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Argentina: Second Review Under the Stand-By Arrangement and Request for Augmentation--Staff Report; Staff Statement; Press Release on the Executive Board Discussion

In the context of the Second Review Under the Stand-By Arrangement with Argentina and Request for Augmentation, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Stand-By Arrangement with Argentina and Request for Augmentation, prepared by a staff team of the IMF, following discussions that ended on **December 12, 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 January 4, 2001.** 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.

- a staff statement of **January 12, 2001** updating information on recent economic developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its January 12, 2001 discussion** of the staff report that completed the review and approved the request for augmentation.

The documents listed below have been or will be separately released.

Letter of Intent by the authorities of the member country
Memorandum of Economic and Financial Policies by the authorities of the member country
Technical Memorandum of Understanding

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

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ARGENTINA

Second Review Under the Stand-By Arrangement and Request for Augmentation

Prepared by the Western Hemisphere and Policy Development and Review Departments

Approved by Claudio M. Loser and Jesús Seade

January 4, 2001

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I. Introduction

1. A staff mission[1] visited Buenos Aires during November 26–December 12, 2000 to conduct discussions on the second review under the current three-year Stand-By Arrangement and on a revised economic program in support of which the authorities request the augmentation of the Stand-By Arrangement. The Stand-By Arrangement was approved on March 10, 2000 in the amount of SDR 5.4 billion (255 percent of quota), and the authorities now request its augmentation to SDR 10.6 billion (500 percent of quota), of which SDR 2.1 billion (100 percent of quota) would be provided under the Supplemental Reserve Facility (SRF). At end-December 2000, Argentina's outstanding use of Fund credit was SDR 3.88 billion (183 percent of quota). Given scheduled repurchases, full utilization of the augmented arrangement would raise outstanding use of Fund resources to SDR 11.32 billion, or 534.6 percent of quota by end-February 2003. The authorities have provided the documentation necessary under the transitional procedures for safeguards assessments. The first review under the Stand-By Arrangement was concluded by the Executive Board on September 15, 2000.

II. Recent Developments

2. As discussed in the Staff Report on the first review under the Stand-By Arrangement (EBS/00/191), the government made substantial efforts to implement the program it had announced in December 1999, at the outset of its tenure. The program centered on **fiscal consolidation** and on **structural reforms to improve productivity and competitiveness in the economy.** Important strides were made in the structural reform area with, inter alia, the approval of the labor reform, the strengthening of the legal framework for tax administration and enforcement, and the announcement and preparation of reforms in the health system and of measures to promote competition and deregulation in domestic markets. In a number of cases, however, the full effect of these reforms was delayed as either legislative approval was subject to protracted discussions, or the required implementing regulations took longer than expected to be put in place. In the fiscal area, spending restraint allowed the authorities to observe the corresponding ceiling in the program; however, revenue shortfalls associated with a lower than expected level of economic activity required a modification of the program ceilings for end-September on the public sector's deficit and debt. All end-September quantitative performance criteria were observed (Table 1).

3. A major disappointment in the economic performance during the first three quarters of the year was the **failure of economic activity to recover from the recession** affecting it

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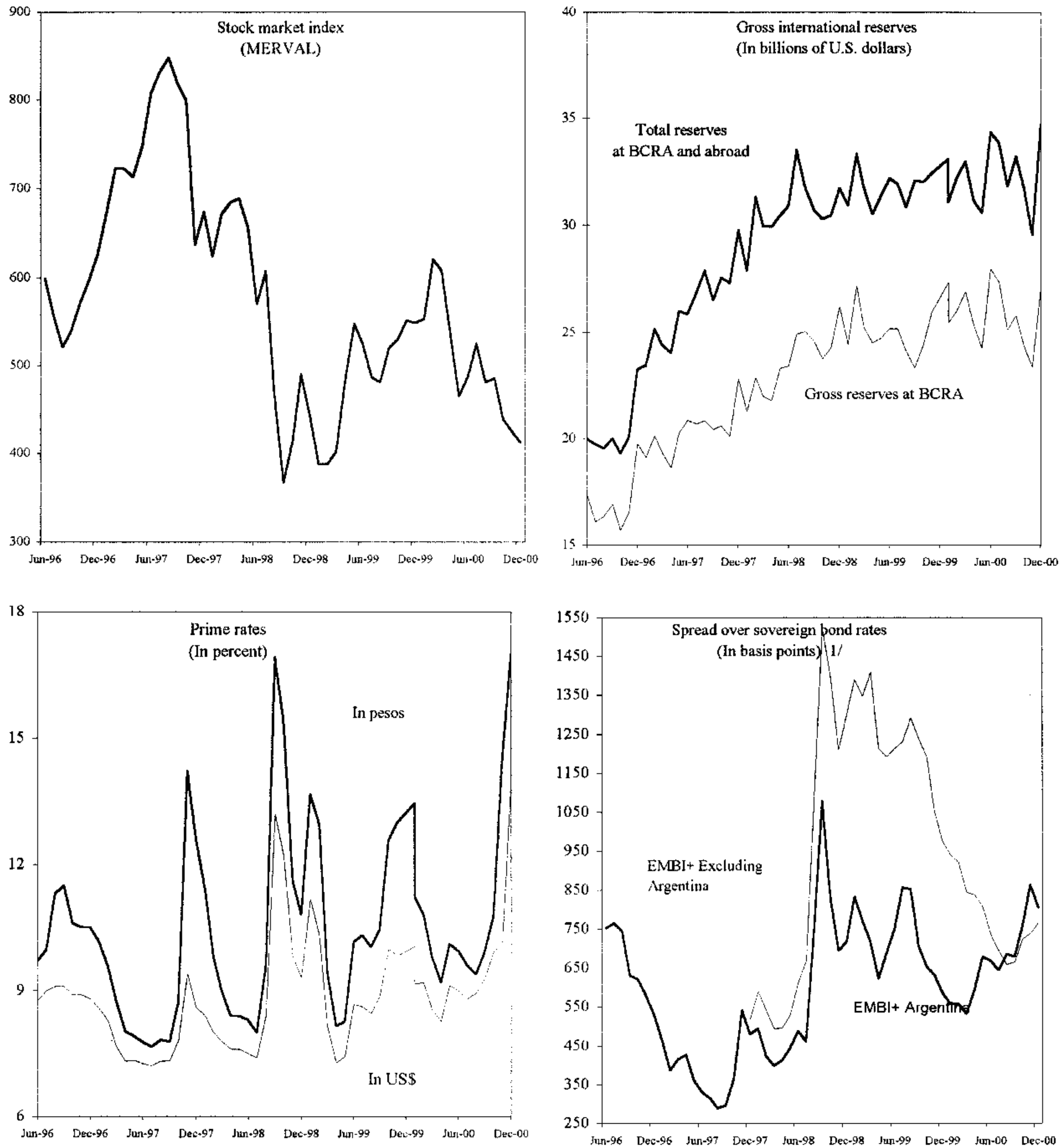
[1] The mission included Mrs. Ter-Minassian (Head), Messrs. Reichmann, Alier, and Peraza (all WHD), Feler and Medeiros (both PDR), and Cuevas (FAD), and was assisted by Mr. Terrier, the Fund representative in Buenos Aires. Mr. Zoccali, Executive Director for Argentina participated in the discussions.

since mid–1998 (Table 2). After a short-lived pick up in the last quarter of 1999, the economy stagnated in 2000 reflecting in part the impact of the fiscal tightening on domestic demand, but mainly a drop in business and consumer confidence and the progressive hardening of financing conditions in international markets, which resulted in rising borrowing costs and reduced market access for Argentine private and official borrowers alike. By the time of the first review of the program, there had been some indications that a recovery of domestic demand was in the offing, allowing the expectation of a firming of economic activity in the latter part of the year. This expectation, however, was soon dashed by a combination of a more cautious attitude of international investors toward emerging markets, growing concerns about the country's weak growth performance, and a domestic political crisis that reflected tensions inside the ruling coalition and raised questions about governability. All together, these developments created concerns about the country's ability to service its debt, and resulted in the virtual closure of external markets to new issues of Argentine debt. This led to a sharp (over 300 basis points) increase in spreads on Argentine bonds, as well as in domestic interest rates, from September to mid-November 2000 (Figure 1). Spreads have declined since, but still remain over 100 basis points above their level in the summer.

4. Following a downward revision of the outcome for the first half of the year, **real GDP** is estimated to have been only 0.2 percent higher in January–September 2000 than in the corresponding period of 1999. The crisis in the last quarter of the year is likely to have pushed growth for the year as a whole down to zero, or even to a slightly negative number. The continued stagnation of output prevented any significant reduction of the **unemployment rate**, which in October 2000 stood at 14.7 percent, slightly down—on account of seasonal factors—from the 15.4 percent registered in May. At the same time, however, domestic relative prices continued to adjust in a favorable direction. While **consumer prices** declined by 0.7 percent in the year ending November 2000, **wholesale prices**, (which mostly represent prices of tradable goods), rose by 4.8 percent, or 2.5 percent when the effect of energy prices is excluded, pointing to an improvement in competitiveness (Figure 2).

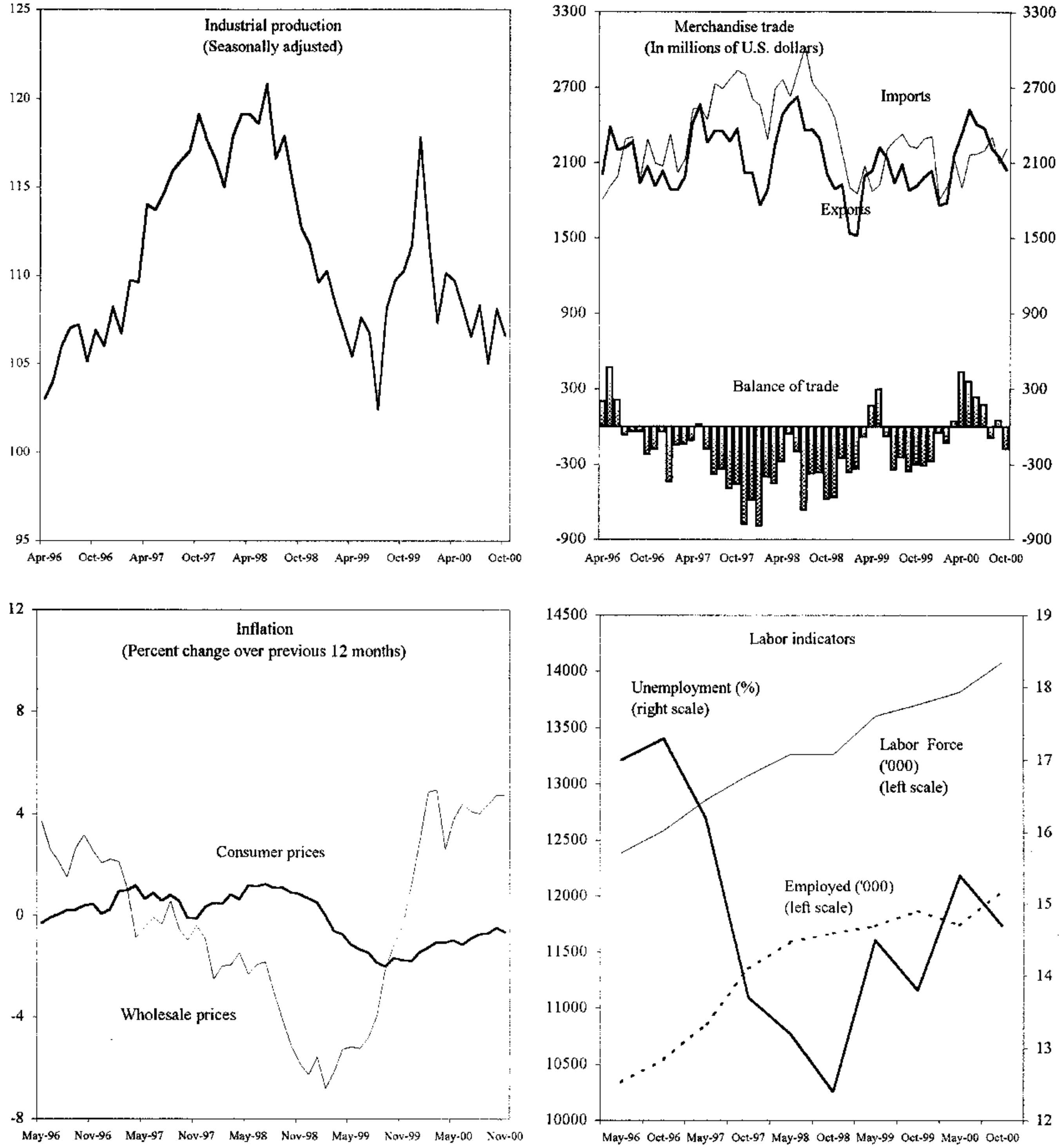
5. The gradual **recovery of competitiveness,** after the adverse shocks experienced in 1999, particularly the depreciation of the Brazilian real and the strength of the U.S. dollar (Figure 3), contributed to an **improved external trade performance**, with the trade balance shifting from a deficit of US$1.6 billion in the first ten months of 1999 to a surplus of US$0.9 billion in the corresponding period of 2000. Much of this result reflected the stagnation of domestic demand and a strong gain in the terms of trade, particularly in regard to energy prices, but the performance of exports of industrial origin also played a major role (Box 1). The latter, which represent some 30 percent of total exports, grew by 12 percent in volume terms during January–October 2000, reflecting to an important extent the coming on stream of investments, inter alia, in the chemical, paper, and basic metal sectors. In contrast, the overall growth in the volume of exports—2.7 percent in January–October 2000 over the corresponding period in 1999—presents a much more subdued picture, which is largely determined by production-cycle problems in the energy sector (where volume dropped by

Figure 1. Argentina
Selected Financial Indicators



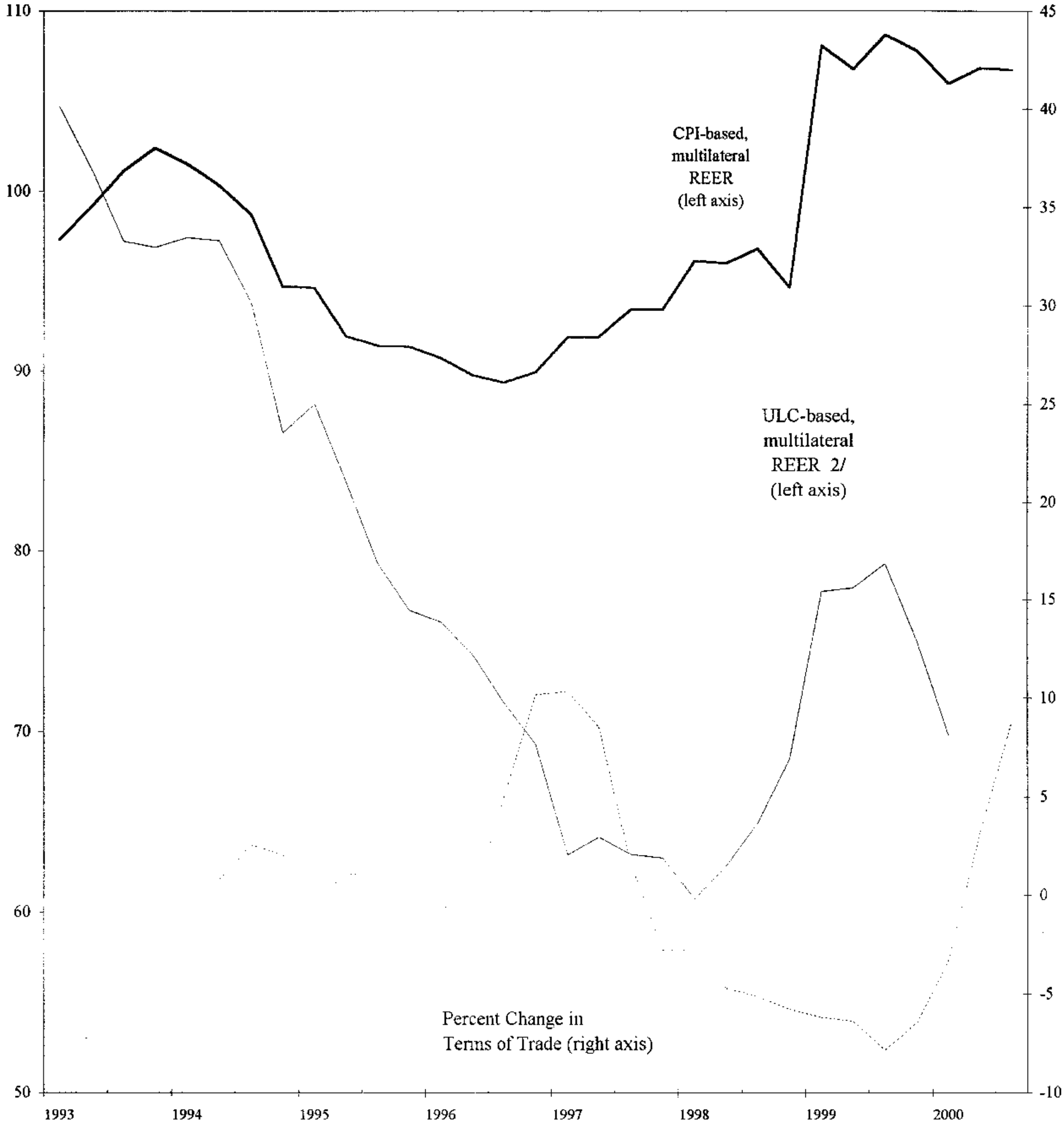
Sources: Argentine authorities; J.P. Morgan; and Fund staff estimates.
1/ Data refer to a monthly weighted average stripped spread of major international bonds to U.S. Treasury bonds.

Figure 2. Argentina
Selected Economic Indicators



Sources: Argentine authorities; and Fund staff estimates.

Figure 3. Argentina: Real Effective Exchange Rates (REER), 1/
and Terms of Trade
(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.

over 5 percent) and by the effect of trade barriers on certain agro-industrial exports (mainly vegetable oils). The improved external trade performance was partly offset by a deterioration of the deficit in the factor services account, mainly on account of higher net interest payments abroad. On the whole, **the current account deficit** is now projected to decline significantly, to the equivalent of 3.4 percent of GDP in 2000, from 4.4 percent of GDP in 1999.

Box 1 Argentina's Export Performance, 1993-2000

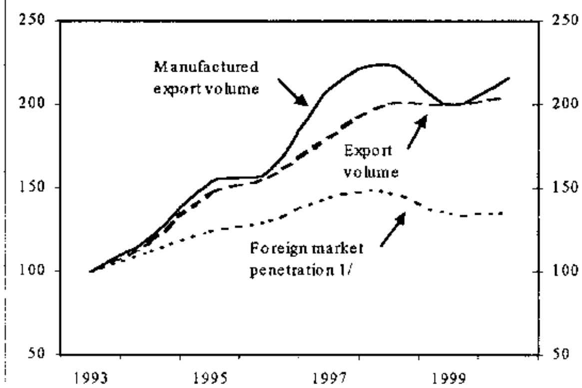
- Argentina's exports exhibited an average growth rate of 10.6 percent in real terms during the period 1993-2000. This strong performance mostly reflected the dynamism of manufactured exports, which grew by 15.2 percent on average in real terms over the same period.

- As a result, the ratio of exports to GDP increased from 5.6 percent in 1993 to an estimated 9.2 percent in 2000. Such a ratio, however, remains low relative to that in other emerging market economies.

- Similarly, Argentina's share in trading partner's imports (in value terms) was about 36 percent higher in the 12 month period ending June 2000, than in 1993. This significant gain mainly reflects a greater penetration of Latin American (mainly Mercosur) markets.

- The volume of exports declined by 0.6 percent in 1999, mainly due to a fall of manufactured exports on account of the demand contraction and the adjustment in relative prices that took place during the first semester in Brazil, Argentina's main trading partner.

Argentina: Export Performance, 1993-2000
Indices, 1993 = 100



1/ Share of Argentine exports to partner countries' imports, based on DOT statistics. Data not available for Canada and Mexico.

- Exports volumes have recovered from their contraction in the first half of 1999, reflecting mainly renewed growth of manufactured exports, which increased by 12 percent in volume yoy in the period January – October 2000.

6. The **continuing recession hindered the implementation of the fiscal program for 2000** (Tables 3 to 5). Despite a firm control on federal noninterest spending, including significant cost cutting measures around mid-year that allowed to lower the program ceilings on such spending for the second half of the year by Arg$300 million, the federal deficit is now expected to end the year at Arg$6.9 billion[2] (2.4 percent of GDP), or some 0.7 percent of GDP higher than in the original program approved in March. This would represent an only small decline from 1999, both in current pesos and in percent of GDP. This disappointing performance is largely the **result of weak revenue collection**: overall tax revenues, including social security contributions, rose by only 3 percent through November 2000, compared with 8.7 percent expected initially in the program on the strength of the sizable package of tax measures and the tax amnesty introduced at the start of the year. Low tax revenues are explained mostly by the recession, but problems in tax administration—with deficiencies in tax compliance aggravated by the recession—are likely to have played a role too. It is expected that Argentina will have observed the target for noninterest expenditure for end-December, but not those for the deficit or the debt of the federal government and of the consolidated public sector. The authorities had requested the corresponding modifications in the program, but given the change in the calendar of purchases prompted by the requested augmentation of the arrangement, **all end-December targets were made indicative.**

7. The **fiscal position of the provinces also strengthened during 2000, but by less than was initially expected**. Preliminary information indicates that the consolidated deficit of the provinces will decline to about Arg$3.4 billion (1.2 percent of GDP), compared with 1.6 percent of GDP recorded in 1999, and 1 percent envisaged in the program. With roughly unchanged revenues from 1999, the **adjustment will reflect mainly a reduction in spending**, particularly in the 10 relatively small but highly indebted provinces that entered into agreements with the national government, under which they committed to adjust their finances in exchange for assistance in restructuring their debts. Progress in fiscal consolidation was also made by some of the larger provinces; with the exception, however, of the province of Buenos Aires, which is projected to account for 57 percent of the combined provincial deficit in 2000 (up from 46 percent in 1999). Buenos Aires was one of the few provinces that enjoyed access to international financial markets through the first half of 2000, but this access was also curtailed in the latter part of the year, highlighting the need for a significant fiscal adjustment.

8. The **continued stagnation of economic activity dampened private sector demand for credit from the banking system,[3] and eroded further the quality of bank portfolios**. Nonperforming loans rose from 11.5 percent of risk assets at end 1999 to 12.7 percent in

[2] This amount includes Arg$300 million corresponding to the cost of severance payments incurred in the context of the administrative reform of the State.

[3] Bank credit to the private sector declined by some 3 percent since the beginning of the year.

September 2000,[4] requiring banks to increase their provisioning. Net of provisions, nonperforming loans remained unchanged at 4.4 percent of risk assets. The banking system remains highly capitalized, with the capital adequacy ratio (Basel criteria) amounting to 20.2 percent, and maintains comfortable levels of liquidity. Liquid reserves in foreign exchange are equivalent to about 20 percent of total deposits, a coverage that rises above 28 percent if a contingent repo facility with foreign banks is included. The resilience of the banking system was demonstrated again in recent months. Deposits, which through end-September had grown by more than 7 percent from their end-1999 position, experienced an only limited decline in subsequent months, before stabilizing in recent weeks at a level still some 5 percent above that at the beginning of the year (Table 6). To accommodate the decline in deposits and also meet liquidity needs in a few more exposed banks the central bank allowed a temporary relaxation of liquidity requirements during November. These requirements were restored to their customary level in December.

9. The **external financing** prospects for the rest of 2000 changed drastically from the third quarter on. Notwithstanding the fact that some three-fourths of the external current account deficit is being covered by foreign direct investment (FDI), the tightening of external financing conditions, which required the drawing of the amounts accumulated under the precautionary Stand-By Arrangement, is projected to result in a **loss of net international reserves** of some US$2 billion for the year as a whole. During the recent crisis, gross international reserves, including the bank's liquidity requirements held abroad, declined by some US$4 billion, to about US$29 billion at their lowest point at end-November, reflecting also the decline in deposits and the temporary relaxation of liquidity requirements.[5] With the subsequent stabilization of conditions and the tightening of these requirements, reserves picked up again and are projected to end the year at around US$32.5 billion, nearly 40 percent of M3 or one and a half times the country's short-term debt.

III. The Strengthened Policy Framework

A. Overview

10. As indicated in the authorities' Memorandum of Economic Policies (MEP) (EBS/00/278 of December 21, 2000), the Argentine government is responding to the worse-than-expected economic performance in 2000 by strengthening its policy framework, and

[4] Nonperforming loans exclude unrecoverable loans that have been charged-off from the assets in the balance sheet.

[5] The gross international reserves numbers include the counterpart of government deposits held at the central bank (US$919 million at end-November). The data published in the SDDS template exclude this amount.

accelerating its structural reform efforts. Specifically, it has announced, and began to implement, a series of **policy initiatives aimed at promoting a sustained recovery of domestic demand and output**, including measures to stimulate investment and to enhance the productivity and competitiveness of the economy. An important component of this strategy is the decision to accept in the short run a moderate increase in the fiscal deficit, compared with the initial budget proposal for 2001, to avoid a strong contractionary fiscal impact on the economy. At the same time, however, the authorities fully recognize the importance of reassuring domestic and foreign investors about their **commitment to medium-term fiscal sustainability**, a necessary condition for a lasting decline of the risk premium on Argentine debt and of domestic interest rates, and thus for a resumption of sustained economic growth. For this purpose, they have taken a number of important new policy initiatives—notably, the recent federal pact with the provinces and the reform of the social security—which aim to support the **fiscal consolidation targets** stipulated for the next few years by the **revised fiscal responsibility law**, in particular the attainment of budget balance at both the federal and the provincial levels of government by, at the latest, 2005. The main elements of this strategy and their expected impact on the domestic and external performance of the economy over the short to medium term, are outlined in the following sections.

B. A Growth-Oriented Economic Strategy

11. The Argentine economy grew by over 4.5 percent a year on average during the nineties, following the introduction of the convertibility regime, albeit with significant year-to-year fluctuations, mainly related to changes in the international environment. Domestic investment was a main motor of growth, rising as a share of GDP by nearly 6 percentage points—to just under 20 percent of GDP—between 1990 and 1998, before declining to around 18 percent of GDP in 1999, in response to the external shocks mentioned above.

12. The authorities are convinced that **a lasting recovery of domestic demand and output needs once again to be spearheaded by investment**, and have therefore concentrated their efforts on promoting a sustained recovery of the latter through a range of new policy initiatives, as well as by accelerating the implementation of ongoing structural reform efforts. The new **policy measures** include steps to eliminate, or at least reduce, fiscal impediments to investment, inter alia: (i) the phased elimination, between January 1, 2001 and July 1, 2002;of the existing 15 percent tax on interest paid by enterprises,[6] (ii) a modification of the VAT allowing credits against this tax for new investments to be charged against other taxes or collected in cash after one year; (iii) the extension to 10 years of the period allowed to enterprises for deducting losses from the taxable base of the minimum

[6] At the same time, interest earned by companies on their bank deposits/certificates will be subject to the same tax treatment as interest received on other financial assets (such as government bonds). This will eliminate the current fiscal disincentive for enterprises to invest in government bonds.

corporate income tax; and (iv) allowing a partial deductibility of interest paid on new mortgage loans from the base of the income tax. This latter measure aims specifically at stimulating investment in housing (Box 2).

13. In addition, the government has been pressing through congress passage of the proposed "**Infrastructures law**," which aims at mobilizing private sector financing for the construction of needed infrastructure through a build-and-lease mechanism, whereby a specially constituted fund will provide private enterprises a guarantee of future lease payments on selected infrastructure projects. This fund is expected to begin operations in 2001, with first lease payments likely to begin in 2002. To further support activity in the depressed construction sector, and ease certain infrastructure bottlenecks, the government included in the revised budget for 2001 about Arg$200 million for **additional investment in public works**.

14. Given, however, the existing budgetary constraints, the authorities recognize that the main impulse to private investment has to come from an improved business outlook, increased profitability, and greater flexibility in product and factor markets. For these purposes, emphasis is being placed on: **deregulation and the promotion of competition** in the economy, especially in key sectors such as telecommunications and energy; the rapid **renegotiation of expiring contracts** with privatized enterprises, especially in utilities and transport sectors, to define the "rules of the game" in a medium-term horizon; and the **finalization of the regulation of still pending aspects of the labor market reform legislation** approved by congress in May 2000. As indicated in the authorities' MEP, the new telecommunications regime was enacted in November 2000; new contracts have been negotiated in recent months in the petroleum, gas, mining, water, electricity, and railways sectors; and the last implementing regulations for the labor market reform—including the politically sensitive ones for collective bargaining—were issued in early December. Further steps—including the issuance of implementing regulations for the law on protection of competition, and a new regulatory framework for the ports system—are planned in the near future.

15. The World Bank and the Inter-American Development Bank are supporting the government's structural reform efforts by expanding their presence in Argentina, and helping the government address constraints that impede productivity growth and social development (Table 7). Specifically, the World Bank is supporting the reform of the state, in particular of the Tax and the Social Security agencies; is assisting with the liberalization of health insurance; is working with the provinces to strengthen their fiscal position; and is supporting the public employment program. The IDB in turn is focusing its activities on the support of the federal pact with the provinces; on education, particularly basic general education; on the reform of the capital market; and on the infrastructure and deregulation initiatives mentioned above.

Box 2: Tax Measures

Measure	Impact
Budget for 2001 proposed to Congress in September 2000	
1. Emergency income tax surcharge is allowed to expire.	This surcharge was part of the tax package introduced in early 2000. In 2000, this tax generated Arg$145 million in revenue.
2. The new pre-payment calendar for corporate income tax is maintained.	In June 2000, the pre-payment calendar for corporate income tax was changed from 11 pre-payments (9 percent each) to 10 prepayments (one of 25 percent and the rest of 8.3 percent). This generated a one off gain equivalent to Arg$320 million. Reinstating the original pre-payment calendar would have generated an equal loss for 200.
Measures announced by President De la Rua on October 23, 2000	
1. A phased **reduction** of the tax on paid interest.	The current 15 percent tax on interest payments by corporations is to be reduced to 10 percent in January 2001 and to 8 percent in July 2001. On a yearly basis this measure reduces tax revenue by Arg$420 million. The impact for 2001 is estimated at Arg$325 million.
2. Introduction of an income tax credit of up to Arg$5,000 for firms with debt lower than Arg$500,000.	This measure has a negligible impact on tax revenue, with no impact in 2001.
3. A modification to the VAT allowing credits for this tax on new investments, to be discharged against other taxes, or to be collected in cash from the government.	This measure is estimated to have an impact of about Arg$820 million over 2002 and 2003.
4. Exemption from personal wealth tax of shares of local companies, which are traded in local stock exchanges, and are held by the taxpayer during the whole tax year.	This measure has a negligible impact on tax revenue, with no impact in 2001.
5. Extension to 10 years of the period in which the minimum presumed income tax can be charged against income tax payments.	The impact on tax revenue of this measure is difficult to estimate. It does not have an impact in 2001.
Measures announced on November 10, 2000	
1. Phased **elimination** of the tax on paid interest.	The phased reduction of this tax is extended until July 2002 when it disappears. On a yearly basis the cost of this measure is Arg$900 million.
2. Reintroduction of income tax on interest earned by companies on deposits.	Starting in 2002 this tax is expected to yield about Arg$300 million in tax revenue.
3. Exemption from personal income tax of mortgage payments of up to Arg$4,000 when a new house is purchased.	No impact in 2001. Its cost increases by Arg$40 million a year up to a maximum of Arg$200 million on a yearly basis.

16. The authorities are confident that, in conjunction with a less adverse external environment—including a soft landing in the U.S. economy, some decline in international interest rates, and some improvement in non-oil commodity prices, as well as strengthened confidence in Argentina's ability to meet its financing needs—the policy initiatives outlined above will bring about a **gradual recovery in demand and output**, beginning in the first quarter of 2001, and strengthening progressively in the course of the year, to growth over 4 percent by the fourth quarter. The quantitative framework of the program assumes an **average rate of GDP growth around 2½ percent in 2001**, with domestic demand rising by about 2¼ percent, and the real foreign balance making a modest (about 0.2 percent) positive contribution to GDP growth. Investment is projected to rise by nearly 5 percent in 2001, following a cumulative decline of 16.6 percent in 1999–2000.

17. The pickup in output is expected to be reflected in a **gradual recovery of employment** in the course of 2001. The **unemployment rate** may not show a pronounced decline, however, especially if—as it is likely— the upturn in employment leads to an increase in participation rates as well. Reflecting the still large output gap, and the labor market slack, as well as some further decline in unit labor costs, **consumer prices are likely to remain flat**. The GDP deflator may show, however, a modest increase, in reflection of the expected further improvement of the terms of trade.

C. Fiscal Policy and Prospects

The federal budget for 2001

18. In shaping fiscal policy for next year, the authorities faced a difficult trade-off between avoiding a significant contractionary fiscal impulse, on the one hand, and securing a reduction of the federal deficit from its still relatively high level in 2000. **The initial budget proposal for 2001**, formulated during the summer when there were tentative signs of a recovery in domestic demand, focused on the objective of fiscal consolidation, with the federal deficit targeted to decline from the then expected Arg$5.3 billion (1.8 percent of GDP) in 2000 to Arg$4.1 billion (1.4 percent of GDP) in 2001, in line with the requirements of the fiscal responsibility law enacted in August 1999. This decline of the deficit was predicated on assumed rates of growth of nominal GDP of over 2 percent and over 4 percent in 2000 and 2001, respectively. As it became increasingly apparent, however, that activity was stalling again in the third quarter of 2000, and the tightening of financing constraints was further adversely affecting the short-term prospects for growth, the authorities recognized that the proposed fiscal deficit target for 2001 could not be met without further revenue or expenditure measures which would impart a substantial fiscal contraction to the economy. They decided, therefore, to present a **revised budget for 2001 allowing for an only modest decline of the deficit**, to Arg$6.5 billion (2.2 percent of projected GDP), extending at the same time to 2005 the horizon for eliminating the deficit, through a revision of the relevant provisions of the fiscal responsibility law.

19. The revised 2001 budget—approved by congress on December 14, 2000, and supplemented by a number of line-item vetoes by the President—envisages **a broad stabilization of the federal tax ratio** (at around 18 percent of GDP, including social security contributions), as the revenue impact of the tax cuts referred to above, as well as of other tax reducing measures, is expected to be largely offset by bringing forward the payment of VAT deferrals, by the full year effect of some of the tax measures taken in 2000, and by steps to accelerate collection of overdue taxes. **Nontax revenue** is expected to be boosted, in particular, by the planned leasing of airwaves for third generation telecommunications equipment.

20. In line with the undertakings in the federal pact mentioned above, **primary spending is to be kept unchanged at the same nominal level as in 2000**. Given the expected small increase in transfers to the provinces, primary spending excluding these transfers is expected to show a further decline. Expenditures on selected social and public employment programs, as well as the above-mentioned public works, will be shielded from the cutback, and in fact additional budgetary allocations (equivalent to around 0.2 percent of GDP) will be provided to them. **The interest burden is expected to continue to rise** (by the equivalent of around ½ percentage point of GDP), to nearly 4 percent of GDP, reflecting the increase in both the level of the federal debt and the marginal cost of new borrowing.

21. To ease the government financing constraint in 2001 and subsequent years, the authorities have arranged a **financial support package of US$39.7 billion** from official and private sources. The package includes US$13.7 billion from the augmented Stand-by Arrangement (as requested); US$5 billion in new loan commitments from the IDB and the World Bank; and US$1 billion in a loan from Spain. In addition, the package includes US$20 billion of financing from the private sector. The **involvement of the private sector** relies on a market-based, voluntary approach that is intended to complement Argentina's objective of accessing international capital markets as soon as confidence returns. The private sector package includes an agreement with the 12 financial institutions that are market makers in Argentina to roll over maturing bonds, and purchase new public issues (at market prices), of US$10 billion (including US$5 billion in treasury bills maturing in 2001); understandings with private pension funds and other institutional investors on the purchase of new public issues of US$3 billion (which are consistent with existing limits on the sectoral composition of pension funds' portfolios); and liability management operations of US$7 billion (Box 3).

Box 3: Liability Management Operations

Argentina intends to continue making use of liability management operations to fill its financing requirements in coming years.[1] The objective in using these operations will be to obtain cash relief and improve the profile of the public debt by refinancing or exchanging obligations with short- and medium-term maturities for obligations with longer maturities, while possibly generating debt reduction and fiscal benefits. The liability management operations will consist essentially of swaps of certain obligations falling due in 2001–05 for new obligations with maturities ranging from 2 to 30 years. The costs of the swaps will be determined by market forces. As the cost of undertaking such swaps may not differ from the cost of placing new debt, Argentina will maintain some flexibility on how best to proceed in filling its financing requirements as circumstances change.

The liability management operations being considered at this time would total at least US$7 billion in 2001–05. Argentina has received proposals for such operations from nine investment banks that could be classified broadly in three categories: (i) a swap of US$1 billion of Eurobonds; (ii) a swap of US$3 billion of U.S. dollar-denominated obligations; and (iii) a swap of US$3 billion of coupons falling due from 2002 onwards on obligations held by Argentine institutional investors. In 2001, the liability management operations are expected to amount to about US$2.5 billion. Argentina could, if market conditions so allow, increase the size of the operations. These operations could include a swap of U.S. dollar-denominated domestic obligations falling due in 2001 for a bond with similar characteristics that would mature in 2003. There could also be an exchange of U.S. dollar and Eurobond obligations falling due in 2001 for bonds with maturity ranging from 4 years to 30 years.

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[1] Since mid-1997, Argentina has undertaken four operations ranging in size from US$2.5 billion to US$3.9 billion.

22. Despite the modest decline in the deficit, the **gross financing requirements of the federal government** are expected to continue rising in 2001, to US$21.8 billion, from US$19.8 billion in 2000, reflecting increased amortizations of medium- and long-term debt (Table 8). The rollover of the short-term federal debt—currently standing at around US$5 billion—will add further to these requirements. About 45 percent of the financing needs (US$9.7 billion) is expected to be met by private creditors through liability management operations (US$2.5 billion) and placements of new bonds and treasury bills in domestic and international markets, including US$2.6 billion with local pension funds. While the contribution of the private sector in 2001 will be less than in previous years, it is expected to increase significantly in 2002 and beyond. The share of the federal government debt held by private creditors, projected at 75 percent in 2001, would increase to about 90 percent in 2006, while that of official creditors declines accordingly.

The provinces' finances

23. The authorities recognize the **importance of securing a sustained further improvement in the provinces' finances in 2001 and beyond**. For this purpose, the government successfully sought a new agreement with the provinces covering the period through 2005 (the **federal pact**). Box 4 presents an overview of the main features of this pact, which stipulates in particular, the **containment of federal transfers to the provinces at a level below that entailed by the normal working of the revenue-sharing regime,**

Box 4: The Fiscal Pact

On November 20, 2000 the federal government reached agreement with provincial governors on a fiscal pact for the next five years. This pact was enacted as law by congress in December.

The main elements of the pact are:

- **Revenue-sharing transfers** covered by the pact (about 90 percent of the total) are fixed at Arg$1.364 billion per month in 2001 and 2002. Thereafter, these transfers will increase to Arg$1.4 billion in 2003, Arg$1.44 billion in 2004, and Arg$1.48 -billion in 2005.

- Provinces with a budget deficit commit to **freeze primary expenditure** until budget balance is reached. A province can request authorization from the federal government to exceed this expenditure limit during extreme circumstances that could compromise the provision of education, health and security services.

- The provincial governors commit to send to their legislatures **fiscal responsibility laws** in line with the federal government's one, which requires budget balance to be reached by 2005. The 2001 budget law defines the linear path provincial deficits should follow.

- In 2001, the federal government commits to increase budgetary resources for workfare and nutrition programs, and to transfer to provinces the administration of Arg$225 million for these programs. From 2002 onwards, the provinces will be in charge of the administration of 30 percent of budgetary resources for these programs.

Other elements of the pact are:

- All parties commit to start, during 2001, congressional discussion of a new revenue sharing law as required by the 1994 constitution. If such law were approved before 2005, it would replace this pact.

- The provinces obtained additional flexibility by being allowed to freely allocate 50 percent of the transfers covered by the pact that otherwise are earmarked by law.

- The federal government commits to continue its financial support program for highly indebted provinces.

- The provinces undertake to work toward the harmonization of provincial taxes (especially the gross sales and the stamp taxes), and the elimination of distortions inherent in these taxes.

- The provinces commit to improve the quality and timelines of their fiscal accounts.

and the **maintenance of primary spending by the provinces in deficit at a level no higher than in 2000**. The pact also commits the provinces to introducing own fiscal responsibility laws; working toward the harmonization of provincial taxes, and the elimination of distortions created by such taxes; and improving the quality and timeliness of their fiscal accounts.

24. The **consolidated deficit of the provinces** is expected to decline from the equivalent of 1.2 percent of GDP in 2000 to under 1 percent of GDP in 2001, with further linear reductions targeted for subsequent years, to zero by 2005. Of particular importance to the success of the provincial fiscal consolidation program will be the behavior of the **province of Buenos Aires.** This province's budget for 2001 envisages a decline in its deficit to the equivalent of 0.5 percent of national GDP, and is likely to require significant efforts to contain payroll spending, which increased sharply in recent years. Given its substantial gross financing requirements (projected at over US$2 billion in 2001), and recent downgradings of its debt by major rating agencies, Buenos Aires is likely to face increasingly strong market discipline in the period ahead.

25. The government is continuing its **debt restructuring program** (in combination with fiscal adjustment programs) for the **ten more indebted provinces**, which is expected to be extended to a couple of other provinces in the course of 2001. The authorities are also working with the World Bank and the IDB in promoting fiscal discipline in the provinces (including the larger ones) that receive sectoral loans from these institutions.

The consolidated public sector finances and debt dynamics

26. Reflecting projected developments at the federal and provincial levels, the **overall deficit of the consolidated public sector** is projected to decline by the equivalent of about 0.5 percent in 2001, to around 3.1 percent of GDP. The **primary surplus** is expected to rise by the equivalent of over 1 percent of GDP, to 1½ percent of GDP. Given the significant, and still modestly rising, output gap,[7] this primary balance would likely impart some contractionary impulse to the economy, albeit a much smaller one than in 2000.

27. The scope for a more neutral fiscal stance is obviously constrained by the **high and still rising level of the public debt relative to GDP**. Table 9, based on relatively prudent assumptions regarding GDP growth and the development of interest rates and the exchange rate of the U.S. dollar vis-à-vis other major currencies, suggest that the public sector debt would continue to rise in relation to GDP in 2001 (partly reflecting the recognition of Arg$2.1 in past liabilities and other debt-creating flows[8]), and would rise modestly further in 2002, before beginning a steady decline from 2003 onwards, but would still remain by 2005 significantly above the level at the beginning of this decade. The analysis in Box 5 also highlights the **sensitivity of the debt dynamics to the underlying assumptions, particularly regarding the real rate of GDP growth**.

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[7] Staff estimates of potential output based on a Hodrick-Prescott filter technique put the negative output gap at around 7½ percent of potential GDP in 2001, compared with 3½ percent and 6.7 percent in 1999 and 2000, respectively.

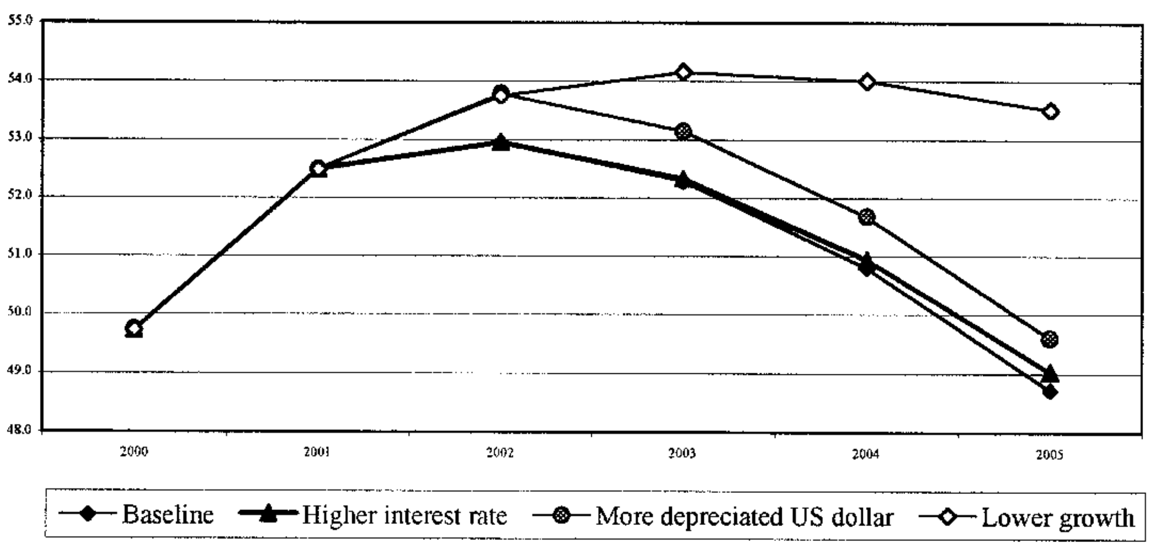
[8] See the Technical Memorandum of Understanding for detail.

Box 5: Consolidated Public Sector Debt—Sensitivity Analysis

One of the key objectives of the economic program is to put the consolidated public sector debt on a sustainable path. Under program assumptions this is achieved after 2002 when, after having peaked at about 53 percent, the ratio of public sector debt to GDP starts to decline. This is the result of the ambitious fiscal consolidation targets in the program, which are in line with the fiscal convertibility law and the fiscal pact between the federal and provincial governments. Achieving these fiscal targets entails a significant reduction of primary expenditure in percent of GDP.

The program is based on real GDP growth rates of 2.5 percent, 3.8 percent and 4.3 percent in 2001, 2002, and 2003–05, respectively. It also assumes that the marginal interest rate in the bond market declines by 50 b.p. per year, and exchange rates follow the latest WEO projections. The lower growth scenario assumes rates of growth 1 percentage point lower in 2002–05. The higher interest rate scenario assumes that interest rates do not decline over time; while the more depreciated U.S. dollar scenario assumes 5 percent more depreciation vis-à-vis the other currencies in the period 2002–05. In all scenarios primary expenditure is maintained in nominal terms as in the program (baseline) scenario.

Argentina: Consolidated Public Debt Dynamics-Sensitivity Analysis
(In percent of GDP)



The sensitivity analysis shows that the debt dynamics are particularly sensitive to GDP growth; to a smaller extent to a depreciation of the U.S. dollar (mainly due to the valuation adjustment of the stock); and show little sensitivity to variations in the marginal interest rate. The latter is a consequence of the relatively high average maturity of Argentina debt.

Structural fiscal reforms

To buttress its commitment to medium-term fiscal sustainability, the government is **strengthening and accelerating structural fiscal reforms**. The MEP outlines these efforts in the areas of tax administration (see also Box 6), the reform of the public administration,

Box 6: Tax Administration[1]

Tax evasion and elusion have been important problems in Argentina. In 1996, with a view to solving these problems, the government merged the responsibilities for the administration of customs, tax and social security contributions under one agency (AFIP). Progress has been made since then in coordinating tax and customs operations, improving revenue accounting and tax collection enforcement activities, and modernizing information technology systems. However, further progress is still needed.

The challenges in improving tax collections in Argentina extend beyond internal problems of AFIP. The continued use of tax moratoria and payment facilitation schemes raises doubts about the government's commitment to enforce tax laws on a consistent basis. The frequent and significant changes to tax laws have created uncertainty about the requirement of those laws for both tax officials and taxpayers. For many years, it has also been difficult for AFIP to obtain judicial support for the timely hearing of tax disputes, enforcement of collection of tax debts, and prosecution of tax fraud cases. Bank secrecy requirements have also been identified as a possible factor contributing to problems in the collection of tax debts.

Some internal issues in AFIP itself also need to be addressed. It is necessary to develop a national audit plan and coordinate its implementation with provincial tax administrations. The audit coverage of taxpayers' liabilities needs to be significantly increased from the current low levels of about 0.7 percent of the taxpayer population. Collection operations need to be improved. Information technology (IT) strategies need to be developed. Regarding customs administration, considerable resources invested in systems and procedures over the last years have not yet resulted in enhanced management control.

In the context of the program, the authorities have indicated their intention to accelerate the implementation of the recently approved anti-evasion law, including the full entry into operations of the new Tax Frauds Tribunal; to aschew amnesties or other payment facilitation arrangements for overdue taxes; to design and implement a national audit plan, aimed at expanding coverage of desk audits to 100,000 taxpayers; and to improve internal controls and supervision in AFIP to increase efficiency and minimize opportunities for corruption.

[1] Based on the reports of two recent FAD technical assistance mission in tax and customs administration.

the pension system (Box 7), and the health system (Box 8). A number of these reforms will be supported by the World Bank and the IDB through sectoral loans.

Box 7. Proposal to Reform the Pension System

The government had submitted to Congress a draft bill to reform both the pay-as-you-go (PAYG) and the capitalization components of Argentina's pension system. In view of a lack of congressional support , the government has recently enacted the reform by decree. The following are some of the main elements of the reform.

The reform to the publicly managed PAYG component aims at better targeting the distributive element of the system, while improving its finances over the medium term. Currently, the system provides a flat benefit of Arg$200 per month to individuals retiring with at least 30 years of contributions. The government projects the cost of this benefit (known as PBU) to rise over time as more people retire, notwithstanding a relative reduction in the coverage of this benefit resulting from the movement of workers between formal and informal jobs (while in the latter workers do not build up their contributive histories). Over the medium term, pressures are likely to mount to provide some support to the growing number of elderly people with limited or no right to pension benefits. The bill sent to congress by the government seeks to preempt this possibility by introducing a "universal benefit" of $100 a month payable to individuals of age 70 and over with no other means of support, regardless of their contributive histories. The government estimates that the cost of this benefit will be more than offset by savings from replacing the PBU with a graduated *supplementary benefit* (SB). The SB would change inversely with a person's other pension income –vanishing for those whose other pension benefits add up to more than Arg$800 a month—and would be accompanied by a guarantee that income from all pension sources would not be less than $300 a month. Future revisions of the benefits of the public system would be linked to the evolution of an average wage index, but would not be automatic, being instead subject to the availability of budgetary resources. The reform also includes incentives for women to postpone retirement until age 65 (the statutory retirement age for women is 60 years).

The reform also aims at increasing competition in the privately run fully-funded component of the system. In particular, the Superintendency of Pension Fund Administrators (SAFJP) will be allowed to present complaints before antitrust tribunals against pension fund managers engaging in anti-competitive behavior. Furthermore and to promote price competition, individuals who do not expressly choose a particular pension fund will be assigned to the one charging the lowest fees (at present, these individuals are randomly assigned among all pension funds). The reform would also give the SAFJP authority to modify the limits on the investments of the pension funds in different securities.

The reform proposes new rules for the issue of life annuities under the capitalization regime by mandating the use of a unified life table for men and women and strengthening the supervision of insurance companies. The reform would also modify the administration of certain disability pensions. At present, the social security administration (ANSES) pays for a fraction of the necessary capital to purchase an annuity for most participants in the capitalization regime who become disabled. Under the reform, ANSES would instead make direct monthly payments to the beneficiary.

Box 8. Reform of the Mandatory Health Insurance System

The current system of mandatory health care for salaried employees is built around institutions known as *obras sociales* (OS), most of which are run by trade unions. The system is financed with employer and employee contributions: 5 and 3 percent of gross wages, respectively. The bulk of these contributions (90 percent) is paid to the employee's OS, while the rest finances a supervisory agency and a redistributive mechanism, the Redistributive Solidarity Fund (FSR). The system has a number of well recognized problems: generally poor service, facilitated by the lack of competition among OS given the automatic affiliation of workers to the OS managed by their trade union; variability in the quality of service and financial viability of different OS, since each one is a closed pay-as-you-go scheme for the labor force of a specific industry; and indulgence of mismanagement through the use of the FSR to assist financially troubled OS.

Two presidential decrees, issued on June 6 and December 3, 2000, introduced important modifications to the system of mandatory health insurance scheduled to take effect in 2001. The central element of the reform is the opening to private companies of the market for the services financed with mandatory health insurance contributions. Starting in 2001, all workers[1] will be able to obtain their mandatory health insurance from any existing OS or from any private entity offering such services under the authorization and supervision of the Superintendency of Health Insurance (SSS, the new supervisory agency). The decrees provide for the prosecution of employers and providers attempting to distort or hinder the free exercise of the workers' right to choose providers. All providers registered with the SSS will be required to accept all applicants and to offer them at least the basic package of medical services determined by the SSS.

As part of the reform, the fraction of the contributions from the better paid workers that goes to the FSR will be increased. The resources of the FSR will be used to subsidize the provision of the basic services package to the families of workers with the lowest wages by guaranteeing that providers receive a minimum monthly contribution per beneficiary,[2] to finance the coverage of high-cost, high-complexity and low-frequency illnesses outside the basic package; and to constitute a liquidity reserve to help providers facing financial disequilibria due to contribution arrears.

[1] With the exception of the employees of the armed forces.

[2] Beneficiaries include contributing employees and their eligible dependents.

D. Financial Policies

28. The authorities noted that the temporary forbearance with respect to the observance by banks of the **minimum liquidity requirements** in November 2000 had led many banks to increase their net asset position abroad, in the expectation that this relaxation was going to be permanent, and had contributed to the significant decline in gross international reserves during that month.[9] Thus, the announcement that henceforth, these requirements would again be firmly enforced was likely an important factor behind both the recovery of reserves during the month of December, and the increase in the **interbank call rate** during the first half of the same month, as the banks that had faced liquidity shortfalls in November, resorted to the interbank market to reconstitute it. The interbank rate has declined again in the second half of

[9] Liquidity reserves in November dropped about Arg$1 billion (5 percent) below their expected average.

the month, suggesting a return to more normal liquidity conditions in the banking system. For 2001, the program allows a modest scope for liquidity support to the banks by the central bank and thereby prevent excessive volatility in the market. As in previous years, and consistent with the Convertibility Law, the **net domestic assets** (NDA) of the central bank have room to rise by up to Arg$400 million, excluding scheduled repurchases from the Fund.

29. The **monetary program for 2001** conservatively projects a lower increase in bank liabilities to the private sector relative to GDP than has been customary in the last several years. Given the expected decline in net foreign assets of the banking system, and further increase in net domestic credit to the public sector, bank credit to the private sector is expected to recover only moderately (by about 6 percent) from the depressed level of 2000.

30. The program also envisages a continuation of the authorities' efforts to **further strengthen bank supervision**, and the **regulatory framework to facilitate bank resolution**. As indicated in previous reports, the staff analysis suggests that the banking system remains strong and generally well capitalized, although profitability has been reduced in the last couple of years by the recession-induced increase in nonperforming loans and therefore in provisions. This analysis will be deepened in the forthcoming **FSAP**, scheduled to begin early in 2001. In this context, an initial review of the regulatory framework for corporate bankruptcy suggests a need to improve procedures for out-of-court resolution of corporate distress cases.

31. The authorities also see as a priority the need to promote a rapid and healthy **development of the domestic capital market**, and, for this purpose, plan to send to congress in the first quarter of 2001 a bill on best practices in the financial sector, strengthening corporate governance, transparency requirements, and protection of minority shareholder's rights, as well as a bill to modernize the regulatory framework for the insurance sector.

E. External Policies and Prospects

32. The program is predicated on the **maintenance of the convertibility regime** which the vast majority of the Argentine people continues to regard as the main anchor for price and financial stability. The staff analysis suggests that:

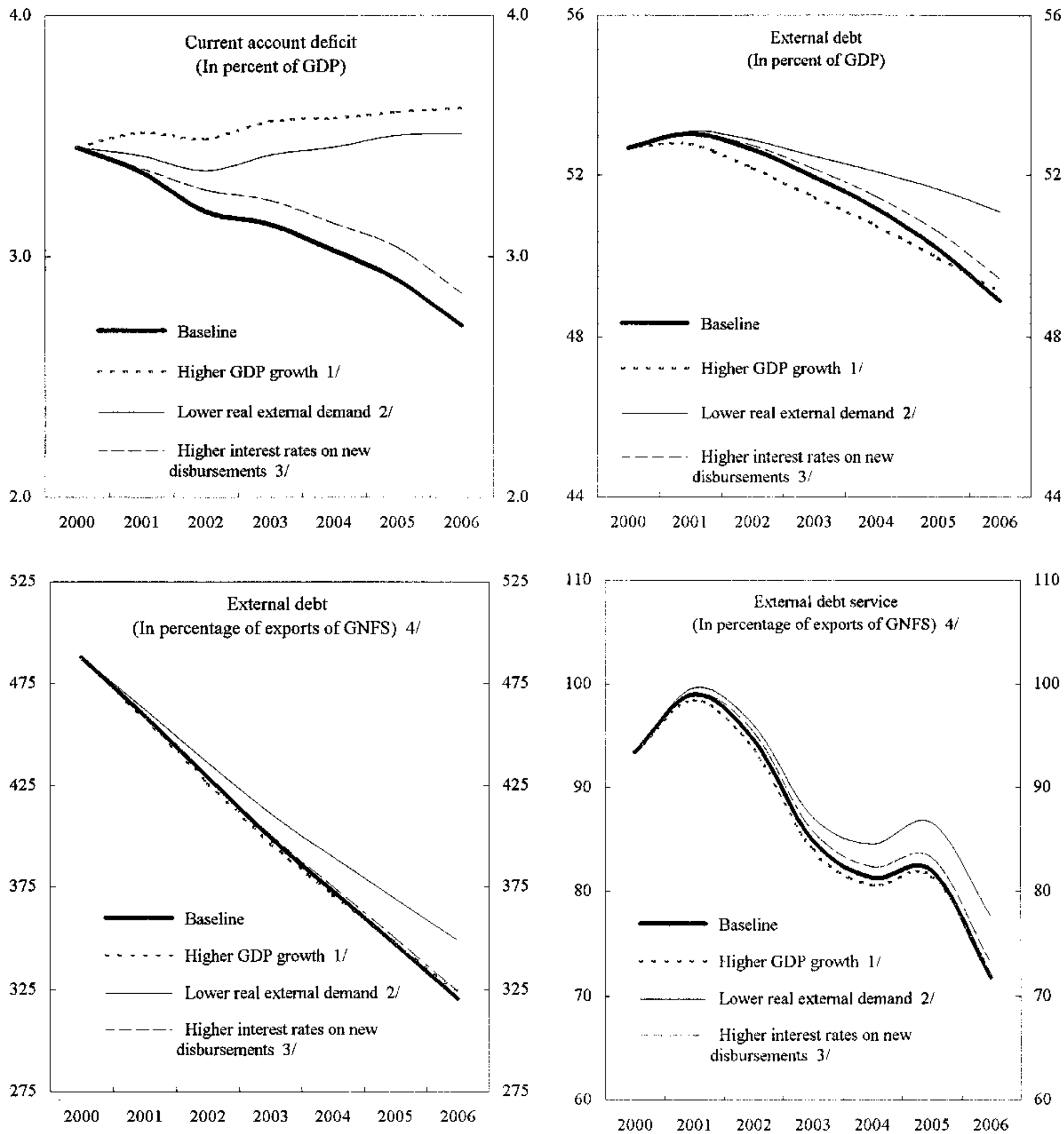
- as indicated above, the **competitive position** has gradually improved over the last year, and can be expected to continue to do so in the short to medium term, reflecting the maintenance of domestic inflation rates significantly lower than the average in Argentina's trade partners; further significant gains in productivity as a result of investment and the structural reform efforts outlined in Section A above; and a likely, at least partial, reversal of the appreciation of the U.S. dollar in recent years; and

- even abstracting from productivity gains and in the absence of a substantial depreciation of the U.S. dollar, the **trade surplus should continue to rise in the years ahead**, in the likely event that the recovery of domestic demand and imports remains a moderate one (Table 10). The staff's central medium-term scenario for the balance of payments, based on average historical elasticities and the projected path of domestic real GDP and world trade growth, suggests that—barring renewed terms of trade or interest rates shocks—the **current account deficit would also decline slightly** to levels (between 2¾ and 3 percent of GDP) which could likely be financed in large part by net FDI. This would facilitate a **gradual decline of the external debt and debt service** in relation to GDP and especially to exports, albeit to levels which remain relatively high in an international perspective (Tables 11 to 14). Assuming full disbursement of the amounts available under the program, the **debt service to the Fund** would peak in 2006 in absolute value, but in 2002 in relation to exports (absorbing over 12.5 percent of the latter). Figure 4 presents graphically the results of some **sensitivity analysis** of the baseline scenario; it shows that both the current account deficit and the external debt and debt service are especially sensitive to changes in the rates of growth of domestic output and world demand, compared with the baseline assumption. Because of the relatively long maturity structure of the external debt (in particular its public component) and the prevalence of fixed rate liabilities in this debt, increases in interest rates have a limited direct adverse impact on the current account on the debt. In fact, as has been the case in recent years, their dampening effects on domestic activity, and consequently on imports, may more than offset their direct impact on the external interest bill.

33. Focusing more particularly on the **short-term outlook for the balance of payments**, the staff projects a more modest improvement in the **trade balance in 2001** than in the previous two years, reflecting both an only small improvement in the terms of trade, and a significant recovery in imports. Exports of manufactures are expected to continue to grow at a moderate rate, while agricultural exports are projected to pick up from their depressed level of the last two years. The **current account deficit** is projected to remain broadly unchanged at under US$10 billion, or 3.3 percent of GDP, about 70 percent of which is expected to be covered by net FDI. The public sector is projected to basically roll over its maturing external obligations, and the private sector to experience a smaller net capital outflow (excluding FDI) than in the last couple of years, reflecting some recovery of confidence and improved access of Argentine borrowers to foreign capital markets. If the latter assumption were not to materialize, the tighter financing constraints would be reflected in lower growth, a smaller current account deficit, and a lesser accumulation of gross international reserves than projected in the program. Given the currency board regime, a lower gain in reserves would, ceteris paribus, constrain the scope for a sustained recovery of domestic bank credit to the private sector.

34. As regards **trade policy**, the authorities pressed within Mercosur for a rapid elimination of the 3 percent surcharge on the common external tariff. In the event, agreement was reached on a timetable for such elimination through the end of 2002, with a 0.5 percentage points cut on January 1, 2001, and the announcement in June 2001 of the schedule of the further planned reductions. Agreement was also reached within Mercosur on steps to reduce tariff dispersion and tariff rates for imports of capital goods, with a view to

Figure 4. Argentina
Sensitivity Analysis on Medium-term Scenario, 2000-2006



Source: Argentine authorities; and IMF staff estimates.

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

facilitating the modernization of the capital stock in member countries. The Mercosur partners also agreed in December 2000 on convergence toward common macroeconomic and fiscal objectives, including limits on inflation rates, fiscal deficits and public debt ratios to GDP.

F. The Stand-By Arrangement and Mix of Resources

35. Performance criteria have been specified for the end of each calendar quarter in 2001 and are described in Annex I to the authorities' Policy Memorandum (EBS/00/278) and also in Table 15. The program also envisages quarterly reviews with the Fund, which are described in Annex II of the Policy Memorandum. The availability of purchases and the corresponding conditions are described in Table 16. The first drawing in 2001, on Board approval, is proposed to amount to SDR 2,246 million (106 percent of quota). Reflecting the tight financing constraints faced in the early months of 2001, Fund purchases would cover about half of the financing needs of the first quarter, but with the expected gradual normalization of financing conditions , the pace of use of Fund resources is scheduled to decline subsequently to drawings of SDR 976 million (46 percent of quota) in the remaining quarters of 2001. The remainder of the financing requirements of the first quarter will be covered, according to the authorities' financing plan, by borrowing mainly in the domestic market; nevertheless, the authorities are planning on an early return to the international market as conditions improve.

36. It is proposed that the total amount of the Stand-By Arrangement be augmented to 500 percent of quota, of which only one-fifth will be provided under the Supplemental Resource Facility (SRF). The proposed mix of resources exceeds the normal 300 percent of quota limit of financing under the credit tranches, and reflects the more protracted nature of Argentina's financing problem. The SRF decision recognizes that not all capital account crises would be resolved in a short period of time and provides for the possibility that financing will be required under the credit tranches beyond normal financing limits to resolve a medium-term balance of payments need. In the case of Argentina, the additional balance of payments needs arising over the medium-term from the large concentration of debt maturities in the next few years argues for exceptional access under the credit tranches and less under the SRF. The proposed mix of resources was designed with a view to avoid increasing the heavy repayments scheduled for 2002–03 to levels which otherwise would be difficult to manage, as alternative combinations of resources, with a larger participation of SRF in the total, would result in net repurchases to the Fund beginning already in 2002. Given the reformed terms of Fund lending, the additional amounts Argentina would borrow under the credit tranches would be only marginally less expensive than under the SRF. (In place of paying a surcharge of 300 basis points on the SRF resources, Argentina will pay a surcharge of 200 basis points on the additional amount that would be made available under the credit tranches.) The resources provided under the SRF and the credit tranches are expected to be repurchased beginning one year and 2¼ years, respectively, from the time of disbursement.[10]

[10] The program is based on repayment of SRF resources on the basis of expectations starting at one year, and of the credit tranche resources on the basis of obligations starting at 3¼ years. The latter is in line with *Review of Fund Facilities—Proposed Decisions and Implementation Guidelines*, EBS/00/216, November 3, 2000.

IV. STAFF APPRAISAL

37. At the time of the first review of the Stand-By Arrangement with Argentina in September 2000, the staff noted that the authorities' efforts to adjust to the shocks suffered by the economy in recent years, through fiscal consolidation and structural reforms, deserved the Fund's continued support, including through an easing of the fiscal targets for 2000, to accommodate the impact of the slower-than-expected recovery of activity on revenues. At the same time, however, the staff noted that the economy remained highly vulnerable to a further weakening of confidence both domestically and abroad, and to a further tightening of external financing conditions. In this respect, the staff underscored the **importance of unambiguous signals by the authorities** of their determination and ability to firmly implement their announced policies.

38. In the event, the **external environment worsened in the subsequent months**, with external financing to emerging markets nearly drying up. This was compounded by domestic political uncertainties, which raised doubts about the political governability of the country. As a result, market concerns about Argentina escalated, leading to a rapid rise in bond spreads through mid-November, and halting the hesitant economic recovery that had begun in the summer.

39. **The authorities have responded to these adverse developments by strengthening the growth orientation of their economic program**, through measures aimed at promoting a recovery of investment, and an accelerated implementation of structural reforms. They have also revised the macroeconomic framework for 2001 to recognize the more subdued economic growth prospects now being envisaged, and modified the proposed 2001 budget to accommodate the impact of these revised growth projections on the fiscal deficit. The scope for providing fiscal stimulus remained, however, constrained by the already relatively high level of the public sector financing requirements.

40. At the same time, recognizing the importance of ensuring medium-term fiscal sustainability, as a necessary condition for a sustained decline in interest rates, the authorities have taken steps to strengthen the credibility of their commitment to fiscal solvency especially by negotiating a new fiscal pact with the provinces, which includes a freeze on nominal primary spending at all levels of government, and by deepening the proposed reform of the social security system. Finally, to bolster market confidence, the authorities have sought enhanced financial support from the Fund, the World Bank, the IDB, and the government of Spain, as well as a voluntary, constructive involvement of the private sector, through substantial financing commitments by major banks active in the domestic market, and the local pension funds.

41. **In the view of the staff, this strategy is appropriate, and deserves the increased financial support of the international community**. Given, however, the size of Argentina's financing needs, it can succeed only if it brings about a **sustained recovery of confidence**, both domestically and abroad. In the absence of such a recovery, the economy could not begin to grow again, investment would not rally, and external private financing would not

return at terms which are sustainable over the longer run. **A recovery of confidence hinges**, in turn, not only on a relatively benign international environment, but perhaps more importantly, **on a demonstrated, unwavering commitment by the authorities to a rapid and full implementation of their announced policies**, as well as on a responsible attitude of a broad spectrum of the political class in Argentina, including the social partners. In this respect, it is regrettable that the budget suffered some potentially costly modifications during its parliamentary debate, which necessitated the use of presidential vetoes to minimize the damage. It is also regrettable that little progress was made during the last session of congress in approving the proposed reform of the social security again necessitating for its enactment a presidential decree which is still vulnerable to judicial or congressional challenges in the months ahead.

42. As the medium term public debt projections suggest, the **fiscal consolidation effort will need to be sustained over a number of years**, to ensure that, following its largely unavoidable rise in the next couple of years, the ratio of the debt to GDP begins a steadily declining trend. This fiscal consolidation would be best achieved through a **balanced combination of declining primary spending and rising revenues relative to GDP**. Given, however, the already relatively high statutory rates of major taxes, an increase in the tax ratio should be sought primarily by broadening the tax base, eliminating exemptions and loopholes, and improving tax enforcement. The program includes a number of specific commitments, including structural benchmarks, in this area, and it is important that these commitments be implemented quickly and fully. It is also important that the authorities utilize to the fullest extent possible their **available instruments to rationalize spending**, including by eliminating duplication of functions among agencies and levels of government, streamlining organizational units, and strengthening the evaluation of spending programs, better to prioritize among them. Finally, strict adherence by the provinces, in particular the province of Buenos Aires, to their commitments under the federal pact, will be essential as the provinces control nearly half of the primary spending of the consolidated public sector. Adherence to these commitments would be promoted by tightened financing constraints, in particular enhanced market discipline, a firm refusal of any bailout by the central government, and also firm enforcement of conditionality, attached to provincial sectoral loans by the World Bank the IDB.

43. The **banking system appears to have withstood relatively well the impact of the difficulties besetting the Argentine economy in recent months**. Deposits have declined only modestly during the last few months, and the increase in nonperforming loans has been largely matched by added provisions. Liquidity tightened in November, especially in the major public banks, but has been recovering since. Nevertheless, the authorities need to continue to monitor developments in this area closely, and enforce firmly the liquidity and capital requirements, to bolster the public confidence in the continued soundness of the banking system. The staff welcomes the authorities' request for an early FSAP, as well as their planned steps to promote the healthy development of the domestic capital market.

44. On the external front, **Argentina has made substantial progress in reducing its current account deficit** in the last couple of years. This has reflected not only the cyclical

decline in imports, but also significant import substitution, a healthy recovery of manufacturing exports, and an improvement in the terms of trade. The competitive position appears to have improved over the last couple of years, regaining some of the ground lost in the aftermath of the devaluation of the real. Further improvements in competitiveness should be expected in the years ahead, in reflection of continued price stability in Argentina and some reversal of the appreciation of the U.S. dollar. The staff's analysis suggests that, under relatively prudent assumptions about the external environment, the maintenance of moderate (4–4.5 percent a year) rates of growth of real GDP would be consistent with a continued increase in the trade surplus and a gradual decline in the current account deficit in relation to GDP over the next few years. This lends support to the authorities' continued **firm commitment to the convertibility regime**. As indicated in previous reports, the staff's own analysis suggest that, especially given the high degree of dollarization of public and private liabilities and contracts, a change in this regime, with a possible significant overshoot of the exchange rate depreciation, would likely have widespread and substantial adverse consequences on the balance sheets of the nonfinancial private sector, the banking system, and especially the public sector.

45. The expected improvement of the current account, in combination with a continued significant net inflow of FDI, should help reduce both the external debt and its service in relation to GDP, and especially to exports, over the medium term. Argentina's gross external financing requirements are, however, likely to remain relatively high in the next few years, a fact that underscores the importance of a consistent implementation of the announced policies, to facilitate continued market access for both public and private sector borrowers. The foreseeable debt servicing hump in 2002–03 justifies, in the view of the staff, the proposed exceptional access to credit tranche resources in the enhanced Stand-By Arrangement. As market confidence strengthens, and borrowing costs decline to more normal levels, the authorities should continue to seek opportunities for debt exchanges that would further smooth the amortization profile beyond 2001.

46. In summary, the Argentine authorities have responded to the more acute economic difficulties that have emerged in recent months with a strengthened economic strategy which, in the view of the staff, is worthy of continued support by the Fund. The program does present significant risks relating to developments in the external environment, and to the degree of support provided by the political class to the government's strategy. Nevertheless, given the authorities' commitment to the program, as evidenced by the important steps taken so far in its implementation, and given the importance of Argentina's continued financial stability for the region and emerging markets more generally, the staff recommends approval by the Executive Board of the proposed arrangement.

Table 1. Argentina: Performance Under the Program January-September 2000

	Target	Adjusted Target	Outcome	Margin
	(In millions of Argentine pesos or U.S. dollars)			
Quantitative Performance Criteria 1/				
1. Cumulative balance of the Federal Government	-3,850	-3,997	-3,988	9
2. Cumulative primary expenditure of the Federal Government	39,690	39,824	39,782	42
3. Cumulative change in the debt of the Federal Government	5,125	6,377	6,192	185
4. Cumulative change in the short-term debt of the Federal Government	1,500	1,500	1,126	374
5. Cumulative change in the net domestic assets of the Central Bank	(850)	(850)	(1,517)	667

1/ As defined in the Technical Memorandum of Understanding (EBS/00/20).

Table 2. Argentina: National Income and Prices (1997-2005)

	1997	1998	1999	Prel. 2000	Projections 2001	2002	2003	2004	2005
	(Annual percentage change, unless otherwise indicated)								
GDP at current prices	7.6	2.1	-5.2	0.8	3.0	4.5	5.0	5.0	5.0
GDP at constant prices	8.1	3.8	-3.4	-0.2	2.5	3.8	4.3	4.3	4.3
Domestic demand	9.7	3.8	-4.7	-0.6	2.4	3.6	4.2	4.3	4.3
Consumption	7.9	3.1	-2.6	1.3	1.7	2.5	3.1	3.2	3.3
Investment	17.7	6.5	-12.8	-8.8	5.8	9.0	9.0	9.0	8.5
GDP deflator	-0.5	-1.7	-1.9	1.0	0.5	0.7	0.7	0.7	0.7
Consumer prices (e.o.p.)	0.3	0.7	-1.8	-0.5	...	...	...	...	...
Nominal industrial wages	-3.1	-0.2	-0.8	...	...	...	...	...	...
Industrial production 1/	10.1	3.5	-6.9	0.8	...	...	...	...	...
Employment	6.8	4.0	1.1	0.8	2.7	2.8	3.3	3.2	3.3
Unemployment rate (percent)	13.1	12.9	14.2	15.0	14.5	14.0	12.9	11.9	10.7
	(In percent of GDP)								
Gross domestic investment	19.4	19.9	17.9	15.9	16.4	17.2	17.9	18.7	19.4
of which: public investment	1.6	1.6	1.5	1.1	1.2	1.2	1.2	1.2	1.2
Gross national savings	15.3	15.2	13.5	12.5	13.0	14.3	15.5	16.5	17.6
External saving	4.1	4.8	4.4	3.4	3.3	2.9	2.4	2.1	1.8
Net exports	-2.2	-2.5	-1.7	-0.5	-0.5	-0.1	0.2	0.5	0.7
Exports	10.6	10.4	9.8	10.9	11.3	12.1	12.8	13.5	14.2
Imports	12.7	12.9	11.5	11.4	11.8	12.2	12.6	13.0	13.4
Net exports (contribution to growth)	-1.8	0.0	1.4	0.3	0.1	0.1	0.1	-0.1	-0.1
Private consumption	70.7	70.1	70.1	70.3	70.5	70.6	70.6	70.1	69.6
Public consumption	12.1	12.5	13.7	14.3	13.6	12.4	11.2	10.8	10.3
GDP (in billions of Arg$)	292.9	299.0	283.2	285.5	294.2	307.5	323.0	339.1	356.1

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

1/ For 2000, January-October.

Table 3. Argentina: Consolidated Public Sector Operations 1996-2001

	1996	1997	1998	1999	Proj. 2000	Prog. 2001
	(In millions of pesos)					
Revenue	**60,363**	**67,841**	**70,957**	**68,908**	**69,851**	**72,550**
Total tax revenue	42,978	49,250	52,013	49,675	51,697	53,505
Social security contributions 1/	11,956	12,202	11,990	10,892	10,702	10,466
Other revenues 2/	5,430	6,389	6,954	8,342	7,453	8,580
Noninterest expenditure	**63,418**	**67,053**	**69,414**	**71,041**	**68,709**	**68,124**
Wages	22,725	24,157	24,912	26,587	27,077	26,793
Goods and services	5,519	6,105	6,486	6,713	5,736	5,646
Transfers to the private sector 3/	24,832	25,647	26,459	27,193	26,870	26,616
Other	10,343	11,144	11,557	10,547	9,026	9,069
Primary balance	**-3,055**	**788**	**1,543**	**-2,133**	**1,142**	**4,427**
Interest	5,613	6,843	7,858	9,655	11,506	13,687
Overall balance	**-8,668**	**-6,055**	**-6,315**	**-11,788**	**-10,364**	**-9,260**
	(In percent of GDP)					
Revenue	**22.2**	**23.2**	**23.7**	**24.3**	**24.4**	**24.7**
Total tax revenue	15.8	16.8	17.4	17.5	18.1	18.2
Social security contributions 1/	4.4	4.2	4.0	3.8	3.7	3.6
Other revenues 2/	2.0	2.2	2.3	2.9	2.6	2.9
Noninterest expenditure	**23.3**	**22.9**	**23.2**	**25.1**	**24.0**	**23.1**
Wages	8.3	8.2	8.3	9.4	9.5	9.1
Goods and services	2.0	2.1	2.2	2.4	2.0	1.9
Transfers to the private sector 3/	9.1	8.8	8.9	9.6	9.4	9.0
Other	3.8	3.8	3.9	3.7	3.2	3.1
Primary balance	-1.1	0.3	0.5	-0.8	0.4	1.5
Interest	2.1	2.3	2.6	3.4	4.0	4.7
Overall balance	-3.2	-2.1	-2.1	-4.2	-3.6	-3.1

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 1996-2001

	1996	1997	1998	1999	Proj. 2000	Prog. 2001
	(In millions of pesos)					
Revenue	**47,817**	**54,207**	**56,751**	**55,020**	**55,913**	**58,124**
Taxes	33,176	38,352	40,363	38,626	40,836	42,074
Social security contributions 1/	11,956	12,202	11,990	10,892	10,702	10,466
Nontax revenue 2/	2,574	3,465	3,929	5,277	4,060	5,236
Other 3/	110	188	469	225	316	349
Noninterest expenditure	**50,035**	**53,094**	**53,918**	**53,952**	**53,212**	**53,212**
Discretionary (excluding tranfers to provinces)	**34,149**	**35,418**	**35,585**	**36,108**	**35,025**	**34,776**
Wages	7,973	8,510	8,076	8,548	8,381	8,094
Goods and services	2,450	2,567	2,697	2,637	2,223	2,227
Pensions	16,844	17,199	17,481	17,436	17,435	17,335
Private transfers	5,720	5,700	5,910	6,411	6,211	6,169
Other current expenditure	150	146	155	102	84	94
Capital	1,013	1,296	1,267	973	691	857
Transfers to Provinces	**15,886**	**17,675**	**18,333**	**17,844**	**18,187**	**18,436**
of which: automatic 4/	...	15,220	16,457	15,835	16,200	16,368
Primary balance	**-2,219**	**1,114**	**2,833**	**1,068**	**2,701**	**4,913**
Interest	4,610	5,791	6,661	8,224	9,673	11,413
Overall balance	**-6,828**	**-4,677**	**-3,828**	**-7,156**	**-6,972**	**-6,500**
	(In percent of GDP)					
Revenue	**17.6**	**18.5**	**19.0**	**19.4**	**19.5**	**19.8**
Taxes	12.2	13.1	13.5	13.6	14.3	14.3
Social security contributions 1/	4.4	4.2	4.0	3.8	3.7	3.6
Nontax revenue 2/	0.9	1.2	1.3	1.9	1.4	1.8
Other 3/	0.0	0.1	0.2	0.1	0.1	0.1
Noninterest expenditure	**18.4**	**18.1**	**18.0**	**19.0**	**18.6**	**18.1**
Discretionary (excluding tranfers to provinces)	**12.5**	**12.1**	**11.9**	**12.7**	**12.2**	**11.8**
Wages	2.9	2.9	2.7	3.0	2.9	2.8
Goods and services	0.9	0.9	0.9	0.9	0.8	0.8
Pensions	6.2	5.9	5.8	6.2	6.1	5.9
Private transfers	2.1	1.9	2.0	2.3	2.2	2.1
Other current expenditure	0.1	0.0	0.1	0.0	0.0	0.0
Capital	0.4	0.4	0.4	0.3	0.2	0.3
Transfers to Provinces	**5.8**	**6.0**	**6.1**	**6.3**	**6.4**	**6.3**
of which: automatic 4/	...	5.2	5.5	5.6	5.7	5.6
Primary balance	**-0.8**	**0.4**	**0.9**	**0.4**	**0.9**	**1.7**
Interest	1.7	2.0	2.2	2.9	3.4	3.9
Overall balance	**-2.5**	**-1.6**	**-1.3**	**-2.5**	**-2.4**	**-2.2**

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; the remaining transfers reflect earmarked taxes and other specified transfers not included in the general revenue-sharing arrangements.

Table 5. Argentina: Provincial Governments Operations 1996-2001 1/

	1996	1997	1998	1999	Proj. 2000	Prog. 2001
	(In millions of pesos)					
Revenue	**28,433**	**31,308**	**32,539**	**31,732**	**32,125**	**32,862**
Transfers from the federal government	15,886	17,675	18,333	17,844	18,187	18,436
Provincial taxes	9,802	10,897	11,650	11,049	10,861	11,431
Other provincial revenue	2,745	2,736	2,555	2,839	3,077	2,995
Noninterest expenditure	**29,269**	**31,635**	**33,829**	**34,933**	**33,684**	**33,348**
Wages	14,752	15,647	16,836	18,039	18,696	18,699
Goods and services	3,069	3,538	3,789	4,076	3,513	3,419
Transfers to the private sector 2/	2,268	2,747	3,069	3,346	3,224	3,112
Other	9,180	9,703	10,135	9,472	8,251	8,118
Primary balance	**-836**	**-326**	**-1,290**	**-3,201**	**-1,559**	**-486**
Interest	1,004	1,052	1,197	1,431	1,833	2,274
Overall balance	**-1,840**	**-1,379**	**-2,487**	**-4,632**	**-3,392**	**-2,760**
	(In percent of GDP)					
Revenue	**10.4**	**10.7**	**10.9**	**11.2**	**11.2**	**11.2**
Transfers from the federal government	5.8	6.0	6.1	6.3	6.4	6.3
Provincial taxes	3.6	3.7	3.9	3.9	3.8	3.9
Other provincial revenue	1.0	0.9	0.9	1.0	1.1	1.0
Noninterest expenditure	**10.8**	**10.8**	**11.3**	**12.3**	**11.8**	**11.3**
Wages	5.4	5.3	5.6	6.4	6.5	6.3
Goods and services	1.1	1.2	1.3	1.4	1.2	1.2
Transfers to the private sector 2/	0.8	0.9	1.0	1.2	1.1	1.1
Other	3.4	3.3	3.4	3.3	2.9	2.7
Primary balance	-0.3	-0.1	-0.4	-1.1	-0.5	-0.1
Interest	0.4	0.4	0.4	0.5	0.6	0.8
Overall balance	-0.7	-0.5	-0.8	-1.6	-1.2	-0.9

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)

	1996	1997	1998	1999	Proj. 2000	Prog. 2001
	I. Central Bank					
Net international reserves	13,452	16,938	20,807	22,864	20,785	16,528
Net domestic assets	7,105	5,882	5,499	4,647	4,709	10,630
Credit public sector 1/	9,951	9,546	8,744	7,805	8,314	13,835
Credit to the financial sector	1,957	1,571	1,922	1,856	1,163	1,563
Official capital and surplus and unclassified assets (net)	-4,803	-5,235	-5,167	-5,014	-4,768	-4,768
Monetary liabilities	20,557	22,820	26,306	27,511	25,494	27,159
Currency issued	14,030	15,966	16,370	16,493	15,078	15,444
Government deposits	2,242	325	1,343	935	920	920
Reserve deposits of banks	4,285	6,529	8,593	10,083	9,495	10,794
	II. Banks and Non-Bank Financial Institutions					
Net foreign assets	-6,497	-4,782	-5,601	-8,184	-5,987	-6,068
Net claims on Central Bank	4,628	7,599	9,545	10,995	10,863	11,823
Net domestic assets	47,761	55,464	63,557	66,571	68,051	73,540
Credit to public sector (net)	7,981	4,992	9,952	13,401	19,413	21,173
Credit to private sector	54,888	65,108	72,112	70,578	66,938	70,832
Capital and reserves	-15,038	-16,039	-17,094	-16,903	-16,403	-16,567
Other	-70	1,403	-1,413	-505	-1,897	-1,897
Private sector deposits	45,892	58,281	67,501	69,382	72,927	79,295
Local currency	19,460	25,474	28,059	26,445	25,190	26,939
Foreign currency	26,432	32,807	39,442	42,937	47,737	52,356
	III. Consolidated Financial System					
Net foreign assets	6,955	12,156	15,206	14,681	14,798	10,460
Net domestic assets	50,667	59,450	65,791	68,426	70,677	81,687
Credit to public sector (net)	15,690	14,213	17,353	20,270	26,807	34,088
Credit private sector	54,888	65,108	72,112	70,578	66,938	70,832
Net capital and reserves	-19,911	-19,871	-23,674	-22,422	-23,068	-23,233
Liabilities to private sector	57,622	71,606	80,997	83,107	85,475	92,147
Currency in circulation	11,730	13,325	13,496	13,725	12,548	12,852
Local currency deposits	19,460	25,474	28,059	26,445	25,190	26,939
Foreign currency deposits	26,432	32,807	39,442	42,937	47,737	52,356
	(In percent of GDP)					
Liabilities to the private sector	19.7	22.1	25.7	27.4	29.6	30.5
Currency in circulation	3.8	4.0	4.1	4.0	4.0	3.9
Peso deposits	6.8	8.1	9.1	9.1	9.3	9.3
Foreign currency deposits	9.0	10.1	12.4	14.3	16.3	17.3
	(In percent)					
Memorandum item:						
Risk-based capital asset ratio (capital over risk-weighted assets) 2/	23.8	20.8	20.4	21.0	20.2	...
Foreign exchange reserve cover of broad money 3/	35.4	46.4	42.9	44.3	40.6	...
Share of non-performing loans in total loans 2/ 4/	13.6	11.6	10.3	11.5	12.7	...
Share of foreign exchange loans in total lending 3/	62.7	62.9	63.1	66.1	67.7	...
Share of foreign deposits in total deposits 3/	53.0	53.2	54.6	58.3	61.2	...

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

1/ Includes net use of Fund resources.

2/ For 2000, September.

3/ For 2000, November.

4/ Excludes unrecoverable loans that have been charged-off from assets on balance sheet.

Table 7. Argentina: Contributions of the Inter-American Development Bank and The World Bank to the Financial Support Package

(In millions of U.S. dollars)

	2001	2002	Total
Inter-American Development Bank			
Loans to be disbursed	1,220	1,720	2,940
Sectorial loans to be approved	900	1,600	2,500
Social sector	400	-	400
Financial sector	250	250	500
Federal pact	250	250	500
Competitiveness	-	500	500
Housing sector	-	600	600
In the pipeline	320	120	440
The World Bank 1/			
Loans to be disbursed	800	1,900	2,700
Sectorial loans to be approved	600	300	900
Social sector	200	100	300
Administrative reform of the state	200	100	300
Revenue sharing	200	100	300
Other loans to be approved	-	1,600	1,600
Work program	-	250	250
Other programs	-	1,350	1,350
In the pipeline	200	-	200

Source: Ministry of Economy.

1/ Includes financing for the provinces.

Table 8. Argentina: Financing Requirements and Sources of the Federal Government

(In billions of U.S. dollars)

		Prel.	Projections					
	1999	2000	2001	2002	2003	2004	2005	2006
Financing requirements	**19.3**	**20.2**	**21.8**	**25.0**	**22.9**	**19.4**	**22.0**	**17.8**
Deficit	7.2	7.0	6.5	4.9	3.3	1.7	-	-
Other payments	1.0	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Amortization of medium- and long-term debt	11.1	12.1	14.3	19.1	18.6	16.7	21.0	16.8
Official creditors	3.0	3.3	3.1	7.2	3.8	4.3	6.3	5.7
Multilateral creditors	1.6	2.2	2.4	6.6	3.3	3.5	5.3	4.9
IMF	0.8	1.1	1.2	3.2	0.7	2.1	4.0	3.6
Other 1/	0.8	1.1	1.2	3.4	2.6	1.4	1.3	1.3
Bilateral creditors	1.4	1.1	0.7	0.6	0.5	0.7	1.0	0.8
Private creditors	8.1	8.8	11.2	11.9	14.8	12.4	14.7	11.1
Bond holders	7.6	7.9	10.7	11.5	13.9	11.9	14.3	10.9
Resident bondholders	3.4	3.4	4.9	6.9	6.6	6.3	7.8	5.4
Nonresident bondholders	4.2	4.4	5.8	4.6	7.3	5.7	6.5	5.6
Other	0.5	0.9	0.6	0.4	0.9	0.5	0.4	0.2
Financing sources	**19.3**	**20.2**	**21.8**	**25.0**	**22.9**	**19.4**	**22.0**	**17.8**
Official creditors	1.4	2.9	9.7	6.2	3.2	1.0	0.8	0.8
Multilateral creditors	1.4	2.9	8.7	6.2	3.2	1.0	0.8	0.8
IMF	-	2.1	6.7	4.0	1.0	-	-	-
Other 1/	1.4	0.9	2.0	2.2	2.2	1.0	0.8	0.8
Bilateral creditors	-	-	1.0	-	-	-	-	-
Private creditors	15.7	17.2	12.1	18.8	19.7	18.4	21.2	17.0
Resident bondholders	3.2	5.3	8.2	7.8	8.4	8.8	9.5	9.3
Private pension funds (AFJP)	...	...	2.6	2.9	3.2	3.6	3.9	4.2
Other 2/	...	...	5.6	4.9	5.2	5.2	5.6	5.1
Nonresident bondholders 2/	12.5	11.9	3.9	11.0	11.2	9.6	11.8	7.7
Privatization	2.3	0.1	-	-	-	-	-	-
Memorandum items (in percent)								
Implied rollover ratios on new bond issues	206.7	219.0	113.0	164.3	141.4	154.4	148.6	154.9
Structure of new financing by creditor								
Official creditors	7.0	14.5	44.6	24.8	14.0	5.2	3.6	4.5
Multilateral	7.0	14.5	40.0	24.8	14.0	5.2	3.6	4.5
IMF	-	10.2	30.8	15.9	4.3	-	-	-
Other	7.0	4.4	9.3	8.9	9.6	5.2	3.6	4.5
Bilateral	-	-	4.6	-	-	-	-	-
Private creditors 2/	81.2	85.1	55.4	75.2	86.0	94.8	96.4	95.5
Residents	16.3	26.4	37.4	31.3	36.9	45.3	43.0	52.2
Nonresidents	64.9	58.8	17.9	43.9	49.2	49.6	53.4	43.3
Structure of debt stock by creditor								
Official creditors	22.3	20.5	24.4	22.6	21.5	18.9	15.0	11.6
Multilateral	17.2	16.7	20.5	19.3	18.7	16.6	13.4	10.6
Bilateral	5.0	3.8	3.8	3.3	2.8	2.3	1.5	1.0
Private creditors 2/	77.7	79.5	75.6	77.4	78.5	81.1	85.0	88.4
Residents	34.5	33.0	33.2	32.2	31.9	32.7	33.3	35.6
Nonresidents	43.3	46.4	42.4	45.2	46.6	48.5	51.7	52.8

Sources: Argentine Ministry of Finance; and Fund staff estimates and projections.

1/ Excludes loans by multilateral institutions to the provinces, guaranteed by the federal government.

2/ Includes savings from debt exchange operations.

Table 9. Argentina: Consolidated Public Sector Debt Dynamics

(In millions of U.S. dollars; unless otherwise indicated)

	1997	1998	1999	2000	2001 Prog.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.
Debt, beginning of period	108,318	111,547	123,508	133,964	142,005	154,413	162,811	168,850	172,239
Primary balance	788	1,543	-2,134	1,142	4,480	8,151	11,848	15,194	17,867
(In percent of GDP)	0.3	0.5	-0.8	0.4	1.5	2.7	3.7	4.5	5.0
Interest payments	6,843	7,858	9,655	11,506	13,687	15,049	16,387	17,283	17,867
(In percent of GDP)	2.3	2.6	3.4	4.0	4.7	4.9	5.1	5.1	5.0
Overall balance	-6,055	-6,315	-11,789	-10,364	-9,208	-6,898	-4,539	-2,089	0
(In percent of GDP)	**-2.1**	**-2.1**	**-4.2**	**-3.6**	**-3.1**	**-2.2**	**-1.4**	**-0.6**	**0.0**
Privatization receipts 1/	1,264	558	889	73	400	200	200	100	100
Debt consolidation (recognition)	942	1,123	1,546	1,400	2,100	1,400	1,400	1,100	1,000
Other debt creating flows 2/	-2,504	5,081	-1,991	-3,650	1,500	300	300	300	300
Debt, end of period	111,547	123,508	133,964	142,005	154,413	162,811	168,850	172,239	173,439
(In percent of GDP)	**38.1**	**41.3**	**47.3**	**49.7**	**52.5**	**52.9**	**52.3**	**50.8**	**48.7**
Memorandum items:									
(In millions of pesos, unless otherwise indicated)									
Gross Domestic Product	292,825	298,948	283,260	285,528	294,178	307,483	322,974	339,088	356,035
Real GDP growth (in percent)	8.1	3.8	-3.4	-0.2	2.5	3.8	4.3	4.3	4.3
Federal government balance	-4,677	-3,828	-7,156	-6,972	-6,500	-5,000	-3,500	-1,700	0
Provincial governments balance	-1,379	-2,487	-4,633	-3,392	-2,707	-1,898	-1,039	-389	0
Implicit average interest rate (percent)	6.3	7.0	7.8	8.6	9.6	9.7	10.1	10.2	10.4
Interest rate on new federal government debt (percent)	...	...	...	10.9	10.2	10.6	11.4	10.1	9.7

Sources: Ministry of Economy; and Fund staff estimates.

1/ Includes one-off gains made in debt management operations.

2/ Includes quasi fiscal surplus not transferred to the treasury, capitalized interest, and valuation adjustments; in 2001, includes also Arg$400 million for payments due to judicial rulings on ANSES and Arg$800 million for consolidation of INDER past obligations. In the projection perod the quasifiscal surplus is projected at Arg$300 million per annum.

Table 10. Argentina: Medium Term Balance of Payments, 2000-06

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

					Projections			
	1999	2000	2001	2002	2003	2004	2005	2006
Current account balance	-12.4	-9.9	-9.8	-9.8	-10.1	-10.3	-10.3	-10.2
Trade balance	-2.2	1.1	1.8	2.7	3.7	4.4	5.2	6.0
Exports (fob)	23.3	26.3	28.7	32.1	35.8	39.7	44.0	48.8
Imports (cif)	-25.5	-25.2	-27.0	-29.3	-32.1	-35.3	-38.8	-42.8
Nonfactor services	-2.7	-2.9	-2.3	-2.3	-2.2	-2.1	-2.0	-1.8
Receipts	4.4	4.5	5.2	5.7	6.2	6.8	7.5	8.2
Expenditures	-7.1	-7.4	-7.6	-8.0	-8.4	-8.9	-9.4	-10.0
Factor services	-7.7	-8.2	-9.5	-10.4	-11.8	-12.8	-13.8	-14.6
Profits and dividends	-1.9	-2.1	-2.4	-3.0	-3.6	-4.3	-4.9	-5.7
Net interest	-5.9	-6.1	-7.0	-7.4	-8.2	-8.5	-8.8	-8.9
Interest due	-11.2	-12.4	-13.5	-14.5	-15.7	-16.4	-17.0	-17.5
Interest earnings	5.3	6.2	6.5	7.1	7.5	7.9	8.2	8.6
Transfers (net)	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital account	14.2	7.8	6.0	10.2	11.2	13.9	15.9	15.4
Nonfinancial public sector	10.8	6.1	0.0	4.2	2.7	2.3	3.1	0.1
Federal government	10.1	5.1	-0.6	4.6	3.1	2.8	3.7	0.6
Bonds and titles	6.9	6.1	-1.9	6.4	3.9	3.9	5.2	2.1
Multilateral organizations	2.2	1.0	0.9	-1.2	-0.4	-0.4	-0.5	-0.7
Privatization	3.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other 1/	-2.1	-2.0	0.4	-0.6	-0.5	-0.7	-1.0	-0.8
Local governments	1.4	1.4	0.8	0.0	0.0	-0.1	-0.2	-0.1
of which : privatization	1.2	0.0	0.4	0.2	0.2	0.1	0.1	0.0
Enterprises and other	-0.6	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Financial system	2.1	-1.4	0.4	0.4	0.5	0.3	0.1	0.1
Foreign direct investment (net) 2/	0.3	1.0	0.4	0.4	0.4	0.3	0.2	0.2
Bonds and titles	-0.3	0.6	-0.6	0.2	0.4	0.3	0.2	0.2
Other	2.0	-3.0	0.6	-0.2	-0.3	-0.3	-0.3	-0.3
Nonfinancial private sector	1.9	2.5	5.2	5.3	7.7	10.9	12.4	14.8
Direct investment 3/	6.6	6.4	6.6	6.9	7.3	7.7	8.0	8.5
Portfolio investment 3/	-1.6	-0.4	0.5	0.8	1.0	1.5	2.0	2.5
Debt creating flows	0.2	-1.4	1.1	0.9	2.8	5.4	5.9	7.5
Other 4/	-3.3	-2.2	-3.0	-3.2	-3.4	-3.7	-3.5	-3.6
Other capital 5/	-0.7	0.6	0.3	0.4	0.4	0.4	0.4	0.4
Net international reserves (- increase)	-1.8	2.1	3.9	-0.4	-1.1	-3.6	-5.6	-5.3
Assets	-1.1	1.5	-1.7	-1.2	-1.4	-1.5	-1.6	-1.7
Liabilities (IMF)	-0.7	0.6	5.5	0.8	0.3	-2.1	-4.0	-3.6
Memorandum items:								
Exceptional IMF financing	0.0	2.1	6.7	4.0	1.0	0.0	0.0	0.0
Current account balance (percent of GDP)	-4.4	-3.4	-3.3	-3.2	-3.1	-3.0	-2.9	-2.7
Foreign direct investment (incl. privatization) 2/, 3/	11.1	7.5	7.3	7.5	7.9	8.1	8.3	8.7
Merchandise export volume (percentage change)	-0.7	2.5	7.2	8.2	8.0	8.0	8.0	8.0
Merchandise import volume (percentage change)	-13.9	-1.7	5.7	7.5	8.1	8.1	8.1	8.1
Energy trade balance	2.8	4.8	4.4	4.4	4.7	4.9	5.2	5.6
Terms of trade (percentage change)	-5.9	9.7	0.5	1.6	1.7	0.9	1.0	1.0
Terms of trade excluding fuels (percentage change)	-8.0	3.1	3.1	3.0	2.2	1.2	1.3	1.3
Gross reserves/Monetary base (percent)	100.4	101.5	101.4	...	...	...	...	...

Sources: Ministry of Economy, and Fund staff estimates

1/ Includes commercial and bilateral loans.

2/ In 2000, excludes the effect of the sales of shares of *Banco Rio* , (i.e , US$340 million in FDI inflows and in portfolio investment outflows).

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). In 2000, excludes the effect of the sales of shares of Astra, *Telefónica* and YPF (i.e., US$1833 million).

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

5/ Includes errors and omissions.

Table 11. Argentina: External Debt and Debt-Service Indicators

	1998	1999	2000	2001	2002	2003	2004	2005	2006
			Projections						
	(In billions of U.S. dollars)								
External debt outstanding	140.7	144.6	150.4	156.0	161.9	167.8	173.5	178.6	182.8
Nonfinancial public sector	82.4	84.9	91.4	96.5	101.3	104.1	104.2	103.2	99.7
Medium and long term	81.7	84.0	90.3	...	...	...	...	...	...
Short term 1/	0.7	0.8	1.1	...	...	...	...	...	...
Financial system	22.3	23.6	24.2	23.7	23.9	24.3	24.6	24.8	25.0
Medium and long term	8.5	10.3	8.6	...	...	...	...	...	...
Short term	13.8	13.3	15.6	...	...	...	...	...	...
Nonfinancial private sector	36.0	36.1	34.7	35.8	36.7	39.4	44.8	50.7	58.1
Medium and long term	29.0	30.6	29.4	...	...	...	...	...	...
Short term	7.0	5.5	5.4	...	...	...	...	...	...
Total external debt service	19.9	27.0	28.8	33.6	35.7	35.7	37.8	42.2	40.9
Amortization 2/	9.6	15.8	16.5	20.1	21.2	20.0	21.4	25.2	23.5
Interest	10.3	11.2	12.4	13.5	14.5	15.7	16.4	17.0	17.5
Nonfinancial public sector external debt service	11.0	12.8	14.4	17.3	20.9	21.2	20.5	23.9	22.4
Amortization 2/	5.5	6.5	7.6	9.7	12.5	11.7	10.6	13.6	12.0
Interest	5.5	6.2	6.8	7.6	8.5	9.5	9.9	10.2	10.4
	(In percent of GDP)								
External debt outstanding	47.1	51.0	52.7	53.0	52.6	52.0	51.2	50.2	48.9
Nonfinancial public sector	27.6	30.0	32.0	32.8	33.0	32.2	30.7	29.0	26.7
Financial system	7.5	8.3	8.5	8.0	7.8	7.5	7.2	7.0	6.7
Nonfinancial private sector	12.0	12.7	12.2	12.2	11.9	12.2	13.2	14.2	15.6
	(In percent of exports of goods and nonfactor services)								
External debt outstanding	452.1	521.4	487.9	459.4	429.1	399.1	372.9	346.9	320.6
Nonfinancial public sector	264.9	306.0	296.6	284.2	268.6	247.6	223.9	200.4	174.9
Financial system	71.7	85.2	78.5	69.7	63.2	57.7	52.8	48.1	43.8
Nonfinancial private sector	115.6	130.2	112.7	105.5	97.3	93.8	96.3	98.4	102.0
Total external debt service	63.9	97.4	93.5	99.0	94.7	84.9	81.3	82.0	71.8
Amortization 2/	30.8	57.0	53.4	59.2	56.2	47.7	46.0	48.9	41.1
Interest	33.0	40.4	40.1	39.8	38.5	37.3	35.3	33.1	30.6
Nonfinancial public sector external debt service	35.3	46.0	46.6	50.8	55.5	50.5	44.0	46.3	39.3
Amortization 2/	17.7	23.6	24.7	28.6	33.0	27.9	22.8	26.4	21.1
Interest	17.6	22.4	21.9	22.2	22.5	22.5	21.3	19.9	18.2
Memorandum items:									
Short-term external debt (in billions of U.S. dollars)									
Original maturity	21.5	19.7	22.1	...	...	...	...	...	...
Residual maturity	37.3	36.1	38.6	...	...	...	...	...	...
Gross foreign exchange reserves (in billions of U.S. dollars)	31.7	33.1	32.5	34.6	36.1	37.9	39.8	41.7	43.8
At the central bank	26.2	27.3	25.9	27.5	28.7	30.1	31.6	33.2	34.9
Held abroad 3/	5.5	5.8	6.7	7.1	7.4	7.7	8.1	8.5	8.9
Debt outstanding to the Fund									
In billions of U.S. dollars	5.4	4.5	5.0	10.6	11.3	11.6	9.5	5.5	1.9
In percent of quota	182.6	154.1	183.3	383.9	401.0	409.3	333.1	191.4	65.4
Debt service to the Fund									
In billions of U.S. dollars	0.9	1.1	1.3	1.7	3.9	1.4	2.8	4.5	3.8
In percent of nonfinancial public sector external debt service	8.5	8.3	9.3	9.7	18.5	6.6	13.5	18.7	17.0
In percent of exports of goods and nonfactor services	3.0	3.8	4.3	5.0	10.3	3.3	5.9	8.7	6.7

Sources: Ministry of Economy; and Fund staff estimates.

1/ Letes held by nonresidents.

2/ Excludes short-term debt.

3/ Liquidity requirements of the banking system.

Table 12. Argentina: Medium-Term Scenario

	1999	Prel. 2000	Projected 2001	2002	2003	2004	2005
	(In percent of GDP)						
Gross domestic investment	17.9	15.9	16.4	17.1	17.9	18.6	19.3
Public sector	1.5	1.1	1.2	1.2	1.2	1.2	1.2
Private sector	16.4	14.8	15.2	16.0	16.7	17.5	18.2
Gross national savings	13.5	12.5	13.0	14.0	14.8	15.6	16.4
Public sector	-2.6	-2.5	-1.9	-1.1	-0.2	0.6	1.2
Private sector	16.2	15.0	15.0	15.0	15.0	15.1	15.3
Foreign savings	4.4	3.4	3.3	3.2	3.1	3.0	2.9
Consolidated public sector balance	-4.2	-3.6	-3.1	-2.2	-1.4	-0.6	0.0
Federal government	-2.5	-2.4	-2.2	-1.6	-1.1	-0.5	0.0
Rest of public sector	-1.6	-1.2	-0.9	-0.6	-0.3	-0.1	0.0
Public sector debt	47.3	49.7	52.5	52.9	52.3	50.8	48.7
External debt	30.0	32.0	32.8	33.0	32.2	30.7	29.0
Domestic debt	17.3	17.7	19.7	19.9	20.1	20.1	19.7
	(In billions of U.S. dollars)						
Current account	-12.4	-9.9	-9.8	-9.8	-10.1	-10.3	-10.3
Trade balance	-2.2	1.1	1.8	2.7	3.7	4.4	5.2
Exports (f.o.b.)	23.3	26.3	28.7	32.1	35.8	39.7	44.0
Imports (c.i.f.)	-25.5	-25.2	-27.0	-29.3	-32.1	-35.3	-38.8
Nonfactor services	-2.7	-2.9	-2.3	-2.3	-2.2	-2.1	-2.0
Factor services	-7.7	-8.2	-9.5	-10.4	-11.8	-12.8	-13.8
Transfers (net)	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Capital account	14.2	7.8	6.0	10.2	11.2	13.9	15.9
Of which: foreign direct investment	11.1	7.5	7.3	7.5	7.9	8.1	8.3
Overall balance	1.8	-2.1	-3.9	0.4	1.1	3.6	5.6
	(In percent)						
Real GDP growth	-3.4	-0.2	2.5	3.8	4.3	4.3	4.3
GDP deflator	-1.9	1.0	0.5	0.7	0.7	0.7	0.7
Export volume growth	-0.7	2.5	7.2	8.2	8.0	8.0	8.0
Import volume growth	-13.9	-1.7	5.7	7.5	8.1	8.1	8.1
Terms of trade change	-5.9	9.7	0.5	1.6	1.7	0.9	1.0
	(In percent of exports of goods and nonfactor services)						
Gross external financing requirements	105.5	80.5	93.1	85.3	75.1	71.3	72.1
Total external debt	521.2	486.0	441.5	415.6	384.1	364.1	346.9
Total external debt service	97.4	93.5	99.0	94.7	84.9	81.3	82.0
Public sector external debt service	46.0	46.6	50.8	55.5	50.5	44.0	46.3
Of which: interest payments	22.4	21.9	22.2	22.5	22.5	21.3	19.9
Outstanding Fund credit	16.1	16.4	37.1	26.3	24.8	20.2	11.3
Fund charges and repurchases	3.8	4.3	4.7	12.7	3.9	6.7	10.5
Memorandum items: (In percent)							
Unemployment rate	14.2	15.0	14.5	14.0	12.9	11.9	10.7
Fund debt service/public sector debt service	8.3	9.3	9.2	22.8	7.7	15.2	22.7
Fund credit/quota	154.1	183.4	457.3	351.1	367.3	328.7	203.5

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

Table 13. Argentina: Requirements and Sources of Foreign Exchange

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

	1998	1999	Prog. 2000	Prog. 2001	Prog. 2002	Proj. 2003	Proj. 2004	Proj. 2005	Proj. 2006
Requirements	**27.3**	**29.3**	**24.8**	**31.6**	**32.2**	**31.6**	**33.2**	**37.1**	**35.3**
Current account deficit	**14.3**	**12.4**	**9.9**	**9.8**	**9.8**	**10.1**	**10.3**	**10.3**	**10.2**
Amortization of medium- and long-term debt	**9.6**	**15.8**	**16.5**	**20.1**	**21.2**	**20.0**	**21.4**	**25.2**	**23.5**
Nonfinancial public sector	5.5	6.5	7.6	9.7	12.5	11.7	10.6	13.6	12.0
Nonfinancial private sector	4.1	4.0	6.6	6.5	6.1	5.6	7.0	7.0	6.6
Financial sector	n.a	1.6	2.2	3.8	2.6	2.7	3.8	4.6	4.8
Change in gross reserves	**3.4**	**1.1**	**-1.5**	**1.7**	**1.2**	**1.4**	**1.5**	**1.6**	**1.7**
Sources	**27.3**	**29.3**	**24.8**	**31.6**	**32.2**	**31.6**	**33.2**	**37.1**	**35.3**
Foreign direct investment and privatization	**4.4**	**11.1**	**7.5**	**7.3**	**7.5**	**7.9**	**8.1**	**8.3**	**8.7**
Debt creating flows and other	**22.9**	**18.1**	**17.3**	**24.3**	**24.7**	**23.7**	**25.1**	**28.8**	**26.6**
Nonfinancial public sector	**14.9**	**17.8**	**14.7**	**14.4**	**17.4**	**14.7**	**10.8**	**12.7**	**8.6**
Federal government	14.1	15.8	13.2	13.7	17.1	14.4	10.6	12.6	8.5
Multilateral	3.4	2.8	1.7	2.0	2.2	2.2	1.0	0.8	0.8
Bonds and notes 1/	10.7	11.0	10.5	3.9	11.0	11.2	9.6	11.8	7.7
Bilateral	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Privatization	0.0	3.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional IMF financing	0.0	0.0	2.1	6.7	4.0	1.0	0.0	0.0	0.0
Other (net)	-0.1	-1.0	-1.2	0.1	0.0	0.0	0.0	0.0	0.0
Local governments	0.6	1.9	1.4	0.7	0.3	0.3	0.2	0.2	0.1
Debt creating flows	0.2	0.7	1.4	0.3	0.1	0.1	0.1	0.1	0.1
Privatization	0.3	1.2	0.0	0.4	0.2	0.2	0.1	0.1	0.0
Enterprises	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial private sector	**11.9**	**9.3**	**11.3**	**14.8**	**14.6**	**16.6**	**21.6**	**22.9**	**25.1**
Foreign direct investment 2/	2.9	6.6	6.4	6.6	6.9	7.3	7.7	8.0	8.5
Portfolio investment	-1.5	-1.6	-0.4	0.5	0.8	1.0	1.5	2.0	2.5
Debt creating inflows	10.4	4.2	5.3	7.6	7.0	8.4	12.4	12.9	14.1
Financial sector	**1.1**	**1.6**	**3.8**	**3.7**	**3.2**	**3.5**	**4.4**	**5.0**	**5.2**
Foreign direct investment 2/	1.1	0.3	1.0	0.4	0.4	0.4	0.3	0.2	0.2
Debt creating inflows	n.a	1.3	2.8	3.3	2.8	3.1	4.1	4.8	5.0
Other 3/	**-0.5**	**0.6**	**-5.0**	**-1.2**	**-3.1**	**-3.3**	**-3.6**	**-3.5**	**-3.6**
Memorandum items:									
Gross foreign exchange reserves at end year	31.7	33.1	32.5	34.6	36.1	37.9	39.8	41.7	43.8
At the central bank	26.2	27.3	25.9	27.5	28.7	30.1	31.6	33.2	34.9
Held abroad 4/	5.5	5.8	6.7	7.1	7.4	7.7	8.1	8.5	8.9

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

1/ Excludes Letes.

2/ Excludes privatization.

3/ Includes counterpart of interest earnings held abroad, deposit reflows and errors and omissions.

4/ Liquidity requirements of the banking system.

Table 14. Argentina: Indicators of External Vulnerability

	1996	1997	1998	1999	Prel. 2000	Proj. 2001
(Annual percentage change, unless otherwise indicated)						
Financial indicators						
Broad money	18.4	24.1	10.3	2.3	3.7	7.5
Private sector credit	7.4	19.1	10.8	-2.1	-5.2	5.8
Interbank call rate (percent) 1/	6.3	6.8	6.8	8.4	11.5	...
Interbank call rate (real) (percent)	6.3	6.4	6.1	10.1	12.2	...
External Indicators						
Exports volume	6.7	13.9	11.6	-0.7	2.5	7.2
Imports volume	19.6	30.2	4.0	-9.6	-1.7	5.7
Terms of Trade	7.8	-1.2	-5.5	-5.9	9.7	0.5
REER appreciation (+) (12 month basis) 2/	-1.4	4.8	0.3	12.1	-0.8	...
(In percent of GDP, unless otherwise indicated)						
Current account balance	-2.4	-4.1	-4.8	-4.4	-3.4	-3.3
Capital and financial account balance	3.6	5.3	6.2	5.0	2.7	2.0
Of which: Foreign direct investment 3/	0.7	0.6	1.3	2.4	2.6	2.3
Total external debt	40.3	42.4	47.1	51.0	52.7	53.0
Public sector debt	41.1	38.1	41.3	47.3	49.7	52.5
Of which: External debt	27.0	25.5	27.6	30.0	32.0	32.8
Total external debt to exports 4/	385.5	402.0	452.1	521.4	487.9	459.4
External interest payments to exports 4/	25.6	28.3	33.0	40.4	40.1	39.8
External amortization payments to exports 4/	30.2	35.9	30.8	57.0	53.4	59.2
(In billions of US$, unless otherwise indicated)						
Central Bank short-term foreign liabilities 5/	6.5	6.0	5.4	4.5	5.0	10.6
Short term foreign assets of the financial sector 6/	4.4	7.9	6.4	6.7	7.4	8.1
Short term foreign liabilities of the financial sector	9.5	13.1	12.0	14.9	13.4	14.2
Net foreign exchange position of the financial sector 7/ 8/	9.8	12.7	12.1	11.2	11.7	...
Gross foreign exchange reserves 9/	23.3	29.8	31.7	33.1	32.5	34.3
In months of imports of goods and nonfactor services	9.3	9.6	9.9	12.2	12.0	12.0
In percent of short-term external debt (original maturity)	171.5	155.6	147.6	168.3	146.9	148.9
In percent of short-term external debt (residual maturity)	94.4	103.6	85.1	93.5	84.3	79.8
In percent of liabilities to private sector	40.4	41.6	39.2	39.8	38.0	37.2
Financial Market Indicators						
Stock market index (MERVAL) (percentage change)	25.0	5.9	-37.4	28.0	-24.0	...
Foreign currency debt rating 10/						B1
Spread of benchmark bonds (basis points, end of period) 11/	494	461	705	533	775	...
Nominal GDP	272.2	292.9	298.9	283.3	285.5	294.2

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

1/ Interbank call rate, up to 15 days. For 2000, December 22.

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

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/ Excludes BCRA.

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

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

10/ In October 2000, Moody's downgraded the sovereign rating from Ba3 to B1.

11/ Emerging markets bond index spread (EMBI+ Argentina). For 2000, December 26.

Table 15. Argentina: Quantitative Performance Criteria for 2001-02 1/ 2/

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

	Jan-Mar 2001	Jan-Jun 2001	Jan-Sep 2001	Jan-Dec 2001	Jan-Dec 2002
1. Cumulative balance of the Federal Government	(2,100)	(3,800)	(5,100)	(6,500)	(5,000)
2. Cumulative primary expenditure of the Federal Government	13,313	26,173	39,895	53,212	...
3. Cumulative consolidated balance of the Provincial Governments 3/	(600)	(1,400)	(2,000)	(2,760)	(2,000)
4. Cumulative change in the debt of the Federal Government	2,150	3,900	5,250	6,700	5,000
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	2,750	5,300	7,250	9,460	7,000
7. Stock of net domestic assets of the Central Bank	2,473	2,399	2,097	1,836	...

1/ As defined in the Technical Memorandum of Understanding.

2/ Targets for 2002 are indicative at present, to be substituted by performance criteria during the fifth review of the program.

3/ Indicative.

Table 16. Argentina: Availability of Purchases

(In millions of SDRs)

Availability Date	Amount			Conditions
	SRF	SBA	Total	
2000		**1,587.83**	**1,587.83**	**Purchased in December 2000**
2001				
January	1,481.97	764.51	2,246.48	Board approval
May 30	211.71	764.51	976.22	End-March performance criteria and 3rd review
August 31	211.71	764.51	976.22	End-June performance criteria and 4th review
November 30	211.71	764.51	976.22	End-September performance criteria and 5th review
2002				
February 28		764.51	764.51	End-December performance criteria and 6th review
Additional amount to be made available in 2002		2,293.52	2,293.52	To be specified during the 6th review
2003		**764.50**	**764.50**	**To be specified**
Total	**2,117.10**	**8,468.40**	**10,585.50**	
Percent of quota	100.0	400.0	500.0	

Argentina—Fund Relations
(As of November 30, 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	4,496.59	212.4

III. SDR Department:

	In millions of SDRs	Percent of Allocation
Net cumulative allocation	318.37	100.0
Holdings	43.21	13.6

IV. Outstanding Purchases and Loans:

	In millions of SDRs	In percent of Quota
Stand-by arrangements	420.75	19.9
Extended Fund arrangements	1,958.71	92.5

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				
	11/30/2000	2000	2001	2002	2003	2004
Principal	--	87.0	927.6	573.6	321.5	256.2
Charges/interest	--		126.7	79.8	52.1	36.4
Total	**--**	**87.0**	**1,054.3**	**653.4**	**373.6**	**292.6**

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 1, 1992 the peso was substituted for the austral at a rate of 1 peso per 10,000 australes.

VIII. **Last Article IV Consultation:** The 2000 Article IV consultation was concluded by the Executive Board on September 15, 2000 (EBM/00/96). 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 1997 onwards)**

Missions	**Purpose**	**Time of Delivery**
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
FAD	Customs Administration	October 2000
FAD	Tax Administration	December 2000

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

STATISTICAL INFORMATION

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 a partial version of the template on reserves and international liquidity 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 and updated series of annual and quarterly national accounts estimates for the period 1993–1997 (at current prices and at 1993 constant prices), using a new 1993 benchmark and base year. Data reported for previous years have not been revised yet and they are still published at constant prices of 1986. The new series have resulted in a significant downwardrevision of current prices GDP estimates by 8-9 percent through the period 1993–1997, as compared with the old series.

B. Prices

Consumer prices and producer prices are collected by the National Institute of Statistics (INDEC) and the indices are published monthly in a timely fashion. In December 2000, INDEC released a new CPI index (base 1999) for the Gran Buenos Aires, which replaces the index (base 1988) available since June 1989. The new index introduces an expanded basket (40 percent more items than the old index) and revised weights according to the household expenditure survey for 1996–97.

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) and data are published in May and October.

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 1999 on Argentina's national SDDS website (www.mecon.gov.ar/progeco/dgbb).

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. Detailed information on public debt is available on Argentina's national SDDS website. 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 December 26, 2000

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	12/22/00	12/20/00	12/15/00	12/20/00	Oct 00	12/22/00	Nov 00	Oct 00	2nd qtr 00	Nov 00	3rd qtr 00	Jun 00
Date Received	12/26/00	12/26/00	12/26/00	12/26/00	12/14/00	12/26/00	12/5/00	12/13/00	Sept 00	12/15/00	12/20/00	Sept 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	Pouch	Fax	Internet	Fax	Fax	Fax	Pouch	Fax	Electronic Mail	Pouch
Confidentiality	Unres-Tricted	Unre-stricted	Unres-tricted	Unres-tricted	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.

Statement by the IMF Staff Representative
January 12, 2001

1. The following information has become available since the issuance of EBS/00/278, Supplement 1. This information does not change the thrust of the staff appraisal.

2. **Recent developments in international capital markets have been favorable for Argentina.** Since the cut in interest rates in the United States on January 3, 2001, spreads on Argentine sovereign bonds narrowed by some 70 basis points, to about 710 basis points (compared with a decline of some 40 basis points for the EMBI average), bringing Argentina's position below the EMBI average for the first time since September 2000. Spreads on private sector debt instruments have also declined. Domestic interest rates have followed suit, with the 30-day interbank rate and the prime rate (both in pesos) dropping by some 300 and 200 basis points, respectively, since January 3. Argentina's stock market has risen by about 17 percent during the same period.

3. On January 9, Argentina held its first primary **auction of short-term Treasury bills** after the announcement of the financing support package. The yield on the US$350 million 94-day issue was 8.47 percent, down from 12.18 percent in the previous auction on December 12, 2000, and that on the US$350 million 182-day issue was 9.17 percent, down from 13 percent. On the same date, the province of Buenos Aires tapped international capital markets, issuing a two-year € 200 million bond at a U.S. dollar equivalent yield of 11.4 percent. The Argentine authorities announced on January 8 that they have given a mandate to two investment banks to arrange for the **first of the debt swaps** that are part of the liability management operations envisaged for 2001.

4. **Private sector deposits in the banking system have risen** by about Arg$1.4 billion since mid-December 2000, to Arg$77.6 billion, thereby moving back to the level of September 2000. In turn, gross international reserves, including the bank's liquidity reserves held abroad, rose by over US$4.5 billion from their low point in November 2000, to US$33.2 billion, more than offsetting the decline experienced in the last quarter of 2000.

5. The government resorted to **line-item vetoes to enact the 2001 budget**, and to **special decrees to enact the health reform and the pension reform.** With this, the government fulfilled the prior actions that had been agreed with the staff. Subsequently, a judicial injunction was issued, halting the implementation of the health reform. The government has appealed, and has indicated to the staff that they expect a favorable ruling on this appeal in the coming weeks. A court challenge has also been lodged against the pension reform decree, but the relevant judge has not ruled on this as yet.

6. **Consumer prices** in December declined by 0.1 percent from November, thereby ending the year 0.7 percent below their level at end–1999. **Wholesale prices** dropped 1.7 percent in December, for an increase during 2000 of 2.5 percent.

7. Foreign trade data for November showed a deficit of US$38 million, resulting in **a trade surplus of US$821 million in the first eleven months of 2000**, compared with a deficit of US$1.93 billion in the same period of 1999. Through November, exports were 12.4 percent higher, and imports 0.4 percent lower, than in 1999.

8. To evaluate the likely impact on Argentina in 2001 of the changing prospects for the world economy, the staff has updated the scenarios included in EBS/00/278, Supplement 1. Specifically, a new illustrative scenario was prepared in which the staff assumes the following changes with respect to the assumptions in the baseline scenario in EBS/00/278: reductions in a) the rate of growth in industrial countries by 0.5 percentage points; b) in the price of petroleum by US$5 per barrel; c) in the interest rates on new external borrowing by Argentina by 200 basis points; and d) a depreciation by 10 percent of the U.S. dollar vis-à-vis the euro. The combination of these assumptions is likely to boost economic growth in Argentina, but result in some deterioration in the external current account. The rate of real GDP growth would increase to about 3.3 percent, driven mainly by the lower interest rates, the effect of which would be only marginally offset by a decline in the contribution of net exports to growth. Exports would decline by about US$0.7 billion, to US$28 billion, reflecting by and large the drop in petroleum prices, as the effect of the reduction of partner countries' demand would be largely offset by that of the assumed depreciation of the U.S. dollar. With imports increasing by US$0.5 billion in line with the faster pick up of economic activity, the external current account deficit would widen by about US$1.2 billion, to US$11 billion (3.7 percent of GDP). The lowering of interest rates will also have a positive effect on the fiscal accounts, albeit a marginal one given that the public debt is mostly long term and at fixed interest rates.

9. Table 1 in EBS/00/278 on Performance under the Program, omitted reference to the progress made in regard to structural benchmarks. The attached table provides such information.

Attachment

OBSERVANCE OF STRUCTURAL BENCHMARKS FOR THE SECOND REVIEW

Benchmark	Progress
1. Entry into effect of reforms in the Social Security System.	Enacted by special decree in January 2001.
2. Enactment of planned modifications to charter of Central Bank and the banking law.	Legislation was not passed. Nevertheless, court rulings have set jurisprudence along the lines of the original proposal. In addition, a new bill was submitted to congress in regards to immunities and liabilities in the public sector.
3. Completion of restructuring of PAMI.	Substantial progress made, but restructuring not yet completed.
4. Conversion of *Banco Nación* into state-owned corporation.	Reform implemented in substance. Congress rejected draft legislation to this end. Instead it approved a bill that gives the bank administrative autonomy as a public enterprise; strengthens safeguards on the bank's assets; and increases the transparency of the bank's operations.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 01/3
FOR IMMEDIATE RELEASE
January 12, 2001

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves Augmentation of Argentina's Stand-By Credit to US$ 14 Billion and Completes Second Review

The Executive Board of the International Monetary Fund (IMF) today approved an augmentation to SDR 10.6 billion (about US$14 billion) of Argentina's stand-by credit first approved on March 10, 2000 (see Press Release 00/17). SDR 2.1 billion (about US$3 billion) of the augmented total will be provided under the Supplemental Reserve Facility (SRF). Today's decision was made in conjunction with the completion of the second review of Argentina's program under the original stand-by credit and makes SDR 2.25 billion (about US$3 billion) available immediately. Three additional drawings of SDR 976.2 million (about US$1.3 billion) each will be made available during the remainder of 2001 following the completion of further review of the program, the first of which expected to take place towards the end of the first quarter. Further credit will be made available, according to a schedule yet to be specified, in 2002 (SDR 3 billion or about US$4 billion), and in 2003 (SDR 764 million or about US$1 billion).

To ease the government financing constraint in 2001 and subsequent years, the Argentine authorities have arranged a financial support package totaling about US$39.7 billion from official and private sources. In addition to the IMF support outlined above, the package includes about US$5 billion in new loan commitments from the Inter-American Development Bank and the World Bank, and US$1 billion in a loan from Spain. The package also includes about US$20 billion of financing from the private sector that relies on a market-based, voluntary approach intended to complement Argentina's objective of accessing international capital markets as soon as confidence returns.

Following the Executive Board discussion, Stanley Fischer, First Deputy Managing Director and Acting Chairman of the Board said:

"The Argentine government has embarked on a comprehensive and ambitious program aimed at promoting economic growth and ensuring medium-term sustainability of the fiscal and external financial situations, thus restoring confidence at home and abroad. The program contains measures to promote investment, including the elimination of tax disincentives in this area, the creation of a private sector infrastructure fund, and an increase in public investment. It also includes important structural fiscal reforms intended to ensure fiscal sustainability and reduce the public debt burden over the medium term. Key elements in this regard are the new fiscal pact with the provinces, the reform to the social security system, and measures to improve tax enforcement. It will be important that the authorities at all levels of government adhere firmly to the economic program so as to restore market confidence, return the economy to a higher growth path, and protect the country's convertibility regime.

"The structural reform agenda aims at promoting competition in domestic markets and improving competitiveness. The main elements in the program in this regard are: the opening of the national health care system to competition, the deregulation and promotion of competition in key sectors, such as energy and telecommunications, the renegotiation of expiring contracts with privatized enterprises, the elimination over two years of the 3 percent import surcharge, and the continued implementation of the labor reform approved by congress in May 2000.

"The authorities' commitment to these policies has warranted extraordinary support from the international community, as well as the voluntary and constructive involvement of the private sector in providing the required financing. It is essential that these commitments be translated into sustained action, with the support of Argentine society.

"Market reactions to the program and recent external developments have been positive: spreads on Argentine bonds and domestic interest rates have declined significantly in recent weeks and the stock market has rebounded strongly. These developments bode well for a recovery of confidence and economic activity in the period ahead," Fischer said.

ANNEX

Program Summary

Despite substantial efforts by the Argentine government to implement the economic program it had announced in December 1999, and which the IMF has supported with a stand-by credit since March 2000, economic performance in 2000 was worse than expected. A major disappointment was the failure to recover from the recession affecting economic activity since mid-1998. After a short-lived pickup in the last quarter of 1999, the economy again stagnated. This reflected in part the impact of the fiscal tightening on domestic demand, but was mainly the result of a drop in business and consumer confidence, and the progressive hardening of financing conditions in international market, that resulted in rising borrowing costs and reduced market access for Argentine private and official borrowers.

The authorities have responded to these developments by strengthening their **policy framework**, and accelerating structural reform efforts, while maintaining the current convertibility regime. They are concentrating on promoting a sustained recovery of investment as the foundation of a lasting recovery of domestic demand and output. New policy measures include steps to eliminate, or at least reduce, fiscal impediments to investment, such as the15 percent tax on interest paid by enterprises—which will be phased out by July 2002—and introduce measures aimed at stimulating investment, such as allowing the partial deductibility of interest paid on new mortgage loans.

A gradual recovery in demand and output is expected to begin in the first quarter of 2001, leading to an average rate of **GDP growth** of around 2 ½ percent in 2001. Investment is projected to rise by nearly 6 percent in 2001, following a cumulative decline of 20 percent in 1999-2000, and the pickup in output should allow a gradual recovery of employment during the course of this year. The program also aims at a gradual reduction of the **external account deficit**, which would contribute to a lowering of the external debt to GDP ration below 50 percent by 2006. Reflecting the still large output gap and labor market slack, **consumer prices** are likely to remain flat.

An important component of the government's strategy is the decision to accept in the short run an only moderate reduction in the federal **fiscal deficit** to 2.2 of the projected GDP to avoid a strong contractionary fiscal impact on the economy. At the same time, however, the authorities fully recognize the importance of reassuring domestic and foreign investors about their commitment to medium-term fiscal sustainability, a necessary condition for a lasting decline of the risk premium on Argentine debt and of domestic interest rates. To this end, they have taken a number of important new policy initiatives. These include a reform of the pension system and a fiscal pact with the provinces, which aim at supporting the commitment made under the revised fiscal responsibility law to attain budget balance at both the federal and the provincial level of government by 2005, at the latest.

Emphasis is also being placed on deregulation and the promotion of competition in the economy, especially in key sectors such as telecommunications and energy; the rapid renegotiation of expiring contracts with privatized enterprises, especially in utilities and transport sectors, to define the "rules of the game" in a medium-term horizon; and the continued implementation of the labor market reform approved by Congress in May 2000.

Argentina joined the IMF on September 20, 1956. Its quota[1] is SDR 2.117 billion (about US$3 billion). Its outstanding use of IMF credit currently totals SDR 2.232 billion (about US$ 3 billion).

[1] A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.

Argentina: Selected Economic Indicators

	1996	1997	1998	1999	Prel. 2000
(Annual percentage change)					
National income and prices					
GDP at current prices	5.1	7.6	2.1	-5.2	0.8
GDP at constant prices	5.5	8.1	3.8	-3.4	-0.2
GDP deflator	-0.4	-0.5	-1.7	-1.9	1.0
Consumer prices (e.o.p.)	0.1	0.3	0.7	-1.8	-0.7
External sector					
Export volume	6.7	13.9	11.6	-0.7	3.0
Import volume	19.6	30.2	4.0	-13.9	-1.0
Terms of trade (deterioration -)	7.8	-1.2	-5.5	-5.9	9.7
Money and credit					
Domestic credit (net)	9.8	17.4	10.7	4.0	3.3
Private sector deposits	22.1	27.0	15.8	2.8	7.4
Interest rates (average)					
31-60-day peso time deposits	7.3	7.0	7.6	7.8	8.4
30-day peso prime rate	10.5	9.1	10.6	10.8	11.0
(In percent of GDP)					
National accounts					
Gross domestic investment	18.1	19.4	19.9	17.9	15.9
Gross national savings	15.7	15.3	15.2	13.5	12.6
Public finances					
Federal government					
Primary balance	-0.8	0.4	0.9	0.4	0.9
Overall balance	-2.5	-1.6	-1.3	-2.5	-2.4
Overall public sector	-3.2	-2.1	-2.1	-4.2	-3.6
External sector					
Current account (deficit -)	-2.4	-4.1	-4.8	-4.4	-3.4
External public debt	27.0	25.5	27.6	30.0	32.0
Public sector external debt service 1/	33.8	40.1	35.3	46.0	46.6
(In billions of US dollars, unless otherwise stated)					
GDP (in billions of Arg$)	272.2	292.9	299.0	283.2	285.5
Unemployment rate (percent)	17.2	14.2	12.9	14.2	15.0
Exports, f.o.b. (US$ billion)	24.0	26.4	26.4	23.3	26.2
Imports, c.i.f. (US$ billion)	-23.9	-30.5	-31.4	-25.5	-25.3
Current account of balance of payments (US$ billion)	-6.4	-12.0	-14.3	-12.4	-9.9
Overall balance of payments (US$ billion)	3.4	3.6	4.2	1.8	-2.1

Sources: Central Reserve Bank of Argentina; National Institute of Statistics; and Fund staff estimates.
1/ In percent of exports of goods and nonfactor services.