

EBS/84/149

CONFIDENTIAL

July 11, 1984

To: Members of the Executive Board
From: The Acting Secretary
Subject: Argentina - Real Effective Exchange Rate - Information Notice

There is attached for the information of Executive Directors an information notice on a change in the real effective exchange rate of the peso argentino.

Att: (1)

INTERNATIONAL MONETARY FUND

ARGENTINA

Real Effective Exchange Rate--Information Notice

Prepared by the Western Hemisphere and Exchange and
Trade Relations Departments

(In consultation with other departments)

Approved by E. Wiesner and Manuel Guitián

July 10, 1984

The recent evolution of Argentina's real effective exchange rate as measured by the standard index developed in connection with the information notice system is set out in the attached table and chart. Based on this index, as of May 1984 the peso argentino has appreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss Argentina's exchange rate policy--a review in August 1983 of the stand-by arrangement approved earlier in that year. The appreciation is estimated to have amounted to 15.3 percent.

The index for the information notice system indicates that from January 1983 (when the 1983 stand-by arrangement was approved) to December 1983, the peso appreciated in real terms by 23 percent. Upon taking office in December 1983, the new authorities indicated that they would continue with the system of daily adjustments of the exchange rate and that they would attempt to maintain the competitiveness of the peso by adjusting the exchange rate in line with domestic inflation. However, since February 1984 the projections of inflation used to adjust the exchange rate have fallen short of actual inflation, and although the monthly rate of depreciation (in terms of pesos per U.S. dollar) was stepped up from 11-12 percent in February and March to 16 1/2 percent in May, it was not sufficient to prevent a further real appreciation. As measured by the standard index, the peso appreciated by 19 percent from December 1983 to May 1984, bringing the total real appreciation since January 1983 to 45 percent.

In the recently concluded Article IV consultation mission with Argentina, the staff emphasized the importance for economic growth and the balance of payments of an appropriate exchange rate. The adequacy of the present real exchange rate was reviewed and the staff pointed to a number of indicators (including relative labor costs) that also suggested that the competitiveness of the peso had been eroded substantially since early 1983. The Argentine authorities said that they would maintain the existing level of competitiveness but questioned whether a substantial corrective exchange rate action was needed. They noted that

the value of the peso in early 1983 had been very low by historical standards, and expressed the view that with the present exchange rate policy the balance of payments was performing quite well. They also indicated that they would be prepared to adjust the real exchange rate in the future, if this was called for by balance of payments developments. Exchange rate policy and developments will be discussed in full in the forthcoming staff report for the Article IV consultation.

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Table 1. Argentina: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

	Real Effective Exchange Rate <u>1/2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currency)	Exchange Rate (U.S. dollars per National Currency)	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
<u>Quarterly</u>						
1978						
I	46.31	257.31	18.1	277.48	12.8	12.9
II	51.15	222.09	23.1	238.99	16.8	16.8
III	56.32	202.08	27.9	222.78	20.9	20.6
IV	60.54	175.71	34.5	196.56	26.4	26.4
1979						
I	66.76	153.21	43.7	169.03	34.5	34.8
II	73.01	137.57	53.2	148.11	43.4	43.3
III	79.59	121.16	65.8	131.12	55.9	55.5
IV	82.94	112.39	73.8	118.32	65.6	65.7
1980						
I	87.60	106.64	82.2	108.69	76.8	77.8
II	96.70	101.32	95.5	101.53	93.2	92.3
III	100.57	95.90	104.9	96.51	106.7	105.9
IV	111.67	96.41	115.8	93.26	123.4	124.0
1981						
I	114.25	91.52	125.0	83.71	139.5	141.9
II	90.59	59.82	152.8	50.94	177.7	174.7
III	84.31	44.99	187.9	35.83	227.0	225.4
IV	76.36	35.07	218.4	28.18	273.8	276.0
1982						
I	61.67	23.27	265.2	17.87	344.0	351.1
II	55.84	18.34	305.5	13.53	411.0	401.7
III	47.04	11.46	416.7	8.03	581.3	576.6
IV	39.70	6.97	576.0	4.70	827.8	836.3
1983						
I	38.44	4.86	795.4	3.21	1,182.1	1,210.0
II	41.89	3.81	1,103.4	2.35	1,707.3	1,661.0
III	46.23	2.97	1,570.9	1.72	2,550.5	2,529.5
IV	45.51	1.90	2,438.4	1.05	4,164.5	4,210.7
1984						
I	44.31	1.24	3,612.6	0.66	6,452.6	6,615.0
<u>Monthly</u>						
1983						
Aug. <u>3/</u>	46.35	2.99	1,550.1	1.72	2,509.6	2,474.6
Sept.	48.21	2.65	1,815.7	1.50	2,994.2	3,003.3
Oct.	46.18	2.22	2,079.6	1.26	3,497.9	3,513.1
Nov.	45.47	1.88	2,421.5	1.04	4,127.5	4,188.8
Dec.	44.89	1.60	2,814.1	0.86	4,868.1	4,930.3
1984						
Jan.	41.85	1.38	3,035.2	0.73	5,324.9	5,547.1
Feb.	43.87	1.24	3,541.7	0.66	6,324.1	6,490.1
Mar.	47.20	1.11	4,261.0	0.59	7,709.0	7,807.6
Apr.	51.01	1.00	5,115.9	0.52	9,383.0	9,252.0
May	53.44	0.88	6,104.6	0.45	11,342.5	10,834.1
Percentage change Aug. 1983- May 1984	15.3	-70.7	326.2	-73.9	452.0	437.8

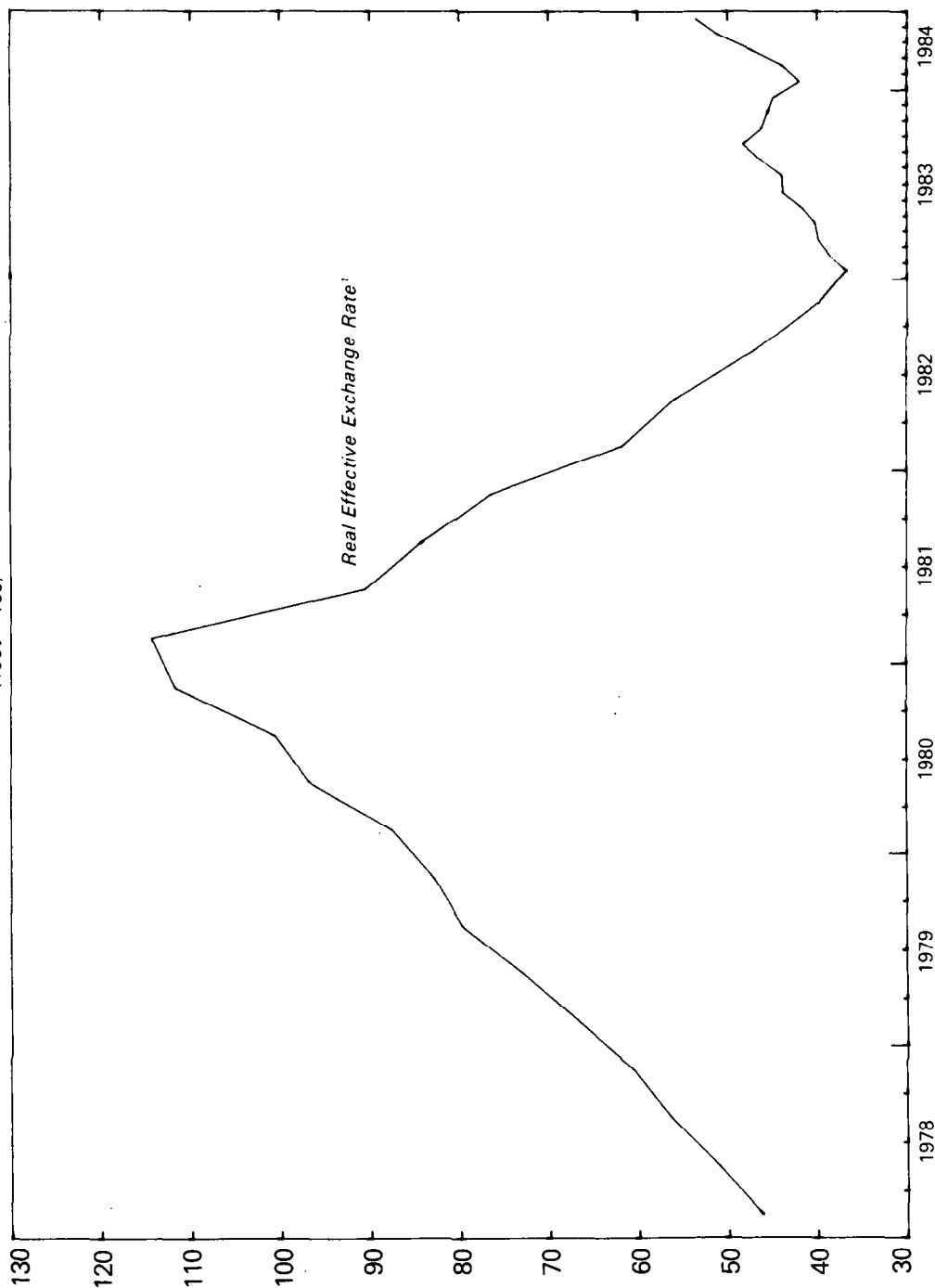
1/ Increases mean appreciation.

2/ Using seasonally adjusted price indexes.

3/ Date of latest consideration by Executive Board.

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ARGENTINA INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE (1980 = 100)



Trade weighted index of nominal exchange rates deflated by seasonally adjusted consumer prices; increase means real appreciation