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December 15, 1992

To: Members of the Executive Board

From: The Secretary

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

Attached for consideration by the Executive Directors is the staff report for the review and second year program under the extended arrangement for Argentina, which is tentatively scheduled for discussion on Wednesday, December 30, 1992. A draft decision appears on pages 12-15.

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.

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INTERNATIONAL MONETARY FUND

ARGENTINA

Extended Arrangement--Review and Second Year Program

Prepared by the Western Hemisphere, Fiscal, and Policy  
Development and Review Departments

(In consultation with Treasurer's Department)

Approved by S. T. Beza and J. Ferrán

December 14, 1992

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## I. Introduction

In the attached letter and memorandum on economic policy (MEP) dated December 10, 1992 the Argentine authorities describe economic policies for the second year of the extended arrangement 1/ and request the disbursement of SDR 382.8 million of set-asides (including the accumulated set-asides, the set-aside corresponding to the drawing to be made on completion of the current review and advancement of set-asides corresponding to drawings scheduled after February 28 and May 31, 1993) and of SDR 333.9 million (21.7 percent of new quota) of augmentation of the extended arrangement for the purpose of supporting the debt- and-debt-service reduction (DDSR) agreement with commercial bank creditors that was signed on December 6, 1992.

## II. Economic Performance and Background

On the basis of a rapid expansion of aggregate demand, supported by large inflows of capital, in 1992 real GDP growth is now expected to exceed somewhat the 6 1/2 percent projected in the program, and the external current account deficit is projected at US\$6.8 billion or 4.4 percent of GDP, compared with 2.8 percent of GDP in the program. Imports are projected at almost US\$14 billion, an increase of 74 percent over 1991, reflecting the rapid growth of investment and economic activity, reconstitution of stocks, the impact of trade liberalization, and the real appreciation of the peso. Exports are projected at US\$12.8 billion, some 6 percent above the previous year's level. The wider current account deficit in 1992 is more than covered by private capital inflows stemming from privatization, improved confidence, and interest rate differentials. BCRA net international reserves at end-December 1992 are projected to exceed the program target by US\$0.7 billion, with gross reserves reaching US\$10.5 billion, equivalent to nine months of imports.

During the 12 months through November 1992, consumer prices rose by 18 percent (close to 1 1/2 percent a month), while wholesale prices rose by only 2 1/2 percent, reflecting the fixed exchange rate in relation to the U.S. dollar. In October-November 1992, consumer prices rose by less than 1 percent a month and wholesale prices declined (Chart 1). The stock market price index quadrupled from March 1991 to May 1992, but by end-November had declined by over 50 percent from its peak. When the peg to the U.S. dollar

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1/ The arrangement, which is for the period March 31, 1992 through March 1995, is in an amount equivalent to SDR 2,149.25 million (140 percent of new quota), and includes set-asides to support DDSR operations. To date SDR 292.2 million has been drawn and SDR 243.6 million set aside. The most recent review was completed on a lapse of time basis on September 18, 1992 (EBS/92/144). This report was prepared by a staff team consisting of Messrs. Hardy (Head), Gerhaeusser, Guzmán, Muñiz (all WHD), Figliuoli (FAD), and Santos (PDR).

was established in March 1991, the peso was already at a relatively appreciated level by historical standards (Chart 2). Since that time, it has appreciated by about a further 18 percent in real effective terms, as the cumulative increase in consumer prices from March 1991 to November 1992 was in excess of 40 percent. Wholesale prices rose by just 6 1/2 percent during the same period.

The September 1992 quantitative performance criteria of the program were observed with substantial margins (Table 1) and the end-December quantitative targets are expected to be met. Since September there has been no further accumulation of arrears to pensioners and enactment of a satisfactory social security reform law, a structural performance criterion for end-October, is expected to take place before the Board discussion.

In the public finances, stronger than projected collections of VAT and social security contributions and lower interest and capital expenditures during the first three quarters of 1992 were partly offset by higher outlays on wages, pensions, and mandatory transfers of shared revenue to the provinces. The operational surplus of the public enterprises exceeded the program level because of expenditure cutbacks in some enterprises in preparation for privatization. The primary surplus (excluding privatization) of the nonfinancial public sector (NFPS) is projected at 2.2 percent of GDP in 1992 (2 percent in the program), and the overall surplus of the NFPS and BCRA (including privatization) is projected at 0.8 percent of GDP (0.6 percent in the program) (Table 2). The Government's privatization program is progressing well (see paragraph 8 of the MEP), and cash receipts from assets sales will reach programmed levels in 1992. Domestic and external debt is expected to be reduced by Arg\$1.5 billion in 1992 as a result of privatization.

A new revenue sharing arrangement with the provinces (described in EBS/92/144) assigned an additional 15 percent of coparticipated revenue to the Social Security System, which permitted the Government to increase pensions to the legal minimum 1/ as from September 1, 1992, and stop the accumulation of arrears to pensioners which was equivalent to 1 percent of GDP during the first eight months of the year. Legislation for the privatization of the state petroleum company (YPF), estimated to be valued at around US\$8 billion, was passed in September 1992; this legislation provides for the use of 31 percent of the proceeds from the sale of YPF to capitalize or retire debts of the public Social Security System, and of up to 39 percent to retire unpaid central government oil royalties to provincial governments. A central bank law was promulgated in October that establishes its autonomy and sharply restricts its power to extend credit to the Government and banking system.

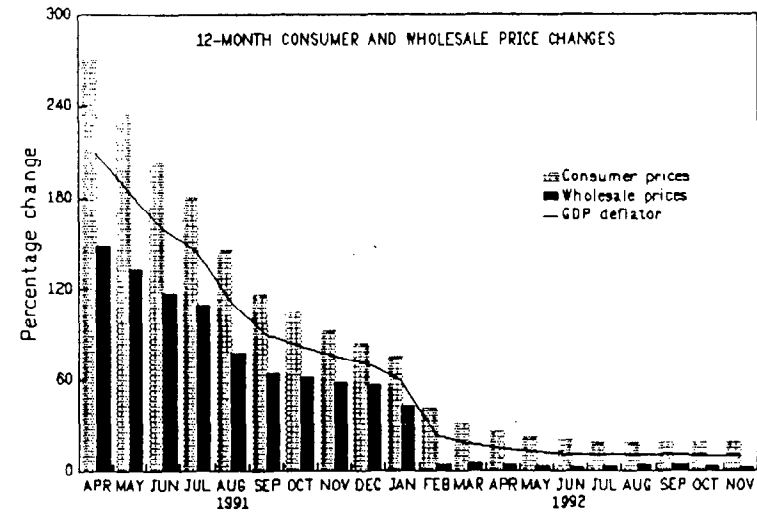
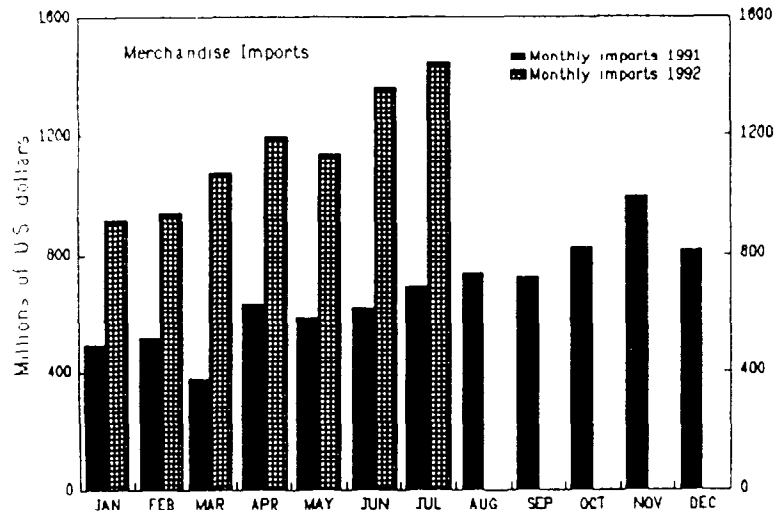
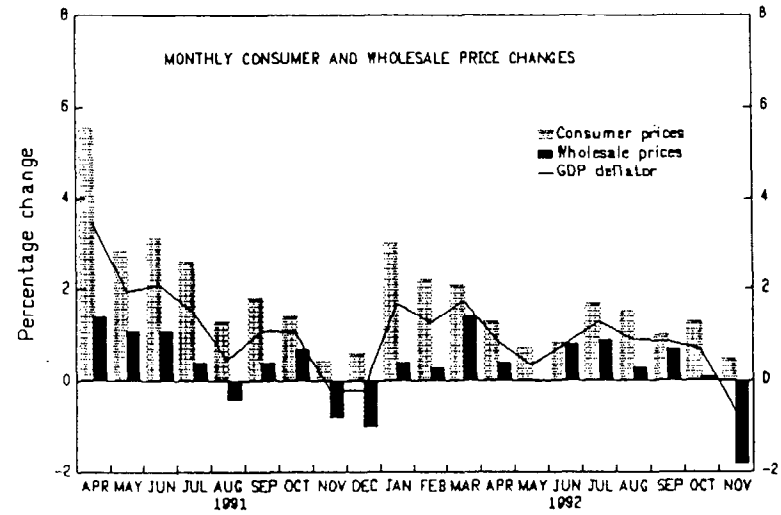
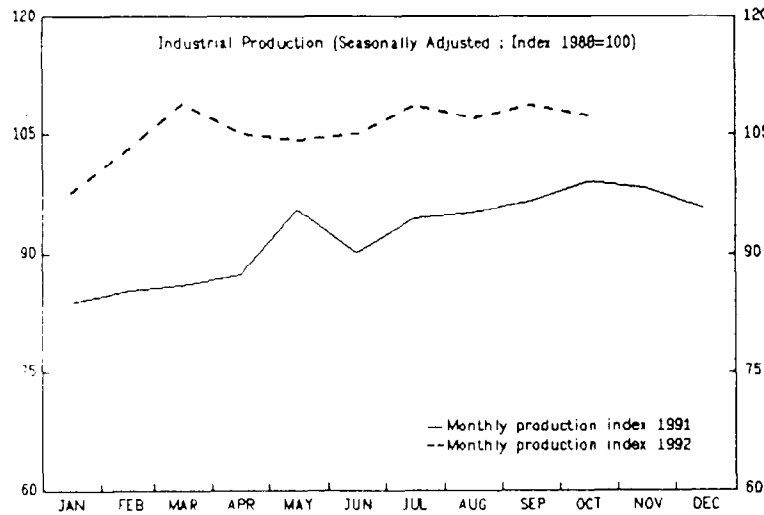
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1/ Average pensions rose by about one third from August to September.

# CHART 1

## ARGENTINA

### SELECTED ECONOMIC INDICATORS

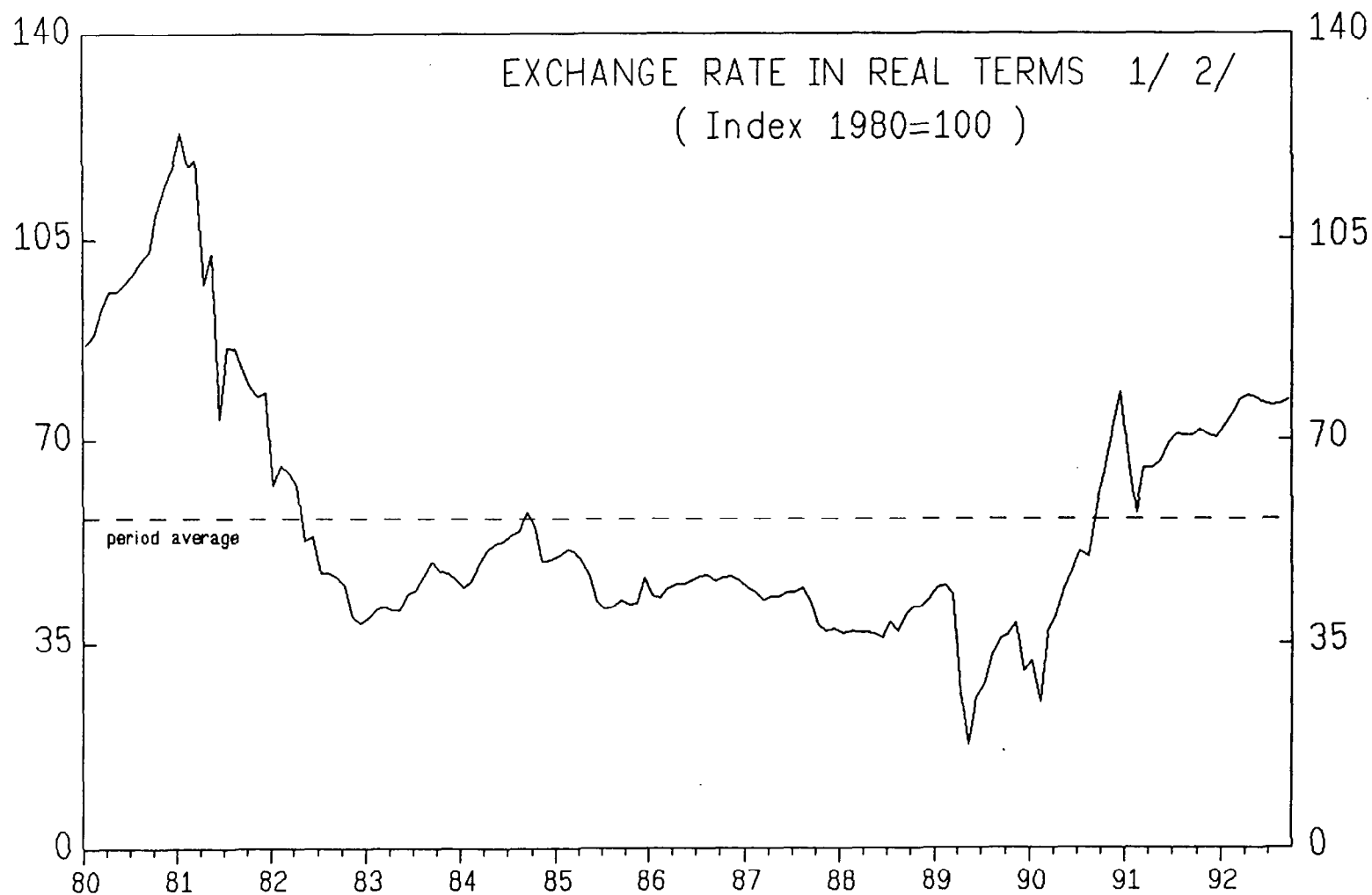


Source: Central Bank of Argentina; and National Institute of Statistics.





CHART 2  
ARGENTINA  
**EXCHANGE RATE DEVELOPMENTS**



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

- 1/ Based on official exchange rate through July 1988 and average of official and free exchange rates thereafter until December 18, 1989 when foreign exchange markets were unified.  
2/ Index is trade weighted and includes nominal exchange rates of major trading partners, deflated by consumer prices; increase means appreciation.



Effective November 1, the import tariff was restructured, reducing the highest tariff from 35 percent to 20 percent and creating a tariff structure consisting of 8 rates compared to 5 rates previously. The reclassification of imports in the new tariff structure resulted in a marginal decline from 11.0 percent to 10.4 percent in the weighted average tariff. At the same time, the statistical tax, which applies to all imports except capital goods not produced domestically, was increased from 3 percent to 10 percent, resulting in an increase of about 6 percentage points in the average tariff including the statistical tax. In line with the modification in the import tariff structure, the system of export rebates was modified to reflect more fully the incidence on exports of certain indirect taxes including taxes on international trade. Export rebates are estimated to be equivalent to about 6 percent of average export value. In addition, existing tax benefits for industrial promotion were scaled back, offsetting lower revenue from the elimination of the 20 percent tax on gas oil, fuel oil, and kerosene (which significantly affects agricultural costs). The net impact of all these measures on the fiscal accounts is expected to be neutral.

In the first three quarters of 1992, M4 (currency and demand, time and savings deposits in both local and foreign currency) grew by more than 50 percent and is projected to rise by 70 percent during the year as a whole. Base money growth was particularly strong early in the year, but slowed thereafter, in part reflecting a shift towards interest bearing deposits of higher maturity which have lower reserve requirements. The BCRA reduced reserve requirements on demand deposits in several steps from 79 percent in March 1992 to 71 percent in October. Interest rates in the interbank market for domestic currency funds remained fairly stable at around 16 percent a year from January through October 1992 and bank lending rates in local currency averaged around 20-25 percent on an annual basis, though with wide variations according to loan types. Interest differentials between Argentina and the United States on U.S. dollar denominated deposits and loans averaged around 5 and 11 percent, respectively, throughout most of 1992.

For the first time in many months, the BCRA was a net seller of foreign exchange in November as capital flows reversed temporarily, and interest rates in the interbank market rose to a peak of 57 percent (annual rate) on November 16. In response to these developments, the authorities announced measures to broaden the convertibility of the peso by allowing checking accounts in U.S. dollars, increasing the gearing ratio for foreign currency deposits, and allowing banks to extend credit in local currency against foreign currency deposits up to a maximum of 25 percent of capital. A plan to allow banks to fulfill part of the reserve requirements in either pesos or dollars also was announced. The interbank rate remained at around 40 percent (annual rate) in the first eleven days of December and there was a substantial reflow of capital, with the BCRA purchasing over US\$700 million in this period.

### III. Policy Discussions and the 1993 Program

#### 1. The 1993 program

The authorities saw the widening of the external current account deficit as mainly linked to the recovery in private investment that in turn was financed by private capital inflows, and therefore not a cause for concern. Demand pressures appeared to be tapering off in their view, as evidenced by the slowing down of capital inflows, domestic sales, inflation, and industrial production. They stressed that inflation, particularly at the wholesale level, remained at levels that are consistent with the fixed exchange rate regime. Moreover, competitiveness was being buttressed by deregulation and tax changes designed to lower costs and reduce tax distortions.

The 1993 program envisages economic growth at 3-4 percent with consumer price inflation decelerating to around 5 1/2 percent (end of period basis). Investment is projected to increase further to 15 1/2 percent of GDP (from 14 1/2 percent in 1992), and domestic savings to strengthen by 1 1/2 percentage points of GDP, with the external current account deficit narrowing to 3.4 percent of GDP (Table 3). To attain these objectives, financial policies aim at promoting domestic savings through restraint on the growth of public expenditure, an increase in the fiscal primary surplus, tax changes, and structural measures, including the social security reform and increased flexibility of labor markets.

#### 2. Fiscal policy

Fiscal policy aims at strengthening the primary balance (excluding privatization receipts) to 2.6 percent of GDP in 1993. This improvement, together with lower external interest payments as a result of the DDSR operation, would raise the combined balance of the NFPS and the BCRA (before privatization receipts) from a deficit of 0.4 percent of GDP in 1992 to a surplus of 0.9 percent of GDP in 1993. Cash proceeds from privatization would total US\$350 million (0.2 percent of GDP) in 1993 and an additional US\$2 billion of public debt is expected to be retired through debt-equity swaps (these projections assume no receipts from the privatization of YPF in 1993). The authorities remain committed to attaining a primary surplus (excluding privatization receipts) of 2 percent of GDP in 1994, notwithstanding the transfer of employee social security contributions (equivalent to about 2.1 percent of GDP) to a new system of capitalized private pension funds in that year (see EBS/92/144 for a description of the social security reform).

The revised fiscal program for 1993-94 should achieve broadly the same effects on savings and financial intermediation as would have been attained under the earlier plan, which assumed that private pension funds would begin operating as from January 1993 on the basis of the transfer of employee social security contributions of employees of 45 years of age or less (estimated at 1.4 percent of GDP). The higher primary surplus would smooth the adjustment to the definitive Social Security System reform that will

transfer all employees' contributions to the private funds as from January 1994. The authorities stressed that in the revised program the fiscal effort over the three year period is equivalent to that in the original program <sup>1/</sup> and that as long as long-term solvency is maintained, it would be more efficient to lower selectively the tax burden in ways that promote private savings and investment, than to generate a primary surplus higher than 2.6 percent of GDP in 1993 and repay more domestic debt.

The fiscal plan for 1993 rests on a further strengthening in tax collections and expenditure restraint. On the revenue side, a moderate increase in the tax ratio over the annualized level of the fourth quarter of 1992 is expected as a result of better collections (the internal revenue service (DGI) is expanding its staff and improving training and technology). Evasion of social security taxes is expected to be reduced with the planned centralization of social security contributions under the Secretariat of Public Revenue, facilitating cross-checking, and improved compliance as a result of the social security reform. Expenditures of the national administration, excluding mandatory transfers of coparticipated revenues to the provinces and to the pensioners' health insurance system (PAMI), are to increase by no more than 7 1/2 percent over the annualized level of the fourth quarter of 1992. (The program includes quarterly ceilings on these expenditures.)

If resources permit, the authorities plan to reduce or eliminate the tax on companies' gross assets and the stamp tax, and to allow a portion of employers' social security contributions to be credited against the VAT in order to reduce labor costs. The Government is also promoting tax reform in the provincial governments to replace a cascading turnover tax and stamp tax with a provincial final sales tax. These measures should help improve the competitiveness of domestic production.

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<sup>1/</sup> The revised program would generate equivalent primary surpluses when adjusted for the one-year delay in setting up the privatized pension funds, as follows:

	(in percent of GDP)		
	<u>1992</u>	<u>1993</u>	<u>1994</u>
Original program	2.0	2.0	2.0
Plus: social security contributions of up-to-45 year old employees	--	1.4	1.4
Less: all employee social security contributions	--	--	<u>-2.1</u>
"Adjusted" program	2.0	3.4	1.3
Revised program	2.2	2.6	2.0

As noted, no provision has been made in the 1993 fiscal program for the possible sale of part of YPF, the timing of which is uncertain. Such proceeds can be utilized for increased investment outlays or indemnization payments, debt reduction, or capitalization of the national Social Security System. The mid-1993 program review will re-examine the implications for the program of the privatization of YPF.

### 3. Monetary policy

The 1993 program foresees a slowdown in the growth in money and credit as remonetization tapers off, with money and quasi-money projected to rise by about 12 percent during 1993 (6 percent in real terms) compared with an estimated 70 percent in 1992 (44 percent in real terms). Average reserve requirements on peso deposits are programmed to decline from 33 percent in the fourth quarter of 1992 to 28 percent in the fourth quarter of 1993 as the Central Bank continues its policy of gradual reserve reductions. Interest rates will remain market determined, although lending rates of the provincial banks may not exceed those of the Banco de la Nación. This is seen by the authorities as a measure to encourage the provincial banks to restructure and lower costs. With the same purpose, provincial banks are being given temporary special facilities to deduct restructuring costs from required reserves, and the policy of gradually raising reserve requirements on their public sector deposits that was suspended in October 1992 is expected to resume in April 1993. The authorities are taking steps to strengthen the Superintendency of Banks and are studying the possibility of accelerating the application of the Basle capital adequacy standards.

### 4. Structural reforms

In addition to the social security reform and the plans for tax reforms at the national and provincial level already noted, the authorities intend to implement reforms to increase labor market and wage flexibility, and to strengthen the publicly financed health insurance system. Measures and programs to foster improvements in financial management and expenditure reductions in the provinces (which employ about 1.3 million persons) also are planned (see paragraph 20 of the MEP).

Of particular importance is the planned introduction of greater flexibility in collective bargaining agreements. During the first half of 1993 the Government plans to introduce measures that would liberalize labor relations in small- and medium-sized firms (to be defined as those with 200 employees or less, which cover around 60 percent of the work force). The measures would allow collective bargaining agreements at the decentralized level to take precedence over sectoral or industrial agreements, allow firms in distress to reduce wages or lay off personnel, facilitate labor mobility, promote the use of temporary employees to reduce youth unemployment, and liberalize restrictions on working hours and vacation periods.

The government also plans to reform the union-run health insurance system ("obras sociales"), which receives some 2.5 percent of GDP from wage taxes. Service under this system is poor and administrative expenditures are high. The reform would open the system to competition by allowing contributors to join the health organization of their choice, and permitting the creation of new health organizations. To the extent that it is successful in improving delivery of services and reducing costs, there may be scope over the longer run to reduce the wage tax.

#### 5. External policies

The fiscal policies being pursued, together with the expected easing of demand pressures, are intended to result in a rapid convergence of domestic inflation to international levels. This, and the structural reforms in progress and planned (especially increased labor market flexibility), are expected to help improve external competitiveness and assure maintenance of the fixed exchange rate peg to the U.S. dollar.

Argentina maintains an open trade regime with low average import duties of around 20 percent, including the statistical tax. In the authorities' view, the recent trade measures offset indirect taxation of exports, reduce the dispersion of import tariffs, and give a very modest respite to domestic producers of tradable goods.

#### 6. Commercial bank financing package

The DDSR agreement signed on December 6, 1992 includes a debt reduction option, a debt service reduction option, and the rescheduling of interest arrears. The debt reduction option involves an exchange of bank claims at a discount of 35 percent for new instruments issued by the Argentine Government, bearing a market-related interest rate (13/16 over LIBOR), and the debt service reduction option involves an exchange at par of bank claims for a new bond issued by the Argentine Government bearing a below market interest rate (rising in increments from 4 percent initially to 6 percent in the seventh year and thereafter). Principal of both bonds will be fully collateralized by 30-year zero-coupon bonds and both will carry a rolling 12-month interest guarantee. As to interest arrears, following a downpayment of US\$0.7 billion, the remainder would be consolidated in a noncollateralized security, bearing market interest rates and repayable over 12 years with a three-year grace period.

Total eligible bank claims are estimated at US\$20.9 billion and interest arrears at US\$8.3 billion. Banks have allocated 65 percent of their exposure to par bonds and 35 percent to discount bonds. The financing plan for the operation is shown in Table 4.

It is proposed that Fund resources amounting to SDR 717 million (approximately US\$1 billion) be made available to support this operation, consisting of set-asides of SDR 383 million (including an acceleration of set-asides of SDR 90 million from purchases scheduled in the first and

second quarters of 1993 based on performance for December 1992 and March 1993) and augmentation of SDR 334 million, equivalent to 21.7 percent of the new quota. Fund financial support is critical in catalyzing other resources needed to undertake the operation. The World Bank is expected to approve a debt reduction loan in early January 1993 which together with set-asides will amount to about US\$700 million, the Inter-American Development Bank is in the process of approving a similar loan package for about US\$475 million, and the Export-Import Bank of Japan has approved an import financing loan of US\$800 million, of which US\$450 million will be made available at the time of closing and used as enhancements. The Argentine contribution to the operation at closing will amount to US\$1.1 billion (US\$0.7 billion after full use of the Eximbank of Japan resources).

Enhancements from the Fund will be used according to guidelines, with set asides used to finance enhancements for the discount bond while augmentation resources will be used to finance both the interest support and the principal collateralization for the par bonds as per the May 29, 1992 modifications to the guidelines.

The DDSR package can be regarded as cost-effective in that its terms are broadly consistent with conditions prevailing in the secondary market for medium-term and long-term claims on Argentina. The net reduction in contractual claims implied by the package is estimated to be equivalent to a buyback at 38 cents on the dollar, compared to a secondary market price of 39 cents prevailing in April 1992 when agreement in principle was reached on the package. The DDSR operation will reduce debt-service obligations by about US\$980 million a year during the remainder of the decade. Implementation of the package will improve the prospects for external viability, access to international capital markets, and the climate for private investment (see also EBS/92/46).

The authorities plan to purchase from the Fund in early January 1993 and would place the proceeds in an escrow account pending purchase of collateral for the operation. Work is proceeding toward reconciliation of amounts of principal and past due interest, and the authorities expect that it will be possible to close that part of the financing package related to the par and discount bond exchanges by early March 1993, or by April 1993 at the latest. The closing related to the treatment of past due interest will take place at a later date once the interest claims are fully reconciled.

#### 7. Medium-term balance of payments outlook

Under the revised medium-term scenario (Table 5), exports are projected to rise by about 6 percent a year in volume from 1993 onwards on the basis of expected demand in partner countries, while imports, after remaining level in 1993, are projected to rise by about 4.8 percent a year in volume. On this basis, and taking account of a lowering of interest payments via the DDSR operation equivalent to 0.4 percentage points of GDP, the current account deficit is projected to narrow to 3.4 percent of GDP in 1993, to



remain at about this level through 1995, and decline steadily thereafter. The projected levelling off of imports in 1993 assumes the end of a buildup of stocks of durable goods that is thought to have boosted imports in 1992.

Gross reserves are projected in line with the growth of money and nominal GDP, thereby maintaining full backing for the monetary base in support of the fixed exchange rate regime. No further Paris Club reschedulings are projected. Overall surpluses of about US\$3 billion a year are projected over the medium term taking into account the amortization of compulsory bonds that are considered part of net international reserves. Net public capital inflows--projected at about US\$2 billion a year--are assumed to match the amortization of these compulsory bonds and of Paris Club obligations; as a result, public external debt would remain level at about US\$57 billion, and decline from 35.4 percent of GDP in 1993 to 17.7 percent in the year 2002.

Substantial private capital inflows are projected on account of direct investment and privatization, rising from US\$1.5 billion in 1993 to about US\$4 billion a year in 1994-96 (when YPF is privatized) before dropping to around US\$2 billion a year thereafter. In addition it is assumed that Argentina will continue to receive substantial amounts of other net private capital inflows to support the expected path of activity and imports, though these would decline steadily from the high level reached in 1992.

A permanent 1 percent deterioration in the terms of trade would require about US\$150 million a year of additional financing or adjustment (0.1 percent of GDP). Similarly, a permanent 1 point increase in LIBOR would deteriorate the current account by 0.3 percent of GDP.

#### IV. Capacity to Repay the Fund

The authorities' demonstrated commitment to the program and their record of timely payments to the Fund indicate that the use of Fund resources is consistent with the need to safeguard the financial integrity of the Fund. If the requested purchases and all remaining purchases under the arrangement are made, Fund exposure to Argentina will peak in 1994 at US\$4.1 billion or 7.1 percent of projected external public debt, equivalent to 2.4 percent of GDP. Repurchases and charges to the Fund will peak at around US\$785 million a year in the year 2000, or 2.5 percent of projected exports of goods and nonfactor services. Given the projections of the balance of payments and external debt, the proposed operation does not appear to pose a major risk for the Fund.

#### V. Performance Criteria and Review Clauses

Quantitative performance criteria similar to those in the 1992 program have been established for 1993 as indicated in paragraphs 12-15 and Table 3 of the MEP (Attachment II). In addition, quarterly ceilings on expenditure of the nonfinancial public sector have been established (Attachment II, Table 2).

A review is to take place before end-March 1993 covering performance under the 1992 program and another before end-June 1993. A further review before end-1993 would establish performance criteria for 1994 and the frequency of future reviews. The reviews will also cover, inter alia, progress in structural reforms. Purchases during the second year of the extended arrangement would be as shown in Table 6.

#### VI. Staff Appraisal

Argentina has continued to make good progress in stabilizing its economy and establishing the basis for sustained growth. Boosted by investment that has been supported in part by large capital inflows, GDP is expanding strongly, while inflation, though still too high, seems to be easing. The quantitative performance criteria of the arrangement through September 1992 have been met and developments thus far in the fourth quarter are consistent with observance of the criteria for end-December. Argentina also has carried through wide-ranging structural reforms in recent years, including large scale privatization, major improvements in the tax system and tax administration, deregulation, liberalization of the trade and payments regime culminating in the adoption of full convertibility with a fixed exchange rate in March 1991 and the re-establishment of relations with external creditors and its creditworthiness. The reform of the Social Security System, approval of which is expected before Board discussion, will be another major step in this process.

The 1993 program is aimed at encouraging domestic saving so as to make room for higher investment while achieving some reduction of the external current account deficit. To help meet this objective, the program targets an increase in the fiscal primary surplus (excluding privatization) to 2.6 percent of GDP based on improvements in tax administration and restraint on expenditure. The latter is of critical importance and will be monitored through quarterly limits on spending. It also is advisable that any tax reduction be based on firm evidence that revenue is on a path higher than that envisaged in the program. The strengthening of the fiscal position in 1993 would smooth the adjustment of the public finances to the shift of employee social security contributions to capitalized private pension funds in 1994. Achievement of these fiscal targets in 1993 and 1994 together with the introduction of the capitalized private pension funds should make an important contribution to strengthening domestic savings.

In the area of monetary policy, the Central Bank should proceed cautiously with reductions in reserve requirements, relating any such changes to developments in inflation and the balance of payments. Also, attention should continue to be focused on strengthening the Superintendency of Banks and the solvency of the financial system, and promoting the restructuring of the provincial banks.

To the extent that the widening of the external current account deficit during 1992 was associated with the recovery of investment financed from abroad, it need not be a cause for undue concern. Nevertheless the deteriorating trend in the current account together with the continued real appreciation of the Argentine peso highlight the critical issue of competitiveness that the authorities have been seeking to address through various measures. The trade measures introduced in November 1992 are intrinsically inefficient and should not be carried further; indeed the statistical tax on imports, which was raised on a temporary basis, should be phased out at an early stage.

Given the fixed exchange rate, safeguarding competitiveness requires a rapid convergence toward international inflation and determined action on structural reforms to lower costs. Thus, the behavior of inflation and trends in the external accounts will need to be watched closely in the coming months to determine whether there is a need to tighten policies, particularly fiscal policy. Moreover, if capital inflows were to taper off, the authorities will need to be prepared to hold the line or even reinforce macroeconomic policies and accept a slowdown in economic activity if necessary.

In the area of structural reform, the deregulation of the labor market is particularly critical. Effective steps to decentralize collective bargaining and reduce restrictions on labor mobility are needed urgently to promote employment and curb costs. The measures proposed by the authorities are important steps, but should be extended also to large firms. Reform of the public health insurance system to reduce costs and improve services to its users also is important. In the public finances, it will be important to make progress in reforming the provincial tax system and in rationalizing employment and improving financial management in the provinces. Progress in implementing these reforms will be monitored closely, including in the program reviews.

The commercial bank package meets the guidelines for Fund support of DDSR operations, namely, that it: (1) be in support of strong economic policies including important elements of structural reform; (2) improve the climate for saving and investment and attract private capital inflows and direct investment; (3) be voluntary, market based, and help the country regain access to credit markets and attain external viability with growth; and (4) represent an efficient use of resources. Fund financial support is helping to catalyze other resources needed to undertake the debt reduction operation.

## 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, shall be annexed to the extended arrangement and the letters dated March 4, 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.

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(d) and 4(e) of the extended arrangement shall read as follows: "(d) After March 31, 1993, and June 30, 1993, until the reviews

contemplated in paragraph 3 of the letter dated December 10, 1992 are completed.

(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.

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 292.374 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 90.388 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 subpara-

graphs (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 1,155.04 million until March 1, 1993, and the equivalent of SDR 1,300.99 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 exchanges, and the amounts referred in subparagraphs (b) and (c) above, for debt operations involving principal reductions.

Table 1. Argentina: Quantitative Performance Criteria,  
January-September 1992

	January-September		
	Adjusted Program	Prel.	Margin Overper- formance (+)
<u>(In millions of pesos)</u>			
Overall deficit (-) or surplus of the nonfinancial public sector	614	1,395	781
Combined deficit (-) or surplus of the nonfinancial public sector and the Central Bank	244	1,089	845
Cumulative change in the net domestic assets of the Central Bank	-25	-356	331
<u>(In millions of U.S. dollars)</u>			
Cumulative change in net international reserves of the Central Bank	-139	1,954	2,093
External arrears of the public sector	--	--	--
External debt of the public sector			
Total outstanding disbursed external debt	62,696	61,893	803
Cumulative net disbursements of short-term debt	700	335	365

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



Table 2. Argentina: Summary of Nonfinancial Public Sector Operations, 1991-94

(In percent of GDP)

	1991	1992		Program	
		Prog.	Proj.	1993	1994
<u>Revenue</u>	<u>22.4</u>	<u>24.5</u>	<u>25.5</u>	<u>27.5</u>	<u>27.2</u>
General government current revenue	21.7	24.3	25.1	26.9 <sup>1/</sup>	27.1
National Administration Taxes	14.0	15.3	15.9	16.8	17.5
Social Security <sup>2/</sup>	6.0	7.5	7.9	8.6	8.1
Nontax revenue	1.8	1.4	1.2	1.5	1.5
Operating surplus of public enterprises	0.5	0.2	0.3	0.5	--
Capital revenue, nonprivatization	0.1	0.1	0.1	0.1	0.1
<u>Expenditure, excluding interest payments</u>	<u>21.7</u>	<u>22.5</u>	<u>23.3</u>	<u>24.9</u>	<u>25.2</u>
National administration wages	3.9	3.3	3.6	3.8	3.8
Goods and services	1.3	1.4	1.6	1.5	1.4
Extrabudgetary outlays, net	0.1	--	--	--	--
Pensions	7.2	7.4	8.2	9.3	9.8
Transfers to provinces	7.2	8.2	8.2	8.3	8.5
Of which: coparticipated revenue	6.1	7.1	7.2	7.3	7.5
Other transfers	0.5	0.6	0.4	0.7	0.7
Capital expenditure	1.5	1.6	1.2	1.3	1.0
<u>Primary balance</u>	<u>2.5</u>	<u>3.2</u>	<u>3.4</u>	<u>2.8</u>	<u>2.6</u>
Excluding privatization	0.7	2.0	2.2	2.6	2.0
Privatization <sup>3/</sup>	1.8	1.2	1.2	0.2	0.6
<u>Interest (accrual basis) <sup>4/</sup></u>	<u>3.7</u>	<u>2.3</u>	<u>2.2</u>	<u>1.8</u>	<u>1.7</u>
<u>Overall balance (NFPS)</u>	<u>-1.2</u>	<u>0.9</u>	<u>1.0</u> <sup>5/</sup>	<u>1.0</u>	<u>0.8</u>
<u>BCRA (quasi-fiscal balance)</u>	<u>-0.6</u>	<u>-0.2</u>	<u>-0.2</u>	<u>0.1</u>	<u>0.1</u>
<u>Overall balance</u>	<u>-1.8</u>	<u>0.6</u>	<u>0.8</u>	<u>1.1</u>	<u>0.9</u>
Net external financing	1.2	0.6	0.2	0.5	0.8
Treasury securities (net)	-1.6	-1.3	1.7	-0.7	-0.9
Other	2.2	--	-2.7	-1.0	-0.9

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

<sup>1/</sup> Excludes Arg\$500 million for the issue of bonds against deferred income tax deductions ("quebrantos"). In case the issuance of such bonds exceeds Arg\$500 million, the excess would be deducted from revenue on a prorated basis in future years.

<sup>2/</sup> Excludes 30 percent of asset sales earmarked for social security.

<sup>3/</sup> Includes 30 percent of asset sales earmarked for social security.

<sup>4/</sup> Excludes interest accrued on consolidation bonds issued to clear arrears to pensioners and suppliers.

<sup>5/</sup> After statistical discrepancy equivalent to -0.2 percent of GDP.

Table 3. Argentina: Savings-Investment Balance

	1991	Proj. 1992	Prog. 1993
<u>(In percent of GDP)</u>			
Gross consumption	86.1	86.9	85.4
Public sector <u>1/</u>	10.9	11.6	11.7
Private sector <u>2/</u>	75.2	75.2	73.7
Gross domestic investment	11.5	14.5	15.5
Public sector <u>1/</u>	1.3	1.1	1.2
Private sector <u>2/</u>	10.2	12.9	14.3
Gross domestic savings	13.9	13.1	14.6
Gross national savings	9.6	10.1	12.2
Public sector <u>1/</u>	-2.1	0.7	2.1
Private sector <u>2/</u>	11.7	9.4	10.1
Current account balance	-1.9	-4.4	-3.4
<u>(Growth in percent)</u>			
<u>Memorandum items:</u>			
Growth of real GDP	5.0	7.0	4.0
Investment (excluding inventory)	39.6	30.2	15.2

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

1/ Includes the National Administration, the public enterprises and the external quasi-fiscal balance of the Central Bank.

2/ Includes provincial governments.

Table 4. Argentina: Structure and Financing of the Commercial Bank Package

(In millions of U.S. dollars)

	Resources Available at Closing		Resources Available After Closing		Total Resources	
	Amount	Percent	Amount	Percent	Amount	Percent
<u>Total cost</u> <sup>1/</sup>	<u>3,747</u>	<u>100.0</u>			<u>3,747</u>	<u>100.0</u>
Downpayment on PDI <sup>2/</sup>	700	18.7			700	18.7
Discount bond	859	22.9			859	22.9
Set-asides	859	22.9			859	22.9
Argentine contribution	--	--			--	--
Par bond	2,188	58.4			2,188	58.4
Augmentation	1,317	35.2			1,317	35.2
Argentine contribution	421	11.2	-350	-9.3	71	1.9
Japan Eximbank	450	12.0	350	9.3	800	21.4
<u>Total financing</u>	<u>3,747</u>	<u>100.0</u>			<u>3,747</u>	<u>100.0</u>
Official support	2,626	70.1	350	9.3	2,976	79.4
Inter-American Development Bank	475	12.7			475	12.7
Set-asides	75	2.0			75	2.0
Augmentation	400	10.7			400	10.7
International Monetary Fund <sup>3/</sup>	1,003	26.8			1,003	26.8
Set-asides	536	14.3			536	14.3
Augmentation	467	12.5			467	12.5
World Bank	698	18.6			698	18.6
Set-asides <sup>4/</sup>	248	6.6			248	6.6
Augmentation	450	12.0			450	12.0
Japan Eximbank	450	12.0	350	9.3	800	21.4
<u>Argentina</u>	<u>1,121</u>	<u>29.9</u>	<u>-350</u>	<u>-9.3</u>	<u>771</u>	<u>20.6</u>

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

<sup>1/</sup> Cost estimate assumes eligible principal of US\$20.94 billion at the time of closure and allocation of 65 percent on the par bond and 35 percent on the discount bond. The calculation assumes a semi-annual yield of the 30-year zero coupon bond used as collateral (including charges) of 7.753 percent.

<sup>2/</sup> Part of the Argentine contribution.

<sup>3/</sup> Fund support includes augmentation of 21.7 percent of new quota equivalent to SDR 333.9 million and set-asides of SDR 382.8 million, including SDR 90.4 million of set-asides on an accelerated basis. The acceleration of set-asides consists of SDR 48.7 million linked to performance through December 1992 (and the program review scheduled in the first quarter of 1993) and SDR 41.7 million linked to performance through March 1993 (and the program review scheduled in the second quarter of 1993). Assumes an exchange rate of SDR 1 = US\$1.4.

<sup>4/</sup> Includes US\$100 million of set-asides accumulated under PERAL II. In addition, upon approval of the FSAL expected in early 1993, up to an additional US\$200 million will also be available in set-asides, with the exact amount subject to a request made by the Argentine authorities. Any remaining amount will be available as part of the first tranche of FSAL.

Table 5. Argentina: Medium-Term Balance of Payments Projections, 1992-2002

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<u>Current account</u>	<u>-6,757</u>	<u>-5,636</u>	<u>-5,929</u>	<u>-6,247</u>	<u>-5,885</u>	<u>-5,273</u>	<u>-4,829</u>	<u>-4,256</u>	<u>-3,507</u>	<u>-2,593</u>	<u>-1,468</u>
Trade balance	-1,138	-463	-117	426	1,116	1,997	2,724	3,564	4,532	5,643	6,917
Exports (FOB)	12,822	13,904	15,210	16,746	18,510	20,518	22,619	24,935	27,489	30,303	33,406
Imports (CIF)	-13,960	-14,367	-15,327	-16,320	-17,394	-18,521	-19,895	-21,371	-22,957	-24,660	-26,490
Nonfactor services	-938	-973	-1,120	-1,205	-1,294	-1,408	-1,529	-1,659	-1,801	-1,954	-2,121
Factor services	-4,632	-4,140	-4,692	-5,468	-5,706	-5,862	-6,025	-6,161	-6,238	-6,282	-6,264
Profits and dividends	-953	-1,228	-1,356	-1,676	-1,936	-2,129	-2,335	-2,555	-2,791	-3,043	-3,314
Interest due	-4,135	-3,392	-3,913	-4,428	-4,470	-4,502	-4,534	-4,531	-4,460	-4,346	-4,158
Interest earnings	456	480	577	636	700	769	843	925	1,013	1,107	1,208
Transfers (net)	-49	-60	--	--	--	--	--	--	--	--	--
<u>Capital account</u>	<u>8,936</u>	<u>9,350</u>	<u>7,762</u>	<u>9,374</u>	<u>9,247</u>	<u>8,427</u>	<u>7,822</u>	<u>7,818</u>	<u>6,305</u>	<u>5,143</u>	<u>3,950</u>
Public	-527	2,546	757	1,604	2,447	2,706	2,167	2,056	1,012	-213	-1,505
Multilaterals (net)	-203	1,866	700	635	630	268	106	-7	-159	-298	-292
Of which: disbursements	230	1,477	300	1,357	2,879	3,471	3,343	4,220	3,588	2,824	1,833
Other	-324	680	57	969	1,817	2,438	2,061	2,063	1,171	84	-1,212
Private	9,463	6,804	7,005	7,769	6,800	5,721	5,655	5,762	5,293	5,356	5,455
Direct investment	2,442	1,179	2,850	3,200	2,600	1,926	2,061	2,205	2,359	2,525	2,701
Of which: privatization	1,941	350	1,600	1,600	800	--	--	--	--	--	--
Other	7,021	5,625	4,155	4,569	4,200	3,795	3,594	3,557	2,934	2,832	2,753
<u>Overall balance</u>	<u>2,179</u>	<u>3,714</u>	<u>1,833</u>	<u>3,127</u>	<u>3,362</u>	<u>3,155</u>	<u>2,993</u>	<u>3,563</u>	<u>2,798</u>	<u>2,549</u>	<u>2,482</u>
Gross reserves	-2,606	-640	-816	-871	-930	-994	-1,110	-1,189	-1,274	-1,364	-1,462
Reserve liabilities	769	1,708	400	-242	-380	-130	-217	-527	-621	-639	-638
IMF	-72	1,670	400	-242	-380	-130	-217	-527	-621	-639	-638
Purchases	1,029	2,055	792	187	--	--	--	--	--	--	--
Repurchases	-1,101	-385	-393	-428	-380	-130	-217	-527	-621	-639	-638
Other liabilities	841	38	--	--	--	--	--	--	--	--	--

Table 5. Argentina: Medium-Term Balance of Payments Projections, 1992-2002 (Concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
(In millions of U.S. dollars)											
<b>Overall balance (continued)</b>											
Exceptional financing	-342	-4,781	-1,417	-2,014	-2,051	-2,031	-1,666	-1,846	-903	-546	-383
Paris Club	334	415	258	-360	-784	-1,127	-936	-1,117	-748	-430	-267
Compulsory bonds	-1,446	-1,420	-1,675	-1,654	-1,267	-904	-729	-729	-155	-116	-116
Arrears (nonreschedulable)	-310	--	--	--	--	--	--	--	--	--	--
DDSR operation	--	-3,747	--	--	--	--	--	--	--	--	--
Other exceptional financing	1,080	-29	--	--	--	--	--	--	--	--	--
<b>Memorandum items</b>											
Private capital inflows											
(including bond repayments)	3,915	3,968	2,457	3,000	3,045	3,091	3,137	3,184	3,232	3,280	3,330
(In percent)											
Current account/GDP	-4.4	-3.4	-3.4	-3.3	-2.9	-2.5	-2.1	-1.7	-1.3	-0.9	-0.5
Goods and nonfactor services/GDP	1.0	1.5	1.7	2.0	2.3	2.7	3.0	3.2	3.5	3.8	4.1
Private capital inflows/GDP	2.6	2.4	1.4	1.6	1.5	1.4	1.4	1.3	1.2	1.2	1.1
Export volume growth	...	6.0	6.0	7.1	6.9	7.1	6.0	6.0	6.0	6.0	6.0
Import volume growth	...	0.5	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Public external debt/GDP <sup>1/</sup>	37.9	35.4	33.0	30.5	28.6	27.0	25.3	23.5	21.8	19.8	17.7
Public external debt/exports <sup>1/</sup>	372.7	345.3	315.4	284.6	258.9	237.1	217.1	196.7	177.6	157.8	137.2
Public debt service/exports <sup>1/</sup>	52.3	40.4	38.6	38.2	37.2	34.3	32.1	34.6	30.2	27.8	25.4
Of which: interest	24.3	17.5	19.5	20.1	18.4	16.9	15.6	14.3	12.8	11.5	10.1
Indicators of Fund credit:											
Fund credit/quota	193.3	343.3	368.4	342.6	304.7	289.5	267.6	220.2	164.4	82.3	38.2
Fund credit/exports	13.8	22.7	22.4	19.0	15.4	13.3	11.2	8.4	5.7	2.6	1.1
Fund credit/reserves	19.8	33.2	33.2	28.9	24.0	21.3	18.3	14.1	9.8	4.6	2.0
Fund credit/total debt	3.7	6.6	7.1	6.7	5.9	5.6	5.1	4.3	3.2	1.6	0.8
Fund obligations/GDP	0.1	0.4	0.4	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.2
Fund obligations/exports	0.8	3.8	3.8	3.7	2.9	1.5	1.7	2.5	2.4	2.2	1.8
Fund obligations/reserves	1.2	5.6	5.6	5.6	4.5	2.5	2.7	4.2	4.2	3.8	3.3
Fund obligations/debt service	1.6	9.5	9.7	9.6	7.8	4.5	5.2	7.2	8.1	7.8	7.3

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

<sup>1/</sup> Excludes foreign currency denominated bonds issued to consolidate domestic arrears.

Table 6. Argentina: Schedule of Purchases During the Second Year of the Extended Arrangement

Scheduled Availability Date	Amount	Conditions Necessary for Purchase <u>1/</u>
After December 30, 1992	862.874 million <u>2/</u>	Observance of quantitative performance criteria as of September 30, 1992, implementation of the social security reform described in the attachment to EBS/92/112, and Executive Board approval of second year program and of a request by Argentina for Fund support of debt-reduction operations agreed between Argentina and its commercial bank creditors on December 6, 1992.
After February 28, 1993	145.950 million	Observance of quantitative performance criteria as of December 31, 1992 and any understandings reached in previous quarterly reviews, and completion of the quarterly program review.
After May 31, 1993	125.213 million	Observance of quantitative performance criteria as of March 31, 1993 and any understandings reached in previous reviews, and completion of the mid-term program review.
After August 31, 1993	166.950 million	Observance of quantitative performance criteria as of June 30, 1993 and any understandings reached in previous reviews.
After November 30, 1993	166.950 million	Observance of quantitative performance criteria as of September 30, 1993 and any understandings reached in previous reviews. The program review will also establish performance criteria for the third program year before end-December 1993.
After February 28, 1994	166.950 million	Observance of quantitative performance criteria as of December 31, 1993 and any understandings reached in previous reviews.

1/ Other than generally applicable conditions under the arrangement and nonquantitative performance criteria, including the performance clauses on the exchange system.

2/ Includes accumulated set-asides, set-asides advanced from purchases scheduled to be made under the arrangement after February 28 and May 31, 1993, and augmentation equivalent to 21.7 percent of Argentina's quota of SDR 1,537.1 million.

Fund Relations with Argentina  
(As of November 30, 1992)

I. Membership Status: Joined September 20, 1956/Article VIII

A. Financial Relations

II.	<u>General Resources Account:</u>	Millions of SDRs	Percent of Quota				
	Quota	1,537.10	100.0				
	Fund holdings of currency	3,130.44	203.7				
III.	<u>SDR Department:</u>	Millions of SDRs	Percent of Allocation				
	Net cumulative allocation	318.37	100.0				
	Holdings	127.31	40.0				
IV.	<u>Outstanding Purchases and Loans:</u>	Millions of SDRs	Percent of Quota				
	Stand-by arrangements	1,242.86	80.9				
	Extended Fund arrangements	292.16	19.0				
	CCFF	58.29	3.8				
V.	<u>Financial Arrangements:</u>						
	<u>Type</u>	<u>Approval Date</u>	<u>Expira- tion Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>		
	Extended	3/31/92	3/30/95	2,149.25	292.16		
	Stand-by	7/29/91	3/31/92	780.00	438.75		
	Stand-by	11/10/89	3/31/91	736.00	506.00		
VI.	<u>Projected Obligations to the Fund</u>	(SDR million; Based on Existing Use of Resources Only):					
		<u>Overdue 11/30/92</u>	<u>Forthcoming</u>				
			<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
	Principal	--	56.7	275.1	289.7	319.3	286.7
	Charges/interest	--	18.9	108.5	91.0	69.0	46.2
	<u>Total</u>	--	<u>75.6</u>	<u>383.6</u>	<u>380.7</u>	<u>388.3</u>	<u>332.9</u>

B. Nonfinancial Relations

VII. Exchange Rate:

On March 27, 1991 a law was passed guaranteeing the full convertibility of the currency at \$10,000 per U.S. dollar. On January 1, 1992 the peso was substituted for the austral at a rate of 1 peso per 10,000 australes. On December 3, 1992 the exchange rate was Arg\$0.99 per U.S. dollar.

VIII. Last Article IV Consultation:

The 1992 Article IV consultation was concluded by the Executive Board on March 31, 1992 (EBM/90/191). Argentina is on the standard 12-month Article IV consultation cycle.

IX. Technical Assistance: 1/

<u>Missions</u>	<u>Purpose</u>	<u>Time of Delivery</u>
FAD	Advice on tax administration	Oct. 1990; Nov. 1990; Jan.-Feb. 1991; April 1991
STA	Advice on money and banking statistics	April 1991
MAE	Review of accounting issues	May 1991
FAD	Advice on tax administration	May 1991; Oct.-Nov. 1991; Feb-March 1992; Dec. 1992
STA	Supervision of long-term expert	March 1992; Oct. 1992
STA	Balance of Payments Statistics	October 1992

Resident Experts

MAE	Advice on money and banking statistics and accounting	Until Oct. 1993
MAE	Advice on monetary policy and managerial issues	For 9 months from July 1992

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1/ From July 1990 onward.

X. Resident Representative

Mr. Carlos Muñiz has been Resident Representative in Buenos Aires since January 1991.



ARGENTINA - Projected Payments to the Fund as at October 31, 1992  
(in millions of SDR's)

	Overdue	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Beyond	Total
<b>. Obligations from Existing Drawings</b>													
1. Principal													
a. Repurchases	-	56.7	275.1	289.7	319.3	286.7	123.6	48.7	48.7	48.7	48.7	47.4	1593.3
b. ESAF/SAF Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-
c. TF Obligations	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Charges and Interest 1/	-	18.9	108.4	90.9	69.0	46.2	30.2	23.1	19.9	16.9	14.0	1.6	439.0
Total Obligations 2/	-	75.6	383.5	380.6	388.3	332.9	153.8	71.8	68.5	65.6	62.7	49.0	2032.4
(percent of quota)	-	6.7	34.4	34.1	34.8	29.9	13.8	6.4	6.1	5.8	5.6	4.4	182.6
<b>. Obligations from Prospective Drawings</b>													
1. Principal													
a. Repurchases	-	-	-	-	-	-	71.9	143.8	143.8	143.8	143.8	215.7	862.9
b. ESAF/SAF Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-
c. TF Obligations	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Charges and Interest 1/	-	-	43.7	55.1	54.0	52.1	50.7	42.9	34.3	25.6	16.9	9.1	384.4
Total Obligations	-	-	43.7	55.1	54.0	52.1	122.6	186.7	178.1	169.4	160.7	224.8	1247.3
(percent of quota)	-	-	3.9	4.9	4.8	4.6	11.0	16.7	15.9	15.2	14.4	20.2	112.0
<b>. Cumulative (Existing and Prospective)</b>													
1. Principal													
a. Repurchases	-	56.7	275.1	289.7	319.3	286.7	195.5	192.5	192.5	192.5	192.5	263.2	2456.2
b. ESAF/SAF Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-
c. TF Obligations	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Charges and Interest 1/	-	18.9	152.1	146.0	123.0	98.2	80.9	66.1	54.1	42.5	30.9	10.7	823.5
Total Obligations 2/	-	75.6	427.3	435.7	442.3	384.9	276.4	258.6	246.6	235.0	223.4	273.9	3279.6
(percent of quota)	-	6.7	38.3	39.1	39.7	34.5	24.8	23.2	22.1	21.1	20.0	24.6	294.6

- 1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for SAF, ESAF and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.  
2/ Overdue obligations (if applicable) will be settled in full at close of business November 1, 1992.

Prepared by Treasurer's Department

Argentina: Relations with the World Bank

Following five years of modest lending activity, World Bank operations in Argentina expanded substantially in the period 1986-88, with gross disbursements averaging some US\$565 million a year. However, in 1989, disbursements fell to US\$316 million, reflecting in part the Government's inability to meet loan conditions under the Second Trade Policy Loan and the Banking Sector Loan. In 1990 and 1991, World Bank disbursements increased to US\$405 million and US\$460 million, respectively, following approval of the second tranche of the Trade Policy Loan and the Public Enterprise and Public Sector Reform Loans.

The Bank is currently pursuing policy-based lending in the areas of Public Enterprise Reform and Public Sector Reform. The Provincial Development Loan (US\$200 million), together with a Water Supply Loan (US\$100 million), were approved by the Bank's Executive Board on December 20, 1990. A Public Enterprise Reform loan (US\$300 million) was approved on February 12, 1991, and made effective in June 1991; a Public Sector Reform Loan (US\$325 million) was approved by the Bank's Executive Board in July 1991. The Bank is also processing a second Public Enterprise Loan and a Financial Sector Adjustment Loan.

Technical support is being provided to the authorities for their privatization program and in the areas of tax administration, control of expenditure at the federal level, customs, and the Central Bank. As regards the privatization program, the Bank is providing technical assistance and financing for displaced workers, and plans to work with the Government in the transport, defense, and electricity sectors in the near future.

Argentina: Financial Relations with the World Bank (Concluded)

(In millions of U.S. dollars)

	Commitments (Net of Can- cellations)	Disbursements	Undisbursed Amount		
I. <u>IBRD Operations (as of September 30, 1992)</u>					
<u>Fully disbursed loans</u>	<u>3,174.9</u>	<u>3,174.9</u>	<u>--</u>		
<u>Loans in process of disbursement</u>					
Agricultural and rural development	140.0	109.1	30.9		
Industry and industrial credit	68.1	63.8	4.3		
Power and hydrocarbon	798.0	124.6	673.4		
Public sector management/reform	697.5	327.9	369.6		
Municipal/provincial development	320.0	195.4	124.6		
Water supply	160.0	25.0	135.0		
Social sector (including housing)	228.0	44.4	183.6		
<u>Total loans</u>	<u>5,586.5</u>	<u>4,065.1</u>	<u>1,521.4</u>		
Repaid <sup>1/</sup>	1,722.1	--	--		
Outstanding	3,864.4	--	--		
II. <u>IFC Operations (as of September 30, 1992)</u>					
	<u>Loans</u>	<u>Equity</u>	<u>Total</u>		
Commitments	654.90	91.47	746.37		
Total held by IFC	350.40	71.87	422.27		
Total undisbursed (IFC only)	40.85	10.05	50.90		
III. <u>IBRD Loan Transactions</u>					
	<u>Actuals</u>				
	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Disbursements	794.7	486.7	315.5	404.5	459.7
Repayments	133.1	187.8	220.7	235.2	321.5
Net lending	661.6	298.9	94.8	169.3	138.2

Source: World Bank.

<sup>1/</sup> Includes repayment to third parties.

## Argentina: Selected Economic Indicators

	1988	1989	1990	1991	Proj. 1992	Rev. Prog. 1993
(Annual percentage change)						
<u>National income and prices</u>						
GDP at constant prices	-5.1	-4.6	0.4	5.0	7.0	4.0
GDP deflator	377.7	3,256.0	1,960.3	141.1	15.9	6.2
Nominal GDP	353.3	3,101.6	1,968.5	153.3	24.0	10.4
Consumer prices						
Average	342.9	3,080.5	2,314.7	171.7	25.0	8.8
End of period	387.5	4,928.6	1,344.5	84.0	17.9	5.5
<u>External sector (U.S. dollar basis)</u>						
Exports, f.o.b.	43.6	4.8	28.9	-2.8	6.2	8.4
Imports, c.i.f.	-8.5	-21.1	-2.9	98.6	73.7	2.9
Export volume	24.2	-1.9	30.2	2.3	7.9	6.0
Import volume	-15.4	-25.0	-6.1	101.4	77.2	0.5
Export prices	16.1	6.9	-0.4	-5.1	3.1	2.3
Import prices	8.6	5.4	2.5	-1.4	--	2.4
Terms of trade (deterioration -)	6.8	1.6	-3.1	-3.8	3.1	-0.1
Real effective exchange rate 1/						
Average (depreciation -)	-8.6	-12.4	32.7	26.6	11.1	...
Year-end (depreciation -)	13.9	-29.4	61.5	-11.3	9.8	...
<u>Money and credit</u>						
Domestic credit (net) 2/	398.2	682.3	410.0	285.8	62.4	14.7
Financial liabilities to private sector	356.5	491.0	429.7	307.5	80.3	10.5
Velocity	4.6	20.6	69.5	5.3	-28.1	0.8
Interest rate (compounded annual rate, interfirm rate)	372.6	4,554.2	2,972.4	70.0	17.4	...
(In percent of GDP)						
<u>Public finances</u>						
Primary balance nonfinancial public sector 3/4/	-1.0	-0.4	2.2	2.4	3.4	2.8
Excluding asset sales	-1.0	-0.7	1.8	0.7	2.2	2.6
Nonfinancial public sector overall balance 4/5/	-6.3	-15.9	-2.3	-1.3	1.0	1.0
Operating losses of Central Bank (-) 4/	-0.7	-5.9	-1.0	-0.6	-0.2	0.1
Combined overall balance of the public sector 4/5/	-7.0	-21.8	-3.3	-1.8	0.8	1.1
<u>National accounts</u>						
Gross investment	12.0	8.7	8.1	11.5	14.5	15.5
Gross national savings	9.5	6.9	9.8	9.6	10.1	12.2
External savings	2.5	1.8	-1.7	1.9	4.4	3.4
<u>External sector</u>						
Current account of balance of payments (deficit -)	-2.5	-1.8	1.7	-1.9	-4.4	-3.4
External debt						
Inclusive of Fund credit	89.8	85.1	62.1	50.7	41.5	37.9
Of which: Fund credit	5.6	4.6	3.0	1.9	1.4	2.2
Debt service 6/	74.4	100.8	76.3	72.1	54.5	44.0
Interest on external debt 6/	41.4	50.3	38.6	35.6	26.6	21.0
(In billions of U.S. dollars)						
Exports	9.2	9.6	12.4	12.0	12.8	13.9
Imports	-5.3	-4.2	-4.1	-8.0	-14.0	-14.4
Current account of balance of payments	-1.6	-1.3	1.8	-2.5	-6.8	-5.6
Capital account of balance of payments	0.2	-5.5	-1.1	2.3	8.9	9.3
Overall balance of payments	-1.4	-6.8	0.7	-0.2	2.2	3.6
Gross official reserves (months of imports) 7/	5.5	2.3	5.5	6.1	9.2	9.3
External payments arrears	2.9	0.5 8/	0.7 8/	0.2 8/	-- 8/	--

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

- 1/ Measured in terms of foreign exchange per unit of local currency.  
2/ Changes in stocks during year relative to liabilities to the private sector at the beginning of the year.  
3/ Includes revenues from assets sales.  
4/ Average of the quarterly ratios to nominal GDP.  
5/ Cash basis, except for interest payments, which are on an accrual basis.  
6/ In percent of exports of goods and nonfactor services.  
7/ Includes holdings of currency and liquid deposits.  
8/ Excludes reschedulable interest arrears to banks.

Argentina: Selected Financial Indicators

(In percent; unless otherwise noted)

	Growth of Monetary Aggregates 1/				Percent of GDP 2/				Monthly Interest Rate 3/	Monthly Inflation Rate 4/	BONEX 89 Market Value 5/	Real Effective Exchange Rate 6/ (1980 = 100)
	Monetary Base	M-1	M-3	Foreign Currency Deposits	Monetary Base	M-1	M-3	Foreign Currency Deposits				
<u>1991</u>												
I	35.8	35.3	33.4	30.0	3.9	3.2	6.4	3.2	13.8	15.7	54.6	63.1
II	37.3	46.8	32.1	20.1	4.0	3.7	6.6	3.2	1.7	2.5	67.5	67.0
III	17.8	22.5	17.8	33.6	4.4	4.2	7.3	3.8	1.6	1.0	73.2	70.8
IV	16.7	19.7	15.8	25.5	5.1	5.0	8.3	4.5	1.5	0.2	79.0	70.9
<u>1992</u>												
I												
Program	6.2	8.3	8.6	11.7	5.7	5.5	9.5	5.1	...	1.8	...	...
Actual	18.6	20.8	19.4	17.2	5.9	5.5	9.3	5.2	1.2	1.6	79.5	74.6
II												
Program	-2.9	1.0	3.0	6.7	5.3	5.0	9.1	4.9	...	0.3	...	...
Actual	14.5	13.5	20.2	11.7	6.3	5.8	10.0	6.0	1.0	0.7	...	...
III												
Program	-2.1	1.8	3.3	5.4	5.0	5.0	9.1	5.0	...	0.3	...	...
Actual	7.0	6.3	10.0	11.7	6.7	6.1	11.3	6.4	1.2	1.0	...	76.3
July	8.2	7.6	5.0	1.8	6.7	6.1	11.1	6.1	1.4	1.3	80.5	76.0
August	-1.6	-2.0	1.5	5.9	6.6	6.0	11.2	6.5	1.2	0.9	80.0	76.0
September	0.5	0.7	3.2	3.7	6.7	6.1	11.6	6.7	1.1	0.9	80.4	76.8
IV												
Program	4.9	9.0	7.2	6.1	5.0	5.4	9.6	5.3	...	0.3	...	...
Actual	11.2	11.5	8.7	6.5	6.6	6.1	11.5	6.6	...	0.2	...	...
October	1.0	1.9	2.1	2.5	6.4	5.9	11.2	6.5	1.2	0.7	79.3	...
November	0.9	1.2	2.1	3.0	6.5	5.9	11.4	6.7	2.2	-0.7	77.7	...
December (proj.)	9.1	8.1	4.2	0.9	7.0	6.4	11.9	6.6	...	0.5	...	...
<u>1993 (proj.)</u>												
I	-2.3	-2.2	0.2	3.4	7.0	6.4	12.1	6.8	...	0.5	...	...
II	3.1	4.8	3.8	1.6	7.0	6.4	12.2	7.0	...	0.5	...	...
III	-0.6	0.4	1.5	3.1	7.4	6.9	13.0	7.5	...	0.5	...	...
IV	3.2	6.1	4.5	3.2	6.5	6.1	11.6	6.8	...	0.5	...	...

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

1/ Growth of the average monetary stock in the quarter or month. M-1 defined as sum of currency in circulation less cash in vaults plus demand deposits. M-3 defined as M-1 plus savings and time deposits.

2/ Average monetary stock in the quarter or month divided by annualized quarterly or monthly GDP.

3/ Interfirm rate, seven-day operations.

4/ Average monthly increase of consumer and wholesale prices.

5/ Percent of face value.

6/ Defined as in the INS.

Ministry of Economy and  
of Public Works and Services  
Buenos Aires, Argentina  
December 10, 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 during 1993 and 1994 in the context of the Extended Arrangement from the Fund that was approved in March 1992. The policies aim 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 requests that the Extended Arrangement be augmented by SDR 333.90 million, equivalent to 21.7 percent of Argentina's quota of SDR 1,537.1 million, in accordance with Fund guidelines, in support of the comprehensive debt and debt-service reduction package signed with Argentina's creditor banks on December 6, 1992. The Government represents that it has a need to purchase the full amount of the augmentation and that, within 120 days from the date of completion of the current review, it will use an amount equivalent to this purchase for interest support and collateralization of principal for the reduced interest par bond exchanges in accordance with the above-mentioned debt and debt-service reduction package. In support of the same package the Government of Argentina also requests that the Fund make available an amount equivalent to SDR 292.37426 million in accumulated set-asides and an amount equivalent to SDR 90.388 million in advanced set-asides from purchases scheduled to be made under the Extended Arrangement after February 28, and May 31, 1993. The Government represents that it needs to purchase these amounts in support of debt operations involving principal reductions and that within 120 days from the date of completion of the current review an amount equivalent to the purchase will be used for these purposes. The Government also requests discontinuance of the setting aside of amounts for debt reduction with respect to the purchases scheduled to become available under the Extended Arrangement after August 31, 1993.

3. The Government of Argentina believes that the policies described in the attached memorandum are adequate to achieve the objectives of the program but will take any additional measures that may be appropriate for this purpose. During the remaining period of the arrangement the Government 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 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 completing arrangements with the commercial banks consistent with the financing requirements of the program, before March 31, 1993 and June 30, 1993 at which time the frequency of further program reviews for the remainder of 1993 will be established. In any event, the Government will undertake a general review with the Fund before December 31, 1993, in order to establish suitable performance criteria for 1994 and the frequency of program reviews during the third year of the arrangement.

Sincerely,

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

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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 program of economic adjustment and structural change, which aims at reducing inflation to international levels, achieving sustained economic growth, restoring external viability, and freeing the economy from the constraints of decades of excessive state intervention. Key policies to achieve these objectives include: a fiscal stance consistent with low inflation and fiscal solvency; a monetary policy constrained by the discipline of a fixed exchange rate and the Convertibility Law of March 1991; a wide range of structural reforms; and regularization of the country's internal and external debt situation.

Performance during 1992

2. During 1992 domestic demand and output expanded strongly as both private consumption and investment have grown rapidly. Improved confidence contributed to substantial capital inflows, which led to an increase in aggregate demand relative to output. As a result, the trade balance shifted from a surplus of US\$4.0 billion in 1991 to a deficit estimated at US\$1.1 billion in 1992, and the current account deficit increased from the equivalent of 1.9 percent of GDP in 1991 to an estimated 4.4 percent of GDP in 1992. At the same time, inflation has continued to decline. During the 12 months ending in November 1992, the average of the increase in consumer and wholesale prices was 10.4 percent, which was about as programmed.

3. The public finances strengthened in 1992, as nonfinancial public sector (NFPS) revenues (excluding privatization proceeds) rose from 22.4 percent of GDP in 1991 to a projected 25.5 percent of GDP in 1992 (Table 1), reflecting the increase in the VAT rate of March 1992, the rapid expansion of private demand, and the continued improvement in tax and social security administration. Noninterest expenditure rose from 21.7 percent of GDP in 1991 to a projected 23.3 percent in 1992 mainly because of increased automatic transfers to the provinces under the revenue sharing arrangement, and pension increases granted in September to bring benefits to mandated levels and halt the accumulation of pension arrears, as part of the programmed reforms to the pension system. The primary surplus (excluding privatization proceeds) of the NFPS is projected to reach 2.2 percent of GDP in 1992 compared with 2 percent targeted in the program, and the overall balance, including cash privatization proceeds and the quasi-fiscal surplus of the Central Bank (BCRA), is projected to show a surplus of 0.8 percent of GDP compared with a target of 0.6 percent of GDP.

4. The strong growth of coparticipated revenues enabled the provinces to reduce their overall deficit from a preliminary estimate of 1.1 percent of GDP in 1991 to an estimated 0.4 percent of GDP in 1992, even though early in the year the Government transferred to the provinces expenditure (mainly for health and education) equivalent to 0.7 percent of GDP, and in August negotiated a new revenue sharing agreement which earmarks 15 percent of coparticipated revenue to the social security system to finance the increase in pension benefits.



5. Although the ceilings on the net domestic assets of the Central Bank were observed through September 1992 with significant margins, overall monetary and credit expansion was stronger than envisaged, as improved confidence and interest rate differentials contributed to substantial capital inflows and rapid remonetization. In these circumstances, the Central Bank lowered average reserve requirements at a slower pace than originally envisaged. Interest rates declined in line with inflation but, due to high bank intermediation costs, peso loan rates remained highly positive in real terms. Private capital inflows were particularly strong in the first three quarters of the year, and as a result, the targets for the net international reserves of the Central Bank through September were exceeded by large margins.

6. Structural reforms advanced in a number of areas. The tax system was streamlined further and distortions were reduced with the elimination of the tax on bank transactions and the reduction in the gross assets tax and the broadening of the value added tax to include freight transportation and the financial sector. Deregulation was extended with the elimination of a number of regulatory agencies, the deregulation of port activities, professional services, mining, freight, and certain passenger transportation, and greater liberalization of automobile and pharmaceutical imports. In the financial sector, Congress approved in September a new Central Bank Law that guarantees the institutional autonomy of the Central Bank and limits its lending to the Government and the banking system.

7. The reform of the Social Security System, which is expected to be approved by Congress before the end of 1992, will create a capitalized private system funded by existing and future workers' contributions. Existing contributors at the time of enactment of the reform will be eligible to receive from the state system both a basic pension and a complementary pension related to their years of contribution. At the same time, the pensionable base is to be lowered from the average real wage of the best 3 years among the last ten prior to retirement to the average of the last ten years, and the retirement age will be raised gradually to 65 years from the present levels of 60 and 55 years, respectively, for men and women.

8. The process of privatization advanced at a rapid pace in 1992. The Greater Buenos Aires Electricity Company (SEGBA), the steel mill (SOMISA), Gas del Estado, and two thermal plants of the Water and Electricity Company (AyEE) have been privatized, along with two other enterprises owned by the Ministry of Defense. Long-term leases for the water works (Obras Sanitarias) will have been awarded before the end of the year. Almost all railroad freight and passenger lines have now been leased on a long-term basis as leases were signed for nine railroad freight and passenger lines in 1992. Also, the Port Authority transferred 20 ports to the provinces, and the state oil company (YPF) sold exploitation rights to three major fields and a refinery. A law was passed for the privatization of YPF during the period 1993-95, and Congress authorized the privatization of the Caja Nacional de Ahorro y Seguros (National Savings Bank). The National Housing Bank (BHN) has been restructured and is now a wholesale mortgage bank while

the Industrial Bank (BANADE) has been liquidated and its portfolio transferred to Banco de la Nación.

9. Reflecting the ongoing restructuring of the public sector, employment in the National Administration declined by 303,000 between April 1990 and end 1992, of which 180,000 were transferred to the provinces, and in the public enterprises, employment declined by 184,000 during the same period. Thus, excluding personnel transferred to the provinces, the absolute reduction was 307,000. In addition, employment in the official banks has been reduced by about 10,000. At the same time, public sector pay scales are being restructured to ensure adequate remuneration of key personnel. The new Law of Financial Administration and Control of the Public Sector will take effect as from January 1, 1993. With the application of this law, the programming, execution and evaluation of public sector activities will be made more transparent and systematic.

10. The process of regularization of the public debt is advancing. External arrears not related to the agreement with foreign commercial banks were eliminated by mid-1992 and in July Paris Club creditors rescheduled US\$2.7 billion of maturities falling due from July 1992 through March 1995. On December 6, 1992 an agreement was signed with foreign commercial bank creditors on a comprehensive debt and debt-service reduction package covering the estimated US\$31 billion of medium- and long-term debt to commercial banks, including US\$8 billion of interest arrears; the agreement is to be made effective by end-March 1993. Argentina will make a downpayment of US\$0.7 billion on interest arrears and the rest will be refinanced through the issuance of 12-year noncollateralized bonds. Sixty-five percent of debt principal will be exchanged for par bonds with below-market interest rates and the remainder for discount bonds at a 35 percent discount. In both cases the principal is to be fully collateralized by a zero-coupon bond, and there will be a one-year rolling guarantee on the interest. It is expected that US\$3.0 billion of collateral for the operation will be provided by the IMF, World Bank, IDB and the Japan Ex-Im Bank. The debt relief resulting from these agreements is in line with the program's assumptions and will help restore external viability.

11. The Government is consolidating domestic arrears with the private sector other than pensioners outstanding as of March 31, 1991, estimated at Arg\$9 billion, as well as arrears with pensioners incurred up to August 1992, estimated at Arg\$9.5 billion. The Government also is in the process of consolidating outstanding claims on and liabilities with provincial governments, which would result in an additional issue of domestic debt estimated at around Arg\$ 4 billion. The expected debt servicing costs of these operations, together with the expected proceeds of privatization of YPF, have been taken into account in the evaluation of the solvency of the public sector over the medium term.

Objectives and Policies for 1993

12. Within the framework of the program, specific objectives for 1993 are to sustain economic growth of around 4 percent, to reduce inflation to about 6 percent <sup>1/</sup> and to lower the external current account deficit to 3.4 percent of GDP. Priority will be given to measures aimed at strengthening domestic savings, promoting investment, improving economic efficiency and external competitiveness, and enhancing the flexibility of the economy through structural reforms. Achievement of these objectives is expected to require an increase in domestic savings of some 1.5 percentage points of GDP to sustain higher investment while reducing the external current account deficit. In line with this goal, fiscal policy in 1993 will aim to achieve a primary surplus, excluding privatization proceeds of the NFPS of Arg\$4.4 billion or 2.6 percent of GDP, in line with the target of increasing the savings of the public sector (excluding the provinces) from 0.7 percent of GDP in 1992 to 2.1 percent of GDP in 1993. For 1994, fiscal policy will aim at a primary surplus, excluding privatization proceeds, of 2 percent of GDP, notwithstanding the transfer of workers' social security contributions to the newly-created capitalized private pension funds (see Table 1).

13. The revenue projections for 1993 assume a moderate increase in tax collections relative to the level of the fourth quarter of 1992, based on further improvements in the auditing capacity and operating efficiency of the internal revenue service (DGI). An improvement in collections of wage taxes, which are subject to substantial evasion, also is expected following the centralization of their collection at the Secretariat of Public Revenue in 1993. All in all, public sector revenues are projected to increase from 25.5 percent of GDP in 1992 to 27.5 percent of GDP in 1993.

14. Noninterest expenditure of the NFPS is projected to rise from 23.3 percent of GDP in 1992 to 24.9 percent of GDP in 1993 mainly reflecting higher outlays as a result of the full payment of mandatory pensions and a restructuring of pay scales of certain public employees mentioned earlier. The Government intends to restrict the growth of expenditure and for this purpose noninterest expenditures, excluding mandated transfers of coparticipated revenues and other earmarked funds to the provinces and PAMI (the health insurance system of pensioners), will be allowed to rise by no more than 7.6 percent in nominal terms over the annualized level of the last quarter of 1992 (Table 2).

15. Monetary policy will continue to be constrained by the convertibility regime. The Central Bank will not extend credit to the Government except for the utilization, in the framework of the debt reduction operation with foreign banks, of treasury deposits accumulated during 1991 and 1992 and the on-lending of loans obtained to support this operation. Broad money (including foreign currency deposits) is projected to rise by about 12 percent in 1993 (5 1/2 percent in real terms) as against an estimated 70 percent in 1992. The net domestic assets of the Central Bank are projected to

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<sup>1/</sup> Combined index of retail and wholesale prices.

decline by Arg\$1 billion in 1993 (Table 3). As in 1992, open-market operations will be limited to smoothing seasonal liquidity needs. The Central Bank will continue to reduce reserve requirements gradually in a manner compatible with the program's objectives.

16. In the area of tax reform the Government's objective is to further simplify and rationalize the tax system as resources permit, so as to improve economic efficiency, lower costs and strengthen external competitiveness. In line with these objectives, the Government eliminated taxes on diesel fuel as of November 18, 1992 and will eliminate the tax on natural gas as of January 1, 1993. In October 1992, the Government took measures to reduce and rationalize import tariffs and industrial promotion subsidies, increased temporarily the statistical tax on imports and modified export rebates to better reflect the incidence on exports of certain indirect taxes. The Government is promoting a tax reform in the provinces that seeks to eliminate provincial taxes on electricity and gas, the provincial stamp tax, and the provincial turnover tax and to replace them with a sales tax. The provincial tax reform will be carried out in a manner compatible with the maintenance of the provinces' financial stability. Also in 1993, if resources permit, the Government will seek to reduce labor costs by allowing firms to credit part of the payroll tax against their VAT tax liabilities, so as to reduce costs.

17. The Government plans to introduce legislation to give workers freedom of choice in designating which of the health insurance and medical assistance programs ("Obras Sociales") they wish to affiliate with. This action is expected to result in improved efficiency in achieving health and related services.

18. To reduce the rigidities affecting the labor market, the Government expects that measures will be introduced during the first half of 1993 that would allow for the effective decentralization of collective bargaining, liberalize temporary contracting, allow for flexible working hours, standardize indemnization costs, and provide for the modification of collective agreements under emergency situations in medium and small enterprises.

19. The Government will continue to promote structural reform and competition in the financial system, and seek to improve the solvency of the system. Interest rates will remain market-determined. The Superintendency of Banks will be strengthened in 1993 and will carry out inspections of all major banks, including the main provincial banks. In late 1991, the Central Bank established new capital requirements in accordance with the Basle capital-adequacy standards, with achievement of these standards to be attained gradually by 1996. This timetable could be accelerated on the basis of a review to be undertaken early in 1993 with official technical assistance from abroad, so as to enhance the solvency of financial institutions. Reserve requirements on public sector demand deposits in provincial banks will be raised gradually until parity is reached with those applying to commercial bank demand deposits. Provincial banks with high levels of nonperforming assets or inadequate capitalization will be required to restructure or close down. The Banco de la Nación will submit its monthly

balance sheet to the Superintendency of Banks within 60 days of the end of each month during the first half of the year, and within 45 days in the second half. The Central Bank will present its end-1992 balance sheet to external auditors before end-March 1993.

20. The Government will continue promoting financial and structural reforms in the provinces. The new revenue sharing agreement sets a 10 percent limit on the growth of provincial current expenditure relative to 1992, and binds the provinces to achieve fiscal equilibrium on a commitment-basis in 1993. In the context of the regularization of provinces' claims on the Treasury, and of programs supported by the World Bank, the Government will require concrete steps for the rationalization of provincial employment and expenditure.

21. The privatization program in 1993 will include the sale of the electricity company Hidronor, the hydroelectric plants of the Water and Electricity company, 35 percent of the stock of the Post Office (ENCOTESA) and most of the remaining enterprises of the Ministry of Defense. The privatization of YPF will take place in stages: initially, the Government will retain 51 percent of YPF's shares and up to 39 percent will be offered to the provinces to discharge outstanding royalty claims, while the remainder will be offered to employees of the enterprise. The Government intends to sell 31 percent of its shares gradually over a period of three years and has earmarked the proceeds to capitalize the official Social Security System.

22. The Government believes that the monetary and fiscal discipline imposed by the Convertibility Law has been instrumental in restoring confidence and promoting structural change in the economy. At same time, the competitiveness of exporters has been bolstered as a result of structural reforms, including the abolition of marketing boards and the deregulation of ports and transportation. The additional structural reforms planned for 1993 will strengthen external competitiveness and reduce costs. These reforms, and the expected increase in private investment, together with the expected rapid convergence of domestic inflation to international levels, should allow exports and GDP to grow at a sustainable rate on the basis of the existing fixed exchange rate.

Table 1. Argentina: Summary of Nonfinancial Public Sector Operations, 1992-94

(In millions of pesos)

	1992								1993							
	QI		QII		QIII		QIV		Year		Program				Program	
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.	QI	QII	QIII	QIV	1993	1994
<b>Revenue</b>	<b>8,800</b>	<b>9,032</b>	<b>8,723</b>	<b>9,238</b>	<b>9,890</b>	<b>10,451</b>	<b>10,067</b>	<b>10,220</b>	<b>37,479</b>	<b>38,940</b>	<b>10,914</b>	<b>11,507</b>	<b>12,047</b>	<b>11,784</b>	<b>46,252</b>	<b>49,397</b>
General government current revenue	8,653	8,845	8,891	9,022	9,676	10,282	9,898	10,200	37,119	38,349	10,762	11,255	11,718	11,500	45,235	49,242
National administration taxes	5,372	5,476	5,789	5,936	5,974	6,409	6,261	6,583	23,396	24,404	6,485	7,210	7,227	7,358	28,279	31,828
Of which: Central Administration 1/	4,772	4,864	5,185	5,332	5,361	5,794	5,643	5,968	20,961	21,959	6,284	7,019	7,023	7,163	27,488	30,969
Coparticipated	4,273	4,355	4,618	4,749	4,800	5,160	5,120	5,416	18,811	19,679	5,534	6,166	6,173	6,324	24,198	27,752
Noncoparticipated	500	509	568	583	560	634	523	553	2,150	2,280	750	852	850	839	3,291	3,217
Other	599	611	604	604	613	615	618	615	2,435	2,445	201	191	204	195	791	859
Social Security 2/	2,676	2,785	2,584	2,625	3,176	3,457	3,103	3,206	11,539	12,073	3,666	3,427	3,867	3,521	14,481	14,669
Nontax revenue	606	585	518	461	526	416	534	411	2,184	1,873	611	618	625	622	2,475	2,745
Operating surplus of public enterprises	117	157	-198	195	184	139	138	-8	241	484	92	207	287	241	827	-24
Revenue	2,751	2,492	2,438	2,290	2,334	2,447	1,843	2,000	9,364	9,229	1,255	1,185	1,277	1,177	4,893	540
Expenditure	2,633	2,335	2,636	2,095	2,150	2,308	1,705	2,008	9,124	8,745	1,163	978	990	936	4,066	564
Of which: wages	701	734	757	737	536	860	470	769	2,464	3,099	910	910	910	910	3,641	769
Capital revenue, nonprivatization	29	29	30	20	30	30	31	28	120	107	61	45	42	42	190	179
<b>Expenditure, excluding interest payments</b>	<b>8,074</b>	<b>8,188</b>	<b>8,183</b>	<b>8,450</b>	<b>9,200</b>	<b>9,234</b>	<b>9,021</b>	<b>9,734</b>	<b>34,478</b>	<b>35,626</b>	<b>9,958</b>	<b>10,239</b>	<b>10,902</b>	<b>10,751</b>	<b>41,850</b>	<b>43,728</b>
National administration wages	1,446	1,375	1,146	1,350	1,328	1,440	1,140	1,362	5,061	5,527	1,605	1,475	1,774	1,578	6,431	6,946
Of which: wages in the decentralized agencies	118	118	75	105	89	112	74	118	357	453	267	271	331	307	1,176	1,270
Goods and services	506	506	529	643	559	592	575	708	2,169	2,448	581	616	630	645	2,471	2,604
Extrabudgetary outlays, net	--	26	--	--	--	26	--	3	--	54	--	--	--	--	--	--
Pensions	2,833	2,985	2,613	2,685	2,997	3,232	2,917	3,694	11,360	12,596	3,717	3,612	4,218	4,053	15,600	17,762
Transfers to provinces	2,650	2,800	3,022	3,136	3,339	3,401	3,545	3,271	12,556	12,608	3,334	3,651	3,428	3,587	13,999	15,386
Of which: coparticipated revenue	2,315	2,443	2,629	2,743	2,849	2,975	3,046	2,850	10,839	11,010	2,956	3,172	3,045	3,078	12,251	13,569
Other transfers	142	107	198	140	272	116	269	194	881	557	260	354	295	298	1,207	1,254
Capital expenditure	497	391	675	496	705	447	575	503	2,451	1,836	462	532	558	590	2,142	1,776
<b>Primary current balance</b>	<b>1,194</b>	<b>1,205</b>	<b>1,185</b>	<b>1,263</b>	<b>1,364</b>	<b>1,614</b>	<b>1,390</b>	<b>961</b>	<b>5,333</b>	<b>5,043</b>	<b>1,357</b>	<b>1,755</b>	<b>1,662</b>	<b>1,581</b>	<b>6,354</b>	<b>5,266</b>
<b>Primary balance excluding privatizations</b>	<b>726</b>	<b>844</b>	<b>540</b>	<b>788</b>	<b>690</b>	<b>1,197</b>	<b>1,046</b>	<b>486</b>	<b>3,002</b>	<b>3,314</b>	<b>956</b>	<b>1,268</b>	<b>1,145</b>	<b>1,034</b>	<b>4,402</b>	<b>3,669</b>
<b>Privatizations 3/</b>	<b>602</b>	<b>969</b>	<b>475</b>	<b>199</b>	<b>329</b>	<b>133</b>	<b>459</b>	<b>565</b>	<b>1,865</b>	<b>1,866</b>	<b>326</b>	<b>24</b>	<b>--</b>	<b>--</b>	<b>350</b>	<b>1,000</b>
<b>Primary balance</b>	<b>1,328</b>	<b>1,813</b>	<b>1,015</b>	<b>987</b>	<b>1,019</b>	<b>1,330</b>	<b>1,505</b>	<b>1,051</b>	<b>4,867</b>	<b>5,180</b>	<b>1,282</b>	<b>1,292</b>	<b>1,145</b>	<b>1,034</b>	<b>4,752</b>	<b>4,669</b>

1/ Excludes from 1993 revenues Arg\$500 million (Arg\$50 million, Arg\$150 million, Arg\$100 million, and Arg\$200 million, respectively, in the first, second, third, and fourth quarters) for the issue of "quebranto" bonds as counterpart to receipts classified as corporate income tax collections. In case the issuance of such bonds exceeds Arg\$500 million, the excess would be deducted from revenue on a prorated basis.

2/ Excludes 30 percent of asset sales earmarked for social security.

3/ Includes 30 percent of asset sales earmarked for social security.

Table 1. Argentina: Summary of Nonfinancial Public Sector Operations, 1992-94 (continued)

(In millions of pesos)

	1992										1993				Program	
	QI		QII		QIII		QIV		Year		Program				1993	1994
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.	QI	QII	QIII	QIV		
Primary balance, nonfinancial public sector	1,328	1,813	1,015	987	1,019	1,330	1,505	1,051	4,867	5,180	1,282	1,292	1,145	1,034	4,752	4,669
Excluding privatizations	726	844	540	788	690	1,197	1,046	486	3,002	3,314	956	1,268	1,145	1,034	4,402	3,669
Privatizations	602	969	475	199	329	133	459	565	1,865	1,866	326	24	--	--	350	1,000
Statistical discrepancy	...	-124	...	-157	...	-38	...	...	...	-319	...	...	...	...	...	...
Interest payments nonfinancial public sector, accrual basis	873	832	1,020	890	697	694	970	904	3,560	3,319	761	613	733	893	3,000	3,166
External	785	727	948	810	628	615	903	827	3,264	2,979	657	528	655	827	2,667	3,047
Domestic	88	105	72	80	69	79	67	77	296	340	104	85	78	66	333	119
Nonfinancial public sector overall balance	455	856	-5	-59	321	598	535	147	1,306	1,542	521	679	412	141	1,752	1,503
Balance on quasi-fiscal operations (excluding SOMISA and official banks)	-224	-216	17	22	-156	-111	28	16	-335	-289	19	53	30	59	161	202
Interest earned	105	92	106	104	113	109	118	90	442	395	96	101	109	114	420	561
Interest payments (accrual)	329	308	89	82	269	220	90	74	777	684	77	48	79	55	259	359
Overall balance of public sector	231	640	12	-37	165	487	563	163	971	1,253	540	732	442	200	1,913	1,705
Net external financing	211	-201	248	-17	109	121	392	345	960	248	-589	328	604	581	924	1,506
Interest not paid	551	401	495	353	57	181	198	245	1,301	1,180	57	104	31	36	228	122
Net disbursements	-340	-602	-247	-370	52	-60	194	100	-341	-932	3,101	224	573	545	4,443	1,384
Disbursements	341	42	426	243	515	543	473	584	1,755	1,412	3,573	613	889	1,390	6,465	2,394
Amortization	-681	-644	-673	-613	-463	-603	-279	-484	-2,096	-2,344	-472	-389	-316	-845	-2,022	-1,010
Payments and guarantees for Brady operation											-3,747	--	--	--	-3,747	--
Treasury securities (net)	-442	68	-260	2,296	-275	1,152	-955	-911	-1,932	2,604	-157	-81	-311	-646	-1,195	-1,633
Amortization	-734	-587	-307	-194	-441	-280	-987	-961	-2,469	-2,022	-207	-231	-411	-846	-1,695	-1,633
Of which: BONEX	-402	-361	--	-34	-124	-68	-668	-794	-1,194	-1,257	--	--	-85	-553	-638	-646
Disbursements	292	654	47	2,490	166	1,431	32	50	537	4,626	50	150	100	200	500	--
Other financing 1/	--	-507	--	-2,242	1	-1,760	--	403	1	-4,105	206	-979	-735	-135	-1,642	-1,578
Memorandum item																
Capitalized interest on BOCONs	122	...	122	...	122	...	122	...	488	...	85	90	98	102	375	636

1/ Includes payments through September 1992 to reduce arrears to pensioners and suppliers outstanding at end-March 1991.

Table 1. Argentina: Summary of Nonfinancial Public Sector Operations, 1992-94 (continued)

(In percent of GDP)

	1992										1993				Program	
	QI		QII		QIII		QIV		Year		Program				Program	
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.	QI	QII	QIII	QIV	1993	1994
<b>Revenue</b>	<b>23.1</b>	<b>23.7</b>	<b>22.7</b>	<b>24.0</b>	<b>23.0</b>	<b>26.4</b>	<b>23.3</b>	<b>23.7</b>	<b>24.5</b>	<b>25.5</b>	<b>26.6</b>	<b>27.7</b>	<b>30.1</b>	<b>25.8</b>	<b>27.5</b>	<b>27.2</b>
General government current revenue	24.7	25.2	23.1	23.4	24.4	26.0	24.9	25.6	24.3	25.1	26.2	27.1	29.2	25.2	26.9	27.1
National Administration Taxes	15.3	15.6	15.0	15.4	15.1	16.2	15.7	16.5	15.3	15.9	15.8	17.3	18.0	16.1	16.8	17.5
Of which: Central Administration 1/	13.6	13.9	13.5	13.8	13.5	14.6	14.2	15.0	13.7	14.4	15.3	16.9	17.5	15.7	16.3	17.0
Coparticipated	12.2	12.4	12.0	12.3	12.1	13.0	12.9	13.6	12.3	12.9	13.5	14.8	15.4	13.9	14.4	15.3
Noncoparticipated	1.4	1.5	1.5	1.5	1.4	1.6	1.3	1.4	1.4	1.5	1.8	2.0	2.1	1.8	2.0	1.8
Other	1.7	1.7	1.6	1.6	1.5	1.6	1.6	1.5	1.6	1.6	0.5	0.5	0.5	0.4	0.5	0.5
Social Security 2/	7.6	7.9	6.7	6.8	8.0	8.7	7.8	8.1	7.5	7.9	8.9	8.2	9.7	7.7	8.6	8.1
Nontax revenue	1.7	1.7	1.3	1.2	1.3	1.1	1.3	1.0	1.4	1.2	1.5	1.5	1.6	1.4	1.5	1.5
Operating surplus of public enterprises	0.3	0.4	-0.5	0.5	0.5	0.4	0.3	--	0.2	0.3	0.2	0.5	0.7	0.5	0.5	--
Revenue	7.8	7.1	6.3	5.9	5.9	6.2	4.6	5.0	6.1	6.0	3.1	2.8	3.2	2.6	2.9	0.3
Expenditure	7.5	6.7	6.8	5.4	5.4	5.8	4.3	5.0	6.0	5.7	2.8	2.4	2.5	2.1	2.4	0.3
Of which: wages	2.0	2.1	2.0	1.9	1.4	2.2	1.2	1.9	1.6	2.0	2.2	2.2	2.3	2.0	2.2	0.4
Capital revenue, nonprivatization	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Expenditure, excluding interest payments</b>	<b>23.0</b>	<b>23.3</b>	<b>21.2</b>	<b>21.9</b>	<b>23.2</b>	<b>23.4</b>	<b>22.7</b>	<b>24.5</b>	<b>22.5</b>	<b>23.3</b>	<b>24.3</b>	<b>24.6</b>	<b>27.2</b>	<b>23.6</b>	<b>24.9</b>	<b>25.2</b>
National administration wages	4.1	3.9	3.0	3.5	3.4	3.6	2.9	3.4	3.3	3.6	3.9	3.5	4.4	3.5	3.8	3.8
Of which: wages in decentralized agencies	0.3	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.7	0.7	0.8	0.7	0.7	0.7
Goods and services	1.4	1.4	1.4	1.7	1.4	1.5	1.4	1.8	1.4	1.6	1.4	1.5	1.6	1.4	1.5	1.4
Extrabudgetary outlays, net	--	0.1	--	--	--	0.1	--	--	--	--	--	--	--	--	--	--
Pensions	8.1	8.5	6.8	7.0	7.6	8.2	7.3	9.3	7.4	8.2	9.1	8.7	10.5	8.9	9.3	9.8
Transfers to provinces	7.6	8.0	7.8	8.1	8.4	8.6	8.9	8.2	8.2	8.2	8.1	8.8	8.6	7.9	8.3	8.5
Of which: coparticipated revenue	6.6	7.0	6.8	7.1	7.2	7.5	7.7	7.2	7.1	7.2	7.2	7.6	7.6	6.8	7.3	7.5
Other transfers	0.4	0.3	0.5	0.4	0.7	0.3	0.7	0.5	0.6	0.4	0.6	0.9	0.7	0.7	0.7	0.7
Capital expenditure	1.4	1.1	1.8	1.3	1.8	1.1	1.4	1.3	1.6	1.2	1.1	1.3	1.4	1.3	1.3	1.0
<b>Primary current balance</b>	<b>3.4</b>	<b>3.4</b>	<b>3.1</b>	<b>3.3</b>	<b>3.4</b>	<b>4.1</b>	<b>4.0</b>	<b>2.4</b>	<b>3.5</b>	<b>3.3</b>	<b>3.3</b>	<b>4.2</b>	<b>4.1</b>	<b>3.5</b>	<b>3.6</b>	<b>2.9</b>
<b>Primary balance excluding privatizations</b>	<b>2.1</b>	<b>2.4</b>	<b>1.4</b>	<b>2.0</b>	<b>1.7</b>	<b>3.0</b>	<b>2.6</b>	<b>1.2</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>	<b>3.0</b>	<b>2.9</b>	<b>2.3</b>	<b>2.6</b>	<b>2.0</b>
<b>Privatizations 3/</b>	<b>1.7</b>	<b>2.8</b>	<b>1.2</b>	<b>0.5</b>	<b>0.8</b>	<b>0.3</b>	<b>1.2</b>	<b>1.4</b>	<b>1.2</b>	<b>1.2</b>	<b>0.8</b>	<b>0.1</b>	<b>--</b>	<b>--</b>	<b>0.2</b>	<b>0.6</b>
<b>Primary balance</b>	<b>3.8</b>	<b>5.2</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>3.4</b>	<b>3.8</b>	<b>2.6</b>	<b>3.2</b>	<b>3.4</b>	<b>3.1</b>	<b>3.1</b>	<b>2.9</b>	<b>2.3</b>	<b>2.8</b>	<b>2.6</b>

1/ Excludes from 1993 revenues Arg\$500 million (Arg\$50 million, Arg\$150 million, Arg\$100 million, and Arg\$200 million, respectively, in the first, second, third, and fourth quarters) for the issue of "quebranto" bonds as counterpart to receipts classified as corporate income tax collections. In case the issuance of such bonds exceeds Arg\$500 million, the excess would be deducted from revenue on a prorated basis.

2/ Excludes 30 percent of asset sales earmarked for social security.

3/ Includes 30 percent of asset sales earmarked for social security.



Table 1 Argentina: Summary of Nonfinancial Public Sector Operations, 1992-94 (Concluded)

(In percent of GDP)

	1992										1993				Program	
	QI		QII		QIII		QIV		Year		Program				Program	
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.	QI	QII	QIII	QIV	1993	1994
Primary balance, nonfinancial public sector	3.8	5.2	2.6	2.6	2.6	3.4	3.8	2.6	3.2	3.4	3.1	3.1	2.9	2.3	2.8	2.6
Excluding privatizations	2.1	2.4	1.4	2.0	1.7	3.0	2.6	1.2	2.0	2.2	2.3	3.0	2.9	2.3	2.6	2.0
Privatizations	1.7	2.8	1.2	0.5	0.8	0.3	1.2	1.4	1.2	1.2	0.8	0.1	--	--	0.2	0.6
Statistical discrepancy	--	-0.4	--	-0.4	--	-0.1	--	--	--	-0.2	--	--	--	--	--	--
Interest payments nonfinancial public sector, accrual basis	2.5	2.4	2.6	2.3	1.8	1.8	2.4	2.3	2.3	2.2	1.9	1.5	1.8	2.0	1.8	1.7
External	2.2	2.1	2.5	2.1	1.6	1.6	2.3	2.1	2.1	1.9	1.6	1.3	1.6	1.8	1.6	1.7
Domestic	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1	0.2	0.1
Nonfinancial public sector overall balance	1.3	2.4	--	-0.2	0.8	1.5	1.3	0.4	0.9	1.0	1.3	1.6	1.0	0.3	1.0	0.8
Balance on quasi-fiscal operations (excluding SOMISA and official banks)	-0.6	-0.6	--	0.1	-0.4	-0.3	0.1	--	-0.2	-0.2	--	0.1	0.1	0.1	0.1	0.1
Interest earned	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0.3
Interest payments (accrual)	0.9	0.9	0.2	0.2	0.7	0.6	0.2	0.2	0.5	0.4	0.2	0.1	0.2	0.1	0.2	0.2
Overall balance of public sector	0.7	1.8	--	-0.1	0.4	1.2	1.4	0.4	0.6	0.8	1.3	1.8	1.1	0.4	1.1	0.9
Net external financing	0.6	-0.6	0.6	--	0.3	0.3	1.0	0.9	0.6	0.2	-1.4	0.8	1.5	1.3	0.5	0.8
Interest not paid	1.6	1.1	1.3	0.9	0.1	0.5	0.5	0.6	0.9	0.8	0.1	0.3	0.1	0.1	0.1	0.1
Net disbursements	-1.0	-1.7	-0.6	-1.0	0.1	-0.2	0.5	0.3	-0.2	-0.6	7.6	0.5	1.4	1.2	2.6	0.8
Disbursements	1.0	0.1	1.1	0.6	1.3	1.4	1.2	1.5	1.1	0.9	8.7	1.5	2.2	3.0	3.8	1.3
Amortization	-1.9	-1.8	-1.7	-1.6	-1.2	-1.5	-0.7	-1.2	-1.4	-1.5	-1.1	-0.9	-0.8	-1.9	-1.2	-0.6
Treasury securities (net)	-1.3	0.2	-0.7	6.0	-0.7	2.9	-2.4	-2.3	-1.3	1.7	-0.4	-0.2	-0.8	-1.4	-0.7	-0.9
Amortization	-2.1	-1.7	-0.8	-0.5	-1.1	-0.7	-2.5	-2.4	-1.6	-1.3	-0.5	-0.6	-1.0	-1.9	-1.0	-0.9
Of which: BONEX	-1.1	-1.0	--	-0.1	-0.3	-0.2	-1.7	-2.0	-0.8	-0.8	--	--	-0.2	-1.2	-0.4	-0.4
Disbursements	0.8	1.9	0.1	6.5	0.4	3.6	0.1	0.1	0.4	3.0	0.1	0.4	0.2	0.4	0.3	--
Other financing 1/	--	-1.4	--	-5.8	--	-4.4	--	1.0	--	-2.7	0.5	-2.4	-1.8	-0.3	-1.0	-0.9

1/ Includes payments through September 1992 to reduce arrears to pensioners and suppliers outstanding at end-March 1991.

Table 2. Argentina: Expenditure Ceilings

(In million of pesos)

	1993				1993
	QI	QII	QIII	QIV	
Central Administration	5,494.1	5,775.0	5,713.9	5,750.7	22,733.7
Current expenditures	4,964.5	5,262.9	5,217.3	5,212.9	20,657.6
Capital expenditures	383.3	399.2	404.4	415.7	1,602.2
Transfers to public enterprises	146.3	112.9	92.6	122.1	473.9
Decentralized agencies	635.6	669.5	760.4	763.7	2,829.2
Current expenditures	452.5	459.5	532.5	512.0	1,956.5
Capital expenditures	183.1	210.0	227.9	251.7	872.7
Transfers to public enterprises	--	--	--	--	--
Social Security	3,893.8	3,780.5	4,403.6	4,229.3	16,307.2
Current expenditures	3,890.8	3,777.5	4,400.2	4,225.8	16,294.3
Capital expenditures	3.0	3.0	3.4	3.5	12.9
Transfers to public enterprises	--	--	--	--	--
<u>Total</u>	<u>10,023.5</u>	<u>10,225.0</u>	<u>10,877.9</u>	<u>10,743.7</u>	<u>41,870.1</u>
<u>Less mandated transfers</u>	<u>3,429.0</u>	<u>3,577.4</u>	<u>3,518.1</u>	<u>3,483.4</u>	<u>14,008.0</u>
Coparticipated revenues	2,694.7	2,829.2	2,715.3	2,725.5	10,964.6
Central administration	2,652.7	2,783.1	2,664.5	2,672.2	10,772.6
Net coparticipated	2,269.7	2,574.1	2,568.1	2,680.2	10,092.2
MCBA	35.0	36.1	37.0	37.0	145.1
Tierra del Fuego	15.5	17.6	17.6	18.4	69.1
Fixed sum	131.4	131.4	131.4	131.4	525.6
Compensation	201.1	23.9	-89.6	-194.8	-59.4
Social Security	42.0	46.0	50.8	53.2	192.0
VAT	41.8	44.9	46.6	48.1	181.5
Personal assets	0.1	1.1	4.1	5.1	10.5
Special laws	261.4	343.3	329.9	353.0	1,287.4
Assets to education	39.8	40.1	40.4	43.4	163.8
Fuel and gas	92.2	92.9	112.5	111.2	408.8
Profits tax to provinces	129.3	210.2	176.9	198.3	714.8
PAMI	473.0	405.0	473.0	405.0	1,756.0
<u>Expenditures subject to limits</u>	<u>6,594.5</u>	<u>6,647.6</u>	<u>7,359.8</u>	<u>7,260.3</u>	<u>27,862.1</u>
<u>Cumulative limits</u>	<u>6,594.5</u>	<u>13,242.0</u>	<u>20,601.8</u>	<u>27,862.1</u>	<u>27,862.1</u>

Table 3. Argentina: Quantitative Performance Criteria 1993-94

Performance Criteria	Stock Dec. 1992	Dec. 1992- March 1993	Dec. 1992- June 1993	Dec. 1992- Sep. 1993	Dec. 1992- Dec. 1993	Dec. 1993- Dec. 1994 1/
<u>In millions of pesos</u>						
Overall deficit (-) or surplus of the nonfinancial public sector 2/		520	1,190	1,610	1,750	1,470
Combined deficit (-) or surplus of the nonfinancial public sector and the Central Bank 2/		540	1,270	1,710	1,910	1,670
Cumulative change in the net domestic assets of the Central Bank 3/4/		-2,067	-2,444	-2,770	-3,144	-1,015
Cumulative discretionary expenditures of the nonfinancial public sector 5/		6,600	13,250	20,610	27,870	...
<u>In millions of U.S. dollars</u>						
Cumulative change in net international reserves of the Central Bank 4/6/		1,776	2,709	2,631	3,714	1,660
External debt of the public sector 7/8/						
Total outstanding disbursed external debt 7/9/	62,700	66,030	66,200	66,530	66,300	66,300
Cumulative net disbursements of short-term debt 7/10/	700	700	700	700	700	700
External arrears of the public sector 11/	--	--	--	--	--	--

1/ Indicative performance criteria.

2/ The floors on the surplus will be raised by the amount of government cash asset sales in excess of the programmed levels (US\$350 million in 1993 and US\$1.0 billion in 1994). Revenue from these additional sales that is used to increase public investment and/or indemnization payments of the nonfinancial public sector (both excluding YPF) beyond the amounts included in the program will be excluded from these limits. If the sale of assets is less than programmed, the floors on the surplus will be reduced by a maximum of US\$326 million for the period January-March 1993, and by a maximum of US\$25 million for the period January-June 1993.

3/ The net domestic assets of the Central Bank are defined as the difference between the monetary base and the net international reserves as defined in footnote 6, both measured at the end of the quarter. Reserve deposits held in the Central Bank on foreign currency denominated demand deposits ("cuenta corriente") are to be included in the monetary base, and in the net international reserves of the Central Bank. The net domestic assets ceilings assume average levels of bank reserves (including those on foreign currency-denominated demand deposits) of Arg\$4,450 million in March 1993, Arg\$4,450 million in June 1993, Arg\$4,250 million in September 1993, and Arg\$3,750 million in December 1993. If actual average reserves fall below these levels, the corresponding ceilings will be adjusted downward by the shortfall.

4/ The NIR target will be adjusted upward for revenue from cash asset sales in excess of the programmed level (US\$350 million in 1993 and US\$1.0 billion in 1994). Revenue from these additional sales used to reduce domestic or external debt, capitalize the social security system, increase public investment, and/or effect indemnization payments of the nonfinancial public sector (both excluding YPF), all of the above beyond the amounts envisaged in the program, will be excluded from these limits. In the event revenue from cash asset sales are below programmed levels, the target will be adjusted downward by a maximum of US\$326 million in March 1993, and by a maximum of US\$25 million in June 1993. The targets also will be adjusted downward (up to US\$1,980 million in January-March 1993 and up to US\$400 million in the rest of 1993) for shortfalls in certain programmed official support (excluding the Fund). Corresponding adjustments will be made in the net domestic assets of the Central Bank.

5/ Defined as total current and capital expenditures of the national administration, including transfers to the public enterprises, less mandated transfers of coparticipated revenues to the provinces (including transfers on account of certain specific legislation) and of mandated transfers of the social security administration to the health insurance organization of the pensioners (PAMI). These limits will be adjusted upwards for any increase in public investment and/or indemnization payments (both excluding YPF) beyond the amounts included in the program financed with excess cash assets sales, as described in 2/ above.

6/ Negative sign signifies loss of net international reserves (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 includes assets used as guarantees of commercial bank debts and excludes reductions in Consolidation Bonds (BOCONs) 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.

7/ Measured at end of period.

8/ 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-1992 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.

9/ 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 (BOCONs), and up to US\$1.7 billion in other securities 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.

10/ Includes accumulated disbursements, net of repayments of debt with a maturity up to one year, contracted by public sector entities after December 31, 1992, 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).

11/ Excludes debt service arrears on medium- and long-term public sector debt to commercial banks and related debt subject to commercial bank debt refinancing.

