



INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C. 20431

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INTERFUND

APR 14 1992

Gentlemen:

I am enclosing herewith the text of the extended arrangement for Argentina agreed by the Executive Board on March 31, 1992.

Sincerely,

A handwritten signature in dark ink, appearing to read "Klaus Boese".

Klaus Boese  
Deputy Division Chief  
Operations Division for  
General Resources

Enclosure

Banco Central de la Republica Argentina  
Reconquista 266  
1003 Buenos Aires  
Argentina

Argentina: Extended Arrangement

Attached hereto is a letter\* with an annexed Memorandum of Economic Policy ("the Memorandum") dated March 4, 1992, from the Minister of Economy and Public Works and Services and the President of the Central Bank of the Argentine Republic, requesting an extended arrangement and setting forth:

- (a) the objectives and policies that the authorities of Argentina intend to pursue for the period of this extended arrangement;
- (b) the policies and measures that the authorities of Argentina intend to pursue for the first year of this extended arrangement; and
- (c) understandings of Argentina with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Argentina will pursue for the second and third years of this extended arrangement.

To support these objectives and policies the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of three years from March 31, 1992, Argentina will have the right to make purchases from the Fund in an amount equivalent to SDR 2,149.25 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 166.25 million until June 1, 1992, the equivalent of SDR 341.025 million until September 1, 1992, the equivalent of SDR 535.8 million until December 1, 1992, the equivalent of SDR 730.75 million until March 1, 1993, and the equivalent of SDR 925.35 million until June 1, 1993.

(b) Until June 1, 1994 purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 1,593.15 million.

(c) The right of Argentina to make purchases during the second and third years shall be subject to such phasing as shall be determined.

(d) The amount that would be available in accordance with paragraphs 1 and 2(a), (b), and (c) above, before June 1, 1992 shall be reduced by an amount equivalent to 90.977 percent, and each of the amounts that would be available after June 1, 1992 during the remaining period of this arrangement shall be reduced by an amount equivalent to 25 percent. The amount equivalent to corresponding reductions in the purchases made by

\* See EBS/92/40 (3/4/92).

Argentina under this extended arrangement shall be made available subject to the following conditions:

- (i) Argentina represents that it has a need to make a purchase because of use of its reserves or impending payments for the discharge of liabilities under debt reduction transactions;
- (ii) the Fund, after examination of the request, has determined that the requested purchase is needed for the replenishment of Argentina's reserves or for the making of payments in connection with Argentina's debt reduction operation; and
- (iii) the Fund, upon a review of the financing of Argentina's program supported by this extended arrangement, has determined that the debt reduction involved is consistent with the objectives of the program.

(e) Pursuant to a review under (d)(iii) above and if requested by Argentina, the Fund may decide to make available to Argentina, notwithstanding the phasing specified under (a), (b) and (c) above, and subject to the conditions specified in (d)(i) and (ii) above, an amount equivalent to 25 percent of the total of purchases that may be made by Argentina during the remainder of this extended arrangement. In that event, the right of Argentina to make purchases under this extended arrangement shall be subject to such phasing of purchases and designation of amounts for debt reduction, as shall be determined.

(f) If requested by Argentina, the Fund may decide to discontinue the designation of amounts for debt reduction, under (d) and (e) above, if the Fund determines that the objectives of Argentina's program supported by this extended arrangement can be achieved.

3. Purchases under this extended arrangement shall be made from ordinary resources until the outstanding use of ordinary resources in the upper credit tranches and under the Extended Fund Facility equals 140 percent of Argentina's quota in the Fund of SDR 1,113 million. Thereafter, purchases shall be made from borrowed resources, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Argentina will not make purchases under this extended arrangement:

(a) throughout the first year, during any period in which the data at the end of the preceding quarter indicate that

- (i) the limit on the combined deficit or surplus of the nonfinancial public sector and the Central Bank, or
- (ii) the limit on overall deficit or surplus of the nonfinancial public sector, or
- (iii) the limit on cumulative change in the net domestic assets of the Central Bank, or
- (iv) the target on cumulative change in net international reserves of the Central Bank, or
- (v) the limit on external arrears of the public sector, or
- (vi) the limit on external debt of the public sector, or
- (vii) the limit on cumulative net disbursements of short-term debt,

respectively, specified in Table 2 of the Memorandum annexed to the attached letter, is not observed; or

(b) if Argentina incurs any new external payments arrears after June 30, 1992, other than debt service arrears on medium and long-term public sector debt to commercial banks; or

(c) if, after June 30, 1992 and December 31, 1992, respectively, Argentina has not implemented satisfactorily the reform of the tax system and the social security system as described in paragraphs 13 and 14 of the Memorandum annexed to the attached letter; or

(d) after May 31, 1992, August 31, 1992, November 30, 1992, and February 28, 1993, until the respective quarterly reviews contemplated in paragraph 4 of the attached letter are completed, provided that no such reviews shall be necessary after the Fund determines that satisfactory arrangements with commercial banks for the financing of the program have been reached; or

(e) after November 30, 1992, until the review has been completed as contemplated in paragraph 4 of the attached letter and suitable performance criteria for the period of the arrangement after December 31, 1992 have been established, or after such performance criteria have been established, while they are not being observed; or

(f) if Argentina

- (i) imposes or intensifies restrictions on payments and transfers for current international transactions; or
- (ii) introduces or modifies multiple currency practices; or

- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or
- (iv) imposes or intensifies import restrictions for balance of payments reasons.

When Argentina is prevented from purchasing under this extended arrangement because of this Paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Argentina and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Argentina will not make purchases under this extended arrangement during any period of the arrangement in which Argentina has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action with respect to a noncomplying purchase, or pursuant to Decision No. 9331-(89/167), as amended.

6. Argentina's right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Argentina. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this Paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Argentina and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Argentina, the Fund agrees to provide them at the time of the purchase.

8. The value date for purchases under this extended arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. Argentina will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

9. Argentina shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

10. (a) Argentina shall repurchase the amount of its currency that results from a purchase under this extended arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Argentina's balance of payments and reserve position improves.

(b) Any reductions in Argentina's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this extended arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that the repurchase will be completed not later than seven years from the date of purchase.

11. During the period of the extended arrangement Argentina shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Argentina or of representatives of Argentina to the Fund. Argentina shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Argentina in achieving the objectives and policies set forth in the attached letter and its annexed memorandum.

12. In accordance with paragraph 4 of the attached letter, Argentina will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the performance criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Argentina has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Argentina's balance of payments policies.

ZOCCALI, A. Guillermo  
ROOM 11-320

0451

EBS/92/40

CONFIDENTIAL

March 4, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Argentina - Request for Extended Arrangement - Letter of  
Intent and Memorandum on Economic Policy

Attached for consideration by the Executive Directors is the letter of intent from the Argentine authorities requesting an extended arrangement equivalent to SDR 2,003 million, together with a memorandum on economic policy. The staff paper describing and analyzing the economic program will be circulated shortly.

This subject is tentatively scheduled for discussion on Tuesday, March 31, 1992.

Mr. Hardy (ext. 8500) or Mr. DeMilner (ext. 8606) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Ministry of Economy and  
of Public Works and Services  
Buenos Aires, Argentina  
March 4, 1992

Mr. Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Camdessus:

1. The attached Memorandum on Economic Policy contains a description of the economic policies the Government of Argentina intends to follow in the period from January 1, 1992 to December 31, 1994. The policies are aimed at maintaining prices in line with international inflation, sustaining strong economic growth, restoring external viability and at freeing the economy from the remaining constraints of decades of over-regulation and excessive state intervention.

2. The Government of Argentina would like to obtain continued support of the International Monetary Fund for its economic program, under an extended arrangement. The Government, therefore, hereby requests cancellation of the present stand-by arrangement on the date of completion of the current review of the stand-by arrangement, and approval of an extended arrangement for the period through March 1995 in an amount equivalent to SDR 2,003 million. The Government also requests that on approval of the extended arrangement, set-aside amounts equivalent to the accumulated but unused set-asides from the current stand-by arrangement be added to the extended arrangement for use in future operations involving debt reduction, and that 25 percent of any further purchases also be set aside for similar use.

3. Discussions in progress with Argentina's commercial bank creditors have led to the presentation by Argentina to the Bank's Advisory Committee on January 30, 1992 of its proposal for a comprehensive voluntary market-based debt and debt service reduction package compatible with the requirements for medium-term external viability envisaged under the program. Once an appropriate restructuring arrangement has been agreed with Argentina's creditors, the Government intends to request that the extended arrangement be augmented by an amount equivalent to 30 percent of Argentina's quota of SDR 1,113 million in accordance with Fund guidelines. It is the intention of the Government to complete the aforementioned debt and debt service reduction package by end-1992.

4. The Government of Argentina believes that the policies described in the attached memorandum are adequate to achieve the objectives of the economic program but will take any additional measures that may be appropriate for this purpose. During the period of the arrangement the authorities of Argentina will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the Fund's policies on such consultations. During the first year of the program quarterly reviews with the Fund will be carried out covering the implementation of the economic program described in the attached Memorandum on Economic Policy and the progress in negotiations with commercial banks, pending completion of arrangements with the commercial banks consistent with the financing requirements of the program. In any event, the Government will undertake a general review with the Fund before December 31, 1992, in order to establish suitable performance criteria for 1993, and to establish the frequency of further program reviews during the second and third years of the arrangement.

Sincerely,

/S/

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Roque B. Fernández  
President of the  
Central Bank of the Argentine Republic

/S/

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Domingo F. Cavallo  
Minister of Economy and of  
Public Works and Services

## Argentina: Memorandum on Economic Policy

1. Since 1989 the Government of Argentina has been pursuing a strong and comprehensive program of economic adjustment and structural change aimed at correcting financial imbalances and promoting sustained economic growth. While considerable advances were made in 1989-90 in liberalizing and privatizing the economy and in removing impediments to growth, progress in dealing with financial imbalances was interrupted by episodes of instability. Following one such episode, in February 1991 the Government launched a new stabilization and reform program that was supported by a stand-by arrangement with the Fund approved in July. In the course of the past year the Government introduced far-reaching and broadly based policies to consolidate the stabilization effort, seek long-term external viability and stimulate private investment and growth. Building on the substantial progress that has been made to date in reforming the economy, the Government of Argentina has now developed a comprehensive medium-term program for 1992-94 and would like to request the support of the Fund through an extended arrangement.

### Performance under the current stand-by arrangement

2. The program which began in February 1991 was broader and more radical in scope than earlier efforts and has been described in our Memorandum of Economic Policy dated June 28, 1991 (EBS/91/107). Fiscal policies were adopted to eliminate the public sector deficit, the Argentine currency was made convertible on April 1, 1991 at 10,000 australes to the U.S. dollar (the free market rate at the time), 1/ indexation was prohibited, and a number of structural reforms was undertaken. In the external sector, import tariffs were simplified and lowered, quantitative import restrictions were eliminated except on motor vehicles, 2/ and most export taxes--as well as the obligation to surrender export proceeds--were removed. In the fiscal area, tax administration was greatly improved, the program to reduce employment in the public sector was accelerated, and central bank lending to provincial banks and to the Social Security System was stopped. Privatization continued at a rapid pace with the sale of exploitation rights to oil fields, the long-term lease of a major railroad freight line, the sale of real estate and of government shares in telecommunications companies, and the signing of toll collection and maintenance contracts for certain road networks.

3. Largely as a result of a major improvement in tax and social security administration, fiscal revenues increased from 17.1 percent of GDP in the first quarter of 1991 to 24.2 percent of GDP in the fourth quarter,

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1/ In January 1992, the Government introduced a new currency, the peso, equivalent to 10,000 australes or one U.S. dollar.

2/ In December 1991, a special regime for the motor vehicle industry was announced involving a liberalization of import quotas and restrictions, tied to exports and restructuring programs of the sector.

with revenue collection from the principal tax, the VAT, increasing from 3.3 percent of GDP to 6.7 percent of GDP in just over nine months. Monitoring and computerized on-line checking has been expanded to cover 30,000 taxpayers, accounting for 85 percent of tax revenues. Fines for noncompliance have been increased and temporary business closures are being used much more frequently as an enforcement tool. Collection of social security and wage taxes has been centralized and enforcement strengthened, and the social security declarations of more than 50,000 enterprises are being included in an on-line computerized information system that permits cross-checking with tax administration data.

4. The program has been successful so far in achieving its principal aims. Inflation and interest rates have dropped dramatically. Monthly inflation, measured by the Consumer Price Index, declined from 27 percent in February to 2.6 percent in July and to 0.5 percent in December and the cumulative increase in wholesale prices between April and December was 2.7 percent, commensurate with the increase in prices of foreign tradables. Industrial production increased by 30 percent in nine months; liquid official international reserves, excluding gold holdings, rose from US\$2.5 billion in March to about US\$6 billion in December. Most of these reserves are backing the monetary base as required by the Convertibility Law that went into effect on April 1, 1991. A rescheduling of pre-cutoff date debts owed to Paris Club creditors through end-June 1992 was agreed in September on terms similar to those obtained in the previous rescheduling round. While some problems emerged during the third quarter necessitating corrective action by the authorities, all of the end-of-year quantitative targets under the stand-by arrangement were observed.

#### The medium-term program

5. The goals of the 1992-94 program are to maintain prices in line with international inflation, to sustain strong economic growth, to restore external viability and regularize the external debt situation, and to free the economy from the remaining constraints of decades of over-regulation and excessive state intervention. The instruments to achieve these objectives include a fiscal stance consistent with the recovery of long-term fiscal solvency, and a monetary policy that avoids domestic lending by the Central Bank and remains constrained by the convertibility law. The privatization of public enterprises and other state assets will be a tool for improving efficiency, expanding the role of the private sector, and reducing debt. The peso is to remain pegged to the U.S. dollar at the rate of one peso per dollar, supported by the opening of the economy and structural reforms that reduce costs and encourage investment. Despite some real appreciation of the Argentine currency since March 1991, exporters have benefited from the significant decline in real interest costs, the removal of export taxes, and the reduction in other costs as a result of deregulation.

6. Achievement of the planned rates of growth will require an increase in domestic savings and investment from the low levels of recent years. The efficiency of investment is expected to improve as a result of

the deregulation of the economy. Before debt service reduction, nonfinancial public sector savings (including provinces) are projected to rise from -1.0 percent of GDP in 1991 to 3.4 percent of GDP in 1994, while public investment (including provinces) is targeted to rise from 2.0 percent to 3.6 percent of GDP over the same period. Improved economic policies and a stable economic environment are expected to facilitate an increase in private savings from 10.4 percent of GDP in 1991 to 11.4 percent of GDP in 1994 and in private investment from 9.5 percent to 13.8 percent of GDP. Use of foreign savings would amount to 2.7 percent of GDP a year during the program period, but the Government of Argentina is seeking to lower this through debt service reduction.

7. Fiscal policy will aim at generating a primary surplus excluding privatization proceeds in the next three years averaging Arg\$3.3 billion a year, or 2 percent of GDP, sufficient to provide for planned debt service payments and for a steady decline in public debt (Table 1). Fiscal revenues, which were 21.8 percent of GDP in 1991, excluding the operating surplus of the public enterprises, would rise to 24.3 percent of GDP in 1992 and remain around 24 percent of GDP thereafter. The improvement in 1992 is to be achieved on the basis of proposed tax reforms and the continued strengthening of tax administration. Noninterest expenditure of the nonfinancial public sector, which reached 21.6 percent of GDP in 1991, would rise to 22.5 percent of GDP in 1992 and remain at similar levels thereafter. Expenditure policy will be based on maintaining the central government wage bill constant as a share of GDP, while transferring central administrative expenditures to the provinces as their resources rise as a result of revenue-sharing arrangements. Pension benefits will rise in relation to GDP in 1992 and remain level thereafter in relation to GDP. Capital expenditure is targeted to rise from 1.5 percent of GDP in 1991 to 2.3 percent of GDP in 1994. Revenue from asset sales is expected to be Arg\$1.9 billion in 1992 and Arg\$350 million in 1993, and will be used for debt reduction. The quasi-fiscal outcome for the Central Bank would be a deficit of Arg\$335 million (0.2 percent of GDP) in 1992 and Arg\$270 million (0.1 percent of GDP) a year in 1993-94. The overall balance of the public sector (before debt reduction operations) would be a surplus of Arg\$970 million (0.6 percent of GDP) in 1992, and deficits of Arg\$250 million (0.1 percent of GDP) in 1993 and Arg\$740 million (0.4 percent of GDP) in 1994.

8. The Government intends to cover domestic arrears to pensioners and suppliers outstanding as of April 1, 1991 through the issuance of long-term domestic bonds. The bonds will be denominated in foreign or domestic currency at the option of the recipient and carry a grace period of 6 years and final maturity of 10 and 16 years. After these or similar obligations have been quantified more precisely and documented, their implications will be assessed in the context of the program reviews.

8. Planned external debt service payments include continued partial payment of interest to banks pending a comprehensive debt operation with banks in 1992. Argentina also plans to seek further relief from the Paris Club on pre-cutoff date debt during the extended arrangement. The primary

surpluses that will be generated under the program will permit full payment of all internal debt servicing obligations falling due and all external debt obligations, after rescheduling by Paris Club creditors and a planned commercial bank debt and debt-service reduction operation. The Government of Argentina intends to eliminate existing nonrefinanceable arrears and will avoid incurring new external arrears, excluding arrears to commercial banks pending a restructuring agreement.

9. Monetary policy will continue to be restrained by the convertibility regime, and the Central Bank will not expand domestic credit except through limited open market operations designed to meet temporary liquidity needs. Except for the use in the framework of the envisaged debt reduction operation of certain treasury deposits accumulated in 1991 from privatization proceeds, no central bank credit will be extended to the public sector. Reserve requirements on commercial banks will be reduced gradually. The 1992 monetary program is based on the assumption of continued remonetization; broad money in local currency is projected to increase from 9 percent of GDP in the last quarter of 1991 to 9.9 percent in the last quarter of 1992, and including foreign currency deposits would increase from 14.1 percent to 16 percent of GDP. Net domestic assets of the Central Bank are targeted to decline by Arg\$308 million in 1992 (Table 2).

10. The external current account deficit before debt and debt-service reduction is expected to increase from US\$2.8 billion in 1991 (2.2 percent of GDP) to US\$4.9 billion in 1994 (2.7 percent of GDP). Exports are expected to grow by 6 percent a year in volume, as a result of improvements in competitiveness from deregulation and associated productivity gains. However, import volumes are expected to increase faster than both output and exports in 1992-94 as a result of the opening of the economy and the recovery of investment. Accrued interest payments before rescheduling and debt reduction are projected at US\$5 billion a year during 1992-94. Net private capital inflows are expected to increase from US\$3.1 billion in 1991 to US\$3.9 billion a year during 1992-94 mostly as a result of higher direct investment and repatriation of flight capital. Taking into account projected disbursements from multilateral agencies (apart from those related to debt and debt service reduction operations) and new bond issues, net international reserves are targeted to increase by US\$881 million in 1992. Consistent with this objective, the Government intends to seek debt relief from commercial banks and official bilateral creditors, and has requested the support of the Fund.

11. Argentina is seeking the full normalization of relations with its external bank creditors through a voluntary market-based debt and debt service reduction operation. To that end the authorities met on January 30, 1992 with the advisory committee of commercial bank creditors and presented a proposal aimed at securing a comprehensive restructuring and reduction of commercial bank debt and debt service. The proposal covers past-due interest and includes a number of refinancing options. The debt package would be supported by a pool of enhancements from Argentina's own resources, resources from multilateral financial institutions and bilateral official

sources, and accumulated set-asides from the current stand-by and from the proposed EFF. Additional access to Fund resources for these purposes would be requested, in line with Fund guidelines, once an appropriate restructuring arrangement has been agreed with Argentina's bank creditors. Progress in negotiations with commercial banks will be monitored through quarterly financing reviews pending completion of arrangements consistent with the financing requirements of the program.

#### Structural reforms

12. The Government of Argentina is implementing a broad range of structural reforms. A deregulation decree issued on November 1, 1991 laid the groundwork for eliminating a host of regulations affecting competition and introduced measures to lower domestic costs and further open the economy. Another decree issued in November 1991 established a timetable for the sale of most of the remaining public enterprises during 1992. To develop the capital market, taxes on the issuance and transactions of financial and stock instruments were removed, stock market commissions were deregulated and capital gains by foreign investors on the sale or transfer of stocks were exempted from the income tax. Also, a long debated law on employment was passed in November that will make labor markets more flexible.

13. In 1992 the Government intends to carry out a major tax reform designed to simplify the tax system, encourage investment, and reduce the tax burden on labor relative to other factors of production. The reform, on which Congressional action is expected before midyear, would gradually replace the existing income tax (which yielded 1 percent of GDP in 1991) by two new taxes--the tax on distributed profits and the tax on the primary surplus of firms (IEPE). The latter would be levied at a rate of 18 percent on nonwage value added, with 83 percent of proceeds allocated to the unified Social Security System, and the remaining 17 percent to the provinces. The employers' social security contribution--16 percent of payroll--will be credited against IEPE until December 31, 1992 and eliminated thereafter. Other tax changes include a reduction in the tax on gross assets of business enterprises from 2 percent to 1 percent in February 1992, a lowering of the tax on bank transactions from 1.2 percent to 0.3 percent in March 1992 and to zero in June 1992, and an increase in the VAT rate from 16 percent to 18 percent in March 1992. The planned elimination of the tax on bank transactions may be delayed if revenue performance is less than expected. As a result of these various reforms, revenue collection will be concentrated on broad taxes such as the VAT, the IEPE, social security contributions, and certain major excise taxes.

14. The Government is planning a major reform of the Social Security System during 1992 and 1993. Financial equilibrium of the existing pay-as-you-go system on both a cost and accrual basis will be sought through various measures and the finances of the system strengthened with the tax reform and improved administration. With effect from January 1993, the existing system will be complemented by a new mandatory capitalized

privately administered system, and a voluntary private supplementary system. Workers 45 years or younger would be incorporated into the capitalized system, while older workers could choose to remain in the existing pay-as-you-go system which is financed by contributions and by the IEPE. Implementation of the reforms listed in this paragraph and paragraph 13 above are considered performance criteria of the program. The Government will implement the aforementioned measures or equivalent measures by June 30, 1992 (tax reform) and by December 31, 1992 (social security reform).

15. The deregulation decree of November 1991 made the Social Security System responsible for the collection of those wage levies (9 percentage points) that were funding family allowances, and required employers to account for all wage-related contributions, including the 9 percent contribution that funds health insurance and medical assistance programs (Obras Sociales), when filing their social security return. These reforms will reduce costs and evasion. While the Obras Sociales programs will remain outside the Social Security System, the Government plans to give workers free choice in designating which of the Obras Sociales they wish to affiliate with. This action is expected to result in improved efficiency in delivering health and related services.

16. A major share of tax revenue is transferred by law to the provinces under revenue-sharing arrangements. Transfers to the provinces increased from 5.3 percent of GDP in 1990 to 7 percent in 1991 as a result of the significant increase in tax revenue. In order to improve efficiency in the provision of basic services, in 1992 the Central Government transferred to the provinces expenditure programs in the areas of health and education that represent outlays of Arg\$1.2 billion or 0.8 percent of GDP. Other measures have been taken that will reduce the share of revenue assigned to the provinces, including (i) the earmarking of 11 percent of VAT proceeds to the Social Security System in September 1991; (ii) the substitution of the IEPE for coparticipated income and asset taxes in 1992, with only 17 percent of IEPE collections assigned to the provincial social security systems; and (iii) the elimination of provincial energy taxes as a condition for allowing deductibility of turnover and real estate taxes from IEPE. The Government will also reduce other transfers to the provinces starting in 1992. These changes are expected to improve financial discipline in the provinces. The efforts by the Central Administration are being supported by a number of reform initiatives at the provincial level in the context of programs supported by the World Bank.

17. Privatization of public enterprises is being accelerated. The Government will sell majority stakes in virtually all remaining public sector enterprises by the end of 1992, including the Greater Buenos Aires Electricity Company SEGBA (July), the transportation and distribution facilities of Gas del Estado (November), the shipping company ELMA and the steel company SOMISA (September), and the electricity companies Agua y Energía and Hidronor (also September). The oil company YPF will sell exploitation rights to three major oil fields, as well as three refineries,

pipelines, and other assets. Long-term leases will be signed for seven railroad long-distance freight and passenger lines and six railroad passenger lines in the Buenos Aires metropolitan area. The General Port Authority will lease six ports and transfer the remainder to the provinces during 1992, and the National Postal Service and the Water and Sewage System of Greater Buenos Aires will also be leased. The privatization program has resulted in a reduction of 42,415 jobs to date, including 28,300 voluntary retirements, and is expected to result in further job reductions of 103,000 in 1992 and 45,000 in 1993, leaving only 30,000 workers in the public enterprises by the beginning of 1994.

18. The government-wide civil service reform program also covers the Ministry of Defense, which in 1991 released about 8,000 of its 50,000 civilian workers, and will release an additional 9,000 in 1992. Mainly as a result of lower use of conscripts, the total size of the military has been reduced from about 190,000 in 1984 to 117,000 in 1990 and 98,000 in 1991. Military expenditure, including armed forces pensions and retirement outlays, decreased from 3.3 percent of GDP in 1988 to 2.5 percent of GDP in 1990-91 as a result of lower equipment purchases, decreased operational and maintenance expenditures, and stricter control of wages. Further decreases in troop strength are expected, and the privatization of 30 out of 33 public enterprises controlled by the Ministry of Defense is scheduled for completion in 1992. Revenues from the sale of these enterprises will finance the restructuring of the armed forces, including capitalization of the armed forces pension programs.

19. In the external area, the November 1991 deregulation decree introduced a number of changes that should improve export competitiveness. The 3 percent statistical tax on exports was removed, as was a one-half percent fee to fund export promotion programs. Customs procedures were streamlined and further improvements in customs administration are planned. The cumbersome, costly, and rigid management of port services was deregulated. The decree reduced tariff dispersion and slightly raised the average tariff rate by increasing the tariff on raw materials imports from zero to 5 percent and raising the tariff on intermediate goods imports from 11 to 13 percent. The resulting structure of import tariffs is as follows:

Capital goods	
Domestically produced	22 percent
Not domestically produced	0 percent
Raw materials	5 percent
Intermediate goods	13 percent
Consumer goods	22 percent
General	22 percent
Electronics	35 percent
Automobiles	18-22 percent (additional surcharges may apply)

20. A number of reforms are underway and planned to improve financial intermediation and develop the capital market. As noted, taxes on the issuance and transactions of financial and stock instruments have been removed and commissions in the stock market deregulated. The official banks are being downsized and restructured, and employment in this sector will be reduced by more than 5,000 out of 30,000 by early 1992. This involves the closing of many branches of Banco de la Nación or their merging with provincial banks. Activity of the National Mortgage Bank has been restricted to the management and recovery of its loan portfolio. Retail operations of the development bank, BANADE, have been suspended and the bank is being reorganized and downsized for privatization. Export financing will be undertaken by a new bank with private sector participation (BICE), which is expected to begin operations during 1992. In addition to the constraints imposed on the Central Bank by the National Economic Emergency Law and the Convertibility Law which led to the elimination of central bank lending to the public sector and restricted other central bank lending operations, the Senate has approved a new Central Bank Charter that provides it with full institutional autonomy and establishes limits to the Bank's holdings of government securities. This law is now being considered by the lower house and enactment is expected during 1992. Bank supervision has been strengthened and banks not meeting legal reserve requirements are being excluded from the clearing arrangement. A scale of minimum capital requirements has been established for private banks as an increasing function of loan interest rates, which serve as a proxy for risk in accordance with Basle capital-adequacy standards. Also, a self-funding deposit insurance scheme has been established, removing the Central Bank from this activity.

21. Legal reserve requirements on private local currency deposits currently range from 9 percent for savings deposits to 79 percent for demand deposits, resulting in a weighted average of 38.1 percent. These high reserve requirements discourage financial intermediation and contribute to high spreads. The strengthening of the public finances is expected to permit a gradual reduction of reserve requirements during the program period in a manner compatible with achieving the inflation and external targets of the program.

22. A wide range of regulations governing private sector activity was eliminated by the November 1991 deregulation decree. Transportation was completely deregulated and the Supreme Court will be petitioned to rule that all restraints on interprovincial trade are unconstitutional. Ten control boards and support schemes for grain, meat, forestry, fish, and other products were dissolved or privatized, and their sanitary and health supervision functions are being taken over by the relevant government ministries. Restrictions on milk marketing were eliminated and on the import and sale of pharmaceuticals were liberalized. Government determination of professional fees and norms for honoraria was discontinued.

23. With regard to labor markets, the deregulation decree specifies that industry-wide collective bargaining can be decentralized to the firm

level at the request of one of the bargaining parties. In addition, the new Employment Law capped the limits on indemnizations for involuntary separations and created an unemployment compensation system funded by diverting 1 1/2 percentage points of the charges on wages that previously were assigned to the family allowance programs. The Employment Law also liberalized the restraints on temporary employment, so that up to 30 percent of employees of a given establishment can be hired on a temporary basis or on contracts of up to two years. These changes are designed to increase flexibility in the labor market and facilitate the absorption of excess labor from the public sector. The Government will continue to introduce measures to improve the flexibility of the labor market during the program period.

Concluding remarks

24. The Government believes that the policies described above will result in a resumption of sustainable growth with price stability and external viability, based on the unimpeded allocation of resources according to market-based economic incentives. The Government affirms its intention to consult with the Fund concerning performance with respect to the program targets and in respect to a prospective debt settlement. Should conditions require any adjustment of policies, this will be undertaken with the aim of maintaining economic performance on its intended track.

Table 1. Argentina: Fiscal Balances

	1991		Q I		1992 Q II		Q III		Q IV		1992		1993		1994	
	Million Arg\$	% of GDP	Million Arg\$	% of GDP	Million Arg\$	% of GDP	Million Arg\$	% of GDP	Million Arg\$	% of GDP	Million Arg\$	% of GDP	Million Arg\$	% of GDP	Million Arg\$	% of GDP
General government fiscal revenue	28,030	21.8	8,653	24.7	8,891	23.1	9,676	24.4	9,898	24.9	37,119	24.3	40,065	23.8	43,438	23.9
General government current expenditure, excluding interest payments	25,876	20.1	7,577	21.6	7,509	19.5	8,495	21.5	8,446	21.2	32,027	20.9	34,369	20.4	36,909	20.3
Operating surplus of public enterprises	594	0.5	117	0.3	-198	-0.5	184	0.5	138	0.3	241	0.2	864	0.5	1,244	0.7
Current primary balance	2,748	2.1	1,194	3.4	1,185	3.1	1,364	3.4	1,590	4.0	5,333	3.5	6,559	3.9	7,773	4.3
Capital revenue	2,268	1.8	631	1.8	505	1.3	359	0.9	490	1.2	1,985	1.3	350	0.2	--	--
Of which: privatization	2,194	1.7	602	1.7	475	1.2	329	0.8	459	1.2	1,865	1.2	350	0.2	--	--
Capital expenditure	1,896	1.5	497	1.4	675	1.8	705	1.8	575	1.4	2,451	1.6	3,161	1.9	4,170	2.3
Primary balance excluding privatization	3,120 926	2.4 0.7	1,328 726	3.8 2.1	1,015 540	2.6 1.4	1,019 690	2.6 1.7	1,505 1,046	3.8 2.6	4,867 3,002	3.2 2.0	3,748 3,398	2.2 2.0	3,603 3,603	2.0 2.0
Interest payments NFPS, accrual basis 1/	4,744	3.7	873	2.5	1,020	2.6	697	1.8	970	2.4	3,560	2.3	3,741	2.2	4,056	2.2
External	4,360	3.4	785	2.2	948	2.5	628	1.6	903	2.3	3,264	2.1	3,475	2.1	3,806	2.1
Domestic	384	0.3	88	0.3	72	0.2	69	0.2	67	0.2	296	0.2	266	0.2	250	0.1
NFPS overall balance 1/	-1,624	-1.3	455	1.3	-5	--	321	0.8	535	1.3	1,306	0.9	7	--	-454	-0.2
Balance on Quasi-fiscal operations 1/	-710	-0.6	-224	-0.6	17	--	-156	-0.4	28	0.1	-335	-0.2	-252	-0.1	-285	-0.2
Overall balance of public sector 1/	-2,334	-1.8	232	0.7	12	--	165	0.4	563	1.4	971	0.6	-246	-0.1	-738	-0.4
<b>Memoranda items</b>																
NFPS overall balance 1/2/	...	...	355	1.0	370	1.0	721	1.8	1,306	3.3	1,306	0.9	7	--	-454	-0.2
Overall balance of public sector 1/2/	...	...	131	0.4	163	0.4	358	0.9	971	2.4	971	0.6	-246	-0.1	-738	-0.4
General government expenditure 3/4/	28,703	22.3	8,071	23.0	8,424	21.9	9,204	23.2	9,128	22.9	34,827	22.8	37,014	22.0	40,271	22.2
General government revenue 3/5/	28,104	21.9	8,653	24.7	8,891	23.1	9,676	24.4	9,898	24.9	37,119	24.3	40,065	23.8	43,438	23.9

1/ Adjusted for any future debt reduction operation or rescheduling.

2/ Performance criteria in 1992, indicative targets 1993-1994.

3/ General Government includes social security, special accounts, decentralized agencies, and the Treasury.

4/ Indicative target: includes current and capital expenditure and transfers to the public enterprises. These levels will be adjusted upward to the extent that general government revenue exceeds the indicative targets set out in this table.

5/ Indicative target: includes total current revenues of the National Administration, including transfer and tax payments by the public enterprises, and the Social Security System.

Table 2. Argentina: Quantitative Performance Criteria

Performance Criteria <sup>1/</sup>	Stock Dec. 91	Dec. 91- Mar. 92	Dec. 91- Jun. 92	Dec. 91- Sep. 92	Dec. 91- Dec. 92	Dec. 92- Dec. 93	Dec. 93- Dec. 94
<u>In millions of pesos</u>							
Overall deficit (-) or surplus of nonfinancial public sector <sup>2/3/</sup>		350	370	720	1,300	--	-460
Combined deficit (-) or surplus of the nonfinancial public sector and the Central Bank <sup>2/3/</sup>		130	160	350	970	-250	-740
Cumulative change in the net domestic assets of the Central Bank <sup>4/5/</sup>		113	155	-131	-308	...	...
<u>In millions of U.S. dollars</u>							
Cumulative change in net international reserves of the Central Bank <sup>5/6/</sup>		113	-204	-33	881	...	...
External arrears of the public sector <sup>7/</sup>		150	--	--	--	--	--
External debt of the public sector <sup>8/</sup>							
Total outstanding disbursed external debt <sup>9/</sup>	59,495	60,000	60,400	60,800	60,800	...	...
Cumulative net disbursements of short-term debt <sup>10/</sup>		700	700	700	700		

<sup>1/</sup> Targets for 1993 and 1994 are indicative.

<sup>2/</sup> The limits on the deficit will be reduced and the floors on the surplus will be raised for any reduction in interest obligations resulting from debt reduction operations.

<sup>3/</sup> The limits on the deficit will be reduced and the floors on the surplus will be raised by the amount of government asset sales in excess of the programmed levels. If the sale of assets is less than programmed, surplus will be reduced by a maximum of \$300 million for the period January-March 1992, by a maximum of \$200 million for the period January-June 1992, by a maximum of \$150 million for the period January-September 1992, and by a maximum of \$100 million for the period January-December 1992.

<sup>4/</sup> The net domestic assets of the Central Bank are defined as the difference between the monetary base and net international reserves, both measured at the end of the quarter. The net domestic asset ceilings take into account the planned reduction in the average level of bank legal reserves from Arg\$3.2 billion in March 1992 to Arg\$3.1 billion in June 1992, Arg\$2.95 billion in September 1992, and Arg\$2.85 billion in December 1992. Reductions larger than those programmed would require an equivalent downward adjustment of the corresponding net domestic assets ceiling.

<sup>5/</sup> Negative sign signifies loss of net reserves. For measuring balance of payments performance, changes in international reserve assets and liabilities will not be affected by changes in gold prices nor, in the case of currencies other than the U.S. dollar, by changes in cross rates. The net international reserve target will be adjusted for any changes in the value of reserve assets and liabilities that result from factors other than balance of payments flows. This target will be adjusted downward by the equivalent of purchases subject to set-asides to the extent that Argentina's net international reserves are used to finance debt reduction operations.

<sup>6/</sup> Target for 1992 assumes a programmed level of asset sales of US\$1,865 million as shown in Table 3. The target will be adjusted upward for revenue from asset sales from the enterprises included in Table 3 in excess of the programmed level net of any use of revenue from these sales for external debt reduction operations over and above those contemplated in the program. In the event these asset sales are below programmed levels, the target will be adjusted as follows: downward by a maximum of US\$300 million in March 1992, downward by a maximum of US\$200 million in June 1992, downward by a maximum of US\$150 million in September 1992, and downward by a maximum of US\$100 million in December 1992. The corresponding adjustments will be made in net domestic assets of the Central Bank. Any revenues from privatization not contemplated in Table 3, except those from defense enterprises, will be utilized to reduce domestic or external debt or to increase public investment beyond the amounts included in the program or for one-time expenditures associated with restructuring of public enterprises.

<sup>7/</sup> Excludes debt service arrears on medium- and long-term public sector debt to commercial banks and related debt.

<sup>8/</sup> Data on external debt that will be used for the monitoring of external debt developments will be taken from the external debt reporting system and the balance of payments accounts. The stock of debt will be valued at end-December 1991 exchange rates. These ceilings will be modified to reflect changes in the stock of debt resulting from debt reduction operations, including those resulting from privatization.

<sup>9/</sup> The definition of total outstanding external debt of the public sector includes all external obligations of the public sector, including the Central Bank of the Republic of Argentina (BCRA) and the official banks, as well as all domestic obligations issued in foreign currency. It includes loans covered by swap arrangements undertaken by the Central Bank, but excludes export prefinancing operations and domestic deposits in foreign currency. The limit will be adjusted upwards for Consolidation Bonds (BOCOs), and up to US\$1.5 billion in other securities issued for the consolidation of domestic arrears in existence as of April 1, 1991, and for related subsequent arrears of the Social Security System. The ceilings will be adjusted for any revisions to the initial stock of debt.

<sup>10/</sup> Includes accumulated disbursements, net of repayments of debt with a maturity up to one year, contracted by public sector entities after December 31, 1991, other than obligations classified as reserve liabilities. The limit will be adjusted upward by up to US\$300 million for short-term borrowings by the Investment and Foreign Trade Bank (BICE).

Table 3. Argentina: Revenues from Sales of Assets 1992

Enterprise	Asset	To sell (in percent)
Y.P.F.	Area Cuenca Austral	70
	Area Cuenca Noroeste	70
	Campo Durán	100
	Polid.C. Durán/Montecristo	100
	Dock Sud	100
	San Lorenzo	100
	Allen R. Rosales Pipeline	50
	R. Rosales/La Plata Pipeline	50
	Drilling Equipment	100
	Geophysical Equipment	100
	Fleet	100
G.E.		51
	Transportation	51
	Distribution	51
S.E.G.B.A.		
	Puerto Nuevo-Nuevo Puerto	51
	Costanera	51
	Dock S. Dique, P. de Mendoza	51
	North and South Distribution	51
A. y E.E.		
	Futaleufú	51
	Luján de Cuyo	51
	Guemes	51
	Sorrento	51
	San Nicolás	51
HIDRONOR		
	Generation	51
ELMA		
	Ship Enterprise	51
	Sanatorium	100
ENTEL		
	TELECOM Shares	100
<u>Total</u>	Expected revenue (millions of Arg\$)	<u>1 865.0</u>

EBS/92/210  
Supplement 1

CONFIDENTIAL

December 28, 1992

To: Members of the Executive Board

From: The Acting Secretary

Subject: Argentina - Extended Arrangement - Review and Second Year Program

In the attached letter dated December 24, 1992 the Minister of Economy and of Public Works and Services of Argentina explains the status of congressional consideration of social security reform proposals and requests a waiver and modification of the performance criterion applying to the timing for congressional approval of this reform, to have it approved before the next program review by end-March 1993. The delay will not adversely affect the fiscal program for 1993. Accordingly, changes have been made in the proposed decision that appeared on pages 12-15 of EBS/92/210 (12/15/92) and a revised draft decision is attached.

Mr. Hardy (ext. 37158) or Mr. Guzman (ext. 38606) is available to answer technical or factual questions relating to this paper prior to the Board discussion scheduled for Wednesday, December 30, 1992.

Att: (1)

Other Distribution:  
Department Heads

Buenos Aires, Argentina

December 24, 1992

Mr. Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Camdessus:

As you know, the Government of Argentina submitted proposals for the reform of the Social Security System to Congress in mid-1992 and has been making strong efforts to obtain their approval before the end of this year. Because of congressional procedures whereby draft legislation must first be examined by the appropriate congressional committees, and because of the time needed to reach a consensus on the key elements of this far-reaching reform, Congress has not yet acted on the proposals. This delay, however, will not adversely affect the fiscal program for 1993.

The Budget and Social Security Committees of the Chamber of Deputies are expected to report on the proposals by December 29, 1992, and based on our discussions with members of these Committees we are confident that they will recommend a favorable vote on the draft bill. If amendments are offered, our objective will be to ensure that the overall economic impact of the reform will not be less favorable than under the original proposal.

Following the reports of the Committees, we expect that the Chamber of Deputies will consider the reform when Congress reconvenes in the second half of February 1993, and the Senate shortly thereafter. A favorable outcome is expected.

In light of these developments, the Government of Argentina requests a waiver and modification of the performance criterion applying to the timing for Congressional approval of the Social Security reform, to have it approved before the next program review by end-March 1993.

Sincerely

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Domingo F. Cavallo  
Minister of Economy and of Public  
Works and Services

## VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Argentina has consulted with the Fund in accordance with paragraphs 4(d) and (e) of the extended arrangement for Argentina (EBS/92/46 Supplement 1) and paragraph 4 of the letter of March 4, 1992 from the President of the Central Bank and the Minister of Economy and of Public Works and Services of the Argentine Republic, in order to review the negotiations with commercial banks and establish suitable performance criteria for 1993, and to establish the frequency of further program reviews during the second and third year of the arrangement.

2. The letter dated December 10, 1992 from the President of the Central Bank of Argentina and the Minister of Economy and of Public Works and Services, together with its attached Memorandum on Economic Policy, and the letter of December 24, 1992 of the Minister of Economy and of Public Works and Services, shall be annexed to the extended arrangement and the letters dated March 4, 1992, with its attached memorandum, and June 18, 1992, shall be read as supplemented and modified by the letter dated December 10, 1992 and its attached memorandum, and by the letter of December 24, 1992.

3. Accordingly, the limits referred to in paragraphs 4(a)(i), 4(a)(ii), 4(a)(iii), 4(a)(iv), 4(a)(v), 4(a)(vi) and 4(a)(vii) of the extended arrangement shall be as specified in Table 3 of the Memorandum attached to the letter dated December 10, 1992.

4. Paragraphs 4(c), 4(d) and 4(e) of the extended arrangement shall read as follows: "(c) if after March 31, 1993 Argentina has not implemented

satisfactorily the reform of the social security system as specified in the letter of June 18, 1992; or

(d) after ~~March 31~~ <sup>February 28</sup>, 1993, and June 30, 1993, until the reviews in paragraph 4 of the letter of March 4, 1992 and contemplated ~~in~~ paragraph 3 of the letter dated December 10, 1992 are completed; or

(e) after December 31, 1993, until the review contemplated in paragraph 3 of the letter dated December 10, 1992 has been completed and suitable performance criteria for 1994 have been established, or after such performance criteria have been established, while are not being observed; or"

5. The Fund decides that the third review contemplated in paragraph 4(d) and the review contemplated in paragraph 4(e) of the extended arrangement for Argentina are completed and that notwithstanding paragraph 4(c) of the same, Argentina may proceed to make purchases under the arrangement.

6. Argentina has requested that the Fund:

(a) augment the amount of the extended arrangement by the equivalent to SDR 333.90 million, and make this amount available for use by Argentina for interest support and collateralization of principal in connection with its debt and debt service reduction operations;

(b) make available, in accordance with paragraph 2(d) of the arrangement, an amount equivalent to SDR 292.374262 million corresponding to the set-aside amounts involved in the reductions which, pursuant to paragraph 2(d) of the arrangement, (i) were made in the purchases already made under the arrangement and (ii) to be made in the purchase scheduled to become available upon completion of the current reviews under the

arrangement, to be used in the support of operations involving principal reduction; and

(c) make available, in accordance with paragraph 2(e) of the arrangement, an amount equivalent to SDR 90.3875 million corresponding to the set-aside amounts involved in the reductions to be made, pursuant to paragraph 2(d) of the arrangement, in the purchases scheduled to become available under the arrangement on March 1 and June 1, 1993, respectively, to be used in the support of operations involving principal reduction, with corresponding adjustment to the phasing and discontinuance of the setting aside of amounts for debt reduction with respect to the purchases scheduled to become available after August 31, 1993.

(d) In the light of these requests and the representation of Argentina, the Fund has reviewed the financing of Argentina's program supported by the extended arrangement and determines that the debt and debt service reduction operations involved are consistent with the objectives of the program and with the guidelines on Fund involvement in the debt strategy, adopted May 23, 1989, as amended, and that the purchase of the amounts referred to in subparagraphs (a), (b) and (c) above is needed for making payments in connection with Argentina's debt and debt service reduction operations.

(e) Accordingly, the Fund decides that

(i) The extended arrangement for Argentina is augmented by the equivalent of SDR 333.90 million. Thus, paragraph 1 of the extended arrangement is amended by substituting "SDR 2,483.15 million" for "SDR 2,149.25 million." For purposes of the purchase of the augmented amount, the Fund waives the limitation in Article V, Section 3(b)(iii);

(ii) Notwithstanding paragraph 4 of the extended arrangement with respect to the nonavailability of data for end-December 1992 performance criteria, Argentina may purchase the amounts referred to in subparagraphs (a), (b) and (c) above not later than February 15, 1993, and thereafter, in accordance with the provisions of the arrangement.

(iii) Paragraphs 2(a), (b) and (c) of the extended arrangement shall be modified to read: "(a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 166.25 million until June 1, 1992, the equivalent of SDR 341.025 million until September 1, 1992, the equivalent of SDR 535.8 million until December 1, 1992, the equivalent of SDR 1,155.0375 million until March 1, 1993, and the equivalent of SDR 1,300.9875 million until June 1, 1993. (b) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 1,426.20 million until September 1, 1993, the equivalent of SDR 1,593.15 million until December 1, 1993, the equivalent of SDR 1,760.10 million until March 1, 1994 and the equivalent of SDR 1,927.05 million until June 1, 1994. (c) The right of Argentina to make purchases after June 1, 1994 shall be subject to such phasing as shall be determined."

(iv) In accordance with paragraph 2(f) of the extended arrangement, the designation of amounts for debt reduction under paragraphs 2 (d) and (e) of the extended arrangement is discontinued.

(f) For purposes of Decision No. 9331-(89/167) adopted December 19, 1989, as amended, Argentina is to use, within 120 days of this decision, the amount referred to in subparagraph (a) for interest support and collateralization of principal for the reduced interest par bond

Buenos Aires  
June 11, 1993

Mr. Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Camdessus:

I wish to inform you of the decision of the Government of Argentina to sterilize the impact of the injection into the economy of the net proceeds obtained from the forthcoming sale of shares in the state oil company YPF abroad. This operation will be reflected in an increase in international reserves by the amount of such proceeds. Decisions on the specific means to be employed to absorb the liquidity injected into the economy as a result of the privatization are still pending. The implementation of this policy will be covered in future reviews of the program.

Sincerely,

Domingo F. Cavallo  
Minister of Economy and Public  
Works and Services

Buenos Aires  
Argentina  
December 22, 1993

Dear Mr. Camdessus:

This letter describes the policies of the Government of Argentina for 1994, for which continued support is requested from the IMF under the Extended Arrangement approved by the Executive Board on March 31, 1992.

The program for 1994 seeks to consolidate the progress made in curbing inflation (which declined to 7 1/2 percent as measured by the consumer price index in 1993, from 17 1/2 percent the previous year), improving efficiency and achieving sustained economic growth. A major focus of the program is to raise domestic saving, to make room for higher investment while gradually reducing Argentina's reliance on capital inflows from abroad. This is to be achieved mainly by additional structural reforms aimed at improving the external competitiveness of the tradeable sector, particularly through a further restructuring of the tax system to lower tax rates on labor and other taxes on production, and reduce evasion. The creation of capitalized private pension funds should also assist in raising overall saving in the economy. The program envisages an increase in national saving of 1.3 percent of GDP and a narrowing of the external current account deficit, as measured by the IMF, from an estimated 3.2 percent of GDP in 1993 to 2.9 percent of GDP in 1994.

#### Fiscal policy

In addition to the improvement in the tax structure that is planned, fiscal policy will contribute directly to the increase in national saving by generating a primary surplus more than sufficient to cover cash interest obligations after the transfer of workers' social security contributions to the new capitalized private pension funds, which are expected to become operational by mid-1994. It is expected that 70 percent of contributors will join the private system as it becomes fully operational.

Excluding these contributions from the public sector accounts and excluding privatization proceeds, the primary surplus of the non-financial public sector is targeted at Arg\$4.1 billion, or 1.5 percent of GDP in 1994. On a consistent definition of the public sector i.e., including all employee social security contributions but excluding privatization proceeds, the primary surplus would be Arg\$5.5 billion or 2.0 percent of GDP, compared with a projected outcome of Arg\$4.4 billion or 1.7 percent of GDP in 1993. Cash privatization proceeds are projected to amount to Arg\$600 million (0.2 percent of GDP) in 1994, largely from the sale of shares in previously

privatized companies in the gas and electricity sectors; up to US\$ 500 million of any excess in privatization proceeds over this amount may be used to cover provincial restructuring costs and any remainder will be used to reduce public debt. The quantified targets of the program are shown in Tables 1 and 2, and the fiscal program in Table 3 (attached).

With the reform of the social security system, which redefines benefits and raises the retirement age, the stage has been set to begin to lower the high taxes on labor which presently amount to 49 percent of take-home pay-- 33 percent paid by employers and 16 percent by employees, of which 16 percent and 10 percent respectively go to the social security system and the remainder goes to fund unemployment benefits, family allowances and health plans. The reduction in contribution rates will improve resource allocation, enhance enterprises' competitiveness and savings, promote employment, and create conditions for a reduction in evasion. The latter will also be encouraged by the creation of the capitalized private pension funds (which will increase the incentives for employees to make sure their contributions are in order), and the opening of a facility whereby enterprises and self-employed persons can regularize their situation by paying past due contributions.

Employer wage tax rates will be reduced by 30-80 percent for certain sectors (agriculture, manufacturing, mining, construction, and tourism) in those provinces that accede to the new fiscal pact that was concluded in August 1993, which commits them to introduce certain tax reforms designed to reduce costs in the goods-producing sectors. Contribution rates will be reduced most in the provinces farthest from Buenos Aires. Although this measure is likely to result in a loss of revenue, much of this effect is expected to be offset by a reduction in evasion.

Under the above-mentioned fiscal pact, provinces will immediately eliminate stamp taxes on financial transactions, energy taxes, taxes on bank debits and interest earnings, and the turnover tax, *pari passu* with the reduction in social contribution rates. The provinces will also lower real estate taxes gradually, and replace the turnover tax with a sales tax by mid-1995. All of these changes are to be carried out in such a way as not to weaken the provinces' overall fiscal position, so that they will have to compensate for these changes through modifications in other taxes and improved administration or reduced expenditure. So far, 17 out of 22 provinces and the Municipality of Buenos Aires have indicated that they will adhere to the new arrangement. Most of the remaining provinces are expected to act on this issue in the near future.

Under the new fiscal pact, the Federal Government has offered to take over and reform the provincial social security systems if the provinces so decide. This would involve scaling back in many cases the overly generous benefits of the provincial systems that presently are resulting in deficits of the order of Arg\$1.2 billion (0.4 percent of GDP) a year, and threaten to rise rapidly over the medium term. However, implementation of this measure is likely to be delayed and gradual, and is not expected to involve significant fiscal costs to the Government in 1994.

The fiscal plan for 1994 involves strict expenditure restraint. Tight control will be exercised on outlays on goods and services as well as on current transfers (other than automatic revenue transfers to the provinces that are governed by the revenue sharing arrangements). Current expenditures (excluding shared revenues) are set to rise by 10 percent, roughly in line with nominal GDP. Investment outlays are projected to decline slightly in relation to GDP in 1994, reflecting the effect of the privatization of public enterprises (mainly YPF, the state oil company). Expenditures, excluding mandatory revenue transfers and social security outlays (which are governed by a formula linking pensions to average contributions), are subject to a ceiling under the program (see Tables 1 and 2), with a small margin for unforeseen restructuring outlays for the provinces if financed by higher-than-programmed privatization receipts.

On the revenue side, improved administration of social security taxes is expected to have a spill-over effect on collections of the value-added and corporate income taxes. Collections from the personal income tax are expected to be boosted as a result of the effective lowering of exemptions (the personal exemption was eliminated but a certain amount of social security contributions may be offset against income tax obligations). In addition, in 1994 it is the intention of the Government to incorporate financial assets in the base of the wealth tax as interest earnings and dividends are exempt from the personal income tax.

#### Monetary policy

Monetary policy will continue to be governed by the Convertibility Law, which requires full backing of the monetary base by international reserves. The growth rate of the money and credit aggregates is expected to slow down as the process of remonetization tapers off. Broad money is programmed to rise by around 14 percent in 1994, raising the ratio of M4 to GDP to 20 percent by end-1994, as against an estimated 19 percent of GDP at end-1993. Base money is projected to grow at a lower rate (of 8 percent) reflecting the increase in the money multiplier produced by the continued shift in the composition of deposits towards longer maturities, which are subject to lower reserve requirements, and by the planned reduction in reserve requirements (which currently average 22 percent of deposits) by 1 percentage point on all deposits in June 1994 and a further 2 percentage points on time deposits and 3 percentage points on demand and savings deposits in December 1994. The latter plan will be evaluated further at the time of the mid-year review. Consistent with this scenario, the Central Bank's net international reserves are targeted to increase by US\$2.3 billion during 1994.

The authorities are moving to strengthen the supervisory capacity of the Superintendency of Financial Institutions to protect the soundness of the financial system. This effort is directed at ensuring compliance with the new capital adequacy standards issued in August 1993, and enforcement of the standards for provisioning against impairment of the loan portfolio.

The Central Bank will continue the policy of gradually raising the reserve requirements on public sector deposits in the provincial banks to achieve uniformity of treatment across financial institutions. It will also seek, in conjunction with the Treasury, to develop instruments and capabilities for open-market operations in the course of the year to deal with seasonal fluctuations in the demand for money, and will continue to give priority to improving its accounting system and data base, as well as the balance of payments statistics.

#### Exchange rate and trade policy

Exchange rate policy will continue to be governed by the Convertibility Law of March 1991, which fixed the exchange rate at Arg\$1 per U.S. dollar. The fiscal and credit policies described above are expected to result in an even closer convergence between domestic and international inflation, an improvement in Argentina's international competitiveness and a further reduction in the external current account deficit in relation to GDP. International competitiveness is being enhanced by the reduction in provincial taxes, the lowering of wage-related contribution rates, the increase in investment, and continued productivity gains. Exports are expected to rise more strongly in 1994, increasing by 7-8 percent in volume.

The trade regime was liberalized in 1993 through the elimination of import duties (including the statistical tax) on capital goods and tariff reductions under the MERCOSUR arrangements. The trade system will be further liberalized in 1994 in the context of MERCOSUR. Tariff preferences in MERCOSUR will be increased from 75 to 82 percent in January 1994, and further to 89 percent in June. The temporary quota on imports of selected paper products is expected to be removed by end-1994.

#### Structural reforms

In addition to the restructuring of the tax system and the reform of the provincial finances, the Government plans to concentrate on the final details of the Social Security reform, increasing labor market flexibility, improvements in the health system and reform of the bankruptcy law in 1994.

The reform of the social security system as approved by the Congress in September 1993 included a provision that required the Banco de la Nacion to set up a pension fund that would have a government guaranteed rate of return in both US dollars and pesos. The Government has already submitted a bill to Congress that would prohibit any guarantees expressed in US dollars, and makes clear that no government guarantees-- explicit or implicit-- will be granted. The Government expects that this proposal will have been passed by both houses of Congress before end-June 1994.

The Government is seeking to promote increased employment not only through reducing the rates of taxes applied to wages, but also through reforms to introduce greater flexibility in the labor market. Proposals have been submitted to Congress to reform the labor legislation and are expected to be approved by early 1994. These proposals include facilitating

fixed term contracting, full or partial exemption from social security contributions for hiring of youths and women, allowing complete flexibility to collective agreements in specifying working conditions, extending the probation period to 90 days, and linking severance pay strictly to time of service by eliminating the existing minimum severance pay of two months' salary. The reform would enable collective bargaining contracts to modify the provisions of previous agreements and to take precedence over general labor legislation. The legislation is designed to facilitate decentralization of collective bargaining.

The plan to reform the health system (obras sociales), which would allow for the entry of new health plans, set minimum standards of health care delivery and give workers freedom of choice as to which plan to affiliate with, is expected to be approved in the first half of 1994. This will be facilitated by the imminent completion of the centralized system that permits the tracking of individual social security contributions. These reforms are expected to improve the delivery of services and increase efficiency in this area.

In order to allow greater flexibility for enterprises to adjust to changing economic conditions, the bankruptcy law will be reformed in 1994 by establishing procedures involving the participation of all involved parties, and introducing provisions to allow enterprises to continue operating during restructuring under court protection and supervision.

In view of the impressive progress made to date under the program and the associated restoration of access to the international capital market, it is the intention of the Government of Argentina, if circumstances permit, to forego the final two purchases scheduled under the arrangement.

The Government of Argentina believes the above described policies are adequate to achieve the objectives of the economic program but will take any additional measures that may be appropriate for this purpose. During the period of the arrangement the authorities of Argentina will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the Fund's policies on such consultations. Reviews of the program will be carried out with the Fund before June 30, 1994 and December 31, 1994.

Sincerely,

/s/

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Roque B. Fernandez  
President of the  
Central Bank of the Argentine  
Republic

/s/

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Domingo F. Cavallo  
Minister of Finance  
and of Public Works and Services

Table 1. Argentina: Quantitative Performance Criteria

Performance Criteria	Stock Dec. 1993	Dec. 1993- March 1994	Dec. 1993- June 1994	Dec. 1993- Sep. 1994	Dec. 1993- Dec. 1994
<u>In millions of pesos</u>					
Overall deficit (-) or surplus of the nonfinancial public sector <sup>1/</sup>		110	645	2,020	2,970
Combined deficit (-) or surplus of the nonfinancial public sector and the Central Bank <sup>1/</sup>		210	810	2,295	3,330
Cumulative change in the net domestic assets of the Central Bank <sup>2/3/</sup>		298	214	-457	-942
Cumulative discretionary expenditures of the nonfinancial public sector <sup>4/</sup>		3,477	6,817	10,591	14,146
<u>In millions of U.S. dollars</u>					
Cumulative change in net international reserves of the Central Bank <sup>3/5/</sup>		-856	-352	284	2,282
External debt of the public sector <sup>6/7/</sup>					
Total outstanding disbursed external debt <sup>8/</sup>	60,100	60,855	61,415	61,865	62,375
Cumulative net disbursements of short-term debt <sup>2/</sup>		700	700	700	700
External arrears of the public sector		--	--	--	--

<sup>1/</sup> Includes employee social security contributions distributed to the pension funds. The floors on the surplus will be raised by the amount of government cash asset sales in excess of the programmed levels, except by up to Arg\$125 million per quarter of excess privatization proceeds used for unprogrammed provincial restructuring expenses. If the cash sales from privatization are less than programmed, the limits will be lowered by up to the programmed inflow of the quarter.

<sup>2/</sup> The net domestic assets of the Central Bank are defined as the difference between the monetary base and the net international reserves (NIR) as defined in footnote 3, both measured at the end of the quarter. Reserve deposits held in the Central Bank on foreign currency denominated demand deposits are included in the monetary base, and in the net international reserves of the Central Bank. The net domestic assets ceilings will be lowered (increased) for the effects of any downward (upward) adjustment of the reserve requirement beyond the programmed reserve requirement policy. The limits may be raised by up to Arg\$200 million in June and in December 1994 on account of swap operations.

<sup>3/</sup> The NIR targets will be raised for revenue from cash asset sales and from conversions of external debt included in the NIR in excess of the programmed level of US\$600 million. Up to an additional US\$125 million per quarter of cash privatization proceeds in excess of programmed levels may be used for unprogrammed provincial restructuring expenses, and would not require adjustments in the targets. If the cash sales from privatization are less than programmed, the limits will be lowered by up to the programmed inflow of the quarter. Corresponding adjustments will be made in the net domestic assets of the Central Bank.

<sup>4/</sup> Defined as in Table 2.

<sup>5/</sup> Negative sign signifies loss of NIR. For measuring balance of payments performance, changes in NIR will not be affected by changes in gold prices nor, in the case of currencies other than the U.S. dollar, by changes in cross rates. NIR excludes reductions in public debt bonds and instruments resulting from debt conversions on account of privatization. The NIR target will be adjusted for any changes in the value of reserve assets and liabilities that result from factors other than balance of payments flows.

<sup>6/</sup> Measured at end of period.

<sup>7/</sup> Data used to monitor external debt developments will be taken from the external debt reporting system and the balance of payments accounts. The stock of debt will be valued at end-1993 exchange rates. These ceilings will be modified to reflect changes in the stock of debt resulting from debt reduction operations, including those resulting from privatization.

<sup>8/</sup> The definition of total outstanding external debt of the public sector includes all external obligations of the public sector, including the Central Bank of the Republic of Argentina (BCRA), the official banks and the provincial governments, as well as all domestic obligations issued in foreign currency. The increase in debt for 1994 includes borrowing by BICE and official banks, and loans covered by swap arrangements undertaken by the Central Bank, but excludes export prefinancing operations and domestic deposits in foreign currency. The limit will be adjusted upwards for Consolidation Bonds (BOGONs) issued for the consolidation of domestic arrears in existence as of April 1, 1991, and for subsequent arrears of the Social Security System incurred up to August 1992. The ceilings will be adjusted for any revisions to the initial stock of debt.

<sup>2/</sup> Includes accumulated disbursements, net of repayments of debt with a maturity up to one year, contracted by public sector entities after December 31, 1993, other than obligations classified as reserve liabilities.

DOCUMENT OF INTERNATIONAL MONETARY FUND  
AND NOT FOR PUBLIC USE

**IMMEDIATE  
ATTENTION**

SAITO, Carlos  
ROOM 11-320

0451

EBS/95/43

CONFIDENTIAL

March 17, 1995

To: Members of the Executive Board  
From: The Secretary  
Subject: Argentina - Extended Arrangement - Extension of Period

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Friday, March 24, 1995. In the absence of such a request, the draft decision that appears on page 1 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Linde (ext. 36465) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:  
Department Heads

INTERNATIONAL MONETARY FUND

ARGENTINA

Extended Arrangement: Extension of Period

Prepared by the Western Hemisphere and  
Policy Development and Review Departments

(In consultation with the Legal Department)

Approved by Claudio Loser and Desmond Lachman

March 17, 1995

The extended arrangement for Argentina, approved on March 31, 1992 (EBS/92/46, Supplement 1) will expire on March 30, 1995. Discussions between the Fund staff and the Argentine authorities are continuing, with a view to possibly requesting an extension to a fourth year of the current extended arrangement and augmenting access under it, in support of a program for 1995 to be agreed shortly. In order to allow time for the preparation of the necessary Board papers and for Board discussion of this proposal in April, it is recommended that the period of the present arrangement be extended by one month. Accordingly, and as requested by the Argentine authorities (see attached), it is proposed to extend the period of the extended arrangement to April 30, 1995.

The following draft decision is proposed by adoption by the Executive Board:

"Paragraph 1 of the extended arrangement for Argentina (EBS/92/46, Supplement 1, as amended), shall be partially amended to read:

"1. For a period from March 31, 1992 to April 30, 1995, Argentina..."

Attachment

Buenos Aires, March 16, 1995

Dear Mr. Camdessus:

I hereby request on behalf of the Republic of Argentina an extension of the period of the current Extended Arrangement from March 31 to April 30.

I remain,

Yours sincerely,

\s\ Domingo Cavallo  
Minister of Economy  
and of Public Works and Services

Mr. Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

DOCUMENT OF INTERNATIONAL MONETARY FUND  
AND NOT FOR PUBLIC USE

FOR  
AGENDA

SAITO, Carlos  
ROOM 11-320

0451

EBS/95/51

CONFIDENTIAL

March 23, 1995

To: Members of the Executive Board

From: The Secretary

Subject: Argentina - Request for Extended Arrangement - Letter of Intent

Attached for consideration by the Executive Directors is a letter from the President of the Central Bank of the Republic of Argentina and the Minister of Economy and Public Works and Services requesting waivers of nonobserved performance criteria under the extended arrangement and an extension of the arrangement in an amount equivalent to SDR 1.53 billion, together with the memorandum of economic policies of the Government of Argentina.

This subject, together with the staff paper describing and analyzing Argentina's economic program (to be circulated shortly), is tentatively scheduled for discussion on Thursday, April 6, 1995.

Mr. Hardy (ext. 37158) or Mr. Kreis (ext. 38602) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:  
Department Heads

Buenos Aires, March 23, 1995

Dear Mr. Camdessus:

The attached policy memorandum and annexed tables describe the objectives and program of the Government of Argentina for 1995, for which support from the IMF is requested under an extension of the current extended arrangement for a fourth year, and an increase in the amount of the arrangement to the equivalent of SDR 1.53 billion. On the basis of this program and actions that have been taken, the Government also requests waivers of nonobserved performance criteria to permit the purchase of undrawn balances under the arrangement.

The Government of Argentina believes that its program is adequate to achieve the objectives of maintaining economic growth in conditions of low inflation and external viability, in the present unsettled international financial markets, and deepening the process of structural transformation. During the period of the arrangement, the authorities of Argentina will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the Fund's policies on such consultations. Reviews of the program will be carried out with the Fund before end-September and end-December 1995, and end-March 1996.

Sincerely,

/s/ Roque Fernandez  
President  
Central Bank  
of the Republic of Argentina

/s/ Domingo F. Cavallo  
Minister of Economy and  
Public Works and Services

Attachment:  
Memorandum of Economic Policies  
of the Government of Argentina

Mr. Michel Camdessus  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Policy Memorandum

The economic program of the Government of Argentina for 1995 seeks to maintain economic growth in conditions of low inflation and external viability, in the present unsettled international financial markets, and, at the same time, to deepen the process of structural transformation begun in 1989.

Over the past few years, Argentina has undergone a profound economic and social transformation. Inflation declined from close to 5,000 percent in 1989 to 3.9 percent in 1994, and GDP expanded by over 7.5 percent a year on average in the period 1991-94, following a decade of declining output. Gross fixed investment rose from 14 percent of GDP in 1990 to over 20 percent in 1994. Domestic savings fell in 1991 owing to the initial expansionary effect on domestic absorption of stabilization and renewed confidence, but increased from 13 percent of GDP in 1992 to over 17 percent in 1994.

During these years, Argentina attracted foreign direct and portfolio investment on a large scale, which helped to finance a substantial increase in imports, especially imports of capital goods, which rose to almost US\$6 billion in 1994 from US\$0.6 billion in 1990. Exports, which had been depressed by declining international prices in 1992-93, picked up strongly, rising by 20 percent in 1994, with exports of manufactured goods rising by 27 percent a year during both 1993 and 1994.

The achievements of the past few years result from the profound social and economic reforms implemented by the Government of Argentina since 1989. These reforms, which have been supported since 1991 by a stand-by arrangement from the IMF, and since 1992 by an extended arrangement under the Extended Fund Facility arrangement or EFF, have opened up the economy; restructured the tax system and tax administration; reduced the size and improved the efficiency of the public sector through a comprehensive program of privatization of public enterprises, reform of the social security system and other measures; strengthened the public finances; and restored Argentina's domestic and international creditworthiness.

In 1994, economic growth remained strong at more than 6 percent and inflation was lowered to less than 4 percent. However, the overall surplus in the nonfinancial public sector (excluding provinces) targeted in the program supported by the extended arrangement was not achieved. The shortfall with respect to the program mainly reflected a slowdown in revenue and expenditure overruns in the second half of the year, that were concentrated in the social security system. The revenue shortfall emerged in part because tax evasion declined less than initially hoped.

In response to the weakening trend in the public finances, the Government eliminated unfilled vacancies in the public sector, and cut uncommitted authorizations for expenditure on goods and services. In early

March 1995 Congress passed a law that makes payments of pensions (including judicial awards) subject to the budgetary process, and suspended payments on judicial awards during 1995. This law will eliminate one of the main causes of the expenditure overrun in 1994.

The external environment for Argentina deteriorated significantly in the wake of the Mexican crisis that emerged in late 1994. The repercussions on Argentina were manifested in a capital outflow (reflected in a decline of more than Arg\$5 billion or 12 percent in commercial bank deposits from mid-December to mid-March 1995), a cumulative fall in the stock market of as much as 50 percent, and declines in bond prices of up to 45 percent at their low point on March 8, 1995. On March 13 the Government announced a revised economic program for 1995 and a series of measures to strengthen the public finances, as well as its intention to seek an extension of the extended arrangement from the IMF. From their low point through March 17, 1995 the stock and bond markets recovered by 30 and some 16 percent, respectively.

The outflow of bank deposits led to sharp increases in interest rates, with prime rates rising to 33 percent in U.S. dollars and 49 percent in Argentine pesos in mid-March (increases of 25-33 percentage points since December), and call-money rates which at times reached over 70 percent. Difficulties emerged in certain segments of the banking system (mainly wholesale banks, provincial banks and credit unions) which are being addressed through restructuring and mergers. In response to the outflow of deposits and resulting tightening of liquidity, the Central Bank lowered legal reserve requirements in several stages from an average of 21 percent of deposits in December to some 14 percent by mid-March (releasing resources equivalent to more than Arg\$4 billion) and extended some Arg\$1.3 billion in swaps and rediscounts, using the margin of excess international reserves over the monetary base. At the same time, strict adherence to the Convertibility Law by the monetary authorities was reflected in a significant decline in both the gross international reserves and the monetary liabilities of the Central Bank from end-December to mid-March.

#### The 1995 Economic Program

The guiding principles of economic policy for 1995 will continue as in the past, namely: maintenance of fiscal and financial equilibrium, and strict adherence to the Convertibility Law of March 1991, which established a fixed exchange rate for the Argentine peso at par with the U.S. dollar, and requires full backing of the monetary base by international reserves.

The Government believes that the impact on Argentina of the external shock that is affecting Latin America will be contained and transitory in nature, as the fundamentals of the economy remain strong. The reform process is deeply rooted, fiscal and monetary policies are sound and the country's medium-term prospects have been strengthened. Exports rose by 35 percent in January-February 1995, compared with the same months of the previous year and are expected to grow by 20-25 percent over the year as a whole, helped by record output in the agricultural sector, strong

international prices and the increasing integration of the economies of Argentina, Brazil, Paraguay and Uruguay in the MERCOSUR, which came into full effect in January 1995. Foreign direct investment is buoyant, with major projects underway in many sectors, particularly in the food-processing, mining and automobile industries, and in infrastructure.

Nevertheless, the Government recognizes that the international situation remains unsettled, and the significant decline in private capital inflows has complicated the prospects for GDP growth at rates recorded in recent years. The Government has recast its plans for 1995 so as to be able to withstand a substantial reduction in capital inflows, and to leave no doubt as to the ability of the public sector to service its maturing obligations.

For this purpose, fiscal policies have been adjusted so as to generate an overall surplus in the national nonfinancial public sector (excluding provinces) of Arg\$2 billion, a surplus that will be used to amortize public debt. In addition, the Government expects to raise US\$2.4 billion during 1995 from privatization. This will include sales of its remaining share holdings in a number of already privatized enterprises and the sale of petrochemical plants and hydroelectric and nuclear power plants. In addition, the Government is requesting US\$800 million from the EXIMBANK of Japan as parallel financing under the fourth year extension of the extended arrangement from the IMF. The Government may also arrange bridging loans on the security of its remaining holdings of shares in the oil company (YPF) against disbursements from multilateral agencies for the purpose of the restructuring of the financial system, as explained below. The resources raised from privatization and pledging of shares will not be used to finance higher Government expenditure. If a shortfall emerges in proceeds from privatization because of adverse market conditions, the authorities and the Fund staff will consider alternatives to address this problem.

To ensure achievement of the planned overall surplus in the nonfinancial public sector in 1995, and in light of the changed short-term economic outlook, in late February and mid-March the Government announced a series of measures estimated to yield some Arg\$6.3 billion or 2 percent of GDP in the remainder of 1995, or Arg\$8.5 billion (2 3/4 percent of GDP) on an annual basis. These measures were presented by the Executive and approved by the Congress in only two weeks, in a clear demonstration of decisiveness and political consensus.

The fiscal measures include:

- further cuts in expenditure, including a reduction of 5-15 percent in salaries of public employees earning more than Arg\$2,000 a month (expected together to yield in the remainder of 1995 Arg\$1.0 billion, or 0.3 percent of GDP);

- a temporary increase of 3 percentage points to 21 percent in the rate of the Value Added Tax, under special provisions that exclude the proceeds

from revenue-sharing with the provinces (expected yield Arg\$2.2 billion, or 0.7 percent of GDP). The nonshared element of the increase in the VAT is to expire on April 1, 1996;

--increases in import tariffs, including a transitory 3 percent import surcharge (excluding capital goods, data-processing and telecommunications equipment, and fuels), a 10 percent tariff on imports of non-MERCOSUR capital goods, data-processing and telecommunications equipment, and increases of tariffs on an additional 69 items allowed as exemptions under the MERCOSUR arrangements (yield Arg\$0.7 billion or 0.2 percent of GDP);

--a partial roll-back of previous reductions in employer social security contributions for certain sectors, coupled with a lowering of contribution rates in the services sector, as a result of which contribution rates will be the same for all economic activities although they would differ among provinces (net yield Arg\$ 0.4 billion or 0.1 percent of GDP);

--a broadening of the base of the VAT and income taxes, mainly by eliminating deductions and exemptions, a broadening of the base and lowering of the rate of the wealth tax, new facilities for regularizing tax arrears, and a number of smaller measures, largely in the area of social security (yield Arg\$2.0 billion or 0.7 percent of GDP).

In recent years, the increase in provincial government expenditure has exceeded the rise in revenues received from the Treasury under the revenue-sharing arrangements and from their own resources, resulting in annual deficits in the provinces of some 0.7 percent of GDP in 1993 and 1994 which were largely financed by the regularization of debts owed by the National Administration to the provinces, their share of the proceeds from the sale of YPF, and in 1994 by issues of Treasury bonds amounting to Arg\$0.6 billion, secured by shared revenues. With the ending of these sources of financing, a major adjustment in the provincial government finances is expected in 1995, as the provinces do not have access to domestic or foreign financing. Apart from Arg\$0.6 billion already issued, which completes the regularization of arrears with the provinces, the Treasury will issue no bonds from now onwards on behalf of, or directed to, the provinces nor will the Central Bank approve any domestic borrowing by provinces, including loans guaranteed by shared revenues. The adjustment effort in the provinces is being facilitated by restructuring loans from the World Bank and Inter-American Development Bank (IDB). Issues of debt for regularization of arrears will be limited to an amount that does not exceed reductions in outstanding debt via the new tax moratorium, discharged with public bonds, and debt-equity swaps from privatizations in excess of the US\$2.4 billion mentioned above.

The reduction in bank deposits has led to difficulties in certain segments of the banking system, particularly certain small wholesale banks and credit cooperatives, and some provincial banks, which have long-standing problems of insufficient capital and non-performing loans. These difficulties are being addressed through various measures. The Central Bank

temporary assigned 2 percentage points of the reserve requirements to the state-owned Banco de la Nación to be used to purchase assets from financial institutions with liquidity problems, and later allowed commercial banks to deduct purchases of assets from banks with liquidity problems from the reserve requirement.

To address the problems that have emerged in the domestic financial system on a more comprehensive basis, the Government plans to set up two funds, the first to capitalize, restructure and privatize the provincial banks in the context of World Bank and IDB loans for this purpose, and the second to assist in the restructuring of the private financial system and to co-finance with the private sector a future deposit insurance scheme. In addition to the World Bank and IDB financing, and resources expected from the EXIMBANK of Japan parallel financing, these funds will be capitalized through bonds (Bonos Argentinos) in the amount of US\$2 billion that are being floated in the domestic market and abroad, and possibly by bridge loans obtained through pledging YPF shares. The Bonos Argentinos, which will have a maturity of three years, with quarterly amortizations starting April 1996, and an interest rate of 3 percentage points over LIBOR, may also be used to discharge tax obligations after each maturity. None of these resources will be used to finance any other public sector operations. Any resources remaining in the fund for restructuring the provincial banks, once the restructuring is complete and the loans have been recovered, will be gradually transferred to the provinces.

Monetary policy will continue to be governed by the Convertibility Law, which requires full backing of the monetary base with international reserves (according to the law, U.S. dollar-denominated Government bonds held by the Central Bank can be used to cover up to 20 percent of the monetary base). The Government is confident that with the measures that have been taken to strengthen fiscal policies--and the support from the International Monetary Fund and other institutions--confidence will be restored and capital outflows reversed, strengthening bank liquidity. During the remainder of the year (April-December), broad money is expected to recover by around 18.5 percent, raising the ratio of M4 to GDP to 20.4 percent by the end of the year, approximately the level at the end of 1994. In this context, the Central Bank during the balance of the year expects to reduce outstanding swaps and rediscounts, and gradually restore legal reserve requirements so as to recover an adequate margin of liquidity, which would be reflected in a recovery in its holdings of gross international reserves. It is expected that the recent measure allowing banks to hold part of the reserve requirement in the form of cash-in-vault will be reversed partly by end-June, and fully by end-November.

In the present circumstances, it is important to move even more decisively in implementing structural reforms to increase the flexibility and efficiency of the economy and reduce costs. The Government has already presented to Congress proposals to modify the regulations on collective bargaining contracts and associated employment risks, including work-related accidents, and improve the procedures for the reorganization of enterprises

in bankruptcy proceedings. In mid-March 1995, Congress approved a law which allows small and medium-sized enterprises (of up to 40 employees) more flexibility as regards employment conditions and use of temporary workers. The newly approved Social Security Solidarity Law will put the system's finances on a sounder basis, and the program of provincial reforms should reduce distortions in the tax system and result in a permanent reduction in the size of the public sector that would improve the allocation of resources and increase the overall efficiency of the economy. Looking further ahead, the Government plans to promote reforms in the labor legislation to help resolve the problem of unemployment, and to seek improvements in the efficiency and delivery of health services.

Despite the issue of substantial amounts of consolidation bonds during 1992-94 to consolidate domestic arrears accumulated during the 1980s, registered public debt declined from 33 percent of GDP in 1990 to the equivalent of 26 percent of GDP in 1994. Nevertheless, even though the stock of short-term debt remains small, debt service obligations will be high later in the decade as the grace period on the consolidation bonds expires. Against this background, the Government will continue seeking to raise domestic savings in the coming years, and will continue to make adequate fiscal provisions and reduce debt through debt-equity swaps or asset sales so as to be able to manage its external and internal debt service, and will make efforts to improve the maturity profile of the debt as conditions in the international capital markets permit. The limits on net borrowing under the program are intended to facilitate achievement of these objectives.

The main parameters of the 1995 program are shown in the attached tables, which also detail the performance criteria.

The Government is determined to maintain its commitment to the fixed exchange rate under the Convertibility Plan, and to ensure the ability of the public sector to meet its obligations, and stands ready to adopt, in a timely way, whatever measures are required to achieve the goals of the program. Reviews of the program will be carried out with the Fund before end-September and end-December 1995, and end-March 1996.

Table 1. Argentina: Quantitative Performance Criteria and Indicative Targets for 1995

	Stock Dec. 1994	Dec. 1994 - March 95 <u>1/</u>	Dec. 1994 - June 95	Dec. 1994 - Sept. 95	Dec. 1994 - Dec. 95
(In millions of Pesos)					
1. Quantitative performance criteria					
Overall deficit (-) or surplus of the nonfinancial public sector <u>2/</u>		-1,260	-835	745	2,000
Combined deficit (-) or surplus of the nonfinancial public sector and the Central Bank <u>2/ 3/</u>		-1,260	-835	745	2,000
Cumulative change in the net domestic assets of the Central Bank <u>4/</u>		2,690	3,370	2,870	2,315
(In millions of U.S. dollars)					
Cumulative change in the free international reserves of the Central Bank <u>5/</u>		-2,790	-1,990	-1,190	-390
Total debt of the public sector					
Total outstanding external and domestic debt <u>6/ 7/</u>	80,340	80,220	83,730	83,505	82,890
Cumulative net increase of domestic debt		600	600	300	--
Cumulative net increase in short-term external debt <u>8/</u>		700	700	700	700
2. Indicative target					
Cumulative change in the net international reserves of the Central Bank <u>9/</u>		-5,340	-5,940	-4,785	-2,290

1/ Indicative.

2/ The nonfinancial public sector, as defined under the program, excludes the provincial nonfinancial public sector. Excludes receipts from privatization.

3/ The deficit (-) or surplus of the Central Bank of Argentina (BCRA) is defined as net interest earnings less transfer payments to the Government and net operating expenses.

The net domestic assets (NDA) are defined as the difference between the monetary liabilities and the net international reserves (NIR) of the BCRA, both measured at end period. The monetary liabilities includes currency issue and legal reserve deposits held in the BCRA. The NIR are defined in footnote 9.

5/ The free international reserves of the BCRA are defined as the difference between gross international reserves and the monetary liabilities (the latter as defined in footnote 4). Gross international reserves include BCRA holdings of gold, foreign currency in the form of cash and deposits abroad, and Argentina's net balance within the Latin American Trade Clearing System (ALADI), and exclude central bank holdings of government debt instruments.

6/ Data used to monitor external and domestic debt developments will be taken from the debt reporting system and the balance of payments accounts. The stock of debt will be valued at end-1994 exchange rates and measured at end of period.

7/ Total outstanding debt of the public sector includes all U.S. dollar-denominated and Argentine-peso denominated obligations of the national nonfinancial public sector, including funds obtained for constituting trust funds, U.S. dollar-denominated obligations of provincial governments, and the national financial public sector, including the BCRA, BICE, and other official banks. The limit includes all new debt issued for the consolidation of domestic arrears (BOCONs). It excludes any adjustments, during the period, to the stock of BOCONs resulting from the capitalization of interest. The ceilings will be adjusted for any revisions to the initial stock of debt resulting from the discovery or registration of old debt.

8/ Excludes bridge loan by BIS.

9/ The net international reserves (NIR) are defined as the gross international reserves of the BCRA less liabilities of the BCRA, including net bridge loans and the net IMF position. A negative sign signifies a loss of NIR. For measuring balance of payments performance, changes in NIR will not be affected by changes in gold prices nor, in the case of currencies other than the U.S. dollar, by changes in cross rates. The NIR target will be adjusted for any changes in the value of reserve assets and liabilities that result from factors other than balance of payments flows.

Table 2. Argentina: Summary of Public Sector Operations, 1994-95

(In millions of Argentine peso)

	1994	Jan-June 1994	July-Dec 1994	1994	1994	1995 Program 2/				1995 Prog.
	Prog.	Prel. 1/	Prel. 1/	Prel. 1/	Prel. 2/	QI	QII	QIII	QIV	
Revenue	48,957	23,673	24,125	47,799	48,605	11,829	13,355	14,507	14,654	54,345
-----										
General government current revenue	48,751	23,667	24,073	47,741	48,547	11,769	13,308	14,436	14,582	54,211
-----										
National Administration taxes 3/	32,333	15,903	15,687	31,590	32,090	7,806	9,543	9,830	10,122	37,301
Social security 4/	14,051	6,489	6,800	13,290	13,596	3,173	3,122	3,913	3,718	13,926
Nontax revenue	2,367	1,275	1,586	2,861	2,861	790	643	692	742	2,867
Operating surplus of public enterprises	123	(21)	5	(16)	(16)	36	27	40	31	134
Capital revenue, nonprivatization	83	27	47	74	74	24	21	31	42	117
-----										
Expenditure, excluding interest payments 5/	43,450	21,482	23,630	45,112	46,286	12,256	11,873	12,014	12,117	48,260
-----										
National administration wages	7,171	3,635	3,829	7,464	7,778	2,234	1,944	1,927	1,925	8,030
Goods and services	2,245	996	1,238	2,233	2,324	712	558	515	558	2,343
Pensions	14,890	7,333	8,668	16,001	15,311	3,864	3,773	4,221	4,160	16,018
Transfers	16,245	8,082	8,467	16,551	16,969	4,426	4,587	4,383	4,537	17,933
To provinces	13,668	6,739	6,828	13,568	12,535	3,163	3,508	3,365	3,488	13,524
Other	2,577	1,343	1,639	2,983	4,434	1,263	1,079	1,018	1,049	4,409
Other current expenditure	5	17	66	83	85	49	3	3	4	59
Capital expenditure	2,894	1,418	1,361	2,780	3,819	970	1,008	965	933	3,876
-----										
Primary balance	6,107	2,674	745	3,420	3,052	(426)	1,681	3,493	3,738	8,485
-----										
Excluding privatization	5,507	2,191	495	2,687	2,319	(427)	1,482	2,493	2,538	6,085
Privatization	600	483	250	733	733	1	199	1,000	1,200	2,400
-----										
Interest (accrual basis)	3,137	1,649	1,826	3,150	3,150	833	1,057	915	1,275	4,080
-----										
Overall balance (NFPS)	2,970	1,025	(1,081)	270	(98)	(1,259)	624	2,578	2,463	4,405
-----										
Balance on quasi-fiscal operations	359	(176)	142	(33)	(33)	0	0	0	0	0
-----										
Overall balance of public sector	3,329	849	(939)	237	(131)	(1,259)	624	2,578	2,463	4,405
-----										
Excluding privatization	2,729	366	(1,189)	(496)	(864)	(1,260)	425	1,578	1,263	2,005

Sources: Ministry of Economy; Central Bank of Argentina; and Fund staff estimates.

1/ On 1994 program basis.

2/ On the basis of the new definition which includes various social security operations on a gross basis, which had previously been included on a net basis.

3/ Excludes in 1994 (on the 1994 program basis) Arg\$500 million for the issue of bonds against deferred income tax deductions ("quebrantos").

4/ Includes in 1994 (on the 1994 program basis) Arg\$879 million that went to the newly established private pension funds (AFJPs). Contribution payments in the form of bonds are included at market value.

5/ Excludes expenditure for arrears clearance to pensioners, suppliers, and provincial governments of Arg\$4.2 billion in 1994. Also excluded from expenditure are advances on transfers to provinces under the revenue-sharing arrangement of Arg\$611 million that were financed with bonds; cash payments to pensioners of Arg\$223 million resulting from judicial awards; and payments by the government for provincial employment reduction schemes, financed by bonds, in the amount of Arg\$27 million.

Table 3. Argentina: Summary of Public Sector Operations, 1994-95

(In percent of GDP)

	1994	Jan-June 1994	July-Dec 1994	1994	1994	1995 Program 2/				1995 Prog.
	Prog.	Prel. 1/	Prel. 1/	Prel. 1/	Prel. 2/	QI	QII	QIII	QIV	
Revenue	17.5	18.1	16.4	17.2	17.5	17.0	18.0	18.7	18.8	18.1
-----										
General government current revenue	17.5	18.1	16.4	17.2	17.5	16.9	18.0	18.6	18.7	18.1
-----										
National Administration taxes 3/	11.6	12.1	10.7	11.4	11.6	11.2	12.9	12.7	13.0	12.5
Social security 4/	5.1	5.0	4.6	4.8	4.9	4.6	4.2	5.0	4.8	4.7
Nontax revenue	0.9	1.0	1.1	1.0	1.0	1.1	0.9	0.9	1.0	1.0
Operating surplus of public enterprises	--	--	--	--	--	--	--	--	--	--
Capital revenue, nonprivatization	--	--	--	--	--	--	--	--	--	--
Expenditure, excluding interest payments 5/	15.6	16.4	16.1	16.2	16.7	17.6	16.1	15.5	15.5	16.1
-----										
National administration wages	2.6	2.8	2.6	2.7	2.8	3.2	2.6	2.5	2.5	2.7
Goods and services	0.8	0.8	0.8	0.8	0.8	1.0	0.8	0.7	0.7	0.8
Pensions	5.4	5.6	5.9	5.8	5.5	5.5	5.1	5.4	5.3	5.4
Transfers	5.8	6.2	5.8	6.0	6.1	6.4	6.2	5.7	5.8	6.0
To provinces	4.9	5.1	4.7	4.9	4.5	4.5	4.7	4.3	4.5	4.5
Other	0.9	1.0	1.1	1.1	1.6	1.8	1.5	1.3	1.3	1.5
Other current expenditure	--	--	--	--	--	--	--	--	--	--
Capital expenditure	1.0	1.1	0.9	1.0	1.4	1.4	1.4	1.2	1.2	1.3
Primary balance	2.2	2.0	0.5	1.2	1.1	-0.6	2.3	4.5	4.8	2.8
-----										
Excluding privatization	2.0	1.7	0.3	1.0	0.8	-0.6	2.0	3.2	3.3	2.0
Privatization	0.2	0.4	0.2	0.3	0.3	--	0.3	1.3	1.5	0.8
Interest (accrual basis)	1.1	1.3	1.2	1.1	1.1	1.2	1.4	1.2	1.6	1.4
-----										
Overall balance (NFPS)	1.1	0.8	-0.7	0.1	-0.0	-1.8	0.8	3.3	3.2	1.5
-----										
Balance of quasi-fiscal operations	0.1	-0.1	0.1	--	--	--	--	--	--	--
-----										
Overall balance	1.2	0.6	-0.6	0.1	-0.0	-1.8	0.8	3.3	3.2	1.5
-----										
Excluding privatization	1.0	0.3	-0.8	-0.2	-0.3	-1.8	0.6	2.0	1.6	0.7

Sources: Ministry of Economy; Central Bank of Argentina; and Fund staff estimates.

1/ On 1994 program basis.

2/ On the basis of the new definition which includes various social security operations on a gross basis, which had previously been included on a net basis.

3/ Excludes in 1994 (on the 1994 program basis) 0.2 percent of GDP for the issue of bonds against deferred income tax deductions ("quebrantos").

4/ Includes in 1994 (on the 1994 program basis) 0.3 percent of GDP that went to the newly established private pension funds (AFJPs).

Contribution payments in the form of bonds are included at market value.

5/ Excludes expenditure for arrears clearance to pensioners, suppliers, and provincial governments of 1.5 percent of GDP in 1994. Also excluded from expenditure are advances on transfers to provinces under the revenue-sharing arrangement of 0.2 percent of GDP that were financed with bonds; cash payments to pensioners of 0.1 percent of GDP resulting from judicial awards; and payments by the Government for provincial employment reduction schemes, financed by bonds, in the amount of 0.01 percent of GDP.

FOR  
AGENDA

SAITO, Carlos  
ROOM 11-320

0451

EBS/95/146

CONFIDENTIAL

August 30, 1995

To: Members of the Executive Board

From: The Secretary

Subject: Argentina - Letter of Intent and Memorandum of Economic Policies

Attached for consideration by the Executive Directors is a letter of intent from the President of the Central Bank of Argentina and the Minister of Economy and Public Works and Services of Argentina requesting a waiver and modification of performance criteria under the extended arrangement, together with a memorandum on economic policies of the Government of Argentina.

This subject, together with the staff report for the 1995 Article IV consultation with Argentina and its request for a waiver and modification of performance criteria under the extended arrangement (to be issued), is tentatively scheduled for discussion on Wednesday, September 27, 1995.

Mr. Hardy (ext. 37158) or Mr. Traa (ext. 36876) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:  
Department Heads

Buenos Aires, August 29, 1995

Dear Mr. Camdessus:

The attached policy memorandum and annexed tables describe developments under the program of the Government of Argentina in the first half of 1995 and the revised objectives and targets that are proposed for the rest of the year. In view of the greater-than-expected slowdown in domestic absorption (reflected not only in a stronger adjustment in the external current account but also in a sharp increase in unemployment and a drop in public sector revenue), and the reopening of access to international credit markets, the Government is requesting a waiver of the application of the nonobserved performance criterion of the program in June 1995 as well as certain modifications of the performance criteria of the program for September and December 1995.

The Government of Argentina believes that the measures taken are adequate to achieve the objectives of its program. The Argentine authorities will maintain close relations with the Fund and will consult on the adoption of any measures that may be needed, in accordance with the Fund's practices on such consultations.

Sincerely,

/s/

Roque Fernandez  
President  
Central Bank  
of the Republic of Argentina

/s/

Domingo F. Cavallo  
Minister of Economy and  
Public Works and Services

Policy Memorandum

In the wake of the crisis in Mexico, during the first half of 1995 Argentina experienced a substantial capital outflow and a sharp decline in bank deposits. Direct foreign financing to the private sector was severely restricted and there was a sharp contraction in credit available to consumers and small and medium-sized enterprises. Even though the loss in bank deposits was accommodated largely by the Central Bank through a reduction in reserve requirements and special rediscounts and swaps, this could not prevent a credit squeeze that led to a slowdown in the growth of real GDP in the first quarter and a moderate recession in the second quarter, compared with the corresponding periods of 1994. The effects of the contraction in domestic demand were attenuated by record agricultural production and a major adjustment in Argentina's external accounts. Merchandise exports rose by 45 percent and imports declined by 5 percent in the first half of 1995, compared with January-June 1994, and the trade account shifted from a deficit of US\$3 billion to a surplus of US\$1 billion over the same period. At the same time, during the first half of 1995 consumer prices rose by only 1 percent and wholesale prices by 4.4 percent, while urban unemployment jumped to 18.6 percent of the labor force in May 1995, from 12.2 percent in October 1994, largely as a result of a sharp increase in the labor force participation rate.

For the year as a whole, the external current account deficit as measured by the IMF is now projected to decline to US\$3.7 billion (1.3 percent of GDP), from US\$10 billion (3.7 percent of GDP) in 1994--about 0.7 percent of GDP lower than programmed. 1/

The sharp adjustment in the external current account, the reversal of capital outflows (reflected in the recovery by early August of half of the loss in bank deposits that took place between December 1994 and early May 1995), the recovery of stock and bond prices to the pre-crisis levels, and the recent reopening of access to the international capital markets with the successful placement of a five-year DM1 billion bond in August at favorable terms are evidence that Argentina's economic program is succeeding in its basic objective of assuring external viability over the medium term. Furthermore, the problems that emerged in the financial sector are well under way to being resolved, requiring less resources from the Trust Funds than originally expected, and the financial system is emerging stronger and more efficient.

These economic developments, however, have also had a strong impact on the public finances. In particular, the sharp contraction in domestic consumer demand and increased tax evasion combined to produce a revenue

---

1/ As measured by the authorities, the 1995 current account deficit is projected at US\$2.0 billion (0.7 percent of GDP), compared with US\$8.2 billion (2.9 percent of GDP) in 1994.

shortfall of about Arg\$1.6 billion (2 percent of quarterly GDP) in the second quarter of 1995 compared to program--a trend that is continuing in the third quarter. In order to meet the program fiscal targets for June, payment of the wealth tax was advanced and wage and other current payments were delayed. However, it is now estimated that there will be a revenue shortfall of more than Arg\$6 billion (over 2 percent of GDP) for the year as a whole, that will be only partly compensated by lower transfers of shared revenues to the provinces. Even though the Government expects to hold noninterest expenditures some Arg\$2 billion (0.7 percent of GDP) below original program targets, and is making additional efforts to reduce tax evasion and encourage employment, as described further below, it will be possible to attain a balanced overall fiscal position (excluding privatization receipts) only in the fourth quarter of 1995, and a deficit of Arg\$2.4 billion in the nonfinancial public sector is now projected for 1995 as a whole, which will be covered by privatization receipts. This compares with an overall surplus of Arg\$2 billion under the original program, excluding privatization receipts.

At the same time, the financing constraint on the public sector that was foreseen in March 1995, when the program was adopted, has eased significantly. Moreover, as noted, the restructuring of the commercial banking system is expected to require less resources than programmed. Indeed, with the resources already received and the expected proceeds from privatizations, the Government of Argentina will have more than sufficient resources to cover the required amortization of the public sector debt and the restructuring of the banking system without a need for generating the budgetary surplus that was programmed.

As financial conditions return to normal and the economy picks up momentum, tax collections are expected to recover. To encourage this process, in mid-August facilities were introduced to encourage payment of tax arrears and improve compliance. The first covers tax liabilities (including arrears to the social security system) accrued prior to December 1994 which may be discharged with public sector bonds or cash in 48 monthly installments, and the second facility covers tax liabilities accrued in the first half of 1995 which will be converted into notes, payable in 30 monthly installments. These notes will be discounted by the Government with the banks, an operation which is expected to yield at least Arg\$1 billion in revenue in the last quarter of 1995. Other initiatives to improve tax compliance include the introduction of a requirement for shareholdings to be identified and for the dividends to be made subject to withholding against the income tax, introduction of a personal fiscal compliance card, that will be required for most significant economic transactions, introduction of an incentive for middle and upper income consumers to ask for receipts, and introduction of nonerasable cash registers at the point of sale for the VAT.

The Government of Argentina is deeply concerned by the rise in unemployment, which has affected men and women of all ages in virtually all areas of the country, and is doing all within its power to alleviate and

overcome this problem. The administration of the unemployment fund is being improved to permit an increase in the number of beneficiaries; conditions have been made more flexible for part-time employment; a new apprentice program set up; and job training programs and incentives are being strengthened. In this regard, the Government considers that the high level of taxation on labor is a disincentive to employment and a cause of widespread tax evasion, and has therefore decided to lower employer social security contributions, that currently range from 33 percent in Buenos Aires to 16 1/2 percent in outlying provinces, by 30 percent in three equal steps, for all sectors, in September and November 1995 and January 1996. The initial revenue loss from this measure is expected to be recovered during 1996 through improved coverage and better administration of the social security system, in which evasion and noncompliance is currently estimated to be around 40 percent. All considered, using comparable tax rates, tax collection in 1996 as a share of GDP is expected to be higher than the projected level for 1995 but still lower than in 1993 and 1994, further indicating the scope for reducing tax evasion.

The Government of Argentina remains fully committed to the maintenance of fiscal and financial equilibrium as the guarantor of the Convertibility Plan and the prerequisite for maintaining confidence, encouraging capital inflows and resuming economic growth. For that purpose, the nonfinancial public sector will be in overall equilibrium on a cash basis in 1996, excluding privatization receipts. To achieve this goal, total expenditure (in nominal terms) will not exceed the level of outlays agreed for the 1995 program and all necessary measures will be taken to assure the required level of revenue.

The Government of Argentina intends to press forward with key structural reforms to improve the flexibility and efficiency of the economy. A new Bankruptcy Law was approved in Congress recently, and a new Work-related Accidents Law, which is expected to reduce labor costs substantially, has been passed by the Lower House and is expected to receive full Congressional sanction shortly. A new law has been approved that allows significantly more flexibility to enterprises with up to 40 employees as regards employment conditions and the negotiation of collective contracts. A new Collective Bargaining Law is to be submitted shortly to Congress which will contribute to decentralized labor negotiations, greater flexibility in labor practices, and increased employment opportunities.

The Government also has decided in recent days to transfer honorary pensions from the social security administration to the Social Development Secretariat, with the objective of ensuring that they are awarded henceforward exclusively on the basis of need. Similarly, medical attention for such pensioners will be handled henceforward by the Social Development Secretariat, on the basis of competitive bids, rather than through the Medicare system (PAMI) as at present. At the same time, PAMI will cease its involvement in providing ancillary services (such as tourism) and concentrate only on providing health care to pensioners, reducing costs and improving efficiency. The Government has also set up a system of automatic

distribution of funds to health plans (obras sociales), and plans to undertake further reforms in this area with assistance from the World Bank.

Substantial progress is being made by the provinces in reducing their fiscal deficits. With assistance from the World Bank and IDB, the privatization of some 8 out of the 27 provincial banks is expected to have been completed by year's end, and a further 6 provincial banks are well on the way to privatization. Several provinces are already privatizing their electric and water companies, and the province of Buenos Aires has announced its intention to privatize its electric utility. Reflecting these reforms, including reductions in wages and in special pensions, the cash deficit of the provinces, which was estimated at 0.7 percent of GDP in 1994, will decline substantially in 1995.

Given the external and domestic financing framework, the stronger-than-expected adjustment taking place in the economy, and the changed external prospects of the country, the Government of Argentina is convinced that its current policy stance is appropriate, and that the above described policies and measures are sufficient to maintain the viability of its program. In light of the overall evolution of the program, and the measures that have been adopted, the Government of Argentina therefore is requesting a modification of the targets and performance criteria under the program for September and December 1995 as indicated in the attached table. The Government of Argentina also intends to request a successor arrangement from the Fund in 1996 in support of its economic program and stands ready, as necessary and in a timely way, to adopt whatever measures are required to achieve the program's objectives of fostering sustained economic growth in conditions of internal and external viability.

Table 1. Argentina: Quantitative Performance Criteria and Indicative Targets for 1995

	<u>Original Program</u>		<u>Prel. Outturn</u>	<u>Revised Program</u>	
	Stock Dec. 1994	Dec. 1994- June 1995	Dec. 1994- June 1995	Dec. 1994- Sept. 1995	Dec. 1994- Dec. 1995
<u>(In millions of pesos)</u>					
1. Quantitative performance criteria					
Overall deficit (-) or surplus of the nonfinancial public sector <u>1/</u>		-835	-862	-2,400	-2,400
Combined deficit (-) or surplus of the nonfinancial public sector and the Central Bank <u>1/ 2/</u>		-835	-794	-2,350	-2,350
Cumulative ceiling on noninterest expenditure of the National Administration <u>3/</u>		...	22,570	34,730	46,230
Cumulative change in the net domestic assets of the Central Bank <u>4/</u>		3,370	2,379	2,870	2,210
<u>(In millions of U.S. dollars)</u>					
Cumulative change in the free international reserves of the Central Bank <u>5/</u>		-1,990	-802	-1,190	-190
Total debt of the public sector					
Total outstanding external and domestic debt <u>6/ 7/ 8/</u>	80,805	84,195	82,923	83,970	83,355
Cumulative net increase of domestic debt <u>8/</u>		600	-1,414	300	--
Cumulative net increase in short-term external debt <u>8/ 9/</u>		700	-78	700	700
2. Indicative target					
Cumulative change in the net international reserves of the Central Bank <u>10/</u>		-5,940	-5,007	-4,540	-2,745

1/ The nonfinancial public sector, as defined under the program, excludes the provincial nonfinancial public sector. Excludes receipts from privatization.

2/ The deficit (-) or surplus of the Central Bank of Argentina (BCRA) is defined as net interest earnings less transfer payments to the Government.

3/ The ceiling will be adjusted up or down for any excess or shortfall from the program level in automatic revenue transfers to the provinces under the revenue sharing arrangements.

4/ The net domestic assets (NDA) are defined as the difference between the monetary liabilities and the net international reserves (NIR) of the BCRA, both measured at end period. The monetary liabilities includes currency issue and legal reserve deposits held in the BCRA. The NIR are defined in footnote 10.

5/ The free international reserves of the BCRA are defined as the difference between gross international reserves and the monetary liabilities (the latter as defined in footnote 4). Gross international reserves include BCRA holdings of gold, foreign currency in the form of cash and deposits abroad, and Argentina's net balance within the Latin American Trade Clearing System (ALADI), and exclude central bank holdings of government debt instruments.

6/ Data used to monitor external and domestic debt developments will be taken from the debt reporting system and the balance of payments accounts. These ceilings have been adjusted upwards by \$465 million to take into account revisions to the end-1994 stock of debt. The stock of debt will be valued at end-1994 exchange rates and measured at end of period.

7/ Total outstanding debt of the public sector includes all foreign currency-denominated and Argentine-peso denominated obligations of the national nonfinancial public sector, including funds obtained for constituting trust funds, foreign currency-denominated obligations of provincial governments, and the national financial public sector, including the BCRA and other official banks. The limit includes all new debt issued for the consolidation of domestic arrears (BOCCNs). It excludes new borrowing by the foreign trade bank (BICE) and any adjustments, during the period to the stock of BOCCNs resulting from the capitalization of interest. The ceilings will be adjusted for any revisions to the initial stock of debt resulting from the discovery or registration of old debt.

8/ The limit will be adjusted for borrowing to compensate for any shortfall in privatization receipts relative to program.

9/ Excludes bridge loan by the BIS.

10/ The net international reserves (NIR) are defined as the gross international reserves of the BCRA less foreign liabilities of the BCRA, including BIS bridge loans and the net IMF position. A negative sign signifies a loss of NIR. For measuring balance of payments performance, changes in NIR will not be affected by changes in gold prices nor, in the case of currencies other than the U.S. dollar, by changes in cross rates. The NIR target will be adjusted for any changes in the value of reserve assets and liabilities that result from factors other than balance of payments flows.

Table 2. Argentina: Summary of Public Sector Operations, 1992-95

(In millions of pesos)

	1992	1993	1994 1/	1995 1/				1995 1/	
				Jan.-June Prog.	Jan.-June Prel.	Jan.-Sept. Rev. Prog.	Jan.-Dec. Rev. Prog.	Original Prog.	Revised Prog.
<b>Revenue</b>	<b>38 844</b>	<b>44,275</b>	<b>48 761</b>	<b>25 180</b>	<b>23 550</b>	<b>35,294</b>	<b>48,166</b>	<b>54 345</b>	<b>48,166</b>
Taxes	26,454	28,811	32,089	17,349	15,778	23,506	32,851	37,301	32,851
Social Security									
Contributions 2/	9,833	11,874	13,608	6,295	6,046	9,262	12,030	13,926	12,030
Nontax revenue	2,029	2,690	3,134	1,433	1,756	2,478	3,156	2,867	3,156
Capital revenue	105	145	74	45	16	56	108	117	108
Operating surplus of public enterprises	423	755	(144)	58	(46)	(8)	21	134	21
<b>Noninterest expenditure</b>	<b>35,737</b>	<b>39,721</b>	<b>46,631</b>	<b>24 126</b>	<b>22,570</b>	<b>34,725</b>	<b>46,228</b>	<b>48,259</b>	<b>46,228</b>
Wages	5,652	6,695	7,794	4,178	3,575	5,816	7,769	8,030	7,769
Goods and services	2,482	2,893	2,295	1,276	1,100	1,745	2,193	2,343	2,193
Pensions	12,653	13,136	15,241	7,637	7,297	11,477	15,573	16,018	15,573
Transfers	13,112	14,501	17,331	9,012	8,701	12,938	17,128	17,933	17,128
Provinces	12,620	12,595	12,535	6,671	6,216	9,244	12,321	13,524	12,321
Other	492	1,906	4,796	2,341	2,485	3,694	4,807	4,409	4,807
Other current	--	--	83	46	167	167	167	59	167
Capital expenditure	1,838	2,496	3,887	1,977	1,730	2,582	3,398	3,876	3,398
<b>Interest (Accrual basis)</b>	<b>3,324</b>	<b>2,917</b>	<b>3,150</b>	<b>1,889</b>	<b>1,932</b>	<b>2,964</b>	<b>4,333</b>	<b>4,080</b>	<b>4,333</b>
Statistical discrepancy 3/	...	...	...	...	90	...	...	...	...
Balance of quasi-fiscal operations	(274)	190	(33)	--	68	68	68	--	68
<b>Overall balance of public sector</b>	<b>(491)</b>	<b>1,827</b>	<b>(1,053)</b>	<b>(835)</b>	<b>(794)</b>	<b>(2,327)</b>	<b>(2,327)</b>	<b>2,006</b>	<b>(2,327)</b>
<b>Privatization</b>	<b>1,867</b>	<b>3,740</b>	<b>733</b>	<b>1</b>	<b>125</b>	<b>516</b>	<b>2,396</b>	<b>2,400</b>	<b>2,396</b>
<b>Overall balance including privatization</b>	<b>1,376</b>	<b>5,567</b>	<b>(320)</b>	<b>(834)</b>	<b>(669)</b>	<b>(1,811)</b>	<b>69</b>	<b>4,406</b>	<b>69</b>

Sources: Ministry of Economy; and Central Bank of Argentina.

1/ On the basis of the new definition which includes various social security operations on a gross basis, which had previously been included on a net basis.

2/ Excludes in 1994 Arg\$879 million that went to the newly established private pension funds (AFJPs).

3/ Statistical discrepancy between above-the-line and below-the-line measurement.

Table 3. Argentina: Summary of Public Sector Operations, 1992-1995

(In percent of GDP)

	1992	1993	1994 1/	1995 1/				1995 1/	
				Jan.-June Prog.	Jan.-June Prel.	Jan.-Sept. Rev. Prog.	Jan.-Dec. Rev. Prog.	Original Prog.	Revised Prog.
<u>Revenue</u>	<u>17.1</u>	<u>17.2</u>	<u>17.3</u>	<u>17.4</u>	<u>16.8</u>	<u>16.4</u>	<u>16.6</u>	<u>18.2</u>	<u>16.6</u>
Taxes	11.7	11.2	11.4	12.0	11.2	10.9	11.3	12.5	11.3
Social security contributions 2/	4.3	4.6	4.8	4.3	4.3	4.3	4.1	4.7	4.1
Nontax revenue	0.9	1.0	1.1	1.0	1.2	1.2	1.1	1.0	1.1
Capital revenue	--	0.1	--	--	--	--	--	--	--
Operating surplus of public enterprises	0.2	0.3	-0.1	--	--	--	--	--	--
<u>Noninterest expenditure</u>	<u>15.8</u>	<u>15.4</u>	<u>16.6</u>	<u>16.7</u>	<u>16.1</u>	<u>6.1</u>	<u>15.9</u>	<u>16.1</u>	<u>15.9</u>
Wages	2.5	2.6	2.8	2.9	2.5	2.7	2.7	2.7	2.7
Goods and services	1.1	1.1	0.8	0.9	0.8	0.8	0.8	0.8	0.8
Pensions	5.6	5.1	5.4	5.3	5.2	5.3	5.4	5.4	5.4
Transfers	5.8	5.6	6.2	6.2	6.2	6.0	5.9	6.0	5.9
Provinces	5.6	4.9	4.5	4.6	4.4	4.3	4.2	4.5	4.2
Other	0.2	0.7	1.7	1.6	1.8	1.7	1.7	1.5	1.7
Other current	--	--	--	--	0.1	0.1	0.1	--	0.1
Capital	0.8	1.0	1.4	1.4	1.2	1.2	1.2	1.3	1.2
<u>Interest (accrual basis)</u>	<u>1.5</u>	<u>1.1</u>	<u>1.1</u>	<u>1.3</u>	<u>1.4</u>	<u>1.4</u>	<u>1.5</u>	<u>1.4</u>	<u>1.5</u>
Balance of quasi-fiscal operations	-0.1	0.1	--	--	--	--	--	--	--
<u>Overall balance of public sector</u>	<u>-0.2</u>	<u>0.7</u>	<u>-0.4</u>	<u>-0.6</u>	<u>-0.6</u>	<u>-1.1</u>	<u>-0.8</u>	<u>0.7</u>	<u>-0.8</u>
<u>Privatization</u>	<u>0.8</u>	<u>1.5</u>	<u>0.3</u>	<u>--</u>	<u>0.1</u>	<u>0.2</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>
<u>Overall balance including privatization</u>	<u>0.6</u>	<u>2.2</u>	<u>-0.1</u>	<u>-0.6</u>	<u>-0.5</u>	<u>-0.8</u>	<u>--</u>	<u>1.5</u>	<u>--</u>

Sources: Ministry of Economy; and Central Bank of Argentina.

1/ On the basis of the new definition which includes various social security operations on a gross basis, which had previously been included on a net basis.

2/ Excludes in 1994 0.3 percent of GDP that went to the newly established private pension funds (AFJPs).

Buenos Aires, 5 de diciembre de 1995

Estimado Sr. Camdessus:

1. Las enérgicas medidas adoptadas por el Gobierno para reforzar las finanzas públicas, fortalecer la convertibilidad y respaldar el sistema bancario --medidas que se describen en la carta dirigida a Ud. con fecha 29 de agosto de 1995-- han permitido lograr nuevamente la estabilidad tras la crisis de confianza y la consiguiente salida de capitales que tuvieron lugar a principios de 1995. Se han observado, y superado por márgenes holgados, todos los criterios de ejecución fijados para septiembre de 1995. Según las proyecciones, la inflación de precios al consumidor será de alrededor del 2% en 1995. Se prevé que el déficit de la cuenta corriente externa se reducirá más de 2,5 puntos porcentuales del PIB, situándose en un nivel inferior al 1% del PIB. El fortalecimiento del saldo en cuenta corriente, sumado a la recuperación del acceso a los mercados internacionales de capital, dan pruebas de la viabilidad externa del programa económico de Argentina. Se ha producido una significativa recuperación de los depósitos y de las reservas de liquidez del sistema financiero. Sin embargo, debido a la persistente de incertidumbre, y a una grave sequía, la reactivación iniciada en agosto se desaceleró en septiembre. La reactivación del crédito al sector privado ha sido más lenta de lo previsto, y la tasa de desempleo llegó a un nivel muy elevado. Dado que la recesión resultó más profunda y prolongada de lo anticipado, es probable que el crecimiento del PIB real sea negativo durante este año. Más recientemente, se han observado signos alentadores de una firme reactivación económica, y esperamos que el PIB real registre un crecimiento del 5% como mínimo en 1996.
2. Como se señaló en la carta del 29 de agosto, la recesión económica ha tenido efectos negativos en las finanzas públicas. Estos efectos han ido más allá de lo previsto en la revisión del programa acordada en agosto debido a que la desaceleración económica se ha prolongado más de lo esperado. El Gobierno sigue firmemente resuelto a alcanzar la totalidad de las metas fijadas para el final de diciembre de 1995, a cuyo efecto se están redoblando esfuerzos. En lo que respecta al ingreso fiscal, la Dirección General Impositiva ha acelerado considerablemente sus tareas de mejoramiento de la administración tributaria. Los resultados obtenidos en una moratoria impositiva concluida recientemente superan ampliamente las expectativas ya que ha generado un total del orden de los Arg\$4.000 millones. En lo que respecta al gasto, la Tesorería ha remplazado el sistema de autorizaciones trimestrales de desembolsos presupuestarios por autorizaciones mensuales a fin de mantener un control más estricto de los egresos.
3. El gobierno está resuelto a lograr el equilibrio estructural de las finanzas públicas. En lo que atañe a la política fiscal para 1996, hemos presentado ante el Congreso un proyecto de presupuesto equilibrado. Asimismo, para reafirmar el compromiso del Gobierno con la disciplina fiscal, el Poder Ejecutivo ha presentado recientemente ante el Congreso un proyecto de ley por el que se autoriza con carácter temporal al Poder Ejecutivo a poner en práctica, en caso necesario, medidas adicionales para alcanzar los objetivos fiscales fijados para 1996. La legislación propuesta sentaría las bases para profundizar la reforma del sector público federal, con consecuencias de vasto alcance en lo que respecta al aumento de la eficiencia y la reducción de los costos en el mediano plazo. Esta propuesta entraña la fusión y reestructuración de organismos públicos y la eliminación

de entidades o programas públicos superfluos. Al mismo tiempo, permitiría al Poder Ejecutivo introducir en forma rápida, en caso necesario, medidas impositivas tales como la eliminación de exenciones del impuesto sobre el valor agregado y del impuesto a las ganancias, así como otras medidas para fortalecer la recaudación fiscal a través de los impuestos a la riqueza y los impuestos específicos sobre el consumo.

4. Como se mencionó anteriormente, ha habido una importante recuperación de depósitos en el sistema bancario, y hacia el final de noviembre habían reingresado en el sistema más del 80% de los depósitos retirados inicialmente. Para reforzar la liquidez del sistema financiero, y a la vez reducir las distorsiones, acrecentar la eficiencia y reducir los márgenes de las tasas de interés, el Banco Central ha remplazado a partir de agosto de 1995 el régimen de encaje legal no remunerado por requisitos de liquidez uniformes que pueden cumplirse mediante la compra de Letras de Liquidez Bancaria, acuerdos de pase pasivo o la realización de depósitos en el exterior en condiciones específicas. Según las proyecciones, en 1996 la liquidez global de los bancos se elevará a niveles similares a los existentes a fines de 1994. También se está reforzando el respaldo de reservas disponibles existentes en el Banco Central, y a tal fin en el mes de septiembre se estableció un programa de reducción de los redescuentos pendientes.

5. El Gobierno de la República Argentina, junto con los gobernadores y otras autoridades provinciales, está elaborando un plan para sanear las finanzas de las provincias. Recientemente, varios gobiernos provinciales han rebajado los sueldos, reducido el personal, racionalizado las operaciones y privatizado bancos y otras empresas públicas. El proceso de ajuste se orienta a lograr el equilibrio estructural de las finanzas públicas provinciales y una considerable reducción del déficit en 1996. El BIRF y el BID están prestando asistencia a fin de preparar los programas provinciales de seguridad social para su posterior incorporación al sistema nacional de seguridad social. Las provincias también están tratando de resolver sus problemas de endeudamiento recurriendo a tal efecto a los fondos obtenidos mediante la privatización de los bancos y empresas provinciales.

6. La persistencia de un alto nivel de desempleo es motivo de profunda inquietud para el Gobierno razón por la cual se ha asignado la máxima importancia a las medidas encaminadas a resolver este problema. En la carta del 29 de agosto, el Gobierno describió una serie de medidas adoptadas a tal fin. Dichas medidas están comenzando a producir efecto y coadyuvarán a la incipiente recuperación de la actividad económica y de los niveles de empleo. El Gobierno sigue procurando introducir cambios estructurales en los mercados de trabajo para lograr mayor eficiencia en la asignación de la mano de obra y reducir los costos laborales. Entre las nuevas medidas contempladas para 1996 a fin de lograr este objetivo pueden mencionarse la reforma del régimen de negociación colectiva y la flexibilización de los convenios colectivos en lo que respecta a su renegociación. El Gobierno también ha iniciado con el BIRF y el BID una reforma del sistema de salud encaminada a reducir los costos laborales e intensificar la competencia entre las entidades que prestan servicios médicos.

7. El Gobierno de la República Argentina considera que el enérgico ajuste que se está llevando a cabo en la economía, el mejoramiento de las perspectivas externas del país y las medidas que se están poniendo en práctica para lograr un saldo fiscal equilibrado en los próximos años ofrecen bases sólidas para el nuevo acuerdo del FMI que el Gobierno se propone solicitar para 1996. Debido a los cambios introducidos en la definición de los pasivos monetarios del banco central, a los que se hizo referencia en el párrafo 4, el Gobierno solicita la modificación de la definición establecida en el programa para los activos internos netos y las

reservas internacionales disponibles en lo que respecta a diciembre de 1995, según lo indicado en el cuadro adjunto.

8. El Gobierno de la República Argentina considera que las medidas ya adoptadas y las que se ha previsto introducir en 1996 contribuirán al logro de los objetivos de su programa. Las autoridades argentinas se mantendrán en estrecha relación con el FMI y lo consultarán sobre la adopción de toda medida que pueda ser necesaria, conforme a las disposiciones de esa institución sobre dichas consultas.

Atentamente,

/f./  
Domingo F. Cavallo  
Ministro de Economía y  
Obras y Servicios Públicos

Anexo

Argentina: Algunos criterios de ejecución  
para diciembre de 1995

	1995		
	enero-septiembre	enero-dic.	
Límite	Resultado (Definición anterior)	Resultado (Nueva definición)	Límite
Variación acumulada de los activos internos netos del Banco Central 1/2/ (en millones de pesos)	2,870	1,614	2,408
			2,210
Variación acumulada de las reservas disponibles del Banco Central 3/ (en millones de dólares de EE.UU.)	-1.190	103	-691
			-190

1/ Los activos internos netos (AIN) del Banco Central de la República Argentina (BCRA) se definen como la diferencia entre los pasivos monetarios del BCRA y las reservas internacionales netas (RIN) del BCRA, ambos medidos al fin del período. En lo que respecta a las metas para diciembre de 1995, en la definición de pasivos monetarios quedan comprendidos la emisión monetaria, los depósitos de los bancos en el BCRA, los pasivos pasivos con el BCRA que superen los Arg\$480 millones y las letras de liquidez bancaria. Los pasivos activos con el BCRA no se deducen de los pasivos monetarios. En lo que respecta a las metas para el período enero-septiembre de 1995, en la definición de pasivos monetarios quedan comprendidas la emisión monetaria y los depósitos de encaje legal en poder del BCRA, según se describe en el documento EBS/95/51. Las reservas internacionales netas se definen en la nota 2.

2/ Las reservas internacionales netas (RIN) se definen como las reservas internacionales brutas del BCRA menos los pasivos externos del BCRA, incluido el valor neto de los préstamos puente y la posición neta en el FMI. El signo negativo indica una pérdida de RIN. A los efectos de medir el resultado de la balanza de pagos, la variación de las RIN no se verá afectada por la variación del precio del oro ni, en el caso de otras monedas distintas del dólar de EE.UU., por la variación de los tipos de cambio cruzados. La meta con respecto a las RIN se ajustará teniendo en cuenta toda variación del valor de los activos y pasivos de reserva resultante de factores no relacionados con los flujos de la balanza de pagos.

3/ Las reservas internacionales disponibles del BCRA se definen como la diferencia entre las reservas internacionales brutas y los pasivos monetarios del BCRA (según se definen en la nota 1). Las reservas internacionales brutas incluyen las tenencias de oro en poder del BCRA, las divisas mantenidas en efectivo y en depósitos en el exterior y el saldo neto de Argentina en el sistema latinoamericano de compensación de pagos comerciales de la ALADI. Se excluyen de dichas reservas las tenencias de instrumentos de deuda pública en poder del Banco Central.