

INTERNATIONAL MONETARY FUND  
WASHINGTON D.C. 20431



CABLE ADDRESS  
INTERFUND

48401

AUG 11 1976

*John Connors*

Gentlemen:

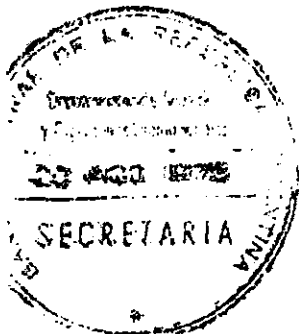
I am enclosing herewith the text of the stand-by arrangement for Argentina agreed by the Fund on August 6, 1976.

Sincerely yours,

*Anna Watkins*  
Anna Watkins  
Chief, Operations Division

Enclosure

Banco Central de la  
Republica Argentina  
Buenos Aires, Argentina



CONFIDENTIAL

August 9, 1976

Stand-By Arrangement - Argentina

1. Annexed hereto is a letter dated July 8, 1976 from the Minister of Economy of Argentina and the President of the Central Bank of Argentina, together with an enclosed memorandum setting forth the objectives and policies which the Government of Argentina will pursue.
2. The International Monetary Fund grants this stand-by arrangement to support these objectives and policies.
3. Argentina will remain in close consultation with the Fund during the period of the stand-by arrangement and, in particular, will consult with the Fund in accordance with paragraph 6 of the annexed letter and paragraph 6 below. These consultations may include correspondence and visits of officials of the Fund to Argentina or of representatives of Argentina to Washington, D.C. For the purpose of these consultations, 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.
4. For a period of one year from August 6, 1976 Argentina will have the right, after making full use of any gold tranche that it may have, to purchase from the Fund the currencies of other members in exchange for its own currency in an amount equivalent to 260 million units of special drawing rights, provided that (i) purchases under the stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 159.5 million until January 1, 1977 and the equivalent of SDR 209.75 million until April 1, 1977; and (ii) the right of Argentina to make purchases under this stand-by arrangement shall be subject to paragraph 5 below to the extent that such purchases would increase the Fund's holdings of Argentina's currency beyond the first credit tranche. If at any time any limit in (i) above would prevent a purchase under the stand-by arrangement that would not increase the Fund's holdings of Argentina's currency beyond the first credit tranche, the limit will not apply to that purchase. The amounts available in accordance with this paragraph 4 shall be augmented by amounts equivalent to repurchases in respect of purchases under the stand-by arrangement unless, when any 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. During any period of the stand-by arrangement in which (a) the data as of the end of the last preceding calendar quarter show that (i) the limits on the cumulative cash deficit of the Treasury referred to in paragraph 3 of the annexed memorandum have been exceeded; or (ii) the limits on the net domestic assets of the Central Bank referred to in paragraph 4 of the annexed memorandum have been exceeded; or (iii) the reductions in the total amount of exchange rate guarantees referred to in paragraph 7 of the annexed memorandum have not been carried out; or (iv) the limits on the cumulative decline in the net foreign assets of the monetary authorities referred to in paragraph 6 of the annexed memorandum have been exceeded; or (b) the intentions stated in paragraph 5 of the annexed letter have not been carried out; or (c) with respect to any use of the Fund's resources after December 31, 1976 understandings on limits pursuant to paragraph 4 of the annexed letter have not been reached or

the understandings thus reached have not been observed, Argentina will not request any purchase under the stand-by arrangement which would raise the Fund's holdings of its currency beyond the first credit tranche, except after reaching understandings with the Fund regarding the circumstances in which such purchases may be made.

6. During the period of the stand-by arrangement, Argentina will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of Argentina or whenever the Managing Director requests consultation because any criteria in paragraph 5 above are not being observed, or because he considers that consultation on the program is desirable. In addition, after the period of the stand-by arrangement, and while any Fund holdings of Argentina's currency above the first credit tranche include currency resulting from purchases under this stand-by arrangement, Argentina will consult the Fund from time to time, at the initiative of Argentina or at the request of the Managing Director, concerning Argentina's balance of payments policies.

7. Argentina will pay charges for this stand-by arrangement in accordance with Executive Board Decisions Nos. 270-(53/95), adopted December 23, 1953; 876-(59/15), adopted April 27, 1959; and 1345-(62/23), adopted May 23, 1962, and 2620-(68/141), adopted November 1, 1968.

8. 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 of the Executive Board to suspend transactions, either generally (under Article XIV, Section 1(a)(ii)) or in order to consider a proposal made by an Executive Director or the Managing Director, formally to suppress or to 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 8, purchases under this stand-by arrangement will be resumed only after consultation has taken place between the Fund and Argentina, and understandings have been reached regarding the circumstances in which such purchases can be resumed.

9. Not later than three years after each purchase of exchange by Argentina under this stand-by arrangement, Argentina shall repurchase an equivalent amount of Argentina's currency from the Fund, provided that, if Argentina's currency held by the Fund as a result of transactions under this stand-by arrangement is 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 9. Repurchases shall be made with the assets specified by the Fund at the time of the repurchase, in accordance with the Fund's policies and practices at that time.

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

Annexed to Stand-By Arrangement

Buenos Aires, Argentina

July 8, 1976

Mr. H. Johannes Witteveen  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Mr. Witteveen:

1. We are pleased to send you herewith a memorandum of the Government of Argentina on certain economic policy aspects. This memorandum describes the economic program adopted by the Government of Argentina on April 2, 1976. This program is designed to achieve during 1976 a considerable reduction in the balance of payments deficit and in the rate of inflation, while at the same time restoring external and internal equilibrium and laying a sound basis for renewed economic growth. The Government of Argentina intends to continue these policies in 1977 and to this end a specific plan will be drawn up later this year. The policy measures taken so far by the new Government have been successful in reversing the economic trends registered early in 1976, but the level of Argentina's international reserves is still insufficient to fully implement the program described in the attached memorandum without Fund assistance.

2. To support this program we request a one-year stand-by arrangement from the International Monetary Fund for SDR 260 million.

3. The Central Bank of the Argentine Republic will consult with the Managing Director of the Fund on the currencies to be purchased prior to any purchase under the stand-by arrangement.

4. The Government of Argentina will reach understandings with the Fund not later than the end of January 1977 on the limits on net domestic credit of the Central Bank and on the deficit of the Treasury for the period of the stand-by arrangement after the end of 1976, as well as for the foreign exchange goals of the Central Bank and the intentions with respect to reducing further the restrictions on trade and payments.

5. During the period of the stand-by arrangement the Government will not introduce any multiple currency practices, nor introduce new or intensify existing restrictions on the making of payments and transfers for current international transactions, nor introduce new or intensify existing restrictions on imports for balance of payments reasons, nor enter into any new bilateral payments agreements with Fund members.

6. The Government of Argentina believes the policies set forth in the attached memorandum are adequate to achieve the objectives of its program but will take any further measures that may become appropriate for that purpose. Argentina will consult with the Fund, in accordance with the policies of the Fund on such consultations, on the adoption of any measures that may be appropriate.

7. We thank you for the valuable cooperation that you and the staff of the International Monetary Fund have given us.

Sincerely yours,

/s/  
Adolfo C. Diz  
President  
Central Bank of the  
Argentine Republic

/s/  
Jose Alfredo Martinez de Hoz  
Minister of Economy

Enclosure: Memorandum of the Government of Argentina on  
Certain Aspects of its Economic Policy.

Memorandum of the Government of Argentina on  
Certain Aspects of its Economic Policy

1. The Argentine economy is passing through a difficult period. In the 12 months ended in April 1976 the cost of living rose by almost 800 per cent and wholesale prices by over 900 per cent, the balance of payments deficit was over US\$700 million, the budget deficit was equivalent to about 78 per cent of expenditure or 13 per cent of GDP, and economic activity declined by 5-10 per cent. The new Government which took office on March 24, 1976 adopted a program to reverse these trends as quickly as possible. The program, announced on April 2, was immediately successful in containing inflation and in eliminating the threat of a default on external payments. Wholesale prices, which had increased by 54 per cent in March, rose by 27 per cent in April and by less than 5 per cent in May; and the increase in the cost of living declined from 38 per cent in March to 35 per cent in April, 13 per cent in May and less than 3 per cent in June. The freely disposable foreign reserves of the Central Bank of the Argentine Republic, which were less than US\$10 million in the third week of March, rose to over US\$400 million at the end of June. Further progress in these areas is expected in the next few months, albeit the results will not be as dramatic as those achieved to date. The plan to reduce inflation will continue to be harmonized with the need to make continued adjustments in charges for public services, and the reduction in the balance of payments deficit will have to take into account the substantial repayments of short-term foreign loans scheduled for the second half of the year.

2. The economic program adopted by the Government of Argentina is designed to achieve during 1976 a considerable reduction in the balance of payments deficit and a further reduction in the rate of inflation, while at the same time restoring external and internal equilibrium and laying a sound basis for renewed economic growth. Specifically the program aims to consolidate the reduction in inflation already achieved and to set the stage for a further reduction in 1977, and to limit the overall balance of payments deficit in 1976 to about US\$500 million. The economic program for 1977 will be developed later this year.

3. The Government of Argentina recognizes that a substantial strengthening of public sector finances is an essential part of the 1976-77 program. The magnitude of the effort requires concerted action on all fronts with emphasis on both increasing revenue and reducing expenditure. On the side of revenue, the deceleration of inflation itself will make an important contribution, inasmuch as the average lag in collecting taxes is at least three months. This lag alone reduced the value of tax revenue in the early months of 1976 by almost one-half in real terms. To further improve the revenue performance in the remainder of 1976 the Government of Argentina is introducing new taxes, modifying existing ones and strengthening the administration of others. These measures should be sufficient to yield additional revenue equivalent to 3 per cent of GDP at an annual rate. The most important of the new taxes--introduced in the past three months--are a tax on the transfer of financial assets and a tax of 8.5 per cent per semester on most bank credit; also all social security and tax debts and certain other tax obligations have been indexed, and the capital and net wealth tax has been reinstated. Two other taxes, drafted in

June, a 3 per cent withholding tax on agricultural production as an advance against the income tax and a tax on the turnover in checking accounts will be enacted soon. In addition, the Government is preparing a package of emergency taxes, to be announced in the near future and to be collected during the second half of 1976. This additional package, which is expected to yield about \$a 100 billion, equivalent to over 1 per cent of GDP in 1976, includes an increase in the general value added tax rate from 13 per cent to 16 per cent, and taxes on real estate and the existing stock of cars in the country. On the side of expenditure the Government plans to make a major effort to reduce employment in the public sector, which increased by 24 per cent in the past three years. The reduction will have to be spread over several months, however, in order to avoid a large increase in unemployment in view of the present decline of activity in the private sector. Furthermore, the cash relief to the Treasury from reducing excess personnel will not be immediate because of the dismissal bonuses to which the employees are entitled. Substantial expenditure cuts are planned in the transfers of the Treasury to provinces and to public enterprises. This will be facilitated by a strong revenue effort in the provinces, particularly through reassessment of properties and by the recent reintroduction of the turnover tax, which alone is expected to yield about 1 per cent of GDP. Substantial increases are also being made in rates for public sector services. To this end, the price of electricity was increased at the beginning of July by 20 per cent, in addition to the cumulative increases of 10-15 per cent per month (rising to a uniform 15 per cent in September) that have been put into effect through the end of the year. The price of petroleum will be raised and in the future will be adjusted to keep it at a realistic level. Regular increases also are occurring in the prices of transport, water, sewerage, natural gas, and other goods and services. As a result of all these measures, the Government expects the budget deficit to be equivalent to no more than 5 per cent of GDP during the final six months of 1976, or less than two-fifths the previous level. Allowing for seasonal variations, the cumulative cash deficit of the Treasury in 1976, which was about \$a 270 billion on June 30, will not exceed \$a 425 billion on September 30, and will not exceed \$a 575 billion on December 31, 1976.

4. The monetary and credit program for the second half of 1976 is designed to be compatible with the plan to reduce inflation sharply. Some financial assets have been indexed and the interest rates on others have been freed and have risen to a realistic level. Limits on bank credit have been established for credit to the Treasury, the major public entities and the private sector, with allowance for the monetary expansion caused by exchange rate guarantees previously granted by the Central Bank. Under this plan, net domestic assets of the Central Bank (defined as currency issue minus net foreign assets), which were \$a 233 billion on December 31, 1975 and \$a 326 billion on June 30, 1976, will not exceed \$a 425 billion on September 30, 1976, and will not exceed \$a 625 billion on December 31, 1976.

5. The Government is convinced that the sharp increases in nominal wages that Argentina has experienced in the past were not an appropriate way to try to keep real wages at an adequate level in the medium or long run. On the contrary, the Government believes that this can be achieved only by productivity increases which require generally stable conditions in the economy. As a

consequence the Government will be cautious in granting new wage adjustments in order to ensure that the wage increases do not defeat the anti-inflationary effort. Regarding prices, the new Government acted quickly in early April to eliminate the extensive price controls which had led to the distortion of relative prices, scarcities of goods, black-market operations and a sharp decline in investment in the private sector. The new policy was followed by a rise in certain prices as measured by the official indices, in some cases real and in others merely reflecting actual prices which existed previously but were not openly revealed because of the controls. By May, however, the generalized scarcities had disappeared, inflationary expectations had changed abruptly and price declines were occurring in many sectors where price quotations had run ahead of costs. The Government will continue to allow prices to be freely determined by market forces, although exercising surveillance over certain enterprises with dominant market positions.

6. Argentina presently maintains a system of multiple exchange rates, consisting of an official rate, a free market rate, and three intermediate rates at which most export and import transactions take place. The Government has adopted a policy of gradually adjusting the effective exchange rates for imports and exports to reflect the differential increases in foreign and domestic costs. In accordance with this plan the Government intends to move gradually toward its announced goal of a unified and free exchange rate. In addition to the present multiple rates, promoted exports receive rebates. In view of the effects on the budget produced by such payments to exporters, the Government intends to reduce the highest rebates to no more than three fourths of their present level by the end of 1976.

7. The Government plans to make substantial progress during the second half of 1976 in reducing multiple currency practices, restrictions on the making of payments and transfers for current international transactions, and restrictions on trade. At the beginning of July, the minimum external financing requirements for capital goods imports were changed to bring them into line with international standards. Furthermore, the Government is gradually reducing the 180-day minimum financing requirement, which presently applies to most imports. In addition, the requirement to purchase Foreign Trade Investment Bonds equal to the financed portion of most private sector imports will be reduced gradually and will be equivalent to no more than 50 per cent of CIF value by the end of 1976. The Government also intends, during the coming year, to eliminate all remaining restrictions on current and capital payments and transfers. In addition, the Government intends to phase out the practice of granting exchange rate guarantees on short-term foreign borrowing, which have been a major cause of monetary expansion in recent months. The total amount of such guarantees, which were equivalent to approximately US\$1.3 billion on June 30, 1976 will not exceed US\$600 million on December 31, 1976 and further progress will be made in 1977.

8. The Government believes that this program will lead to a virtual elimination of the current account deficit of the balance of payments and to a reduction in the overall payments deficit. As explained above, a target has been established to limit the decline in net foreign assets of the monetary authorities to no more than US\$500 million in 1976. Accordingly and after



allowing for seasonal variations and other factors, the cumulative decline in net foreign assets of the monetary authorities during 1976 will be no more than US\$100 million on September 30, 1976 and no more than US\$500 million on December 31, 1976.

9. After several years of modest increases, Argentina's registered external public and private debt grew rapidly beginning in 1974, and most of the new borrowing was of short- and medium-term maturity. The policies underlying the Government's financial program for 1976 are designed to strengthen considerably the current account, so that the rate of increase of external debt is expected to be moderate. Also, the expected increase in long-term financing from international agencies and the planned reduction in the short-term swap operations should improve the maturity profile of the debt. The Central Bank of Argentina presently is seeking new medium-term external credits of about US\$900 million to finance this year's balance of payments deficit, amortize existing debt and rebuild reserves to an acceptable level. The Government intends to exercise firm control over other new borrowing or guarantees by the public sector, all of which have to be authorized by a Committee under the Ministry of Economy, and we are currently developing quantitative limits for the growth and term structure of such debt in 1977. The growth of private debt also will be monitored carefully to ensure that the increase in aggregate indebtedness is consistent with Argentina's medium-term debt servicing prospects. With these policies the Government is confident that there will be no need for any general rescheduling of our external debts.

10. For 1977, the Government intends to continue its program to reactivate the economy, reduce inflation, strengthen the balance of payments, and reduce restrictions on foreign trade and eliminate restrictions on the making of international payments and transfers for both current and capital transactions.