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Argentina: Third Review Under the Stand-By Arrangement, Request for Waivers and Modification of the Program—Staff Report and News Brief on the Executive Board Discussion

In the context of the Third Review Under the Stand-By Arrangement with Argentina and Request for Waivers, the following document has been released and is included in this package:

- the staff report for the Third Review Under the Stand-By Arrangement with Argentina and Request for Waivers, prepared by a staff team of the IMF, following discussions that ended on **April 30, 2001,** 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 May 14, 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 News Brief summarizing the **views of the Executive Board as expressed during the May 21, 2001 Board meeting**.

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ARGENTINA

Third Review Under the Stand-By Arrangement, Request for Waivers and Modification of the Program

Prepared by the Western Hemisphere and Policy Development and Review Departments

Approved by Claudio M. Loser and Jesús Seade

May 14, 2001

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I. Introduction

1. A staff mission[1] visited Buenos Aires during April 16–27, 2001 to conduct discussions on the third review under the current three-year Stand-By arrangement. The discussions were concluded at headquarters on April 28–30, 2001. The arrangement was approved on March 10, 2000, and it was augmented at the time of the second review on January 4, 2001 to SDR 10.6 billion (500 percent of quota), of which SDR 2.1 billion (100 percent of quota) are under the Supplemental Reserve Facility. Thus far, Argentina has purchased SDR 3.8 billion under the arrangement. Given scheduled repurchases, full utilization of the arrangement would raise outstanding use of Fund resources to SDR 11.3 billion, or 534.6 percent of quota, by end-February 2003.

II. Recent Developments

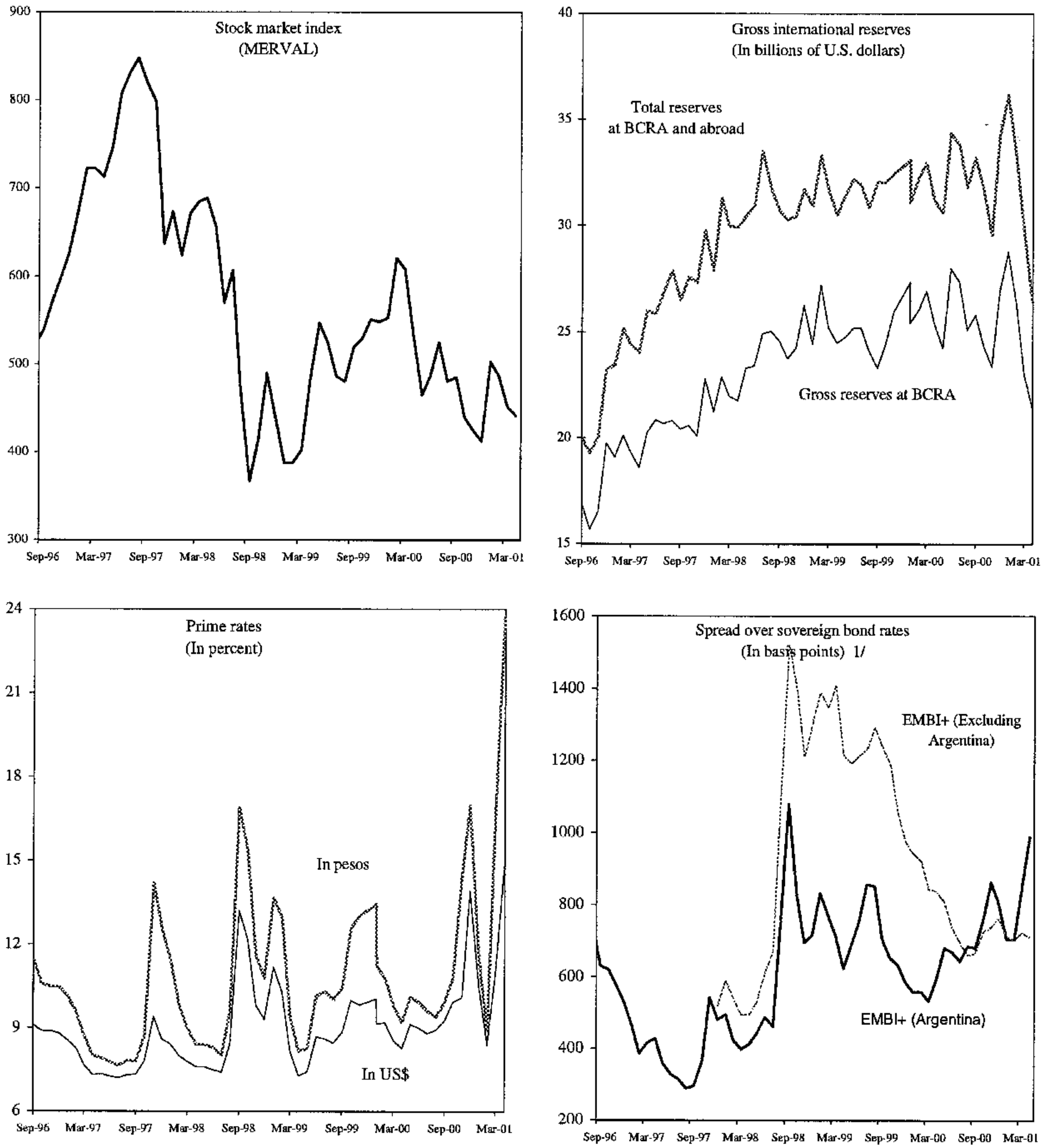
2. The favorable developments that followed the agreement on the program and financing package in January, including the augmentation of the Fund arrangement, were interrupted in early March by a new crisis. The principal catalyst was evidence of a major deterioration in the fiscal performance, but internal political disagreements and increased uncertainty in international markets were contributing factors. The crisis resulted in the resignation of Minister Machinea, a period of turmoil that saw the appointment and quick resignation of Mr. Lopez Murphy as Minister of Economy, and ended with the appointment of Mr. Cavallo on March 20th. Mr. Cavallo moved rapidly to put in place a new policy package (see below), and to garner the political support it required.

3. **Spreads on Argentine bonds**, which through February had narrowed to levels below those prevailing prior to the November crisis, went back up in March to 800–900 basis points, and, by late April, to above 1,000 basis points (Figure 1). The appointment of Mr. Cavallo initially halted the deterioration of financing conditions but resulted in only a brief narrowing of spreads, as financial markets awaited solid evidence of restored fiscal discipline and an improvement in growth prospects. Also, while Argentina was deemed to be fairly immune to slowing demand in the United States, it remained highly sensitive to changes in sentiment regarding emerging markets.

4. **The real economy has remained weak**. In 2000, economic activity declined by 0.5 percent, with a 2 percent year-on-year contraction in the last quarter, reflecting an 8 percent drop in investment spending. Investment has now contracted by 23 percent over the

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

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.

past two years. Private consumption dropped marginally from 1999, while the external sector contributed positively to growth, reflecting a pickup in the volume of exports and broadly stable imports. Economic activity was expected to have bottomed out during the last quarter of 2000. However, with the uncertain economic outlook and financial distress experienced in recent months, demand remained weak in the first quarter of 2001 and the economy barely expanded on a seasonally adjusted basis. Industrial production dropped by 3.2 percent in the January-March period of 2001 against the same period of last year (Figure 2).

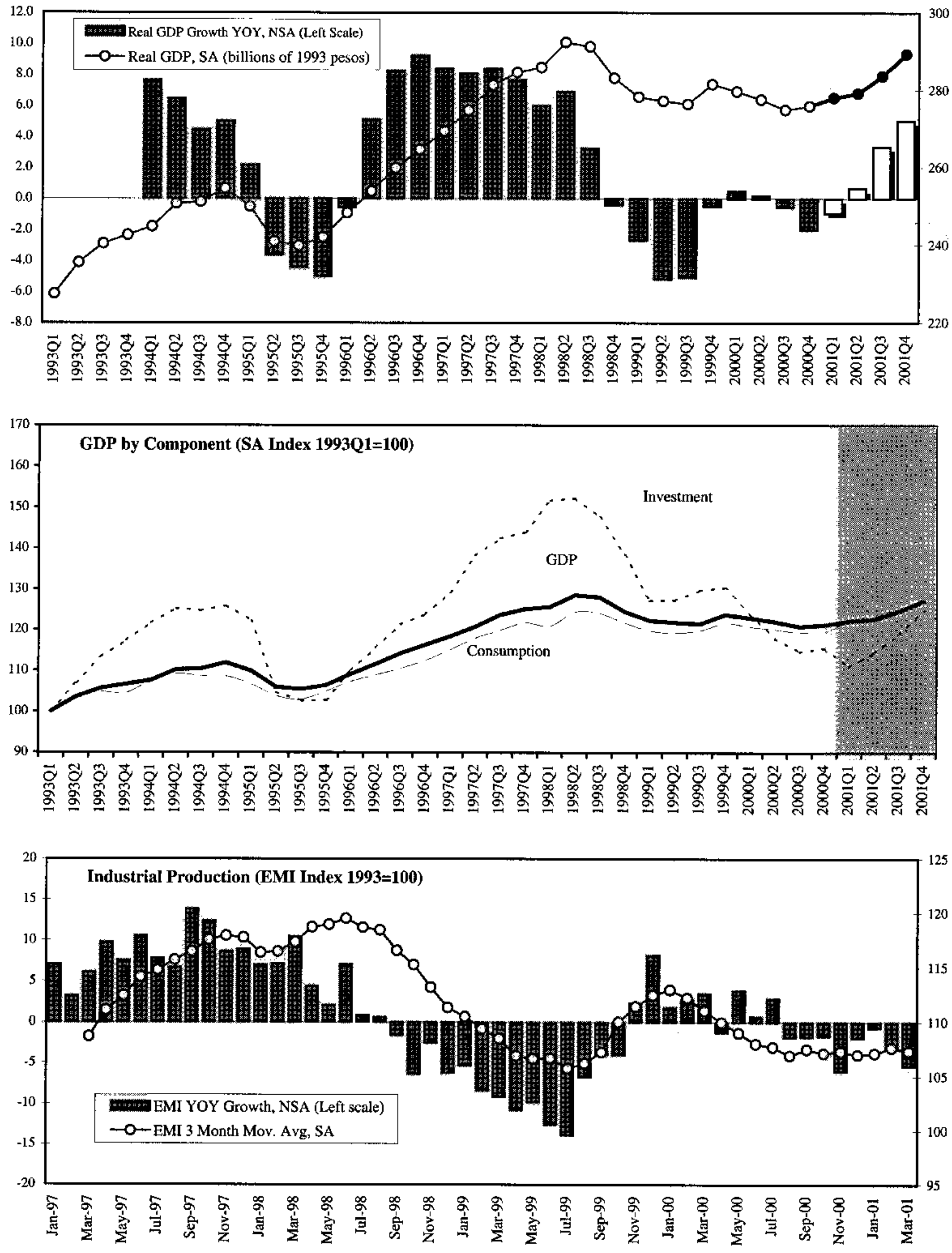
5. **Labor market indicators** for the province of Buenos Aires point to stable employment during the second semester of 2000 and the first two months of 2001; however with a decline in hours worked. With slack in the labor market, subdued import prices, and the economy growing below potential, prices remained flat. **Consumer prices** dropped by 0.2 percent y-o-y in April, while wholesale prices were up by 0.5 percent (Figure 3).

6. **The federal government finances deteriorated significantly in the first quarter of 2001**, the deficit ceiling of Arg$2.1 billion was exceeded by Arg$1 billion (0.3 percent of GDP) (Table 1). Two thirds of the deviation resulted from a revenue shortfall, in turn explained about evenly by weaker than expected economic activity and a deterioration in tax compliance. The latter reflected organizational problems at the tax collections agency (AFIP) and an increase in tax arrears caused by the sharp rise of domestic interest rates during March, which made it less costly to fall behind on tax obligations than paying for credit. Primary expenditures exceeded the program by Arg$371 million, explained by expenditures carried over from 2000, and by unexpected wage and social security outlays. As a result of these slippages, the corresponding debt ceilings for end-March under the program, except for the short-term debt ceiling, were also exceeded.

7. **The provincial governments' deficit for 2000 was slightly lower (by about Arg$160 million) than had been estimated** in the second review, for a total Arg$3.2 billion on a budget basis, or Arg$3.6 billion on a cash basis. The government continues to improve the methodology to monitor below-the-line information on provincial finances. These data, however, still experience considerable delays and are subject to large revisions. Data for the first quarter of 2001 are not yet complete, but the estimates suggest a deficit on a budget basis of Arg$670 million, compared with the indicative ceiling of Arg$600 million. On a cash basis, the deficit is estimated at Arg$850 million, reflecting clearance of arrears.

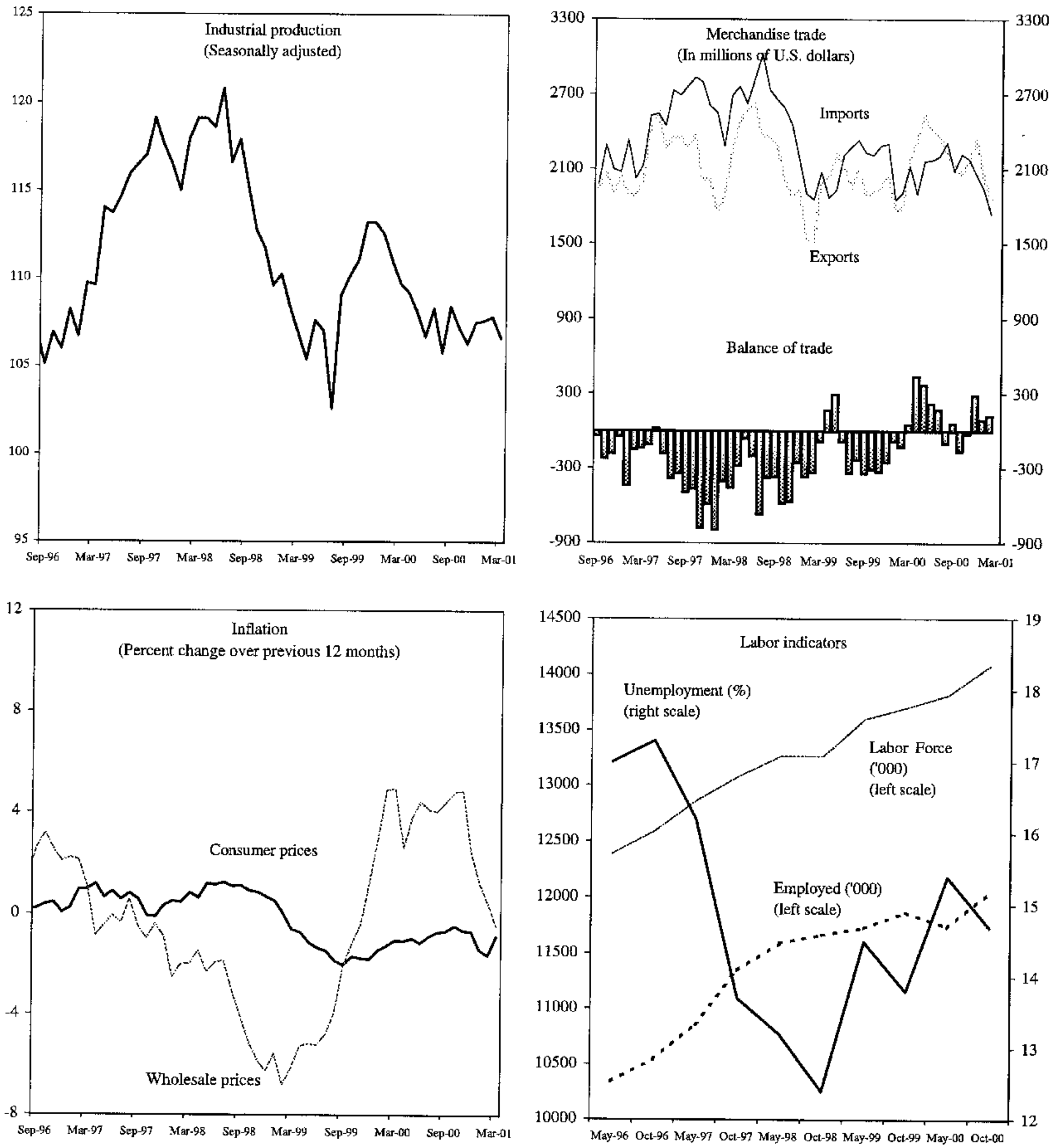
8. During January and February, the authorities took advantage of favorable market conditions to accelerate implementation of their **financing plan**. The authorities regained access to the euro-market with a US$0.5 billion issue in February, placed additional debt with the domestic pension funds, and advanced a debt swap, the first of several under the program, that was originally scheduled for later in the year. As market access became problematic in March and April, the government negotiated with domestic banks, pension funds and enterprises to place US$3.8 billion in bonds, of which US$2 billion in one-year securities could be used by banks to meet their liquidity requirements. The government also placed US$0.4 billion directly with the central bank (within the limits of the convertibility law).

Figure 2. Argentina: Real Economy Indicators



Source: Argentina Ministry of Economy and Fund staff estimates

Figure 3. Argentina
Selected Economic Indicators



Sources: Argentine authorities; and Fund staff estimates.

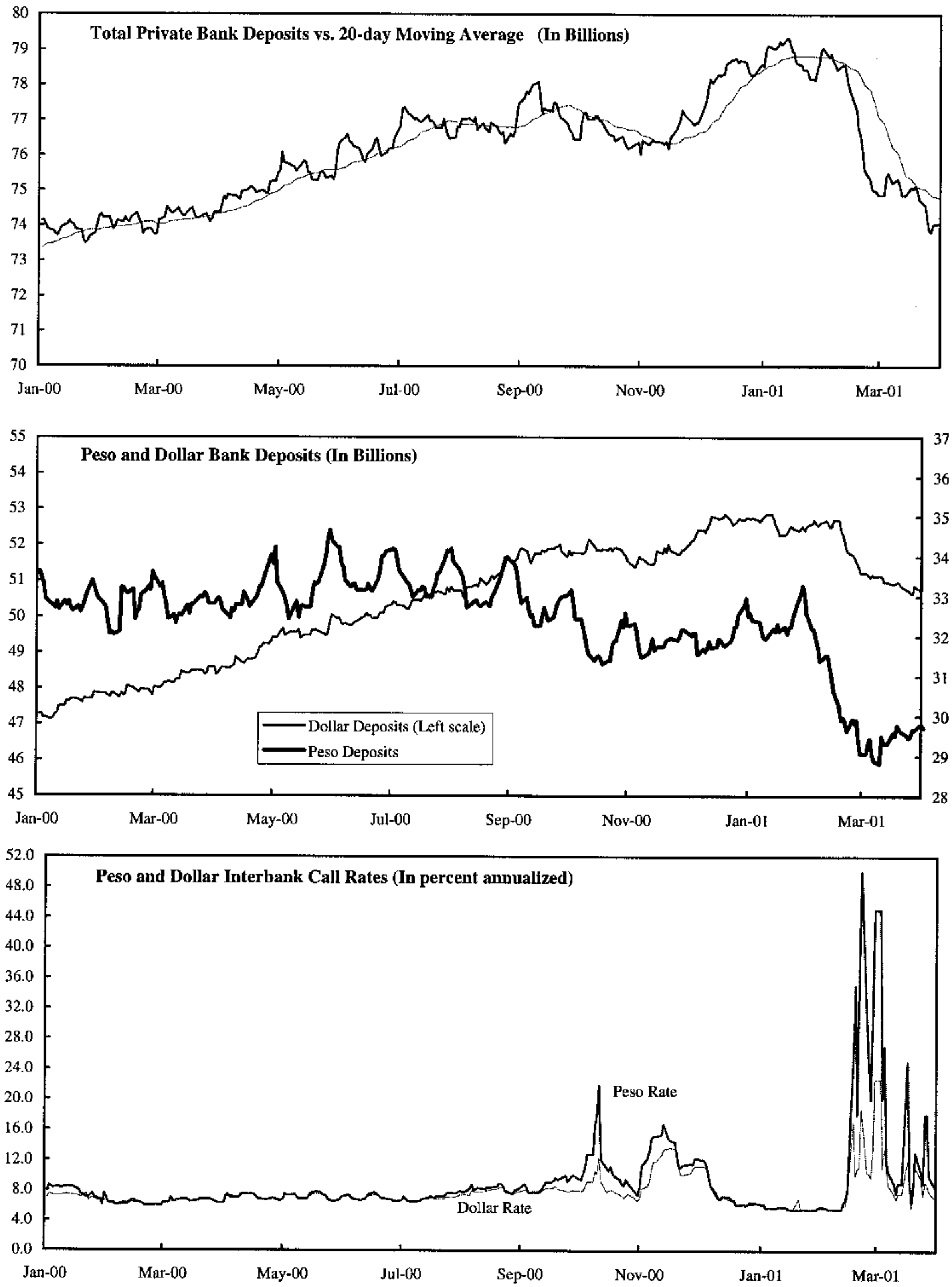
9. **The three major international rating agencies downgraded Argentina's sovereign debt in March** citing a difficult policy environment, the potential for further political turmoil, skepticism regarding a rapid return to growth, and the difficulties the public sector was expected to face in the coming months in accessing the financial market at a reasonable cost. All rated banks, many corporates, several provinces, and the city of Buenos Aires were also downgraded on concerns about growth and the difficult fiscal situation. Furthermore, Argentina was placed on a watch for further downgrades, and one of these agencies followed through with a second downgrade in May.

10. **Private sector deposits in the banking system and gross international reserves grew at a healthy pace until early February, but were severely hit by the renewed market turmoil in March** (Figure 4). Private sector deposits dropped by $3.8 billion in March (5 percent of total) while gross reserves declined by $3.2 billion (2.2 percent of total). The outflow of private sector deposits slowed in April, but another $800 million still left the banking system. **Credit to the private sector** declined further and is now at its lowest level in three years. However, there is some evidence that corporations have obtained some direct financing from parent companies abroad, alleviating the high domestic cost of credit. Despite the moderate increase in the share of **nonperforming loans** since 1998, capitalization ratios of the banking system remain solid with a capital base in excess of 20 percent of risk-based assets. Banks have also been steadily building up provisions. In response to tight liquidity conditions in the local markets, the central bank eased the statutory liquidity requirements in April from 20 to 18 percent. Effective **liquidity reserves** in foreign exchange had remained at a level of 18.2 percent of deposits in the first quarter of 2001.

11. **The trade balance improved by US$3.3 billion (1.1 percent of GDP) in 2000, reflecting slowing domestic demand, and a 10 percent terms-of-trade improvement that was mostly due to higher oil prices** (Figure 5). Exports grew by 13 percent in U.S. dollar terms, mostly because of strong energy exports and a strong growth in the volume of manufactured exports. The value of imports contracted by 1.2 percent. The improved trade performance more than compensated for the higher interest burden on the external debt, resulting in a significant reduction of the external **current account deficit** in 2000, to 3.3 percent of GDP, from 4.4 percent in 1999. Notwithstanding this narrowing—and a continued inflow of foreign direct investment (FDI) that covered three quarters of the current account deficit —the tightening of external financing conditions during the last quarter of 2000 resulted in a loss of net international reserves of almost US$1 billion for the year as a whole.

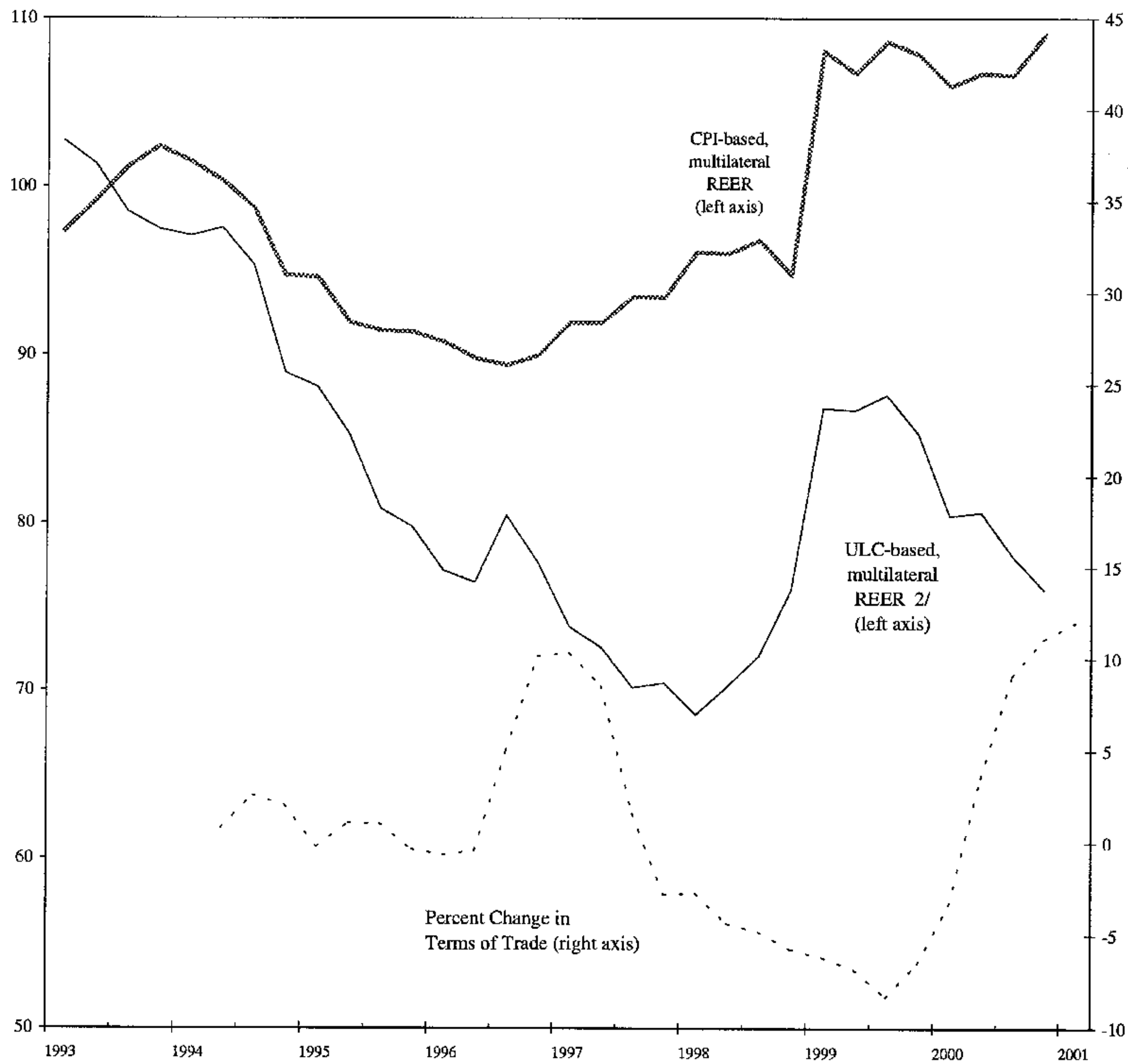
12. **The trade balance strengthened further during the first quarter of 2001, posting a surplus of US$232 million**. The adverse impact of a small terms of trade deterioration was more than offset by a continued robust export performance and a further import contraction. Year on year, export volumes in the primary and industrial manufacturing exports increased by 11.7 percent. However, agro-industrial exports remained weak, mainly reflecting reduced access to some large foreign markets for Argentine vegetable oil and soy products. Imports in

Figure 4. Argentina: Deposits and Interest Rates



Source: Banco Central de la República Argentina, Staff Estimates

Figure 5. 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.

the first quarter of 2001 fell by 3.5 percent in volume terms, in line with the contraction of domestic demand, in particular for capital goods. The increase in yield spreads on Argentine sovereign debt during the month of March did not significantly affect the external interest burden, because the debt has a relatively long average maturity and has mainly been contracted at fixed rates. The **current account deficit** amounted to US$2.6 billion during the first quarter of 2001 (0.7 percent of annual GDP). However, the financial and political turmoil in March led to a loss of access to international capital markets and a significant capital outflow, reflecting mainly the drop in deposits from the private sector,[2] so that the capital account balance shifted to a deficit of US$4.0 billion, and net international reserves dropped by some US$6.4 billion (almost 30 percent of total) during the first quarter of 2001.

13. **The performance in regard to structural reforms under the program was uneven**. Seven out of ten benchmarks scheduled for the third review of the program were observed. The authorities designed and started the national tax audit plan, and already over 9,000 desk audits have been completed; restructured the organization of the social security administration (ANSES); and prepared a restructuring plan for the family allowances program. The authorities also developed a budgetary plan to eliminate the deficit of the elderly health care organization (PAMI) which now needs to be fully implemented; posted on the website for outside input and comments the draft legislation on best practices in financial and corporate sectors; and issued regulations for the protection of competition law. Meanwhile, the judiciary has begun selecting personnel to staff special tax courts, even though this process is proceeding slowly. Progress in other areas has been slower than envisaged: the authorities have not yet started publishing the quarterly report on progress with the Federal Pact with the provinces; have not issued a decree to eliminate further tax moratoria; and the decrees for the broad-based pension and health-care reform were recently suspended, after encountering legal challenges. The government is negotiating with Congress a resolution to the differences on these important reforms.

III. The Revised Economic Program

14. Minister Cavallo moved quickly to develop a three-pronged strategy: (i) to reestablish government leadership, by obtaining a mandate to legislate by decree for a year (**special emergency powers**), within certain limits, on issues such as tax policy, and the reform of the public sector; (ii) to address the fiscal shortfall so as to ensure medium-term debt sustainability; and (iii) to restart output growth, by enhancing the special investment incentives and programs already in place with an increase in effective protection, further tax incentives for investment, and a number of initiatives at the microeconomic level to deregulate and facilitate resource allocation. The new economic team stressed the importance

[2] It is noteworthy that foreign banks increased their credit line exposure to their Argentine affiliates in March, most likely to provide liquidity support and take advantage of the surge in domestic interest rates.

of reestablishing confidence, and the quick presentation of a major policy package was intended to turn around expectations, especially on the domestic front.

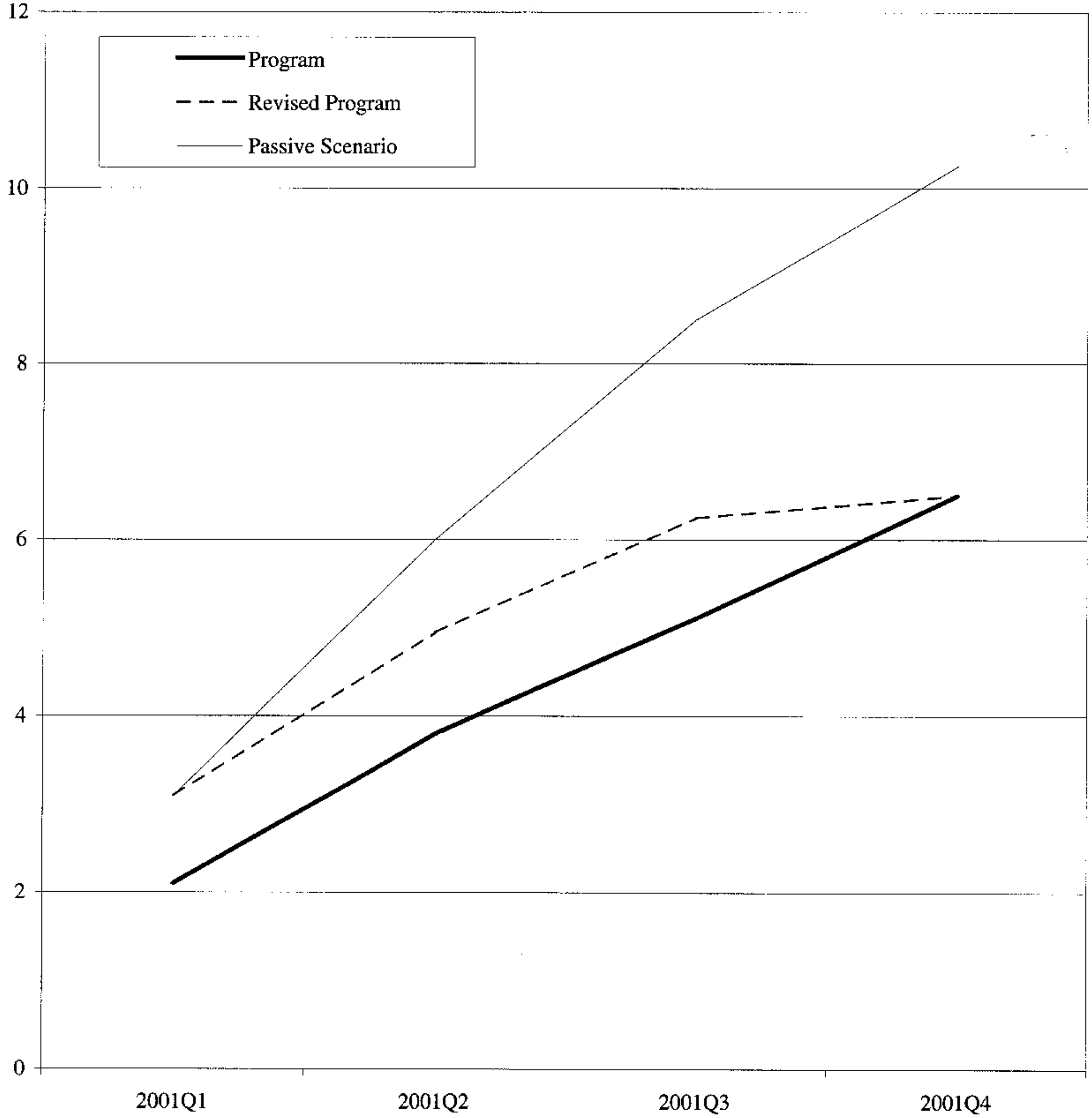
15. The authorities are confident that, barring a marked deterioration of the external environment from the present outlook, **a return of confidence** will result in a decline in interest risk spreads, which is necessary condition for the resumption of growth. Domestically, strengthened confidence will result in a gradual recovery of consumption and investment, expected to grow progressively in the course of the year, permitting to achieve GDP growth of around 5 percent year-over-year by the fourth quarter. The quantitative framework of the program assumes **an average real GDP growth of 2 percent in 2001** (Table 2), with investment barely unchanged on average during the year but growing by over 7 percent by the fourth quarter. The real foreign balance is expected to make a moderate (0.4 percent) contribution to GDP growth during the year. The recovery of output is expected to be reflected in a **moderate recovery of employment** during 2001. **Consumer prices** are likely to remain broadly unchanged reflecting the still large output gap, and the continued high unemployment. In turn, and with the terms of trade turning slightly negative, the **GDP deflator** is projected to show an only marginal increase.

16. **In the absence of corrective policies, the deficit of the federal government for the full year was projected to be in excess of Arg$10 billion** (compared with Arg$6.5 billion in the program, Figure 6). The compound effect of lower economic activity, lower revenues from concession fees for the mail and airports, and, particularly, the continuing deterioration in tax administration would result in lower than programmed revenues of about Arg$2.7 billion; while further difficulties in controlling wages and social security outlays and some increased interest payments would have raised expenditure by almost Arg$1 billion over program projections. Moreover, there would be a shift in the quarterly pattern of the deficits as revenues expected from licensing third generation telecommunication frequencies have been moved to the last quarter.

17. The government re-affirmed its commitment to the fiscal targets of the economic program for 2001, as well as the medium term, that is embedded in Argentina's Fiscal Responsibility Law (Tables 3 and 4). To correct for the prospective large deviation and bring the fiscal program back on track, the authorities in April introduced a package of measures amounting to Arg$3.8 billion. The most prominent of these measures was the introduction of a **financial transactions tax**, on both debits and credits to checking accounts. The tax initially set at 0.25 percent, was raised to 0.4 percent effective May 1, with the increase being creditable towards VAT and income tax payments. On a net basis, the tax is projected to yield about Arg$2.5 billion in the remainder of 2001 (1.2 percent of GDP on an annual basis—the experience to date has been in line with this projection).[3] Other revenue measures,

[3] To reduce adverse effects on financial intermediation, the authorities introduced measures to promote the use of checking accounts in the economy (see below) and made it mandatory that any payment exceeding Arg$1,000 be made by check, if it is to be legally binding.

Figure 6. Argentina: Cumulative Deficit of the Federal Government 2001
(Billions of Argentine Pesos)



Source: Staff Calculations

with an expected yield of Arg$0.4 billion, include the elimination of certain VAT exemptions, changes in the tariff structure (as described below), and improvements in tax administration. On the **expenditure side**, the government assembled a package worth Arg$850 million (0.4 percent of GDP on an annual basis), including cuts across most ministries and agencies of about Arg$370 million for the remainder of 2001, of which one third correspond to various programs with attached external financing, and the rest to discretionary expenditure. The government also implemented changes in the social security administration (ANSES) to reduce abuse in the system of family allowances and other selected programs, with a projected yield of around Arg$180 million through year-end. Additional savings for Arg$50 million are expected from the reform of the public administration. Finally, Arg$250 million in savings will result from better controls of the benefits provided by social insurance programs, reductions in payments and transfers to provincial pension funds, and other measures.

18. The administrative decisions and legislative actions required for the fiscal adjustment measures to become effective are already in place and the new fiscal package has started to show results. However, the effects of the package are distributed evenly over the year, and the compensation for the large deviation in the first quarter—where the deficit amounted to almost half the deficit assumed for the year as a whole—will become noticeable only gradually, resulting in an adjustment profile that is sharply tilted towards the fourth quarter. Moreover, this effect is magnified by the shift of the revenues expected from the licensing of third generation telephone frequencies to the fourth quarter.[4] Notwithstanding the cautious assumptions used to project revenues,[5] **the program remains vulnerable to a delay in improving confidence,** which would adversely affect growth prospects, and hence fiscal revenues. The resulting continuation of high interest rate spreads would, in addition to compromising growth, cause a further erosion of tax compliance. The authorities stressed that they recognized the risks and were determined on a firm implementation of the fiscal

[4] The program included Arg$800 million on account of the concession of telecommunication licenses. The success of this operation has become more uncertain as market conditions for such auctions have weakened. To help manage this uncertainty, the authorities agreed to compensate with additional measures half of any shortfall from the expected yield that may occur; the other half of the shortfall would be accepted under an adjustor to the annual program deficit ceiling.

[5] The revised program scaled back the revenue projection. The new projection: (i) starts from a lower base, given the first quarter results; (ii) lowered asssumed nominal GDP growth from 3 percent to 2.2 percent; (iii) no longer counts on measures in the original program the authorities now prefer not to implement; and (iv) assumes less improvement in tax compliance. Thus, federal revenues are now projected to rise by only about Arg$100 million above the level assumed in the January program, despite the introduction of the financial transactions tax.

program, particularly on strengthening tax compliance, as a central element of their strategy to turn around confidence.

19. The new fiscal measures, which have an estimated full-year effect of 1.6 percent of GDP, are designed to quickly address the immediate fiscal shortfall, and provide breathing room to allow for the pickup in revenue associated with renewed economic growth and for the longer-term measures (including improvements in tax administration) to take hold. Moreover, these measures will contribute substantially to **strengthen fiscal performance in 2002**. The Fiscal Responsibility Law, and hence the program, establishes a target for the deficit of the federal government not to exceed Arg$5 billion (1.7 percent of GDP) in 2002. Staff calculations, assuming that real GDP growth picks up to around 3½ percent, indicate that a gap would still remain after the new measures, but that this gap can reasonably be expected to be filled with further policy actions, including better tax compliance.

20. The authorities moved early in April to replace the borrowing from the international bond market envisaged in the original financing plan, with the placement of US$3.8 billion with domestic sources. The **revised financing plan** for the remainder of the year (June-December) aims at obtaining US$10 billion, of which $4.7 billion would stem from official sources, according to the original schedule of disbursements (Table 5). The remainder is to be provided by domestic banks and pension funds, which have reiterated their intention to abide by the commitments made under the pre-existing plan.

21. The authorities are working with a number of banks on proposals for a **voluntary debt exchange** through an auction mechanism similar to the previous ones. The markets are attaching considerable importance to a succesful conclusion of this operation. The exchange would be aimed at significantly reducing gross borrowing requirements of the federal government over the next 3-4 years, which amount on average to about US$22 billion a year (excluding the rollover of about US$5 billion in short-term debt). This objective will be achieved by extending principal obligations, and reducing interest payments, possibly through a capitalization scheme or the use of step-up coupons. The authorities agreed that any interest savings would be used to alleviate the cash flow needs, but would not be counted towards meeting the medium-term fiscal targets in the program or the Fiscal Responsibility Law. The total amount involved, and the terms at which this operation would be carried out, are still being worked out in discussions that are expected to be concluded shortly.[6] While the program was designed without consideration of a debt swap, an exchange that improves the debt profile by reducing, at a reasonable cost, the size of the gross financing requirements in the next several years would help boost confidence and thereby increase the prospects that the program will succeed in turning around growth prospects.

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[6] The staff will issue a supplement to the staff report if further details of the proposed debt exchange become available before the Board meeting.

22. The authorities attach great importance to improving the **provinces' finances** and are continuing to work with provincial governments to secure a sustained adjustment of their fiscal position, as contemplated in the federal fiscal pact signed last November. The authorities expect the provinces to be able to offset the deviations apparent in the first quarter of 2001, and believe that the deficit for the year does not need to be modified (Table 6). The strong performance observed in certain jurisdictions in 2000 (a year of recession) is expected to continue in 2001, helping offset the weaker balances now expected in other provinces, including Buenos Aires. The authorities also noted that, in response to financing difficulties encountered in the first months of 2001, many provincial governments were postponing some public works and other discretionary expenditures. Moreover, the federal government intends to use the financing support program administered through the Provincial Development Trust Fund as a leverage to reinforce discipline among the eleven provinces participating in this program.

23. In early April, the national government signed an agreement with the **province of Buenos Aires.** One of the main objectives was to facilitate the coordination of financing operations. By this agreement, the province of Buenos Aires confirms its commitment to the elimination of its fiscal deficit by 2005, albeit from a somewhat higher starting point in 2001 than anticipated last November at the signing of the federal fiscal pact. The province also indicated its intention to help resolve the problems in the *Banco Provincia* by giving it a bond in exchange for part of its nonperforming portfolio. The program ceiling on the change in the debt of the consolidated public sector will be adjusted for the issuance of this bond to the extent that it is exchanged for loans that had been nonperforming before April 2001.

24. Given the authorities commitment to meet the deficit requirements of the fiscal responsibility law for 2001 and beyond, the **debt dynamics analysis remains broadly unaffected,** assuming economic activity recovers as envisaged. Valuation changes in the fourth quarter raised the outstanding stock of debt at end–2000 by about 1 percentage point of GDP, to almost 51 percent of GDP. Based on conservative growth and interest rate assumptions,[7] the debt/GDP ratio will continue to rise until 2002, partly reflecting the continued recognition of past liabilities—when it peaks at about 54.5 percent of GDP. It will start to decline steadily thereafter, but will still be above 50 percent of GDP by 2005 (Table 7). As shown in the report for the second review, the debt dynamics are particularly sensitive to the rate of growth of GDP, and less to variations in the interest rate, given the relatively high average maturity of public debt.

25. The poor results of tax revenues over the last year were due in part to **the deterioration in the performance of the Federal Revenue Administration (AFIP).** Last

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[7] It is assumed that growth will gradually accelerate to reach 4¼ percent by 2003. The interest rate on new borrowing reflects the large participation of official lenders in 2001–02, and a rate on market borrowing that starts in the 13–14 percent range in 2001 and declines gradually to about 10 percent by 2005.

December, with technical support from the Fund, a strategy was laid out to strengthen tax collection. As part of that strategy, AFIP was to design, by the time of the present review, a plan for carrying out 100,000 desk audits by the sixth review. As noted, the plan has been prepared and incorporated into an annual tax enforcement plan. Staff and facilities have been assigned to the performance of the desk audits, which has started ahead of schedule. About two-fifths of the first 9,100 desk audits resulted in adjustments to tax assessments, providing AFIP with new information on the reliability of its various information systems. A second element of the strategy was the creation of specialized tax fraud courts; the process of appointing judges to these courts has started, but is proceeding slowly. The third structural benchmark in this area was to consolidate existing payment facilitation schemes into a few basic types to reduce discretion in the treatment of taxpayers, and to issue a decree eschewing new tax amnesties. A draft regulation consolidating payment facilities has been prepared by AFIP and is under study by the Ministry of the Economy, which remains committed to its issuance. However, the authorities have not issued a decree foreswearing future tax amnesties. In the staff's view, without evidence of political commitment both to an effective Tax Fraud Tribunal or a no-new-amnesties decree, the benefits of the audits underway, and other efforts to bolster tax administration, are likely to be small. The staff has urged the authorities to issue the no-new-amnesty decree promptly, since any hint that a new one might be forthcoming would hurt compliance. The government expects that compliance will be strengthened as AFIP's ability to identify tax evasion grows thanks to the information obtained as a byproduct of the financial transactions tax. There are also plans to bring back AFIP under the Ministry of Economy and to transfer some of its regulatory functions to the Revenue Undersecretary at the Ministry. Indeed, it is important that the uncertainty about the future of AFIP be resolved, and that institutional stability be strengthened, if the agency is to be effective in carrying out its duties.

26. The **reforms of the pension and health insurance systems** were launched through special emergency decrees in late 2000. By this review, the government was to have issued support regulations for those reforms, but these plans were interrupted by judicial challenges to the validity of the special decrees. The partial nature of those challenges and the resulting court injunctions would have meant the coexistence of pre- and post-reform regimes at a considerable fiscal cost. Consequently, the government decided to suspend the effectiveness of the reforms until the judicial cases have been decided. Nevertheless, the government believes there is now a new opportunity to have the pension reform established by law, and is preparing draft legislation to be introduced shortly to Congress. This would also permit a strengthening of the reform project, which had been weakened during successive rounds of discussions in 2000. In the meantime, the government is proceeding with preparations for the reform of the health insurance system. Two of the problems receiving priority are the revision of the basic medical program, to ensure that it can be financed with the new guaranteed minimum capitation, and the securing of adequate financing mechanisms for the Redistributive Solidary Fund charged with backing up that guarantee. The authorities indicated that contribution arrears are a key impediment to the functioning of an efficient health insurance market with private providers. To correct this problem, the government is planning to outsource the collection of contributions to a new financial corporation, jointly owned by the social security and health insurance institutions. This corporation would

coordinate a system for the direct depositing of the gross salary into the banking system and its automatic apportionment among different payees, including the employee and the social security institutions. The authorities expected this scheme to be launched in pilot form in May.

27. **The government has prepared a plan to restructure the social security administration** (ANSES). A decree has been drafted streamlining the organization of ANSES and strengthening its board. A reform plan has also been prepared to reduce the scope for abuse in the system of family allowances; implementation began in April with two decrees modifying eligibility conditions and payment delivery mechanisms. ANSES is following closely the number of new retirees, which has increased in recent months as some individuals tried to lock in their benefits before the pension reform went into effect. If this trend continues, it could pose a risk of higher spending in 2001. Meanwhile, the health insurance scheme for retirees, PAMI, has tightened its administration and has renegotiated contracts with providers with the goal of achieving a zero operating deficit for the year.

28. To enhance the **reform of the public administration** ministries have been directed to make an inventory of the laws governing their functioning with the goal of compiling a legislative agenda that may be enacted by the President using the special powers delegated to him by the Congress. The goal will be to refocus and scale back activities wherever possible, eliminate waste and duplication of functions and structures, strengthen controls over procurement, and increase efficiency.

29. The request for the special legislative powers from Congress, including the initiatives aimed at a reform of the state and the removal of regulatory impediments to growth, were part of the "**Competitiveness Law**". The authorities are aware of the need to improve the competitiveness of the economy, in particular through cost reductions and changes in the relative prices faced by the tradeable and nontradeable sectors. This underlies their emphasis on tariff policy to reduce the cost of capital goods in the economy, efforts to lower the cost of credit and make credit more accessible to small and medium-sized enterprises, and fiscal consolidation, including through expenditure reductions, to make possible selective tax cuts which would be broadened to other sectors in the economy as the budgetary position permits. In the longer run, an eventual shift to a currency board mechanism that includes the euro as well as the U.S. dollar with equal weight, is intended to give greater stability to the trade-weighted effective value of the peso. These competitiveness initiatives must be seen as complementing the efforts already launched at the beginning of the year aimed at jumpstarting investment activity and lease-buyback facilities in public infrastructure.

30. The lowering of liquidity requirements in April to respond to the outflow of deposits, and the placement of government securities against these requirements reduced by about one-fifth the liquidity cover of deposits. The authorities noted that such measures were consistent with the convertibility law, and were of the view that some easing of monetary conditions was appropriate to offset the more restrictive fiscal stance envisaged for the remainder of the year. However, they acknowledged that there was little scope for any further easing, and that

it was crucial to preserve the prudential defenses of the banking system. In this context, they agreed that liquidity requirements would be raised again in line with the recovery of deposits.

31. The government also intends to modify the existing regime of prudential reserves in the banking system so as to provide greater incentives for the use of checking accounts (which are mostly used for transaction purposes and have proven to be quite stable) at the expense of (more volatile) term deposits. The authorities propose—the charter of the central bank has been modified to make this possible—to reintroduce reserve requirements for checking and savings accounts, while maintaining the present system of liquidity requirements for term deposits. Term deposits account for more than two thirds of total deposits. Banks will be permitted to comply with reserve requirements by counting cash-in-vault and, partially, government securities towards meeting the requirements. To avoid any weakening of the prudential defenses of the system, the authorities agreed to raise liquidity requirements in a way that maintains unchanged the aggregate proportion of liquid reserves to total deposits.

32. **The domestic banking system remains highly liquid and solvent**, although profitability indicators, such as the return on assets and the return on equity, are low by international standards, reflecting the protracted economic recession (Tables 8 and 9). The authorities are maintaining their efforts to strengthen banking supervision and the regulatory framework to facilitate bank resolution. **A first round of discussions on the FSAP** has been completed, which confirmed that the banking system is relatively well protected against traditional sources of banking problems, given the high capital adequacy ratios, adequate liquidity levels, and good quality of supervision. However, it was also noted that while the foreign–owned banks and the large private banks have reported relatively stable financial conditions in the recessionary environment of recent years, conditions have been more adverse for the two largest public banks—the *Banco de la Nación* and the *Banco de la Provincia de Buenos Aires*—and a number of smaller banks. The complete assessment is expected to be finalized by the time of the next review of the program.

33. **To deepen the domestic capital markets the authorities will enact shortly, under the new delegated legislative powers, a bill on best practices in the financial system.** The bill will strengthen corporate governance, particularly in regards to the rights of minority shareholders, increase transparency in financial transactions, and upgrade the regulatory framework in the insurance sector to international standards.

34. The short term outlook for the **balance of payments**, suggests a modest further improvement in the trade balance during 2001 (Table 10). Exports of manufactures are expected to continue their robust growth, while agricultural exports are projected to sustain the significant rebound observed during the first quarter of this year. These developments would more than offset the decline in agro-industrial exports now expected as a result of the halt of beef sales to most foreign markets following an outbreak of foot-and-mouth disease in March. The external current account deficit is expected to widen slightly, to the equivalent of 3.4 percent of GDP, with the improvement in the trade balance more than offset by a decline

in interest **earnings** abroad. With almost two thirds of the current account deficit covered by FDI—based on already approved projects—and assuming no further access to international capital markets by the public sector as well as a limited amount of private capital reflow—including deposits—during the remainder of the year, the loss in net international reserves would be contained to that which occurred in the first quarter, while gross international reserves would rise again above US$31 billion by year end.

35. The medium-term outlook for the balance of payments is not much changed from that described last January in the staff report for the second review (EBS/00/278, Supplement 1). Barring renewed terms of trade or interest rate shocks, the external current account would decline to levels (between 2¾–3 percent of GDP) which would likely be financed in large part by FDI. This would contribute to a gradual decline in external debt and debt service ratios, albeit to levels that would remain high by international standards. (Table 11–14).

36. Argentina is the third largest debtor to the Fund, with outstanding Fund credit of nearly SDR 5.8 billion, and another SDR 6.8 billion scheduled purchases under the current arrangement. Assuming full disbursement of these amounts, the debt service to the Fund would peak in 2005 in absolute value, and account for about one fifth of public sector debt service both in 2002, 2005 and 2006. Also, Argentina's debt service to the Fund relative to exports of goods and non factor services is relatively high compared to other members, and is expected to exceed 10 percent in 2002. The staff believes, however, that Argentina will be able to meet fully its obligations to the Fund, based on its impeccable track record in this regard.

37. The authorities remain firmly committed to the convertibility regime, which continues to be regarded as the anchor for price and financial stability. Given the widespread dollarization of public and private liabilities and contracts, a change in the regime would likely have large adverse consequences on the balance sheets of the nonfinancial private sector, the banking system, and the public sector, with generalized disruption and dislocation of the economy. With a view to reduce volatility in the effective exchange rate, the government introduced legislation to congress that modifies convertibility by linking the peso to a basket that would include the euro alongside the U.S. dollar, with equal weighting, once these currencies reach parity. The authorities deem that the gains in flexibility of such a measure, outweigh the slight loss of predictability that would ensue.

38. The authorities have agreed with their Mercosur partners to apply, for a period through end–2002, custom duties different from the common external tariff on some non-Mercosur imports to Argentina. Duties on about two fifths of extra-Mercosur capital goods imports were reduced from an average tariff of 14 percent to zero, so as to help reactivate investment spending. To offset the fiscal consequences of this measure, and to provide some temporary protection for the restructuring of some labor intensive industrial sectors, tariffs were increased to up to 35 percent (from an average of 23 percent) on most extra-Mercosur consumer goods imports. Overall, these measures are estimated to affect about 28 percent of non-Mercosur imports, and to result in an slight increase in Argentina's average nominal tariff on extra-Mercosur imports (to 11.8 percent). The import surcharge of 2.5 percent was

eliminated for all the goods affected by these measures, and is scheduled to be eliminated for all other products still subject to the common external tariff by end–2002.

IV. The Stand-By Arrangement

39. The performance criteria for end-June and end-September 2001 have been modified as described in Annex I to the authorities' policy Memorandum (EBS/01/66), and in Table 15. Those for the end-December position remain unchanged, except for the ceiling on short-term debt which has been increased to accommodate the US$2 billion one-year bond issuance in April that banks are allowed the hold against their liquidity requirements. The program continues to envisage quarterly reviews with the Fund. The availability of purchases and the corresponding conditions are described in Table 16. With the completion of the present review, the authorities would obtain access to Fund resources in the amount of 976 million (46 percent of quota). The program targets for 2002 are indicative at present, to be converted into quantitative performance criteria on the occasion of the fifth review.

V. Staff Appraisal

40. The agreement at the turn of the year on the augmentation of the Stand-By Arrangement, and the associated additional financial support from the official and private international community, ushered in a short period of positive developments and growing confidence in the Argentine economy. However, an unexpected relaxation of the fiscal stance and domestic political strife, in an external environment of heightened uncertainty, triggered a new crisis that not only saw successive changes in the economic leadership of the country, but greatly undermined the market's confidence in Argentina's prospects. At the time of the approval of the augmented program, the staff had noted the risks posed by adverse developments in the external environment or in the degree of political support for the government's strategy, and it had also underscored the importance of the authorities' firmly implementing their announced policies. Recent events have confirmed that, in the present economic environment, there is a high price to pay for policy slippages.

41. The government has responded to this latest crisis with an effort commensurate with the gravity of the situation. The authorities have attached first priority to regaining confidence both domestically and abroad. To this end, they have focused their efforts on simultaneously re-establishing a viable fiscal situation, and on implementing growth enhancing measures to help a sustained recovery of economic activity. Confronted with the prospect of a widening fiscal gap, they have put in place a package of significant revenue and expenditure measures to bring the public finances back to a path consistent with the program targets for the year as a whole, as well as with medium-term debt sustainability. At the same time, the authorities have introduced a number of tax incentives and regulatory changes aimed at promoting a recovery of investment and sustainable output growth.

42. The staff regards this strategy as consistent with the objectives of the program supported by the Stand-By Arrangement. The recovery of confidence, after the protracted recession and successive crises of recent years, is crucial to boost consumption and investment and launch the economic recovery. Clearly, the challenge for the authorities is considerable as the program faces significant risks: output growth is still weak and may take longer to recover than is now envisaged; interest spreads may not decline as fast as is needed; revenue performance is fragile; and tax compliance is difficult to enforce and improve in the short term. Fiscal consolidation is the key to managing these risks. Clear evidence that the public finances place the debt-GDP ratio on a declining medium-term path is needed to boost confidence and permit a significant lowering of country risk and interest rates in the economy, and thereby permit the resumption of growth. The mutually reinforcing nature of strengthened confidence, fiscal adjustment, and the resumption of growth will help to attain the program's objectives. However, this process is fragile and depends crucially on the authorities' commitment to a firm implementation of their policies, as well as on the cooperation of the Argentine political class and the main social partners.

43. The fiscal plan is built around the financial transactions tax, which is essential to the revenue effort. Nevertheless, the financial transactions tax introduces distortions of its own and the authorities should be prepared to follow through with their intention to let this tax lapse at the end of the two-year period for which it was approved. To make possible the eventual elimination of this tax, while continuing to move towards the target of fiscal balance by 2005 stipulated in the Fiscal Responsibility Law, it will be imperative to address the deterioration of tax enforcement that has occurred in recent years. The weakening of tax administration is the main factor behind the fiscal difficulties being faced in 2001, and requires the immediate attention of the authorities. The program includes structural benchmarks in regard to tax audits and the introduction of more expeditious legal procedures on tax matters, which need to be implemented quickly and fully. It is also important that the authorities give a clear signal that tax amnesties will cease to be granted, since repeated recourse to such devices is part of the problem, not the solution.

44. The program includes an important component of expenditure reductions, which should be deepened through the envisaged reform of the public administration. However, about half of the primary spending of the consolidated public sector is under the control of the provinces, and it is essential that they join the national government in fiscal adjustment, as indicated by their commitments under the federal pact of December 2000. The existing financing constraints, tight controls from the central government, and the conditionality attached to provincial sectoral loans by the World Bank and the IDB should promote adherence to this pact. Finally, the more lasting nature of the spending and revenue measures introduced with the reformulation of the 2001 program provides a firmer base to move forward into 2002 and the medium-term. These prospects will be enhanced by passage of the law the authorities intend to propose to buttress the medium-term solvency of the social security system.

45. The independence of the Central Bank of Argentina, and the high capital and liquidity defenses of the banking system, are important assets, whose value has been repeatedly

proven in recent years, as they have allowed Argentina to withstand major financing and confidence difficulties without triggering deposit flight and a crisis in the financial system. The recent developments in the banking area that resulted in an effective reduction of the liquidity cover of deposits gave cause for concern, as they introduced uncertainty, and threatened to undermine one of the main pillars of confidence in the convertibility regime. Therefore, the staff welcomes the authorities reaffirmation of their intention to preserve both, the independence of the Central Bank and the strong prudential defenses of the banking system. The staff also welcomes the progress made with the FSAP, as well as with the proposed bill on best practices in the domestic capital market.

46. The authorities have reiterated their commitment to the convertibility regime, but in doing so, have proposed modifications to the regime to link the peso to a basket including the euro alongside the U.S. dollar, once these currencies reach parity. While there may be some longer-term merits to this approach, the launching of this proposal during a period of heightened uncertainty reawakened long-dormant concerns about the exchange rate, and run counter the objective of bolstering confidence in the prospects of the economy.

47. The external trade balance continues to strengthen, not only owing to the recession-induced contraction of imports, but also reflecting the solid performance of industrial exports. To help economic activity, the authorities introduced changes in the external tariff that, on balance, increase effective protection. While these modifications to the extra-Mercosur tariff only have a small effect on the average level of import duties, they imply a departure from Mercosur's common external tariff, which the partner countries accepted only on a temporary basis. The authorities should be prepared to roll back the tariff increases at the earliest occasion, and resume the path of tariff reductions consistent with increasing the efficiency and openness of the economy.

48. In sum, large deviations in the first quarter fiscal performance required the wholesale reformulation of the fiscal program for 2001. The authorities rose to this challenge and introduced a package of substantial measures that will make possible to observe the program targets for end–2001, and strengthen the fiscal position in 2002. The authorities, together with requesting that the nonobservance of fiscal and debt targets in the first quarter be waived, request a corresponding modification of the deficit, expenditure, and debt targets for end-June and September (including the indicative targets of the provincial government deficit), and the short-term debt target for end-December, to reflect the new deficit reduction path. Given the strength of the new measures, the authorities commitment to the program, and the importance of Argentina's stability for the region and emerging markets in general, the staff recommends approval by the executive Board of the authorities' requests.

Table 1. Argentina: Performance Under the Program January-March 2001

	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	-2,100	-2,100	-3,122	-1,022
2. Cumulative primary expenditure of the Federal Government	13,313	13,313	13,684	-371
3. Cumulative consolidated balance of the Provincial Governments 2/	-600	-600	-671	-71
4. Cumulative change in the debt of the Federal Government	2,150	1,311	1,791	-480
5. Cumulative change in the short-term debt of the Federal Government	1,500	1,500	399	1,101
6. Cumulative change in the debt of the Consolidated Government	2,750	1,903	2,457	-554
6. Stock of net domestic assets of the Central Bank 3/	2,473	7,458	7,145	313

1/ As defined in the Technical Memorandum of Understanding (EBS/00/278).

2/ Indicative.

3/ Adjusted target includes the effect of the Fund's disbursements.

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	0.6	2.2	4.2	4.8	4.9	4.9
GDP at constant prices	8.1	3.8	-3.4	-0.5	2.0	3.7	4.3	4.3	4.3
Domestic demand	9.7	3.8	-4.7	-0.7	1.6	3.7	4.3	4.4	4.3
Consumption	7.9	3.1	-2.6	1.1	2.0	2.6	3.3	3.3	3.3
Investment	17.7	6.5	-12.8	-8.3	-0.3	9.0	9.0	9.0	8.5
GDP deflator	-0.5	-1.7	-1.9	1.1	0.2	0.5	0.5	0.5	0.6
Consumer prices (e.o.p.)	0.3	0.7	-1.8	-0.7	...	...	...	...	...
Nominal industrial wages	-3.2	-0.3	-0.8	0.5	...	...	...	...	...
Industrial production	8.6	1.6	-6.4	-0.1	...	...	...	...	...
Employment	6.8	4.0	1.1	1.4	2.2	2.6	3.3	3.3	3.2
Unemployment rate (percent)	14.0	12.5	13.8	14.7	14.6	14.2	13.2	12.0	10.9
	(In percent of GDP)								
Gross domestic investment	19.5	19.9	17.9	16.0	15.6	16.4	17.1	17.9	18.6
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	15.0	13.5	12.7	12.1	13.0	13.9	14.7	15.6
External saving	4.2	4.9	4.4	3.3	3.4	3.3	3.2	3.1	3.0
Net exports	-2.8	-2.5	-1.7	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3
Exports	10.6	10.4	9.8	10.8	11.4	11.9	12.4	12.9	13.5
Imports	13.5	12.9	11.5	11.4	11.7	12.2	12.7	13.2	13.8
Net exports (contribution to growth)	-1.8	0.0	1.4	0.2	0.4	-0.1	-0.1	-0.1	-0.1
Private consumption	71.2	70.1	70.1	70.3	70.9	71.1	70.9	70.7	70.5
Public consumption	12.1	12.5	13.7	14.3	13.9	12.8	12.2	11.7	11.3
GDP (in billions of Arg$)	292.9	298.9	283.3	285.0	291.3	303.6	318.2	333.8	350.0

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

Table 3. Argentina: Consolidated Public Sector Operations 1997-2001

	1997	1998	1999	Prel. 2000	Prog. 2001	Rev. Prog. 2001
	(In millions of pesos)					
Revenue	**67,841**	**70,957**	**68,908**	**69,901**	**72,550**	**72,792**
Total tax revenue	49,250	52,013	49,675	51,516	53,505	54,323
Social security contributions	12,202	11,990	10,892	10,684	10,466	10,258
Other revenues 1/	6,389	6,954	8,342	7,700	8,580	8,211
Noninterest expenditure	**67,053**	**69,414**	**71,041**	**68,593**	**68,124**	**68,150**
Wages	24,157	24,912	26,587	26,992	26,793	27,113
Goods and services	6,105	6,486	6,713	5,872	5,646	5,540
Transfers to the private sector 2/	25,647	26,459	27,193	27,023	26,616	26,292
Other	11,144	11,557	10,547	8,706	9,069	9,204
Primary balance	**788**	**1,543**	**-2,133**	**1,308**	**4,427**	**4,642**
Interest	6,843	7,858	9,655	11,512	13,687	13,902
Overall balance	**-6,055**	**-6,315**	**-11,788**	**-10,205**	**-9,260**	**-9,260**
	(In percent of GDP)					
Revenue	**23.2**	**23.7**	**24.3**	**24.5**	**24.7**	**25.0**
Total tax revenue	16.8	17.4	17.5	18.1	18.2	18.6
Social security contributions	4.2	4.0	3.8	3.7	3.6	3.5
Other revenues 1/	2.2	2.3	2.9	2.7	2.9	2.8
Noninterest expenditure	**22.9**	**23.2**	**25.1**	**24.1**	**23.1**	**23.4**
Wages	8.2	8.3	9.4	9.5	9.1	9.3
Goods and services	2.1	2.2	2.4	2.1	1.9	1.9
Transfers to the private sector 2/	8.8	8.9	9.6	9.5	9.0	9.0
Other	3.8	3.9	3.7	3.1	3.1	3.2
Primary balance	0.3	0.5	-0.8	0.5	1.5	1.6
Interest	2.3	2.6	3.4	4.0	4.7	4.8
Overall balance	-2.1	-2.1	-4.2	-3.6	-3.1	-3.2

Sources: Ministry of Economy; and Fund staff estimates.

1/ Includes central bank (BCRA) result.

2/ Includes pension payments.

Table 4. Argentina: Federal Government Operations 1997-2001

	1997	1998	1999	Prel. 2000	Prog. 2001	Rev. Prog. 2001
	(In millions of pesos)					
Revenue	**54,207**	**56,751**	**55,020**	**55,813**	**58,124**	**58,267**
Taxes	38,352	40,363	38,626	40,672	42,074	42,887
Social security contributions	12,202	11,990	10,892	10,684	10,466	10,258
Nontax revenue 1/	3,465	3,929	5,277	4,121	5,236	4,842
Other 2/	188	469	225	336	349	280
Noninterest expenditure	**53,094**	**53,918**	**53,952**	**53,130**	**53,212**	**53,210**
Discretionary (excluding tranfers to provinces)	**35,418**	**35,585**	**36,108**	**35,089**	**34,776**	**34,663**
Wages	8,510	8,076	8,548	8,440	8,094	8,323
Goods and services	2,567	2,697	2,637	2,268	2,227	2,208
Pensions	17,199	17,481	17,436	17,431	17,335	17,243
Private transfers	5,700	5,910	6,411	6,174	6,169	5,926
Other current expenditure	146	155	102	91	94	116
Capital	1,296	1,267	973	685	857	847
Transfers to Provinces	**17,675**	**18,333**	**17,844**	**18,041**	**18,436**	**18,548**
of which: automatic 3/	15,220	16,457	15,835	16,165	16,368	16,403
Primary balance	**1,114**	**2,833**	**1,068**	**2,683**	**4,913**	**5,057**
Interest	5,791	6,661	8,224	9,656	11,413	11,557
Overall balance	**-4,677**	**-3,828**	**-7,156**	**-6,974**	**-6,500**	**-6,500**
	(In percent of GDP)					
Revenue	**18.5**	**19.0**	**19.4**	**19.6**	**19.8**	**20.0**
Taxes	13.1	13.5	13.6	14.3	14.3	14.7
Social security contributions	4.2	4.0	3.8	3.7	3.6	3.5
Nontax revenue 1/	1.2	1.3	1.9	1.4	1.8	1.7
Other 2/	0.1	0.2	0.1	0.1	0.1	0.1
Noninterest expenditure	**18.1**	**18.0**	**19.0**	**18.6**	**18.1**	**18.3**
Discretionary (excluding tranfers to provinces)	**12.1**	**11.9**	**12.7**	**12.3**	**11.8**	**11.9**
Wages	2.9	2.7	3.0	3.0	2.8	2.9
Goods and services	0.9	0.9	0.9	0.8	0.8	0.8
Pensions	5.9	5.8	6.2	6.1	5.9	5.9
Private transfers	1.9	2.0	2.3	2.2	2.1	2.0
Other current expenditure	0.0	0.1	0.0	0.0	0.0	0.0
Capital	0.4	0.4	0.3	0.2	0.3	0.3
Transfers to Provinces	**6.0**	**6.1**	**6.3**	**6.3**	**6.3**	**6.4**
of which: automatic 3/	5.2	5.5	5.6	5.7	5.6	5.6
Primary balance	**0.4**	**0.9**	**0.4**	**0.9**	**1.7**	**1.7**
Interest	2.0	2.2	2.9	3.4	3.9	4.0
Overall balance	**-1.6**	**-1.3**	**-2.5**	**-2.4**	**-2.2**	**-2.2**

Sources: Ministry of Economy; and Fund staff estimates.

1/ Includes central bank (BCRA) result.

2/ Operating surplus of public enterprises and capital revenue (other than privatization receipts).

3/ 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: Financing Requirements and Sources of the Federal Government 2001

(In billions of U.S. dollars)

	QI Prel.	QII Proj.	QIII Proj.	QIV Proj.	Year Proj.
Financing requirements	**5.8**	**6.9**	**5.2**	**4.0**	**21.9**
Deficit	3.1	1.8	1.3	0.3	6.5
Other payments	0.0	0.6	0.2	0.2	1.0
Amortization of medium- and long-term debt 1/ 2/	4.5	3.1	3.5	2.6	13.7
Bilateral, multilateral and others	1.0	1.0	0.8	0.8	3.5
Notes and bonds 3/	3.5	2.2	2.7	1.9	10.2
Change in cash balance	-1.8	1.4	0.2	0.9	0.7
Financing sources	**5.8**	**6.9**	**5.2**	**4.0**	**21.9**
Bilateral, multilateral and others	3.6	1.5	2.5	1.9	9.6
IMF	2.9	1.3	1.3	1.3	6.7
World Bank	0.0	0.0	0.5	0.2	0.7
IDB	0.2	0.1	0.6	0.3	1.2
Spain	0.5	0.2	0.2	0.2	1.0
Placements of public bills, notes and bonds	2.1	5.5	2.6	2.1	12.3
International markets	0.5	0.0	0.0	0.0	0.5
Domestic market	1.7	5.5	2.6	2.1	11.8
Domestic market makers	0.2	0.9	1.7	1.9	4.8
Institutional investors	0.9	0.5	0.9	0.5	2.9
Net increase in treasury bills (Letes)	0.5	0.0	0.0	-0.4	0.1
Additional domestic financing	0.1	4.2	0.0	0.0	4.3

Sources: Ministry of Economy and Fund staff estimates.

1/ Based on stocks and exchange rates as of March 31, 2001.

2/ Excludes amortizations of bonds swapped on February 2001.

3/ Excludes treasury bills (Letes).

Table 6. Argentina: Provincial Governments Operations 1997-2001 1/

	1997	1998	1999	Prel. 2000	Prog. 2001	Rev. Prog. 2001
	(In millions of pesos)					
Revenue	**31,308**	**32,539**	**31,732**	**32,129**	**32,862**	**33,072**
Transfers from the federal government	17,675	18,333	17,844	18,041	18,436	18,548
Provincial taxes	10,897	11,650	11,049	10,844	11,431	11,436
Other provincial revenue	2,736	2,555	2,839	3,244	2,995	3,089
Noninterest expenditure	**31,635**	**33,829**	**34,933**	**33,504**	**33,348**	**33,487**
Wages	15,647	16,836	18,039	18,552	18,699	18,790
Goods and services	3,538	3,789	4,076	3,604	3,419	3,332
Transfers to the private sector 2/	2,747	3,069	3,346	3,418	3,112	3,124
Other	9,703	10,135	9,472	7,930	8,118	8,241
Primary balance	**-326**	**-1,290**	**-3,201**	**-1,375**	**-486**	**-415**
Interest	1,052	1,197	1,431	1,856	2,274	2,345
Overall balance	**-1,379**	**-2,487**	**-4,632**	**-3,231**	**-2,760**	**-2,760**
	(In percent of GDP)					
Revenue	**10.7**	**10.9**	**11.2**	**11.3**	**11.2**	**11.4**
Transfers from the federal government	6.0	6.1	6.3	6.3	6.3	6.4
Provincial taxes	3.7	3.9	3.9	3.8	3.9	3.9
Other provincial revenue	0.9	0.9	1.0	1.1	1.0	1.1
Noninterest expenditure	**10.8**	**11.3**	**12.3**	**11.8**	**11.3**	**11.5**
Wages	5.3	5.6	6.4	6.5	6.3	6.4
Goods and services	1.2	1.3	1.4	1.3	1.2	1.1
Transfers to the private sector 2/	0.9	1.0	1.2	1.2	1.1	1.1
Other	3.3	3.4	3.3	2.8	2.7	2.8
Primary balance	-0.1	-0.4	-1.1	-0.5	-0.1	-0.1
Interest	0.4	0.4	0.5	0.7	0.8	0.8
Overall balance	-0.5	-0.8	-1.6	-1.1	-0.9	-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 7. 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	134,270	144,805	157,265	165,563	171,502	174,791
Primary balance	788	1,543	-2,133	1,308	4,642	8,081	11,467	14,973	17,492
(In percent of GDP)	0.3	0.5	-0.8	0.5	1.6	2.7	3.6	4.5	5.0
Interest payments	6,843	7,858	9,655	11,512	13,902	14,979	16,006	17,062	17,492
(In percent of GDP)	2.3	2.6	3.4	4.0	4.7	4.9	5.0	5.1	5.0
Overall balance	-6,055	-6,315	-11,788	-10,205	-9,260	-6,898	-4,539	-2,089	0
(In percent of GDP)	**-2.1**	**-2.1**	**-4.2**	**-3.6**	**-3.1**	**-2.3**	**-1.4**	**-0.6**	**0.0**
Privatization receipts 1/	1,264	558	889	166	400	200	200	100	100
Debt consolidation (recognition)	942	1,123	1,546	1,513	2,100	1,400	1,400	1,100	1,000
Other debt creating flows 2/	-2,504	5,081	-1,683	-1,017	1,500	200	200	200	200
Debt, end of period	111,547	123,508	134,270	144,805	157,265	165,563	171,502	174,791	175,891
(In percent of GDP)	**38.1**	**41.3**	**47.4**	**50.8**	**53.5**	**54.5**	**53.9**	**52.4**	**50.3**
Memorandum items:									
(In millions of pesos, unless otherwise indicated)									
Gross Domestic Product	292,825	298,948	283,260	285,045	291,178	303,605	318,202	333,816	350,009
Real GDP growth (in percent)	8.1	3.8	-3.4	-0.5	2.0	3.7	4.3	4.3	4.3
Federal government balance	-4,677	-3,828	-7,156	-6,974	-6,500	-5,000	-3,500	-1,700	0
Provincial governments balance	-1,379	-2,487	-4,632	-3,231	-2,760	-1,898	-1,039	-389	0
Implicit average interest rate (percent)	6.3	7.0	7.8	8.6	9.6	9.5	9.7	9.9	10.0
Interest rate on new federal government debt (percent) 3/	...	...	...	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.

3/ Assumes a marginal interest rate on market operations of 13 percent in 2001 and declining by 50 b.p. every year thereafter.

Table 8. Argentina: Summary Operations of the Financial System

(In millions of pesos, end of period)

	1996	1997	1998	1999	2000	Prog. 2001
I. Central Bank						
Net international reserves	13,452	16,938	20,807	22,864	21,872	15,421
Net domestic assets	7,105	5,882	5,499	4,647	4,525	10,627
Credit public sector 1/	9,951	9,546	8,744	7,805	8,383	14,111
Credit to the financial sector	1,957	1,571	1,922	1,856	1,083	1,175
Official capital and surplus and unclassified assets (net)	-4,803	-5,235	-5,167	-5,014	-4,940	-4,660
Monetary liabilities	20,557	22,820	26,306	27,511	26,398	26,048
Currency issued	14,030	15,966	16,370	16,493	15,054	15,110
Government deposits	2,242	325	1,343	935	1,769	1,116
Reserve deposits of banks	4,285	6,529	8,593	10,083	9,575	9,822
II. Banks and Non-Bank Financial Institutions						
Net foreign assets	-6,497	-4,782	-5,601	-8,184	-6,622	-7,229
Net claims on Central Bank	4,628	7,599	9,545	10,999	10,993	10,865
Net domestic assets	47,761	55,464	63,557	66,567	68,794	75,755
Credit to public sector (net)	7,981	4,992	9,976	13,400	18,476	22,647
Credit to private sector	54,888	65,108	72,112	70,578	67,933	70,877
Capital and reserves	-15,038	-16,039	-17,042	-16,905	-17,287	-17,682
Other	-70	1,403	-1,489	-506	-328	-87
Private sector deposits	45,892	58,281	67,501	69,383	73,165	79,391
Local currency	19,460	25,474	28,059	26,445	25,791	26,243
Foreign currency	26,432	32,807	39,442	42,938	47,374	53,147
III. Consolidated Financial System						
Net foreign assets	6,955	12,156	15,206	14,681	15,251	8,192
Net domestic assets	50,667	59,450	65,791	68,423	70,467	84,090
Credit to public sector (net)	15,690	14,213	17,377	20,269	25,090	35,642
Credit private sector	54,888	65,108	72,112	70,578	67,933	70,877
Net capital and reserves	-19,911	-19,871	-23,698	-22,425	-22,555	-22,429
Liabilities to private sector	57,622	71,606	80,997	83,104	85,718	92,283
Currency in circulation	11,730	13,325	13,496	13,721	12,553	12,892
Local currency deposits	19,460	25,474	28,059	26,445	25,791	26,243
Foreign currency deposits	26,432	32,807	39,442	42,938	47,374	53,147
(In percent of GDP)						
Liabilities to the private sector	19.7	22.1	25.7	27.4	29.6	30.0
Currency in circulation	3.8	4.0	4.1	4.0	4.0	4.0
Peso deposits	6.8	8.1	9.1	9.1	9.3	8.8
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)	23.8	20.8	20.3	21.0	20.1	20.3
Foreign exchange reserve cover of broad money 3/	35.4	46.4	42.9	44.4	41.7	40.7
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	65.7	66.3	68.6	69.1
Share of foreign deposits in total deposits 3/	53.0	53.2	54.3	58.5	61.8	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 2001, February.

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

Table 9. Argentina: Banking Soundness Indicators

	1997	1998	1999	2000
Profitability ratios				
(Percent of average assets)				
Net interest income	4.1	4.6	4.3	4.0
Service income margin	3.3	3.1	2.9	2.8
Gains on securities	1.0	0.7	0.9	1.2
Operating costs	-6.4	-6.2	-5.9	-5.8
Loan-loss provisioning	-2.2	-1.6	-2.1	-2.4
Tax charges	-0.4	-0.4	-0.4	-0.4
Income tax	-0.3	-0.3	-0.3	-0.3
Other financial profits	1.6	0.5	0.5	0.4
Other	0.3	0.3	0.4	0.6
Total profits	1.0	0.5	0.2	0.0
Private banks	0.8	0.5	0.3	0.1
Top 8 banks	1.4	1.0	0.9	1.3
Total profits / Net worth	6.3	4.0	1.7	0.0
Private banks	6.2	4.3	2.3	0.8
Top 8 banks	12.5	9.8	8.8	12.0
Asset quality ratios 1/				
(In percent of total loans)				
Non-performing loans	11.6	10.3	11.5	12.7
Private banks	7.4	6.8	7.6	8.4
Public banks	19.2	16.6	19.8	21.0
Loan provisions	7.1	6.3	6.9	8.0
Private banks	4.8	4.5	5.3	5.8
Public banks	11.1	9.6	9.9	12.2
Uncovered non-performing loans	4.5	4.0	4.7	4.7
Private banks	2.6	2.3	2.3	2.7
Public banks	8.1	7.0	9.9	8.8
Liquidity ratios				
Total loans / total deposits (percent)	97.7	99.5	97.1	90.7
Total liquid assets / total liabilities (percent)	35.8	32.7	35.2	35.9
Capital adequacy ratios				
		In percent		
Capital / risk-weighted assets	20.8	20.3	21.0	20.1
Private banks	18.2	17.3	21.5	19.7
Liabilities / capital = leverage ratio	601.4	631.1	660.0	699.4
Memorandum items:				
Percent share of total deposits				
Private banks (incl. non-bank institutions)	65.8	65.8	67.1	67.1
Public banks	34.2	34.2	32.9	32.9
Number of banks	138	128	116	113
Number of employees 1/	108,008	107,634	104,312	102,844

Sources: Banco Central de la Argentina (BCRA); and Fund staff estimates.

1/ Data for September 2000.

Table 10. Argentina: Medium Term Balance of Payments

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

	1999	2000	2001	2002	2003	2004	2005	2006
		Prel.	Projections					
Current account balance	-12.4	-9.3	-10.0	-10.2	-10.3	-10.4	-10.2	-10.1
Trade balance	-2.2	1.2	2.0	2.3	2.5	2.6	2.9	3.0
Exports (fob)	23.3	26.4	28.4	31.1	34.1	37.4	41.0	45.0
Imports (cif)	-25.5	-25.2	-26.4	-28.8	-31.6	-34.7	-38.2	-42.0
Nonfactor services	-2.6	-2.9	-2.8	-3.0	-3.1	-3.3	-3.6	-3.8
Receipts	4.4	4.5	4.9	5.2	5.5	5.9	6.3	6.7
Expenditures	-7.1	-7.4	-7.7	-8.2	-8.7	-9.2	-9.8	-10.5
Factor services	-7.9	-7.8	-9.4	-9.7	-9.9	-9.9	-9.8	-9.6
Profits & dividends (net)	-2.0	-1.7	-2.3	-2.4	-2.5	-2.5	-2.5	-2.6
Net interest	-5.9	-6.1	-7.1	-7.3	-7.4	-7.4	-7.2	-7.0
Interest due	-11.3	-12.5	-12.7	-13.1	-13.4	-13.6	-13.6	-13.6
Interest earnings	5.4	6.4	5.5	5.8	6.0	6.2	6.4	6.6
Transfers (net)	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Capital account	14.5	8.4	3.5	10.6	11.4	14.0	15.8	15.4
Nonfinancial public sector	10.8	8.5	-1.4	4.1	2.5	2.1	3.0	0.2
Federal government	10.1	7.7	-2.2	4.6	3.0	2.7	3.7	0.8
Bonds and Titles	6.9	4.9	-3.8	6.4	3.9	3.9	5.2	2.1
Multilateral organizations	2.2	1.2	1.2	-1.2	-0.4	-0.4	-0.5	-0.5
Privatization	3.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Other 1/	1.0	1.6	0.5	-0.6	-0.5	-0.8	-1.1	-0.8
Local governments	1.4	1.2	1.0	-0.1	-0.2	-0.2	-0.2	-0.2
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	2.5	-0.8	0.7	0.7	0.8	0.7	0.6	0.6
Foreign direct investment (net) 2/	0.3	0.2	0.1	0.4	0.4	0.3	0.2	0.2
Bonds and titles	-0.3	0.2	0.1	0.1	0.4	0.3	0.2	0.2
Other	2.4	-1.2	0.5	0.3	-0.1	0.1	0.2	0.2
Nonfinancial private sector	2.1	0.0	3.9	5.5	7.9	10.9	11.9	14.2
Direct investment (net) 3/	7.5	6.7	6.6	6.9	7.3	7.7	8.1	8.5
Portfolio investment 3/	-2.2	-3.6	-0.1	0.4	1.1	1.6	2.1	2.6
Debt creating flows	0.5	0.0	0.4	0.7	2.3	4.5	4.7	6.2
Other 4/	-3.8	-2.9	-3.0	-2.5	-2.8	-2.9	-3.0	-3.1
Other capital 5/	-1.0	0.6	0.3	0.3	0.3	0.4	0.3	0.3
Net international reserves (- increase)	-2.0	1.0	6.5	-0.5	-1.1	-3.6	-5.6	-5.3
Assets	-1.1	0.4	1.0	-1.2	-1.4	-1.5	-1.6	-1.7
Liabilities (IMF)	-1.0	0.6	5.5	0.7	0.3	-2.1	-4.0	-3.6
Memorandum items:								
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	-3.3	-3.4	-3.3	-3.2	-3.1	-2.9	-2.8
Merchandise export volume (percentage change)	-0.6	2.0	7.4	7.8	7.9	8.0	7.9	8.1
Merchandise import volume (percentage change)	-13.8	-1.0	4.0	8.0	8.1	8.1	8.2	8.3
Non fuel trade balance	-4.5	-2.8	-1.9	-1.5	-1.5	-1.6	-1.5	-1.6
Terms of trade (percentage change)	-5.9	10.4	-0.6	0.4	0.2	-0.2	0.1	-0.2
Terms of trade excluding fuels (percentage change)	-8.0	3.1	2.3	1.6	0.7	0.2	0.6	0.3
FDI (including Privatization)	12.0	6.8	7.3	7.5	7.9	8.1	8.4	8.7
Gross reserves /Monetary liabilities of the central bank (percent)	100.4	101.5	101.4	...	...	...	...	...

Sources: Ministry of Economy; and Fund staff estimates.

1/ Includes a US$1 billion loan from Spain in 2001.

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, Telefonica and YPF (i.e., US$1833 million in FDI inflows and in portfolio investment outflows).

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

	1999	2000	2001	2002	2003	2004	2005	2006
		Est.	Projections					
(In billions of U.S. dollars)								
External debt outstanding	145.1	147.2	151.9	157.3	162.6	167.3	171.1	174.2
Nonfinancial public sector	85.4	85.7	89.2	93.8	96.4	96.3	95.2	91.9
Medium- and long-term	84.5	84.4	87.9	...	...	...	...	...
Short-term 1/	0.8	1.3	1.3	...	...	...	...	...
Financial system	23.6	24.8	25.5	25.6	26.0	26.3	26.5	26.7
Medium- and long-term	10.3	9.4	9.4	...	...	...	...	...
Short-term	13.3	15.4	16.1	...	...	...	...	...
Nonfinancial private sector	36.1	36.8	37.2	37.9	40.2	44.7	49.4	55.6
Medium- and long-term	30.6	31.6	31.7	...	...	...	...	...
Short-term	5.5	5.2	5.4	...	...	...	...	...
Total external debt service	27.8	32.3	32.2	35.5	34.2	33.3	35.2	35.3
Amortization 2/	16.5	19.8	19.5	22.3	20.8	19.7	21.6	21.7
Interest	11.3	12.5	12.7	13.1	13.4	13.6	13.6	13.6
Nonfinancial public sector external debt service	13.8	17.5	15.6	20.0	19.6	18.4	21.3	19.3
Amortization 2/	7.5	10.5	8.5	12.6	11.9	10.7	13.6	11.9
Interest	6.2	7.0	7.1	7.4	7.7	7.7	7.6	7.4
(In percent of GDP)								
External debt outstanding	51.2	51.6	52.1	51.8	51.1	50.1	48.9	47.5
Nonfinancial public sector	30.1	30.1	30.6	30.9	30.3	28.8	27.2	25.1
Financial system	8.3	8.7	8.8	8.4	8.2	7.9	7.6	7.3
Nonfinancial private sector	12.7	12.9	12.8	12.5	12.6	13.4	14.1	15.1
(In percent of exports of goods and non factor services)								
External debt outstanding	522.8	475.8	456.5	433.6	409.7	386.9	362.0	337.4
Nonfinancial public sector	307.6	276.8	268.0	258.5	242.9	222.7	201.5	178.0
Financial system	85.1	80.2	76.8	70.7	65.6	60.9	56.1	51.8
Nonfinancial private sector	130.1	118.8	111.7	104.3	101.2	103.3	104.4	107.6
Total external debt service	100.2	104.4	96.7	97.7	86.3	77.1	74.5	68.3
Amortization 2/	59.4	64.0	58.6	61.5	52.5	45.7	45.7	42.1
Interest	40.8	40.3	38.1	36.2	33.8	31.4	28.8	26.2
Nonfinancial public sector external debt service	49.6	56.6	47.0	55.2	49.3	42.6	45.0	37.4
Amortization 2/	27.2	34.1	25.6	34.6	30.0	24.8	28.9	23.0
Interest	22.4	22.5	21.4	20.5	19.3	17.9	16.2	14.4
Memorandum items:								
Short-term external debt (in billions of U.S. dollars)								
Original maturity	19.7	21.8	22.8	...	...	...	...	...
Residual maturity	39.5	41.3	...	...	...	...	...	...
Gross foreign exchange reserves (in billions of U.S. dollars)	33.1	34.2	32.4	33.9	35.7	37.5	39.5	41.5
At the central bank	27.3	26.9	25.9	27.1	28.5	30.1	31.6	33.3
Held abroad 3/	5.8	7.3	6.5	6.8	7.1	7.5	7.9	8.2
Debt outstanding to the Fund								
In millions of SDRs	3,263	3,880	8,094	8,781	8,875	7,364	4,200	1,478
In billions of U.S. dollars	4.5	5.0	10.5	11.3	11.6	9.5	5.5	1.9
In percent of GDP	1.6	1.8	3.6	3.7	3.6	2.8	1.6	0.5
In percent of quota	154.1	183.3	382.3	414.8	419.2	347.8	198.4	69.8
Debt service to the Fund								
In millions of SDRs	775	1,090	1,297	2,985	1,083	2,119	3,425	2,921
Amortization payments	602	970	930	2,480	533	1,620	3,081	2,765
Interest payments	172	120	367	505	550	499	344	156
In billions of U.S. dollars	1.1	1.4	1.7	3.9	1.4	2.7	4.4	3.8
Amortization payments	0.8	1.3	1.2	3.2	0.7	2.1	4.0	3.6
Interest payments	0.2	0.2	0.5	0.7	0.7	0.6	0.4	0.2
In percent of nonfinancial public sector external debt service	7.7	8.2	10.7	19.3	7.2	14.9	20.9	19.6
In percent of exports of goods and nonfactor services	3.8	4.6	5.0	10.7	3.5	6.4	9.4	7.3

Sources: Ministry of Economy; and Fund staff estimates.

1/ Letes held by nonresidents.
2/ Excludes short-term debt.
3/ Liquidity requirenments 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	16.0	15.6	16.4	17.1	17.9	18.6
Public sector	1.5	1.1	1.2	1.2	1.2	1.2	1.2
Private sector	16.4	14.9	14.3	15.1	15.9	16.6	17.3
Gross national savings	13.5	12.7	12.1	13.0	13.9	14.7	15.6
Public sector	-2.6	-2.5	-1.9	-1.0	-0.2	0.6	1.2
Private sector	16.1	15.2	14.1	14.1	14.1	14.1	14.3
Foreign savings	4.4	3.3	3.4	3.3	3.2	3.1	2.9
Consolidated public sector balance	-4.2	-3.6	-3.1	-2.3	-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	-1.1	-0.9	-0.6	-0.3	-0.1	0.0
Public sector debt	47.4	50.8	53.4	54.5	53.9	52.3	50.2
External debt	30.1	30.1	30.6	30.9	30.3	28.8	27.2
Domestic debt	17.3	20.8	22.8	23.6	23.6	23.5	23.0
	(In billions of U.S. dollars)						
Current account	-12.4	-9.3	-10.0	-10.2	-10.3	-10.4	-10.2
Trade balance	-2.2	1.2	2.0	2.3	2.5	2.6	2.9
Exports (f.o.b.)	23.3	26.4	28.4	31.1	34.1	37.4	41.0
Imports (c.i.f.)	-25.5	-25.2	-26.4	-28.8	-31.6	-34.7	-38.2
Nonfactor services	-2.6	-2.9	-2.8	-3.0	-3.1	-3.3	-3.6
Factor services	-7.9	-7.8	-9.4	-9.7	-9.9	-9.9	-9.8
Transfers (net)	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Capital account	14.5	8.4	3.5	10.6	11.4	14.0	15.8
Of which: foreign direct investment	7.9	6.8	6.7	7.3	7.7	8.0	8.3
Overall balance	2.0	-1.0	-6.5	0.5	1.1	3.6	5.6
	(In percent)						
Real GDP growth	-3.4	-0.5	2.0	3.7	4.3	4.3	4.3
GDP deflator	-1.9	1.1	0.2	0.5	0.5	0.5	0.6
Export volume growth	-0.6	2.0	7.4	7.8	7.9	8.0	7.9
Import volume growth	-13.8	-1.0	4.0	8.0	8.1	8.1	8.2
Terms of trade change	-5.9	10.4	-0.6	0.4	0.2	-0.2	0.1
	(In percent of exports of goods and nonfactor services)						
Gross external financing requirements	108.1	92.9	85.8	92.9	82.1	73.2	70.7
Total external debt	522.8	475.8	456.5	433.6	409.7	386.9	362.0
Total external debt service	100.2	104.4	96.7	97.7	86.3	77.1	74.5
Public sector external debt service	49.6	56.6	47.0	55.2	49.3	42.6	45.0
Of which: interest payments	22.4	22.5	21.4	20.5	19.3	17.9	16.2
Outstanding Fund credit	16.1	16.3	31.7	31.1	29.2	21.9	11.6
Fund charges and repurchases	3.8	4.6	5.0	10.7	3.5	6.4	9.4
Memorandum items: (In percent)							
Unemployment rate	13.8	14.7	14.6	14.2	13.2	12.0	10.9
Fund debt service/public sector debt service	7.7	8.2	10.7	19.3	7.2	14.9	20.9
Fund credit/quota	154.1	183.3	382.3	414.8	419.2	347.8	198.4

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

Table 13. Argentina: Requirements and Sources of Foreign Exchange

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

	1999	2000	2001	2002	2003	2004	2005	2006
		Est.	Projections					
Requirements	**30.0**	**28.8**	**28.5**	**33.7**	**32.6**	**31.6**	**33.4**	**33.5**
Current account deficit	**12.4**	**9.3**	**10.0**	**10.2**	**10.3**	**10.4**	**10.2**	**10.1**
Amortization of medium- and long-term debt	**16.5**	**19.8**	**19.5**	**22.3**	**20.8**	**19.7**	**21.6**	**21.7**
Nonfinancial public sector	7.5	10.5	8.5	12.6	11.9	10.7	13.6	11.9
Nonfinancial private sector	7.4	7.1	7.6	6.3	4.6	5.3	4.0	5.9
Financial sector	1.6	2.2	3.4	3.5	4.3	3.8	3.9	4.0
Change in gross reserves	**1.1**	**-0.4**	**-1.0**	**1.2**	**1.4**	**1.5**	**1.6**	**1.7**
Sources	**30.0**	**28.8**	**28.5**	**33.7**	**32.6**	**31.6**	**33.4**	**33.5**
Foreign direct investment and privatization	**12.0**	**6.8**	**7.3**	**7.5**	**7.9**	**8.1**	**8.4**	**8.7**
Debt creating flows and other	**18.0**	**21.9**	**21.2**	**26.2**	**24.7**	**23.6**	**25.0**	**24.8**
Nonfinancial public sector	**17.9**	**19.8**	**11.8**	**17.4**	**14.7**	**10.7**	**12.7**	**8.5**
Federal government	16.0	18.2	10.8	17.1	14.4	10.5	12.5	8.5
Multilateral	2.8	1.9	1.9	2.2	2.2	1.0	0.8	0.8
Bonds and notes 1/	11.0	11.8	1.0	11.0	11.2	9.6	11.8	7.7
Bilateral and commercial	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Privatization	3.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Exceptional IMF financing	0.0	2.1	6.7	4.0	1.0	0.0	0.0	0.0
Other (net)	-0.8	2.4	0.0	0.0	0.0	0.0	0.0	-0.1
Local governments	1.9	1.6	1.1	0.3	0.3	0.2	0.2	0.1
Debt creating flows	0.7	1.6	0.7	0.1	0.1	0.1	0.1	0.1
Privatization	1.2	0.0	0.4	0.2	0.2	0.1	0.1	0.0
Enterprises	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial private sector	**13.2**	**10.1**	**14.5**	**14.3**	**15.3**	**19.0**	**18.9**	**23.2**
Foreign direct investment 2/	7.5	6.7	6.6	6.9	7.3	7.7	8.1	8.5
Portfolio investment	-2.2	-3.6	-0.1	0.4	1.1	1.6	2.1	2.6
Debt creating inflows	7.9	7.0	8.0	7.0	6.9	9.8	8.7	12.1
Financial sector	**1.6**	**2.5**	**3.6**	**4.0**	**5.1**	**4.4**	**4.3**	**4.4**
Foreign direct investment 2/	0.3	0.2	0.1	0.4	0.4	0.3	0.2	0.2
Debt creating inflows	1.3	2.4	3.5	3.6	4.7	4.1	4.1	4.2
Other 3/	**-2.8**	**-3.6**	**-1.4**	**-2.0**	**-2.5**	**-2.5**	**-2.5**	**-2.6**
Memorandum items:								
Gross foreign exchange reserves at end year	33.1	34.2	32.4	33.9	35.7	37.5	39.5	41.5
At the central bank	27.3	26.9	25.9	27.1	28.5	30.1	31.6	33.3
Held abroad 4/	5.8	7.3	6.5	6.8	7.1	7.5	7.9	8.2
In months of next year's imports.	131.0	129.7	112.4	107.2	102.7	98.4	94.1	94.1

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

1/ Excludes Letes.

2/ Excludes privatization.

3/ Includes errors and omissions.

	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	4.4	6.6
Private sector credit	7.4	19.1	10.8	-2.1	-3.7	4.3
Interbank call rate (percent) 1/	6.3	6.8	6.8	7.0	8.1	7.2
Interbank call rate (real) (percent)	6.3	6.4	6.1	8.3	9.1	...
External Indicators						
Exports volume	6.5	15.0	11.6	-0.6	2.0	7.4
Imports volume	19.6	31.1	8.7	-13.8	-1.0	4.0
Terms of Trade	7.8	-1.2	-5.5	-5.9	10.4	-0.6
REER appreciation (+) (12 month basis) 2/	-1.4	4.7	0.4	12.4	1.8	1.4
	(In percent of GDP, unless otherwise indicated)					
Current account balance	-2.6	-4.2	-4.9	-4.4	-3.3	-3.4
Capital and financial account balance	3.9	5.4	6.2	5.1	2.9	1.2
Of which: Foreign direct investment 3/	0.7	0.6	1.3	2.4	2.4	2.5
Total external debt	40.3	42.7	47.3	51.2	51.6	52.1
Public sector debt	41.1	38.1	41.3	47.4	50.8	53.4
Of which: External debt	27.0	25.6	27.8	30.1	30.1	30.6
Total external debt to exports 4/	390.4	404.9	454.8	522.8	475.8	456.5
External interest payments to exports 4/	26.2	28.6	33.3	40.8	40.3	38.1
External amortization payments to exports 4/	35.4	40.1	31.4	59.4	64.0	58.6
	(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	8.0	7.2
Short term foreign liabilities of the financial sector	9.5	13.1	12.0	14.9	14.7	14.5
Net foreign exchange position of the financial sector 7/ 8/	9.2	13.0	14.6	11.1	12.5	...
Gross foreign exchange reserves 9/	23.3	29.8	31.7	33.1	34.2	32.4
In months of imports of goods and nonfactor services	9.3	9.6	9.9	12.2	12.6	11.4
In percent of short-term external debt (original maturity)	171.5	155.6	147.6	168.2	157.2	141.9
In percent of short-term external debt (residual maturity)	89.8	103.1	83.6	83.8	83.0	71.9
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	-24.3	...
Foreign currency debt rating 10/					B1	B2
Spread of benchmark bonds (basis points, end of period) 11/	494	461	705	548	773	1,039
Nominal GDP	272.2	292.9	298.9	283.3	285.0	291.3

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)

	Revised Program			
	Jan-Jun 2001	Jan-Sep 2001	Jan-Dec 2001	Jan-Dec 2002
1. Cumulative balance of the Federal Government	-4,939	-6,249	-6,500	-5,000
2. Cumulative primary expenditure of the Federal Government	26,657	40,184	53,212	...
3. Cumulative consolidated balance of the Provincial Governments 3/	-1,450	-2,080	-2,760	-2,000
4. Cumulative change in the debt of the Federal Government	5,039	6,399	6,700	5,000
5. Cumulative change in the short-term debt of the Federal Government	3,500	3,500	3,500	...
6. Cumulative change in the debt of the Consolidated Public Sector	6,639	8,524	9,460	7,000
7. Stock of net domestic assets of the Central Bank	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	Purchased in January 2001
May	211.71	764.51	976.22	End-March performance interim 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	

INTERNATIONAL MONETARY FUND

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

IMF Completes Third Argentina Review

The Executive Board of the International Monetary Fund (IMF) completed today the third review under the stand-by credit for Argentina. The completion of this review opens the way for the release of a further SDR 976 million (about US$1.2 billion) from the credit, of which SDR 211.7 million (about US$267 million) is available under the Supplemental Reserve Facility (SRF).

Argentina's stand-by credit was first approved in March 10, 2000 for an amount equivalent to SDR 5.4 billion (about US$6.8 billion—see Press Release 00/17). In January 2001 the Executive Board approved an augmentation of the credit to SDR 10.6 billion (about US$13.4 billion) with SDR 2.1 billion (about US$2.6 billion) of the augmented total provided under the SRF (see Press Release 01/3). So far, Argentina has drawn a total of SDR 3.83 billion (about US$4.8 billion) from the IMF under this stand-by credit.

In commenting on the Executive Board discussion, Horst Köhler, Managing Director of the IMF, said:

"The IMF welcomes the reformulation of the program proposed by the government of Argentina. Continued strong implementation of the program should restore macroeconomic stability and address important structural impediments to a recovery of investment and output.

"Argentina's program aims at strengthening confidence through fiscal consolidation to achieve the program's targets for 2001 and fiscal balance by 2005, while promoting the recovery of investment and output through fiscal incentives and regulatory changes. Firm implementation of the program is needed to initiate a virtuous circle of stronger public finances, lower interest rates, and a recovery of economic activity. In this regard, it is essential that tax compliance be improved and that expenditures be contained, in accordance with the commitments under the federal pact of December 2000.

"The IMF recognizes that some policy measures, while essential in the circumstances, would be distortionary if maintained for a long period. Therefore, the IMF welcomes the commitment that the financial transaction tax and the trade tariff increases will be temporary. It also commends the authorities' initiatives to enact reforms that will put the public finances on a sustainable basis. These initiatives include the recent steps to reverse the deterioration in tax compliance, rationalize and reform public administration, address the solvency of the social security system, as well as further liberalize the trade regime. Rapid and sustained progress in these areas will be key to a lasting success of the program.

"Argentina's convertibility regime, the independence of the central bank, and the high capital and liquidity defenses of the banking system are important pillars of the country's economic strategy and have been vital in helping withstand turbulent international financial conditions in recent years. The IMF therefore welcomes the authorities' reaffirmation of their commitment to these policies.

"The IMF welcomes the authorities' efforts to engage creditors in a voluntary debt swap operation aimed at reducing gross financing requirements in the period ahead, and looks forward to an outcome that will support medium-term financing sustainability.

"In adopting the new measures, the Argentine authorities have responded promptly and effectively in difficult circumstances. The strengthened program deserves the strong support of the international community", Köhler said.