but a sure bet, the short-term capital that had flooded the market stampeded out. Some observers would later note that there was no program large enough to stop that flow and that the authorities, and the Fund, would have been better served by allowing them to exit, taking an FX hit, rather than trying to defend the exchange rate (market participants estimate the size of those positions was around US$30 billion) (Figure 5).

[12] LEBACs were zero-coupon debt instruments issued by BCRA since 2002. Their average maturity, from 2016 onwards, was 55 days. In December 2015, investment in LEBACs was authorized not only for financial institutions, but also all residents and non-residents. Under the new inflation targeting regime, the stock of LEBACs almost doubled, in terms of GDP, with a majority of the debt held by resident non-financial institutions. See Carrera, Maciel, and Rodríguez (2020).

Figure 4. BCRA Instruments

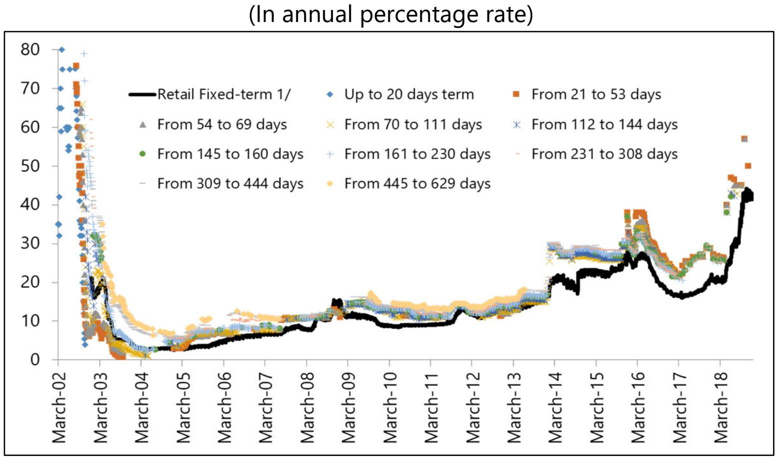
A. Renumerated Liabilities of the BCRA

(In percentage points of GDP)



B. LEBAC Interest rate at Fixed Rate by Term Type and Retail Fixed-term Interest Rate

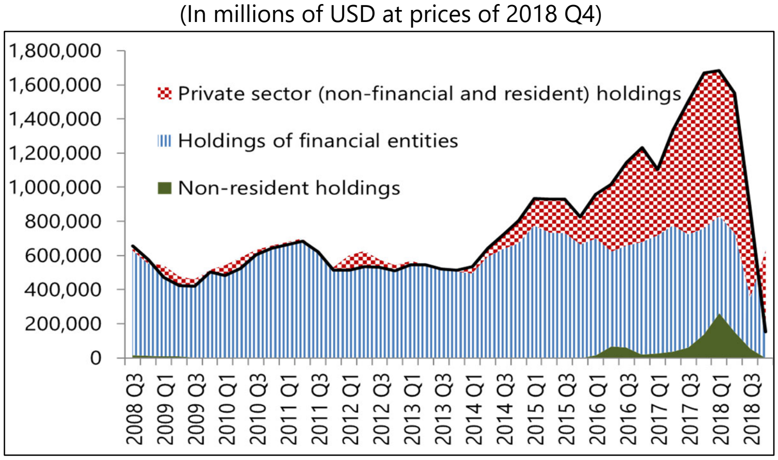
(In annual percentage rate)



1/ Fixed-term rate of 30-44 days up to US$100,000.

C. Stock of LEBAC and NOBAC by Type of Holder at Constant Prices

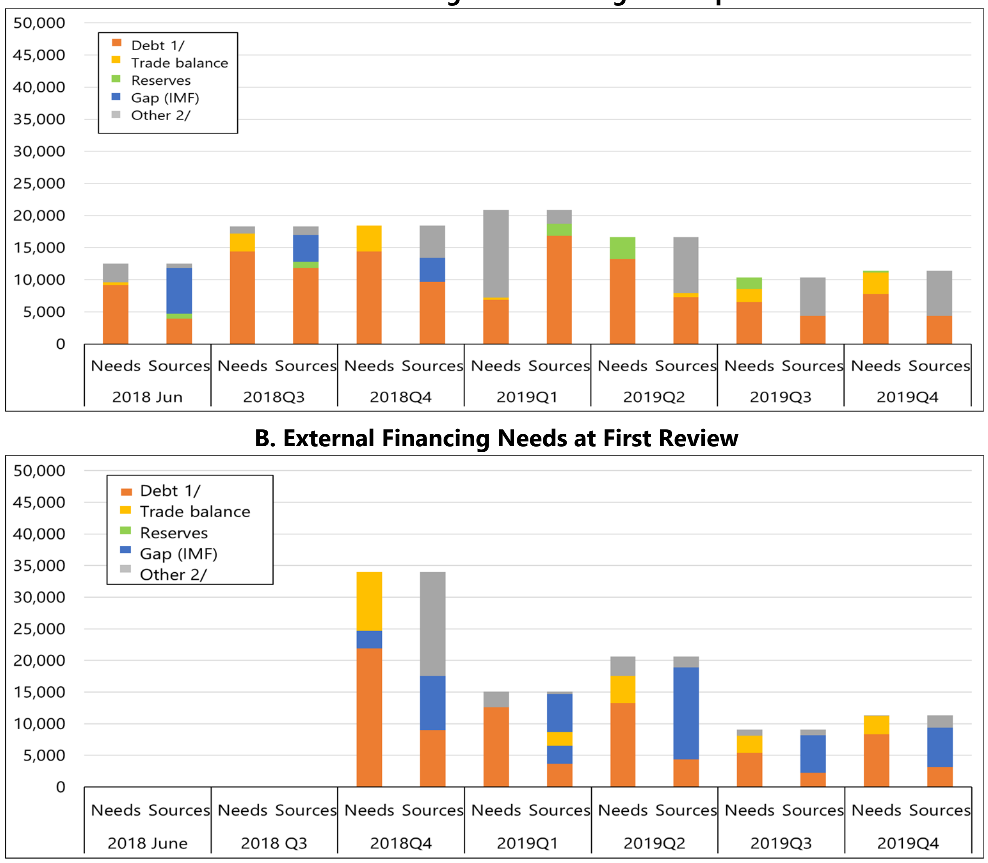
(In millions of USD at prices of 2018 Q4)



Sources: Carrera and others (2020); IEO calculations.

Figure 5. External Financing Needs
(In millions of USD)

A. External Financing Needs at Program Request



Sources: IMF (2021a); IEO calculations.
1/ Debt service and amortization.
2/ Other outflows/inflows, FDI and IFIs.

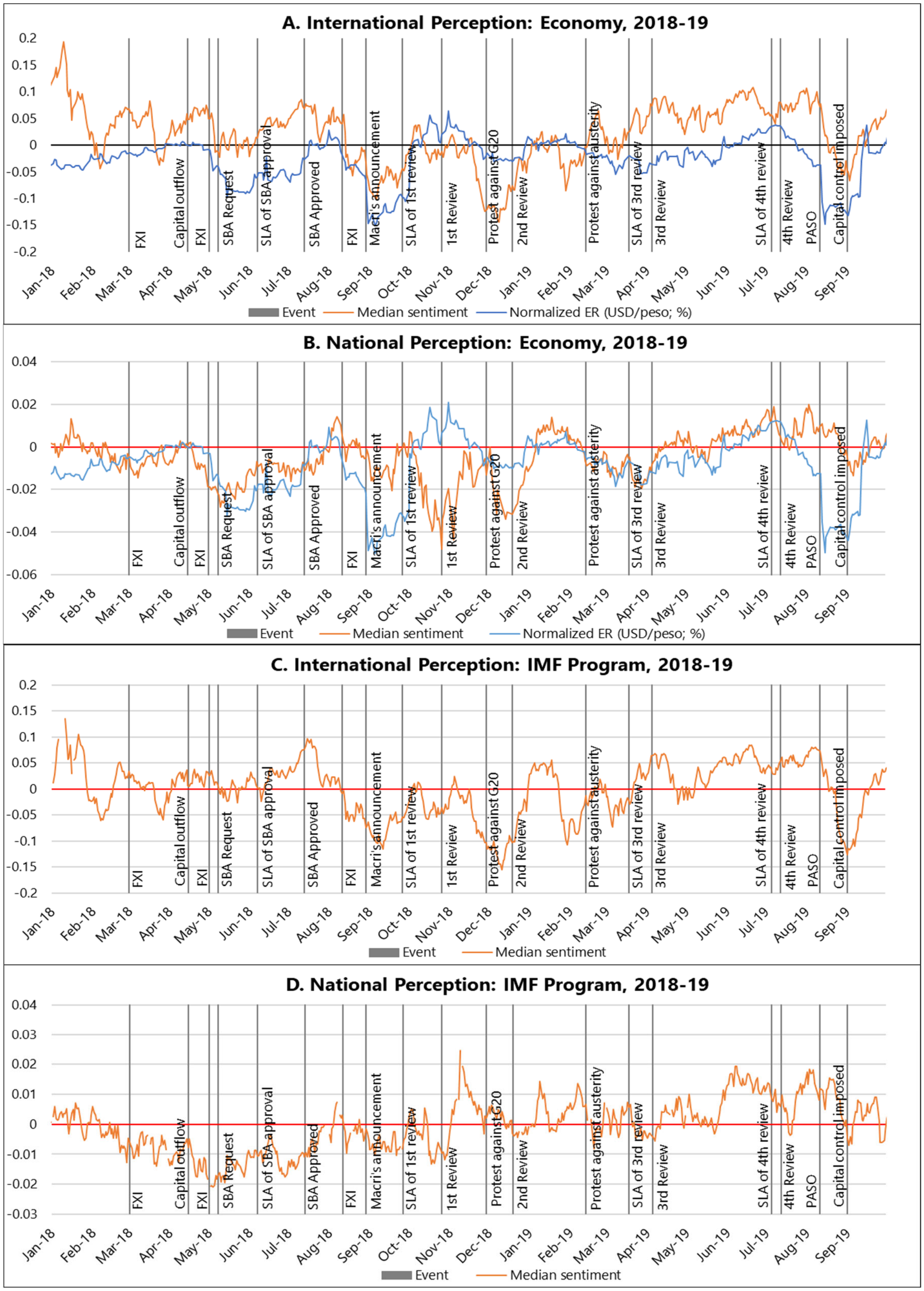
34. **The monetary policy framework and the requirement under the program to recapitalize the Central Bank (BCRA) were accepted uneasily by the authorities and surprised market participants.** During initial program negotiations in May 2018, staff worked under the assumption that authorities strongly favored keeping the inflation targeting regime despite the strong headwinds it faced. However, this preference had been losing supporters outside of the BCRA and, with the resignation of the BCRA president on the eve of the program's approval, it would quickly become an orphan. Also, the agreement to recapitalize the BCRA (a structural benchmark) was seen by markets as an unnecessary requirement that further limited the use of the SBA funds. The authorities viewed the recapitalization as a misplaced priority of the IMF; it was not an urgent matter and it diverted valuable resources from the immediate problems. A prevailing view among the authorities when the program was initially approved was that they had, in fact, come back from Washington with more constraints (on FX intervention) and higher financing needs (recapitalization of BCRA). Evidence from interviews suggests that inflation targeting and BCRA capitalization remained in the program not because they had strong advocates, but more for lack of pushback from either staff or government officials.

35. **The inflation targeting framework and the requirement to recapitalize the Central Bank were replaced with alternative policies at the first review.** The recalibration of the program to base money growth targets led to a more solid and realistic monetary policy framework. The authorities also committed to maintaining policy interest rates above 60 percent if inflation expectations did not fall. The strengthening of BCRA's balance sheet was downgraded to a commitment to work on its congressional approval after the elections. Also of note, monetary policy, and indeed the coordination of the whole program with the IMF, was further reinforced by changes in the economic team.

36. **The initial program committed the authorities to maintaining a floating exchange rate with "very limited foreign currency sales," but implementation would prove elusive.** In the face of continued outflows, the authorities had only two short-term options: imposing CFMs (unacceptable for the administration) or letting the exchange rate adjust to a new equilibrium. The second option was the policy choice for the program, with management and some staff believing that liberalization was going to provide a significant boost to economic activity and contribute to program success. However, when the peso depreciated beyond what the authorities considered tolerable, intervention continued beyond the agreed limits. One reading from external stakeholders was that the Fund had underestimated the authority's aversion to depreciation. The strong correlation between the FX rate and the national perception of the economy underpins this view (see Figure 6, Panel B).

37. **In the context of the program revamp, FX intervention was formally given more scope and, subsequently, some leeway in discretionary operations that added two-way risk.** Instead of a flexible exchange rate regime with limited intervention, a managed float with intervention bands was adopted. The authorities also pressed the Fund to approve discretionary operations in episodes of extraordinary volatility. The combination of rules (intervention bands) and limited discretion (ad hoc interventions), together with a more robust monetary policy framework and the signal that the Fund resources under the program were fully disbursable, went a long way in stabilizing the exchange rate—and perceptions on the economy and the program (see Figure 6)—until the primary elections (PASO) in August 2019.

Figure 6. Perceptions (Sentiment) on the Argentinian Economy and the Program



Source: IEO calculations.

38. **Staff and management assessed that the use of Fund resources did not violate the IMF's Articles of Agreement that prohibit the use of Fund resources to meet a large or sustained outflow of capital**. The IMF's Legal Department (LEG) adhered to the precedent by which the determination of what constitutes a "large or sustained" capital outflow is made in accordance with each specific program. Accordingly, to the extent to which a program is designed to build up reserves by catalyzing investor confidence, the program would not violate Article VI of the Articles of Agreement.[13] Argentina's subsequent government and its Congress were of the view that Article VI had indeed been violated. Also, Argentina's Auditor General is investigating if internal processes were adhered to in the program's approval. Both of these matters are outside the scope of this paper, as they go well beyond the application of the EAP.

IV. EVALUATION OF THE IMPLEMENTATION OF THE EAP

EAC1

39. **At program request, staff argued that Argentina was facing an actual, and a potential, BOP need** (Box 1). Argentina was facing exceptional capital account pressures resulting from the tightening of global financial conditions and a shift in portfolio preferences away from peso assets. The baseline expectation was for these pressures to dissipate with the implementation of "the credible policy plan presented by the Argentine government and support from the international community," allowing for the treatment of the remaining of the arrangement as precautionary. However, the program was "designed to also provide assurances against a potential BOP need that could occur in an adverse scenario where global financial conditions tighten, constraining the government's ability to issue new debt to meet its sizable gross financing needs."

40. **With the exception of the second review, staff saw markets' perception deteriorate over the life of the arrangement, increasing Argentina's financing needs.** At the time of the first review, staff argued that the factors behind capital account pressures had intensified, preventing the return of market confidence and creating even larger financing needs that justified EA (IMF, 2018c). For the second and third reviews, the assessment became more positive, with market confidence recovering, albeit with external financing needs above NA limits (IMF, 2018d). For the Fourth and final review, staff believed EA to be justified in view of the "fragile market confidence" (IMF, 2018e).

[13] Article VI of the Fund's Articles of Agreement specifies that a member may not use the Fund's general resources to meet a "large or sustained" outflow of capital. This provision has never been understood to mean that the Fund cannot provide financing to address BOP difficulties involving the capital account. The Fund's judgment in the context of Article VI has effectively focused on the consistency of countries' policies and associated use of Fund resources with the purpose of Fund financing, which is to help members overcome their BOP problems and regain medium-term external viability. If at the time a member's program is designed, it is assessed that the program is sufficiently strong to restore confidence and return the country to medium-term viability, then the financing is fully consistent with the use of the Fund's resources and is not seen as giving rise to a "large or sustained" outflow within the meaning of Article VI. Conversely, if it is assessed that a Fund-supported program is not strong enough to address the member's balance of payments problem, then the Fund would not approve the requested financing, or if the financing was already approved through an arrangement, the Fund would cease to allow purchases under that arrangement (IMF, 1997).

Box 1. The Four Criteria for Exceptional Access (Revised 01/2016)

The Fund may approve access in excess of normal access limits in exceptional circumstances, provided that, at a minimum, the following four substantive criteria are met:

1. The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.
2. A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources. For purposes of this criterion, financing provided from sources other than the Fund may include, inter alia, financing obtained through any intended debt restructuring. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any potential relevant contingent liabilities of the government, including those potentially arising from private external indebtedness.
3. The member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund.
4. The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

Source: Abrams and Arora (2024).

41. **During interviews, both staff and authorities shared the nearly unanimous view that fulfilment of EAC1 was evident**. Some interviewees thought the BOP was underestimated, especially when no other sources of financing were available. As explained in Section II, however, the signalling effect of the high level of access agreed by the Board was blurred, as communication problems during the early stages of the program generated confusion among market participants regarding the precautionary nature of the SBA and whether Argentina could tap the resources under the arrangement.

EAC2

42. **Argentina was the first EA case under the 2016 design of the EAP to fall in the so-called gray zone; that is, where debt was assessed to be *sustainable but not with high probability*.** The program request document argued that EAC2 was met, both in the baseline scenario (SBA to be treated as precautionary after the initial disbursement) and under an adverse one (need for subsequent disbursements) (IMF, 2018a). In the baseline, the federal government debt and gross financing needs (GFNs) remained below the risk thresholds and the debt/GDP ratio fell steadily in the medium-term. At the same time, staff identified contingent liabilities from the broader public sector as a risk and considered that the large share of foreign currency debt and the significant rollover needs left "Argentina vulnerable to market sentiment." Under the full disbursement scenario, staff saw debt stabilizing later and at a higher level, but still in the gray zone. The non-Fund financing assurances required under EAP were seen as coming from the

"long maturity of Argentina's privately-held foreign currency-denominated debt" (maintaining private creditor exposure) and the maintenance of market access, which reduced the risk of Fund resources being used to pay out private creditors.

43. **At program approval, staff judgment put debt sustainability in the "gray zone."** Interviews revealed that, internally, and on technical grounds, Argentinian debt was assessed to be sustainable with high probability in June 2018 as many indicators were "green." However, the analysis of previous experiences and the uncertainty regarding the application of the new EAP framework led staff to be prudent and, making a judgment call, move the assessment to the grey zone. Besides, it was believed that, if the program performed well during the first stages, a positive evolution of the debt assessment would send a strong signal.

44. **With the program facing problems in the period leading up to the first review in October 2018, staff examined various options for restructuring obligations**. With financial conditions deteriorating, the Finance (FIN), Research (RES), Monetary and Capital Markets (MCM) and Strategy, Policy and Review (SPR) departments believed a debt restructuring should be a precondition for completion of the review, bailing-in private creditors and providing the needed financing assurances. SPR judged the debt to be close to unsustainable, which would have required a debt restructuring before proceeding with the review. WHD believed that the reshaping of the SBA would provide a path for a successful program and that a restructuring would likely lead to a period of significant political and economic upheaval. Management, at that stage, was not convinced by the internal debate of the need for debt restructuring or capital controls.

45. **Under the new baseline, developed at the time of the first review, staff's diagnosis kept debt sustainability in the gray zone, an assessment that would be maintained in all four reviews**. The diagnosis rested on the fiscal effort, a return to growth, and a moderation of the real exchange rate depreciation, despite increases in federal debt and GFNs. Staff highlighted "sizable risks"—adding a high debt/GDP ratio and implementation risk on the fiscal side to the ones identified in the first review—that left Argentina again "vulnerable to changing market sentiment and movements in the real exchange rate." Safeguards for Fund resources came in this case from the expectation that prospects for market access would strengthen under the program and the long maturity of Argentina's privately-held foreign currency-denominated debt. For the second and third reviews, the assessment remained unchanged. At the time of the third review, staff highlighted increases in the debt ratio and financing needs. At the fourth review, staff pointed at the risks emanating from the high levels of gross and external financing needs and a large share of FX debt, on the one hand, and to Argentina's retained ability to tap domestic markets and to issue new liabilities to both residents and non-residents.

46. **From the first review, there were opposing views within staff regarding debt sustainability**. WHD, on the one hand, believed the government was making strong efforts, the program had a chance of success, and therefore there was a good possibility of restoring market access and buttressing debt sustainability. While risks were high, they saw a path to a potentially successful program. On the other hand, SPR and RES (together with FIN, MCM, and LEG) were

increasingly critical. They questioned the liquidity crisis logic, assessed the debt as unsustainable, and doubted the strength of the authorities' commitment to program reforms (see the discussion of EAC4 below). Instead, they viewed the authorities as focused on the management of the exchange rate with IMF resources. Staff's judgment was decisive from the start. At program request, this judgment led to a downgrade from the "sustainable with high probability" classification that the first round of mechanical application of the DSA tools yielded. Afterwards, the judgment moved the assessment in the opposite direction, maintaining the assessment of debt sustainability in the grey zone, even as slower growth and a weaker peso deteriorated debt indicators.[14]

47. **Management was actively engaged in the decision-making process**. Management requested multiple reruns of the DSA and the use of different assumptions, a process that culminated with the decision to go ahead with the reviews. Those more critical among staff saw in such a process an indication of pressure to reverse-engineer the results to fit the criteria; others, on the contrary, saw them as a reflection of management's concern that the DSA, given its flaws, "was not holding up to scrutiny." At the time of the fourth review, an SPR memo was sent to management explaining their view that the EAP was not complied with, and its review officers were reluctant to sign off. Eventually, the last review was approved internally by the SPR Director. Some staff believed this could have been seen as a response to internal and external pressure and resulted in reputational damage for the institution. During interviews, several staff members mentioned that a setup with more room to express their assessment on whether or not the criteria were met, avoiding the need for a monolithic and binary recommendation to the Board, would have strengthened the EAP framework. They pointed to the experience with the program for Argentina, in January 2003, as one that could have been applied again. At the time, staff was not convinced but still management recommended, and the Board approved, the program for reasons that went beyond purely technical considerations.

48. **Interviewed authorities opined that the Fund's assessment of EAC2 was correct and fitted the program logic. They also believed that the Fund's role is to assume risks when needed**. Interviewees argued that, at the time, they were convinced that with proper program implementation confidence would come back, debt would continue to be sustainable, and there would be no need for CFMs or debt operations—which, as explained above, were also redlines for the administration for political reasons. More broadly, they argued that the Fund's role is precisely to help countries by taking some risk, so they can avoid resorting to those measures; if those measures are clearly unavoidable, why go to the Fund? In hindsight, prospects of confidence restoration proved to be too sanguine since, according to interviewees, the country was not ready to endure the negative impact of adjustment on growth and the effects of exchange rate volatility.

[14] Erce (2024) analyzes in detail the outcome of the mechanical assessments and the direction in which staff´s judgment moved the final assessment.

49. **Both internal and external stakeholders expressed concerns regarding the design and technical soundness of EAC2**. Many interviewees considered the DSA excessively sensitive to assumptions, therefore very open to judgment and "tinkering," and prone to under or overestimating risks. Some argued that it was an internal tool lacking the analytical rigor to constitute the cornerstone on which to make consequential decisions. Most authorities, and some staff, saw the wording "sustainable but not with a high probability" as a source of problems, rather than the clarity it intends to provide. They argued that it was confusing for markets, who typically read the "not with a high probability" formulation as "not sustainable," and interpret its use as an attempt by the Fund to bend its own rules. Recurrent internal concerns were the notion of the DSA being a black box in the hands of SPR and staff not having the necessary tools and expertise at hand to carry out the analysis. The subsequent review of the Debt Sustainability Framework (IMF, 2021b) pointed out these shortcomings.[15]

50. **Not surprisingly, there were mixed views regarding the usefulness of EAC2**. While some interviewees saw it as constituting the core of EA decisions, others thought of it as a good element for guiding thinking, while the most critical opined that, given its flaws, it could not perform the safeguarding role it is supposed to play. It was also considered as a tool to decide, not whether the Fund should lend in a given situation, but whether to do it without a debt operation.

EAC3

51. **Throughout the life of the program, staff judged that EAC3 was met, on the basis that Argentina retained access to domestic and international financial markets**. At program request, staff judged that market access was shown by "recent peso—and USD—denominated bond placements in domestic markets and the rollover of 100 percent of the central bank's paper that came due on May 16" (IMF, 2018a). Paradoxically, a January 2018 international bond placement was taken by the IMF as a sign that Argentina maintained market access when, in fact, many market participants would later claim that the higher-than-anticipated issuance was one of the first signs that the government was facing a more complex financing environment. Despite the increase in the cost of external financing, that staff associated with domestic and external factors, it was expected that, "with the successful implementation of Argentina's policy program, combined with support from the international community," confidence would be restored and financing costs would decline (IMF, 2018a). This assessment remained substantially unchanged throughout the four reviews.

52. **Internally, views were split on the soundness of the market access argument**. Several staff members interviewed judged that Argentina never had the type of market access that was presumed for EAC3 fulfilment (i.e., in amounts sufficient to repay the Fund), and therefore the

[15] These included (i) excessive sensitivity to assumptions; (ii) inadequate coverage and disclosure of debt-related risks; (iii) lack of predictive capacity; no clear way of incorporating sovereign stress "predictors" ("institutional quality, history of stress, cyclical imbalances and global risk appetite"); (iv) uncertainty around the baseline (analysis of stress tests, realism of downside scenarios); and (v) limited ability to inform judgment.

assessment that it would eventually have it was "a leap of faith." It was also argued during interviews, however, that while Argentina's market access was weak from a very early stage, it was difficult to argue definitively that it was lost until very late. As the program progressed, the arguments for fulfilment of the EAC weakened.

53. **Staff had technical difficulties in assessing the fulfillment of EAC3.** It was clear from interviews that the Fund lacked a proper framework for the assessment of market (re)access. Some opined that MCM should have provided tools and guidelines for other departments to use, but some other staff members believed that even this department lacked enough expertise to make these kinds of judgments. Perhaps, this is linked to the internally commonly shared notion that EAC3 is secondary to EAC2, as market access was seen as directly deriving from debt sustainability and program implementation.

54. **The authorities shared the sudden stop logic and trusted that confidence would return.** Most interviewees believed it was reasonable to assume that market access would be regained on the timeline and scale required by EAC3, assuming the program would be implemented; it was plausible that market confidence would be restored. In contrast to staff's generalized belief detailed above, authorities widely held the view that market access would determine debt sustainability, not the other way around. Like some staff members, a few authorities pointed out that program expectations regarding market access were always too optimistic and market participants never fully believed in the program. As a factor underpinning this idea of market sentiment, it was argued that the last Argentine debt restructuring had been settled only in 2016, and markets were still distrustful of the country. Sentiment analysis seems to support the idea that, between the first review and the PASO, international perceptions of both the economy and the program itself grew more positive and stabilized (see Figure 6).

EAC4

55. **Staff assessed positively the level of commitment and institutional capacity of the Government but concerns regarding the political capacity were clear from the start**. At program request, EAC4 was assessed to be fulfilled based on the administration's technical[16] and institutional strength, track record of reform implementation, and commitment to prudence, transparency, and good governance. The report recognized that "strong, sustained and consistent policy implementation will be crucial, and broad societal ownership of the government's economic plan, including in Congress, will be essential for program success," but identified two political risks. First, there were doubts about the government's capacity to build support for measures requiring congressional approval (as the government was in a minority position in both houses). Second, building "social consensus around the main elements of the program" was considered critical for the sustainability of reforms. This was seen as challenging, given the polarized and deeply divided views on seeking support from the IMF, and despite the effort to limit the social impact of the

[16] During interviews, however, a few staff members expressed doubts about some authorities' knowledge and understanding of the Fund's mandate and operations.

program and protect the most vulnerable sectors of the population. Many EDs explicitly noted these risks in their statements. Staff also noted "significant domestic criticism" of the arrangement, but no assurances or conversations with the opposition were reported at the time. There was also no explicit mention of the electoral cycle starting 14 months later.

56. **Throughout the life of the program, staff maintained the view that EAC4 was fulfilled, despite problems**. At time of the first review, according to staff, implementation "showed a mixed picture of the authorities' commitment to their policy plans." However, staff argued that fiscal and monetary actions taken, together with some political statements of support on fiscal plans constituted sufficient assurances. Staff explicitly recognized that "broader statements of support from the IMF-backed program have not been expressed by all political factions," while "social opposition to the program has been more subdued than might have been expected." From the second review, the tone of the assessment of EAC4 became more positive, recognizing measures taken by the government and the BCRA and authorities' efforts to build consensus across party lines. While still short of backing the IMF-supported program, from its discussions with some members of the opposition during the second and third reviews, staff reported "broad consensus that the financial assistance by the Fund will remain an essential element for regaining market confidence." At the fourth review, the assessment of the opposition's support was more nuanced. Staff reported "clear support for the objectives of the program," but criticisms of the achievements of the Macri administration. Opposition candidates made it clear that, if elected, they would want to renegotiate the SBA.

57. **There have been criticisms that the assessment of EAC4 was weak, although it is not clear what else could have been done to obtain the required assurances**. More precisely, it was argued that the political capacity to implement the program was not underpinned by political assurances from the opposition. Internal interviews justified this by the difficulty of getting those assurances in the Argentine political context. As summarized by one interviewee: "obtaining political assurances was unthinkable." Some staff pointed to two additional factors complicating the assessment: (i) the "huge" differences between what was discussed in private meetings with different representatives of the political spectrum and their subsequent public statements, and (ii) the existence of diverging opinions within the government on the best course of action. The latter were at the root of the flawed communications of the administration at program request and at the first review (see next subsection), and widened the internal rift between those for and against the program. The perceived leniency in the assessment of EAC4 would, in turn, generate a strong perception of un-evenhandedness in sectors of the membership.

58. **Interviewees in Argentina confirmed the difficulty of obtaining assurances from across the political spectrum. In some circumstances, it may even be unrealistic**. While understanding the logic of the criterion, they believed that, given the level of polarization of Argentine politics—locally referred to as "la grieta" or the chasm—seeking support for an IMF-supported program from political parties in the opposition was mission impossible, as they had no incentives. Therefore, making program approval or reviews dependent on the

opposition's provision of support would have meant no program at all. Some argued that the Fund was right in its assessment at first, as the program had good prospects of success and there was sufficient political support, e.g., by looking at the outcome of the 2017 mid-term election. However, the assessment later became more dubious, as support decreased over time, "because too many mistakes were done" during program implementation.

59. **The chances of program completion were widely seen as binary, both within the Fund and by authorities, with political outcomes generating multiple equilibria**. In that situation, the only way to go ahead with a program, some interviewees explained, was to assume political continuity.[17] Otherwise, program discussions would not have even begun. In that sense, program success and continuation hinged on its own capacity to quickly deliver positive results and the restoration of confidence; a calculated gamble.[18] In the words of an interviewee, "there was always a narrow path to program success" that allowed program reviews to go ahead. While aware of the risks, including the political one, there was a reasonable chance of success. The evolution of the sentiment and the FX rate suggests that international analysts agreed with this view and remained somewhat optimistic until the PASO (see Figure 6, Panels A and C). In Argentina, the political opposition and IMF critics understood this decision as the Fund supporting the re-election of the administration with money (which would, in turn, be used to finance capital outflows). They were also critical of what they saw as the administration's "failure to build broader political consensus," or even publicly explain the rationale, for the program. Eventually, the Macri administration was defeated in the PASO and the program collapsed.

Decision-Making Procedures Under the EAP

60. **In terms of the sequence of consultations, the process followed for the approval of the arrangement met the requirements of the EAP, although it was distorted by communications (Box 2).** On May 8, the Fund was surprised when President Macri requested an arrangement with the Fund during a conversation with management, and again by his unexpected public declaration immediately after that conversation, during which he announced

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[17] Fund programs normally aim at even phasing of disbursement and adjustment. If immediate BOP needs warrant front-loaded disbursements, they should normally be accompanied by front-loaded adjustment measures. If that does not happen, the risks to EAC4 rise, as in the later stages of the program, the authorities will bear the burden of adjustment without accompanying financing. These risks are only exacerbated in the event that an election is set to occur during the program period. A clear and transparent presentation of such risks is very important.

[18] This is, of course, not unprecedented. For example, the EPE of Brazil's arrangement in 2002, read: "With regard to the other three criteria, (…) there were significant uncertainties associated with the political situation and the markets' reactions. In particular, the debt sustainability analysis indicated that the debt would remain on a downward path provided that the primary fiscal surplus remained on target and barring a large and prolonged widening of interest rate spreads or real exchange rate depreciation. It was thus contingent on the third criterion, the speed with which Brazil would regain access to markets—which in turn reflected the speed with which the political situation stabilized and confidence returned. With regard to the fourth criterion, prospects of success were strengthened by Brazil's track record of program implementation and its administrative capacity; but they also depended on the policy intentions of a government that had not yet been elected (although the endorsement of the program by all presidential candidates provided significant reassurance). Clearly, in approving exceptional access, the Fund made a calculated gamble that the political situation would stabilize and confidence return" (IMF, 2006).

the start of a preliminary dialogue with the Fund, the request of a credit line, and the Managing Director (MD)'s confirmation of the immediate launch of joint work on an arrangement. The announcement had not been agreed with the Fund. Subsequently, the MD issued a statement welcoming President Macri's declaration and acknowledging the start of discussions but did not include any details (IMF, 2018b). Therefore, by the time the first Board informal meeting took place, EDs were already aware of the situation. Argentina-related issues were discussed in two informal Board meetings in the following days: on May 10 and May 18. Initial discussions with the Argentine authorities were held in Washington, D.C., deviating from the usual practice of holding negotiations in the member's capital, due to strong negative perceptions about the Fund in Argentina. After further negotiations, on June 7, the Board met again informally on Argentina and a staff-level agreement was announced, detailing the main parameters of the arrangement. On June 13, the MD welcomed the authorities' Letter of Intent and Memorandum of Economic Policies—which the government had provided on that same day and made public on the June 14—and announced the satisfactory completion of negotiations. No additional Board meetings took place before the discussion and approval of the SBA on June 20.

Box 2. Decision-Making Procedures Under the EAP

Together with the four criteria, the EAP includes a number of provisions aimed at enhancing the decision-making process in EA cases. These include:

(a) Raising the burden of proof required in program documents.
(b) Procedural requirements regarding early Board consultation.
(c) Requiring an EPE.

Board consultation procedures include:

(i) Once management decides that new or augmented EA may be appropriate, it will consult with Board promptly in an informal meeting that will provide the basis for consultation with capitals and help identify issues that would be addressed in a further informal session.

(ii) Directors are to be provided a concise note circulated at least two hours before the informal meeting that includes as fully as possible: (i) a tentative diagnosis of the problem; (ii) the outline of the needed policy measures: (iii) the basis for judgment that EA may be necessary with a preliminary evaluation of the four substantive criteria, and including a preliminary analysis of external and sovereign debt sustainability; and the likely timetable for discussions.

(iii) Before the Board's formal consideration of the UFR staff report additional consultations will normally be expected to keep the Board abreast of program-financing parameters including: (a) assumed rollover rates; (b) economic developments; (c) progress in negotiations; (d) any substantial changes in understandings; and (e) any changes to the initially envisaged timetable for Board consultation.

(iv) In this connection, staff will provide the Board with a separate report evaluating the case for EA based on further consideration of the four substantive criteria, including debt sustainability. Where time permits, this report will be provided to the Board in advance of the circulation of program documents. In all cases, this report will be included with the program documents.

(v) Management will consult with the Board specifically before concluding discussions on a program and before any public statement on a proposed level of access.

(vi) Strict confidentiality will need to be maintained and public statements by members, staff, and management should take special care not to prejudge the Board's exercise of its responsibility to take the final decision.

Sources: Abrams and Arora (2024) and Kincaid (2024).

61. **At the time of the first review, communications were again problematic.** President Macri announced on August 29 that the administration had agreed with the Fund the advancement of all the necessary funds to ensure the fulfilment of the 2019 financial program. In essence, this announcement implied the modification of the existing arrangement, although no modification had been discussed or agreed with the Fund. According to some interviewees, the intended effect was to accelerate program negotiations, which in their view were taking too long.

62. **The negative effects of this announcement on the sentiment about the Argentinian economy, at both the national and international levels, are clear** (see Figure 6, Panels A and B). The MD reacted that evening with a statement indicating the Fund's intention to "work with the Argentine authorities to strengthen the Fund-supported arrangement and to reexamine the phasing of the financial program." Negotiations proceeded but lasted for nearly a month longer and, on September 26, the Board met informally and a staff-level agreement (SLA)—frontloading disbursements and augmenting the financing under the program—was announced. The first review, together with the modifications to the program, was approved by the Board on October 26.

63. **The content and circulation period of the documents sent to the Board were within the parameters established in the EAP and the EFM**. The notes for the informal meetings on May 18 and September 26 (circulated on May 17 and September 26, respectively) included staff's diagnosis, proposed measures, a preliminary evaluation of EAC fulfilment, and a timetable for discussions, although the May 18 note did not include information on the proposed level of access. The program request documents, circulated on June 13 for discussion on June 20 and on October 17 for discussion on October 26, also met all substantive requirements.

64. **Risks to the Fund and its liquidity position were discussed in program documents**.[19] The supplement in the program request document compared the SBA to other EA cases—it was the largest ever in absolute terms, and second only to the Greece, Ireland, and Portugal arrangement in terms of quota—and provided the usual metrics on its impact on the Fund's liquidity, forward commitment capacity, Fund's exposure, and precautionary balances. Two scenarios were considered: one with only the initial disbursement, treating the rest of the financing as precautionary, and a second one assuming full disbursement. The supplement also discussed briefly risks to the program, in line with the main text of the report, including political, market, sustainability, and implementation risks. The overall assessment was that the arrangement would have "a significant, though manageable, impact on the Fund's liquidity." At the time of the first review and augmentation, Argentina's macroeconomic conditions deteriorated markedly, and the supplement update recognized the associated negative impact on the risks to the Fund, but the overall assessment was maintained. Both the original

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[19] This analysis is required by the EAP as part of the effort to raise the burden of proof in EA cases and takes the form of a supplement titled "Assessment of the Risks to the Fund and the Fund´s liquidity Position," authored by SPR and FIN. See IMF (2002).

supplement and its update fell short of discussing explicitly strategic and reputational risks to the Fund emanating from both, approving and participating in the arrangement, or rejecting the request.[20]

65. **Despite alignment with the letter of the EAP, several EDs were concerned with the process**. At program request, Directors complained that the sequence of public statements by the Argentine authorities and management had entrenched expectations regarding the program parameters and left the Board "cornered." They also complained about insufficient information in the reports provided and the reduced circulation periods. During the Board meeting, the MD recognized that "there could have been more notice. There could have been more time lag" but, overall, she showed satisfaction with the process and the outcome. EDs reiterated during the discussion of the first review their concerns regarding the amount and specificity of the data made public ahead of the Board discussion. During interviews, staff mentioned that they made themselves available to EDs for informal, bilateral, discussions and several did take place.

V. PROGRAM OUTCOMES[21]

66. **The IMF's internal assessment concluded that Argentina's 2018 program did not deliver on its objectives.** The EPE, carried out in 2021, fulfilled the requirement to review performance, discuss program design and assess consistency with Fund policies for EA cases. The EPE found that the strategy and conditionality were not sufficiently robust; the government's redlines "may have ruled out potentially critical measures for the program;" pointed to communication shortcomings, and concluded that the SBA created "substantial financial and reputational risk to the Fund." Its overarching conclusion is that restoring confidence in fiscal and external sustainability would have required showing that public policy reforms to address structural challenges "would be durable."

67. **Some of the interviewees believed the EPE did not sufficiently spell out the political nuances and market sensitivities that constrained the available policy options.** The lack of program success is not disputed, although the conclusions on why are not endorsed by all. Indeed, some among staff and authorities point to a lack of sensitivity in the EPE to local conditions, arguing that, ultimately, it was the Argentinian elections that determined the outcome of the program—as sentiment analysis seems to confirm—not its design, including the lack of CFMs and debt market operations, two issues that received particular emphasis in the EPE.

68. **The EAP was perceived as having failed in its objectives of mitigating risks and preserving the Fund's financial position.** Many of the interviewees believed that the EAP was a useful tool to cross-check some elements of the program and for document elaboration and presentations to the Board. However, even though the provisions spelled out in the framework

[20] As argued in Lane and Saveikyte (2024), this is a common trait in these supplements across EA cases.

[21] See Annex III.

were followed, many others were not convinced that it actually provided a solid structure for better judgment, specifically, on the scale of access, risk assessment, and safeguarding the Fund´s resources, as explicitly stated in the EAP's objectives (Box 3).

Box 3. The Objectives of the Exceptional Access Policy

The framework attempts:

(i) to shape members' and market expectations;

(ii) to provide clearer benchmarks for Board decisions on program design and exceptional access;

(iii) to safeguard the Fund's resources by controlling the Fund's assumption of risk; and

(iv) to help to ensure uniformity of treatment of members.

Source: Abrams and Arora (2024).

69. **Argentina's 2018 SBA was judged to be, from the outset, a high-risk program.** The changing tide in global financial markets, a fraught historical relationship between the Fund and Argentina, and the prevalent structural vulnerabilities of the economy, which were for the most part well known to the Fund, framed the program request. Political factors, program design weaknesses, and program execution missteps weighed heavily on the program's chances of success.

70. **The EAP served as a tool to take account of these risks and inform judgment**. The process involves many implicit judgment calls. Most importantly, it cannot substitute for, nor should it be used to dilute the responsibility of making judgment calls, which ultimately rest on the Executive Board. Indeed, a positive assessment by staff or management that the EA criteria are met does not imply a risk-free situation. However, because positive assessments are sometimes perceived in this sense, some of the interviewees found that the EAP de facto provided the Executive Board with a cover to substitute for decisions that require judgment and are inherently risky.

71. **The risk to the program posed by the Presidential elections, to be held 18 months from the date of the request, was well understood by staff and management**. In a context of extremely high uncertainty regarding policy continuity under a change in government scenario, the program, if there was to be one, had to be designed under the assumption that the administration would remain in office and implementation would continue. The risk of policy discontinuity was explicitly communicated to the Executive Board, which chose to accept it by unanimity. Staff, management and the Board were all aware that, from inception, political risk gave the program what was considered a "binary chance of success." More generally, during the interviews, staff pointed out that in cases with high political risks, it is only possible to apply the EAP framework if sufficient room for flexibility and judgment is allowed, as assurances are nearly impossible to obtain.

72. **The EAP was used as an indirect reference to determine the size of the financing arrangement.** Staff estimated the amount of the SBA based on what it called a "hybrid approach": frontloading of US$15bn, to be used to finance BOP and fiscal needs for one or two

quarters; and, the remaining "precautionary" portion, calculated on the basis of potential financing needs of the BOP, in case rollover rates turned out lower than expected. In other words, the size of the program was determined by current and future needs. Higher financing, at some point, would have indeed violated EAC2 (insufficient safeguards), and EAC3 (low prospects of returning to capital markets), as pointed out by an internal evaluation review document.

73. **The harm done to program success from problems in communication cannot be overstated**. The May 2018 announcement by the President was not preceded by the usual technical groundwork between staff and authorities (the President immediately took to the air after a brief telephone conversation between the MD and Minister Dujovne). This "preemptive" move had several long-term consequences. First, it made it very hard for the Fund to insist on contingency planning from the outset, instead tilting the balance away from strong conditionality in the name of "ownership." Second, several key components of the program were misunderstood by the authorities, which would hurt program execution and communication to markets (notably the meaning and use of the term "precautionary," the fiscal implication from recapitalization of BCRA and FX intervention policy). Third, it gave the impression to some outside observers and staff that program approval was a foregone conclusion, reducing its credibility. The first review was also preceded by uncoordinated communication which fuelled uncertainty and skepticism and, critically, considerably delayed the completion of the first review.

VI. FINDINGS AND CONCLUSIONS

74. **The EAP was useful in the 2018 Argentina SBA for thinking through the key aspects of the case**, forcing a deliberate judgment on debt sustainability, market access, and institutional and political capacity for program implementation. This led to the elaboration of program documents that clearly laid out the known risks involved in the program.

75. **At the same time, this experience highlights issues with both the design and implementation of the EAP**:

- **The Fund faced pressures in favor of the program, both at approval and reviews, for which the EAP was not a sufficiently strong bulwark**. These pressures came both from within and from outside. Internally, as the Fund has the mandate to help members in need when they are perceived to be committed to implementing the right policies, arguing against a program is often an uphill battle. Moreover, despite the high political cost, the administration came to the Fund early, when experience suggests it is best to do so, and requested support for a problem the Fund is uniquely placed to help with. Externally, the idea of an IMF-supported program enjoyed broad support from the international community, including from key stakeholders. Under these circumstances, it was very difficult for the Fund to deny an arrangement to Argentina. Finally, for reasons explained below, the EAP involves large room for judgment, which weakens its potential to contain political pressures when there is large institutional and external support for the program.

- **Despite pressures, the IEO found no direct evidence to support the pervasive criticism of reverse engineering**. During the life of the program, there were growing and persistent disagreements within staff regarding the fulfilment of EACs and concerns about the way decision-making processes were handled. These led to internal and external perceptions of biased assessments, which in turn impacted the credibility of the program and the Fund's reputation. That said, this evaluation did not find direct evidence of such reverse engineering. On the contrary, evidence suggests that staff in key positions and management believed that a path to program success could be found within the margins of the EAP, while being conscious of the elevated risks.

- **The domestic political situation, as in many EA cases, constrained the Fund's room for maneuver during the design and implementation of the largest program in its history**. Although staff knew stronger measures were needed on the fiscal and structural fronts, an otherwise weaker program was accepted for the sake of ownership, consistent with what the authorities deemed was politically and socially palatable. It is therefore arguable that the EAP was not a strong enough tool to push back on redlines, and therefore was unable to reduce the risks it is intended to address.

- **The EAP can be interpreted as a framework to guide judgment, not to replace it**. A clear distinction between, on the one hand, the technical work that goes into program design and the assessment of the EAP criteria and, on the other, the judgments that are needed for approval would go a long way to protect the credibility of the institution. A recurring criticism of the framework was that the illusion of a mechanical application, without explicit discussion of other legitimate considerations, can deflect the responsibility of making judgment calls that necessarily entail risk taking, especially in the Executive Board.

- **The experience with the 2018 Argentina SBA illustrates several issues with EAC2**. At the most basic level, its wording—i.e., sustainable but not with a high probability—was confusing. At the technical level, EAC2 and the analytical apparatus around it were excessively sensitive to assumptions and left too much room for judgment for the criterion is to be used as a binding requirement (a technical assessment of EAC2, including recent changes, and EAC3 can be found in Erce (2024)). These shortcomings were at the root of internal disagreements and allowed for the erosion of the Fund's credibility and reputation.

- **The lack of clear guidance or tools to assess prospects of market access generated problems**. Moreover, this case highlights questions regarding whether assessing market access prospects is even doable or meaningful in cases where those prospects are perceived to depend heavily on political developments. An internal agreement was also missing on how to assess the interaction between EAC3 and EAC2 and the different implications of access to domestic and/or international markets.

- **This case raises serious concerns regarding the usefulness, even the applicability and realism, of EAC4**. The assessment of EAC4 focused on political and institutional capacity rather than on the program having an overall strong prospect of success. Political capacity is typically predicated on the obtention of assurances from a sufficiently broad representation of the political spectrum. However, in countries with extreme polarization and fragmentation, it can be virtually impossible to obtain sufficient assurances. This, in turn, means that the assessment of this criterion, and therefore of prospects of success, may eventually become binary when an election falls within the implementation period. Moreover, if the Fund decides to go ahead with the program in these circumstances, the decision can easily be interpreted and presented as the Fund favoring the incumbent administration, rather than supporting the member country. Because the Fund cannot deny support on the basis of an electoral forecast, staff and management went ahead with a positive recommendation while explaining clearly to the Executive Board the political risks involved.

- **This case sheds additional light on decision-making issues**. At the Board level, while the letter of the enhanced decision-making procedures was followed, EDs were concerned that the spirit of those procedures had not been satisfied, both in terms of the information provided and the timing of such provision. Another issue was the resolution of internal disagreements. Internal debates, either within or among departments, are often conducive to stronger programs, but sometimes differences cannot be resolved at the staff level. When this is the case, the institutional setup is designed for management to decide the issue based on the arguments presented by departments. However, this leaves space for the decision to incorporate also strategic considerations that may not always be presented to the Executive Board. Finally, the presentation of a unified assessment by management and staff may shield the Board from the need to make difficult judgment calls.

76. **The analysis of the experience with the EAP during the 2018 Argentinian SBA against the EAP's explicit objectives yields mixed results**:

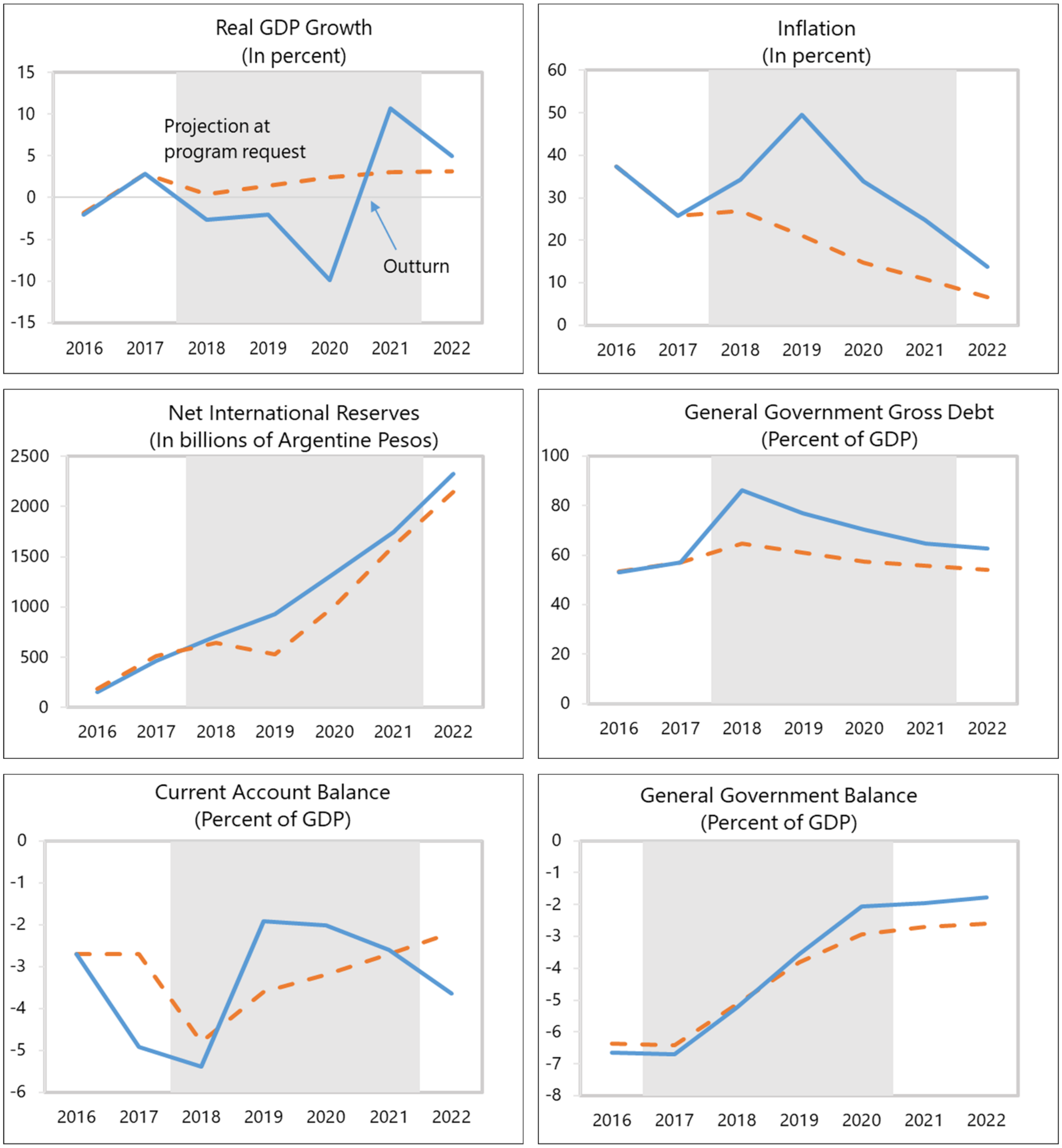
(i) *To shape members' and market expectations.* This case seems to have, if anything, contributed negatively in this respect. While the IEO did not find evidence that the EAP was violated, there is a strong external perception that the Fund's EAP assessments throughout the program did not provide a sufficiently strong anchor. At least two factors contributed to this outcome. First, the criteria were too vague to be used as a binding requirement, giving the impression that the combination of sensitivity to assumptions and the built-in room for judgment could have allowed a wide variety of situations to be seen as consistent with the criteria. Second, communications and implementation missteps undermined the program strategy from the start, eroding its credibility and contributing to the perception that the Fund was adapting to developments rather than following a deliberate strategy under the policy.

(ii) *To provide clearer benchmarks for Board decisions on program design and exceptional access*. The EAP did provide guidance, transparency, and a framework for deep and focused discussions. It also seems to have constrained, to some extent, the discussion on access levels. However, for the reasons explained above, the framework is assessed as providing too much room for judgment when there are strong pressures.

(iii) *To safeguard Fund resources by controlling the Fund´s assumption of risk*. Again, for the reasons detailed above, especially when it comes to EAC4, the EAP did not reduce the risk to the program stemming from political factors. EAC2 and EAC3 were also too loosely defined and, in the case of EAC3, lacking the analytical rigor to protect Fund resources.

(iv) *To help ensure uniformity of treatment of members*. This objective cannot be judged from a single case. The general impression, however, was that Argentina was given a relatively favorable treatment; the Fund was perceived as accepting a higher risk, providing more financing, and demanding fewer conditions.

ANNEX I. SELECTED MACROECONOMIC INDICATORS



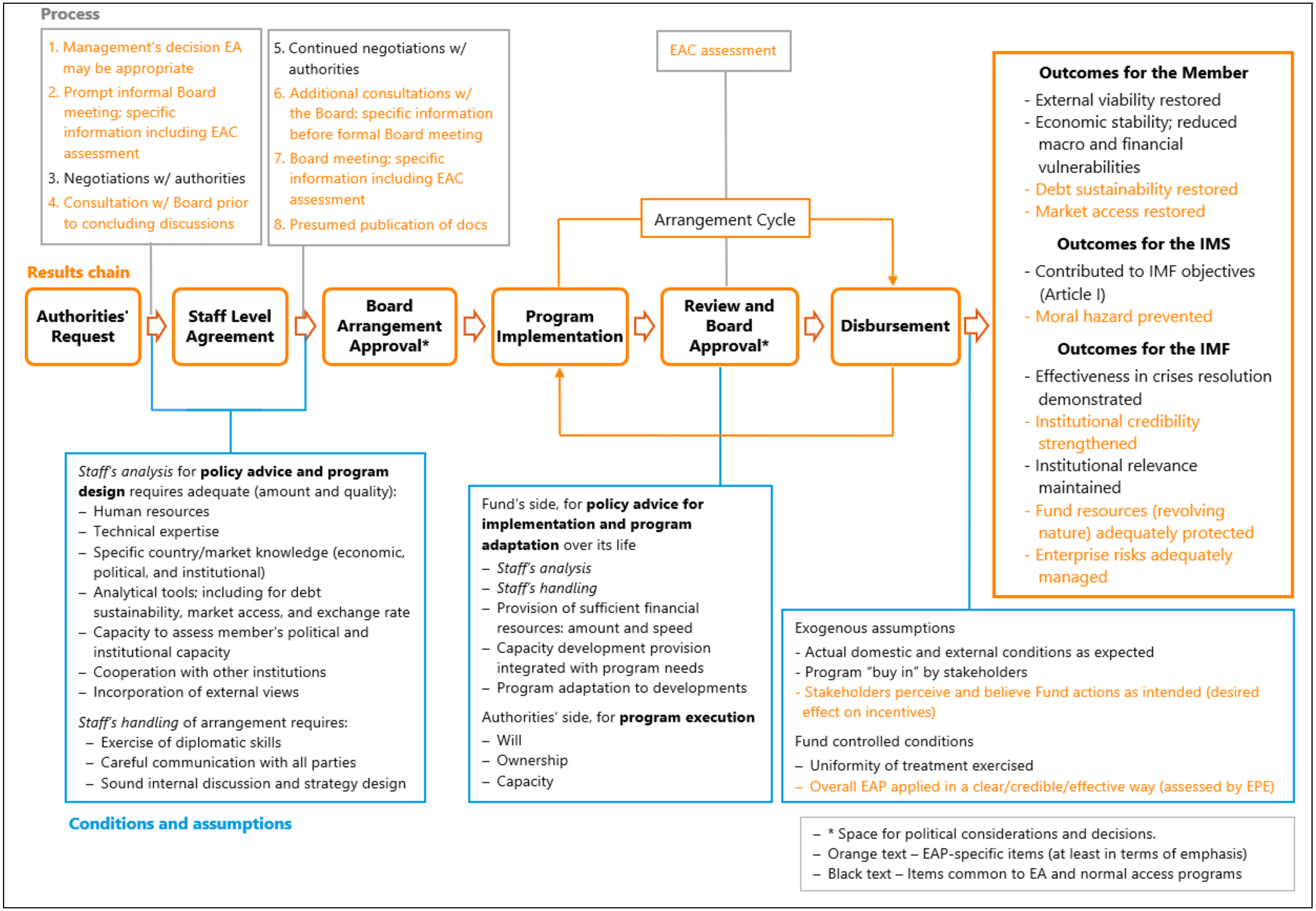
Sources: IMF reports; IEO calculations.

ANNEX II. TIMELINE

External Developments	Date	Internal IMF developments
Mauricio Macri becomes President – Alfonso Prat-Gay MoF - Federico Sturzenegger President of BCRA	**December 10, 2015**	
–		
Unification of exchange rate market	**December 17, 2015**	
	July 1, 2016	Technical mission on statistics
Announcement: IT regime to be launched in 2017	**September 2016**	
	November 2016	Final settlement of the 2005 restructuring
	December 10, 2016	IMF lifts censure on Argentina's official statistics
Prat-Gay leaves MoF, which is divided into M. de Hacienda and M. de Finanzas	**December 26, 2016**	
Last capital controls removed	**January 2017**	
Nicolas Dujovne Minister of M. de Hacienda; Luis Caputo Minister of M. Finanzas Públicas	**January 10, 2017**	
Legislative "mid-term" elections	**October 22, 2017**	
Stoning of Congress when pension reform was discussed	**December 18, 2017**	2017 Article IV Consultation
Reduction of BCRA inflation target	**December 28, 2017**	
Drought in the Pampas	**Late 2017– 2018**	
Intervention in FX market to stabilize exchange rate	**March 2018**	
	March 19–20, 2018	MD Lagarde and President Macri meet in Buenos Aires, G20 Ministers
	March 22, 2018	Informal Session to Brief
Tax on non-residents interests	**April 24, 2018**	
President Macri's message to the nation	**May 8, 2018**	SBA request; MD Lagarde welcomes President Macri's statement
	May 9, 2018	Official delegation in Washington DC, meets WHD and FDMD Lipton
	May 10, 2018	Official delegation in DC, meets MD Lagarde; Informal Session to Brief
	May 18, 2018	Informal Session to Engage (conf. doc)
Sudden stop: access to international markets closed	**May 2018**	
	June 7, 2018	SBA SLA reached Informal Session to Engage
	June 9, 2018	MD Lagarde and President Macri Meet
	June 13, 2018	MD Lagarde welcomes LOI
Government publishes MOU and LOI; Central bank eliminates 25 peso/USD cap, exits FX market; Sturzenegger replaced by Caputo as BCRA President; Ministries reunified under Dujovne	**June 14, 2018**	MD Lagarde calls M. Dujovne in the context of BCRA shakeup
	June 19, 2018	President Macri and Caputo call MD Lagarde regarding intervention

External Developments	Date	Internal IMF developments
	June 20, 2018	SBA approved by the Board
	July 13, 2018	SBA request published
	July 20, 2018	President Macri and MD Lagarde meet
	July 21, 2018	MD Lagarde, President Macri, Caputo and Dujovne meet
	July 22, 2018	G20 Meeting in Buenos Aires
	August 1, 2018	Informal Session to brief
President Macri's (non-agreed) address and announcement	**August 29, 2018**	MD Lagarde and President Macri meet
	September 4, 2018	MD Lagarde meeting with Dujovne and Cañonero
Guido Sandleris replaces Caputo as President of BCRA	**September 25, 2018**	
	September 26, 2018	1st Review SLA reached Informal Session
	October 17, 2018	New LOI and MEFP
	October 26, 2018	1st Review and augmentation approved
	November 26, 2018	2nd Review SLA reached
	December 7, 2018	Informal Session to Brief
	December 11, 2018	New LOI and MEFP
	December 19, 2018	2nd Review approved
	January 24, 2019	MD Lagarde, Dujovne, and Sandleris meet
	March 18, 2019	3rd Review SLA reached
	April 5, 2019	3rd Review approved
	April 29, 2019	Informal Session to Brief
	June 8, 2019	MD Lagarde, Dujovne, and Sandleris meet
	June 27, 2019	MD Lagarde and President Macri meet
	July 2, 2019	MD Lagarde´s departure announced
	July 5, 2019	4th Review SLA reached
	July 12, 2019	4th Review approved
Primary elections (PASO)	**August 11, 2019**	
Hernán Lacunza replaces Dujovne	**August 17, 2019**	
	August 30, 2019	Informal Session to Brief
	August 2019	SBA goes off track
Capital controls imposed	**September 1, 2019**	
Alberto Fernández becomes President	**December 10, 2019**	
Debt default	**May 22, 2020**	
Debt restructuring agreement achieved	**August 2020**	
	August 26, 2020	New arrangement request
Debt restructuring agreement	**September 14, 2020**	

ANNEX III. THEORY OF CHANGE—FUND-SUPPORTED PROGRAM UNDER THE EAP



ANNEX IV. SENTIMENT ANALYSIS

This Annex provides details on the data and methodology used for sentiment analysis (Figure 6). Sentiment analysis has gained prominence in natural language processing with the advent of machine learning. It is often used to gauge public opinions due to its ability to evaluate large text corpus to classify sentiments into positive, negative, or neutral.

The primary database utilized was Clarivate ProQuest Global Newstream. It was selected for its coverage of worldwide news across a wide time span.[1] The dataset served as the foundation for our analysis, offering comprehensive insights into international and national media coverage, as well as public sentiments related to two specific areas: the Argentine economy and the 2018 SBA.

A text corpus for each area was constructed through two steps. First, relevant news articles were identified based on area-specific keywords (i.e., exchange rate, international reserves). Those keywords were selected based on (i) interviews with IMF staff, management, Executive Directors (EDs), and country authorities; (ii) desk review of internal and public country documents; and (iii) review of news articles. Second, within the articles identified in the previous step, sentences containing the keywords were extracted to generate the final corpus for sentiment analysis.[2, 3] Corpora were further classified as national or international based on the country of origin of articles.[4] For example, an article originated in an Argentine source was classified as national perception. This allowed to compare the key drivers of domestic and external perceptions, with distinct implications on the economy and the program (e.g., international perception was critical for market access and national perception for country ownership).

[1] The database collects both present-day news and archival content dating back to the 1980s. It includes newspapers, newswires, news journals, television and radio transcripts, blogs, video, podcasts, and digital-only websites.

[2] Considering the nature of news articles—often containing extensive descriptive text that provides background information unrelated to the topic-specific sentiment—this second step is essential to remove noise from the final corpus.

[3] Relevant sentences are extracted using a three-sentences window (i.e., the sentence containing the keywords along with its neighboring sentences). This approach preserves topic-specific information and provides contextual understanding. Together, these ensure the accuracy of the generated sentiment index.

[4] News publishers in international and national corpuses are then examined to ensure their representativeness in the media. Prominent international news publishers include The New York Times, The Washington Post, The Guardian, and the Financial Times. Key Argentine news outlets include La Nación, Clarín, and Infobae.

Finally, Sentence-BERT (SBERT) model was used to generate sentiments.[5] First, sentiment score was produced on a sentence-level.[6] These scores were then aggregated to the article (document) level and, finally, to daily frequency. To account for fluctuations in the number of news articles—such as reduced economic news during weekends or holidays—and the persistent nature of public perception and belief, a backward-looking moving average was used on the daily sentiment.[7]

[5] Sentence-BERT (SBERT) modifies the BERT model to create embeddings for sentence-level tasks like semantic textual similarity, clustering, and information retrieval. Using siamese and triplet network structures, SBERT derives semantically meaningful sentence embeddings comparable with cosine similarity. This approach delivers state-of-the-art performance, particularly excelling in financial and economic document analysis with high accuracy.

[6] A probability score is assigned to emotions or affective stages (e.g., Anger, Disgust, Fear, Sadness, Happiness, Love, Surprise, Neutral, or Other). They are further aggregated into "positive" and "negative" sentiments. Finally, we take the difference between the two to produce the final sentiment score on a sentence level.

[7] An exponential moving average (EMA) with a 15-day window is used. EMA is a type of moving average that places a greater weight and significance on the most recent data points. Therefore, it is more sensitive to recent market developments than to other moving averages. Empirically, a 15-day window removes excessive fluctuations of sentiments and provides a good trend of sentiments.

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