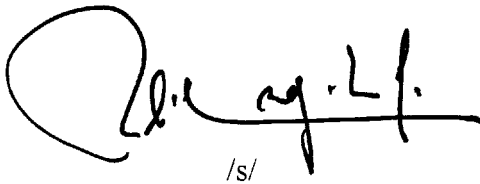


Ministro de Economía y Producción

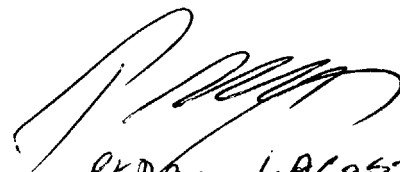
As we implement our program, we will continue to maintain a close policy dialogue with the Fund and the rest of the international community.

Yours sincerely,



/s/

Dr. Roberto Lavagna
Minister of Economy and Production



PEDRO LACOSTE
ACTING AS PRESIDENT
/s/

Lic. Alfonso Prat Gay
President of the Central Bank of
Argentina

Statement by the IMF Staff Representative
January 28, 2004

1. The following information on recent developments and policy implementation has become available since the circulation of the staff paper on the first review under the Stand-By Arrangement. The thrust of the staff appraisal remains unchanged.

I. RECENT DEVELOPMENTS AND INDICATORS

2. **Recent data point to continued rapid economic growth, rising confidence, and stable financial variables.**

- The monthly indicator of economic activity increased by 0.7 percent in November 2003, bringing the year-on-year increase to 8.7 percent. For 2003 as a whole, industrial production rose by 16.3 percent—even though production slightly fell in December—and is now about 7 percent below the pre-crisis level (Figure 1).
- According to a Ministry of Labor study, roughly 120,000 (out of a total of 2.1 million) beneficiaries of the *Heads of Household* employment support program had found formal sector jobs during 2003.
- Consumer and business confidence continue to strengthen, on the back of high approval ratings of President Kirchner (Figure 2).
- On January 19, 2004, the consensus forecast for growth in 2004 was raised to 6.1 percent (from 5.3 percent a month earlier), while the 2004 inflation forecast was slightly reduced to 7.3 percent (from 7.6 percent).
- During the month of January, the peso has traded narrowly in the range of Arg\$2.86 to 2.93 per U.S. dollar; the central bank has made net purchases of about US\$480 million; interest rates have continued to inch downward; and stock prices have risen (Figure 3).

II. POLICY IMPLEMENTATION

3. **The following developments have taken place with respect to policy implementation.**

- **The end-December monetary performance criteria on net domestic assets and net international reserves of the BCRA were met with wide margins** (Table 1). At end-December 2003, the augmented monetary base was slightly below the program indicative target. On January 21, the BCRA issued the second quarterly inflation report in an effort to guide inflation expectations and lay the foundations for an inflation targeting framework.

- **The end-December 2003 performance criterion on the cumulative primary balance of the federal government was met** by a margin of about ¼ percent of GDP (taking the federal primary surplus to 2.4 percent of GDP). This outcome, together with lower-than-programmed interest payments, contributed to a 0.4 percent of GDP overperformance with respect to the end-December 2003 indicative target for the (cumulative) overall cash balance of the federal government. A waiver of applicability of the debt-related performance criterion is sought, as actual data are not yet available.
 - **On preliminary data, the end-December 2003 cumulative provincial primary surplus was better than programmed by about 0.3 percent of GDP**, bringing the 2003 provincial primary surplus to an estimated 0.7 percent of GDP. Half of the 0.6 percent of GDP revenue overperformance is estimated to have been used to finance higher-than-planned capital and current primary spending. The continuous structural benchmark on the timely provision of financing data for the provinces was met with respect to the end-November data.
 - **The 2003 consolidated primary surplus is now estimated at about 3 percent of GDP, or ½ percent of GDP above the program target.** The overperformance can be roughly attributed in equal measures to better-than-expected outturns for the federal and provincial accounts.
 - **Additional progress has been made in finalizing the 2004 bilateral agreements.** Thus far, 11 out of 24 provinces have signed bilateral agreements with the federal government, and four of these, which represent over 90 percent of the 2002 overall provincial deficit, have been ratified by the provincial legislatures.¹
 - **On January 23, the BCRA further eased remaining exchange controls.** The amount of foreign currency that individuals and companies can purchase without previous authorization was doubled to US\$1 million per month, and the time period for importers to provide evidence on purchases of foreign currency to finance the pre-payment of imports was extended from 180 to 360 days.
4. **Certain provisions in the authorities' anti-tax evasion legislation create, in the staff's view, a new tax amnesty, thereby breaching a continuous structural performance criterion** (Box 1). The authorities do not agree that the legislation contains a tax amnesty, but is rather an arrears regularization program. In the staff's view there is an amnesty element, but this is of minor importance and, for this reason, the staff proposes that a waiver be granted. Specifically, law 25,865, which was recently introduced to strengthen the small taxpayer regime and reduce abuses, provides for a reduction of interest accrued on late payments and a waiver of penalties to encourage

¹ The ratification of bilateral agreements by provinces representing at least 100 percent of their 2002 deficit is an end-March 2004 structural performance criterion.

these taxpayers to pay their overdue tax arrears and register to pay taxes.² Staff considers that this law, which was made effective on January 15, 2004, introduces many positive elements that would help reduce tax evasion and strengthen future compliance and revenues. Moreover, the scope of the tax amnesty is limited both in its duration (1 year) and coverage (the small taxpayers regime contributes only about 1 percent of federal tax revenues).

5. **On January 26, 2004 the government issued implementing regulations on the compensation to banks for losses from the asymmetric indexation of balance sheets.**

As envisaged in the enabling law: (i) compensation will be in the form of a *peso*-denominated bond paying a variable rate comparable to that of banks' funding costs; and (ii) compensation will be effected in the same measure as the increase in banks' gross lending (including certain types of refinancing) since February 3, 2002. Staff is studying the implementing regulations and, particularly, the significance of the link of compensation to lending and refinancing, and its impact on different banks.

² Overdue interest payments were reduced by 50 percent and were capped at 30 percent of the principal value of tax obligations. Principal obligations were made payable up to five years, at an annual interest rate of up to 6 percent. Further interest rate reductions are envisaged, in the event tax arrears are paid ahead of schedule or through automatic bank debit.

**Box 1. Structural Performance Criteria and Structural Benchmarks:
September 2003–March 2004**

I. Performance Criteria	
<p><i>Continuous performance criteria</i></p> <ul style="list-style-type: none"> • Nonaccumulation of arrears to bilateral and multilateral creditors. • No new tax amnesties (MEFP ¶29). 1/ • No statute or other legal instrument will be adopted that provides a means for any involuntary suspension or other restraint of creditors rights (MEFP ¶50). 	<p>Observed Waiver proposed Waiver proposed</p>
<p><i>End-November 2003</i></p> <ul style="list-style-type: none"> • Congressional approval of tax administration reform legislation (MEFP ¶39). 	<p>Waiver proposed (legislation approved in December 2003)</p>
<p><i>End-December 2003</i></p> <ul style="list-style-type: none"> • Congressional approval of 2004 federal budget that is consistent with a primary surplus target of 2.4 percent of GDP in 2004 for the federal government (MEFP ¶12). • All competitiveness plans to be eliminated (MEFP ¶12). • Finalize the compensation to banks for losses associated with asymmetric <i>pesoization</i> and indexation (MEFP ¶12). • Terminating temporary forbearance on private loan classification and provisioning (MEFP ¶39). • Congressional approval of legislation on the framework for utility concessions (MEFP ¶45). 	<p>Observed Waiver proposed (legislation passed in December, made effective from January 21, 2004) Waiver proposed (reset to end-March 2004) Observed Observed</p>
<p><i>End-March 2004</i></p> <ul style="list-style-type: none"> • The federal government and a critical mass of provincial governors to reach agreement on the principles for intergovernmental reform and fiscal responsibility legislation (MEFP ¶31) • Federal-provincial bilateral agreements shall become effective through their ratification by the provincial legislatures representing at least 100 percent of 2002 consolidated provincial deficit (MEFP ¶17). 	<p>Pending Pending</p>
II. Structural Benchmarks	
<p><i>Continuous</i></p> <ul style="list-style-type: none"> • Provide Fund staff with monthly information on provincial government financing with a delay of less than 55 days. 	<p>October data reported with minor delay. Observed for November data</p>
<p><i>End-October 2003</i></p> <ul style="list-style-type: none"> • Government to announce the scope of public debt to be restructured, the treatment of initial claims and past due interest, and the general terms of the new debt instruments to be issued in the exchange (MEFP ¶19). 	<p>Observed</p>
<p><i>End-December 2003</i></p> <ul style="list-style-type: none"> • Report of working group on Insolvency Law reform (MEFP ¶48) 	<p>Proposed to be moved to end-January</p>
<p><i>End-February 2004</i></p> <ul style="list-style-type: none"> • Complete selection of accounting and consulting firms to begin the strategic review of the two largest public banks (MEFP ¶38). 	<p>Proposed to be moved to end-April</p>
<p><i>End-March 2004</i></p> <ul style="list-style-type: none"> • Working group charged with the design of reforms of the central bank charter to publish report containing its key findings and recommendations (MEFP ¶34). • Launch of second tax administration reform focusing on improving customs administration and social security collections (MEFP ¶29). • Elimination of arrears on VAT refunds to exporters (MEFP ¶13). 	<p>Pending Pending Arrears eliminated by end-November 2003</p>

1/ Refers to the MEFP dated September 10, 2003.

Table 1. Argentina: Quantitative Performance Criteria and Indicative Targets, 2003–04 1/

(In millions of Argentine *pesos*, unless otherwise noted)

	Actual End-Sept. 2003	End-October 2003			End-December 2003			Performance Criteria		Indicative Targets	
		Target	Adjusted Target 2/	Actual	Target	Adjusted Target 2/	Actual	End-Mar. 2004	End-Jun. 2004	End-Sept. 2004	End-Dec. 2004
Fiscal targets											
1 Cumulative primary balance of the federal government (floor)	7,137	6,940	6,940	8,100	7,790	7,790	8,677	1,100	5,550	7,780	10,000
2 Cumulative overall cash balance of the federal government (indicative target)	1,736	600	600	2,227	350	350	1,886	-670	2,130	2,560	3,150
3 Federal government debt stock (ceiling, in billions of <i>pesos</i>) 3/	438	520	497	494	530	...	...	540	550	560	570
4 Stock of federal government arrears (indicative target)	4,625	4,590	4,590	3,965	5,000	5,000	3,786	4,170	5,070	3,970	4,660
5 Cumulative primary balance of the provincial governments (indicative target)	2,646	...	...	...	1,480	1,480	...	180	1,290	2,230	2,480
6 Consolidated public sector debt stock (indicative target, in billions of <i>pesos</i>)	494	542	519	516	552	...	...	563	574	584	594
Monetary targets											
7 Stock of net international reserves of the central bank (in millions of U.S. dollars) (floor) 3/ 4/	...	-4,500	-5,118	-4,189	-4,400	-5,060	-3,178	-4,350	-3,500	-3,300	-2,400
8 Stock of augmented monetary base (indicative target) 5/	...	44,305	44,305	44,379	47,770	47,770	46,892	46,260	49,320	49,625	53,805
9 Stock of augmented net domestic assets of the central bank (ceiling)	...	57,355	59,147	56,527	60,530	62,443	56,108	58,875	59,470	59,195	60,765
10 Consultation mechanism on projected end-2004 inflation (indicative target)											
Upper limit (in percent)	...	...	...	...	11.0	11.0	...	11.0	11.0	11.0	...
Lower limit (in percent)	...	...	...	...	7.0	7.0	...	7.0	7.0	7.0	...

1/ As defined in the Technical Memorandum of Understanding attached to the September 10, 2003, Letter of Intent.

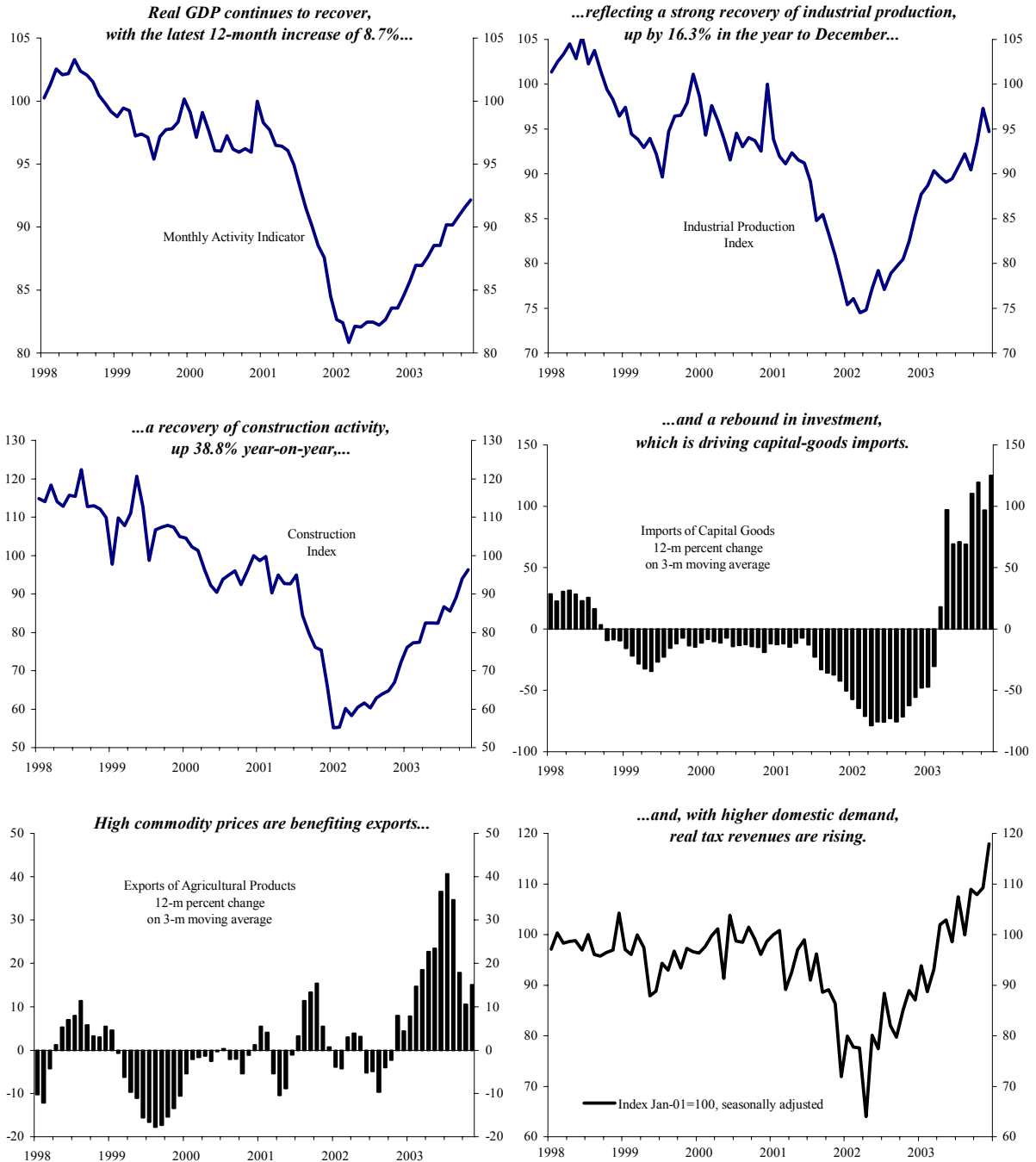
2/ The targets have been adjusted in line with the Technical Memorandum of Understanding.

3/ The following accounting exchange rates apply: Arg\$/US\$=2.9, US\$/SDR=1.3875, Euro/US\$=0.869, CAD\$/US\$=1.347, CHF/US\$=1.351, JPY/US\$=119.78, GBP/US\$=0.604, Gold (\$ per ounce)=371.0

4/ End-October GIR data exclude Uruguay bond holdings.

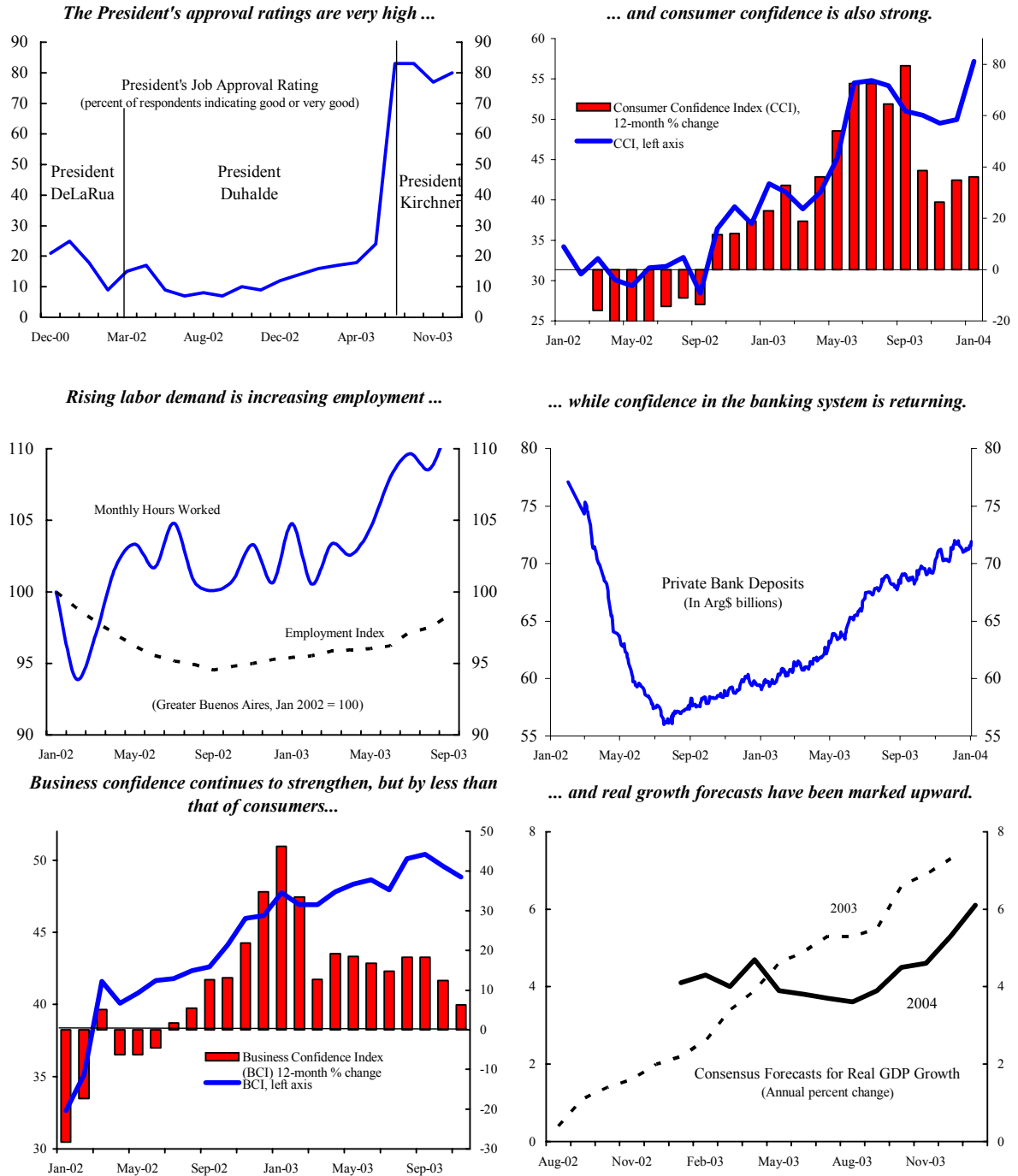
5/ Includes quasi-monies in circulation.

Figure 1. Argentina: Indicators of Real Activity
Index Dec-2000 = 100, except where noted



Sources: Ministry of Economy of Argentina; and INDEC.

Figure 2. Argentina: Confidence Indicators



Sources: Ministry of Economy of Argentina; INDEC; IPSOS-MORA y ARAUJO; JP Morgan.