

EBS/60/134
Supplement 1

CONFIDENTIAL

December 9, 1960

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

Attached for the records of the Executive Directors
is the text of the stand-by arrangement with Argentina as agreed
at Meeting 60/51, December 9, 1960.

Att:(1)

Stand-By Arrangement -- Argentina

1. Annexed hereto is a letter dated November 22, 1960 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, the International Monetary Fund agrees to a stand-by arrangement to support these policies and intentions.

3. The Central Bank of Argentina 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 12, 1960, Argentina will have the right, subject to paragraph 6(b) below or unless the Fund gives Argentina prior notice to the contrary, to purchase the currencies of other members from the Fund in exchange for its own currency in an amount equivalent to \$100 million; provided that purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of \$50 million in the first six months and \$75 million in the first nine months, and provided further that when purchases under this stand-by arrangement reach the equivalent of US\$75 million, Argentina shall consult the Fund and agree with it on the terms for further drawings under this stand-by arrangement. The amounts referred to in this paragraph 4 will be 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.

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 this 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 the limit specified in paragraph 6 of the annexed letter is exceeded, the Government of Argentina will consult with the International Monetary Fund prior to any further drawings under this stand-by arrangement and agree with it on the terms on which such 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. Not later than 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 22, 1960

Mr. Per Jacobsson
Chairman of the Executive Board
and Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. Jacobsson:

It is with pleasure that I communicate herewith the general outline of the monetary program which the Argentine Government proposes to implement during 1961 and the collaboration which it is hoped the International Monetary Fund will lend for the implementation of this program.

1. The program announced for 1960 has been carried out and the results obtained have been satisfactory. The stability of internal prices has been re-established, and the reduction in the fiscal deficit has made possible a smaller use of Central Bank loans than originally foreseen. The exchange rate has been stable for more than a year. The confidence engendered by the Government's economic policies has encouraged an increase in private investments, an inflow of short- and long-term capital from abroad, and the reactivation of the domestic capital market. This also has permitted an important increase in the gold and exchange reserves of the Central Bank.

The Argentine Government considers that the stabilization achieved provides a sound basis for the rapid growth of the internal economy, principally in the private sector which already shows clear signs of expansion. To contribute to this development, the Government proposes in 1961 to maintain as a principal objective the financial and administrative rationalization of the operation of the state enterprises and to obtain private capital and long-term international financing for the investment and expansion plans of these enterprises.

The Government is determined not to use budgetary funds for investments in areas where private capital is available. In areas where state investment is called for, the financing of such projects will be with noninflationary funds and on terms compatible with the financial situation of the Treasury. With this policy, budgetary equilibrium will be consolidated, the stability of prices and the exchange rate will be maintained, and the necessary conditions for the future orderly growth of the economy of the country will be ensured.

2. In the last months of fiscal 1960, public expenditures have been financed almost entirely from the revenues and resources obtained directly by the Government in the capital market. This trend will be accentuated in 1961 and will make unnecessary the provision of credit from the Central Bank to the Government. Simultaneously, the growth in production in 1961 will make it necessary that adequate liquidity be available to the private sector, but the monetary authorities will remain cautious to maintain such liquidity within limits compatible with the announced objectives of price and exchange rate stability.

In 1960 a large part of the liquidity available to the private sector derived from the increase in the exchange reserves of the Central Bank and Government borrowing at the Central Bank to finance the fiscal deficit. Bank legal reserve requirements continued to be maintained at the high level established at the end of 1958. In 1961 there will be no new Central Bank financing of the Government. The Central Bank will, therefore, be prepared to liberalize the existing legal reserve requirements, if the need for liquidity by the private sector, the balance of payments position of the country, and the trend in internal prices justifies such action. In other words, the monetary policy of the Central Bank in 1961 will be to refrain from direct credit operations and to rely principally on measures to regulate the lending capacity of the banks to the private sector.

3. In the two years of the stabilization program, the external payments position of the country has been strengthened. Argentina today has an important amount of gold and exchange reserves, and there is a marked trend toward the reduction in the import of certain consumer goods and towards the growth of certain exports, which will permit the service without difficulty of the long-term foreign investments needed to accelerate the development of the country. However, in the immediate transitional period pending the increase in the country's exports, our balance of payments will be burdened by the heavy service of short-term debt, much of which is related to the stabilization program and has a direct impact on the reserves of the Central Bank.

The Argentine Government is determined to ensure that the level of its gold and exchange reserves shall at all times be adequate to maintain the stability of its currency and with this in mind has undertaken conversations to extend beyond the critical period of 1961-63 the availability of the proceeds of some of the stabilization credits, including repurchases commitments with the International Monetary Fund. Initial conversations were held in Washington and New York and are now continuing in Buenos Aires, and final discussions will be held in Europe in January 1961. Until such arrangements have been concluded, the Government of Argentina considers it prudent to strengthen its present gold and exchange holdings with a secondary line of reserves which will permit the maintenance of an adequate masse de manœuvre to meet any future contingency affecting our balance of payments.

For this reason, although the Argentine Government does not anticipate a need to draw on the Fund in 1961, the renewal of the present stand-by arrangement is considered prudent in order to prevent any undue decline in gold and convertible exchange reserves which might impair confidence in the Argentine peso. Accordingly, the Argentine Government 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. Drawings under the proposed stand-by arrangement will be made only as required to prevent Argentina's gold and convertible exchange reserves from falling below a level considered by the Argentine monetary authorities indispensable for the maintenance of confidence in the Argentine peso.

4. Currencies drawn from the Fund will be used 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.

5. From the beginning of the stabilization program, the Government has strictly limited its expenditures to the noninflationary resources available. In the past two years these resources included short-term borrowing from abroad by the Central Bank, the counterpart of which was re-lent to the Government. Now with the progress made in establishing government finance on a sound basis, the recovery of the domestic capital market and the greater availability of long-term foreign loans for development, the Government will not need to increase its indebtedness to the Central Bank in the fiscal year 1960-61. However, as of October 31, 1960 there remained an unutilized balance of M\$N 3.7 billion against the foreign loans contracted in late 1959 for the financing of the 1959-60 budgetary deficit. Thus, except for the possible use of the abovementioned unutilized balances, Central Bank loans to the Government will not exceed at any time during the period of the stand-by arrangement the level outstanding as of October 31, 1960.

6. As previously indicated, the Central Bank will continue in 1961 with a prudent credit policy. The total of the domestic assets of the Central Bank will not exceed by more than M\$N 6.7 billion the level as of October 31, 1960 at any time during the period of the stand-by arrangement.

7. In view of the improvement of government finances and the recovery of confidence, which has occurred in the last year, the Central Bank proposes to reduce the existing reserve requirements on deposits of the commercial banks. At present, we are studying the possibility of reducing the existing supplemental reserve requirements of 30 per cent and 20 per cent on sight deposits, or, alternatively, of eliminating them and then increasing the basic average reserve requirements of 30 per cent and 25 per cent on sight deposits. Such increase in the basic requirements would not involve an increase in effective legal reserves but would consolidate the existing basic and supplemental reserve requirements at a level somewhat lower than the present outstanding amount of legal reserves. Any future reduction in bank legal reserve requirements will be made only after careful consideration of the trends in production, prices and gold and convertible exchange reserves.

8. The policy introduced at the beginning of 1959 of prohibiting Central Bank financing of medium- and long-term credit operations will continue unchanged. Accordingly, the new operations of the National Mortgage Bank and the Industrial Bank of the Argentine Republic will be financed without recourse to the Central Bank.

9. The Government of the Argentine Republic is taking steps to become a member of GATT. In line with this decision, a new tariff will be introduced during 1961. Simultaneously with the introduction of the new tariff, the existing system of import surcharges will be eliminated. In the meantime, it will continue to be the policy of the Government to reduce import surcharges, especially those in the highest categories. The Government reaffirms its belief that while adequate protection should be afforded Argentine industry, excessively high import duties and surcharges reduce efficiency, raise costs, and distort the structure of industry and investments. These import surcharges are for revenue and for protection of domestic industry and no longer for balance of payments reasons.

10. In conformity with its obligations under the Fund Articles of Agreement, Argentina has made important progress in the elimination of bilateral payments arrangements. Since the beginning of the stabilization program, Argentina has terminated its bilateral payments arrangements with Bulgaria, Czechoslovakia, East Germany, Hungary, Israel, Poland, Rumania and Yugoslavia. The remaining bilateral payments arrangements will be denounced shortly.

11. With a view to consolidating the external payments and budgetary position of the country, purchases abroad on credit terms or financial operations by government agencies and enterprises will continue to be subject to the prior approval of the Ministry of Economy and the Central Bank. The policy of the Government will continue to be extremely restrictive with respect to the use of medium-term financial and suppliers' credits payable within a period less than 8 years and more than 180 days. The private sector will be able as at present to negotiate and to use foreign credits of any terms, but the Government and the Central Bank will continue their policy of not granting guarantees on such credits.

12. If at any time during the period of the stand-by arrangements, 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.

I remain,

Yours respectfully,

/s/

Alvaro C. Alsogaray
Minister of Economy

A y O I

ARGENTINA

UTILIZACION DE LOS RECURSOS DEL F.M.I.

- en millones de DEG -

Tipo de recurso	Fecha de acuerdo	Importe acordado	Importe utilizado	Fecha de recompra
Tramo de Cro	17.4.57	37,5	37,5	Plan de pagos efectuado desde abril de 1960 hasta abril de 1962.
1er. Tramo de crédito	17.4.57	37,5	37,5	Plan de pagos efectuado desde abril de 1960 hasta abril de 1962
Stand-by ①	19.12.58 X	75,0 ✓	42,5	Plan de pagos efectuado desde enero de 1962 hasta mayo de 1965.
Stand-by ②	3.12.59 X	100,0 ✓	100,0	Plan de pagos efectuado desde enero de 1962 hasta mayo de 1965.
Stand-by ③	12.12.60 X	100,0 ✓	60,0	Plan de pagos efectuado desde mayo de 1965 hasta setiembre de 1966.
Stand-by ④	12.12.61 X	100,0 ✓	-	- * -
Stand-by ⑤	7.6.62 X	100,0 ✓	100,0	Plan de pagos efectuado desde enero de 1966 hasta julio de 1968.
2º Tramo de crédito	28.1.66	30,0	30,0	Plan de pagos efectuado desde diciembre de 1967 hasta julio de 1968.
Compra realiza a efectos de concretar el pago de nuestra cuota que correspondía efectuar en oro.	10.8.66	17,5	17,5	Plan de pagos efectuado desde diciembre de 1967 hasta julio de 1968.

Standard by

28.12.83

1119

Tipo de recurso	Fecha de acuerdo	Importe acordado	Importe utilizado	Fecha de recompra
Stand-by	1.5.67 ✓	125,0	-	- * -
Stand-by	15.4.68 ✓	125,0	-	- * -
Financiamiento compensatorio por fluctuación en las exportaciones.	1.3.72	64,0	64,0	Plan de pagos efectuado en 4 cuotas: 31.3.76; 30.6.76; 30.9.76 y 31.12.76.
Tramo de oro	9.3.72	110,0	110,0	11.6.75
Tramo de crédito	14.6.72	110,0	110,0	27.8.74
Tramo de oro	17.6.75	110,0	110,0	Plan de pagos cancelado el 28.12.77 y el 6.3.78.
Facilidad del Petróleo	4.11.75	76,09	76,09	21.11.77
Financiamiento compensatorio por fluctuación en las exportaciones.	19.12.75	110,0	110,0	Plan de pagos cancelado el 6.3.78 y el 7.4.78.
Financiamiento compensatorio por fluctuación en las exportaciones.	26.3.76	110,0	110,0	Plan de pagos cancelado el 7.4.78 y el 6.6.78.
Tramo de crédito ampliado. Stand-by	6.8.76 ✓	260,0	159,5	Plan de pagos cancelado el 6.6.78 y el 11.8.78.
Stand-by	16.9.77 ✓	159,5	-	- * -
Tramo de reserva	22.12.83 y 7.1.83	200,62	200,62	
Financiamiento compensatorio por caída en las exportaciones	24.1.83	520,1	520,1	
Stand-by	24.1.83 ✓	1.500,0	600,51	
TOTAL		4.177,81	2.595,82	