

8. Performance criterion on adjusted Net Domestic Assets (NDA) of the BCRA

Net Domestic Assets	Ceiling (in millions of Arg\$)
End-January 2003 (performance criterion)	52,265
End-March 2003 (performance criterion)	52,665
End-May 2003 (indicative)	52,215
End-June 2003 (indicative)	51,415

The adjusted net domestic assets (NDA) of the BCRA are defined as the difference between adjusted monetary base and net international reserves (NIR) of the BCRA.

The NDA ceiling will be adjusted by the equivalent of net flows in foreign currency from the IFIs from January 1, 2003 that do not affect the external liabilities of the central bank.

III. STRUCTURAL PERFORMANCE CRITERIA AND BENCHMARKS

9. Continuous performance criteria, structural performance criteria, and structural benchmarks under the program are detailed in Box 1 (Attachment).

IV. PROGRAM ACCOUNTING RATES

	Jan. 2003	March 2003	May 2003	June 2003
Arg\$/US\$1 (e.o.p.)	3.85	3.85	3.85	3.85
US\$/SDR (e.o.p.)	1.32408	1.32408	1.32408	1.32408
US\$/Euro	1.02	1.02	1.02	1.02
US\$/CAD\$	1.58	1.58	1.58	1.58
US\$/JPY	121.63	121.63	121.63	121.63
US\$/CHF	1.48	1.48	1.48	1.48
US\$/GBP	0.64	0.64	0.64	0.64
CER coefficient (e.o.p.)	1.47	1.59	1.68	1.73

Any variable that is mentioned herein for the purpose of monitoring a performance criterion or indicative target and that is not explicitly defined, is defined in accordance with the Fund's standard statistical methodology, such as the Government Financial Statistics. For variables that are omitted from the TMU but that are relevant for program targets, the authorities of Argentina shall consult with the staff on the appropriate treatment based on the Fund's standard statistical methodology and program purposes.



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Washington, D.C. 20431 USA

IMF Approves Transitional Stand-By Credit Support for Argentina

The Executive Board of the International Monetary Fund (IMF) approved today an eight-month, SDR 2.17 billion (about US\$2.98 billion) Stand-by Credit Arrangement for Argentina that is designed to provide transitional financial support through the period ending August 31, 2003, and which replaces Argentina's previous arrangement with the Fund (see [Press Releases No. 01/37](#), [No. 01/3](#) and [No. 00/17](#)). This arrangement is designed to cover all payment obligations to the IMF through August 2003.

In addition to approval of the credit arrangement, the Executive Board approved the authorities' request to extend by one year SDR 2.77 billion (about US\$3.80 billion) in payments Argentina would have been expected to make during the first eight months of 2003. This extension would cover Argentina's remaining payment under the Supplemental Reserve Facility (SRF) of SDR 2.09 billion (about US\$2.87 billion) and payments of SDR 683.65 million under the previous Stand-by arrangement (about US\$938.20 million). This extension is allowed under the Fund's general policies governing such payment expectations, including policies under the SRF, which states that an extension can be granted if repayment would cause undue hardship and provided the borrower is taking actions to strengthen its balance of payments. At the end of the extension the country is obligated to repay the SRF financing.

The combined actions of the Executive Board affect SDR 4.94 billion (about US\$6.78 billion) in payment obligations or expectations in the period January-August 2003. These actions were taken with the expectation that the transitional stand-by credit will be succeeded by a multi-year IMF arrangement after the election in late April 2003 of a new government, and that the subsequent medium-term program will anchor support by the international financial institutions for more comprehensive economic reforms in Argentina.

Argentina has cleared its arrears to the World Bank and the Inter American Development Bank, enabling these institutions to resume their support.

Following the 24-member Executive Board's discussion of Argentina, Mr. Horst Köhler, Managing Director and Chairman of the Board, stated:

"The IMF Executive Board has approved the Argentine authorities' requests for a Stand-By Arrangement and the extension of repurchase expectations arising during the period of the

arrangement through August 2003. These requests were approved in the context of a short-term economic program that seeks to preserve macroeconomic stability through the transition to a new government that is expected to take office in May. In addition, the program provides a framework for the multilateral development banks to resume their support of social programs following Argentina's recent clearance of arrears to them.

"The transitional program is focused on maintaining monetary and fiscal discipline, avoiding policy reversals, and rebuilding legal certainty. Its implementation will be monitored closely by the authorities and the IMF. The monetary program envisages that monetary policy will provide an anchor for inflation expectations, while the fiscal program calls for firm control over primary expenditures at the federal and provincial levels. The authorities intend to work closely with the Congress to secure approval of the revenue measures needed to meet the fiscal targets. The program provides for a strong social safety net that is being implemented in collaboration with the World Bank and the IDB. To prepare the ground for the successor government, the authorities will formulate the needed fiscal structural reforms to broaden the tax base, improve tax administration, and reform intergovernmental relations to help deliver medium-term fiscal sustainability.

"The program contains steps towards a banking strategy. The regulatory and prudential framework is being strengthened, the reform of the public banks will be initiated, and central bank autonomy increased. Another key aspect of the program is the commitment to enhance collaboration with private creditors on a debt restructuring strategy, which should gain momentum following the early appointment of a debt advisor.

"The transitional program is viewed as a step to a comprehensive medium term program which is needed to re-establish investor confidence and capital inflows, achieve fiscal and external viability, and establish sustainable growth in Argentina. Such a program would need to carry forward fundamental reforms in many areas. These include structural fiscal reforms to raise substantially the consolidated primary fiscal surplus of the federal government and the provinces over the medium term, increase the openness of the economy, restore financial intermediation, complete the process of debt restructuring, and assure legal certainty and respect for the rule of law. Regarding the agenda ahead is, therefore, necessarily ambitious, and Executive Directors emphasized that the key to a durable improvement in the economic situation lies in the actions that Argentina takes itself," Mr. Köhler stated.

ANNEX

Program Summary

The Argentine authorities view the transitional program as a step to a comprehensive program required to restore fiscal and external viability. By maintaining macroeconomic stability during the presidential election period, the authorities hope the program will create conditions that will facilitate a successor government, which is expected to take office in late May, to adopt a comprehensive medium-term economic program.

The transitional program is focused on **monetary and fiscal policies**, and steps towards banking reform, during the first half of 2003. The monetary program seeks to restrain monetary growth so as to establish a nominal anchor and to avoid inflationary pressure. The program is centered around maintaining the adjusted monetary base broadly at its end-December 2002 level through mid-2003. Operationally, the authorities will seek to control the monetary base by acting on net domestic assets of the central bank and limiting sales of foreign exchange reserves for intervention, within the framework of a continued flexible exchange rate policy. The **monetary program** would be reviewed regularly and the authorities have committed to adopt corrective measures as necessary.

The **fiscal program** seeks to secure a consolidated cash **primary surplus** of about 2.5 percent of GDP in 2003. In order to reach the primary surplus target and for the fiscal gap to be consistent with the monetary program, a number of spending cuts, revenue measures and the elimination of certain tax exemptions will need to be approved by Congress by end-March 2003. Provincial adjustment is being achieved through spending controls and administrative reforms and is to be underpinned by the bilateral agreements for 2003 that are planned to be ratified by provincial legislatures by mid-May 2003.

The authorities intend to complement core monetary and fiscal policies with a number of **structural measures** aimed at paving the way to a more comprehensive approach under a successor program. The implementation of the initial strategy includes institutional and legal reforms to strengthen the framework for banking sector restructuring, including preliminary steps toward reform of public banks, revisions to prudential regulations, and measures to enhance the autonomy of the central bank. Other measures include tax reform aimed at broadening the tax base, and the reform of intergovernmental relations to encourage fiscal discipline in the provinces.

The Argentine authorities have committed to remain current on the government's financial obligations to the IMF under the program.