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**IMMEDIATE  
ATTENTION**

EBS/83/97

CONFIDENTIAL

May 18, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Argentina - Modification of Performance Criteria Under Stand-By Arrangement and Approval of Certain Exchange Measures

Attached for consideration by the Executive Directors is a paper on a modification of performance criteria under the stand-by arrangement for Argentina and approval of certain exchange measures. A proposed decision appears on pages 5 and 6.

Unless there is an objection by noon on Monday, May 23, 1983, the proposed decision will be deemed approved and it will be so recorded in the minutes of the next meeting thereafter.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Kreis, ext. 74327.

Att: (1)

INTERNATIONAL MONETARY FUND

ARGENTINA

Modification of Performance Criteria under Stand-By  
Arrangement and Approval of Certain Exchange Measures

Prepared by the Western Hemisphere Department and  
the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by Eduardo Wiesner and Manuel Guitian

May 18, 1983

I. Introduction

In the attached communication to the Managing Director dated May 16, 1983, the Minister of Economy and the President of the Central Bank of Argentina describe certain changes in the Argentine exchange and trade system and request that the Fund approve these measures and make the corresponding modifications in paragraphs 4(g)(i) and (ii) of Argentina's stand-by arrangement (EBS/83/8, Supplement 1, 1/25/83). This paper concludes with a proposed decision to give effect to this request.

II. Background

Export rebates

Argentina maintains a system of rebates for certain exports which is implemented through the exchange system and constitutes a multiple currency practice. In the decision concluding the 1982 Article IV consultation with Argentina (EBM/83/18, 1/24/83) the Fund granted approval until July 31, 1983 for the retention of this multiple currency practice which was described in Appendix IV of EBS/83/8 as follows:

a. Rebate rates of 5 or 10 per cent presently apply to certain promoted exports. In addition, exports originating in and shipped through ports located in specified less developed regions of Argentina are eligible for rebates of 5 to 9 per cent.

b. Argentina also maintains a system whereby special rebates of 5 per cent are provided for fixed periods for exports to new markets.

On April 15, 1983 the special 5 per cent rebate for exports to new markets was abolished; the elimination of that rebate was a performance criterion. However, on January 28, 1983 the rebates for goods originating in and shipped through ports in specified less developed regions in Argentina were increased from a range of 5 to 9 per cent to a range of 8 to 11 per cent. This increase was inconsistent with the understanding, which is also a performance criterion under the stand-by arrangement (paragraph 4(g)(ii)), that the system of export rebates would continue to be operated within the existing range of rates, pending the completion of the scheduled review of Argentina's exchange and trade system. That review, which is an additional performance criterion under the stand-by arrangement, is to be completed by July 31, 1983.

The system of special rebates for exports from specified less developed regions of Argentina is intended to compensate exporters for extra costs incurred due to inadequate public infrastructure, particularly port facilities, in those areas. Prior to December 1, 1982, a uniform rebate of 9 per cent was applied for all exports shipped through ports located in those regions. Resolution ME 287/82 modified that system in order to target it more specifically; the previous uniform 9 per cent rate was replaced by the range of rates of 5 to 9 per cent depending upon the particular port involved, and eligibility for the rebate was limited to goods actually produced in the regions concerned. Upon further review, the authorities decided to modify this system again, retaining the more specific targeting, but restoring the average rebate to approximately the level that had obtained before December 1, 1982. Under Resolution ME 88/83 of January 28, 1983 the range of rebates was, therefore, set at 8 to 11 per cent.

#### Loans covered by exchange rate guarantees

During the second half of 1981 and again beginning in mid-1982, the Central Bank of Argentina operated a system under which private Argentine borrowers could obtain exchange rate guarantees for foreign loans, provided that those loans were granted or renewed for certain minimum periods. While the private borrower paid a premium to obtain these guarantees, the actual rate of depreciation of the peso exceeded by a substantial margin the percentage premium charged to the borrower. Guarantees covering US\$5.1 billion of private sector debt were granted under the 1981 scheme, and the 1982 scheme provided guarantees for US\$5.4 billion, of which US\$1.3 billion represented the rollover of guarantees granted in 1981. These exchange rate guarantee schemes were terminated on October 22, 1982, by which time a total of US\$9.2 billion, or about 65 per cent of private sector debt, had been covered.

The first loans covered by the 1981 scheme began to mature at the end of November 1982. The Central Bank did not have the foreign exchange to permit the outright repayment of these loans by the private sector. On the other hand, the monetary expansion that would have resulted from inducing private sector borrowers to roll these loans over, i.e., by allowing them to repay the original loan at the guaranteed

rate and draw down the new or renewed loan at the current exchange rate, would have undermined the domestic stabilization effort. The guaranteed rates on these loans ranged between \$a 4,000 and \$a 7,000 per U.S. dollar, compared to an actual exchange rate at that time of about \$a 45,000 per U.S. dollar.

The course of action adopted by the authorities was to offer to provide U.S. dollar-denominated bonds or promissory notes issued by the Government of Argentina in lieu of providing foreign exchange in settlement of these external obligations. These bonds or promissory notes had a grace period of three years and a maturity of five years. Alternatively, the foreign creditor could renegotiate the loan directly with the Argentine private sector borrower, provided that the resultant grace periods and maturities were at least as long as those of the bonds or promissory notes; however, the domestic borrower would not receive the peso equivalent of the difference between the value of the loan at the guaranteed and actual exchange rates.

While this action initially was taken unilaterally by the Argentine authorities, the specific provisions involved, including the rate of interest to be paid, have subsequently been the subject of extensive discussions, and in effect are being negotiated, between the Argentine authorities and representatives of Argentina's foreign bank creditors. However, loans affected by these actions include both bank and nonbank credits.

As a result of these discussions, range of options available to foreign creditors has been expanded. Under one new option, the foreign creditor may elect to refinance the loans covered by exchange rate guarantees by providing a loan to the Government of Argentina on terms, including grace period, maturity, spread and fees, similar to those agreed between the banks and Argentina for the rescheduling of public sector debt.

In the decision concluding the 1982 Article IV consultation with Argentina, the Fund granted approval until July 31, 1983 for the restriction that results from the fact that the sale of exchange is not currently permitted for the repayment of foreign loans for which the domestic borrower obtained an exchange rate guarantee during 1981. The Argentine authorities have now requested that approval be extended to include loans covered by exchange guarantees granted in 1982. Such loans began to mature in April 1983 and the intention is to treat such maturing obligations in a manner identical to that applied to the loans covered by guarantees issued in 1981.

### III. Staff Appraisal

The staff considers that the changes in Argentina's exchange and trade system noted above are not inconsistent with the objectives of Argentina's program. The staff notes that the reduction in rebate rates

that was effected on December 1, 1982 had not been foreseen at the time the program was formulated and that the increase in the range of rebate rates enacted on January 28, 1983 restored the average rebate for exports produced in and shipped through ports located in certain less developed regions of Argentina to approximately the level prevailing at the time the parameters of the program were established. Nevertheless, the increase in rates enacted on January 28 constitutes a modification of the multiple currency practice involved and is subject to paragraph 4(g)(ii) of the stand-by arrangement. The system of export rebates maintained by Argentina is to be a subject of the review of Argentina's exchange and trade system which is scheduled to be completed by July 31, 1983.

The decision not to permit the sale of foreign exchange for the repayment of foreign loans to the Argentine private sector that are covered by an exchange rate guarantee issued by the Central Bank during 1982 constitutes an intensification of a restriction on payments and transfers for current international transactions and is subject to paragraph 4(g)(i) of the stand-by arrangement. This action is an extension of a similar measure adopted with regard to loans carrying an exchange rate guarantee issued during 1981, for which Fund approval has been granted. The staff notes that the terms on options to be offered to foreign creditors under these provisions appear to be in line with recent rescheduling agreements and that interest is to be paid on a current basis.

IV. Proposed Decision

In view of the foregoing and taking into account the forthcoming review of the stand-by arrangement in order to reach understandings between Argentina and the Fund by July 31, 1983 on a schedule for the elimination of existing multiple currency practices and exchange restrictions, the following decision is proposed for adoption by the Executive Board:

1. Argentina has consulted the Fund in accordance with paragraph 5 of the letter dated January 7, 1983 from the Minister of Economy and the President of the Central Bank of the Republic of Argentina attached to the stand-by arrangement for Argentina (EBS/83/8, Supplement 1), and paragraph 4 of the stand-by arrangement.

2. The letter dated May 16, 1983 from the Minister of Economy and the President of the Central Bank of the Republic of Argentina shall be attached to the stand-by arrangement for Argentina, and the letter dated January 7, 1983, attached to the stand-by arrangement, shall be read as modified by the letter of May 16, 1983.

3. Accordingly, subparagraphs (g)(i) and (ii) of the stand-by arrangement shall read:

(i) imposes or intensifies restrictions on payments and transfers for current international transactions other than the extension of the practice described in item 2(d) of Appendix IV of EBS/83/8 to foreign loans for which the domestic borrower obtained an exchange rate guarantee during 1982, or

(ii) introduces or modifies multiple currency practices except as referred to in paragraph 7 of the Memorandum of Understanding annexed to the attached letter dated January 7, 1983, as modified by the attached letter dated May 16, 1983.

4. The Fund grants approval for the retention of the modified exchange practices referred to in 3 above until July 31, 1983.

Mr. J. de Larosière  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Buenos Aires, Argentina  
May 16, 1983

Dear Mr. de Larosière:

We would like to inform you of two changes in the exchange arrangements maintained by Argentina that have been made since January 24, 1983, the date on which the Executive Directors of the Fund concluded the 1982 Article IV consultation with Argentina and approved a stand-by arrangement for Argentina. We consider these measures to be modifications of existing practices and not inconsistent with the objectives of the program supported by the Fund. They are, however, subject to approval by the Fund and involve modification of paragraphs 4(g)(i) and (ii) of the stand-by arrangement for Argentina. These changes are:

1. On January 28, 1983 the rebates granted to exports produced in and shipped through ports located in certain less developed regions of Argentina were increased from a range of 5 to 9 per cent to a range of 8 to 11 per cent.
2. The sale of exchange is not currently being permitted for the repayment of foreign loans for which the domestic borrower obtained an exchange rate guarantee from the Central Bank of Argentina during 1982.

The rebates referred to above are intended to offset the extra costs incurred by exporters in certain regions due to deficiencies in the infrastructure, particularly port facilities, provided by the public sector. It is our intention to remedy these deficiencies as soon as the fiscal situation permits. Prior to December 1, 1982 a uniform rebate of 9 per cent was applied to exports from these regions. Effective December 1, certain measures were introduced to target these rebates more narrowly. Eligibility was limited to goods actually produced in those regions and a tiered system of different rates for different ports was introduced, with the rates set in a range of 5 to 9 per cent. Upon further review it was decided that the overall reduction in rebate rates which had resulted from the December 1 measures was inappropriate, and on January 28, 1983 a range of rebates of 8 to 11 per cent was established.

We intend to extend to loans covered by exchange guarantees granted to the private sector in 1982 the provisions applied to loans covered by similar guarantees granted in 1981. Foreign creditors will be offered the option of accepting a U.S. dollar-denominated bond with three years' grace and five years' total maturity or of renegotiating the loan directly with the private sector borrower on similar terms. Alternatively, the foreign creditor may elect to refinance these amounts on

the same terms as have been agreed for the rescheduling of the foreign bank debt of the Argentine public sector. These measures have been adopted to regularize Argentina's position vis-a-vis its foreign creditors by establishing a schedule of future payments more in line with the nation's expected capacity to effect such payments.

In view of the foregoing, we request Fund approval of these measures until July 31, 1983 and a corresponding modification of the performance criteria in paragraphs 4(g)(i) and (ii) of the stand-by arrangement for Argentina.

Sincerely yours,

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Julio Gonzalez del Solar  
President of the Central Bank  
of the Republic of Argentina

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Jorge Wehbe  
Minister of Economy