INTERNATIONAL MONETARY FUND

PRESS RELEASE NO. 89/48

FOR IMMEDIATE RELEASE
November 13, 1989

The International Monetary Fund has approved a stand-by arrangement for the Government of Argentina, authorizing purchases up to the equivalent of SDR 1,104 million through end-March 1991, to support the Government's economic program. Argentina's quota in the Fund is SDR 1,113 million and its outstanding financial obligations to the Fund resulting from past operations and transactions currently total the equivalent of SDR 2,254.4 million.

When the present Government assumed office on July 8, 1989, the economy was at a low ebb, with inflation at unprecedented levels, official international reserves exhausted, and economic activity on a downward trend. The authorities promptly devalued the currency, increased public sector prices, and tightened monetary policy, laying the basis for a sharp reduction in inflation and restoration of confidence.

The economic program for 1990, which the stand-by arrangement supports, aims at reducing inflation to international levels by the end of that year, real economic growth of about 5 percent, and a strengthening of Argentina's external payments position. The operational result of the nonfinancial public sector would shift from an estimated deficit of 6 1/4 percent of GDP in 1989 to approximate balance in 1990. This improvement would come largely from an increase in tax revenue, partly offset by increases in outlays for social programs to protect the less privileged during the process of stabilization, including new cash transfers to targeted groups and the reinforcement of pensions. Domestic financing of the nonfinancial public sector is to be eliminated in 1990, while wage adjustments are to be consistent with the overall price objectives. The aim is to ensure the preservation of external competitiveness while progress is being made in liberalizing the exchange and trade system. It is expected that Argentina's relations with external creditors will be regularized in the course of the program period.

The Government's economic program includes a number of structural reform measures. A proposal to reform the tax system has been already submitted to Congress; it is centered on the extension of the value added tax to all goods and services at a single rate initially set at 13 percent and tax administration is to be strengthened. Industrial promotion programs and other subsidies have been suspended and will be reviewed. Public sector enterprises are to be privatized, starting with the telephone company, a number of television and radio stations, segments of the railway system, and the national airline. Road maintenance and the billing and collection of the public utilities are

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to be contracted out to private firms. The state oil company is to sell a number of minor oil fields and to enter into joint ventures with private firms, both national and international, for oil exploration and exploitation in the principal producing areas; the recent deregulation of the oil market has paved the way for these actions.

Other key reforms include modification of the central bank charter to make the institution independent of the Executive Branch, reform of the official banks, a lowering of import tariffs and a reduction in their dispersion, elimination of import prohibitions and quantitative restrictions, elimination of export taxes on industrial products, and a substantial reduction of export taxes on agricultural products.