

FOR
AGENDA

2^o Stand-by

EBS/59/105



CONFIDENTIAL

November 24, 1959

To: Members of the Executive Board
From: The Secretary
Subject: Argentina - Request for Stand-by Arrangement

Attached for consideration by the Executive Directors is a request from Argentina for a stand-by arrangement, together with the staff's analysis and recommendation. The text of the proposed stand-by arrangement is annexed.

This subject will be placed on an early agenda.

Att:(1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Argentina--Request for Stand-by Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Legal Department
and the Office of the Treasurer)

Approved by G. A. Costanzo

November 24, 1959

The Government of Argentina has requested a stand-by arrangement for an amount equivalent to US\$100 million, augmented by the amount of any repurchases of purchases under the stand-by arrangement, for a period of one year. The stand-by arrangement is requested for the support of the stabilization policies for fiscal 1959-60, described in the letter annexed to the proposed stand-by arrangement (see Attachment).

Argentina became a member of the Fund with an original quota of US\$150 million on September 20, 1956. The first transaction with the Fund was in April 1957, when the Fund agreed to a drawing of US\$75 million. In April 1958, the Fund agreed to a postponement of a repurchase obligation equivalent to US\$62.2 million incurred by Argentina as of April 30, 1957, under Article V, Section 7(b). The repurchase schedule thus agreed was as follows: US\$10 million before April 30, 1960; US\$7.5 million before October 31, 1960; US\$25 million in 1961; and the balance of approximately US\$20 million before April 30, 1962. In December 1958, Argentina entered into a stand-by arrangement with the Fund in the amount of US\$75 million for one year. A total of US\$39.5 million has been purchased under this arrangement and a further US\$3 million has been requested and is expected to be drawn prior to the effective date of the proposed new stand-by arrangement. On November 20, 1959, Argentina consented to an increase in its Fund quota to US\$280 million under the Fourth Resolution of the Board of Governors. The additional gold and currency subscription payment under the increased quota is expected to have been completed prior to the Executive Board's consideration of the proposed stand-by arrangement. The proposed stand-by arrangement could increase the Fund's holdings of Argentine pesos to a maximum of 152.7 per cent of the new quota. With the scheduled repurchases for 1960, the Fund's holdings of Argentine pesos could increase to a maximum of 146.4 per cent of such quota.

The draft of the proposed stand-by arrangement, which is acceptable to Argentina, is set forth in the Attachment. Under paragraph 4 of the proposed arrangement, Argentina would have the right for a period of one year to purchase currencies of Fund members up to an

amount of \$100 million, augmented at Argentina's option by amounts equivalent to repurchases in respect of purchases under the proposed stand-by arrangement. The utilization of the \$100 million is phased as follows: \$30 million in the first 60 days of the stand-by arrangement and thereafter \$7 million per month. The phasing of drawings under the stand-by arrangement is on a cumulative basis, so that any amounts not drawn in any period are carried forward. For example, if Argentina makes no drawings in the first 60 days, it would have the right to draw \$37 million in the third month.

Argentina's basic economic situation and the main elements of the 1959-60 financial program are discussed in SM/59/74. The policies and intentions of the Argentine Government, in support of which a stand-by arrangement is being requested of the Fund, are set forth in the letter to the Managing Director from the Minister of Economy of Argentina, which, as already indicated, is annexed to the proposed stand-by arrangement.

Argentina requires foreign balance of payments loans of approximately \$225 million to support its stabilization program in the fiscal year 1959-60 (i.e., November 1, 1959--October 31, 1960). As indicated above, under the proposed stand-by arrangement Argentina, subject to the terms of the stand-by arrangement and the annexed letter, would have the right to draw up to \$100 million. Other balance of payments loans are being negotiated with private commercial banks in Europe and the United States. In addition to these foreign banks, Argentina is seeking an exchange stabilization credit from the United States Treasury and long-term credits from the United States Export-Import Bank and Development Loan Fund to finance specific investment projects included in the Central Government's budget for 1959-60.

The following decision is recommended by the staff for the consideration of the Executive Board:

Argentina has requested a stand-by arrangement with the Fund. The Fund agrees to the request, approves the stand-by arrangement attached to EBS/59/105, and grants the necessary waiver under Article V, Section 4, of the Articles of Agreement.

Stand-by Arrangement--Argentina

1. Annexed hereto is a letter dated November 18, 1959, from the Minister of Economy of Argentina which sets forth the policies and intentions which the authorities of Argentina will pursue.

2. In consideration of the policies and intentions set forth in the annexed letter and the need for financial assistance for the smooth operation of the present exchange system and for temporary balance of payments purposes, the International Monetary Fund agrees to a stand-by arrangement to support these policies and intentions.

3. The Central Bank of the Argentine Republic will avoid excessive variations in the exchange market arising from temporary factors, but will not counter the fundamental trend of the market.

4. For a period of one year from December , 1959, Argentina will have the right, unless the Fund gives Argentina notice to the contrary, to purchase the currencies of other members from the Fund in exchange for its own currency in an amount of \$100 million, augmented by amounts equivalent to repurchases in respect of purchases under this stand-by arrangement, unless when any such repurchase is made Argentina informs the Fund that it does not wish the stand-by arrangement to be augmented by the amount of that repurchase; provided that purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of \$30 million in the first 60 days and thereafter a cumulative total equivalent to \$30 million plus \$7 million per month, augmented by the amounts of any repurchases in respect of purchases under this stand-by arrangement.

5. Argentina will pay charges for this stand-by arrangement in accordance with the decisions of the Fund of December 23, 1953 and April 27, 1959.

6. (a) Argentina and the Fund will remain in close consultation during the period the stand-by arrangement is in effect. This consultation may take the form of correspondence and visits of officials of the Fund to Buenos Aires or of representatives of Argentina to Washington. In addition, Argentina will keep the Fund informed of developments in the exchange, credit, and fiscal situation through reports at intervals.

(b) If, at any time during the period of the stand-by arrangement, (1) the limit on the total domestic assets of the Central Bank specified in paragraph 7 of the annexed letter are exceeded, or (2) the existing legal reserve requirements on bank deposits are lowered, the Government of Argentina will consult with the International Monetary Fund and agree with it on the terms on which further drawings may be made.

7. Subject to paragraphs 4 and 6(b) above, Argentina will have the right to engage in the transactions covered by this arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision by the Executive Board to suspend transactions either generally under Article XVI, Section 1(a)(ii), or in order to consider a proposal made by an Executive Director or the Managing Director formally to suppress or limit the eligibility of Argentina.

8. Three years after each purchase of exchange by Argentina under this arrangement, Argentina shall repurchase an equivalent amount of pesos from the Fund; provided that, if the pesos held by the Fund as a result of transactions under this arrangement are reduced by repurchases under Article V, Section 7, or otherwise, such reductions shall be credited against the earliest amounts that become payable under this paragraph 8. Repurchases shall be made in gold or convertible currencies acceptable to the Fund.

9. The rate of exchange at which Argentina will purchase currencies from the Fund in exchange for pesos and at which the Fund will return pesos in repurchase operations and make all other computations involving Argentine pesos will be such rate as the Fund may determine from time to time under Article IV, Section 8, of the Fund Agreement.

Annex to Stand-by Arrangement

Poder Ejecutivo Nacional

MINISTERIO DE ECONOMIA

Buenos Aires, November 18, 1959

TRANSLATION

To the Managing Director of the
INTERNATIONAL MONETARY FUND
Dr. PER JACOBSSON
WASHINGTON, D. C.

Dear Mr. Jacobsson:

1. At the end of 1958 the Government of the Republic of Argentina adopted a policy of monetary stabilization, the fundamental basis for the achievement of orderly economic development together with the promotion of private investments. In line with this policy, the program for 1959 included the reduction of inflationary pressures through decreasing the fiscal deficit; the removal of controls on prices, imports and exports, and exchange; the elimination of subsidies; the adoption of a single exchange rate, free and fluctuating at realistic levels; the development of the capital market and the re-establishment of the foreign credit of the country.

The first phase of this policy, and in particular the program for 1959, has been successfully carried out. A serious effort has been made to contain the expansion of public expenditures, and a fundamental change has been made in the investment policy of the Government, by accepting the cooperation of private financing and direct investments. Moreover, strong inflationary pressures have been checked, the loss of Central Bank foreign exchange reserves has been stopped, the external indebtedness of the country has been kept within prudent limits, and a beginning has been made in re-establishing a market for government securities.

The Argentine Government is firmly determined to continue this policy of stabilization and to encourage domestic and foreign private capital investments. The program to be implemented in 1960 in accord with this policy will consist fundamentally of consolidating the real progress made in 1959 in limiting public expenditures and credit expansion. The Government intends to finance with noninflationary

resources its investments now in progress and the operating deficits of state enterprises, and to permit the private sector of the economy to make other investments and expand production to the extent determined by market forces and by the availability of domestic and foreign resources. A substantial part of the 1960 program is a strengthening of Argentina's foreign exchange market to permit a greater liberalization of external trade and payments. It is for this reason that the Argentine Republic is seeking stand-by arrangements with the International Monetary Fund and other financial institutions which have supported the program since its beginning in 1959.

2. The Government of the Republic of Argentina requests the International Monetary Fund to agree to a stand-by arrangement for a period of one year in an amount of US\$100 million. This amount will be increased only by repurchase by the Argentine Republic of Argentine pesos from the International Monetary Fund in respect of purchases under the new stand-by arrangement. The Argentine Republic intends to draw approximately 50 per cent of the stand-by in currencies of the European countries and the remaining 50 per cent in U.S. dollars.

3. Currencies drawn from the Fund will be used for general balance of payments support purposes and for the maintenance of an orderly exchange market. Excessive variations in the exchange market arising from temporary factors will be avoided, but the fundamental trend of the market will not be countered.

4. The Government budget for the fiscal year November 1, 1959 through October 31, 1960 is balanced for the Central Administration. In order to achieve such equilibrium the Government has already begun to reduce the administrative personnel, has postponed investments, and has substantially reduced other expenditures.

Nevertheless, the increase in internal prices and the greater cost of external debt service arising primarily from investments underway in the fields of petroleum, power and transportation, and the structural operating deficits of certain state enterprises which continue despite the efforts to eliminate them, will cause a deficit in the over-all public sector budget in 1960. This deficit in real terms is less than the deficit of the previous fiscal year and substantially below the deficits which resulted from the high level of public expenditures prior to the introduction of the stabilization policy at the end of 1958.

The Government intends to cover the fiscal 1959-1960 deficit with current revenues or noninflationary borrowing, extending the policy already successfully introduced of issuing government securities in the domestic capital market. In due time this policy will be extended to foreign markets to finance eventual new investments of the Government in those fields where private capital is not forthcoming, but these investments will be strictly in conformity with the amount, duration, and terms of resources obtained for these purposes.

5. Concretely, the Government will continue to pursue a policy of avoiding recourse to inflationary borrowing from the Central Bank. Government cash expenditures in the fiscal year 1959-1960 will not exceed ordinary and extraordinary budget revenues, noninflationary domestic borrowing, direct foreign financing of specific projects, and Central Bank loans fully covered by net foreign borrowing. During fiscal 1959-1960 Government net borrowing from the Central Bank will not exceed M\$N 11.7 billion. Of this amount, a maximum of M\$N 4.2 billion will be used by the end of 1959 and the remaining amount will be used gradually in 1960. The Government will continue during the present fiscal year to take measures to improve its budgetary position in order to avoid recourse to the Central Bank in the next fiscal year.

6. With respect to bank credit to the private sector, it is the policy of the monetary authorities to continue in 1960 its present prudent policy until the stability of domestic prices and the exchange rate have been firmly established, maintaining the volume of bank credit at a level compatible with economic growth and price stability. The existing legal reserve requirements will be maintained. The legal reserve requirements will continue to consist of cash-in-vault and deposits at the Central Bank.

7. In order to carry out the program and to achieve the objectives stated in paragraphs 5 and 6, the monetary authorities will maintain the domestic assets of the Central Bank, including exchange loss accounts, at a level not greater than M\$N 120 billion by the end of December 1959 and M\$N 132 billion by the end of November 1960, with increases not in excess of M\$N 3 billion in each of the first two quarters of 1960. The above limits will be increased by the amount of any net losses arising from the revaluation of the gold and foreign exchange assets and liabilities of the Central Bank and reduced by the amount of any substitution of Treasury obligations for the Fund's holdings of Argentine currency in its No. 1 Account at the Central Bank.

8. The policy introduced at the beginning of 1959 of prohibiting Central Bank financing of medium- and long-term credit operations remains a fundamental part of the financial policy of the Government. Accordingly, the Central Bank will provide to the National Mortgage Bank only a part of the amounts approved prior to December 1958; the new operations of this bank and of the Industrial Bank of the Argentine Republic will be financed from their own deposits, borrowing from the capital market, and foreign loans.

9. The existing single fluctuating exchange market free of all direct restrictions will be continued. It is the intention of the Government, however, to proceed to a fixed unitary rate and to declare a new par value as soon as the internal financial situation has been consolidated and external equilibrium attained.

10. In accordance with the general policy of trade liberalization introduced in early 1959 and in view of the improved exchange position, the Government intends to reduce at an opportune time the import surcharges above 100 per cent. Most of the advance import deposit

requirements in force at the beginning of 1959 were removed in May. The remaining advance import deposits have been eliminated on November 6th, 1959.

11. In view of the incompatibility of bilateral payments arrangements with free exchange system adopted by the Argentine Republic and in accordance with the recent Fund resolution on discrimination, the Government of the Argentine Republic intends during the next 12 months to eliminate most of its bilateral payments arrangements. In particular, the Government expects during 1960 to terminate its bilateral payments arrangements with all but a few of the European countries. In Latin America, the bilateral payments arrangements with Ecuador and Paraguay have already been denounced and those with countries maintaining free exchange systems will be eliminated at an early date.

12. In view of the amount of the external debt service in the period 1960-1964, and in order not to burden the balance of payments and the national budget in the next few years, the Government has decided to subject to the prior approval of the Ministry of Economy and of the Central Bank purchases abroad by Government agencies and enterprises, and to accept only financing on terms compatible with the objectives stated above. The policy of the Government will be extremely restrictive with respect to the use of suppliers' credits (i.e., credits for imports payable within a period greater than 180 days and less than 8 years). The private sector will be able as at present to negotiate and to use freely foreign credits of any term, but the Government and the Central Bank will continue their policy of not granting guaranties on such credits.

13. If, at any time during the period of the stand-by arrangement, the Government of the Argentine Republic is not able to implement its policy within the limits and intentions indicated in this letter, it will call upon the International Monetary Fund for consultations and will agree with it on the terms on which the relations herein established will continue.

Sincerely yours,

/s/

Alvaro Alsogaray
Minister of Economy