December 2000
IMF Staff Country Report No. 00/164

Argentina: 2000 Article IV Consultation and First Review Under the Stand-By Arrangement, and Request for Modification of Performance Criteria—Staff Report and Public Information Notice Following Consultation

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. In the context of the 2000 Article IV consultation with Argentina, the following documents have been released and are included in this package:

- the staff report for the 2000 Article IV consultation and first review under the Stand-by Arrangement, prepared by a staff team of the IMF, following discussions that ended on **August 16, 2000,** with the officials of Argentina on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on September 5, 2000.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during the September 15, 2000, Executive Board discussion** of the staff report that concluded the Article IV consultation.

A Selected Issues and Statistical Annex report prepared by IMF staff as background to the Article IV staff report has been separately released.

Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports and PINs allows for the deletion of market-sensitive information.

The Article IV staff report is published—both in hard copy and on the IMF's website (http://www.imf.org)—as part of a pilot project.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ARGENTINA

Staff Report for the 2000 Article IV Consultation, First Review Under the Stand-By Arrangement, and Request for Modification of Performance Criteria

Prepared by Western Hemisphere and Policy Development and Review Departments

Approved by Claudio M. Loser and Christian Brachet

September 5, 2000

Contents Page

Figures

Attachments

I. Introduction

1. A staff mission[1] visited Buenos Aires during May 30–June 12, 2000 to conduct discussions for the 2000 Article IV consultation and the First Review of the current three year Stand-By Arrangement (SBA). The discussions continued at headquarters in July and late August 2000. Argentina is an Article VIII country. The SBA, which was approved on March 10, 2000 in an amount equivalent to SDR 5.4 billion (255 percent of quota), is being treated as precautionary. At end-July 2000, Argentina's outstanding use of Fund credit was SDR 2.68 billion (127 percent of quota). Including amounts previously made available, SDR 1.38 billion will become available upon completion of this review and the observance of the end-June performance criteria (Table 1). The Central Bank of Argentina (BCRA) has provided, ahead of time the information required in the context of the safeguard assessment process.

2. During **the last Board discussion** in March 2000, Directors welcomed the speed and decisiveness with which the new government—which took office in December 1999—had moved to strengthen macroeconomic policies and revitalize the structural reform effort. They endorsed the adjustment and reform program of the authorities, noting their full ownership of it, but also the risks associated with the external environment and the domestic political context. Directors emphasized the need to maintain restraint in public spending, particularly in view of the uncertain prospects for economic recovery and hence for fiscal revenues, and to implement the structural reform agenda, especially the proposed labor market reform.

3. The Alianza government of President F. De la Rua, which took office in December 1999, following ten years of Peronist rule, has a working majority in the Lower House of Congress, but the Senate and the majority of the provinces, including the three largest ones, are controlled by the Peronist opposition. At the time of the discussions in Buenos Aires, the social climate had deteriorated in reflection of the frustration of initial expectations of a fast recovery from the 1998–99 recession, growing unemployment, inadequacies of the social safety net (especially in the poorer provinces), and the introduction of two successive fiscal adjustment packages in less than six months. The political and social climate has improved somewhat in recent weeks, and business confidence has been gradually recovering, but the situation remains fragile, and concerns have emerged in domestic and international financial markets as well.

II. Recent Developments

4. Following four quarters of declining output, the economy began to pick up in the latter part of 1999, spurred by increased government spending in the run up to the October

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[1] The mission included Mrs. Ter-Minassian (Head), Messrs. Alier, Reichmann and Traa (all WHD), Cuevas (FAD), and Velloso (PDR), and was assisted by Mr. Terrier, the Fund's representative in Buenos Aires. Ms. Jul and Mr. Zoccali, Executive Director and Alternate Executive Director, respectively, for Argentina participated in the discussions.

elections, a recovery in exports, and a pickup in consumer confidence in the wake of the smooth political transition. (Developments in 1999 were reported in EBS/00/20, Supplement 1, 2/24/2000 and are summarized in Box 1.) In early 2000, however, and

BOX 1: ECONOMIC DEVELOPMENTS IN 1999

The Argentine economy suffered a **severe recession in 1999**, reflecting the combined effect of tight financing constraints, a downturn in trading partner demand, a sharp terms of trade loss, and election-related uncertainties. Real GDP declined by 3.1 percent and the unemployment rate increased to over 14 percent on average for the year. Consumer prices declined by 1.8 percent, and the GDP deflator by an estimated 2 percent, reflecting the recession, a decline in labor costs, and the terms of trade loss.

The public finances deteriorated markedly in 1999, reflecting the impact of the recession on tax revenue, a weakening of tax compliance, a growing interest bill, and spending overruns at both the federal and the provincial government level, particularly in the fourth quarter. The fiscal performance criteria under the extended arrangement were observed through the third quarter, before giving way to large deviations at the December testing date. As a result, the consolidated public sector deficit doubled to 4.1 percent of GDP, of which 2½ percentage points reflected the deficit in the federal government, while the public sector debt increased to over 47 percent of GDP, up from 41 percent in 1998. A tightening of financing conditions led to a marginal shortening of the average maturity of the external public debt—albeit to a still relatively high 7½ years by end–1999 while, notwithstanding a decline during the year, the spread for Argentine sovereign bonds at year-end was still almost 100 points higher than before the Russia crisis.

The banking system weathered the recession well. Private sector deposits in the financial sector continued to grow, albeit at a slower pace than in previous years, and foreign lines of credit were rolled over. Nevertheless, bank credit to the private sector stagnated and there was a minor increase in nonperforming loans.

As a consequence of the depreciation of the Brazilian *real* and of the strength of the U.S. dollar, the peso appreciated significantly in real effective terms, largely reversing the real depreciation that had taken place in previous years. Nevertheless, the sharp, recession-induced, contraction of imports (19 percent in value) more than offset a decline in exports (explained fully by a 12 percent drop in prices), facilitating a **narrowing of the current account deficit** to 4.4 percent of GDP in 1999, from 4.8 percent in 1998. More than half of the external current account deficit was financed by net foreign direct investment, thus the total external debt (public and private) rose to US$147 billion at end–1999 (about 52 percent of GDP, and over five times exports of goods and nonfactor services).

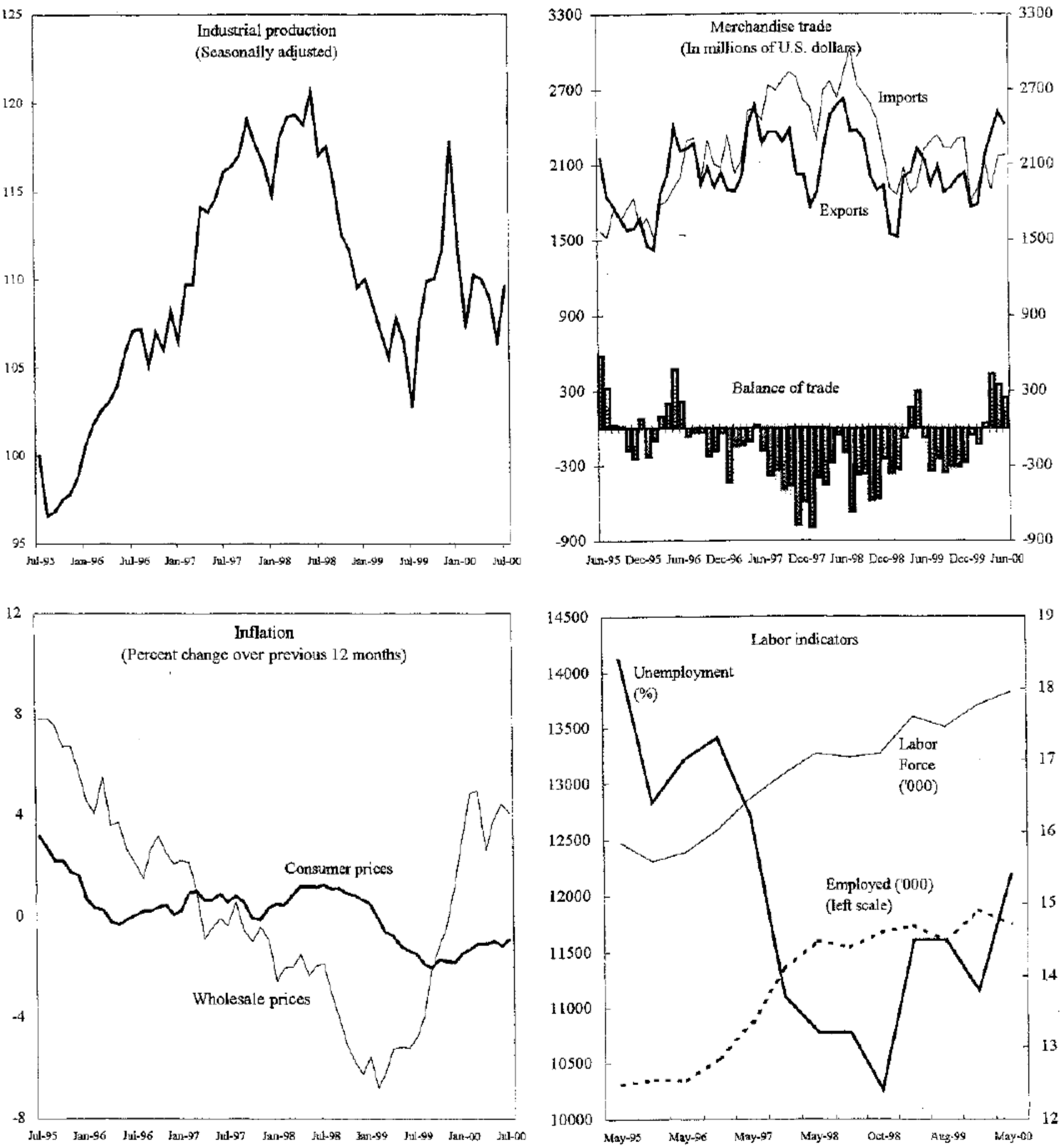
notwithstanding a further strengthening of export performance, the economy slowed down again, reflecting the unwinding of the temporary boost of late 1999, the initial impact of the fiscal tightening on domestic demand, and a drop in business and consumer confidence. **Real GDP** rose in the first half of 2000 by 1.2 percent with respect to the first half of 1999, but it is estimated to have been virtually flat (on a seasonally adjusted base) compared with the position at the end of last year, as the continued export strength was offset by stagnant consumption and depressed investment. The rate of **unemployment**, which before the downturn in 1998 had declined below 13 percent, increased again to 15.4 percent in the May 2000 survey (Figure 1 and Table 2).

5. The economy continues to adjust to the **external shocks** it suffered in 1998–99—including a cumulative 12 percent loss in the terms of trade over the last three years, the crises in Russia and Brazil, and the downturn of demand in Latin America—through domestic **cost and price deflation**. **Consumer prices** fell by 0.9 percent in the 12 months through July 2000, while **wholesale prices** rose by 4.1 percent over the same period, reflecting the recovery of oil and other commodity prices. The ratio of consumer prices to wholesale prices has now declined to the level prevailing in 1997, signaling an increase in the relative price of tradable goods. Real effective exchange rate indicators also point to an **improvement of competitiveness in recent months**, partly reversing the deterioration experienced in 1999 as a result of the Brazilian devaluation and appreciation of the U.S. dollar. By June 2000, the real effective exchange rate (consumer price based) stood some 2 percent below its level a year earlier. The depreciation was substantially more pronounced in terms of relative unit labor costs, reflecting a further decline in nominal wages (Figure 2).

6. The improved competitiveness, a 112 percent increase in oil prices (accounting for about 10 percent of merchandise exports), and a slow growth of imports resulted in a marked improvement of **the external trade balance**, to a surplus of US$896 million in the first half of 2000, compared with a deficit of US$397 million in the same period of 1999. Exports increased in value by 13.3 percent, and imports by less than 2 percent during that period. Manufacturing exports rose by nearly 11 percent in volume terms, sustained by the continued strength of demand in the United States, and the recovery in Latin America and Asia, which more than offset a decline in exports to the Euro area. In turn, and reflecting the sluggishness of the domestic economy, import volumes showed virtually no change.

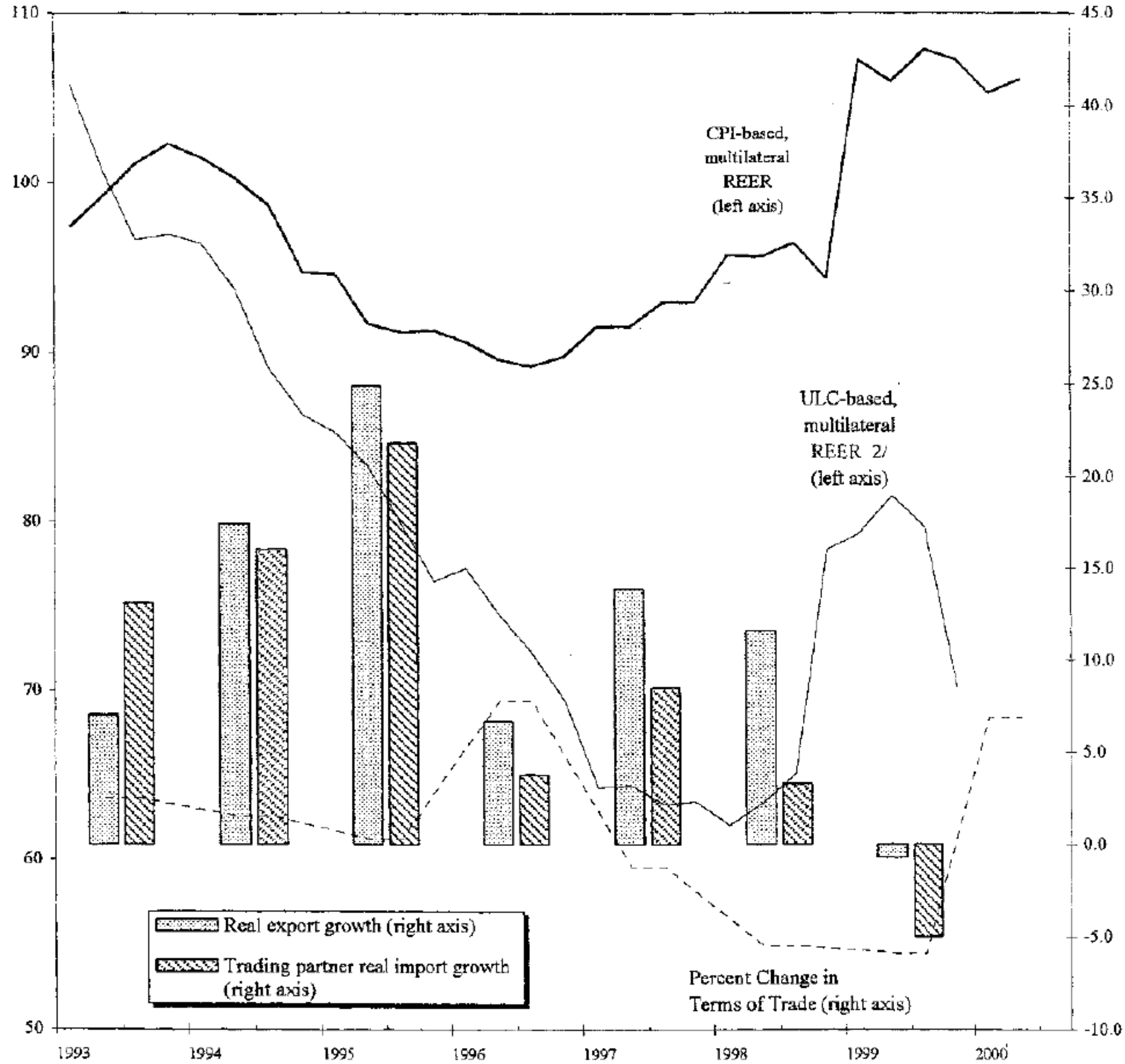
7. The **fiscal program for 2000** was designed to comply with the Fiscal Responsibility Law approved by the Argentine Congress in September 1999, and aimed at reducing the deficit of the federal government from Arg$7.2 billion (2.5 percent of GDP) in 1999 to

Figure 1. Argentina
Selected Economic Indicators



Sources: Argentine authorities; and Fund staff estimates.

Figure 2. Argentina: Real Effective Exchange Rates (REER), Terms of Trade; Real Exports and Trading Partner Imports Growth 1/
(1993=100)



Sources: Ministry of Economy; IBGE; IMF Information Notice System; and Fund staff estimates.

1/ A rise in the real effective exchange rate index indicates real appreciation.

2/ Real effective exchange rate vis-à-vis selected developed countries and Brazil.

Arg$4.7 billion (1.6 percent of GDP) in 2000.[2] To this end, the authorities early in the year enacted a sizable tax package, including increases in the personal income and wealth taxes and in excises, and a broadening of the base of the VAT; put forward a bill to strengthen tax enforcement; announced a tax amnesty;[3] and budgeted a cut in noninterest expenditures equivalent to almost 1 percent of GDP.[4] The program envisaged a reduction of the overall public sector deficit (including the provinces) from Arg$11.7 billion (4.1 percent of GDP) in 1999 to Arg$6.9 billion (2.3 percent of GDP) in 2000 (Tables 3, 4, and 5).

8. The effects of the **tax package** had been expected to materialize for the most part beginning in April. However, it soon became apparent that the sluggish recovery of the economy was resulting in a growing shortfall in tax revenue,[5] which, together with higher than programmed interest payments, were putting at risk the compliance with the deficit ceilings for the remainder of the year.[6] To contain such a risk, the authorities in May announced a sizable **package of additional spending cuts**, including a 12–15 percent cut in

[2] Or Arg$4.5 billion (1.5 percent of GDP) excluding the deficit of PAMI (the health service for retirees). Strictly speaking, the fiscal responsibility law just specifies a reduction of the deficit on an accrual basis by 0.4 percent of GDP in 2000 (to be followed by reductions of 0.5 percent in 2001, 0.6 percent in 2002, and reaching balance in 2003). At the time the law was approved (August 1999), the expected deficit for 1999 was 1.9 percent of GDP, and the markets and public opinion at large came to interpret the requirement for 2000 as a deficit (on a cash basis) of 1.5 percent of GDP, or Arg$4.5 billion. A more precise interpretation of the law puts the deficit limit for 2000 (on an accrual basis) at around Arg$5.7 billion (equivalent to about Arg$5.3 billion on a cash basis, and including the quasi-fiscal surplus of the BCRA).

[3] Details on this amnesty are provided in Section V of the accompanying background paper.

[4] It is difficult to make budget cuts without affecting the appropriations for socially important programs. During 1995–99, no less than ¾ of the federal public spending, net of interest payments and transfers to the provinces, was directed to broadly defined social programs including social security, health, education, and the social safety net. For details, see Section III of the background paper and the Ministry of the Economy's website, www.mecon.gov.ar/gasto_p/gaspub99/indice.htm.

[5] A drop in compliance in the period leading up to the entry into effect of the tax amnesty may also have contributed to the revenue shortfall.

[6] The fiscal targets for end-March 2000 were observed with margins, except for the limit on the cumulative change in the debt of the Federal Government, which because of an acceleration of the authorities' pre-borrowing program was exceeded by some US$0.5 billion. The extra borrowing remained deposited at the BCRA. In computing the margins at end-March (Arg$145 million for the federal deficit and Arg$130 million for primary expenditure), Arg$52 million of expenditures by PAMI to clear arrears to providers (which had been counted as part of the federal deficit of 1999, but were actually paid in early 2000) were excluded.

salaries of civil servants earning more than Arg$1,000 per month, reductions in special pensions, and the elimination of certain administrative entities, with attendant cuts in personnel. These measures were estimated to save about Arg$600 million on an annual basis. The authorities also accelerated the timetable for the estimated payments of the income tax—with a gain of Arg$420 million in June, and Arg$320 million for the year as a whole. With these measures, and including the once-off revenues from the downpayment on the tax amnesty, and from the cashing-in of the collateral on Brady bonds released in a debt exchange operation,[7] the **deficit and expenditures targets for end-June were observed**.

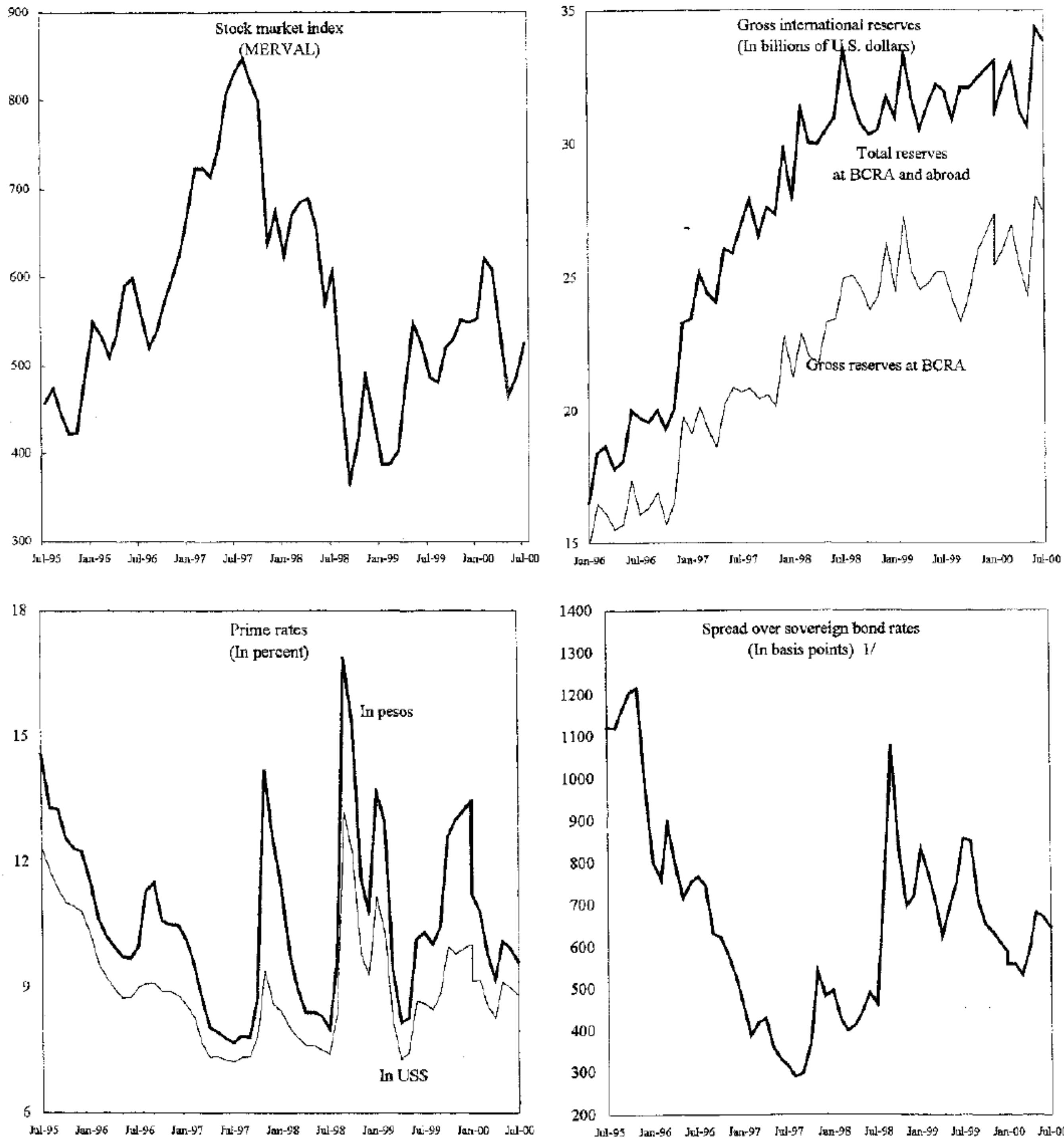
9. The program also envisaged that the fiscal adjustment effort at the federal level would be complemented by improvements in **the finances of the provinces**, which are responsible for nearly half of total public sector expenditure. The deficit of the provinces rose sharply in 1999, to Arg$4.5 billion (1.6 percent of GDP), virtually doubling in relation to GDP. Preliminary, and still partial, data point to a provincial deficit in the first half of 2000 of some Arg$1.57 billion, Arg$200 million higher than the indicative ceiling in the program. The main reasons for this underperformance were a decline in own revenues, adversely affected by the sluggishness of activity and declining consumer prices, and a sharp increase in interest payments. Some technical delays were experienced in putting in place a system to monitor bank financing to the provinces on a timely basis, a structural benchmark in the program for June 2000. The system became operational in August 2000.

10. After easing somewhat during the first four months of 2000, **financing conditions** hardened sharply in May, as markets became concerned about the deteriorating social climate, the renewed slowdown of the economy, and its impact on the public finances, as well as the effects of a further tightening of interest rates in the United States on the Argentine economy. The EMBI for Argentina fluctuated around 550 basis points (some 170 basis points below the average EMBI) through April, but jumped some 150 basis points in May, and remained in the 650–700 basis point range (slightly above the average EMBI) through August (Figure 3). The government was nonetheless able to follow through with its financing plan, securing by early September over US$14.5 billion, more than 80 percent of the gross financing needed for the year as a whole. The tightening of financing conditions, especially for private borrowers, contributed, in turn, to slowing the pace of the economic recovery.

11. The soundness and strong prudential defenses that characterize the Argentine **banking system** under the currency board arrangement have been maintained. As detailed in Box 2, banks continue to hold liquid reserves in foreign exchange equivalent to 21 percent of

[7] The sale of collateral entailed one-off revenues of almost US$500 million, of which an estimated US$308 million corresponded to accrued interest, and the rest to a capital gain.

Figure 3. Argentina
Selected Financial Indicators



Sources: Argentine authorities; J.P. Morgan; and Fund staff estimates.

1/ Data refer to a monthly weighted average stripped spread of major international bonds to U.S. Treasury bonds.

BOX 2: BANKING SOUNDNESS INDICATORS AND FINANCIAL SYSTEM STRESS TESTS[1]

The banking system in Argentina has been strengthened considerably during the 1990s, especially since the Mexico crisis in early 1995. The BCRA has taken a number of steps to bolster capital adequacy and liquidity in banks, and thus has made the banking system more resilient to macroeconomic and systemic financial shocks. A few summary statistics may be mentioned:

- **Capital adequacy** ratios in Argentina are high, with capital over risk-weighted assets exceeding 20 percent (as measured according to Basel criteria)

- **Liquidity ratios** also are high. Total liquid foreign exchange assets (cash, bank's own liquidity reserves, and a contingent repo facility with large international banks) amount to more than 30 percent of the bank's liabilities. In addition, under the Convertibility Law, and during an economic emergency, the BCRA could provide liquidity assistance to banks equivalent to up to one-third of the monetary base. Including the latter, bank liquidity amounts to over 35 percent of total liabilities.

The Office of Bank Supervision has recently conducted a **financial system stress test.** In summary, it found that:

- if banks were forced in April 2000 to provision (in a lump sum) as nonperforming loans an additional *50 percent* of the amount of loans already provisioned (cumulatively) since the onset of the cyclical slowdown in economic activity in Argentina in mid-1998, only about seven banks (out of 117 banks), accounting for 1.8 percent of the system's assets, would no longer observe the Basel criteria, and some 27 banks (6.4 percent of assets) would no longer observe the more stringent BCRA capital adequacy criteria—a serious deterioration of banks' capital adequacy but which would not result in any bank ending up with negative capital; and

- with the liquidity cushion now in place, banks could withstand a flight of deposits equivalent to *over a third of all deposits in the system*, an amount almost twice as large as the one that occurred during the 1995 Mexico crisis.

The Supervisory Office also considered the threat to bank profitability of variations in interest rates. The Office found that intermediation spreads in the Argentine banking system have remained quite stable in recent years, owing to relatively limited leverage in the term structure of assets and liabilities, the large share of loans that is at variable rates, and the fact that those loans that are extended at fixed rates tend to have short maturities. Thus, the banks appear well insulated to interest rate variability. Nevertheless, it must be noted that interest rate pressures do affect adversely the clients of the banks, which in turn may lead to a deterioration in the quality of the loan portfolio. This indirect channel of vulnerability highlights the importance of capital adequacy, as noted above.

[1] A more detailed version of this note may be found in Section I of the accompanying background paper.

total deposits (or 30 percent if a contingent repo facility with foreign banks for about US$7 billion is included), and the capital adequacy ratio (Basel criteria) exceeds 20 percent of risk assets. **Private sector deposits** in the financial sector increased by more than 7 percent in January–July 2000 (by 5 percent in pesos, and 9 percent in dollars), and foreign lines of credit (with a gross volume of some US$10 billion) were maintained (Table 6). In line with deposits, **gross foreign exchange reserves** increased in the first eight months of the year to US$32 billion, of which about US$25 billion are held by the BCRA. However, and despite a significant decline in domestic interest rates,[8] bank lending remains sluggish, reflecting a cautious attitude of both banks and borrowers. **Credit to the private sector** declined by more than 2 percent since the beginning of the year, also reflecting the effect of tax measures included in the January package, which drove some credit operations offshore. **Nonperforming loans** in the banking system increased from 11.5 percent of risk assets in December 1999 to 12.5 percent in May 2000, but net of provisions, declined from 4.7 percent to 4.1 percent over the same period. The performance criterion in the program for the net domestic asset position of the BCRA as of end-June was observed.

12. Progress was made along a broad front in the **structural reform** area, including:

- **Labor market reform**, with final approval of the proposed legislation in May. The new law extends the probation period for newly-recruited workers to three months (six months by agreement, and six months to one year in the case of small businesses); reduces employer contributions to social security by up to one third of the applicable rate in the case of net additions to the workforce; permits the renegotiation, over a period of two years, of the contracts that had been maintained indefinitely because of lack of agreement between the parties; and stipulates the predominance of collective agreements at the enterprise level over those at the sectoral level. The reform is expected to have a significant positive impact on competitiveness and employment over time, particularly in the case of new firms for which the full range of the more flexible legal framework applies immediately.

- **Health care.**[9] In June the government issued a decree opening to competition the system of **health maintenance organizations**, effective January 1, 2001. The system at present is formed by private HMOs and those run by the unions for their members. The latter are said to be in many cases small and inefficient, while their financing constitutes a significant part of nonwage labor costs—with mandatory employer and employee contributions amounting to 5 percent and 3 percent of gross wages, respectively. The new system is expected to lead to consolidation and improved efficiency in the sector. All providers in the new system will offer basic coverage for a standard fee, while the system also will provide insurance against complex illnesses

[8] The prime rate was by August some 430 and 130 basis points, for peso and dollar operations respectively, lower than in December 1999.

[9] See Section II of the accompanying background paper for details.

and will guarantee access to benefits by the poor. Since the beginning of the year, the government has also been implementing a program to restructure the **health system for retirees (PAMI)** that involves the cancellation of arrears, the renegotiations of contracts with providers, and measures to cut back costs sharply. PAMI will be incorporated into the federal budget in 2001, and is expected by then to be in a position to cover all its nonfinancial expenses.

- **Tax administration.** A comprehensive law to strengthen tax enforcement and reduce evasion was approved in the lower house of Congress and awaits consideration by the Senate. In the meantime, the government enacted by decree a number of its key provisions, including the requirement that payments larger than Arg$10,000 be made through bank instruments, if they are to be legally valid; modifications to the tax regime for petroleum products; and new controls to reduce evasion in the wheat, meat, and tobacco industries. Another law, dealing with improvements to the judicial treatment of tax cases, was approved by Congress.

- **Banco de la Nación.** Congress rejected draft legislation to transform the bank into a state owned corporation. However, it approved a bill that would give the bank administrative autonomy as a public enterprise. The legislation also includes provisions to strengthen safeguards on the bank's assets, by requiring the disclosure of beneficiaries of loans in excess of Arg$5 million, and that such beneficiaries have the approval of two rating agencies. Also, operations of the bank were made more transparent. Its (audited) quarterly financial statements, are published in the journal of the stock market and, beginning in July 2000, are also posted in the Internet. The rejection by Congress of the proposal to transform the bank into a public corporation precluded meeting the program's benchmark for the upcoming second review; nevertheless, the alternative actions that were taken, meet, in the staff's view, the intent of the original reform proposal.

13. Argentina participated in the first round of experimental case studies on **transparency** in April 1999, and its practices in this area were generally rated highly. Information on the progress made since then in addressing the areas in which a need for improvement was identified is provided in Box 3. The authorities have also indicated their willingness to undertake a FSAP in the first half of 2001, in anticipation of the 2001 Article IV consultation. In preparation for such an exercise, they have requested MAE to prepare a ROSC on banking, and intend to prepare, with MAE's technical support, a self-assessment in the area of securities and insurance.

Box 3. Transparency—A Progress Report

Argentina participated in the first round of experimental case studies on observance of standards and codes, and the report on its transparency practices was posted on the Internet on April 15, 1999. The report indicated that "transparency is generally high in each of the four areas assessed" (data dissemination, fiscal, monetary and financial policies, and the disclosure aspects of banking supervision). The areas for further improvement that were identified (in italics below), and the authorities' actions in this regard, are:

Data dissemination

- *Meet outstanding transition plans in accordance with implementation schedule.* Argentina meets the SDDS specifications for the coverage, periodicity, and timeliness of the data, and for the dissemination of advance release calendars.

Fiscal transparency

- *Simplify rules relating to intergovernmental fiscal relations.* The proposed new revenue-sharing regime being discussed between the federal government and the provinces aims at establishing clear and simple revenue-sharing rules.

- *Strengthen transparency in the administration of taxes and the social security.* Progress has been made in this area with the establishment of a consolidated registry of taxpayers and recipients of social benefits (SYNTIS), the generalization of the computer system at Customs, and a system of cross-checking of corporate invoices.

- *Improve information on general government (particularly the provinces and municipalities).* A monitoring system for developments in financing to the provinces became operational in August 2000. Also the federal government is working with the provinces to improve the quality and timelines of "above the line" provincial accounts.

- *Develop tools to analyze the relationship between economic developments and fiscal policy* (e.g., structural fiscal balances, assessments of robustness of budget forecasts, sustainability assessments). The authorities have developed indicators to measure progress under the budget programs, and are working on estimating structural fiscal balances.

Transparency of monetary and financial policies

- *Reduce the risk that gaps or duplications emerge among the several regulatory agencies.* The government has requested technical assistance from the Inter-American Development Bank to review areas for reform, and has initiated an assessment of the costs and benefits of merging some of the supervisory agencies. It also established a Permanent Commission for the Evaluation of Financial Regulations, which meets every other month to coordinate policies and regulations.

- *Provide greater freedom to supervisory agencies.* Draft legislation to grant immunity to supervisors for actions taken in the exercise of their duties has been introduced to Congress.

III. Policy Discussions

A. Overview

14. The authorities reaffirmed their belief that, within the framework of the convertibility regime, the resumption of sustainable economic growth depends crucially on a credible commitment to, and evidence of, fiscal consolidation and structural reform. They recognized that this basic strategy had been called into question by the disappointing performance of domestic demand in the first half of 2000, with its attendant effects on the public finances, as well as on employment and the social climate. They noted, nevertheless, that an alternative strategy of attempting to sustain demand through fiscal expansion would, in all likelihood, further undermine market confidence in the prospects for a sustainable medium term fiscal position, particularly after the setback experienced in 1999. This, in turn, could tighten financing constraints, and depress business confidence further.

15. The authorities emphasized the **progress already achieved by the government in its first six months in office** in improving the fiscal position at the federal level—as well as in most provinces—and in implementing the structural reform agenda (as outlined in Section II above). They were also encouraged by the **evidence of improved competitiveness of the economy**, in particular the recovery of exports which, in conjunction with improving terms of trade, was contributing to a substantial reduction of the current external deficit. Looking forward to the rest of this year, the **authorities were also encouraged by the recent evolution of conjunctural indicators**, such as industrial production, retail sales, and construction activity, which pointed to a moderate pickup in domestic demand. They were, therefore, hopeful that, following the virtual stagnation of the first half of 2000, activity would rebound in the second half, allowing **average real GDP growth** for the year to approach 2 percent.

16. The staff, while agreeing that the incipient economic recovery was likely—in the absence of significant shocks—to strengthen in the months ahead, noted that a rate of 2 percent appeared to be on the high side of the likely range for the rate of GDP growth in 2000, especially in view of the continuing cautious attitude of both households and enterprises, and the sluggishness of bank credit to the private sector. A more conservative estimate would put real GDP growth at between 1½ percent and 1¾ percent on average for 2000. **Growth could accelerate to over 3½ percent in 2001**, if confidence continued to improve, spurred by further progress in fiscal consolidation and structural reform, and in the absence of adverse external shocks. In such a scenario, **unemployment** could be expected to stabilize, before starting gradually to decline in the months ahead. **Wages** were likely, nevertheless, to remain virtually flat, given the expected continued slack in the labor market. Under these conditions, **inflation** in nontradable goods prices would remain negligible, allowing a further shift of relative prices in favor of tradable goods.

B. Fiscal Policy and Reforms

- **Prospects for the rest of 2000**

17. The authorities noted that developments in the **federal government finances** in the first half of this year attested to their commitment to the fiscal targets of the program, as well as those of the fiscal responsibility law. They had reacted in May to the growing shortfall of revenues and higher than initially projected interest payments, with a (politically costly) package of measures to ensure compliance with the June ceilings. A realistic assessment of the fiscal prospects for the rest of the year had convinced them, however, that the foreseeable cumulative revenue shortfall and increase in interest payments could not be fully compensated for, without resorting to additional tax increases or cuts in primary expenditures that would risk aborting the incipient recovery of domestic demand, as well as jeopardizing the necessary political and social support to the basic economic strategy of the government. They had, therefore, decided to **request a modest increase, equivalent to approximately 0.2 percent of GDP, in the federal deficit and debt ceilings for September and December 2000**[10] (Table 7). This increase would put the federal deficit (on a cash basis and including the quasi-fiscal surplus of the BCRA) at Arg$5.3 billion—compared with Arg$4.7 billion in the original program—or about at the limit consistent with the fiscal responsibility law (Arg$5.7 billion on an accrual basis and excluding the quasi-fiscal surplus). To underscore their continuing commitment to fiscal consolidation, the authorities agreed, at the same time, to a Arg$300 million (0.1 percent of GDP) **reduction of the ceiling on primary expenditures** of the federal government, to reflect the expenditure cuts announced in May.

18. This relatively small increase in the deficit is not expected to pose significant financing difficulties for the rest of this year. As indicated in Section II above, the authorities have by now completed more than 80 percent of the original Arg$17.5 billion **financing program** for the federal government. Given an expected Arg$0.5 billion shortfall in privatization revenues, additional borrowing for the year equivalent to about Arg$4.5 billion will be required to finance the increased deficit, and maintain the same prefinancing cushion for the first quarter of 2001 as for 2000. More than one-fourth of this borrowing is expected to be from the World Bank and the IDB, and the domestic pension funds are expected to take up most of the remainder.

19. The authorities recognized that, in the light of the outturn for the first half of the year, the ceiling (indicative) on the **deficit of the provinces,** and that on the **change in the consolidated public sector debt** (a performance criterion for year-end) would likely both be exceeded; the former by the equivalent of about ¼ percent of GDP, and the latter—also reflecting the proposed modification of the federal deficit target—by ½ percent of GDP. Accordingly, they requested an increase of these ceilings, from Arg$2.2 billion to

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[10] 0.3 percent of GDP if one-off severance payments for retrenched civil servants (dealt with through an adjustor to the ceilings) are taken into account.

Arg$2.9 billion (1 percent of GDP),[11] and from Arg$5.4 billion to Arg$7 billion (2.4 percent of GDP), respectively. It is worth noting that, given the widening output gap, the revised deficit target for the consolidated public sector will still result in an estimated **withdrawal of fiscal stimulus** (according to the standard fiscal impulse methodology) of over 2 percent of GDP in 2000.

20. In response to the concern expressed by the staff on the slippage at the provincial level, the authorities noted that the federal government was making efforts, within the existing constitutional constraints, to promote substantial **fiscal adjustment by the provinces**. The government had negotiated specific and monitorable adjustment programs with nine highly indebted provinces, as counterpart for its support in restructuring their debt. This adjustment was being effectively carried out, as evidenced by a nearly 40 percent reduction in the combined deficit of these provinces in the first half of 2000, compared with the same period of 1999. The authorities were also closely monitoring developments in the finances of the other provinces, and were actively discussing possible additional adjustment measures with some of them, in particular Buenos Aires, whose deficit is expected to account for more than half of the consolidated provincial deficit in 2000.[12] The authorities further emphasized that, even at the proposed higher level, the **provinces' deficit would be reduced by the equivalent of about 0.6 percent of GDP, compared with 1999**. The provinces' adjustment was complicated by a shortfall in their own revenues, reflecting the weakness of activity and decline in prices, and by higher than projected interest payments. Finally, the authorities noted that financing constraints continued to tighten, even for provinces like Buenos Aires that had traditionally enjoyed favorable market access. Therefore, these provinces would have to rely increasingly on project and structural reform financing from the multilateral development banks, which would be accompanied by tighter conditionality.

- **The budget outlook for 2001**

21. The authorities are currently in the process of preparing for the **2001 federal budget**, due to be presented to Congress on September 15, 2000. According to preliminary indications provided to the staff, the budget will target a deficit for the federal government of Arg$4.1 billion (on a cash basis, and including the quasi-fiscal surplus of the BCRA), equivalent to 1.4 percent of GDP, and in line with the requirements of the fiscal responsibility law. The budget will be based on the assumptions of a 3.7 percent growth of real GDP (in line with the current consensus forecast for next year) and of an increase in the

[11] Arg$100 million of this increase reflect the incorporation into the accounts of an extrabudgetary fund for infrastructure, financed with privatization receipts, of the province of Mendoza.

[12] Buenos Aires accounted for Arg$2.1 billion of the Arg$4.5 billion consolidated provincial deficit in 1999. On September 2, 2000 the federal government and that of the Province of Buenos Aires signed an agreement whereby the province joins the government in the quest to reach fiscal balance by 2003, along a path similar to that of the Fiscal Responsibility Law.

GDP deflator of around ¾ percent. **Tax revenues** will be adversely affected in 2001 by the disappearance of some one-off factors which boosted them in 2000, e.g., the downpayment for the tax amnesty, modifications in the calendar of tax advances, and the temporary income tax surcharge on upper brackets. The authorities expect these losses (estimated to amount to around 0.6 percent of GDP), as well as an increase in interest payments equivalent to 0.4 percent of GDP, to be more than offset by the fiscal dividends of the recovery in output and prices, improvements in tax administration, additional nontax revenues (especially from the leasing of airwaves), the full year effects of the tax measures and expenditure cuts implemented in 2000, and **further restraint in primary spending**. The staff will analyze the budget in detail later this year, during the discussions for the second review of the program. At that time, with more up-to-date information on developments in the second half of 2000 and the macroeconomic prospect for next year, it will assess the adequacy of the measures proposed to ensure compliance with the deficit target.

- **Structural fiscal reforms**

22. In addition to the **structural fiscal reforms** already in progress (mainly in the areas of tax administration, health, and public expenditure) the government has set in train major initiatives in regard to the social security system, and to fiscal relations with the provinces. In the **social security** area, the authorities recognize the need for a second round of reforms to ensure the long-term solvency of the system put in place with the reform of 1994. To this end, they submitted to Congress in June draft legislation aimed at reducing the prospective deficit and increasing the equity of the system. Given the complexity and sensitivity of the issues involved, the draft law is expected, nevertheless, to face a protracted discussion in the legislature. The reform includes proposals to: (a) reduce the basic universal pension, in order to generate resources that would allow the extension of coverage to a wide segment of the population that at present lacks pension benefits; (b) provide incentives for women to delay their retirement age to 65 years (currently 60 years); (c) reform the remaining special pension regimes in the public sector, which currently entail overly generous benefits for selected categories of employees; and (d) strengthen the regulatory framework and oversight for the private pension plans, to promote a reduction in their operating costs and enhance their long-term solvency.

23. The reform of **intergovernmental fiscal relations** is proceeding on two tracks. On the one hand, the government is seeking to engage the provinces in the overall process of fiscal adjustment, with the aim of attaining balance in the consolidated public finances by 2003. For this purpose, the authorities have proposed to provincial governors a formal agreement that includes, inter alia, undertakings to freeze nominal spending in the provinces at the 2000 levels for a five-year period; put limits on the province's debt; create a shared Social Assistance Fund; move gradually to harmonize tax systems (including the elimination of certain distortionary provincial taxes); increase the transparency of the fiscal accounts; and work on the more permanent **reform of the revenue sharing system.** The latter constitutes the second main track of action towards reform. In this regard, the government has prepared a basic framework document and has submitted it to the provinces for discussion. The

document contains proposals to unify the base of calculation of shared revenues, lengthen the period for their calculation, create a stabilization fund to reduce cyclical sensitivity, reform the secondary distribution (among individual provinces), and establish the Federal Council to administer the new regime. It is expected that a reform proposal will emerge from the ongoing discussions, which would then be submitted to Congress, and subsequently to ratification by the provinces, likely during 2001.

C. Financial Policies and Reforms

24. The authorities intend to continue implementing policies further to strengthen the **domestic financial system,** which they see as crucial to maintain confidence, promote the further monetization of the economy, and provide the stable environment needed for the recovery of credit to the private sector. To this end, **capital adequacy ratios** are to be kept at their high present levels, while the BCRA continues to make progress in refining its assessment of the adequacy of bank provisions and capital by, inter alia, using Value at Risk models. The authorities have also indicated their intention to maintain the current **liquidity requirements** for banks, and to continue strengthening the contingent repo facility with foreign banks, thus keeping the coverage of private sector bank deposits with liquid foreign assets above 30 percent. The financial system is considered to be in a sound condition at present, and the authorities do not expect significant disruptions, even though the process of consolidation is likely to continue, with the gradual absorption of the weaker banks into the expanding network of the larger ones.

25. To help the recovery of **credit to private sector borrowers**, the authorities are taking steps to increase the transparency of credit markets, in particular through a widening of the coverage of the credit bureau's data base, and have put forward legislation which aims at strengthening the banks' ability to recover collateral for nonperforming loans. The Banco de la Nación has also moved to increase its allocation of credit to small and medium enterprises, and to farmers. In response to staff's concerns about possible implications of the latter move for the quality of the bank's portfolio, the authorities emphasized that the Banco de la Nación was, and would remain, in full compliance with the BCRA's stringent prudential requirements.

26. The process of **reform and modernization of the financial sector** is moving forward on several fronts, including:

- initiatives to strengthen coordination among, and eventually consolidate, the several existing supervisory entities (banks, stock exchanges, insurance, and pension funds);

- efforts to develop a domestic capital market, by establishing a clearing mechanism for security transactions, simplifying procedures for bond issues, and revising existing legislation to strengthen corporate governance, protection of minority shareholders, and fair business practices. In the context of regional integration, coordination is being sought with Brazil on these matters; and

- legislation, still pending in Congress, to revise the BCRA's Charter and aimed at further strengthening the bank's ability to deal with potentially troubled institutions.

D. Other Selected Structural Reforms

27. The authorities seek to promote **competition** in domestic markets as a means to improve efficiency, as well as consumer welfare. To this end, the government is strengthening the actions of the secretariat for the defense of competition and is implementing recently revised antitrust legislation. In the area of telecommunications, contracts with the two companies operating in the sector expire in 2000, and new arrangements have been put in place to open the sector to new entrants (including foreign participants), lower connection fees, and extend the provision of services to remote areas. Negotiations are underway with utility companies to rationalize the system of tariff determination.

28. The authorities are also moving forward with a number of initiatives to assist **small businesses** to gain access to credit and to help their participation in the market. Legislation to this end was passed by Congress in August. The new law will allow the creation of revolving funds to provide guarantees to borrowing by small firms, as well as seed money and working capital for such enterprises. The initial capital of these funds will be obtained from reallocating part of the capital of the (public) Investment and Foreign Trade Bank (BICE), and from cofinancing operations with the private sector and international development agencies. Also, there are provisions for making annual allocations in the budget to grant partial subsidies to the interest rate paid by small businesses. In addition, programs to enhance the managerial and technical capabilities of the latter are being strengthened, including the setting up of consortia of small exporting firms to gain improved access to foreign markets.

29. The authorities are setting up a mechanism to allow greater involvement of the private sector in the development, and in some cases, the operation **of basic infrastructure.** This initiative includes the establishment of a **trust fund to help provide guarantees to private contractors** responsible for the construction of public infrastructure and/or provision of public services. Under this proposal, contractors would undertake the construction, maintenance, and operation of public infrastructure, and lease it to the government upon completion. The fund would guarantee the payment of the leases arising under this scheme, thus lowering the financing costs for the contractor. In turn, the guarantees would be backed by certain government assets to be given to the fund, as well as by the fund's right to call on the proceeds of the fuel tax. The projects to be undertaken with this scheme will have to be approved in future budgets of the federal government, and the lease payments will also have to be budgeted for. The authorities indicated that this scheme would provide an efficient way to obtain higher quality public services at a reduced immediate cost to the budget. They also saw this initiative as a promising (albeit of limited scope) instrument for stimulating activity in the depressed construction sector, and promoting a recovery in bank lending to the private sector.

E. External Policies and Prospects

30. The authorities emphasized their full commitment to **the convertibility regime**. In response to inquiries by the staff as to its costs and benefits, as well as the degree to which it continues to enjoy the support of the population, the authorities noted that the regime has been, for about 10 years now, the anchor for financial stability and inflation expectations in a country that had a long history of fiscal indiscipline and very high inflation. This fact, and especially the **high degree of de facto dollarization in the economy** (with 99 percent of the public debt, over two-thirds of private debt, 60 percent of bank deposits, and a large share of contracts denominated in foreign exchange) suggest that a **shift to a floating exchange rate regime could be very disruptive, at least in the short term**. As regards the **option of unilateral dollarization,** the authorities noted that it might help reduce interest rates by eliminating the remaining currency risk, but it would result in some loss of seignorage, as well as the limited lender of last resort facilities by the BCRA allowed by the current regime, and could hinder closer integration over the medium term with other countries in the region which follow a different exchange rate regime.

31. The authorities also noted the ongoing rebound in competitiveness indicators, which is being confirmed by the strong performance of exports, particularly the increase in volumes across a wide range of sectors. They expected **competitiveness to strengthen further** over the short- to medium-term as a result of continued moderation of wages and prices, and productivity gains stemming from increased competition and labor market flexibility. They also indicated that a significant real effective depreciation of the peso would eventually result from a weakening of the U.S. dollar.

32. Contrary to projections of an only marginal narrowing of the **trade deficit** made at the beginning of the year, the external trade account is now expected to shift from a deficit of US$2.2 billion in 1999 to near balance in 2000 (Table 8), even allowing for a significant recovery of imports in the second half of the year. The swing in the trade balance is expected to more than compensate for the increased deficit on the interest, and profits and dividends accounts, leading to a substantial (more than ½ percent of GDP) reduction of **the current account deficit**, to US$10.8 billion (3.7 percent of GDP), from US$12.3 billion in 1999, and US$14.3 billion in 1998. About half of the 2000 deficit is expected to be financed by **net FDI**. Given scheduled amortizations of medium- and long-term external debt equivalent to US$16 billion, **gross external financing requirements**, net of FDI, are projected to reach about US$22 billion, of which US$15 billion are expected to be met through public sector borrowing in international capital markets (Table 9). The **external debt** (public and private) is expected to rise to US$153 billion (52.5 percent of GDP) by end-2000, and the debt service to reach 91 percent of exports in 2000 (Table 10).

33. The authorities reaffirmed their intention to pursue an open **trade policy**. They pointed to their active participation in multilateral trade initiatives, and reaffirmed their commitment to comply with WTO rulings, including on the use of safeguards in sensitive

sectors.[13] The staff urged them to resist growing pressures for protection in sensitive sectors, including through demands for nontariff barriers such as anti-dumping, labeling, and sanitary requirements, licensing, and other administrative red tape. The authorities noted the importance they attach to a **deepening of the economic integration in Mercosur**, and indicated their interest in broadening the membership of the latter to include Bolivia and Chile. In the context of Mercosur, Argentina is working towards institutionalizing mechanisms for the resolution of trade disputes, and on securing greater macroeconomic convergency through more active policy dialogue and the adoption of common statistical standards. The authorities noted the new agreement recently reached with Brazil on the common automotive policy, in which quotas on automobile imports were eliminated, while tariffs were raised from 23 percent to 35 percent. In response to concerns by the staff that this move could increase the degree of protection in the automotive sector, the authorities took the position that the impact of elimination of quotas more than outweighed that of the increased tariffs, resulting in a reduction of effective protection. The authorities also noted that Argentina intends to press within Mercosur for the elimination of the 3 percent surcharge on the common external tariff on most products in the course of 2001.

F. Medium-Term Prospects

34. The authorities have repeatedly emphasized their commitment to **achieving equilibrium at the federal level by 2003**, as mandated by the fiscal responsibility law. As indicated above, they are also pressing the provinces to enter into an agreement that would commit them to a similar path of adjustment. The staff's analysis suggests that **the achievement of these objectives**—although by no means easy, given the increase it would require in the primary surplus at both levels of government—would be instrumental in **promoting a sustained reduction of the public debt to GDP ratio**, thereby strengthening confidence and facilitating a gradual decline in the country risk and in domestic interest rates (Table 11). The improved confidence and easier access to financing would likely more than compensate for the further withdrawal of fiscal stimulus implied by the increase (to over 4 percent of GDP) in the primary surplus of the consolidated public sector. The staff scenario for 2001-05, based on such a fiscal adjustment path, assumes a rate of growth of 3.7 percent in 2001, accelerating to 4 percent a year thereafter, with domestic inflation remaining below international levels (Table 12). The attendant improvement in competitiveness should facilitate gains in market shares, and contribute to moderating the rebound in imports entailed by the recovery in domestic demand. The terms of trade are projected to continue recovering gradually from the losses recorded in 1997–99 in line with the current WEO forecasts for foreign demand and prices. Under these assumptions, the trade surplus should continue to increase, and the **current account deficit should decline in relation to GDP to below 3 percent** by 2005.

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[13] After a WTO final ruling against Argentina, safeguard measures on imports of footwear were eased in February to include sport footwear only. Argentina is negotiating in the WTO compensatory measures with the remaining affected countries.

35. The decline in the current account deficit, notwithstanding a gradual increase in investment relative to GDP, would initially reflect the sharp adjustment in the public sector finances, which would more than compensate for the further drop in private savings from the high levels attained during the 1999 recession. Over the medium term, however, private savings could be expected to increase, reflecting the pickup in GDP growth, the expected recovery of the terms of trade and of enterprise profits, and the growth of private pension funds. The reduced recourse to foreign savings would be reflected in a **decline of the external debt and debt service requirements**, both in relation to GDP and especially to exports. If the arrangement is not drawn upon, **outstanding credit from the Fund** will continue to decline rapidly in the years ahead, to under 10 percent of quota by the middle of the decade, and **debt service obligations to the Fund** will peak in 2000 at 4.7 percent of exports of goods and services (under 10 percent of the total public sector debt service). If, instead, all purchases were made, Fund credit would peak at 280 percent of quota by February 2003.

36. With a view to assessing **potential downside risks**, the staff has also prepared a **sensitivity analysis** of the scenario, to gauge the possible effects of, in particular: a lower growth of foreign demand and exports; a higher growth of domestic demand and output; and higher interest rates on new foreign borrowing. The results of this analysis are summarized in Figure 4. They show that, as was the case with the similar analysis presented in the staff report for the stand-by (EBS/00/20), the current account balance is particularly sensitive to the growth of domestic demand, given the relatively high income elasticity of imports, and to the evolution of foreign demand. It should be noted, however, that because of the export-led nature of the external adjustment already taking place in 2000, the economy appears now to be in a better position to sustain more rapid rates of GDP growth; while the diminished recourse to foreign borrowing this year is helping set the debt and debt service indicators on a more rapid downward path than appeared to be the case in the earlier exercises.

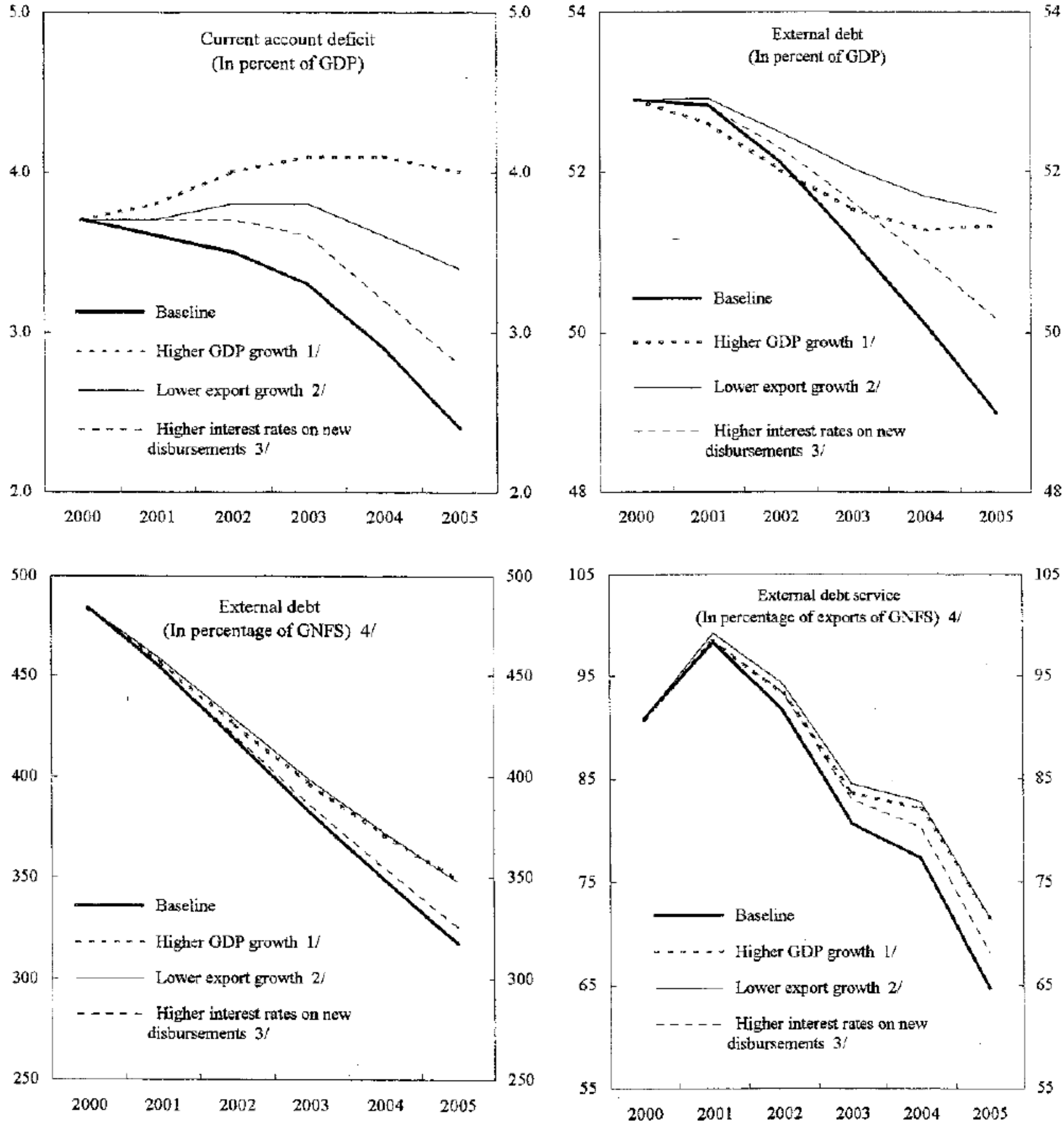
G. The Stand-By Arrangement

37. As explained in Section B above (paragraphs 17 and 19), the authorities requested **modifications to the fiscal performance criteria** in the program for end-September and end-December 2000. The ceilings on the deficit of the federal government and on the deficit of the provinces (indicative) are proposed to be raised by the equivalent of about 0.2 percent of GDP each, as shown in Table 7, while the ceiling on the primary expenditure of the federal government is to be reduced by the equivalent of 0.1 percent of GDP. The proposed modifications of the deficit ceilings require the parallel modification of the ceilings on the debt of the federal government and that of the consolidated public sector. It is further proposed to modify the **Technical Memorandum of Understanding** annexed to the authorities' Memorandum of Economic Policies to include the planned trust fund for the development of infrastructure in the measurement of the result of the debt of the federal government; to allow for the exclusion of the severance payments that are being paid in the context of the program of personnel retrenchment under way in 2000; to bring the definition of debt into line with EBS/00/178 (June 30, 2000); to account for an heretofore extrabudgetary fund that was incorporated into the accounts of the provinces of Mendoza; and to exclude in the future capital gains realized in the sale of financial assets, including the

collateral of Brady bonds. Finally, to make consistent the availability date for the first purchase in CY 2001 with the **second review under the arrangement**, it is proposed to move the date of the latter to February 28, 2001.

Figure 4. Argentina

Sensitivity Analysis on Medium-term Scenario, 2000-2005



Source: Argentine authorities; and IMF staff estimates.

1/ Assumes one percentage point higher real GDP growth from 2001 onward.
2/ Assumes one percentage point lower real export growth from 2001 onward.
3/ Assumes 100 basis points higher interest rates on new disbursements from 2001 onward.
4/ GNFS denotes goods and nonfactor services.

IV. STAFF APPRAISAL

38. The program announced by the Argentine government in December 1999, at the outset of its tenure, and supported by the SBA with the Fund, centered on **fiscal consolidation**—following the substantial deterioration of the public sector finances in 1999—and on **structural reforms needed to improve productivity and competitiveness in the economy**. These policies were seen as crucial—within the framework of the convertibility regime—to creating conditions for a sustained recovery of confidence, a reduction of the country risk and easing of financing constraints, and ultimately a lasting recovery of growth in output and employment. As outlined in the preceding sections of the report, the **authorities have made to date substantial efforts to deliver on their commitments under the program**, sometimes in a difficult political and social environment. **These efforts have been successful in important respects, less so in others**. Specifically, the authorities have succeeded, through restraint in primary spending (as well as through some one-off revenue gains) in adhering through mid-year to the program targets for the federal deficit, despite significantly lower tax revenues and higher interest payments than originally projected in the program.

39. On the structural side, the approval in May by Congress of the **labor reform** represented an important contribution to increasing flexibility in the formal labor market, and thus the scope for a rapid response of formal employment to a recovery in the economy. Similarly, the **reform of the union-run health system,** if implemented as announced at the beginning of 2001, should contribute to modernizing labor relations, as well as improving cost-effectiveness in the delivery of health services. Progress has also been made in **strengthening the legal framework for tax administration and enforcement,** although the main proposed reform law in this area remains stalled in the Senate, and the tax amnesty, while boosting revenue in the short run, may impact adversely taxpayers' compliance in the future. In some of the other structural areas, progress to date has been more limited, as the process of congressional approval of proposed reform legislation remains, to varying degrees, incomplete.

40. Against this background of substantial compliance with the program, the **difficulties encountered by the economy to sustain the short-lived pickup in the last quarter of 1999 have been a source of frustration** to the authorities, as well as to the Argentine population, and have contributed to increased concerns about Argentina in international markets. While recognizing these frustrations, the **authorities have reaffirmed**—in the consultation discussions, as well as in public pronouncements, and recent policy decisions—**their commitment to the convertibility arrangement, and to the adjustment path mandated by the fiscal responsibility law, which are supported by the Fund program**. However, a realistic analysis of the prospects for the public finances for the rest of this year has now made clear the need to request a **modification of the program targets for the federal and provincial deficits and debt** for September and December.

41. In the view of the staff, the **proposed modifications**, especially that for the federal government, are **relatively small, and justifiable in the light of the cyclical developments in the economy.** Moreover, the authorities are also proposing a modest reduction of the program ceilings on primary federal spending for the rest of the year, to reflect the expenditure cuts enacted in May, and attest to their continuing commitment to fiscal consolidation. The staff would, however, urge the government to further strengthen its **efforts to promote a sustained improvement in the provinces' finances**, especially the larger ones. While the current level of the debt of some of these provinces—such as Buenos Aires—is not particularly high, it is growing rapidly, and, unless efforts are strengthened soon to rein in the growth of these provinces' spending, the ensuing escalation of their interest burden will eventually force more a drastic adjustment.

42. On a broader level, the staff believes that the **basic economic policy strategy of the government remains fundamentally correct**, and deserves the continued support of the international community. The **convertibility regime** continues to be viewed by the vast majority of the Argentine people as the main anchor for macroeconomic and financial stability. Therefore, the consequences of an exit from it—while difficult to predict with confidence —could be quite disruptive for the political and social fabric of the country. In particular, based on the experience of other countries, a shift to a floating exchange rate regime could lead to significant overshoot, which, given the high degree of de facto dollarization of the economy, and especially of the public debt, in all likelihood would have a strong adverse impact on inflation, the banking system, and especially the public sector finances.

43. Within the framework of the convertibility regime, the **Argentine economy has indeed been adjusting to the major external shocks that have affected it in recent years.** The adjustment has taken place—as the nature of the regime demanded—through a decline in domestic costs and nontradable goods prices, and through a reduction in absorption. Despite its short-run adverse impact on consumption, a substantial improvement in the fiscal accounts—following their sharp deterioration in 1999—was essential to put the public debt on a more sustainable path, and prevent a further tightening of financing constraints on the private sector. With its improved competitive position, a current account deficit below 3¾ percent of GDP, the public sector deficit on a declining path, and important structural reforms enacted or under way, the **Argentine economy is now in a better underlying position than in recent years** to achieve more rapid growth, with price stability, and sustainable external deficits over the short and the medium term. This is confirmed by the medium-term scenarios prepared by the staff.

44. **But, for the country to reap the fruits of the adjustment, it is essential that confidence is strengthened, both domestically and abroad.** Improved confidence is necessary to promote a sustained recovery of domestic demand—signs of which have begun to emerge in recent weeks—and to ensure a continued flow of external financing. **Argentina remains vulnerable in both respects, a fact which underscores the importance of unambiguous policy signals by the authorities**. The **federal budget for 2001**, currently under preparation, **will need to provide an important signal** of the authorities' determination to pursue a steady path of fiscal consolidation, to reach equilibrium in the

fiscal accounts by 2003, as mandated by the fiscal responsibility law. It is essential for the credibility of this commitment that the revenue projections be based on realistic—preferably cautious—assumptions regarding the growth of the tax base and improvements in tax compliance. The achievement of **progressively higher primary surpluses** in the next few years will no doubt require difficult policy choices on the spending side, as well as strengthened efforts to improve tax enforcement, the management of public expenditures, and efficiency in the delivery of public services. The proposed additional **reform of the social security**, while unlikely to yield significant short-term savings, is essential to bolster the solvency of the system over the longer term. Since the provinces account for about one-quarter of the consolidated public sector deficit and two-thirds of primary public sector spending (excluding pensions), sustained fiscal adjustment will require significant efforts on their part as well. The government needs to intensify its efforts to secure **agreement with the provinces on the proposed reform of the revenue-sharing system, and a new Federal Pact** which would commit the provinces to a path of fiscal adjustment similar to that envisaged by the fiscal responsibility law for the federal government. At the same time, the authorities need to utilize fully their existing legal powers to control the recourse by the provinces to new indebtedness.

45. Argentina has subscribed to the SDDS and is in observance of the standard. **The quality and timeliness of the macroeconomic and financial statistical base is good**, and the provision of data to the Fund for the conduct of surveillance is adequate.

46. In summary, despite a more difficult economic and political environment than hoped for at the outset, the Argentine authorities recognize that there is no alternative to their program of fiscal consolidation and structural reform, which is supported by the SBA with the Fund, and have demonstrated their commitment to it. There are signs that their determination is beginning to pay off, in terms of an incipient recovery of the economy and a clear improvement in the external current account. While existing risks should not be underestimated, the **continued support of the international community is critical, at this juncture, to strengthen market confidence and facilitate a consolidation of the recovery**. The staff recommends approval of the first review of the SBA with the proposed modifications of the program ceilings. It is expected that the next Article IV consultation with Argentina will be held on the standard 12-month cycle.

Table 1. Argentina: Performance Under the Program

Quantitative Performance Criteria 1/
(In millions of Argentine pesos or U.S. dollars)

	Jan-Mar 2000				Jan-Jun 2000			
	Program	Adjusted Program	Outcome	Margin	Program	Adjusted Program	Outcome	Margin
1. Cumulative balance of the Federal Government	(2,150)	(2,150)	(2,005)	145	(2,690)	(2,690)	(2,263)	427
2. Cumulative primary expenditure of the Federal Government	13,390	13,390	13,260	130	26,130	26,130	26,100	30
3. Cumulative consolidated balance of the Provincial Governments 2/	...		...	...	(1,370)	(1,370)	(1,565)	(195)
4. Cumulative change in the debt of the Federal Government	2,860	1,171	1,667	(496)	6,860	5,536	3,198	2,338
5. Cumulative change in the short-term debt of the Federal Government	1,500	1,500	592	908	1,500	1,500	519	981
6. Cumulative change in the debt of the Consolidated Public Sector	...	...	...	...	...		...	...
7. Cumulative change in the net domestic assets of the Central Bank	(275)	(275)	(677)	402	(440)	(440)	(921)	481

Structural Benchmarks for the First Review

Benchmark	Progress
1. Entry into effect of laws to strengthen tax administration.	Partially put in place by decree.
2. Entry into effect of labor market reform.	Implemented.
3. Submission to congress of reform of the Social Security System.	Submitted in June.
4. Implementation of arrangements to monitor provincial finances.	Implemented.
5. Submission to congress of reform of revenue sharing regime with the provinces.	Draft project being discussed with provincial governments.
6. Submission to congress of reform of the Banco Nación.	Submitted in March.

1/ As defined in the Technical Memorandum of Understanding (EBS/00/20).
2/ Indicative.
3/ Indicative through September 2000.

Table 2. Argentina: National Income and Prices (1995-2003)

	1995	1996	1997	1998	1999	Projections 2000	2001	2002	2003
	(Annual percentage change, unless otherwise indicated)								
GDP at current prices	0.2	5.5	7.6	1.8	-5.1	2.2	4.2	4.6	4.7
GDP at constant prices	-2.8	5.5	8.1	3.9	-3.1	1.7	3.7	4.0	4.0
Industrial production	-6.7	5.2	10.1	3.5	-6.9	...	...	...	...
GDP deflator	3.2	-0.1	-0.5	-2.0	-2.0	0.5	0.5	0.6	0.6
Consumer prices (e.o.p.)	1.6	0.0	0.3	0.7	-1.8	0.4	...	...	...
Nominal industrial wages	-1.8	0.4	-3.1	-0.2	-0.9	...	...	...	...
Unemployment rate (percent)	17.5	17.2	13.1	14.3	14.2	15.0	14.0	13.3	12.5
	(In percent of GDP)								
Gross domestic investment	17.9	18.1	19.4	19.9	19.2	17.8	18.2	18.8	19.3
Of which: public investment	2.1	1.8	2.2	2.1	1.8	1.5	1.5	1.5	1.5
Gross national savings	16.0	15.7	15.3	15.1	14.8	14.1	14.5	15.2	16.0
External saving	1.9	2.4	4.1	4.8	4.4	3.7	3.6	3.5	3.3
Net Exports	-0.4	-0.6	-2.2	-2.5	-1.7	-0.9	-0.5	-0.2	0.3
Exports	9.7	10.5	10.6	10.4	9.8	10.9	11.6	12.4	13.4
Imports	10.1	11.1	12.7	12.9	11.5	11.8	12.1	12.6	13.1
Private consumption	69.1	70.0	70.7	70.7	69.7	69.6	69.4	69.0	68.6
Public consumption	13.3	12.5	12.1	11.9	12.9	13.5	13.0	12.4	11.8
GDP (in billions of Arg$)	258.0	272.2	292.9	298.1	283.1	289.3	301.6	315.5	330.3

Sources: National Institute of Statistics; FIEL; and Fund staff estimates.

Table 3. Argentina: Consolidated Public Sector Operations 1995-2000

	1995	1996	1997	1998	1999	2000			
						Jan.-Jun.		Year	
						Prog.	Prel.	Prog.	Rev. Prog.
			(In millions of pesos)						
Revenue	**59,780**	**60,086**	**67,573**	**70,662**	**68,508**	**34,806**	**35,342**	**71,821**	**71,035**
Total tax revenue	40,206	42,978	49,250	52,013	49,647	26,388	26,049	54,930	52,947
Social security contributions 1/	13,705	11,956	12,202	11,990	10,892	5,154	5,361	10,460	10,805
Other revenues 2/	5,869	5,152	6,122	6,659	7,970	3,264	3,931	6,432	7,283
Non interest expenditure	**60,923**	**63,140**	**66,785**	**69,121**	**70,517**	**33,511**	**33,597**	**67,926**	**67,973**
Wages	22,920	22,725	24,157	24,912	26,676	13,222	13,146	26,764	26,570
Goods and services	5,538	5,519	6,105	6,486	6,761	2,714	2,856	5,967	5,839
Transfers to the private sector 3/	22,752	24,957	25,925	26,774	27,413	13,141	13,102	26,665	26,589
Other	9,713	9,940	10,599	10,949	9,667	4,434	4,493	8,530	8,974
Primary balance	**-1,143**	**-3,054**	**788**	**1,540**	**-2,009**	**1,295**	**1,745**	**3,895**	**3,062**
Interest	**4,807**	**5,613**	**6,843**	**7,858**	**9,656**	**5,263**	**5,573**	**10,795**	**11,262**
Overall balance	**-5,951**	**-8,668**	**-6,055**	**-6,318**	**-11,665**	**-3,968**	**-3,828**	**-6,900**	**-8,200**
			(In percent of GDP)						
Revenue	**23.2**	**22.1**	**23.1**	**23.7**	**24.2**	**11.8**	**12.2**	**24.4**	**24.6**
Total tax revenue	15.6	15.8	16.8	17.4	17.5	9.0	9.0	18.7	18.3
Social security contributions 1/	5.3	4.4	4.2	4.0	3.8	1.8	1.9	3.6	3.7
Other revenues 2/	2.3	1.9	2.1	2.2	2.8	1.1	1.4	2.2	2.5
Noninterest expenditure	**23.6**	**23.2**	**22.8**	**23.2**	**24.9**	**11.4**	**11.6**	**23.1**	**23.5**
Wages	8.9	8.4	8.2	8.4	9.4	4.5	4.5	9.1	9.2
Goods and services	2.1	2.0	2.1	2.2	2.4	0.9	1.0	2.0	2.0
Transfers to the private sector 3/	8.8	9.2	8.9	9.0	9.7	4.5	4.5	9.1	9.2
Other	3.8	3.7	3.6	3.7	3.4	1.5	1.6	2.9	3.1
Primary balance	-0.4	-1.1	0.3	0.5	-0.7	0.4	0.6	1.3	1.1
Interest	1.9	2.1	2.3	2.6	3.4	1.8	1.9	3.7	3.9
Overall balance	-2.3	-3.2	-2.1	-2.1	-4.1	-1.3	-1.3	-2.3	-2.8

Sources: Ministry of Economy; and Fund staff estimates.

1/ Data for 1995-96 are adjusted to present federal revenue and expenditure on familiy benefits on a gross basis.
2/ Includes central bank (BCRA) result.
3/ Includes pension payments.

Table 4. Argentina: Federal Government Operations 1995-2000

	1995	1996	1997	1998	1999	2000			
						Jan.-Jun.		Year	
						Prog.	Prel.	Prog.	Rev. Prog.
	(In millions of pesos)								
Revenue	**48,101**	**47,817**	**54,207**	**56,751**	**55,020**	**27,941**	**28,603**	**57,824**	**57,029**
Taxes	31,035	33,176	38,352	40,363	38,626	20,752	20,668	43,378	41,615
Social security contributions 1/	13,705	11,956	12,202	11,990	10,892	5,154	5,361	10,460	10,805
Nontax revenue 2/	3,328	2,574	3,465	3,929	5,277	1,946	2,351	3,794	4,205
Other 3/	33	110	188	469	225	89	223	193	403
Noninterest expenditure	**46,438**	**50,035**	**53,094**	**53,918**	**53,952**	**26,130**	**26,100**	**53,229**	**52,756**
Discretionary (exc. tranfers to prov.)	**31,928**	**34,149**	**35,418**	**35,585**	**36,108**	**17,080**	**17,041**	**34,974**	**34,470**
Wages	7,771	7,973	8,510	8,076	8,548	4,012	4,045	8,221	8,068
Goods and services	2,346	2,450	2,567	2,697	2,637	1,124	1,065	2,399	2,248
Pensions	15,628	16,844	17,199	17,481	17,436	8,366	8,461	17,339	17,262
Private transfers	4,680	5,720	5,700	5,910	6,411	3,142	3,117	6,059	6,067
Other current expenditure	367	150	146	155	102	52	27	106	90
Capital	1,137	1,013	1,296	1,267	973	384	327	850	734
Transfers to Provinces	**14,510**	**15,886**	**17,675**	**18,333**	**17,844**	**9,050**	**9,058**	**18,255**	**18,286**
Of which : automatic 4/	...	...	15,220	16,457	15,835	8,100	8,100	16,200	16,201
Primary balance	**1,663**	**-2,219**	**1,114**	**2,833**	**1,068**	**1,811**	**2,504**	**4,595**	**4,273**
Interest	4,087	4,610	5,791	6,661	8,224	4,501	4,766	9,295	9,573
Overall balance	**-2,423**	**-6,828**	**-4,677**	**-3,828**	**-7,156**	**-2,690**	**-2,263**	**-4,700**	**-5,300**
	(In percent of GDP)								
Revenue	**18.6**	**17.6**	**18.5**	**19.0**	**19.4**	**9.5**	**9.9**	**19.7**	**19.7**
Taxes	12.0	12.2	13.1	13.5	13.6	7.1	7.1	14.7	14.4
Social security contributions 1/	5.3	4.4	4.2	4.0	3.8	1.8	1.9	3.6	3.7
Nontax revenue 2/	1.3	0.9	1.2	1.3	1.9	0.7	0.8	1.3	1.5
Other 3/	0.0	0.0	0.1	0.2	0.1	0.0	0.1	0.1	0.1
Noninterest expenditure	**18.0**	**18.4**	**18.1**	**18.1**	**19.1**	**8.9**	**9.0**	**18.1**	**18.2**
Discretionary (exc. tranfers to prov.)	**12.4**	**12.5**	**12.1**	**11.9**	**12.8**	**5.8**	**5.9**	**11.9**	**11.9**
Wages	3.0	2.9	2.9	2.7	3.0	1.4	1.4	2.8	2.8
Goods and services	0.9	0.9	0.9	0.9	0.9	0.4	0.4	0.8	0.8
Pensions	6.1	6.2	5.9	5.9	6.2	2.8	2.9	5.9	6.0
Private transfers	1.8	2.1	1.9	2.0	2.3	1.1	1.1	2.1	2.1
Other current expenditure	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Capital	0.4	0.4	0.4	0.4	0.3	0.1	0.1	0.3	0.3
Transfers to Provinces	**5.6**	**5.8**	**6.0**	**6.1**	**6.3**	**3.1**	**3.1**	**6.2**	**6.3**
Of which : automatic 4/	...	...	5.2	5.5	5.6	2.8	2.8	5.5	5.6
Primary balance	**0.6**	**-0.8**	**0.4**	**1.0**	**0.4**	**0.6**	**0.9**	**1.6**	**1.5**
Interest	1.6	1.7	2.0	2.2	2.9	1.5	1.6	3.2	3.3
Overall balance	**-0.9**	**-2.5**	**-1.6**	**-1.3**	**-2.5**	**-0.9**	**-0.8**	**-1.6**	**-1.8**

Sources: Ministry of Economy; and Fund staff estimates.

1/ Data for 1995-96 are adjusted to present revenue and expenditure on familiy benefits on a gross basis.
2/ Includes central bank (BCRA) result.
3/ Operating surplus of public enterprises and capital revenue (other than privatization receipts).
4/ As defined in the 2000 fiscal pact.

Table 5. Argentina: Provincial Governments Operations 1995-2000 1/

	1995	1996	1997	1998	1999	2000			
						Jan.-Jun.		Year	
						Prog.	Prel.	Prog.	Rev. Prog.
			(In millions of pesos)						
Revenue	**26,189**	**28,155**	**31,040**	**32,243**	**31,332**	**15,915**	**15,797**	**32,252**	**32,281**
Transfers from the federal government	14,510	15,886	17,675	18,333	17,844	9,050	9,058	18,255	18,275
Provincial taxes	9,172	9,802	10,897	11,650	11,021	5,636	5,381	11,552	11,332
Other provincial revenue	2,507	2,468	2,468	2,260	2,467	1,229	1,358	2,445	2,674
Noninterest expenditure	**28,995**	**28,991**	**31,367**	**33,536**	**34,409**	**16,431**	**16,555**	**32,952**	**33,492**
Wages	15,149	14,752	15,647	16,836	18,128	9,210	9,101	18,542	18,502
Goods and services	3,192	3,069	3,538	3,789	4,124	1,590	1,791	3,568	3,591
Transfers to the private sector 2/	2,445	2,393	3,025	3,384	3,566	1,633	1,524	3,267	3,260
Other	8,209	8,777	9,157	9,527	8,591	3,998	4,139	7,575	8,139
Primary balance	**-2,806**	**-836**	**-326**	**-1,293**	**-3,077**	**-516**	**-758**	**-700**	**-1,211**
Interest	721	1,004	1,052	1,197	1,432	762	806	1,500	1,689
Overall balance	**-3,527**	**-1,839**	**-1,379**	**-2,490**	**-4,509**	**-1,278**	**-1,565**	**-2,200**	**-2,900**
			(In percent of GDP)						
Revenue	**10.1**	**10.3**	**10.6**	**10.8**	**11.1**	**5.4**	**5.5**	**11.0**	**11.2**
Transfers from the federal government	5.6	5.8	6.0	6.1	6.3	3.1	3.1	6.2	6.3
Provincial taxes	3.6	3.6	3.7	3.9	3.9	1.9	1.9	3.9	3.9
Other provincial revenue	1.0	0.9	0.8	0.8	0.9	0.4	0.5	0.8	0.9
Noninterest expenditure	**11.2**	**10.7**	**10.7**	**11.2**	**12.2**	**5.6**	**5.7**	**11.2**	**11.6**
Wages	5.9	5.4	5.3	5.6	6.4	3.1	3.1	6.3	6.4
Goods and services	1.2	1.1	1.2	1.3	1.5	0.5	0.6	1.2	1.2
Transfers to the private sector 2/	0.9	0.9	1.0	1.1	1.3	0.6	0.5	1.1	1.1
Other	3.2	3.2	3.1	3.2	3.0	1.4	1.4	2.6	2.8
Primary balance	-1.1	-0.3	-0.1	-0.4	-1.1	-0.2	-0.3	-0.2	-0.4
Interest	0.3	0.4	0.4	0.4	0.5	0.3	0.3	0.5	0.6
Overall balance	-1.4	-0.7	-0.5	-0.8	-1.6	-0.4	-0.5	-0.7	-1.0

Sources: Ministry of Economy; and Fund staff estimates.

1/ Includes the municipality of the city of Buenos Aires (MCBA).
2/ Includes pension payments.

Table 6. Argentina: Summary Operations of the Financial System

(In millions of pesos, end of period)

	1995	1996	1997	1998	1999	2000 Prog.	2000 Proj.
			I. Central Bank				
Net international reserves 1/	9,832	13,452	16,898	20,807	22,873	25,389	25,380
Net domestic assets	7,560	7,105	5,922	5,499	4,639	3,559	3,285
Credit public sector 2/	10,460	9,951	9,546	8,744	7,805	6,572	6,525
Credit to the financial sector	3,061	1,957	1,571	1,922	1,856	2,112	1,443
Official capital and surplus and unclassified assets (net)	-5,961	-4,803	-5,195	-5,167	-5,023	-5,125	-4,683
Monetary liabilities	17,392	20,557	22,820	26,306	27,511	28,948	28,666
Currency issued	13,050	14,030	15,966	16,370	16,493	16,618	15,641
Government deposits	1,464	2,242	325	1,343	935	1,450	1,277
Reserve deposits of banks 3/	2,878	4,285	6,529	8,593	10,083	10,880	11,748
			II. Banks and Non-Bank Financial Institutions				
Net foreign assets	-7,320	-6,497	-4,782	-5,601	-8,184	-7,129	-4,664
Net claims on Central Bank	1,719	4,628	7,599	9,545	10,995	11,465	12,930
Net domestic assets	43,187	47,756	55,186	63,159	66,567	72,545	66,637
Credit to public sector (net) 2/	8,788	7,981	5,002	9,523	13,510	13,309	15,820
Credit to private sector	49,945	54,888	65,108	72,112	70,578	77,559	69,460
Capital and reserves	-13,970	-15,038	-16,039	-17,094	-16,903	-17,783	-17,072
Other	-1,577	-75	1,115	-1,382	-618	-540	-1,570
Private sector deposits	37,585	45,887	58,003	67,103	69,378	76,881	74,904
Local currency	16,067	19,388	25,196	27,898	26,441	28,427	27,010
Foreign currency	21,518	26,499	32,807	39,205	42,937	48,454	47,894
			III. Consolidated Financial System				
Net foreign assets	2,512	6,955	12,116	15,206	14,689	18,260	20,717
Net domestic assets	46,221	50,662	59,212	65,393	68,414	72,542	67,203
Credit to public sector (net)	17,784	15,690	14,223	16,924	20,380	18,431	21,069
Credit private sector	49,945	54,888	65,108	72,112	70,578	77,559	69,460
Net capital and reserves	-21,508	-19,916	-20,119	-23,643	-22,544	-23,448	-23,325
Liabilities to private sector	48,733	57,617	71,328	80,599	83,103	90,802	87,920
Currency in circulation	11,148	11,730	13,325	13,496	13,725	13,921	13,016
Local currency deposits	16,067	19,388	25,196	27,898	26,441	28,427	27,010
Foreign currency deposits	21,518	26,499	32,807	39,205	42,937	48,454	47,894
			(In percent of GDP) 4/				
Liabilities to the private sector	17.5	19.7	22.1	25.7	29.0	29.7	29.2
Currency in circulation	3.7	3.8	4.0	4.1	4.2	4.3	4.0
Peso deposits	6.0	6.8	8.1	9.2	9.6	9.0	9.2
Foreign currency deposits	7.9	9.0	10.1	12.4	15.1	16.4	16.0
Memorandum item: 5/							
Risk-based capital asset ratio (capital over risk-weighted assets)	23.2	23.8	20.8	20.4	21.0	...	20.4
Foreign exchange reserve cover of broad money	35.3	35.4	46.4	42.9	44.3	...	43.1
Share of non-performing loans in total loans	17.7	13.6	11.6	10.3	11.5	...	12.5
Share of foreign exchange loans in total lending	61.2	62.7	62.9	63.1	66.1	...	66.4
Share of foreign deposits in total deposits	54.4	53.0	53.2	54.6	58.3	...	59.2

Sources: Central Bank of Argentina; and Fund staff estimates

1/ The BCRA net international reserves comprises gold, foreign currency holdings, ALADI (net) and IMF liabilities.

2/ All public sector entities, including provincial governments.

3/ Includes current account deposits, and swaps ("pases pasivos") held by financial institutions at the Central Bank.

4/ Period averages.

5/ For 2000, June.

Table 7. Argentina: Quantitative Performance Criteria for 2000-02 1/

(In millions of Argentine pesos or U.S. dollars)

	Jan-Mar 2000	Jan-Jun 2000	Jan-Sep 2000	Jan-Dec2000	Jan-Dec 2001	Jan-Dec 2002
1. Cumulative balance of the Federal Government 2/ 3/	(2,150)	(2,690)	(3,850)	(5,300)	(4,100)	(2,400)
2. Cumulative primary expenditure of the Federal Government	13,390	26,130	39,690	52,930	...	...
3. Cumulative consolidated balance of the Provincial Governments 2/ 4/	...	(1,370)	...	(2,900)	(1,900)	(900)
4. Cumulative change in the debt of the Federal Government	2,860	6,860	5,125	4,000	...	...
5. Cumulative change in the short-term debt of the Federal Government	1,500	1,500	1,500	1,500	...	...
6. Cumulative change in the debt of the Consolidated Public Sector 5/	...	...	7,490	7,000	...	...
7. Cumulative change in the net domestic assets of the Central Bank	(275)	(440)	(850)	(1,080)	...	...

1/ As defined in the Technical Memorandum of Understanding.

2/ Targets for 2001-02 are indicative at present, to be substituted by performance criteria during the last review of the program for the preceeding year.

3/ Indicative targets for 2001-02 based on the fiscal responsibility law.

4/ Indicative.

5/ Indicative through September 2000.

Table 8. Argentina: Balance of Payments

(In billions of U.S. dollars, unless otherwise indicated)

						2000		Proj.		
	1995	1996	1997	1998	1999	Prog.	Proj.	2001	2002	2003
Current account	-4.9	-6.5	-12.0	-14.3	-12.3	-13.3	-10.8	-11.0	-11.1	-10.9
Trade balance	1.0	0.2	-4.0	-5.0	-2.2	-2.1	0.2	0.9	1.9	3.1
Exports (f.o.b.)	21.2	24.0	26.4	26.4	23.3	26.4	26.8	29.8	33.5	37.7
Imports (c.i.f.)	-20.2	-23.9	-30.5	-31.4	-25.5	-28.5	-26.7	-28.8	-31.6	-34.6
Non-factor services	-1.9	-1.8	-2.3	-2.5	-2.7	-2.8	-2.7	-2.5	-2.4	-2.3
Receipts	3.9	4.4	4.5	4.7	4.4	4.9	4.8	5.3	5.8	6.4
Expenditures	-5.8	-6.2	-6.8	-7.2	-7.1	-7.6	-7.4	-7.8	-8.2	-8.7
Factor services	-4.5	-5.3	-6.2	-7.4	-7.9	-8.9	-8.8	-9.9	-11.1	-12.4
Profits and dividends	-2.1	-2.0	-2.1	-2.4	-2.1	-2.5	-2.5	-2.8	-3.2	-3.6
Net interest	-2.4	-3.3	-4.1	-5.0	-5.8	-6.3	-6.3	-7.1	-8.0	-8.8
Interest due	-6.3	-7.3	-8.8	-10.3	-11.2	-12.6	-12.7	-14.1	-15.2	-16.3
Interest earnings	3.9	4.0	4.7	5.3	5.4	6.3	6.4	7.0	7.2	7.5
Transfers (net)	0.5	0.4	0.4	0.5	0.5	0.4	0.5	0.5	0.6	0.6
Capital account	2.9	9.9	15.6	18.5	14.2	15.8	13.3	13.3	13.2	12.8
Nonfinancial public sector	5.7	8.9	7.9	9.4	10.9	7.5	8.2	3.9	2.0	1.0
National government	6.2	8.7	6.7	9.5	10.1	7.4	7.9	3.9	2.1	1.3
Bonds and titles	3.3	8.4	6.3	7.6	6.9	7.2	8.8	6.0	6.5	4.9
Multilateral organizations	1.6	1.0	1.2	2.9	2.2	0.3	0.1	-1.0	-3.4	-2.3
Privatization	1.0	0.3	0.0	0.0	3.0	1.3	0.2	0.5	0.5	0.0
Other 1/	0.3	-1.0	-0.8	-0.9	-2.0	-1.3	-1.1	-1.6	-1.5	-1.4
Local governments	0.4	0.6	1.6	0.2	1.4	0.2	0.4	0.1	0.0	-0.1
Of which : privatization	0.1	0.2	0.8	0.3	1.2	0.0	0.0	0.0	0.0	0.0
Enterprises and other	-0.9	-0.5	-0.4	-0.3	-0.6	-0.1	-0.1	-0.1	-0.1	-0.1
Financial system	2.5	-0.4	-1.4	4.3	2.1	0.5	-0.3	0.8	0.9	0.8
BCRA 2/	0.0	0.6	-0.6	0.1	-0.2	0.0	0.0	0.0	0.0	0.0
Rest of the financial system	2.5	-1.0	-0.9	4.1	2.3	0.5	-0.3	0.8	0.9	0.8
Foreign direct investment	0.3	0.1	0.6	1.1	-0.6	0.2	0.2	0.4	0.4	0.4
Bonds and titles	-0.3	1.0	0.5	1.3	-0.3	1.1	0.3	0.4	0.5	0.4
Other	2.5	-2.2	-1.9	1.7	2.2	-0.9	-0.8	0.0	0.0	0.0
Nonfinancial private sector	-3.6	3.2	10.1	4.2	2.3	8.0	5.3	9.0	10.9	11.5
Foreign direct investment 3/	2.4	4.4	3.6	2.9	6.6	5.6	5.2	5.9	6.7	7.0
Portfolio investment 3/	-0.5	0.1	0.2	-1.5	-1.8	0.0	0.0	1.0	1.2	1.4
Debt-creating flows	4.1	1.7	5.3	6.4	0.6	2.5	0.1	2.1	3.0	3.1
Other 4/	-9.6	-2.9	1.1	-3.6	-3.1	-0.1	0.0	0.0	0.0	0.0
Other capital 5/	0.8	-1.8	-1.0	0.7	-1.2	-0.1	0.0	-0.5	-0.5	-0.5
Net international reserves (- increase)	2.0	-3.4	-3.6	-4.2	-1.8	-2.5	-2.5	-2.3	-2.1	-1.9
Assets	0.1	-3.8	-3.1	-3.4	-1.1	-1.2	-1.2	-1.0	-1.4	-1.5
Liabilities	2.0	0.4	-0.5	-0.8	-0.7	-1.3	-1.3	-1.3	-0.8	-0.4
Memorandum items:										
Current account (percent of GDP)	-1.9	-2.4	-4.1	-4.8	-4.4	-4.5	-3.7	-3.6	-3.5	-3.3
Foreign direct investment (incl. privatization) 3/	3.8	4.9	4.9	4.4	10.2	7.1	5.6	6.8	7.6	7.4
Terms of Trade (percentage change)	0.3	7.8	-1.2	-5.5	-5.9	3.5	3.7	1.0	1.3	1.0
Merchandise export volume (percentage change)	24.9	6.7	13.9	11.6	-0.7	8.2	8.4	9.0	9.5	10.0
Merchandise import volume (percentage change)	-11.6	19.6	30.6	8.7	-13.8	10.2	2.0	7.2	8.1	8.1
Gross reserves/monetary base (percent)	94.5	96.7	100.2	100.8	100.4	...	...	...	...	...
Gross reserves/short-term debt (percent) 6/	82.2	94.4	103.6	97.1	92.7	...	...	...	...	...

Sources: Ministry of Economy; and Fund staff estimates and projections.

1/ Includes commercial and bilateral loans.

2/ Excludes exchange rate valuations and foreign exchange reserve liabilities.

3/ In 1999, excludes the effect of the sale of YPF shares in the hands of the Argentine private sector to Repsol (i.e., US$10.838 billion in FDI inflows and in portfolio investment outflows).

4/ Reflects deposit reflows and counterpart of interest earnings held abroad.

5/ Includes errors and omissions.

6/ Short-term debt on a residual maturity basis.

Table 9. Argentina: Requirements and Sources of Foreign Exchange

(In billions of U.S. dollars, unless otherwise indicated)

					Prel.	Proj.					
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Requirements	10.9	18.8	26.2	27.3	25.6	28.0	32.4	33.2	31.6	33.0	28.9
Current account deficit	4.9	6.5	12.0	14.3	12.3	10.8	11.0	11.1	10.9	10.1	8.7
Amortization of medium- and long-term debt	6.0	8.6	11.1	9.6	12.2	16.0	20.4	20.7	19.2	21.4	18.6
Nonfinancial public sector	3.8	5.4	7.5	5.5	6.5	7.3	10.2	11.1	10.0	9.9	6.7
Nonfinancial private sector	2.2	3.2	3.6	4.1	4.0	6.6	5.5	7.0	5.9	8.1	8.0
Financial sector	n.a.	n.a.	n.a.	n.a	1.6	2.2	4.6	2.7	3.3	3.4	3.9
Change in gross reserves	-0.1	3.8	3.1	3.4	1.1	1.2	1.0	1.4	1.5	1.5	1.6
Sources	10.9	18.8	26.2	27.3	25.6	28.0	32.4	33.2	31.6	33.0	28.9
Foreign direct investment and privatization	3.8	4.9	4.9	4.4	10.2	5.8	7.0	7.8	7.4	7.1	6.3
Debt creating flows and other	7.1	13.9	21.3	22.9	15.4	22.2	25.3	25.4	24.2	25.9	22.6
Nonfinancial public sector	9.5	14.3	15.4	14.9	17.8	15.4	14.1	13.0	11.0	10.3	8.2
Federal government	8.9	13.3	13.4	14.1	15.8	14.3	13.2	12.1	10.3	9.6	7.5
Multilateral	2.0	1.5	1.7	3.4	2.8	0.9	0.1	0.1	0.1	0.1	0.1
Bonds and notes	5.1	11.2	11.3	10.7	11.0	13.3	12.7	11.7	10.4	9.7	7.6
Bilateral	1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization	1.0	0.3	0.0	0.0	3.0	0.2	0.5	0.5	0.0	0.0	0.0
Other (net)	-0.1	0.3	0.4	-0.1	-0.9	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Local governments	0.5	0.8	1.8	0.6	1.9	0.6	0.4	0.4	0.2	0.2	0.2
Debt creating flows	0.4	0.6	1.0	0.2	0.7	0.4	0.2	0.2	0.2	0.2	0.2
Privatization	0.1	0.2	0.8	0.3	1.2	0.2	0.2	0.2	0.0	0.0	0.0
Enterprises	0.1	0.2	0.2	0.2	0.1	0.5	0.5	0.5	0.5	0.5	0.5
Nonfinancial private sector	8.2	9.3	12.7	11.9	9.5	11.9	14.5	17.9	17.4	19.7	17.3
Foreign direct investment 1/	2.4	4.4	3.6	2.9	6.6	5.2	5.9	6.7	7.0	6.8	6.1
Portfolio investment	-0.5	0.1	0.2	-1.5	-1.8	0.0	1.0	1.2	1.4	1.2	1.0
Debt creating inflows	6.3	4.9	8.9	10.5	4.7	6.7	7.6	10.0	9.0	11.7	10.2
Financial sector	0.3	0.1	0.6	1.1	0.7	2.7	5.4	3.6	4.1	4.0	4.3
Foreign direct investment 1/	0.3	0.1	0.6	1.1	-0.6	0.2	0.4	0.4	0.4	0.3	0.2
Debt creating inflows	n.a	n.a	n.a	n.a	1.3	2.5	5.0	3.2	3.7	3.7	4.1
Other 2/	-7.2	-4.8	-2.5	-0.5	-2.4	-2.0	-1.7	-1.3	-0.9	-1.0	-0.9

Sources: Argentine authorities; and Fund staff estimates and projections.

1/ Excludes privatization.

2/ Includes errors and omissions.

Table 10. Argentina: External Debt and Debt-Service Indicators

	1995	1996	1997	1998	Prel. 1999	Proj. 2000	2001	2002	2003
	(In billions of U.S. dollars)								
External debt outstanding	98.5	109.8	124.7	140.5	144.7	153.0	158.9	163.9	168.4
Nonfinancial public sector	67.0	73.5	74.8	82.4	84.8	92.8	96.2	97.7	98.7
Medium- and long-term	67.0	73.3	74.1	81.7	84.0	...	...	...	...
Short-term 1/	0.0	0.2	0.7	0.7	0.8	...	...	...	...
Financial system	13.6	15.7	20.6	22.3	23.6	23.9	24.3	24.8	25.2
Medium- and long-term	4.5	6.1	7.5	8.5	10.3	...	...	...	...
Short-term 2/	9.1	9.5	13.1	13.8	13.3	...	...	...	...
Nonfinancial private sector	17.9	20.6	29.3	35.7	36.2	36.3	38.4	41.4	44.5
Medium- and long-term	14.6	16.7	24.0	28.7	30.7	...	...	...	...
Short-term 3/	3.4	3.9	5.4	7.0	5.5	...	...	...	...
Total external debt service	12.4	15.9	19.9	19.9	22.4	28.7	34.4	35.9	35.5
Amortization 4/	6.0	8.6	11.1	9.6	11.2	16.0	20.4	20.7	19.2
Interest	6.3	7.3	8.8	10.3	11.2	12.7	14.1	15.2	16.3
Nonfinancial public sector external debt service	7.4	9.6	12.4	11.0	12.8	14.2	18.4	20.1	19.8
Amortization 4/	3.8	5.4	7.5	5.5	6.5	7.3	10.2	11.1	10.0
Interest	3.6	4.2	4.9	5.5	6.2	6.9	8.2	9.0	9.8
	(In percent of GDP)								
External debt outstanding	38.2	40.3	42.6	47.1	51.1	52.9	52.7	52.0	51.0
Nonfinancial public sector	26.0	27.0	25.5	27.6	30.0	32.1	31.9	31.0	29.9
Financial system	5.3	5.8	7.0	7.5	8.3	8.3	8.1	7.9	7.6
Nonfinancial private sector	6.9	7.6	10.0	12.0	12.8	12.6	12.7	13.1	13.5
	(In percent of exports of goods and nonfactor services)								
External debt outstanding	393.9	385.5	403.0	451.3	521.3	484.1	453.2	417.4	381.6
Nonfinancial public sector	267.8	258.2	241.8	264.8	305.6	293.5	274.3	248.7	223.6
Financial system	54.5	55.0	66.5	71.7	85.1	75.7	69.4	63.2	57.2
Nonfinancial private sector	71.6	72.3	94.7	114.8	130.5	114.9	109.6	105.5	100.9
Total external debt service	49.4	55.8	64.2	63.9	80.7	90.8	98.2	91.5	80.5
Amortization 4/	24.1	30.2	35.9	30.8	40.3	50.8	58.1	52.8	43.6
Interest	25.3	25.6	28.3	33.0	40.4	40.0	40.1	38.7	36.9
Nonfinancial public sector external debt service	29.5	33.8	40.1	35.3	46.0	44.8	52.4	51.2	45.0
Amortization 4/	15.1	19.0	24.2	17.7	23.6	23.0	29.1	28.2	22.7
Interest	14.4	14.8	15.9	17.6	22.4	21.7	23.3	23.0	22.3
Memorandum items:									
Short-term external debt (in billions of U.S. dollars)									
Original maturity	12.5	13.6	19.1	21.5	19.7	...	...	...	...
Residual maturity	21.1	24.7	28.7	32.7	35.7	...	...	...	...
Gross foreign exchange reserves (in billions of U.S. dollars)	17.3	23.3	29.8	31.7	33.1	35.3	36.7	38.4	40.2
At the central bank	16.0	19.7	22.8	26.2	27.3	28.5	29.7	31.1	32.6
Held abroad 5/	1.4	3.6	7.0	5.5	5.8	6.7	7.0	7.3	7.7
Debt outstanding to the Fund									
In billions of U.S. dollars	6.1	6.3	5.9	5.4	4.5	3.1	1.8	1.1	0.6
In percent of quota	194.8	206.7	205.4	182.6	154.1	108.3	64.5	37.4	22.2
Debt service to the Fund									
In billions of U.S. dollars	0.8	0.7	0.7	0.9	1.1	1.5	1.3	0.8	0.5
In percent of nonfinancial public sector external debt service	10.6	7.2	6.0	8.5	8.3	10.4	7.2	4.1	2.4
In percent of exports of goods and nonfactor services	3.1	2.4	2.4	3.0	3.8	4.7	3.8	2.1	1.1

Sources: Ministry of Economy; and Fund staff estimates.

1/ Letes held by non-residents.

2/ For 1995-1997, assumes that all time-deposits, 80 percent of credit lines, and 90 percent of other obligations are short-term.

3/ For 1995-1997, assumes that 40 percent of direct banking debt and 90 percent of suppliers' credit lines are short-term.

4/ Excludes short-term debt.

5/ Liquidity requirements of the banking system.

Table 11. Argentina: Consolidated Public Sector Debt Dynamics
(In millions of U.S. dollars; unless otherwise indicated)

	1999	2000 Rev. Prog.	2001 Proj.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.
Debt, beginning of period	123,508	133,839	142,861	149,611	153,861	155,261	156,661
Primary balance	-2,009	2,762	7,167	10,785	14,517	14,837	15,182
(In percent of GDP)	-0.7	1.0	2.4	3.4	4.4	4.3	4.2
Interest payments	9,656	11,262	13,167	13,985	14,517	14,837	15,182
(In percent of GDP)	3.4	3.9	4.4	4.4	4.4	4.3	4.2
Overall balance 1/	**-12,025**	**-8,500**	**-6,000**	**-3,300**	**0**	**0**	**0**
(In percent of GDP)	**-4.2**	**-2.9**	**-2.0**	**-1.0**	**0.0**	**0.0**	**0.0**
Privatization receipts 2/	1,583	1,455	650	450	0	0	0
Debt consolidation (recognition)	1,546	1,700	1,400	1,400	1,400	1,400	1,400
Other debt creating flows 3/	-1,657	277	0	0	0	0	0
Debt, end of period	**133,839**	**142,861**	**149,611**	**153,861**	**155,261**	**156,661**	**158,061**
(In percent of GDP)	**47.3**	**49.4**	**49.6**	**48.7**	**47.0**	**45.3**	**43.7**
Memorandum items:							
(In millions of pesos, unless otherwise indicated)							
Gross Domestic Product	283,134	289,323	301,521	315,467	330,302	345,685	361,641
Real GDP growth (in percent)	-3.1	1.7	3.7	4.0	4.0	4.0	4.0
Federal government balance	-7,156	-5,300	-4,100	-2,400	0	0	0.0
Provincial governments balance	-4,869	-2,900	-1,900	-900	0	0	0
Interest rate on new debt (percent)	...	11.7	11.0	10.8	10.5	10.3	10.3
Country risk (in b.p.)	...	525	400	375	350	325	325

Sources: Ministry of Economy; and Fund staff estimates.

1/ In 1999, in addition to the result of the federal and provincial governments, it includes trust funds for banks and capitalized interest, and in 2000, expenditures for severance payments.
2/ Includes one-off gains made in debt management operations.
3/ Includes valuation adjustments.

Table 12. Argentina: Medium-Term Scenario

	Prel.	Projected					
	1999	2000	2001	2002	2003	2004	2005
	(In percent of GDP)						
Gross domestic investment	19.2	17.8	18.2	18.8	19.3	19.8	20.2
Public sector	1.9	1.5	1.5	1.5	1.5	1.5	1.5
Private sector	17.3	16.3	16.6	17.2	17.7	18.2	18.7
Gross national savings	14.8	14.1	14.5	15.2	16.0	16.8	17.8
Public sector	-2.2	-1.3	-0.5	0.5	1.5	1.5	1.5
Private sector	17.1	15.4	15.0	14.7	14.4	15.3	16.3
Foreign savings	-4.4	-3.7	-3.6	-3.5	-3.3	-2.9	-2.4
Consolidated public sector balance	-4.1	-2.8	-2.0	-1.0	0.0	0.0	0.0
Federal government	-2.5	-1.8	-1.4	-0.7	0.0	0.0	0.0
Rest of public sector 1/	-1.6	-1.0	-0.6	-0.3	0.0	0.0	0.0
Public sector debt	47.3	49.4	49.6	48.7	47.0	45.3	43.7
External debt	30.0	32.1	31.9	31.0	29.9	28.7	27.8
Domestic debt	17.3	17.3	17.7	17.8	17.1	16.6	15.9
	(In billions of U.S. dollars)						
Current account	-12.3	-10.8	-11.0	-11.1	-10.9	-10.1	-8.7
Trade balance	-2.2	0.2	0.9	1.9	3.1	4.5	6.3
Exports (f.o.b.)	23.3	26.8	29.8	33.5	37.7	42.5	47.8
Imports (c.i.f.)	-25.5	-26.7	-28.8	-31.6	-34.6	-37.9	-41.6
Nonfactor services	-2.7	-2.7	-2.5	-2.4	-2.3	-2.1	-1.8
Factor services	-7.9	-8.8	-9.9	-11.1	-12.4	-13.2	-13.8
Transfers (net)	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Capital account	14.2	13.3	13.3	13.2	12.8	11.9	10.4
Of which: foreign direct investment	10.2	5.6	6.8	7.6	7.4	7.1	6.3
Overall balance	1.8	2.5	2.3	2.1	1.9	1.9	1.7
	(In percent)						
Real GDP growth	-3.1	1.7	3.7	4.0	4.0	4.0	4.0
GDP deflator	-2.0	0.5	0.5	0.6	0.6	0.6	0.6
Export volume growth	-0.7	8.4	9.0	9.5	10.0	10.0	10.0
Import volume growth	-13.8	2.0	7.2	8.1	8.1	8.0	8.0
Terms of trade change	-5.9	3.7	1.0	1.3	1.0	0.9	0.9
	(In percent of exports of goods and nonfactor services)						
Gross external financing requirements	92.2	88.6	92.3	84.6	71.7	66.5	51.8
Total external debt	521.3	484.1	453.2	417.4	381.6	348.5	317.3
Total external debt service	80.7	90.8	98.2	91.5	80.5	77.2	64.6
Public sector external debt service	46.0	44.8	52.4	51.2	45.0	40.3	30.5
Of which: interest payments	22.4	21.7	23.3	23.0	22.3	20.3	18.4
Outstanding Fund credit	16.1	9.8	5.2	2.7	1.4	0.6	0.4
Fund charges and repurchases	3.8	4.7	3.8	2.1	1.1	0.7	0.1
Memorandum items: (In percent)							
Unemployment rate	14.2	15.0	14.0	13.3	12.5	11.6	10.7
Fund debt service/public sector debt service	8.3	10.4	7.2	4.1	2.4	1.8	0.5
Fund credit/quota	154.1	108.3	64.5	37.4	22.2	10.1	7.6

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

1/ Includes trust funds, capitalization of interest, and provincial governments' balance.

Table 13. Argentina: Indicators of External Vulnerability

	1995	1996	1997	1998	1999	2000 Prog.	2000 Proj.
(Annual percentage change, unless otherwise indicated)							
Financial indicators							
Broad money	-2.5	18.4	24.1	13.1	2.3	8.9	6.3
Private sector credit	-4.0	7.4	19.1	13.0	-2.1	11.5	-1.6
Interbank call rate (percent) 1/	7.1	6.3	6.8	6.8	8.4	...	6.7
Interbank call rate (real) (percent)	5.5	6.3	6.4	6.1	10.1	...	7.6
External Indicators							
Exports volume	24.9	6.7	13.9	11.4	-0.7	8.2	8.4
Imports volume	-11.6	19.6	30.6	8.7	-13.8	10.2	2.0
Terms of Trade	0.3	7.8	-1.3	-5.3	9.0	3.5	9.2
REER appreciation (+) (12 month basis) 2/	-4.0	-1.4	4.8	0.3	12.1	...	-3.0
(In percent of GDP, unless otherwise indicated)							
Current account balance	-1.9	-2.4	-4.1	-4.9	-4.4	-4.5	-3.7
Capital and financial account balance	1.1	3.6	5.3	6.3	5.0	5.4	4.6
Of which: Foreign direct investment 3/	1.5	1.8	1.7	1.5	3.6	2.4	1.9
Total external debt	38.2	40.3	42.4	46.9	51.1	53.2	52.9
Public sector debt	38.4	41.1	38.9	41.4	47.3	47.7	49.4
Of which: External debt	26.0	27.0	25.5	27.6	30.0	32.2	32.1
Total external debt to exports 4/	393.9	385.5	402.0	449.8	521.3	501.3	484.1
External interest payments to exports 4/	25.3	25.6	28.3	32.8	40.4	40.2	40.0
External amortization payments to exports 4/	24.1	30.2	35.9	30.9	40.3	51.7	50.8
(In billions of US$, unless otherwise indicated)							
Central Bank short-term foreign liabilities 5/	6.1	6.5	6.0	5.2	4.5	3.1	3.1
Short term foreign assets of the financial sector 6/	2.1	4.4	7.9	6.4	6.7	7.7	8.0
Short term foreign liabilities of the financial sector 7/	9.1	9.5	13.1	13.8	13.3	...	12.7
Net foreign exchange position of the financial sector 8/ 9/	8.6	9.8	12.7	12.1	11.2	...	12.1
Gross foreign exchange reserves 10/	17.3	23.3	29.8	31.7	33.1	35.2	35.3
In months of imports of goods and nonfactor services	8.0	9.3	9.6	9.9	12.2	11.7	12.4
In percent of short-term external debt (original maturity)	138.7	171.5	155.6	147.6	168.3	...	...
In percent of short-term external debt (residual maturity)	82.2	94.4	103.6	95.5	92.7	...	...
In percent of broad money	30.8	36.1	36.4	39.2	35.8	38.8	35.9
Financial Market Indicators							
Stock market index (MERVAL) (percentage change)	12.8	25.0	5.9	-37.4	28.0	...	...
Foreign currency debt rating (Standard & Poor's)					BB		
Spread of benchmark bonds (basis points, end of period)	875	494	461	705	533	...	...
Nominal GDP	258.0	272.2	292.9	298.1	283.1	294.1	289.3

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

1/ Interbank call rate, up to 15 days.

2/ Based on 1996 trade weights. Increase means appreciation. For 2000, June.

3/ In 1999, net of the effect of the YPF sale to Repsol (i.e., US$10.8 billion).

4/ In percent of exports of goods and nonfactor services.

5/ Debt outstanding to the Fund.

6/ Includes cash in US$ and liquidity requirement held abroad.

7/ For 1995-1997, assumes that all time-deposits, 80 percent of credit lines, and 90 percent of other obligations are short-term.

8/ Excludes BCRA.

9/ Includes off-balance sheet foreign currency liabilities (options). Short(-)/long(+). For 2000, June.

10/ Held at the central bank and liquidity requirements held abroad.

Table 14. Argentina: Availability of Purchases

Availability Date	Amount (Millions of SDRs)	Conditions	Outstanding UFR 1/ (Percent of quota)
First program year			
March 10, 2000	952.70	Board approval	191.5
May 15, 2000	211.71	March performance	190.6
July 15, 2000	211.71	First review and June performance	194.2
November 15, 2000	211.71	September performance	187.4
January 15, 2001	211.71	Second review and December performance	190.5
Subtotal	1,799.54		
Second program year	1,799.54	To be specified during second review	230.5
Third program year	1,799.54	To be specified	288.4
Total	5,398.61		
Percent of quota	255.0		
Annual access (in percent of quota)	85.0		

1/ Given scheduled repurchases and assuming that all purchases are made.

Buenos Aires, Argentina
September 5, 2000

Dear Mr. Köhler:

The attached policy memorandum and annexes update the information contained in our letter of February 14, 2000, and describe the economic policies and objectives of the Government of Argentina for the period 2000–02, supported by the stand-by arrangement from the Fund in an amount equivalent to SDR 5,398.61 million approved on March 10, 2000. The Government believes that these policies will promote sustainable growth of output and employment in conditions of low inflation and external viability, will improve efficiency in the economy in general and in the public sector in particular, and will help address priority social needs.

During the period of the arrangement, the authorities of Argentina will maintain the customary close relations with the Fund and will consult with the Fund in accordance with the Fund's practices on such consultations. It is expected that a review of the program will be carried out with the Fund before February 28, 2001.

Sincerely,

/s/
Pedro Pou
President
Central Bank of the
Republic of Argentina

/s/
Jose Luis Machinea
Minister of Economy

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Attachments:
Memorandum of Economic Policies
Technical Memorandum of Understanding

MEMORANDUM OF ECONOMIC POLICIES

I. BACKGROUND

1. The economic program of the Argentine government—which is supported by the International Monetary Fund (henceforth the Fund) with a three-year Stand-By Arrangement (SBA) approved by the Executive Board of the Fund on March 10, 2000—aims at creating the conditions for sustained growth of output and employment with price stability, through an increase in national savings and investment, and through continued improvement in the competitiveness of the economy.

2. The main pillars of this program are a **progressive reduction of the consolidated public sector deficit** (including the provinces) from the relatively high level (4.1 percent of GDP) reached in 1999 to under 3 percent of GDP in 2000, with further reductions in subsequent years, to reach equilibrium by 2003, in line with the requirements of the fiscal responsibility law; **and a wide-ranging structural reform effort** to strengthen the tax administration; improve the management of public spending; make the social security system more equitable, and ensure its long term financial solvency; increase efficiency in the health system; continue strengthening the domestic financial system; modernize the labor legislation, with a view to promoting job creation; and increase competition and efficiency in key sectors of the economy.

3. These policies were outlined in the Memorandum of Economic Policies (MEP) attached to the letter of the Minister of the Economy and the President of the Central Bank of Argentina (BCRA), dated February 14, 2000, requesting the support of the Fund under the SBA. The present MEP reviews the progress to date in implementing these policies, against the background of developments in the economy during the first half of this year, and outlines policies and prospects for the second half.

II. ECONOMIC PERFORMANCE IN THE FIRST HALF OF 2000

4. During the first half of 2000, **the Argentine economy continued to recover from the 1999 recession, but at a more gradual pace than anticipated.** Available data show that, after declining by 3.1 percent on average in 1999, **real GDP** rose by about 1.2 percent during the first half of 2000, compared with the same period of 1999. Economic growth remained subdued due to weak domestic demand, especially in the construction sector, and some renewed volatility in external financial markets. As a result , **the rate of unemployment increased to 15.4 percent of the labor force in May 2000,** from 14.5 percent in May 1999. Preliminary estimates indicate that the pick up in economic activity has gathered strength during the third quarter of this year.

5. **The economy has continued to adjust to the external shocks it suffered in recent years through declining domestic costs and prices. Unit labor costs** continue to fall, boosting the competitiveness of Argentine industry. **Consumer prices** declined by 0.9 percent year-on-year by July 2000, while **wholesale prices** increased by 4.1 percent over the same period, pointing to an increase in the relative price of tradable goods. By end-June 2000, the real effective exchange rate (CPI-weighted) stood 1.7 percent below its level a year earlier.

6. Reflecting the improvement in competitiveness, as well as the weakness of domestic demand, **the external trade balance strengthened substantially**, shifting from a deficit of US$397 million in the first half of 1999 to a surplus of US$896 million in the first half of 2000. **Exports** rose by over 13 percent in value terms over the same period, boosted not only by higher prices, particularly in the oil and gas sectors, but also by a strong performance in volumes of manufacturing exports. In contrast, **imports** increased by less than 2 percent in value during the same period. Despite some deterioration in the balance on factor services, **the external current account deficit** is estimated to have narrowed from US$5.5 billion in the first half of 1999 to US$4.6 billion in the corresponding period of 2000. A large share of this deficit was financed by foreign direct investment (FDI). At end-August, **the gross international reserves of the Central Bank** amounted to US$25 billion, exceeding its monetary liabilities, and, in addition, the commercial banks held liquid assets abroad amounting to US$6.8 billion.

7. The slower than projected recovery of domestic demand and the decline in consumer prices led to **a shortfall** in **tax revenues** vis-à-vis the program of Arg$600 million during the first five months of 2000. **To ensure that the announced fiscal targets would be met,** the government, together with modifying the schedule for payments of the income tax (a measure estimated to yield about Arg$320 million additional revenues for the year), announced an important **package of spending cuts** (estimated to save about Arg$600 million on an annual basis), including a 12–15 percent cut in salaries of civil servants earning more than Arg$1,000 per month, the restructuring of some public entities, and a rationalization of certain privileged pension benefits. These measures, along with **higher nontax revenue** than envisaged in the original program, and **a high rate of participation in the tax amnesty** announced earlier in the year, made it possible to ensure **compliance with the end-June ceiling on the overall deficit of the federal government.** The end-June cumulative ceilings on the primary expenditure of the Federal Government, and on the change in its total debt were also met.

8. Preliminary information on developments in **the provinces' finances** so far this year, suggest that—despite the adverse impact of the slower than projected growth of the tax base on the provinces' own revenues, and some carryover to 2000 of expenditures committed in late 1999—**the provincial deficit is declining substantially**. This reflects significant efforts to contain spending and increased transfers from the federal government, as agreed under the Federal Pact in December 1999. Primary expenditures are estimated to have declined by 10 percent in the first half of 2000, in comparison with the corresponding period of 1999. The federal government is supporting fiscal and structural adjustment programs in the nine

most indebted provinces by using the trust fund for provincial development to refinance outstanding debts of these provinces at more sustainable terms, against the guarantee of the provinces' revenue shares. The government is also working with the World Bank and the IDB to support the adjustment efforts of the larger provinces.

9. **The banking system has maintained the sound conditions achieved in recent years**. Bank deposits grew by about 6 percent during the first half of 2000. The banks' lending however, has not increased, and their holdings of liquid assets continue to be well in excess of the mandatory liquidity requirements. Their liquidity cover is further buttressed by the existence of the private contingency repo line with international banks amounting to US$6.9 billion. The incipient economic recovery has not yet been reflected in the quality of banks' assets, and nonperforming loans have increased somewhat further; net of provisions, however, they declined from 4.7 percent of total assets in December 1999 to 4.1 percent in June 2000. **The banking system remains well capitalized**, with the capital adequacy ratio (Basle criteria) slightly exceeding 20 percent in June 2000. The end-June ceiling on the net domestic assets of the Central Bank was observed.

10. Important progress has been made in a number of **structural reform** areas. An especially important achievement in this respect was the **approval by Congress of the labor reform** in May. This law lengthens the probation period for newly-recruited workers from one to three months (six months by agreement); provides for the gradual elimination of the *ultractividad* clause that currently extends expired labor contracts indefinitely, until modified by mutual agreement; and stipulates the predominance of collective agreements at the enterprise level over sectoral ones. The law aims to promote a better adaptation of the labor market to changing patterns of demand and production, and reduce informality and precariousness in employment.

11. Significant progress has also been made in **structural fiscal reforms**. As indicated in the previous MEP, the government presented to Congress early in the year a comprehensive law to **strengthen tax enforcement and reduce evasion**. While this law is being considered by Congress, the government enacted by decree some of its key provisions, notably that requiring payments larger than Arg$10,000 to be made through bank instruments, rather in cash. In addition, the government (a) is modifying the tax regime for petroleum products, and is taking steps to reduce evasion in the wheat, meat, and tobacco industries; (b) is continuing to strengthen the operational capabilities of the tax and customs administration; and (c) has secured congressional approval of legislation to speed up the judicial treatment of tax cases, including through the establishment of a specialized branch of the judiciary to deal with such cases, and of special national and regional secretariats within the court system to handle the collection of tax arrears.

12. The government has submitted a **social security reform bill** to Congress aimed at improving the intertemporal solvency of the system and broadening its coverage. This reform entails awarding a pension to senior citizens of more than 70 years of age who do not have other sources of income, the redefinition of the universal pension allowance (PBU), and a progressive benefit schedule for women who retire at 60-65 years of age. Additionally, the

government intends to take steps to align more closely the contributive base for the self employed to their actual income, to reform over the medium term the special pension regimes for selected categories of public employees, and to strengthen the regulatory framework for the private pension plans to increase competition and reduce operating costs.

13. **The government is also reforming the health care system,** with a view to increasing solidarity and improving efficiency. In June, the government issued a decree promoting the consolidation of existing union-run health organizations (*obras sociales*) and fostering more effective competition among the remaining ones, and between them and the private HMOs, effective January 1, 2001. Under the new system, all health care providers will offer basic coverage, and contributions to the Solidarity Fund (which will subsidize provision of benefits for the poor and for catastrophic illness) will be generalized, based on individual income levels. The government is also implementing its program aimed at **ensuring the financial viability of the health system for retirees** (PAMI), while improving the quality and cost effectiveness of its services. Since the beginning of this year, contracts with suppliers have been renegotiated; its arrears have been significantly reduced; unnecessary intermediation has been eliminated; and non-tenured personnel has been significantly cut back. To further promote transparency, the government will re-incorporate the operations of PAMI into the federal budget in 2001.

III. POLICIES AND PROSPECTS FOR THE SECOND HALF OF 2000

A. Macroeconomic Policies and Prospects

14. **The government is fully committed to sustaining its fiscal consolidation efforts** in the rest of this year and beyond, so as to strengthen confidence in domestic and external financial markets, which in turn is a needed condition for a renewed decline in interest rates and a sustainable acceleration in economic growth. However, it recognizes that, notwithstanding the substantial expenditure cuts that have already been implemented, the impact on government revenues of the slower than expected recovery of economic activity cannot be fully offset without risking to abort the incipient recovery. The government is, therefore proposing a modification of the program allowing a slightly larger (about 0.2 percent of GDP) federal deficit than originally planned. At the same time the program's ceiling on noninterest expenditure would be lowered by the equivalent of 0.1 percent of GDP, to reflect the government's expenditure containment efforts. These proposed modifications will continue to be consistent with the fiscal responsibility law.

15. **The federal deficit for 2000 will now be limited to Arg$5,300 million (1.8 percent of GDP)**. Observance of this target will be permitted by a projected modest strengthening of tax revenue in the second half of the year—reflecting the gradual further recovery in output, some firming of prices, and the effects of the tax amnesty—and by lower than initially programmed expenditures, as a result of the measures announced in May and of additional

savings to be obtained in the months ahead, and which are reflected in the modified lower ceilings on primary spending for the third and fourth quarters of the year.

16. Despite the substantial efforts being made by most **provinces** to strengthen their finances, it appears now likely that their consolidated deficit will exceed the indicative target in the program (Arg$2.2 billion, 0.7 percent of GDP) by the equivalent of about 0.2 percent of GDP, partly reflecting a substantially larger deficit in 1999 than originally estimated. Accordingly the government is proposing that the program ceiling on the increase in the consolidated public sector debt be raised to Arg$ 7 billion (2.4 percent of GDP). Efforts were made to overcome the technical difficulties encountered in implementing the proposed system to monitor the provinces' foreign exchange-denominated and domestic bank debt, and the system became operational during August 2000.

17. As indicated in the previous MEP, the targeted reduction of the federal and provincial deficits in 2000—in conjunction with the payment, or securitization of some government liabilities related to court rulings—is still expected to result in a modest increase in the **ratio of the public debt to GDP** this year. Over time, however, adherence to the deficit path mandated by the fiscal responsibility law is expected to result in a progressive decline of the public debt relative to GDP. During the program period, the ongoing efforts to smooth out the maturity profile of the debt, minimize its cost through active liability management, and promote the development of the domestic capital markets, will be continued. The government also intends to maintain its prefinancing cushion at an appropriate level, and to keep its recourse to short-term financing within the limits set in the program. Efforts will continue to be made to sell selected government assets, including remaining shares in privatized companies, and real estate properties. These operations are now expected to yield Arg$0.4billion in 2000.

18. **Financial policies** will continue to aim at buttressing confidence in the domestic banking system and creating the conditions for further monetization of the economy and an adequate flow of credit to private sector. The Central Bank (BCRA) intends to keep the coverage of private sector bank deposits with liquid foreign assets at around 35 percent. The strong liquidity position of banks and the continued repurchase of outstanding Fund credit will allow the BCRA to continue reducing its net domestic assets, which are targeted to decline by Arg$1,080 million in 2000.

19. The government expects the ongoing economic recovery to gather momentum as the year progresses and to result in average **real GDP growth** for 2000 as a whole of about 2 percent. With continued moderation in wage adjustments, the pickup in activity, together with the increased flexibility introduced in the formal labor market by the recent labor reform law, should contribute to a **progressive reduction of unemployment**.

20. The **external trade balance** is projected to register a small surplus, reflecting the sustained growth of export volumes, which would more than offset the gradual recovery in imports in the second half of the year as domestic demand picks up. The terms of trade are projected to improve by nearly 4 percent in 2000, partly because of higher oil prices. The

improvement in the external trade balance will more than offset the higher payments of interest and profits abroad, and **the external current account deficit** is expected to narrow to US$10.8 billion (3.7 percent of GDP), from US$12.3 billion (4.3 percent of GDP) in 1999. More than half of the external current account deficit is projected to be financed by net FDI. The **overall balance of payments** is expected to show a sizable surplus in 2000, allowing for a further buildup of international reserves throughout the year.

21. **As regards 2001,** the government is confident that its demonstrated commitment to fiscal discipline and structural reform will, in combination with an expected more stable external environment, help strengthen domestic and external confidence, and facilitate a sustained recovery of credit and of domestic demand. In these circumstances, the government believes that average real GDP growth is likely to accelerate to about 3.7 percent in 2001, while prices will rise by less than 1 percent. On this basis, and in line with the Fiscal Responsibility Law, the government has prepared a budget proposal for 2001, which will be submitted to Congress in mid-September, and will target a reduction in the deficit of the federal government, on a cash basis, to around Arg$ 4.1 billion (1.4 percent of GDP). Attainment of such a target will be made possible by the further strengthening of revenues brought about by the acceleration of economic activity and the effect of the measures to improve tax administration that have been taken, and by a further containment of spending, which will also reflect the full year effect of the expenditure cuts made in 2000. As mandated by the Fiscal Responsibility Law, attainment of this budget target will go a long way to put the public finances on a sustainable medium-term path.

B. Structural Reforms

22. In addition to continuing its efforts to secure early congressional approval of pending reform legislation, **the government will seek further structural reforms in other important areas,** including the system of revenue-sharing (*coparticipación*) with the provinces; administrative reform; the promotion of private investment in infrastructure; steps to alleviate the conditions of the unemployed and the poor; and policies to promote the healthy development of the small and medium enterprises, strengthen competition in the economy, including through further trade openness, and modernize domestic financial markets.

23. **The government is seeking a new agreement with the provinces** that will aim, among other things, at reducing the provinces' overall fiscal deficit, so as to reach equilibrium by 2003; freezing nominal spending at the 2000 levels for a five-year period; adopting limits on the provinces' debt; increasing transparency in the accounts of all levels of government; and establishing a Federal Social Assistance Trust Fund, financed with a portion of the automatic transfers to the provinces and a contribution from the federal government. The agreement also reaffirms the commitment to submit to Congress in the course of 2000 a proposed **reform of the revenue sharing system**, to become effective after the expiration of the existing Federal Pact at the end of 2001. The main elements of the proposals would be the inclusion of all federal taxes (except taxes on international trade) in the base of the revenue sharing formulas; the shift to a three year moving average in the calculation of the shared

revenues, to smooth out the impact of cyclical fluctuations on provincial revenues; and the maintenance of the current distribution of revenues between the federal and the provincial levels of government.

24. In the social area, the government's efforts focus on **improving the conditions of the unemployed and the poor**. The government has increased budgetary allocations under the temporary employment programs, including the *Trabajar* program and the Emergency Employment Program (PEL). The government is also improving the allocation of the resources under these programs by making the selection of beneficiaries more transparent and by focusing on the head of household. To broaden the scope of the programs, entitlements under the *Trabajar* program have been lowered from Arg$200 to Arg$160 a month. Under the pilot *Identidad* program, the government aims at coordinating assistance efforts toward children in urban areas in the nutritional, educational, and health-related sectors. Efforts are also being stepped up to improve the management of emergency situations, in particular those associated with the consequences of natural disasters. In poor urban areas, the government is promoting the construction of essential sanitary infrastructure and the provision of drinking water.

25. The government is also establishing a framework for delivering higher quality, and more cost-effective, public services by **bringing in the private sector to develop basic infrastructure**. This includes the establishment of a fund with government assets to help provide guarantees to, and lower the financial costs for, the private contractors entrusted with the construction of public infrastructure and/or provision of public services. Under this scheme, private contractors would undertake the construction, maintenance, and operation of public infrastructure, and lease it to the government upon completion.

26. With a view to **fostering the development of the domestic financial market**, efforts are being made to, among other things, introduce new financial instruments, strengthen the regulatory framework for nonbank financial intermediaries, and improve ties with other financial markets in Latin America. The government is seeking congressional approval of proposed changes to the BCRA Charter, with a view to strengthening the ability of the latter to deal with potentially troubled financial institutions. The BCRA is continuing its efforts to strengthen bank supervision further through cooperation agreements with supervisors in main industrial countries and other relevant financial markets, and through appropriate training of its personnel. New legislation aims at enhancing the lending activities of *Banco de la Nación* (BN) toward small- and medium-sized enterprises. The government has strengthened the capital of this bank by transferring to it its shares in the Bank for Investment and External Trade (BICE). In recent months, the management of BN has taken steps to increase the transparency of its operations, limit exposure to individual debtors who have not received adequate credit ratings, and ensure adequate provisioning of its nonperforming portfolio.

27. The government considers the **promotion of competition in domestic markets** critical to improve consumer welfare and the competitiveness of the economy. In the telecommunications sector, the government is taking advantage of the fact that contracts with the two main companies operating in that sector are due to expire by end-2000 to advance

the process of deregulation. New entrants will be allowed to operate, and connection fees will be lowered by more than half, while steps are taken to ensure the provision of telephone services in remote areas, leading to significant additional investments in that sector. The government is working in a collaborative manner with the companies operating in utilities sectors, to eliminate the indexation of domestic tariffs to changes in the U.S. consumer price index.

28. In August, Congress approved **a law aimed at promoting the development of small- and medium-size enterprises** while helping correct market imperfections that impede their development. The law includes the creation of two revolving funds to extend guarantees to borrowing by small firms, and to provide risk capital for long term projects. The capital for these funds would be constituted by reallocating part of the capital of the Investment and Foreign Trade Bank (BICE) and cofinancing with multilateral organizations and private commercial banks. There are also provisions for making annual allocations in the budget to provide partial interest rate subsidies to small businesses. The government is also working closely with the private sector to promote the formation of consortia of small- and medium-size businesses aimed at facilitating their access to foreign markets.

29. The government is pursuing **an open trade policy both within and outside Mercosur**. In this context, it intends to eliminate the 3 percent surcharge on the Mercosur common external tariff starting at the end of this year. The government is also placing increased emphasis on institutionalizing mechanisms for the resolution of trade disputes, and on securing greater macroeconomic convergence, through an improved policy dialogue. The member countries of Mercosur, as well as, Chile and Bolivia, are actively engaged in harmonizing statistics, particularly in the fiscal and balance of payments areas.

Argentina: Quantitative Performance Criteria for 2000-02 1/

(In millions of Argentine pesos or U.S. dollars)

	Jan-Mar2000	Jan-Jun2000	Jan-Sep2000	Jan-Dec2000	Jan-Dec2001	Jan-Dec2002
1. Cumulative balance of the Federal Government 2/ 3/	(2,150)	(2,690)	(3,850)	(5,300)	(4,100)	(2,400)
2. Cumulative primary expenditure of the Federal Government	13,390	26,130	39,690	52,930	...	...
3. Cumulative consolidated balance of the Provincial Governments 2/ 4/	...	(1,370)	...	(2,900)	(1,900)	(900)
4. Cumulative change in the debt of the Federal Government	2,860	6,860	5,125	4,000	...	...
5. Cumulative change in the short-term debt of the Federal Government	1,500	1,500	1,500	1,500	...	...
6. Cumulative change in the debt of the Consolidated Public Sector 5/	...	...	7,490	7,000	...	...
7. Cumulative change in the net domestic assets of the Central Bank	(275)	(440)	(850)	(1,080)	...	...

1/ As defined in the Technical Memorandum of Understanding.

2/ Targets for 2001-02 are indicative at present, to be substituted by performance criteria during the last review of the program for the preceeding year.

3/ Indicative targets for 2001-02 based on the fiscal responsibility law.

4/ Indicative.

5/ Indicative through September 2000.

Technical Memorandum of Understanding

This memorandum presents a detailed definition of the variables included in the quantitative performance criteria table annexed to the Policy Memorandum.

1. **Cumulative balance of the Federal Government**. This balance comprises the result of the Federal Government (including PAMI and the Trust Fund for the Development of Infrastructure, and excluding transfers from the Central Bank and privatization receipts) and the result of the Central Bank (BCRA). The Federal Government result will be measured from below the line on the basis of: (a) debt information provided by public sector debt reporting system (SIGADE), including all short-term debt of the Federal Government; (b) net asset transactions of the Federal Government as reported by the *Secretaría de Hacienda*, the *Dirección Nacional de Cuentas Internacionales* (DNCI), and the Gerencia de Manejo de Reservas Internacionales of the BCRA; and (c) information on bank borrowing and bank deposits provided by the BCRA. The result of the BCRA is defined as interest earnings on gross international reserves (as defined below) plus interest on government bond holdings of the BCRA minus net interest paid on reverse repos. The limit on the balance of the Federal Government will be adjusted downward (i.e., a deficit would be allowed to widen) by up to Arg$300 million for the amounts paid as severance payments in the context of the retrenchment of personnel program underway in the second half of 2000. Furthermore, the limit will be adjusted upward (a smaller deficit) for the capital gains realized in the sale of financial assets.

2. **Cumulative ceiling on primary expenditures of the Federal Government**. This ceiling applies to the noninterest expenditure of the Federal Government (including PAMI) and will be adjusted upward by up to Arg$300 million for the amounts related to severance payments mentioned in 1 above.

3. **Cumulative balance of the provinces**. This balance comprises the consolidated result of the provinces, including the city of Buenos Aires. The result of these jurisdictions will be measured from above the line, with expenditure defined on an accrual basis, according to the information provided by the Secretaría de Programación Regional (SPR). This limit will be indicative, and will be adjusted upward by up to Arg$80 million for expenditures made from the Public Works Fund of the Province of Mendoza.

4. **Cumulative change in the debt of the Federal Government**. This debt includes the disbursement of all foreign currency denominated and Argentine peso denominated debt obligations and guarantees, as defined in EBS/00/128 (June 30,2000), of the federal government (including public enterprises, PAMI, Inder, and trust funds). These debt obligations are defined to include those with local and foreign financial institutions, international organizations, bonds, and bridge loans. This limit will be adjusted:
(a) downward (upward) for excesses (shortfalls) in privatization receipts relative to the program; (b) upward for amounts related to the restructuring of provincial debt by up to Arg$1.2 billion; (c) upward for debt issued in 2000 for the consolidation of past obligations

by up to Arg$1.7 billion, plus debt consolidated by Inder; (d) downward by the net effect of debt cancellations or swaps, and (e) upward for debt issued to finance the Fiscal Stabilization Fund by up to US$385 million in 2000; (f) upward for borrowing up to US$1.3 billion from multilateral agencies on behalf of provinces and official banks (deuda indirecta) in 2000; (g) upward for amounts related to the severance payments referred in 1 above by up to Arg$300 million; (h) downward for the capital gains realized in the sale of financial assets; and (i) with regard to the position in December 2000, upward for borrowing up to US$4 billion related to 2001 financing requirements and deposited at the BCRA. The data used to monitor debt developments will be taken from SIGADE, including all short term debt of the Federal Government. The stock of debt will be valued at end-1999 exchange rates and measured at end-period.

5. **Cumulative change in short-term debt of the Federal Government**. It includes all domestic and foreign federal and federally guaranteed debt with an original maturity of one year or less.

6. **Cumulative change in the debt of the Consolidated Public Sector**. This debt includes the sum of the changes in the debt of the Federal Government as defined in 4 above (including the corresponding adjustments) and that of the provincial governments and the city of Buenos Aires, net of changes in intergovernmental debt. The debt of the provincial governments and city of Buenos Aires, will be defined to include obligations to local and foreign financial institutions, to international organizations, and bonds (excluding peso denominated bonds placed outside the financial system). The limit on this provincial debt will be adjusted: (a) downward (upward) for excesses (shortfalls) in privatization receipts relative to the program, (b) downward for capital gains realized in the sale of financial assets, and (c) upward (downward) for any increase (decrease) in net deposits of the provinces in the banking system during the year, with the exception of the use of deposits from the Public Works Fund of the Province of Mendoza mentioned in 3 above. The upward adjustment on account of an increase in net deposits of the provinces, which allows for over-borrowing, will be limited to Arg$1 billion. The data used to monitor provincial debt will be provided by the SPR, the SIGADE and the Central Bank. The stock of debt will be valued at end-1999 exchange rates and measured at end-period. This limit will be indicative for the third quarter of 2000 and binding thereafter.

7. **The net domestic assets (NDA) of the BCRA** are defined as the difference between monetary liabilities and net international reserves (NIR) of the BCRA, both measured on the basis of end-of-period data. The monetary liabilities include currency issued, legal bank reserves, liquidity requirements (reverse repos) and public sector deposits (government and Anses) at the BCRA. NIR is defined as gross liquid international reserves of the BCRA less foreign liabilities, and will be valued at exchange rates of December 31, 1999. Gross liquid international reserves include BCRA holdings of gold, SDR's, foreign currency in the form of cash, deposits abroad, and government securities of investment grade of OECD countries and Argentina's net cash balance within the Latin America Trade Clearing System (ALADI), excluding the accounting effects on holdings of reverse repo operations. This definition of reserves excludes central bank holdings of government bonds. Liabilities to the IMF will be

valued at US$1.37 per SDR. The limit on net domestic assets will be adjusted upward by the equivalent of purchases from the IMF under the arrangement. Also, the limit for December 2000 will be adjusted upward for up to Arg$200 million on account of temporary liquidity needs reflected in an equivalent increase in repos (pases activos).

Argentina—Fund Relations
(As of July 31, 2000)

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

A. Financial Relations

II. General Resources Account:

	In millions of SDRs	In percent of Quota
Quota	2,117.10	100.0
Fund holdings of currency	4,800.35	226.7

III. SDR Department:

	In millions of SDRs	Percent of Allocation
Net cumulative allocation	318.37	100.0
Holdings	225.65	70.9

IV. Outstanding Purchases and Loans:

	In millions of SDRs	In percent of Quota
Stand-by arrangements	484.00	22.9
Extended Fund arrangements	2,199.22	103.9

V. Financial Arrangements:

			SDR Millions	
Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
Stand-by	03/10/00	03/09/03	5,398.61	0.00
EFF	02/04/98	03/10/00	2,080.00	0.00
Stand-by	04/12/96	01/11/98	720.00	613.00

VI. Projected Obligations to Fund: (SDR millions; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	6/30/2000	2000	2001	2002	2003	2004
Principal	--	390.8	927.6	573.6	321.5	256.2
Charges/interest	--	76.6	111.6	67.2	41.0	26.1
Total	**--**	**467.4**	**1,039.2**	**640.8**	**362.5**	**282.3**

B. Nonfinancial Relations

VII. **Exchange Rate**: On March 27, 1991 a law was passed guaranteeing the full convertibility of the austral under a currency board arrangement and pegging the austral at ₳10,000 per U.S. dollar. On January l, 1992 the peso was substituted for the austral at a rate of l peso per 10,000 australes.

VIII. **Last Article IV Consultation:** The 1999 Article IV consultation was concluded by the Executive Board on March 3, 1999 (EBM/99/21). Argentina is on the standard 12-month Article IV consultation cycle.

IX. **Fourth Amendment**: Argentina has not yet accepted the Fourth Amendment to the Articles of Agreement.

X. **Technical Assistance: (from January 1996 onwards)**

Missions	**Purpose**	**Time of Delivery**
FAD	Tax administration	May 1996
FAD	Tax administration	January 1997
FAD	Tax reform	July-August 97
FAD	Customs administration	September-October 1997
FAD	Tax administration	October 1997
STA	Balance of payments statistics	November 1997
FAD	Tax policy	February-March 1998
MAE	Risk-Based Supervision	May 1998
STA	Balance of payments statistics	June 1998
STA	Money and Banking Statistics	May 1998
FAD	Customs Administration	November 1998
FAD	Tax policy and revenue sharing rules	May 1999
PDR	Foreign credit lines monitoring system	June 1999
FAD	Customs Administration	June 1999
FAD	Tax Administration-Province of Cordoba	October-November 1999

X. **Resident Representative**: Mr. Terrier is the resident representative in Buenos Aires.

RELATIONS WITH THE WORLD BANK

1. *Bank lending to Argentina as of June 30, 2000 totaled US$16.2 billion (net of cancellations). Forty four loans and one policy based guarantee totaling US$7,515.9 million remain under execution, with US$3,332.5 million undisbursed.* The Bank's assistance has been and would continue to focus on supporting Government efforts to: (i) enhance social development, including poverty alleviation and human resource development; (ii) improve the performance and institutional capacity of sub-national governments to deliver key social and infrastructure services; and (iii) consolidate structural reforms, including reforms in public finances, labor markets and the financial sector to ensure successful implementation of the assistance program, and enhancing governance through institution building.

2. In response to turbulence in international capital markets, in November 1998, the Bank's Board approved last November a US$3 billion package of special loans to support the government's continuing reform efforts. The Special Structural Adjustment Loan (SSAL—US$2.5 billion) will support regulatory reforms (particularly in the financial sector), reforms in the allocation of expenditures in social sectors, as well as reforms in the system of intergovernmental fiscal relations. In addition, key social programs are to be protected in the federal budget. The second loan of the package is a US$505 million loan to enhance the central bank's repurchase facility with commercial banks, thus strengthening the financial system's safety net. In September 1999, US$250 million of the second-tranche of the SSAL was converted into the first World Bank Policy-Based Guarantee, allowing the government to raise nearly US$1.2 billion in international capital markets at significantly lower spreads.

3. The evolving bank country assistance strategy includes continued support for public sector reforms at the provincial level, as well as new projects for teacher training, mining decontamination, irrigation development, forestry, indigenous development, fisheries, export promotion and health insurance reform. In addition to the Policy-Based Guarantee, a loan for public health surveillance and a learning and innovation loan (LIL) for health insurance for the poor have been approved thus far in FY00.

Financial Relations with the World Bank

(In millions of U.S. dollars)

	Commitments (Net of Cancellations)	Disbursements	Undisbursed Amount
I. IBRD Operations (as of June 30, 2000)			
Fully disbursed loans	**8,668.6**	**8668.6**	**0.0**
Loans in process of disbursement	**7,265.9**	**4,183.4**	**3,082.5**
Agricultural and rural development	253.5	53.7	199.8
Infrastructure (including flood)	1,601.5	664.6	936.9
Power and hydrocarbon	606.0	543.0	63.0
Public sector management/reform	200.8	106.7	94.1
Financial sector	47.0	32.5	14.5
Municipal/provincial development	435.0	254.1	180.9
Water supply	94.0	54.4	39.6
Social sector (including housing)	1,247.8	694.1	553.7
Special SAL and repurchase loans	2,780.3	1,780.3	1,000.0
Policy Based Guarantee	250.0	0.0	250.0
Total loans and guarantee	**16,184.5**	**12,852.0**	**3,332.5**
Repaid 1/	4,287.6		
Outstanding	11,896.9		

II. IFC Operations (as of June 30, 2000)

	IFC			
	Loans	Equity	Quasi	Participants
Held	842.1	213.6	258.6	1,108.7
Disbursed	822.0	134.7	239.6	1,108.7
Pending commitment	159.2	5.4	2.0	635.0

III. IBRD Loan Transactions

	Actuals (calendar year)					
	1994	1995	1996	1997	1998	1999
Disbursements	547.5	941.0	1,076.7	796.9	2,030.6	1,572.9
Repayment	424.8	258.6	281.9	299.1	350.2	445.0
Net lending	122.7	682.4	794.8	497.8	1,680.4	1,127.9

Source: World Bank

1/ Includes repayment from third parties

STATISTICAL INFORMATION

The statistical information on basic indicators for surveillance is published in a timely manner and is reliable. Argentina has subscribed to the Special Data Dissemination Standard (SDDS) and meets the SDDS specifications for the coverage, periodicity, and timeliness of the data, and for the dissemination of advance release calendars. Also, Argentina has begun to disseminate the Data Template on International Reserves and Foreign Currency Liquidity (Template) which is hyperlinked to the IMF's Dissemination Standards Bulletin Board (DSBB).

The statistical information on basic indicators for surveillance is published in a timely manner and is reliable. Argentina has subscribed to and is in full observance of the Special Data Dissemination Standard (SDDS) and, on the basis of the metadata provided by the authorities and reviewed by IMF staff, it meets the SDDS specifications for the coverage, periodicity, and timeliness of the data, and for the dissemination of advance release calendars. Also, Argentina has begun to disseminate the *Template* reporting on its international reserves and related information both on its national web site and to provide the data for a database maintained by the Fund.

A. National Accounts

In June 1999, the Ministry of Economy published new national accounts in constant 1993 prices on an annual and quarterly basis for the period 1993–1997. Data reported for previous years is still at 1986 prices. The most important change in nominal GDP was the downward revision by about 8.5 percent.

B. Prices

Consumer and producer prices are collected by the National Institute of Statistics and the indices are published monthly in a timely fashion. The weights underlying the PPI have recently been updated to reflect shares of industrial output of 1993. The CPI is weighted using household expenditure data for 1985–86. An update of the CPI weights is being prepared.

C. Other Real Sector Data

The National Institute of Statistics has recently published detailed accounts on industrial activity, remuneration and hours worked. Employment surveys are conducted three times a year (May, August and October). In 1998 *IFS* introduced new series for producer prices and global foreign trade volume and price indices.

D. Government Finance Statistics

Information on revenue and expenditure of the Central Government, decentralized agencies, public enterprises and social security system is available on a cash basis with a lag of 1½ –2 months, but data on the provincial public finances are available only on accrual basis and with considerable delays and in summary form. Annual time series for the consolidated central government and for state governments that are consistent with the GFS standards are available through 1997 in the STA database.

E. Monetary Statistics

Monthly data on the Central Bank, deposit money banks, and the banking survey are published in the Central Bank of the Republic of Argentina's (BCRA) Statistical Bulletin, accessed through the Internet. Data for the central bank are available with a six-week lag, while those for the deposit money banks are available generally with a lag of about two months; longer delays may occur, particularly with respect to the audited end-year central bank balance sheet. Data published in *IFS* are based, with few adjustments, on the BCRA Statistical Bulletin.

F. Public Debt

Prior to 1994, data on public sector debt were incomplete and not available on a timely basis. The statistical information has improved both as regards coverage and currentness, and the data are now available on a quarterly basis, but frequent revisions are made to the stock of outstanding debt reflecting the regularization of previously undocumented obligations. A comprehensive report on provincial government debt in 1996 and 1997 was published by the federal government in July 1998.

G. Balance of Payments

Along with the national accounts, the Ministry of Economy published a revised set of balance of payments statistics including annual data for 1992–1993 and annual and quarterly data thereafter. The new set incorporates improved data on holdings of foreign financial assets and of direct external debt of the Argentine nonbank private sector. Quarterly data are published with a two to three-month lag. Monthly trade data are published with a six-week lag. Both balance of payments and trade data are available in the Internet.

The National Directorate of International Accounts (DNCI) has made significant progress in strengthening Argentina's balance of payments statistics. The DNCI's implementation of a number of guidelines set forth in the fifth edition of the *Balance of Payments Manual (BPM5)*, in particular, has enhanced the coverage of the services components of the current account and both inflows and outflows in the financial account. The authorities have also implemented the recommendations of the 1997 and 1998 balance of payments missions, which resulted in improved estimates on capital flows related to the Argentine nonfinancial private sector's portfolio investment.

ARGENTINA: Core Statistical Indicators
as of July 31, 2000

	Exchange Rates	Interna-tional Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Govern-ment Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	7/28/00	7/27/00	6/30/00	7/28/00	7/25/00	7/25/00	Jun 00	May 00	1th qtr 00	Jun 00	1th qtr 00	Mar 00
Date Received	7/31/00	7/31/00	7/15/00	7/31/00	7/31/00	7/31/00	7/4/00	7/10/00	Jun 00	7/15/00	Jun 00	Jun 00
Frequency of Data	Daily	Daily	Daily	Daily	Daily 1/	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly	Quarterly
Frequency of Reporting	Daily	Daily	Daily	Monthly	Monthly	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly	Quarterly
Source of Update	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Central Bank	Ministry of Economy	Ministry of Economy	Ministry of Economy	Ministry of Economy	Ministry of Economy	Ministry of Economy
Mode of Reporting	Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax	Fax
Confidentiality	Unres-Tricted	Unre-stricted	Unres-tricted	BC 2/	Unres-tricted	Unres-tricted	Unres-tricted	Unres-tricted	Unres-tricted	Unres-tricted	Unres-tricted	Unres-tricted
Frequency of Publication	Daily	Daily	Daily	Daily	Daily	Daily	Monthly	Monthly	Quarterly	Monthly	Quarterly	Quarterly

1/ Survey data.
2/ Published in the statistical bulletin with a lag of about two months.

Argentina: Social and Demographic Indicators

Area (thousand sq. km.)	2,737	**Nutrition (1990)**	
		Calorie intake	
Population (1999)		(percent of requirement)	119.2
Total (million)	36.6	protein intake per capita	
Rate of growth (percent per year)	1.3	(grams per day per person)	101.0
Density (per sq.km.)	13.2		
GDP per capita (US$)	7,737	**Health (1995)**	
		Population per physician	370.4
Population characteristics (1998)		Population per hospital bed	303.0
Life expectancy at birth (years)	73.3	Access to electricity (1989)	
Crude birth rate (per thousand)	19.3	percent of households	95.0
Crude death rate (per thousand)	7.6	Access to safe water (1995)	
Infant mortality (per thousand live births)	18.6	percent of population	65.0
Under 5 mortality rate (per thousand)	22.0		
		Education	
Income distribution (1994)		Adult literacy rate (percent) (1998)	96.7
Percent of income received		Enrollment rates, in percent (1997)	
by highest 10 percent of households	34.6	Primary education	110.7
by lowest 20 percent of households	7.0	Secondary education	73.3
Distribution of labor force, percent in			
Agriculture	12.2		
Industry	32.4		
Services	55.5		

Sources: World Bank, and ECLAC.

ARGENTINA: WORK PROGRAM

UFR/Article IV missions and Executive Board Meetings

a.	Second Review:	Mission	November/December 2000
		Board Meeting	February 2001
b.	Third Review:	Mission	April 2001
		Board Meeting	June 2001
c.	Article IV and Fourth Review:	Mission	August 2001
		Board Meeting	November 2001

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 00/84
FOR IMMEDIATE RELEASE
October 3, 2000

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Argentina

On September 15, 2000, the Executive Board concluded the Article IV consultation with Argentina.[1]

Background

The Argentine economy suffered a severe recession in 1999, reflecting the combined effect of tighter financing conditions, a downturn in trading partner demand, a sharp terms of trade loss, and election-related uncertainties. As a result, and despite evidence of some pick up toward the end of the year real GDP declined by about 3 percent. A slow recovery set in during the first half of 2000, when real GDP was about 0.8 percent higher than in the same period of the previous year, owing mainly to a strengthening of export performance. In nominal terms, GDP in the first semester grew by 1.9 percent. The rate of unemployment increased from 14.5 percent in May 1999 to 15.4 percent in the May 2000 survey. Consumer prices fell by 0.9 percent in the 12 months through July 2000, while wholesale prices rose by 4.1 percent over the same period, reflecting the recovery of oil and other commodity prices (see attached Table).

The **external current account** deficit narrowed to 4.4 percent of GDP in 1999 (from 4.8 percent in 1998), mainly reflecting a sharp contraction of imports due to the recession, and is projected to decline further to 3.6 percent of GDP in 2000. More than half of the external account deficit was financed by net foreign direct investment. Total external debt (public and private) rose to US$147 billion at end-1999 (equivalent to about 51 percent of GDP). The trade balance shifted to a surplus of US$896 million in the first half of 2000, from a deficit of US$397

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

million in the same period of 1999, as a result of strengthened competitiveness, a gradual recovery in the terms of trade, and a slow (around 2 percent) growth of imports. Exports increased in value terms by 14 percent mainly reflecting increases in oil, mining, and manufacturing products, and were sustained by the continued strength of demand in the United States, and the recovery in Latin America and Asia.

The **public finances** deteriorated in 1999, reflecting the impact of the recession on tax revenue, a weakening of tax compliance, a growing interest bill, and spending overruns at both the federal and the provincial government level, particularly in the fourth quarter. As a result, the consolidated public sector deficit doubled to 4.1 percent of GDP, of which 2½ percentage points reflected the deficit in the federal government. Also reflecting the drop in nominal GDP, the public sector debt increased to over 47 percent of GDP, up from 41 percent in 1998. In December 1999, the government announced an economic program designed to comply with the Fiscal Responsibility Law approved by the Argentine Congress in September 1999, and aimed at reaching fiscal balance by 2003. The program included a sizable tax package, with increases in the personal income and wealth taxes and in excises, and a broadening of the base of the VAT; a bill to strengthen tax enforcement; a tax amnesty; and a cut in noninterest expenditures equivalent to almost 1 percent of GDP. Further measures, including nominal wage reduction in the public sector, were taken to ensure compliance with the overall deficit ceiling under the Fiscal Responsibility Law. These measures (as well as some one-off revenues) helped the authorities meet the program target for the federal deficit through mid-year, despite significantly lower tax revenues and higher interest payments than originally projected.

The **banking system** has weathered well the recession, and the soundness and strong prudential defenses that characterize the Argentine banking system under the currency board arrangement have been maintained. In the first seven months of 2000, private sector deposits in the financial sector increased by more than 7 percent and foreign lines of credit were maintained. Gross foreign exchange reserves by end August amounted to some US$32 billion, of which about US$25 billion are held by the BCRA. However, and despite a significant decline in domestic interest rates, and the continued growth of deposits, bank lending remains sluggish, reflecting a cautious attitude of both banks and borrowers. Credit to the private sector declined by more than 2 percent since the beginning of the year, reflecting also the effect of tax measures included in the January package, which drove some credit operations offshore. Nonperforming loans in the banking system increased from 11.5 percent of risk assets in December 1999 to 12.5 percent in May 2000, but net of provisions, declined from 4.7 percent to 4.1 percent over the same period. Banks continue to hold liquid reserves in foreign exchange equivalent to 21 percent of total deposits (or 30 percent if a contingent repo facility with foreign banks is included), and the capital adequacy ratio (Basel criteria) exceeds 20 percent of risk assets.

The authorities have made further progress in the **structural reform** area. Among the most significant measures taken during this year was the final approval of the labor market reform in May. The reform is expected to have a significant positive impact on competitiveness and employment over time, particularly in the case of new firms for which the more flexible legal framework applies immediately in full. In June the government issued a decree opening to competition the system of health maintenance organizations, effective January 1, 2001. Since the beginning of the year, the government has also been implementing a program to restructure the health system for retirees (PAMI) that involves the payment of arrears, the renegotiations of contracts with providers, and measures to cut costs, while improving the quality of services provided to retirees. PAMI will be incorporated into the federal budget in 2001, and is expected by then to be in a position to cover all its (nonfinancial) expenses. A comprehensive law to strengthen tax enforcement and reduce evasion is in the final approval stage in Congress. Finally, Congress passed a bill enhancing administrative autonomy and transparency of the Banco de la Nación. The legislation also includes provisions to strengthen safeguards for the bank's assets.

A three-year Stand-by arrangement with the IMF was approved on March 10, 2000, for a total of SDR 5.4 billion (255 percent of quota). This arrangement is in support of the authorities' program of further fiscal consolidation and a deepening of structural reforms. The authorities consider the arrangement as precautionary.

Executive Board Assessment

Executive Directors welcomed the authorities' strong ownership of, and demonstrated commitment to, their economic program, and the significant progress made so far in improving the fiscal position at both the federal and the provincial level, despite cyclically adverse conditions, and in implementing structural reforms. The structural reforms that have been put in place in 2000, especially the labor reform and the reform of the union-run health system, will help modernize labor relations, enhance the scope for employment creation, and improve productivity and competitiveness in the economy.

Directors noted that the economic recovery from the 1998–99 recession had been weaker than expected earlier in the year and that unemployment was relatively high. This had been a source of frustration to the authorities, as well as to the Argentine population, and had contributed to increased market concerns about Argentina's ability to sustain its adjustment effort. While recognizing these concerns, Directors concurred with the authorities' view that, within the framework of the convertibility regime, the resumption of sustainable growth depended crucially on credible further progress in fiscal consolidation and structural reform. In particular, Directors considered that a firm adherence to the requirements of the fiscal responsibility law, with its attendant reduction in the public debt-to-GDP ratio, would buttress confidence in international markets and ease financing conditions. This, in turn, would set the basis for a sustained recovery of activity, with declining unemployment and price stability.

Particularly in light of the need to bolster market confidence in the fiscal outlook, Directors welcomed the presentation of a 2001 budget in line with the requirements of the fiscal responsibility law. They also urged the authorities to base the 2001 revenue projections on achievable growth assumptions. Directors recognized that achievement of progressively higher primary surpluses in the next few years would call for difficult policy choices on the spending side, as well as strengthened efforts to improve tax administration and enforcement and the management of public expenditures, and to increase efficiency in the delivery of public services. Directors also encouraged the authorities to make every effort to secure early approval of the proposed reform of the social security system.

Given the high degree of decentralization of public spending, Directors stressed the importance of intensifying efforts to promote a sustained improvement in the provinces' finances. They welcomed the fiscal programs negotiated by the federal government with nine highly indebted provinces, but noted the urgent need to reduce the deficits of the larger provinces as well. Noting that the authorities would need to utilize all the means at their disposal to control recourse by provinces to new borrowing, Directors welcomed the recent implementation of a system to better monitor external and bank financing to the provinces. They were encouraged by the agreement recently reached with the Province of Buenos Aires, in which the latter had committed to achieving fiscal balance by 2003. Directors expressed the hope that early agreement would also be reached on a sound reform of the revenue-sharing system.

Directors noted that the convertibility regime, together with a strong financial system, had served Argentina well in weathering the major external shocks that had affected it in recent years. They also noted the strong support of the population for the regime, its demonstrated success in anchoring inflation expectations, and the high degree of de facto dollarization in the economy, as well as the fact that the economy was once again giving proof of its ability to adjust to the recent external shocks through a decline in domestic costs, nontradable goods' prices, and domestic absorption. Directors considered that, with an improved competitive position, both the current account and the public sector deficits on a declining path, and important structural reforms enacted or under way, the Argentine economy was now in a good underlying position to resume sustainable growth.

Directors stressed the importance of maintaining the firm prudential policies that have strengthened the soundness of the financial system in recent years. They noted that the continuing consolidation of the banking system, together with the strengthening of the banks' capital and liquid reserve position, had been a key determinant of the continuing growth of private sector deposits and of the resilience shown by the system in the present more adverse circumstances. Directors welcomed the authorities request for a Financial Sector Assessment Program (FSAP) to be carried out in the first half of next year.

Directors encouraged the authorities to maintain a transparent system of market incentives and welcomed their efforts to promote competition in domestic markets. In this context, they noted with interest the authorities' initiatives to assist small businesses and to seek greater participation of the private sector in the development and operation of basic infrastructure. Directors welcomed the authorities' commitment to continue abiding by WTO rulings and to resist protectionist pressures.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Argentina: Selected Economic Indicators

	1997	1998	1999	2000[1]
Real economy (change in percent)				
Real GDP	8.1	3.9	-3.1	1.7
Domestic demand	9.7	3.8	-4.3	1.2
CPI (end of period)	0.3	0.7	-1.8	0.4
Unemployment rate (average, in percent)	13.1	14.3	14.2	15.0
Gross national savings (percent of GDP)	15.3	15.1	14.8	14.0
Gross national investment (percent of GDP)	19.4	19.9	19.2	17.8
Public finance (percent of GDP)				
Central government balance	-1.6	-1.3	-2.5	-1.8
Overall public sector balance	-2.1	-2.1	-4.1	-2.8
Public debt	38.9	41.4	47.3	49.4
Money and interest rates				
Private sector deposits (change in percent)	27.0	15.8	2.8	8.0
Credit to private sector (change in percent)	19.1	13.0	-2.1	-1.6
Interest rates (average, percent per annum)				
30-59 days peso time deposits	7.0	7.6	8.1	...
30-day peso prime rate	9.3	10.6	11.04	...
Balance of Payments (in billions of US$)				
Trade balance	-4.0	-5.0	-2.2	0.6
Exports (f.o.b.)	26.4	26.4	23.3	27.1
Imports (c.i.f.)	30.5	31.4	25.5	26.5
Current account	-12.0	-14.3	-12.3	-10.3
As a percent of GDP	-4.1	-4.8	-4.4	-3.6
External Debt (percent of GDP)	42.6	47.1	51.1	52.9

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

1/ Staff projections.