International Monetary Fund

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Buenos Aires, Argentina
May 3, 2001

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

Our memorandum of economic policies dated February 14, 2000 outlined the Argentine government policy framework for 2000-02, in support of which we requested a three-year stand-by arrangement from the Fund. This program centers on fiscal consolidation and wide-ranging structural reforms aimed at promoting a sustained recovery of output and employment, with price stability and a continuing improvement in the external accounts. As outlined in our subsequent policy memoranda of September 5, 2000 and December 21, 2000, substantial progress was made in the implementation of these policies. However, adverse domestic and external developments have repeatedly led to crises that resulted in a sharp tightening of the financing constraints and hindered a sustained recovery of confidence and activity. As a result, the government was not able to observe the deficit, primary expenditure, and debt targets specified under the program for March 31, 2001, for which we are requesting waivers. The government believes that the resumption of strong economic growth and attainment of a sustainable fiscal position are at the core of the success of its program. To that effect, it is implementing a comprehensive package of fiscal and pro-growth, pro-competitiveness measures, which is described in the attached memorandum and annexes outlining the policies of the government for 2001 and beyond.

During the period of the arrangement, we will maintain the customary dialogue with the Fund, 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 before September 15, 2001, December 15, 2001, and March 15, 2002.

Sincerely yours,

/s/	/s/
Roque Maccarone President	Domingo Cavallo Minister of Economy

Central Bank of the Republic of
Argentina

Memorandum of Economic Policies

I. Background

1. The economic program of the Argentine government,[1] supported by the current stand-by arrangement (SBA) from the Fund, aims 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 increase national savings and investment and promote further modernization and competitiveness of the economy. These policies center on a progressive reduction of the public sector deficit to reach equilibrium by 2005; and on a wide-ranging structural reform effort in the public finances, financial system, labor market, health system, and other important sectors of the economy.

2. **Although important progress was made during 2000 in the implementation of these policies, the financial environment deteriorated significantly toward year-end.** The overall deficit of the combined public sector was reduced from 4.2 percent of GDP in 1999 to 3.6 percent in 2000, including through a decline in nominal noninterest outlays, breaking the upward trend of previous years. The government also adopted several measures aimed at reducing fiscal impediments to investment, including the phased elimination of the tax on interest paid by enterprises and the acceleration of payments of VAT credits to new investment. A deterioration in the external environment and domestic political developments adversely affected confidence in October-November, resulting in a drop in private sector deposits in the banking system, and a widening of spreads on Argentine sovereign bonds. In this difficult context, the government strengthened its economic program and secured enhanced financial support from the official and private international community, thereby contributing to a return of confidence in early 2001. Spreads dropped sharply, interest rates returned to pre-crisis levels, and private sector deposits bounced back, with some indicators pointing to an incipient recovery in domestic demand. In March, however, another sharp deterioration in market sentiment took place, caused by a surprisingly weak fiscal performance in early 2001, renewed political turmoil, and an increase in the perception of risks abroad. The government has moved decisively to address these new difficulties and took important legislative initiatives aimed at boosting competitiveness and promoting investment and growth. These initiatives, which resulted in a rebound in consumer and business confidence indicators, form the core of the program that is described below.

3. **Real GDP contracted by 0.5 percent in 2000, reflecting mainly a sharp drop in investment.** Although industrial production (seasonally adjusted) grew from November to February, this process was partly reversed in March and, during the first quarter of 2001, GDP is estimated to have fallen by more than 1 percent from the same period in 2000. However, domestic costs are declining which, in due course, should contribute to an improvement in competitiveness. Consumer prices dropped by 1.0 percent year-on-year by March 2001, while wholesale prices declined by 0.4 percent over the same period.

4. **For 2001, the program seeks to reduce the overall deficit of the Federal Government** from the Arg$7.0 billion attained in 2000 to Arg$6.5 billion. During the first quarter of 2001, however, the deficit of the federal government registered an overrun of Arg$1 billion over the Arg$2.1 billion program ceiling. Two-thirds of this deviation was due to a shortfall in revenue, reflecting delays in the implementation of some revenue measures, a drop in tax compliance in March, and the decline in output. On the expenditure

side, a carry-over of outlays from 2000, higher interest costs on the national debt, and spending overruns explained the deviation.

5. **Progress was made in reducing the consolidated deficit of the provinces, which declined from 1.6 percent of GDP in 1999 to 1.1 percent in 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 was also made by some of the larger provinces, while in others, including the Province of Buenos Aires, the deficit remained quite large. The program for 2001 contemplates a further reduction of the deficit of the provinces to 0.9 percent of GDP. Preliminary first quarter estimates suggest that, on a commitment basis, the aggregate deficit exceeded the indicative target in the program by a small amount.

6. **During 2000 and the first quarter of 2001, bank credit to the private sector declined, reflecting the weak economic activity.** Private sector deposits rose steadily during the first nine months of 2000 but declined during the last quarter, because of the impact of the October-November crisis. With the return of confidence, deposits bounced back in early 2001, but this recovery was short-lived, and they declined again in March-April. On both occasions, the central bank eased banks' required liquidity ratios on a temporary basis. The capital adequacy ratio (Basel criteria) of the banking system remains comfortable, and banks have been steadily building up provisions to cover the nonperforming loans.

7. **The trade balance improved significantly during 2000, contributing to a narrowing of the external current account deficit from 4.4 percent of GDP in 1999 to 3.3 percent in 2000**, with close to three-fourths of this deficit covered by foreign direct investment. The trade balance improved from a deficit of US$2.2 billion in 1999 to a surplus of US$1.2 billion in 2000, which more than compensated for the increased interest burden of the external debt. Exports rose by 13 percent, reflecting a strong performance of manufactured exports as well as the favorable impact of high energy prices. Exports of manufactured goods rose by 18 percent, as a result of a surge in export volume in several sectors including steel, automobile, and chemical products. Imports contracted by 1.2 percent, reflecting in part depressed investment activity. The external current account deficit in the first quarter of 2001 is estimated at US$2.6 billion (0.7 percent of annual GDP), some US$0.6 billion lower than in the same period a year earlier, largely because of a continued strong export performance. However, financial and political turmoil in March translated into a significant decline in gross official international reserves (including banks' liquidity requirements held abroad) from US$32.5 billion at end-December 2000 to US$26.0 billion at end-April 2001.

II. The new policy package and economic program for 2001 and beyond

8. The government has implemented a wide range of measures to deepen and expand its strategy of ensuring medium-term fiscal sustainability and promoting a sustained recovery of economic activity. The new initiatives--embodied in the competitiveness law approved by Congress on March 28, 2001--include a major effort to strengthen tax revenues, targeted expenditure cuts, and the granting to the executive of special powers to legislate for the period of one year on reforms in the public sector, taxation, and regulation.

9. The new measures the government is putting in place aim to restore confidence, both domestically and externally, accelerate productivity growth, and bolster competitiveness. They continue to be centered on the maintenance of the convertibility regime. The government intends to preserve convertibility's main features, e.g., full foreign exchange backing of the currency, and statutory limitations on central bank financing of the public

sector. In addition, the government intends to reinforce convertibility by including the euro alongside the U.S. dollar, and thereby promote greater stability of the effective exchange rate of the peso. Draft legislation has been introduced in Congress specifying that, once parity is established between the U.S. dollar and the euro, the value of the peso will be defined in terms of equal parts of both currencies.

10. The **policies to promote investment** and competitiveness that were put in place during 2000 will be boosted by a number of new measures the government has taken in recent weeks, including the reduction to zero of the extra-Mercosur import tariff on most capital goods, and the granting of tax subsidies for domestic producers of capital goods. At the same time, the extra-Mercosur import tariff on a range of consumer goods was temporarily raised to 35 percent to stimulate domestic production and employment in these sectors, while mitigating the fiscal impact of the tariff reduction on capital goods. These duties will return to Mercosur's common external tariff by the end of 2002. In addition, the government will lead a concerted effort to eliminate distortions and reduce costs in the productive sectors. This effort will center on "competitiveness plans" to be subscribed by the government, business, and labor in specific sectors, and will involve the elimination of distortive taxes and regulations, including by the provinces and municipalities, as well as through agreements with workers in regard to more flexible labor arrangements. The elimination of tax distortions will be gradually extended to the rest of the economy, as fiscal conditions allow. The tax incentives to promote investment described in the MEP of December 21, 2000 are being implemented, as well as a reduction in the VAT rate on capital goods to 10.5 percent, further reducing the financing cost of investment. The government is also accelerating the program of public works aimed at easing infrastructure bottlenecks and stimulating activity in the construction sector. The law authorizing the lease-and-operate programs for basic infrastructure was approved in March.

11. While efforts are proceeding to boost investment spending, the government is implementing several **structural measures aimed at promoting competition in domestic markets and facilitating a better allocation of capital and labor resources in the economy.** Using the new legislative powers the government has streamlined the anti-trust legislation and issued regulations for the Protection of Competition Law. Similarly, the new regulatory framework of the telecommunications sector is being implemented, permitting the government to proceed in the last quarter of 2001 with the auction of two third-generation telecommunications frequencies. Also, the government has recently issued enabling regulations for the labor market reform, which is proceeding well. All sectors with collective labor contracts that are still subject to the ultra-actividad clause (which retains in effect a pre-existing contract in the absence of a new agreement) will be required to renegotiate such contracts during a period not exceeding two years from end-June 2001, or they will be submitted to binding arbitration. Also, progress is being made to extend social security identification to hitherto unregistered workers affecting, among others, domestic employees. Such programs are now being extended to seasonal, youth, and part-time employees, and those in small and medium-sized enterprises (PYMES).

12. With the policy package now in place, the government expects confidence in the economy to improve and projects a recovery of economic activity through year-end, led by domestic consumption, and complemented later in the year by accelerating investment as the measures described above have their full effects. The government projects that real GDP growth will gradually accelerate to a pace of around 5 percent by year end, corresponding to **output growth in a range of 2-2.5 percent** for the year on average. **Inflation** is expected to remain subdued, owing to the absence of cost pressures, and unemployment is expected to begin declining as the recovery gains pace.

13. The external trade surplus is expected to increase to US$1.8 billion in 2001, as sustained growth of exports resulting from the coming on stream of investments in the chemical, paper and basic metal industries should more than offset lower external sales of agro-industrial products and the increase in imports associated with the expected economic recovery. The external current account deficit is expected to widen slightly, to the equivalent of 3.4 percent of GDP, with the improvement in the trade balance more than offset by a decline in interest earnings abroad. Because of the relatively long maturity of Argentina's external debt, total interest payments on external debt should not be affected significantly by the increase in spreads observed in recent months. Over the medium term, the current account is projected to narrow further, to under 3 percent of GDP, reflecting the continued improvement in the trade performance and a deceleration of the growth of interest payments, in line with the decline of the external debt in relation to GDP and lower interest rates. The bulk 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.

14. The government remains committed to achieving a sustained reduction of the public debt in relation to GDP over the medium term, which it regards as essential to reduce the country's vulnerability to events in the capital markets, and to lower risk spreads, and hence interest costs, for private and public borrowers, thereby promoting a recovery of economic activity. Attainment of these objectives is embodied in the **fiscal responsibility law** that establishes a path for the reduction of the federal budget deficit, including its elimination by 2005. Provincial governments subscribed to a similar undertaking in the **federal fiscal pact**. **The medium-term fiscal consolidation** is based on the freezing of nominal primary spending at the 2000 level by both the federal and provincial governments, and the strengthening of structural reforms, including in tax administration, the social security system, and in the public administration.

15. The deviation from the fiscal deficit target in the first quarter of 2001 reflected the effects from weaker tax performance and from nonimplementation of certain measures that, with unchanged policies, were projected to compound into a cumulative deviation for the year of as much as Arg$3.7 billion. This result is not acceptable to the government as it would violate the targets specified under the **Fiscal Responsibility Law** as well as those under the Fund program. **To ensure the attainment of the fiscal target for 2001**, the government therefore has introduced a package of additional measures amounting to Arg$3.8 billion (1.3 percent of GDP). These measures are centered on the financial transactions tax and the elimination of the VAT exemptions on the revenue side, and targeted tax cuts and improved efficiency on the expenditure side.

- The financial transactions tax went into effect in early April and applies on the debit and credit side of all checking account transactions, with few exemptions (e.g., transactions in household saving accounts, stock market operations, and salary payments). The tax is to expire at end-2002. The rate, initially set at 0.25 percent, was raised to 0.40 percent effective May 1 and the increase can be credited towards VAT and income tax payments. The tax is projected to yield about Arg$2.5 billion for the rest of the year.

- The elimination of VAT exemptions, together with the net effect of the changes in nominal tariffs on consumer and capital goods imports, and some other revenue measures are projected to yield in net terms Arg$0.4 billion in the remainder of 2001.

- Regarding expenditure measures, in April, the government issued an administrative order to cut discretionary expenditures in a number of ministries and agencies, projected to yield Arg$245 million through year-end.

- It also issued three decrees to improve the administration and reduce abuse in the system of family allowance and other selected programs of the social security administration (ANSES), projected to yield around Arg$180 million through year-end.
- In addition, the government will cut Arg$125 million in various programs with attached external financing, and obtain savings of Arg$250 million by clamping down on fraudulent welfare and social insurance claims, as well as unjustified pension payments and transfers to provincial pension funds, and other measures. The reform of the public administration will result in savings of Arg$50 million. The government is confident that with these measures the expenditure target under the program for the year will be attained, but is requesting modifications of the fiscal performance criteria for end-June and end-September.

16. The new measures that have been introduced greatly improve the **outlook for 2002,** when these measures will be in effect for the full year. In addition, the government intends to make a concerted effort to strengthen tax administration, reversing the deterioration that has occurred in this area. Therefore, and notwithstanding a projected increase in the interest bill and the nonrecurrence of certain nontax revenues, the government remains confident of its ability to meet the targets for 2002 specified in the Fiscal Responsibility Law.

17. The **financing plan for 2001** has been modified toward more domestic financing. In April, the government placed US$3.5 billion domestically, which more than compensated for the decision not to seek recourse to the international bond market in the remainder of 2001. Included in this placement was the issue of a bond for US$2 billion that banks can compute towards their liquidity requirements. This bond has a maturity of one year and had not been contemplated in the original financing program; the government request that the performance criterion on the short-term debt of the federal government be modified accordingly. The borrowing needs for 2001 are fully financed with the disbursements from official and bilateral sources, and the commitments of domestic participants already negotiated in December 2000, including through liability management operations. The government continues to attach utmost importance to market-based solutions for the concentration of maturities in the coming years, and is actively pursuing discussions on voluntary public debt exchanges to achieve a more even path of debt service obligations over time.

18. **The government is working with the provinces to strengthen the local public finances.** Preliminary estimates suggest that the provinces incurred a deviation of Arg$70 million from the indicative ceiling for their deficits (commitment basis) of Arg$0.6 billion in the first quarter of 2001, while the net increase in their debt during the same period was Arg$850 million--a deviation of Arg$250 million from the program--because of the cash settlement of certain commitments made in 2000. The adjustment and debt refinancing programs of provincial governments with the central government, now including eleven provinces, are working well, and those provinces are making progress in consolidating their finances. Moreover, in April 2001, the central government concluded an additional **agreement with the province of Buenos Aires**, which envisages the elimination of the fiscal deficit of the provincial government in four annual steps from a target of US$1.7 billion in 2001 to balance in 2005, and includes binding agreements on improving the health of the Bank of the Province of Buenos Aires. The agreement is an important step forward in Argentina's intergovernmental fiscal relations and enhances the coordination between the financing operations of the central and provincial governments. The deficit of US$1.7 billion in the province of Buenos Aires is higher than that projected last December; but stronger balances now expected in other jurisdictions, especially the City of Buenos Aires and the provinces of Mendoza, San Luis and Santa Cruz, make it possible to retain the program's original annual targets for the consolidated provincial deficit. The government requests that the quarterly (indicative) targets for the consolidated provincial

government deficits for end-June and end-September be revised slightly to reflect the compensation of the overrun in the first quarter of the year; the target for end-December remains unchanged. The targets on the debt of the consolidated public sector would also need to be modified. In May, the government will publish and post on the internet the first report on the implementation of the federal fiscal pact, explaining the actions taken by provincial governments to improve their legislation and to increase transparency in their operations, and indicating their progress in containing primary spending and reducing their deficits. In addition, the national government intends to request technical assistance from the Fund to explore possible new mechanisms to strengthen its ability to coordinate and control provincial government borrowing within the framework of the Argentine federal system.

19. To **improve tax administration**, the Internal Revenue Agency (AFIP) has completed the design of the national tax audit plan. Reallocations were made in the staffing of the agency, and to strengthen the internal independence of the auditing units, which have begun implementing the audits of 100,000 taxpayers, as envisaged in program. The program is ahead of schedule and already some 9,100 desk audits have been carried out--yielding, among others, valuable information on the reliability of the information systems--and the program is on track to be finished on schedule by the sixth review of the program. Plans are now being developed to cross-check the information obtained from the financial transactions tax with individual tax payers, which is expected to enhance tax compliance. In addition, the government is making progress in setting up special tax courts, and the judiciary has begun selecting specialized personnel in this area. The government has prepared plans to streamline tax payments facilities arrangements, with a view to increase transparency and reduce discretionality in this process. These plans will be put into effect in the coming months.

20. The government is proceeding with the **reform of the public administration** with a view to streamlining its activities, eliminating redundant entities and programs, reducing overlapping and duplication of functions across administrative units and levels of government, strengthening controls over procurement practices and the cost-effectiveness of spending programs, and boosting efficiency and the quality of services provided by the public administration. The special powers obtained by the Executive to act in these areas will result in a sharp acceleration of this process.

21. In late 2000, the government issued two decrees to reform the **pension system** and the **health organizations** (*Obras Sociales*). As described in the MEP of December 12, 2000 these reforms aim at strengthening the intertemporal solvency and equity of the pension system, and open up the health organizations to competition, while promoting efficiency in the provision of health care. Both decrees have since been challenged in the courts and the government has suspended them from going into effect to help advance a negotiated solution to these challenges, and to prevent inequities resulting from an uneven implementation of the decrees. The government is committed to both initiatives as they represent essential building blocs to improve economic efficiency and fiscal sustainability in the medium term. The decrees are expected eventually to be upheld by the courts. Nevertheless, the government sees now a possibility to obtain agreement in Congress on a draft law to reform the pension system that would not only obey the principles underlying the questioned decree but would improve upon it on several key aspects. The government intends to introduce this draft legislation to congress in the coming months. The restructuring of the **health system for retirees** (*PAMI)* is proceeding well and the transfers (including PAMI's own revenue) from the Treasury to PAMI are limited at US$200 million a month, as was envisaged in the restructuring program.

22. **The government will maintain the strong liquidity and capitalization defenses of the banking system,** which are essential to buttress confidence and permit the recovery of the economy. The importance of keeping ample liquidity reserves was demonstrated during the recent episode of financial difficulties when, to confront a decline in deposits in March, the central bank could maintain adequate liquidity conditions by reducing the liquidity requirements by two percentage points to 18 percent. During the remainder of 2001, as deposits recover, this reduction will be reversed.

23. The government has also introduced changes to the Charter of the central bank to allow **regulatory changes that will lower costs for banks and remove a number of distortions that inhibited the development of checking accounts.** In particular, the central bank will now distinguish between liquidity requirements applied to time deposits and reserve requirements applied to checking and savings accounts. In regard to liquidity requirements, banks will operate as until today. On reserve requirements, they will be authorized to count cash in vault toward meeting the requirements, as well as to fulfill requirements against peso liabilities with public sector bonds denominated in pesos. The modifications to the Charter of the central bank will also allow it to remunerate reserve requirements. Given the paramount importance of maintaining an adequate level of prudential protection of the banking system, particularly in connection with time deposits, which show the largest reaction to instability in financial markets, the incorporation of cash in vault and government bonds to the reserve requirements will be fully offset by accordingly raising the statutory ratio of liquidity requirements on time deposits. Furthermore, the central bank will not authorize banks during the remainder of 2001 to increase the amount of bonds held as part of their liquidity requirements.

24. With a view to fostering the development of domestic capital markets, the government will enact shortly, with the new delegated powers, **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. Also, recently, a first round of discussions on the FSAP has been held, and the assessment is expected to be completed by the next review of the program.

25. With a view to help reactivate investment spending, the government has reached an agreement with other Mercosur countries to reduce temporarily the custom duties on non-Mercosur imports of capital goods to zero. At the same time, custom tariffs have been increased on a number of consumption good imports, up to a rate of 35 percent. These trade policy changes are estimated to affect about 28 percent of non-Mercosur imports, and to result in a slight increase in Argentina's average tariff from 11.6 percent to 11.8 percent of non-Mercosur imports. They shall not remain in effect beyond end-2002 and do not, in any way, signal a departure from Argentina's commitment, either to Mercosur, or to the recent agreement reached with 34 other countries of the Western Hemisphere, to complete negotiations for the Free Trade Area of the Americas by January 2005.

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-June 2001 (performance criterion)	-4,939
End-September 2001 (performance criterion)	-6,249
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 subject to the following adjustors:

a) The limits 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;

b) The limits will be adjusted downward (i.e., the deficit will be allowed to rise) by the early payment of accrued interest on bonds surrendered in bond exchanges, and upward by the extinction of the obligation to continue to pay interest on the same bonds after the exchange. Should the bonds issued in exchange for the bonds rescued carry coupons due at some point in 2001, those coupons should be netted out of the upward adjustor just mentioned;

c) The end-June 2001 and end-September 2001 limits will be adjusted upward by the value of the nontax revenue from the sale of collateral released through the rescue of Brady bonds effected through those dates;

d) The end-December 2001 limit will be adjusted downward by fifty percent of the shortfall in revenue from the concession of telecommunication frequencies relative to the amount envisioned in the program (US$800 million).

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

Cumulative primary expenditures of the Fed. Gov.	**Limit (ceiling, in millions of Arg$)**
End-June 2001 (performance criterion)	26,657
End-September 2001 (performance criterion)	40,184
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-June 2001 (indicative)	-1,450
End-September 2001 (indicative)	-2,080
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 and including all interest on bonds issued by the province of Buenos Aires to recapitalize *Banco Provincia*, 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-June 2001 (performance criterion)	5,039
End-September 2001 (performance criterion)	6,399
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, and for the capitalization of interest on previously issued consolidation bonds), 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;

k) Upward by the early payment of accrued interest on bonds surrendered in bond exchanges, and downward by the extinction of the obligation to continue to pay interest on the same bonds after the exchanges. Should the bonds issued in exchange for the bonds rescued carry coupons due at some point in 2001, those coupons should be netted out of the downward adjustor mentioned in the last sentence;

l) The limits for end-June 2001 and end-September 2001, downward by the value of the nontax revenue from the sale of collateral released through the rescue of Brady bonds effected through those dates;

m) The end-December 2001 limit will be adjusted upward by 50 percent of the shortfall in revenue from the concession of telecommunication frequencies relative to the amount envisioned in the program (US$800 million).

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

Cumulative change in federal short term debt	**Limit (ceiling, in millions of Arg$)**
End-June 2001 (performance criterion)	3,500
End-September 2001 (performance criterion)	3,500
End-December 2001 (performance criterion)	3,500

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).

Cumulative change in debt of the CPS	Limit (ceiling, in millions of Arg$)
End-June 2001 (performance criterion)	6,639
End-September 2001 (performance criterion)	8,524
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; (c) upward by the nominal value of the bond issued by the province of Buenos Aires to clean up bad loans from the balance sheet of Banco Provincia, net of the book value of any loans that, having become nonperforming after March 31, 2001, may be acquired by the provincial government as part of this operation; and (d) 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. (prel.)	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	2,152	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).

Structural Benchmarks

Tax administration

- Implementation of plans to streamline tax payments facilities arrangements (4th review)
- Completing 80,000 desk audits (5th review)
- Completing 100,000 desk audits (6th review)
- Full implementation of the Tax Frauds Tribunal (6th review)

Social Security Reforms

- Implementation of restructuring plan for family allowances (4th review)
- Submission to congress of draft law on pension reform (4th review)

Provincial finances

- Publication by the Ministry of Economy of quarterly public reports on the implementation by the federal government and each province of commitments undertaken in *pacto federal* (starting with 3rd review)

Financial system

- Presentation of draft legislation to facilitate the process of banking resolution (5th review)

Trade policy

- Announcement of the timetable for the elimination of the CET surcharge by end 2002 (4th review)

Competition and deregulation

- Regulatory proposal for ports system (4th review)
- Implementation of new regulatory framework in the telecommunications sector (5th review)

Argentina: Quantitative Performance Criteria for 2001–02[1 2]
(In millions of Argentine pesos or U.S. dollars)

	Revised Program			
	Jan–Jun 2001	Jan–Sep 2001	Jan–Dec 2001	Jan–Dec 2002
1. Cumulative balance of the	(4,939)	(6,249)	(6,500)	(5,000)

Federal Government				
2. Cumulative primary expenditure of the Federal Government	26,657	40,184	53,212	. . .
3. Cumulative consolidated balance of the Provincial Governments[3]	(1,450)	(2,080)	(2,760)	(2,000)
4. Cumulative change in the debt of the Federal Government	5,039	6,399	6,700	5,000
5. Cumulative change in the short-term debt of the Federal Government	3,500	3,500	3,500	. . .
6. Cumulative change in the debt of the Consolidated Public Sector	6,639	8,524	9,460	7,000
7. Stock of net domestic assets of the Central Bank	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]Indicative.

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[1]The program is described in detail in the Memoranda of Economic Policies (MEPs) of February 14, September 5, and December 21, 2000.