

EBS/61/154

CONFIDENTIAL

November 22, 1961

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.

This subject and the report by the staff on the 1961 consultations with Argentina (SM/61/85) will be placed on the agenda for a meeting of the Executive Board tentatively scheduled for Friday, December 8.

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 Jorge Del Canto

November 22, 1961

The Government of Argentina has requested a stand-by arrangement for a period of 12 months and for an amount equivalent to \$100 million, augmented by the amount of any repurchases in respect of purchases under the stand-by arrangement. A letter annexed to the stand-by arrangement (see Attachment) sets out Argentina's financial program and policies in support of which the stand-by arrangement is requested.

Argentina became a member of the Fund on September 20, 1956 with a quota of \$150 million. In December 1959 Argentina's quota was increased to \$280 million, under the Fourth Resolution of the Board of Governors on the "Enlargement of Fund Resources Through Increases in Quotas."

Argentina has made extensive use of the Fund's resources with gross drawings totaling \$277.5 million. Repurchases, together with a purchase of its currency by another member, have been made totaling \$50.5 million, so that net use of the Fund's resources amounts to \$227.0 million at this time and Fund holdings of Argentine currency now aggregate 156 per cent of the quota of \$280 million. Repurchase commitments falling due prior to the end of the proposed stand-by arrangement are \$1.5 million in January, \$7.84 million in February, \$3.0 million in March, \$22.66 million in April, and \$3.0 million per month in each month May through November 1962 (EBS/60/135), for a total of \$56 million. If these repurchase commitments are met on schedule, Fund holdings of Argentine currency would fall to 136 per cent of quota by the beginning of December 1962 in the absence of other drawings.

A draft of the proposed stand-by arrangement is set forth in the Attachment. The utilization of the \$100 million is phased so that no more than \$50 million will be drawn during the first six months, or \$75 million during the first nine months of the stand-by arrangement.

Under this schedule, and in view of the repurchase commitments indicated above, Fund holdings of Argentine currency at no time could exceed 175 per cent of quota. This is on the assumption that Argentina will make no further drawings under the existing stand-by arrangement which expires on December 11, 1961.

Argentina's basic economic situation and the main elements of the 1961-62 program are discussed in SM/61/85. 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.

Except for the proposed stand-by arrangement with the Fund, the Argentine Government does not intend to negotiate any other loans for balance of payments purposes. In the first two years of the stabilization program, Argentina, in addition to the assistance from the Fund, obtained balance of payments loans totaling \$375 million from commercial banks in the United States and Europe and from agencies of the United States Government. The maturities against these stabilization loans, and other balance of payments loans obtained in the past, will be heavy in the near future and will total \$172 million in 1962. While it is expected that exports will increase and that the substitution for imports by domestic production of fuels and other products will continue, part of these repayments may need to come out of existing gold and exchange reserves. In these circumstances, to insure that confidence in the peso is maintained, the Argentine Government has requested a stand-by arrangement with the Fund to provide an assured secondary line of reserves to be used only if there is an undue decline in gold and exchange reserves.

In view of the successful implementation of a stabilization program over the past three years and the policies and intentions of the Argentine Government for the fiscal year 1962, the following decision is submitted 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/61/154, 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 2, 1961 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. 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 , 1961, Argentina will have the right, subject to paragraph 6(b) below, 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 the 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. The amounts referred to in this paragraph 4 shall 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, trade, credit, and fiscal situation through reports at intervals or at dates requested by the Fund during the period this stand-by arrangement is in effect.

(b) If at any time during the period of the stand-by arrangement the limit specified in paragraph 5 of the annexed letter is exceeded, 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 paragraph 4 above, Argentina will have the right to engage in the transactions covered by this stand-by 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. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 7, purchases under this stand-by arrangement will be resumed only after consultation has taken place between the Fund and Argentina and agreement has been reached on the terms for the resumption of such purchases.

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 2, 1961

Mr. Per Jacobsson
Managing Director
International Monetary Fund
Washington 25, D. C.

Dear Mr. Jacobsson:

1. During the past year the Government has followed a policy in accordance with the monetary and economic program described in its letter to the International Monetary Fund of November 22, 1960. However, balance of payments developments during this period were unfavorably affected by adverse climatic conditions, which reduced crops, and by the maintenance of restrictions on the marketing of the principal export commodities of the country, particularly meat, the sale of which abroad should have increased substantially as a result of the recovery of the livestock industry. The country's gross reserves of gold and convertible foreign exchange were reduced from \$512 million on October 31, 1960, to \$478 million at the end of September 1961. In the same period, however, the gross foreign liabilities of the Central Bank were reduced from \$611 million to \$548 million. Net bilateral balances also fell by \$43 million in this period, but this was the result of the policy of eliminating these accounts that the Government has continued to follow during the past year.

2. For 1962 it is expected that exports will increase and that the substitution for imports by domestic production of fuels and other products will continue. However, it is estimated that the still high level of interest and capital repayments on the foreign obligations of the Central Bank, which amount to \$172 million in 1962, will weigh heavily on the balance of payments. Part of these repayments, hence, may need to come out of existing gold and exchange reserves. In these circumstances, to insure that confidence in the peso is maintained, the Argentine Government desires a stand-by arrangement with the Fund to provide a secondary line of reserves to be used only if the decline in gold and exchange reserves is unduly rapid. Accordingly, the Argentine Government requests a one-year stand-by arrangement for \$100 million. Argentina will discuss with the Managing Director the particular currencies to be purchased from the Fund prior to any purchase under the proposed stand-by arrangement.

3. Currencies drawn from the Fund will be used to maintain an orderly exchange market free of restrictions. 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. Considerable progress has been made since the end of fiscal 1957-58 in reducing the Government's reliance on Central Bank financing. The net increase in Central Bank loans to the Government, inclusive of loans from the counterpart of foreign loans, fell from M\$N 19.9 billion in fiscal 1957-58 to M\$N 13.5 billion in 1958-59, M\$N 7.8 billion in 1959-60, and M\$N 5.7 billion in 1960-61. The Government's budget for 1961-62 provides for expenditures of M\$N 134 billion and revenues of M\$N 121 billion. The resulting deficit of M\$N 13 billion will be financed by the domestic issue of medium and long-term bonds. It is the policy of the Government to avoid the use of new resources from the Central Bank during fiscal 1961-62, so that Central Bank loans to the Government will not exceed the level reached on October 31, 1961.

5. With respect to credit policy, the objective will continue to be that of maintaining the volume of credit within limits compatible with the sustained growth of the economy, the stability of prices and the exchange rate, and balance of payments equilibrium. In accordance with this policy, the net increase in Central Bank resources made available to the economy, i.e., the net increase in the gross domestic assets of the Central Bank plus the amount of any reduction in legal reserve requirements (inclusive of substitutions in any form for cash-in-vault and deposits at the Central Bank in satisfaction of legal reserve requirements) will not exceed M\$N 8.0 billion at any time during the period between November 1, 1961, and the date of expiry of the stand-by arrangement.

6. 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.

7. The Government of the Argentine Republic is now a provisional member of GATT. In line with this decision, a tariff reform is under preparation and the new tariff is expected to be sent to Congress during 1962. Simultaneously with the introduction of the new tariff, the existing system of import surcharges, which are for revenue and protection of domestic industry and no longer for balance of payments reasons, will be eliminated. While it is the firm policy of the Government to assure adequate protection to domestic industry in order to encourage the current process of expansion, the Government reaffirms its decision that a gradual reduction of the excessively high import surcharges and duties will create sound competitive conditions, promote efficiency, prevent undue cost increases and correct distortions still remaining in the industrial structure.

8. 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 supplier's credits payable within a period from 180 days to 8 years. The private sector will be able

as at present to negotiate freely the terms of foreign credits, but the Government and the Central Bank will continue their policy of not granting guarantees on such credits, except in very special cases for activities of national importance and in conditions compatible with the policy outlined above.

9. 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.

I remain,

Yours respectfully,

/s/

Roberto T. Alemann
Minister of Economy