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Supplement 1

CONFIDENTIAL

April 15, 1968

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 agreed at Meeting 68/73, April 15, 1968.

Att: (1)

Stand-By Arrangement - Argentina

1. Annexed hereto is a letter dated March 2, 1968 from the Minister of Economy and Labor and the President of the Central Bank of the Republic 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 in support of these policies and intentions.
3. 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 Argentina or of representatives of Argentina to Washington, D.C. In addition, Argentina will keep the Fund informed of developments in the exchange, trade, credit, and fiscal situation through reports at intervals or dates requested by the Fund during the period the stand-by arrangement is in effect.
4. For a period of one year from April 15, 1968, Argentina will have the right to purchase from the Fund currencies of other members in exchange for its own currency in an amount equivalent to \$125 million, provided that purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of \$75 million in the first four months and the equivalent of \$100 million in the first eight months. The amounts prescribed in this paragraph shall be augmented by amounts equivalent to repurchases in respect of purchases under the 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. If at any time during the period of the requested stand-by arrangement the quantitative targets specified in paragraphs 4, 5, 8, 11, and 15 of the annexed letter are not observed, or if the intentions set forth in paragraphs 4, 10, and 12 are not carried out, the Government of Argentina will consult with the International Monetary Fund regarding measures to be adopted in order to achieve the objectives of the program that has been set forth.
6. Argentina will pay charges for this stand-by arrangement in accordance with the decisions of the Fund of December 23, 1953, April 27, 1959, and May 23, 1962.

7. Argentina will have the right to engage in 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) formal ineligibility, or (b) a decision of 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 the 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 stand-by arrangement, Argentina will repurchase an equivalent amount of Argentine pesos from the Fund; provided that if the Argentine pesos held by the Fund as a result of the transactions under the stand-by arrangement are reduced by repurchases under Article V, Section 7, or otherwise, such reduction 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 in accordance with the Fund's decision of July 20, 1962.

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

Buenos Aires, March 2, 1968

Mr. Pierre-Paul Schweitzer  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Schweitzer:

1. A year ago the Government of Argentina embarked upon an economic and financial program, supported by a stand-by arrangement with the Fund, aimed at bringing a halt to inflation and laying the bases for sound long-term economic growth. The results in 1967 were very favorable. There was a marked reduction in the fiscal deficit and Treasury borrowing from the Central Bank, the expansion in bank credit was held to a moderate rate, and the net foreign reserve position of the monetary authorities improved by more than \$430 million. Following a general adjustment in April-May of last year, wages and salaries in the private sector were frozen for the period extending through the end of 1968. Increases in public sector wages were limited to 15 per cent in 1967. As part of the program, measures were taken to reduce substantially the general level of import duties. In the area of prices, there was a small reduction in the rate of increase in the cost of living from 1966 to 1967, from nearly 30 per cent to about 27 per cent, and a similar decline in the rate of increase of wholesale prices, from 23 per cent to 21 per cent. The price rises in 1967 reflected in large measure the adjustment of wages and salaries prior to their being frozen, numerous corrective price increases for public sector services, and the change in the exchange rate. In addition, adverse weather conditions in June-July and again in October of last year resulted in drastic reductions in the supply of certain foodstuffs that led to very sharp increases in the cost of living during some months. However, since the middle of 1967 wholesale prices have been virtually stable.

2. The authorities believe that conditions are propitious this year to move swiftly toward the elimination of inflation and to accelerate the process of economic growth. The program for 1968, which is described below, is designed to achieve these objectives. While the program envisages a satisfactory balance of payments performance this year, the authorities would like to be able to count on the continued financial cooperation of the Fund, and therefore request a one-year stand-by arrangement for \$125 million, the same amount as the present arrangement which has not been utilized. The authorities wish to cancel the present stand-by arrangement, which is due to expire on April 30, 1968, as soon as the requested stand-by arrangement can be made effective. The Central Bank will discuss with the Managing Director the currencies to be purchased prior to any drawing under the requested stand-by arrangement.

### Public sector policies

3. The fiscal deficit for 1968 as presented in the National Government's budget is M\$N 48.5 billion, but excluding both the amortization of debt and receipts from the sale of securities, the deficit would amount to M\$N 69.2 billion, equivalent to 11 per cent of Treasury spending. Expenditures are budgeted to expand by 14 per cent and revenues are projected to rise at a moderately higher rate. A substantial part of the increase in expenditures is for investment, including transfers on capital account to provinces, state enterprises, and decentralized agencies. A portion of the investment program is to be financed from the sales of medium- and long-term securities in domestic and foreign markets. Current expenditures are budgeted to grow much more slowly than capital spending, reflecting the measures taken to rationalize the public administration, the maintenance of a firm wage policy for the public sector, and the reduction in current transfers to state enterprises and decentralized agencies on the basis of planned improvements in their operating efficiency. The measures aimed at improving the operating efficiency of the public sector form part of the over-all plan of the Government to achieve a better allocation of resources through the transfer of human and other resources from low-productivity to high-productivity sectors.

4. As was indicated above, the plan is to limit the fiscal deficit in 1968 to M\$N 69.2 billion, and in executing this program it is the intention of the authorities that the deficit not exceed M\$N 40 billion prior to June 30, 1968; M\$N 50 billion prior to September 30, 1968; and M\$N 69.2 billion prior to December 31, 1968. If by the end of the first semester of 1968 the trends indicate that the deficit will rise above the limits indicated, either because of a shortfall in revenues or an increase in expenditures above the level now programed, the authorities will adopt measures to correct the situation.

5. The fiscal deficit of M\$N 69.2 billion will be financed in the amount of M\$N 19.2 billion from the net proceeds of sales of securities (new placements less amortizations) and M\$N 50 billion from Central Bank credit. The issue of new securities is projected at M\$N 65 billion, including the sale of M\$N 32 billion of medium- and long-term bonds in foreign capital markets and M\$N 25 billion in the domestic market; the proceeds from these sales of securities will constitute the resources of the National Investment Fund, which was established recently. Allowing for seasonal variations in revenues and expenditures, Central Bank net credit to the Treasury will not exceed M\$N 423.1 billion during the second quarter of 1968; M\$N 433.1 billion during the third quarter of 1968; and M\$N 443.1 billion during the fourth quarter of 1968.

### Wage and price policies

6. Through the achievement of effective control over the growth of aggregate demand and the adoption of a firm incomes policy, it has been possible to slow down considerably the rise in costs. The Government

recently reduced the social security contributions of workers in an amount that resulted in an increase in take-home pay of nearly 7 per cent, but it is not intended to permit any modification of wages and salaries through the end of 1968 that would result in a rise in costs.

7. With regard to pricing policies, the authorities recently modified the prices charged by some public sector enterprises to ensure that they are maintained at economic levels. In view of the prospects that costs will remain stable over the rest of the year, it is not foreseen that any further adjustments in such prices will be needed in the remainder of 1968. As for other prices, the view of the authorities is that the maintenance of adequate aggregate demand and incomes policies will make it possible to achieve the stabilization of prices. To reinforce these efforts the authorities have entered into agreements with business firms whereby those undertaking to exercise restraint in raising prices receive special incentives. Moreover, for a few important food items it has been found necessary to impose price ceilings. The Government is also prepared to liberalize imports to prevent undue increases in domestic prices.

#### Credit policy

8. The Central Bank credit plan for 1968 is designed to be consistent with a sharp reduction in the rate of inflation and the achievement of a satisfactory balance of payments performance. In accordance with these objectives, limits, which take account of seasonal variations, have been established on the net domestic credit of the Central Bank--defined as the difference between the currency issue and the net foreign reserve position. Net domestic credit will not exceed M\$N 448.5 billion during the second quarter of 1968; M\$N 463.5 billion during the third quarter of 1968; and M\$N 478.5 billion during the fourth quarter of 1968.

9. For some time, the authorities have been of the view that the system of reserve requirements has been unduly complex--contributing to inefficiencies in the operation of the banking system--and that many of the reserve requirements have been too high to permit the banks to compete adequately with other financial institutions. Accordingly, the authorities recently decided to simplify the system and to reduce some of the very high marginal rates. The impact of these measures has been taken into account in framing the over-all credit plan.

#### Exchange, trade, and foreign debt policies

10. The authorities are satisfied with the results of the liberalization of the exchange system effected in March 1967, and it is their intention to maintain the present unified exchange rate structure and liberal payments system.

11. As regards the balance of payments, the target for 1968 established by the authorities calls for an improvement in the net foreign reserves of the monetary authorities (Central Bank and Treasury) of \$200 million.

12. It is the policy of the Argentine Government to maintain a multilateral payments system on a nondiscriminatory basis, and therefore it will not enter into new bilateral payments agreements.

13. While the Argentine authorities wish to pursue a nondiscriminatory commercial policy, they find it increasingly difficult to maintain such a policy in the face of the restrictive trade policies followed by some industrial countries that hamper Argentina's traditional exports, as in the case of meat. The continuation of such restrictions, which appear to be applied in an arbitrary manner, may force the Government to consider resorting to some countervailing measures.

14. The general reduction in import duties, which was accompanied by a rationalization of the tariff schedule, put into effect one year ago has been absorbed by the industrial sector, and is producing beneficial results. The authorities are not contemplating major changes in the tariff schedule this year, although they intend to maintain pressure for improvements in industrial efficiency through selective cuts in import duties. The lag in the development of nontraditional exports has made it necessary, in the view of the authorities, to reintroduce special tax concessions for this sector.

15. As has occurred over the past several years, there was a further improvement in the structure of the public sector's foreign debt in 1967. A large part of this improvement has derived from the application of controls over the use of credits from foreign suppliers. The Government intends to continue to pursue a cautious policy in this area, and accordingly the outstanding volume of suppliers' credits with a maturity of less than eight years will be limited to no more than \$225 million during the period of the requested stand-by arrangement. As regards the utilization of foreign credits by the private sector, the authorities took steps in 1967 to liberalize the terms on which such credits could be contracted, bringing these terms into line with conventional international practices. These new regulations have not led--and are not expected to lead--to undue reliance on short-term foreign financing. The authorities intend to follow developments in the country's foreign debt situation, and they are prepared to take action if necessary to prevent an unduly rapid rise in foreign obligations.

16. For the period of the stand-by arrangement after the end of 1968, the Government of Argentina will consult with the Fund on the fiscal target, the limit on Central Bank net credit and its financing of the Treasury, and on the foreign reserve goal.

17. The Government of Argentina believes that the policies described above are adequate to achieve the goals that have been established. However, if these policies should turn out to be inadequate, the Government is firmly determined to take such further measures as may be necessary to achieve these goals. If in the opinion of the Government of Argentina or the Managing Director of the Fund the policies are not producing the desired results, Argentina will consult with the Fund to find appropriate solutions.

Sincerely yours,

/s/  
Adalbert Krieger Vasena  
Minister of Economy and Labor

/s/  
Pedro Real, President  
Central Bank of the  
Republic of Argentina