



# International Monetary Fund

For more information, see [Argentina](#) and the IMF

The following item is a Letter of Intent of the government of Argentina, which describes the policies that Argentina intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Argentina, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Buenos Aires, Argentina  
December 21, 2000

Dear Mr. Köhler:

In our [memorandum of economic policies](#) dated February 14, 2000, we outlined the Argentine government's policy framework for 2000-02, in support of which we requested a three-year stand-by arrangement from the IMF, which we have been treating as precautionary. These policies aimed at promoting a sustained recovery of output and employment, with price stability and a continuing improvement in the external accounts. The program centered on fiscal consolidation and wide-ranging structural reform efforts.

Although, as outlined in our subsequent [policy memorandum](#) of September 5, 2000, substantial progress was made in the implementation of these policies, in recent months adverse domestic and external developments have hindered a sustained recovery of confidence and activity. This, in turn, contributed—in an international environment of heightened market concerns about emerging economies—to a sharp tightening of financing constraints for both public and private Argentine borrowers, making it more difficult to restart growth, and impacting adversely the fiscal performance. The government is reacting to this more adverse environment by strengthening its economic program, as outlined in President De la Rúa's speech on November 9, and further detailed in the [attached policy memorandum](#).

To strengthen market confidence in the appropriateness of this policy response, and its prospects of success, we are seeking enhanced financial support from the official and private international community. In particular, we are requesting an increase of the amount made available by the IMF under the stand-by arrangement, from SDR 5,399 million to SDR 10,586 million (500 percent of Argentina's quota), of which SDR 2,117 million would be provided under the Supplemental Reserve Facility (SRF). We are also requesting the World Bank and the IDB to increase their new loan commitments to US\$2.4 billion each over the next two years. We have obtained assurances from the government of Spain that it will extend Argentina a loan of up to US\$1 billion, to be disbursed pari-passu with the resources under the IMF stand-by arrangement. And we have secured, on a strictly voluntary basis, financing assurances from major domestic and international financial institutions active in Argentina of around US\$10 billion.

We trust that the determined implementation of the government's strengthened economic strategy, in conjunction with this enhanced financial support package, will be instrumental in bolstering market confidence in Argentina, facilitating a progressive return of borrowing costs to more normal levels, and a sustained pickup in domestic activity and investment. We

will maintain the customary policy dialogue with the Fund in the months ahead, and take any further steps that may be needed to promote the achievement of the government's economic policy objectives, in the light of evolving circumstances. Reviews of the program will be carried out with the Fund before May 30, 2000, August 31, 2000, November 30, 2000, and February 28, 2001.

Sincerely yours

/s/

/s/

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Pedro Pou  
President  
Central Bank of the  
Republic of Argentina

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Jose Luis Machinea  
Minister of Economy

Mr. Horst Köhler  
Managing Director  
International Monetary Fund  
700 19th Street NW  
Washington, D.C. 20431

Attachments:

Memorandum on Economic Policies  
Technical Memorandum of Understanding

## **Memorandum of Economic Policies**

### **I. Background**

1. As described in detail in the Memorandum of Economic Policies (MEP) of February 14, 2000, **the economic program of the Argentine government** supported by the stand by arrangement (SBA) from the Fund aimed at creating conditions for a sustainable recovery of output and employment, with continued price stability and improvement in the external accounts, through policies geared to increasing national savings and investment, and promoting further modernization and competitiveness of the economy. Building on the important gains in financial stability and structural reform already achieved under the convertibility regime, these policies centered on a progressive reduction of the public sector deficit (including the provinces) from over 4 percent of GDP in 1999 to under 3 percent of GDP in 2000, with further reductions in subsequent years, to reach equilibrium by 2003; and on a wide-ranging structural reform effort in the public finances, the financial system, the labor market, the health system and other important sectors of the economy.

2. The **progress made in the implementation of these policies** in the first several months of the government's tenure was outlined in the MEP of September 5, 2000, which also reviewed economic developments in the first half of 2000, and prospects for the rest of this year. Economic indicators available at that time, albeit mixed, provided some comfort that a recovery of domestic demand was under way and, in conjunction with a robust volume growth of exports, especially in manufacturing, would lead to a sustained pickup in output in the second half of 2000 and into 2001. This, together with continued expenditure restraint, was expected to facilitate a strengthening of the fiscal performance, and help reduce the federal deficit from the equivalent of 2.5 percent of GDP in 1999 to 1.8 percent of GDP in

2000, and the consolidated provincial deficit from 1.6 percent of GDP in 1999 to 1 percent of GDP in 2000.

3. In recent months, however, **the economy has suffered from a combination of adverse developments**, which have affected significantly the prospects for the rest of this year, and will have inevitable repercussions on growth performance into 2001 as well. Political uncertainties in connection with a cabinet reshuffle affected adversely domestic confidence, and hindered the implementation of some of the government's policies. More importantly, **the external environment deteriorated significantly**, reflecting uncertainties over the course of the U.S. and other major industrial economies; the impact of high oil prices on world growth; and rising borrowing costs, with sharply reduced market access for emerging market economies in general, and Argentina in particular. Spreads on Argentine sovereign bonds rose by more than 200 basis points, and domestic lending rates by over 300 basis points from August to November, contributing to stalling the incipient recovery in domestic demand.

4. As a result of these developments, **real GDP growth** is likely to be near zero for 2000 as a whole, compared with the 1.7 percent expected at the time of the last review of the program. In 2001, the rate of growth is now projected to be around 2.5 percent on average, but to accelerate during the year as the determined implementation of the strengthened economic policies of the government, and the enhanced international financial support, bolster confidence and promote a more sustained recovery of domestic demand.

5. While the growth performance in 2000 has fallen well short of expectations, **the economy has made significant progress in adjusting to the external shocks** which affected it in the late 1990s, in particular the terms of trade loss, the strength of the U.S. dollar and the depreciation of the Brazilian real. Domestic costs continued to decline in 1999 and so far in 2000, bolstering competitiveness. Consumer prices dropped by 0.7 percent year-on-year by November 2000, while wholesale prices (in which tradable goods prices have a larger weight) rose by 4.8 percent over the same period, pointing to an increase in the relative price of tradable goods.

6. Reflecting this improvement in competitiveness, and the favorable impact of high energy prices, as well as the stagnation of domestic demand, **the trade balance** shifted from a deficit of US\$1.6 billion in the first ten months of 1999 to a surplus of US\$0.9 billion in the corresponding period of 2000. Of particular significance is the 12 percent volume growth of manufacturing exports during the same period. The improved trade performance is expected to more than compensate for the increased interest burden of the external debt, resulting in a **significant reduction of the external current account deficit in 2000**, to the equivalent of 3.4 percent of GDP from 4.4 percent of GDP in 1999, and nearly 5 percent of GDP in 1998. Notwithstanding the narrowing of the current account deficit—and the fact that some three quarters of this deficit are being covered by foreign direct investment (FDI)—the sharp tightening of external financing conditions in recent months is expected to result in a US\$2 billion decline in net international reserves for the year as a whole. Gross international reserves, including the banks' liquidity requirements held abroad, are projected to amount by end-2000 to around US\$32.5 billion (nearly 40 percent of M3 or one and half times the country's short term external debt)

7. The government's effort to reduce the **federal deficit** in 2000 have been increasingly thwarted by the weakness of domestic demand and the continuing decline in consumer prices. Despite the introduction of a sizable package of tax measures in January, overall **tax revenues**, including social security contributions, rose by only about 3 percent through November 2000 compared with the 8.7 percent expected initially and the nearly 6 percent projected at the time of the review of the program. As a result, and despite the government's **efforts to contain primary spending**—including a Arg\$300 million cut in the program

ceiling on such spending in the second half of the year—the ceiling on the cumulative federal deficit for end-2000 had to be raised by Arg\$600 million (0.2 percent of GDP) during the first review of the program, and is now expected to be exceeded by a further Arg\$1.4 billion. The government is, therefore, requesting corresponding modifications of the program ceilings on the federal deficit and debt for December 2000. The ceiling on primary spending is expected to be observed, implying a 1.4 percent decline in such spending, compared with 1999.

8. Preliminary information on **developments in the provinces' finances** in 2000 shows that significant progress was made in reducing their consolidated deficit from the relatively high level reached in 1999, although this progress fell somewhat short of expectations in the program. Current estimates point to a decline of this deficit to around Arg\$3.4 billion (1.2 percent of GDP), compared with the 1.6 percent of GDP recorded in 1999, and the 1 percent of GDP envisaged in the program. Accordingly, the government is requesting modifications of the ceilings on the provinces' deficit and the consolidated public sector debt for end-2000. The bulk of the adjustments was carried out by the more indebted provinces which entered into agreements with the federal government for support in the refinancing of their debt, in conjunction with specific fiscal adjustment programs. Significant progress in fiscal consolidation was also made by some of the larger provinces, while in others the deficit remained quite large, indicating an urgent need for strengthened efforts by the latter provinces to improve their own-revenue performance and contain spending.

9. The near stagnation in economic activity, and the increase in the cost of credit, especially in recent months, have been reflected in a continuing decline of **domestic bank credit to the private sector**, as well as in an increase in the non-performing loan ratio, accompanied, however, by increased provisions. The capital adequacy ratio (Basel criteria) of the banking system remains relatively high, and bank liquidity generally adequate. Private deposits in the banking system rose by 5 percent during the first nine months of 2000, before declining by about 1.8 percent in October-November.

## II. The policy framework for 2001 and beyond

10. The government is responding to these worse than expected developments through a **strengthened, growth-oriented economic strategy**, aimed at promoting a sustained recovery of domestic and external confidence, an acceleration of productivity growth and further improvements in competitiveness. This strategy centers on the maintenance of the convertibility regime, which continues to be viewed by the vast majority of the Argentine people as the fundamental guarantee of financial and price stability; a number of policy initiatives signaling a credible commitment to medium-term fiscal sustainability; and a broadening and acceleration of its efforts at structural reform, modernization and opening up of the economy.

11. The government has taken in recent weeks a number of **initiatives to promote a substantial recovery of investment**, which has declined by over 16 percent over the last two years. These initiatives include the elimination of the tax on interest payments by corporations in three steps over the next eighteen months; the extension from four to ten years of the period for loss carryover under the minimum income tax for enterprises; the acceleration of payments of VAT credits for new investments; an increase in selected public work programs aimed at easing infrastructure bottlenecks and stimulating activity in the construction sector; and a build, lease and operate program for basic infrastructure, aimed at facilitating financing for private contractors undertaking the construction of these projects.

12. Together with the efforts to boost investment described above, the government is implementing several **structural measures aimed at promoting competition in domestic markets and facilitating the allocation of capital and labor resources in the economy.**

The government will shortly issue enabling regulations to put into effect the Protection of Competition Law, recently approved by Congress, that updates and strengthens antitrust legislation. Also a new regulatory framework will be developed to support the development of the ports system, and the government is proceeding with the implementation of the new regulatory framework for the telecommunications sector, where the work is well advanced and the interest of foreign companies to enter the Argentine market is manifest. To remove some remaining distortions that followed from the privatization process of the early 1990s, the government is reviewing contracts with privatized enterprises in the energy, utility, and transport sectors. Finally, the government has recently completed issuing the regulatory decrees required for the full implementation of the labor market reform that was enacted earlier in the year. These measures, together with the pension and health sector reforms, and the policies to develop the domestic capital markets, more fully described below, are considered fundamental to sustain the expected recovery of output growth.

13. In conjunction with an expected easing of financing constraints, as confidence is bolstered by the implementation of the government's program and the international financial support package, these measures are expected to contribute to a sustained **pick up in domestic demand**, particularly of investment, in the course of 2001. Specifically, growth is projected to recover to over 4 percent by the fourth quarter of next year, albeit remaining on average around 2½ percent. Consumer prices are expected to remain broadly stable, and the GDP deflator to record a small rise in reflection of a projected further improvement in the terms of trade. **Real GDP growth is expected to be sustained at over 4 percent a year over the medium term**, allowing—in conjunction with the increased flexibility in the formal labor market brought about by the implementation of the recent labor legislation reform—for a progressive recovery of employment. Inflation is expected to remain lower than in major partner countries, facilitating further gains in competitiveness over the next few years.

14. The **external trade surplus is expected to increase further in 2001** (to around US\$2 billion) as the sustained growth of exports resulting from the strengthening of competitiveness and the coming on stream of investments in the energy, paper, and basic metal industries should more than offset the increase in imports associated with the economic recovery. The current account deficit is expected to decline slightly, to the equivalent of around 3¼ percent of GDP, with the improvement in the trade balance partly offset by the rising burden of net interest payments abroad. Net FDI is expected to continue to cover about 70 percent of this deficit. **Over the medium term, the current account is projected to narrow further, to well under 3 percent of GDP**, reflecting the continued improvement in the trade performance and a deceleration of the growth of net interest payments, in line with the decline of the external debt in relation to GDP, and of interest rates. Some 80 percent of the current account is expected to be covered by FDI, and the remainder by net financial inflows to the private sector, as the public sector gradually reduces its reliance on foreign financing, reflecting the planned fiscal consolidation and the further development of the domestic capital market.

15. A central element of the government's strategy is a continued, and indeed strengthened **commitment to eliminating the fiscal deficit at all levels of government over the medium term**, with a view to facilitating a **sustained reduction of the public debt in relation to GDP**, an important condition for securing a lasting decline of the risk premium on Argentine bonds, and consequently of financing costs for public and private borrowers. The revised federal budget recently approved by congress envisages an only modest reduction of the deficit in 2001, in order to avoid a fiscal contraction in the early stages of the economic recovery. But it also includes a binding commitment—through a revision of the fiscal responsibility law—to a linear decline of the deficit in subsequent years, to zero by 2005. This commitment to fiscal consolidation at the federal level is buttressed by similar

commitments undertaken by the provincial governments in the recent **federal fiscal pact**. Projections based on relatively conservative assumptions about GDP growth and the cost of government borrowing over the next few years suggest that such a path of the consolidated public sector deficit should be consistent with a significant decline of the public debt in relation to GDP from 2003 onwards. The fiscal consolidation effort will center on a **freeze of nominal primary spending** at the 2000 level by both the federal government and the provinces in deficit, and on **strengthened structural fiscal reforms**, particularly in the tax administration and the social security. **These efforts are expected to result in a gradual increase of the primary surplus of the consolidated public sector equivalent to more than four percentage points of GDP during the period 2001-05.**

16. The **2001 federal budget** supports the growth-oriented strategy of the government by allowing some scope for the automatic stabilizers to work. Specifically, the federal deficit will be reduced by less than envisaged in the original budget proposal submitted to Congress in September 2000, to around Arg\$6.5 billion (2.2 percent of GDP), to accommodate the **lower growth of revenues** entailed by the revised more conservative assumption regarding GDP growth for next year. The revised budget also incorporates the fiscal cost of the measures—referred to in paragraph 10 above—to stimulate investment, and some additional spending (equivalent to about 0.1 percent of GDP) in temporary public employment programs and other social spending aimed at mitigating economic hardship for the most vulnerable groups of society. Federal primary spending is, nonetheless, expected to decline by the equivalent of 0.5 percent of GDP from the 2000 level. As a result, **the primary surplus of the federal government** is projected to rise to 1.7 percent of GDP in 2001 from 1 percent in 2000, and 0.4 percent of GDP in 1999.

17. To ease recent financing constraints and facilitate the rapid return of Argentina to international capital markets, the government has arranged a **financial support package of around US\$39 billion from** official and private sector sources, including the requested augmentation of the existing Stand-by Arrangement to 500 percent of quota (equivalent to about US\$13.7 billion); understandings with the World Bank and the IDB on new loan commitments amounting to around US\$4.8 billion in total over the next two years; a loan from Spain of US\$1 billion, and substantial underwriting commitments with market maker banks active in Argentina and the local pension funds. Specifically, in 2001, **the gross financing requirements of the federal government** are projected to amount to around US\$27 billion, including the rollover of the US\$5 billion outstanding short-term Treasury bills (Letes). Multilateral and bilateral official sources are expected to finance about 36 percent of such requirements. To fill the remaining part, the government has reached agreements with local banks on a rollover of maturing bonds and purchases of new issues in the amount of US\$10 billion, and the local pension funds are expected to purchase about US\$3.0 billion of new government bonds. The government is also planning other placements in international capital markets, as well as a number of liability management operations. **The government's financing requirements are expected to decline over the medium term**, as progress is made towards eliminating the deficit by 2005. Public debt management will focus on further smoothing the amortizations profile, as market conditions allow.

18. The **provinces** are expected to reduce their consolidated deficit from the equivalent of 1.2 percent of GDP in 2000 to around 0.9 percent of GDP in 2001. This improvement is to be achieved through both the agreed freeze on primary spending in those provinces in deficit, and through a strengthened performance of own revenues, while transfers from the federal government will remain stable in relation to GDP. In the federal fiscal pact, the provinces have also committed themselves to introducing in their respective legislatures **fiscal responsibility laws** mandating the achievement of budgetary balance by, at the latest, 2005, and to improving the quality, timeliness and transparency of their fiscal accounts. The government will inform the public of progress in the implementation of the federal pact

through quarterly reports. The government will also continue to work with the provinces on a more permanent **reform of the revenue sharing system**, with a view to streamlining it, eliminating some of its distortive features, and improving its equity over the medium term.

19. To buttress its commitment to fiscal sustainability, the government is strengthening and accelerating **structural fiscal reforms**. In the **tax administration** area, efforts will focus on broadening the coverage and improving the quality of audits, enhancing cooperation and the exchange of information with the provincial tax administrations, and accelerating the collection of tax arrears. These efforts will be facilitated by a rapid implementation of the measures envisaged in the recently approved anti-evasion law, including making fully operational the special tribunal for criminal tax cases. To minimize moral hazard, the government will eschew new amnesties or other payment facilitation arrangements for overdue taxes, and streamline and increase the transparency of existing ones. Efforts will be made to improve internal controls and supervision in the tax and customs administration, to increase efficiency, as well as to minimize opportunities for corruption. The scope for **simplifying the tax system and reducing exceptions, special treatments, and loopholes** will also be analyzed, with the help of local and outside experts.

20. The government intends to utilize to the fullest extent possible the available instruments to **streamline the public administration** by eliminating redundant entities and programs, minimizing the overlapping and duplication of functions across administrative units and levels of government, and re-deploying civil servants as needed; revising procurement practices and strengthening the evaluation of the cost-effectiveness of spending programs; and making the public administration more service-oriented. Efforts continue to be made to **consolidate and target more effectively a number of small scale social assistance programs**, especially in the areas of nutrition, construction of essential sanitary infrastructure, and the management of the impact of natural disasters. To this end, the government has already issued decrees to consolidate three nutritional programs and three programs covering education and health for urban youth into more comprehensive and efficient single programs (*Unidos* and *Solidaridad*, respectively). A unified registry of beneficiaries in federal and provincial social programs will be established.

21. With a view to strengthening the intertemporal solvency and equity of the **pension system**, the government replaced a draft law submitted to congress in June with a new proposal for reform of the system. The **new draft bill** proposes to: (a) replace the basic universal pension benefit (PBU) with a sliding-scale supplementary benefit (PS) for new pensions lower than Arg\$600 per month; (b) introduce a minimum benefit of Arg\$100 per month for all citizens of more than 78 years of age who do not have other sources of income; (c) introduce incentives for women to postpone retirement until 65 years, by progressively increasing the age at which they will qualify for the supplementary benefit; and (d) eliminate the option of joining the public pension system for new entrants into the labor force. The government attaches great importance to the rapid approval and early implementation of the key elements of this reform, given their role in ensuring the medium term solvency of the pension system, and sustainability of the overall fiscal position. The Social Security Agency (ANSES) has been intervened in mid-November, with a view to streamlining it and increasing the transparency and efficiency of its operations. The government intends to seek the support of the World Bank in this task. The government has tabled legislation aimed at strengthening competition among **private pension funds**, reducing administration costs in these funds, and improving their supervision. The government also intends to review the system of family allowances, with a view to streamlining it and reducing the scope for fraud.

22. The deregulation of the union-run **health organizations** (*obras sociales*), which aims at promoting competition and increasing efficiency in the provision of health care, will become effective on January 1, 2001. Under the new regime, individuals will be able to choose their

health providers among the *obras sociales* and the private HMOs. All health care providers will be required to offer a basic menu of services at a low per capita premium. They will be allowed to offer additional services for additional voluntary contributions. A redistributive solidarity Fund, funded with mandatory contributions related to the level of income of participants in the system, will be used to finance the automatic subsidy for contributors whose payroll deductions do not cover the basic capita, and for the purchase of insurance for high-cost illnesses. The **health system for retirees (PAMI)** which was intervened last January is being restructured, and steps are being taken to increase its accountability and transparency of operations. To this end, PAMI is being required to obtain the government's approval of its budget, its staffing policy, and its borrowing operations, and will be made subject to the same control and auditing mechanisms that apply to the rest of the public administration. PAMI is also being required to submit monthly reports on its financial position and budgetary execution.

23. **Financial policies** will continue to aim at buttressing confidence in the domestic banking system by maintaining, and strictly enforcing the relatively high liquidity requirements of banks, and continuing to strengthen bank supervision. Draft legislation is being prepared to facilitate further the process of bank resolution. With a view to **fostering the development of the domestic capital markets**, the government will send to Congress by the second quarter of next year a bill on best practices in the financial sector, increasing the transparency and the requirements for public information about financial transactions, and strengthening corporate governance, particularly in regard to minority shareholders' rights. The government is also introducing measures to harmonize taxation across the financial service sector, and has presented a bill to modernize the regulatory framework in the insurance sector. The government has requested a Financial Sector Assessment Program from the IMF and the World Bank early in 2001.

24. **The government is seeking agreement with other MERCOSUR countries on a reduction of tariff dispersion and of tariff rates.** Agreement has been reached on phasing out the 3 percent surcharge on the Mercosur common external tariff by the end of 2002, thus reducing the average tariff, from 13.3 percent to 10.9 percent. As a first step in this direction, the surcharge will be reduced by 0.5 percentage points on January 1, 2001, and a timetable for further reductions will be announced by June 2001. The government is also placing increased emphasis on institutionalizing mechanisms for the resolution of trade disputes, and has recently taken steps to strengthen convergence with its MERCOSUR partners as well as Chile and Bolivia, through an agreement on common macroeconomic targets and on harmonized statistics, particularly in the fiscal and balance of payments areas.

Argentina: Quantitative Performance Criteria for 2001-02 1/ 2/

(In millions of Argentine pesos or U.S. dollars)

|  | Jan-Dec<br>2000 3/ | Jan-Mar<br>2001 | Jan-Jun<br>2001 | Jan-Sep<br>2001 | Jan-Dec<br>2001 | Jan-Dec<br>2002 |
|--|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 1. Cumulative balance of the<br>Federal Government 4/                  | (6,700)            | (2,100)         | (3,800)         | (5,100)         | (6,500)         | (5,000)         |
| 2. Cumulative primary expenditure of<br>the Federal Government         | 52,930             | 13,313          | 26,173          | 39,895          | 53,212          | ...             |
| 3. Cumulative consolidated balance<br>of the Provincial Governments 5/ | (3,400)            | (600)           | (1,400)         | (2,000)         | (2,760)         | (2,000)         |



|   |         |       |       |       |       |       |
|---|---------|-------|-------|-------|-------|-------|
| 4. Cumulative change in the debt of the Federal Government            | 5,700   | 2,150 | 3,900 | 5,250 | 6,700 | 5,000 |
| 5. Cumulative change in the short-term debt of the Federal Government | 1,500   | 1,500 | 1,500 | 1,500 | 1,500 | ...   |
| 6. Cumulative change in the debt of the Consolidated Public Sector    | 9,200   | 2,750 | 5,300 | 7,250 | 9,460 | 7,000 |
| 7. Stock of net domestic assets of the Central Bank 6/                | (1,080) | 2,473 | 2,399 | 2,097 | 1,836 | ...   |

1/ As defined in the Technical Memorandum of Understanding.

2/ Targets for 2002 are indicative at present, to be substituted by performance criteria during the fifth review of the program.

3/ As defined in the Technical Memorandum of Understanding attached to EBS/00/191.

4/ Indicative target for 2002 based on the fiscal responsibility law.

5/ Indicative.

6/ For January-December 2000 refers to the cumulative change in the net domestic assets of the central bank.

## Structural Benchmarks

### Tax administration

- Design of a national audit plan, aimed at expanding coverage of desk audits to 100,000 taxpayers by end of 2001 (third review)
- Completing 80,000 desk audits (fifth review)
- Completing 100,000 desk audits (sixth review)
- Issue presidential decree consolidating and streamlining existing tax payments facilities, and forbidding granting of new facilities in conditions not contemplated in the decree (third review)
- Beginning implementation of setting up the Tax Frauds Tribunal (third review)
- Full implementation of the Tax Frauds Tribunal (sixth review)

### Social security reforms

- Issuance of implementing regulations for proposed pension reform (third review)
- Preparation of restructuring plan for family allowances (third review)
- Implementation of plan (fourth review)
- Preparation of plan for the Restructuring of ANSES (third review)
- Preparation of detailed action plan to eliminate PAMI's deficit, and implementation of information requirements for PAMI envisaged in 2001 budget (third review)

### Provincial finances

- Publication by national Ministry of Economy of quarterly public reports on implementation by the Nation and each province of commitments undertaken in the pacto federal (starting with third review)

### Financial system

- Presentation of bill on best practices in the financial sector and corporate governance (third review)
- Presentation of draft legislation to facilitate the process of bank resolution (fifth review)

### Trade policy

- Announcement of timetable for elimination of CET surcharge by end 2002 (fourth review).

### Competition and Deregulation

- Issuance of implementing regulations for the Protection of Competition Law (third review)
- Regulatory proposal for ports system (fourth review)
- Implementation of new regulatory framework in the telecommunications sector (fifth review)

### Technical Memorandum of Understanding

This memorandum presents a detailed definition of the variables included in the quantitative performance criteria table annexed to the Policy Memorandum.

#### 1. Cumulative balance of the Federal Government.

##### Cumulative balance of the Federal Government Limit (floor, in millions of Arg\$)

|  |        |
|--|--------|
| End-March 2001 (performance criterion)     | -2,100 |
| End-June 2001 (performance criterion)      | -3,800 |
| End-September 2001 (performance criterion) | -5,100 |
| End-December 2001 (performance criterion)  | -6,500 |
| End-December 2002 (indicative)             | -5,000 |

The balance of the Federal Government comprises the results of the Federal Government and of the Central Bank (BCRA). The result of the Federal Government is defined to include: the balances of PAMI, the Fondo Fiduciario de Infraestructura, and the issue of bonds in exchange for *Plan Canje* tax certificates; and to exclude transfers from the Central Bank, privatization receipts, and capital gains realized on the sale of financial assets. The result of the Federal Government will be measured from below the line on the basis of: (a) the information provided by public sector debt reporting system (SIGADE), including all short-term debt of the Federal Government; (b) net asset transactions of the Federal Government as reported by the *Secretaría de Hacienda*, the *Dirección Nacional de Cuentas Internacionales* (DNCI) and the *Gerencia de Manejo de Reservas Internacionales* of the BCRA; and (c) information on bank borrowing and bank deposits provided by the BCRA. The result of the BCRA is defined as interest earnings on gross international reserves (as defined below) plus interest on government bond holdings of the BCRA minus net interest paid on reverse repos. The limits on the balance of the Federal Government will be adjusted downward (i.e., the deficit will be allowed to rise) by up to Arg\$ 210 million for the issue of bonds in exchange for *Plan Canje* tax certificates.

#### 2. Cumulative ceiling on primary expenditure of the Federal Government.

##### Cumulative primary expenditures of the Fed. Gov. Limit (ceiling, in millions of Arg\$)

|  |        |
|--|--------|
| End-March 2001 (performance criterion) | 13,313 |
|--|--------|

|  |        |
|--|--------|
| End-June 2001 (performance criterion)      | 26,173 |
| End-September 2001 (performance criterion) | 39,895 |
| End-December 2001 (performance criterion)  | 53,212 |

This ceiling applies to the noninterest expenditure of the Federal Government (including the deficit of PAMI) as reported by the *Secretaría de Hacienda*.

### 3. Cumulative balance of the provincial governments.

| Cumulative provincial government balance | Limit (floor, in millions of Arg\$) |
|--|-------------------------------------|
| End-March 2001 (indicative)              | -600                                |
| End-June 2001 (indicative)               | -1,400                              |
| End-September 2001 (indicative)          | -2,000                              |
| End-December 2001 (indicative)           | -2,760                              |
| End-December 2002 (indicative)           | -2,000                              |

The balance of the provincial governments comprises the consolidated result of the provinces, including the city of Buenos Aires. The result of these jurisdictions will be measured from above the line, with expenditure defined on an accrual basis according to the information provided by the *Secretaría de Hacienda*. These limits will be indicative.

### 4. Cumulative change in the debt of the Federal Government.

| Cumulative change in the debt of the Fed. Gov. | Limit (ceiling, in millions of Arg\$) |
|--|---------------------------------------|
| End-March 2001 (performance criterion)         | 2,150                                 |
| End-June 2001 (performance criterion)          | 3,900                                 |
| End-September 2001 (performance criterion)     | 5,250                                 |
| End-December 2001 (performance criterion)      | 6,700                                 |
| End-December 2002 (indicative)                 | 5,000                                 |

The change in the debt of the government will be defined as the difference between the stock of debt at each relevant date in 2001, valued at end-2000 exchange rates and measured at end of period, and the stock of debt at end-2000. The debt of the Federal Government includes all foreign currency denominated and Argentine peso denominated debt obligations and guarantees, as defined in EBS/00/128 (June 30, 2000) and Executive Board Decision adopted August 24, 2000 and incorporated herein by reference, of the Federal Government (including public enterprises, PAMI, INDER, and trust funds). These debt obligations include those with local and foreign financial institutions, international organizations, bonds and bridge loans. The data used to monitor debt developments will be taken from SIGADE, including all short term Federal Government debt. The limit on the change in federal government debt will be adjusted in the following ways:

(a) upward (downward) by the increase (decline) in the deposits of the Federal Government in the Central Bank, the domestic banking system and abroad, adjusted for any margin observed in the cumulative balance of the federal government performance criterion as defined in 1 above;

(b) upward (downward) for the net increase (decrease) in the valuation of net debt operations --including both placements and amortizations--made after December 31, 2000 in currencies other than the U.S. dollar arising from the difference between actual exchange rates and those of end-December 2000. To ensure the timely calculation of this adjustor, the authorities will provide the Fund with information on all debt operations (placements and amortizations) on a weekly basis indicating the currencies and exchange rates at which the operations were carried out.

(c) downward for any privatization proceeds;

(d) by the difference between the result of the Central Bank in 2001 as defined in 1 above and the transfers effectively made by the Central Bank to the Federal Government;

(e) upward, by up to Arg\$2.1 billion, for debt issued in 2001 for the consolidation of past obligations(including bonds issued in exchange for *Plan Canje* tax certificates), by up to Arg\$ 800 million for consolidation of past obligations of INDER, and by up to Arg\$ 400 million for payments due to judicial rulings relating to past claims on the Social Security Administration (ANSES);

(f) downward (upward) by the reductions (increases) in nominal debt arising from debt cancellations or swaps in 2001;

(g) downward for an amount equivalent to the difference between the proceeds from the sale of collateral released through the rescue of Brady bonds in 2001 and the nontax revenue obtained as a result of these operations;

(h) upward for debt issued in 2001 to finance the Fiscal Stabilization fund by up to US\$450 million in 2001;

(i) upward, by up to Arg\$ 1,850 million, for amounts relating to borrowing in 2001 by the Provincial Development Trust Fund for the restructuring of provincial debt; and

(j) upward, by up to US\$1.5 billion, for borrowing in 2001 from multilateral agencies on behalf of provinces, municipalities, and official banks (*deuda indirecta*) in 2001;

##### **5. Cumulative change in short term debt of the Federal Government.**

| <b>Cumulative change in federal short term debt</b> | <b>Limit (ceiling, in millions of Arg\$)</b> |
|---|--|
| End-March 2001 (performance criterion)              | 1,500  |
| End-June 2001 (performance criterion)               | 1,500  |
| End-September 2001 (performance criterion)          | 1,500  |
| End-December 2001 (performance criterion)           | 1,500  |

The short term of the Federal Government consists of all domestic and foreign federal and federally guaranteed debt with an original maturity of one year or less.

##### **6. Cumulative change in the debt of the Consolidated Public Sector (CPS).**

| <b>Cumulative change in debt of the CPS</b> | <b>Limit (ceiling, in millions of Arg\$)</b> |
|---|--|
|---|--|

|  |       |
|--|-------|
| End-March 2001 (performance criterion)     | 2,750 |
| End-June 2001 (performance criterion)      | 5,300 |
| End-September 2001 (performance criterion) | 7,250 |
| End-December 2001 (performance criterion)  | 9,460 |
| End-December 2002 (indicative)             | 7,000 |

The change in the debt of the Consolidated public Sector includes the sum of the changes in the debt of the Federal Government as defined in 4 above (including all the corresponding adjustments) and that of the provincial governments and the city of Buenos Aires, net of changes in intergovernmental debt (including debt to the Provincial development Trust Fund arising from debt restructuring operations). The debt of the provincial governments and the City of Buenos Aires will be defined to include obligations to local and foreign financial institutions (as reported by the Secretaría de Hacienda with respect to the end March, 2001 performance criterion, and subsequently by the Central Bank), to international organizations, and bonds (excluding peso denominated bonds placed outside the financial system). The limit in this provincial debt will be adjusted: (a) downward for any privatization receipts; (b) downward for capital gains realized in the sale of financial assets; and (c) upward (downward) for any increase (decrease) in net deposits of the provinces in the banking system during the year. The data used to monitor the provincial debt will be provided by the *Secretaría de Hacienda*, the SIGADE, and the Central Bank. The stock of debt will be valued at end-2000 exchange rates and measured at end period.

#### 7. The net domestic assets (NDA) of the BCRA

The net domestic assets (NDA) of the BCRA are defined, as shown below, as the difference between monetary liabilities and net international reserves (NIR) of the BCRA, both measured on the basis of end-of-period data.

The limit on NDA will be adjusted upward by the equivalent of purchases from the IMF under the arrangement.

The limit for December 2001 will be adjusted upward for up to Arg\$200 million on account of temporary liquidity needs reflected in an equivalent increase in repos (*pases activos*).

|                                       | 2000   |        | 2001 ceilings 1/ |       |       |       |
|---------------------------------------|--------|--------|------------------|-------|-------|-------|
|                                       | Nov.   | Dec.   | Mar.             | Jun.  | Sept. | Dec.  |
| (In millions of pesos, end of period) |        |        |                  |       |       |       |
| A. Net international reserves (a-b)   | 20,267 | 22,852 |                  |       |       |       |
| a. Gross international reserves 2/    | 23,360 | 25,832 |                  |       |       |       |
| b. Foreign liabilities 3/             | 3,093  | 2,980  |                  |       |       |       |
| B. Net domestic assets (C-A)          | 2,705  | 2,642  | 2,473            | 2,399 | 2,097 | 1,836 |
| C. Monetary liabilities (c+d+e)       | 22,972 | 25,494 |                  |       |       |       |
| c. Currency issued                    | 13,330 | 15,078 |                  |       |       |       |
| d. Government deposits 4/             | 919    | 920    |                  |       |       |       |
| e. Reserve deposits of banks 5/       | 8,723  | 9,495  |                  |       |       |       |

1/ Performance criteria

2/ Include the BCRA holdings of gold, SDR's, foreign currency in the form of cash and deposits abroad, government securities of investment grade of OECD countries, and Argentina's net cash balances within the Latin American Trade Clearing System (ALADI), excluding the accounting effects of holdings of reverse repo operations. This definition of reserves excludes central bank holdings of government bonds.

3/ End-December position projected as of December 11, 2000. Liabilities to the IMF valued at US\$1.30 per SDR. Excludes purchases from the IMF arrangement.

4/ Includes government and ANSES deposits.

5/ Legal bank reserves and liquidity requirements (reverse repo).

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