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October 16, 1996

To: Members of the Executive Board  
From: The Associate Secretary  
Subject: Argentina - Selected Issues and Statistical Appendix

This paper provides background information to the staff report on the 1996 Article IV consultation discussions with Argentina, the first review under the stand-by arrangement, and request for waiver and modification of performance criteria, which was circulated as EBS/96/161 on October 9, 1996.

Mr. Reichmann (ext. 38610), Mr. Traa (ext. 36876), or Mr. Catão (ext. 34372) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

ARGENTINA

Selected Issues and Statistical Appendix

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Approved by the Western Hemisphere Department

October 16, 1996

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Argentina--Basic Data

Social and demographic indicators

Area	2,780.4 thousand sq. km.
Population (1995)	34.8 million
Annual rate of population growth (1980-95)	1.4 percent
Crude birth rate (1992)	20 per 1,000
Crude death rate (1992)	9 per 1,000
Infant mortality (1993)	23.6 per 1,000 live births
Population per physician (1990)	374
Population per hospital bed (1990)	217
Access to electricity (1989)	95 percent of population
Energy consumption per capita (1993)	1,351 kg. of oil equivalent
Per capita intake of calories (1982-85)	119.2 percent of requirement
Per capita protein intake (1990)	101 grams per day
Adult literacy rate (1993)	96.3 percent
Primary school enrollment (1991)	100 percent
Unemployment rate (May 1996)	17.1 percent

<u>GDP (1995)</u>	SDR 183.2 billion
	US\$280.4 billion
	Arg\$280.4 billion

<u>GDP per capita (1995)</u>	SDR 5,268
	US\$8,063

	1991	1992	1993	1994	Prel. 1995
<u>Origin of GDP</u>			(In percent)		
Agriculture, livestock and fishing	8.5	7.8	7.3	7.1	7.6
Mining	2.3	2.3	2.3	2.4	2.7
Manufacturing	27.4	27.0	26.6	25.8	25.2
Construction	5.0	5.6	5.8	6.3	5.9
Electricity, gas, and water	2.0	1.9	2.0	2.0	2.2
Commerce	16.6	16.7	16.4	16.5	16.0
Transport and communications	4.8	5.0	5.0	5.0	5.3
Finance and banking	15.1	15.7	16.3	17.1	17.9
Other services	18.3	18.0	18.2	17.8	17.3

	1991	1992	1993	1994	1995
<u>Ratios to GDP</u>			(In percent)		
Exports of goods and nonfactor services	7.8	6.6	6.1	6.6	8.5
Imports of goods and nonfactor services	6.3	8.2	8.0	9.1	8.5
Factor services (net)	-1.2	-0.9	-1.2	-1.3	-1.6
Current account of the balance of payments	-0.1	-2.8	-3.1	-3.7	-1.4
Federal Government revenues <sup>1/</sup>	15.8	17.2	17.4	17.3	16.5
Federal Government expenditures <sup>2/</sup>	15.3	15.8	15.4	16.6	16.4
Primary balance of Federal Government	0.6	1.4	2.0	0.8	0.1
Overall balance of Federal Government <sup>1/3/</sup>	-2.5	-0.2	0.9	-0.5	-1.3
Federal Government debt (end of year)	31.0	27.3	26.0	28.3	31.6
Gross national savings	14.4	13.9	15.2	16.3	16.8
Gross domestic investment	14.6	16.7	18.3	19.9	18.3

Annual changes in selected economic variables

Real GDP per capita	7.5	7.7	4.8	6.0	-5.9
Real GDP at constant prices	8.9	8.7	6.0	7.4	-4.6
GDP at current prices	162.6	25.4	13.6	9.3	-0.6
GDP deflator	141.0	15.3	7.1	1.9	4.5
Wholesale prices (annual average)	110.5	5.9	1.6	0.6	7.6
Consumer prices (annual average)	171.7	24.9	10.6	4.1	3.4
Wholesale prices (end of period)	56.6	3.1	0.1	3.0	5.8
Consumer prices (end of period)	84.0	17.5	6.8	3.0	1.6
Financial system liabilities to private sector	104.1	61.7	47.7	17.7	-2.9
Monetary liabilities <sup>4/</sup>	146.2	50.4	34.8	12.8	1.3
Other liabilities	85.2	68.5	54.6	19.9	-4.8
Net domestic assets <sup>5/</sup>	48.0	51.1	39.2	21.5	4.9
Of which: credit to private sector	68.3	53.7	23.6	20.3	-4.0
credit to public sector	10.7	-27.8	11.3	9.4	54.4

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>Pre1.</u> <u>1995</u>
		<u>(In percent)</u>			
Merchandise exports (f.o.b. in U.S. dollars)	-3.0	2.1	7.2	20.8	32.4
Merchandise imports (f.o.b. in U.S. dollars)	102.9	79.7	12.9	29.2	-6.7
Real effective exchange rate (depreciation -)					
Average	36.6	13.3	11.2	-1.4	-5.3
Year-end	6.6	17.5	7.0	-6.0	-3.5
		<u>(billions of U.S. dollars)</u>			
<u>Balance of payments</u>					
Merchandise exports, f.o.b.	12.0	12.2	13.1	15.8	21.0
Merchandise imports, f.o.b.	-8.3	-14.9	-15.5	-20.1	-18.7
Interest payments (net)	-3.1	-2.7	-1.9	-2.3	-2.9
Other factor income (net)	-0.8	-0.8	-1.2	-1.3	-1.6
Other services and transfers (net)	--	-0.2	-2.4	-2.4	-1.9
Balance on current account	-0.3	-6.3	-7.9	-10.3	-4.1
Balance on capital account	3.1	9.2	11.0	10.6	2.1
Overall balance	2.8	2.9	3.1	0.2	-2.0
Change in official assets (increase -)	-2.8	-2.9	-3.1	-0.2	2.0

December 31

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
		<u>(billions of U.S. dollars)</u>			
<u>International reserve position</u>					
Central Bank (gross)	8.7	11.4	16.2	16.0	16.0
Central Bank (net)	5.8	8.6	11.3	11.4	9.4

IMF data (as of August 31, 1996)

Article VIII status	
Intervention currency and rate	U.S. dollar at Arg\$1.000
Quota	SDR 1,537.1 million
Fund holdings of currency	SDR 5,807.3 million
From Fund resources	
Credit tranche purchases (including SBA)	SDR 346.0 million
Extended Fund Facility	SDR 4,020.3 million
From enlarged access resources	SDR 122.7 million
Fund holdings under tranche policy	7.9 percent of quota
Total Fund holdings	384.1 percent of quota
Cumulative SDR allocation	SDR 318.4 million
Net acquisition or utilization (-) of SDRs	SDR 5.1 million
Holdings of SDRs	98.4 percent of allocation

- 1/ Excludes revenue from privatization.
- 2/ Excludes interest payments.
- 3/ Includes quasi-fiscal balance of BCRA.
- 4/ Currency in circulation and demand deposits.
- 5/ Change as a percentage of liabilities to the private sector at the beginning of the period.
- 6/ Adjusted for changes in the 1992 Central Bank balance sheet.



## I. Determinants of Unemployment 1/

Results from the bi-annual survey by the "Instituto Nacional de Estadística y Censos" (INDEC) conducted during April-May 1996 have put the unemployment rate at 17 percent. This represents a 1/2 percentage point increase relative to October 1995 and a small decline vis-à-vis May 1995, when the unemployment rate peaked at 18 1/2 percent. 2/ As the new unemployment figure was released amidst signs of a recovery in economic activity, it raised concerns about both the persistence of high unemployment in Argentina and the effectiveness of recent labor market reforms. This note deals with some of the issues behind recent unemployment trends and tries to identify their determinants by decomposing the change in the unemployment rate into its main component parts.

In 1981-1988 the unemployment rate averaged 5 1/2 percent. During the period of hyperinflation in 1989-90, the unemployment rate reached 8 1/2 percent but in the first few months following the enactment of the Convertibility Plan in April 1991, it declined to around 6 percent. Since then the unemployment rate moved upward, reaching 12 1/2 percent on the eve of the Mexican crisis and peaked at 18 1/2 percent in April-May 1995. A conspicuous feature of the rise in unemployment during 1991-94 is that it took place while real GDP grew at an average rate of 7 1/2 percent a year.

The rise of unemployment amidst rapid GDP growth during the period 1991-94 led many analysts to focus on the behavior of the labor supply-- notably, on the increase in participation rates. 3/ Between 1991 and 1995, while urban population grew at a similar rate as in the 1980s (2 percent per annum), the labor force expanded at an annualized average rate of 3 1/4 percent, compared with the average of 2 1/4 percent a year observed in the 1980s. This rapid growth of the labor force was mostly due to variations in the participation rate, which rose from 39 percent in 1990 to 41.9 percent in 1995, before declining to 41.0 percent by May 1996 (Table 1).

Notwithstanding the rise in participation rates, a standard growth accounting framework indicates that the more rapid growth of the labor force accounted for only part of the increase in unemployment since 1991. A more distinctive feature of this period was not so much the increase in participation rates but the stagnation of aggregate employment. This can be

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1/ Prepared by Luis Catão.

2/ Due to seasonal factors, the unemployment rate tends to be higher in October/November relative to April/May. Thus, year-on-year comparisons are deemed to be more relevant.

3/ Participation rates are defined in relation to total urban population, instead of working-age population.

gauged from the following expression for changes in the unemployment rate: 1/

$$\Delta (U/L) = \frac{E}{L} [\varepsilon_n + \varepsilon_p - \varepsilon_e]$$

where E/L corresponds to the rate of employment over the labor force at the beginning of the period and g stands for the percentage change in the variable under consideration; the subscripts n, p and e stand for population, the participation ratio and employment, respectively.

Data provided in Table 1 indicate that the growth in **employment** fell short of the rate of population growth by significant margins. This itself would have led to an increase in the unemployment rate since 1991, irrespective of changes in the participation rate. As employment growth also lagged far behind the pace of real GDP growth in every year during 1991-1994 (Table 2), this indicates that the main factor accounting for the rise in unemployment during those years was a low elasticity of labor demand to output, i.e., a low Okun coefficient. 2/ Only in 1995 did changes in employment follow more closely changes in real GDP though in a downward direction, as real GDP declined by 4.6 percent and employment by 2.6 percent. Between November 1995 and May 1996, net job creation was about flat, while real GDP appears to have recovered somewhat.

The factors behind these trends can be examined further. Using a Cobb-Douglas production function with constant returns to scale, we can write

$$\Delta l = (\Delta y - \Delta a - \alpha \Delta k) / (1 - \alpha)$$

where l, y, k, and a stand for the logarithm of employment, GDP, capital,

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1/ This expression can be obtained by differentiating the identity  $U = PN - E$ , where U, P, N and E stand for unemployed population, the participation ratio, total population and employed population, respectively.  $L = PN$  corresponds to the labor force.

2/ The Okun coefficient measures the percentage point deviations of unemployment from its "natural" rate relative to deviations between actual and potential output.

and total factor productivity and  $\alpha$  is the share of capital in national income. 1/

Table 2 presents the results of this growth accounting decomposition. 2/ In contrast to what one would expect in light of the brisk pace of gross investment since 1991, 3/ slow employment growth in recent years appears to have been mainly the consequence of a marked improvement in total factor productivity (the "Solow residual"). According to these estimates, the substitution of capital for labor affected employment growth adversely during 1993-95, but the magnitude of this effect was comparatively small in relation to the substantial rise in the relative price of labor through 1994. 4/ Increases in total factor productivity appear to be associated with industrial re-structuring, firing of redundant labor-- particularly in the public sector--5/ improvements in management, and vintage effects associated with the marked rise of imported capital goods and the high obsolescence of the initial capital stock.

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1/ Measurement of the labor input in terms of hours worked would be more appropriate than the number of employed people, but there is a lack of aggregate data on hours worked.

2/ The share of wages in national income ( $1-\alpha$ ) was assumed at 60 percent in the calculations underlying Table 2. This is in line with recent econometric estimates by the staff as well as with general international evidence. Yet, given the relative magnitudes of the different factors accounting for employment growth, the basic conclusions derived from these results are unlikely to change if one were to assume other plausible values for the share of wages in national income in Argentina.

3/ In net terms, however, investment growth was lower than the growth of real GDP due to a high rate of capital depreciation associated with the virtual paralyzation of investment during the 1980s. On the source and method used to estimate net capital stock in Argentina, see "Cyclically Adjusted Fiscal Position" in this document.

4/ According to data provided by the authorities, the cost of capital relative to labor declined by 30 percent between 1990 and 1994. Although lack of official data on the aggregate investment deflator prevents us from extending the same series through early 1996, other proxy indicators suggest that part of the rise in the relative price of labor has been reversed between late 1994 and the first half of 1996.

5/ In contrast to the 1980s, the public sector no longer played the role of employer of last resort, thus contributing to the process of labor shedding in recent years. Between 1990 and 1994, employment in the overall public sector was reduced by nearly 30 percent, or some 643,000 jobs. A part of these jobs was transferred to the private sector in the process of privatization of state enterprises. See SM/95/248.

Labor legislation also appears to have played a role in the observed labor-saving pattern of output growth. Not until 1995 were fixed-term contracts introduced and legislation to facilitate part-time employment and lower firing costs passed. Yet, as such legislation was enacted during a severe recession, its impact on unemployment was not immediately apparent. Although there is evidence that labor bargaining has become more decentralized since 1995, 1/ labor negotiations continue to be influenced by old-standing legislation based on the principle of "ultra-actividad", which allows the provisions of existing labor contracts to remain in effect after the expiration of a contract, reduces the incentives to reach a settlement in labor disputes, and hampers flexibility in manpower management. New legislation on work-related accidents ("riesgos de trabajo") was passed in 1995 but fully implemented only in June 1996. 2/ Another important disincentive to employment creation in Argentina has been the high rate of employers' social security contribution ("aportes patronales"). Although the rate of employers' social security contribution has been reduced from 33 percent to 21 percent in January 1996, it remains high by international standards.

To sum up, although the rise of participation rates and the growth of the urban population contributed to the marked rise in unemployment in Argentina since 1991, a more important factor has been the slow pace of job creation relative to real GDP growth. This appears to be due to major improvements in total factor productivity (the "Solow residual") during 1991-94 and some substitution of capital for labor resulting from relatively high wage costs and labor market rigidities. These trends were reinforced since 1995 by cyclical developments, as the economy underwent a sharp recession that has been followed by a relatively slow recovery through the first half of 1996.

Although some of the labor legislation already passed is beginning to have an effect on labor flexibility and the reduction of employment costs, further progress in labor market reform seems needed if rapid output growth and a significant reduction in unemployment are to be achieved. The role played by labor reform in fostering output growth is also bound to be

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1/ According to Labor Ministry's estimates, in 1995 about 60 percent of the 350 collective agreements reached during 1994/95 were attained through bilateral negotiations at the level of the firm, rather than through collective negotiations between unions and employers at industry level.

2/ Prior to the implementation of this law, litigation costs associated with workplace accidents constituted a significant component of total labor costs, estimated to reach up to 12 percent of total labor costs in some industries. The new law makes private insurance coverage compulsory and sets a ceiling for settlements according to the type of accident. There is evidence that the new law has already brought about a reduction in average insurance costs by fostering competition among insurance companies and by providing incentives for greater discrimination of insurance premia for high risk industries.

increasingly important over the medium-term, as the initial spurt of employment restructuring was already accomplished and total factor productivity is likely to slow down. Yet, given the present high level of unemployment and that the labor force is likely to continue to grow at around 2 percent a year, even if the elasticity of employment to output rises significantly as a result of labor market reforms, the unemployment rate should not be expected to return, in the near term, to the levels of 5 to 6 percent prevailing in the 1980s.

## II. Bank Credit to the Private Sector 1/

### 1. Introduction

After growing at an annual rate of 19 percent in real terms in the four years to end-1994, bank credit to the private sector in Argentina declined by 5 1/2 percent during 1995. Lending resumed in the first half of 1996 but at a subdued pace, especially considering the rapid growth of deposits in the domestic banking sector during the period (Statistical Appendix Table 37).

This note examines the main factors behind the relatively slow recovery of bank credit to the private sector in the aftermath of the Mexican crisis of late 1994. On the supply side, a number of macroeconomic and institutional determinants of the banks' lending capacity are examined, including the growth of deposits, changes in legal reserve or liquidity requirements and in capital adequacy regulations which, together with risk-return factors, determine the aggregate supply of credit. On the demand side, empirical evidence is provided on the relationship between credit to the private sector and key macroeconomic variables such as GDP growth, debt stock adjustment, and interest rates, in light of developments since the start of the convertibility regime in 1991.

### 2. The supply of credit

Defining banks' lending capacity as total deposits less legal reserve or liquidity requirements ("exigencia") and the technical cash-in-vault plus banks' own capital and the stock of banks' net foreign liabilities, 2/ Chart 1 shows that the growth of loanable funds potentially available for private sector borrowing was very rapid between late 1991 and November 1994, increasing by close to 30 percent per annum. This trend, however, was set back by the deposit outflow triggered by the devaluation of the Mexican peso in December 1994. Between November 1994 and May 1995 lending capacity fell

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1/ Prepared by Luis Catão.

2/ Changes in the net stock of banks' foreign liabilities have an important bearing on domestic lending capacity in Argentina, as banks can extend (contract) domestic credit on the basis of an increase (decrease) in their foreign liabilities.

by 5 1/2 percent and, by November 1995, it remained below its level of one year earlier.

This situation was sharply reversed from December 1995 onwards, as banking deposits increased by close to 20 percent in the seven months to July 1996. Although part of this increase in deposits was offset by a tightening in liquidity requirements, 1/ lending capacity rose by 5 3/4 percent in the seven months through July 1996, when it stood 7 1/2 percent above the November 1994 level. In contrast, credit to the private sector 2/ -- which had expanded at about the same rate as lending capacity between end-1991 and end-1994 (31 1/2 percent per annum) -- grew by only 3 1/4 percent in the seven months through July 1996, by which time it was still below its December 1994 level (Table 3). 3/

From the supply side, two distinct factors have been associated with the slow growth of credit to the private sector relative to lending capacity. One was the rapid expansion of bank lending to the public sector. While between end-1991 and end-1994 net bank credit to the non-financial public sector nearly halved, it more than doubled during 1995, leading to a widening gap between total bank credit (private plus public sector) and credit to the private sector (Chart 1). In the first half of 1996, net credit to the government remained about unchanged relative to its December

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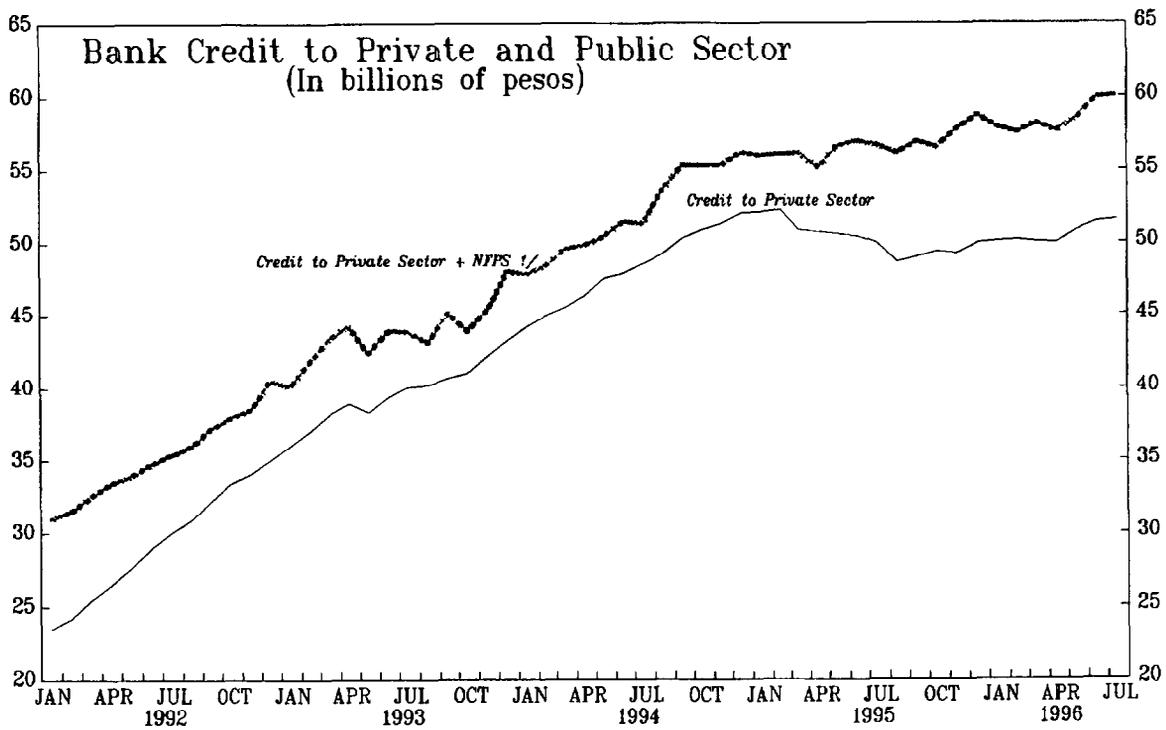
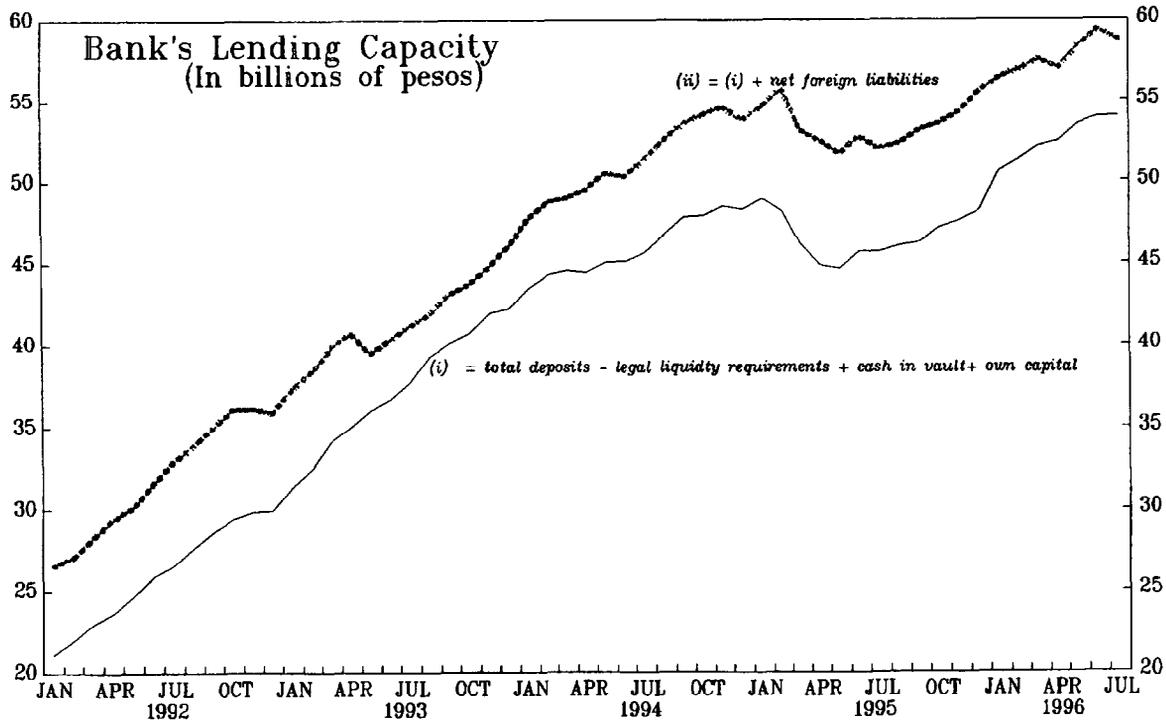
1/ From March 1996 banks were no longer allowed to use part of their cash-in-vault to meet liquidity requirements. In addition, the BCRA broadened the range of bank liabilities subject to liquidity requirements to include credit lines from abroad and other liabilities. From July 1st, 1996, liquidity requirements were raised by one percentage point to 16 percent on most bank liabilities, followed by a further 1 percentage point increase to 17 percent from October 1st, 1996.

2/ Bank credit to the private sector is defined here exclusive of the tax moratorium operations conducted in November-December 1995 and June 1996, whereby banks made under federal government guarantee advances to private individuals to regularize their outstanding tax obligations. See EBS/96/45.

3/ Adjusting for the rise in problem loans, the stock of private sector credit net of problem loans declined by 5 percent between end-December 1994 and end-June 1996.

CHART 1

ARGENTINA  
SELECTED BANKING SECTOR INDICATORS



Sources: Central Bank of Argentina; and staff estimates.

1/ Net credit to the non-financial public sector.



1995 peak. 1/ Thus, higher government borrowing may have contributed to "crowd out" bank credit to the private sector in the second half of 1995. 2/

Higher lending risk also had a bearing on the sluggish pace of private sector borrowing. Among other things, the marked rise in interest rates associated with the financial crisis of early 1995 exacerbated adverse selection problems by increasing the share of insolvent firms amongst potential borrowers, thus making it more hazardous for banks to distinguish between "good" and "bad" borrowers. 3/ Moreover, some information on clients' creditworthiness was lost with the disappearance of many local branches of wholesale and cooperative banks, while the surviving institutions (particularly the large banks operating in the capital) have been reluctant to "fill the gap" and lend to unknown borrowers. 4/ Illiquid but otherwise solvent borrowers also began to face more stringent conditions in credit markets, since their liquidity situation worsened with the downturn in macroeconomic activity and many banks continued to follow

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1/ This was due to the rapid expansion of government deposits in the banking system (the counterpart of foreign borrowing proceeds) which matched the marked rise of banks' purchase of government securities. Financial institutions holdings of government securities rose from Arg\$ 781 million in end-December 1995 to Arg\$ 1,998 million in end-June 1996.

2/ Although the existing monetary and exchange arrangements in Argentina tend to anchor domestic interest rates to U.S. dollar rates abroad, government borrowing may still crowd out the private sector through the interest rate effect. As higher government borrowing (either domestic or external) is generally associated with higher country risk, domestic interest rates tend rise in line with the risk-premium adjusted uncovered interest parity condition. By the same token, large domestic firms which normally have access to international capital markets will tend to face a steeper supply curve for loanable funds resulting from higher relative country risk. This appears to have been the case during 1995, when the spread between domestic and international U.S. dollar interest rates widened relative to its level prior to the Mexican crisis in late 1994. In the first half of 1996 other developments related to trends in interest rates in the U.S. and in international liquidity led to a decline in interest rates in Argentina as well as in the spread between domestic and foreign interest rates.

3/ See: Stiglitz, Josef and A. Weiss, 1981, "Credit Rationing in Markets with Imperfect information", *American Economic Review*, June. For an application of the Stiglitz-Weiss framework to the Argentine context see: Kaufman, Martin D. 1996, "An Incursion into the Confidence Crisis-Credit Rationing-Real Activity Channel: Evidence from the Argentine 'Tequila' Crisis", Central Bank of Argentina, February, Mimeo.

4/ See "Bank Concentration and the Supply of Credit" in this paper. This type of information asymmetry is expected to be reduced in the future with the creation in September 1996 of a credit bureau located the BCRA.

the traditional practice of identifying solvency with liquidity. 1/ Reflecting the above factors, banks' preference for more liquid assets increased and part of the resources brought by the increase in deposits was used to improve their net foreign asset position.

### 3. The demand for credit

By early 1991, bank credit to the private sector as a share of GDP had reached its lowest level in a decade. With the subsequent restoration of macroeconomic stability, increased private sector confidence and decline in interest rates that followed the introduction of the Convertibility regime, the stock of domestic bank credit to the private sector rose rapidly and was around 20 percent of GDP by late 1994 (Chart 2).

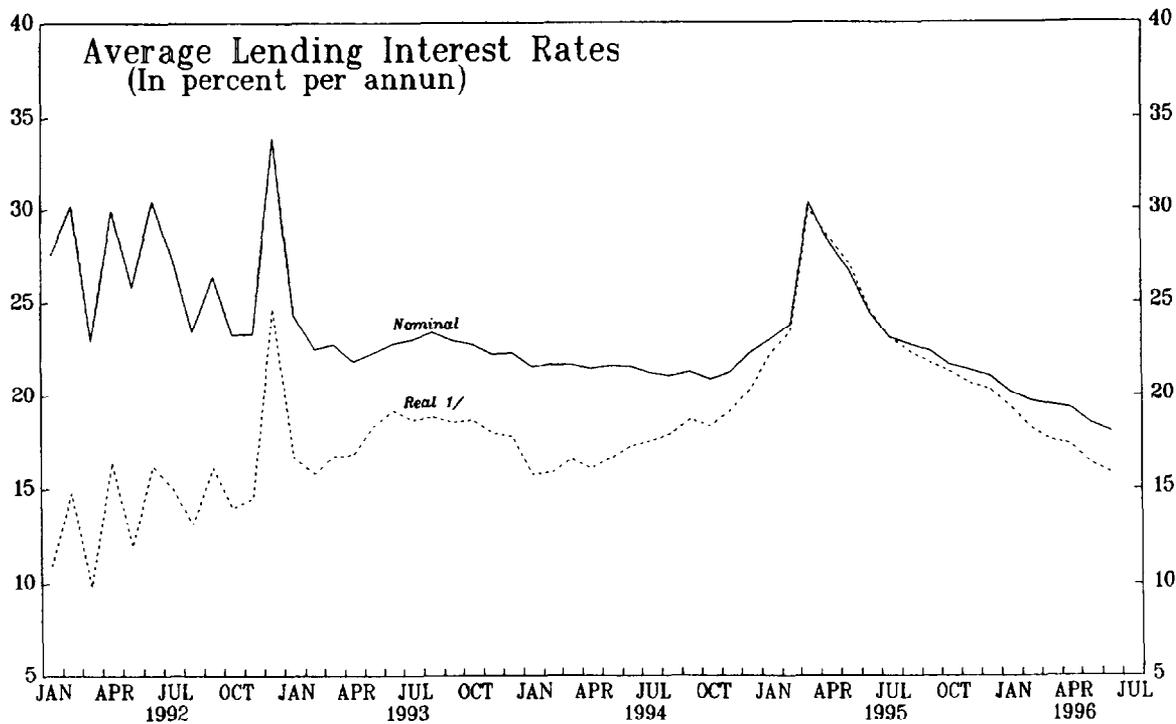
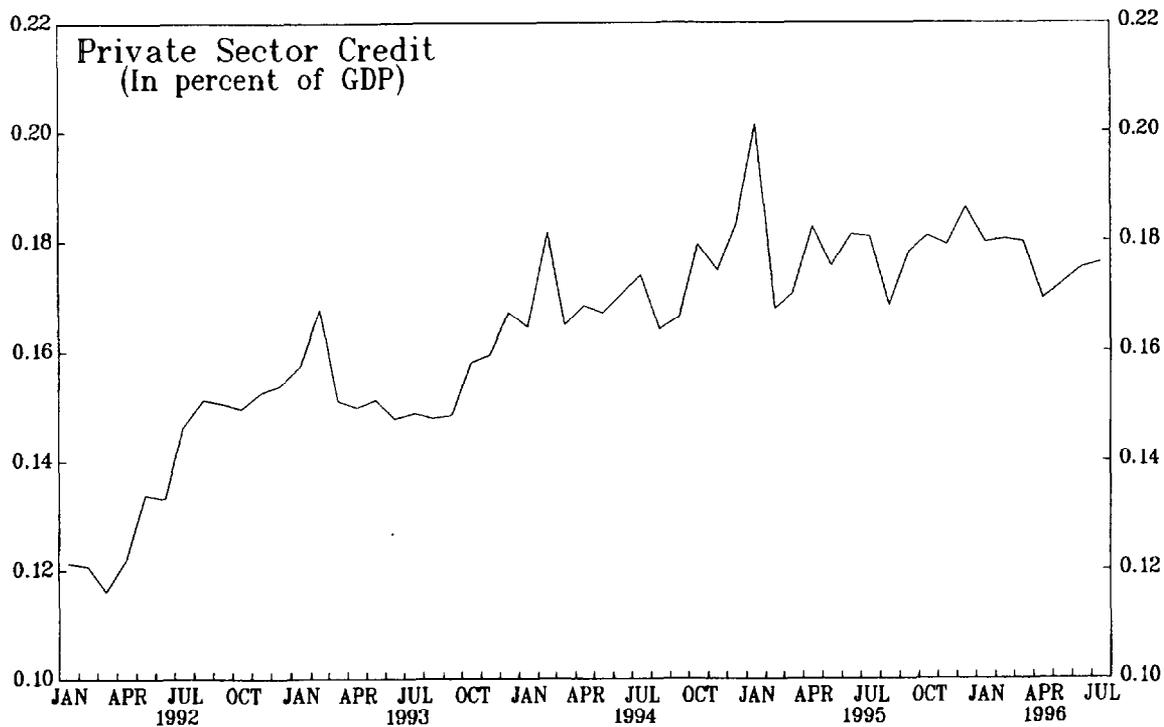
In the context of rapidly rising levels of private sector indebtedness, the sharp rise in interest rates and the confidence crisis that followed the Mexican devaluation of December 1994 had a significant negative impact on private sector demand for domestic bank credit. More stringent credit conditions, rising unemployment, and faltering confidence induced households to cut expenditure and reduce borrowing, while the decline in overall economic activity and high interest rates depressed the demand for credit by the business sector (see Chart 2). Credit associated with overdrafts and consumer loans ("credito prendario" and "personal") in particular experienced a sharp decline, as interest rates for those categories of loans rose markedly. With the decline in interest rates from mid-1995 and the gradual unwinding of the debt stock adjustment problem, 2/ credit to the private sector started to recover beginning in late 1995. The recovery was faster for the categories of borrowers for which the rise in interest rates

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1/ This practice is widespread among financial institutions in Latin America due to the primitive stage of accounting practices of most medium and small enterprises and the lack of a nationwide credit rating systems, which make it difficult for banks to distinguish between "good" and "bad" borrowers on the basis of the net present value of the client's cash flows or any other standard criteria of investment analysis. See: Rojas-Suarez, Lilian and Weisbrod, Steven.R. 1995. "Financial Fragilities in Latin America. The 1980s and 1990s", IMF Occasional Paper 132.

2/ The ratio of problem loans to bank credit peaked at 16 1/2 percent in October 1995, from 11 1/2 percent in December 1994. By end-June 1996, it had declined to 15 1/4 percent. Although this marked rise in problem loans affected negatively private sector expenditure and borrowing from the banking system, their impact on the health of the financial system has been largely offset by an increase in provisioning and high and well enforced capital adequacy ratios. As of end-June 1996, the stock of problem loans net of provisions was 9 percent of total bank credit, while the ratio of banks' own capital to risk-weighted assets was 16 percent. For details on recent developments in capital adequacy ratios in Argentina, see BCRA, Boletín Monetario y Financiero, Abril-Junio, 1996.

ARGENTINA  
SELECTED FINANCIAL INDICATORS



Sources: Central Bank of Argentina; and staff estimates.

1/ Deflated by the 12-month ahead CPI inflation.



had been less marked, but remained subdued in the case of overdrafts and loans mostly associated with consumer credit (collateralized or not).

Econometric evidence on the extent to which domestic bank credit to the private sector is explained by factors associated with private sector demand is provided in Table 4. The results of the regression of the growth rate of credit 1/ on the outstanding stock of domestic private sector debt to GDP, interest rates and economic activity indicate that monthly credit variations are positively related to a proxy for current and expected changes in the level of economic activity 2/ and lagged changes in credit (which capture inertia effects), and negatively related to the ratio of outstanding stock of private sector debt to GDP 3/ in the previous period and interest rates. 4/ The estimated equation is able to explain two-thirds of actual monthly changes in credit to the private sector. 5/

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1/ The credit variable used in the regressions reported in this chapter is netted out of the stock of problem loans, so as to minimize the upward bias in the measurement of credit supply arising from including as part of current credit the stock problem loans. Some of these loans are rolled over, some are recorded as of difficult recovery but, in either case, banks are required to increase provisioning thus hindering the expansion of new credit.

2/ Because changes in economic activity (as measured by real GDP) and in bank credit are contemporaneously related, the inclusion of current changes in GDP as explanatory variable in the credit equation would lead to potential simultaneity biases in the estimates. To circumvent this problem, an instrumental variable (dgdp) was constructed on the basis of past changes in GDP and of current inflation and used as a proxy for changes in economic activity.

3/ The ratio of outstanding credit to GDP in the estimated equation also plays the role of an error correction term, which ensures the consistency between short-run changes in credit to the long-run equilibrium condition that postulates a stable relationship between credit stock and GDP.

4/ Given that interest rates are determined by both the supply and the demand for credit and to take account of potential simultaneity biases thereby resulting, an instrumental variable for the interest rate variable was used in the estimated equation. The instrument used consisted of the lagged values of the average lending interest rate and the lagged stock of problem loans to try and capture the effects of solvency problems on interest rates.

5/ Besides all coefficients being statistically significant at the conventional 5 percent level, the residuals of the regression are non-serially correlated and stationary, as indicated by the LM- and ADF-statistic, and the estimated parameters proved to be resilient to standard tests for structural stability. A R-square of 0.66 can be considered as reasonably high given the magnitude of the shocks and the degree of structural changes the Argentine economy withstood during the period, as well as of the fact that the underlying data are not seasonally adjusted.

Results from the estimated model, together with the actual changes in bank credit to the private sector, are plotted in Chart 3. The chart shows that estimated credit tracked reasonably well actual credit for most of the period but, between December 1994 and early 1995, a significant mismatch was observed, reflecting the supply constraint resulting from the deposit outflow and ensuing contraction of banks' lending capacity; as a result, credit demand undershot actual credit flows by substantial margins. From the last quarter of 1995 onwards, the model captures well the trend reversal and the slow recovery of domestic credit to the private sector, in tandem with the decline in interest rates, and the gradual debt stock adjustment.

#### 4. Conclusions

The marked recovery of bank deposits between December 1995 and July 1996 did not give rise to a similar recovery in domestic bank credit to the private sector, which remained relatively subdued. The sharp outflow of deposits and the resulting contraction in the supply of credit explained most of the decline in domestic credit to the private sector in the first half of 1995. The sluggishness of the subsequent recovery of private sector domestic borrowing, however, appears to be the result of several factors. On the supply side, the deposit reflow was partly offset by a tightening in liquidity requirements and by risk-return considerations which made financial institutions more prone to increase net lending to the public sector and improve their net foreign asset position.

On the demand side, changes in interest rates and private sector indebtedness, together with lagged and expected changes in economic activity, appear as important determinants of private sector credit in Argentina. Although credit has responded positively to the decline in interest rates since late 1995 and to the reduction of the private sector stock of problem loans, interest rates remain high and the unwinding of the debt adjustment process has been gradual. This resulted in a subdued response of domestic credit to the private sector relative to the marked increase in the liquidity of the banking system. As banks remain liquid, however, interest rates decline further and other macroeconomic conditions continue to improve in the forthcoming months, the observed responsiveness of bank credit to these variables indicates that stronger growth in credit to the private sector should be expected.

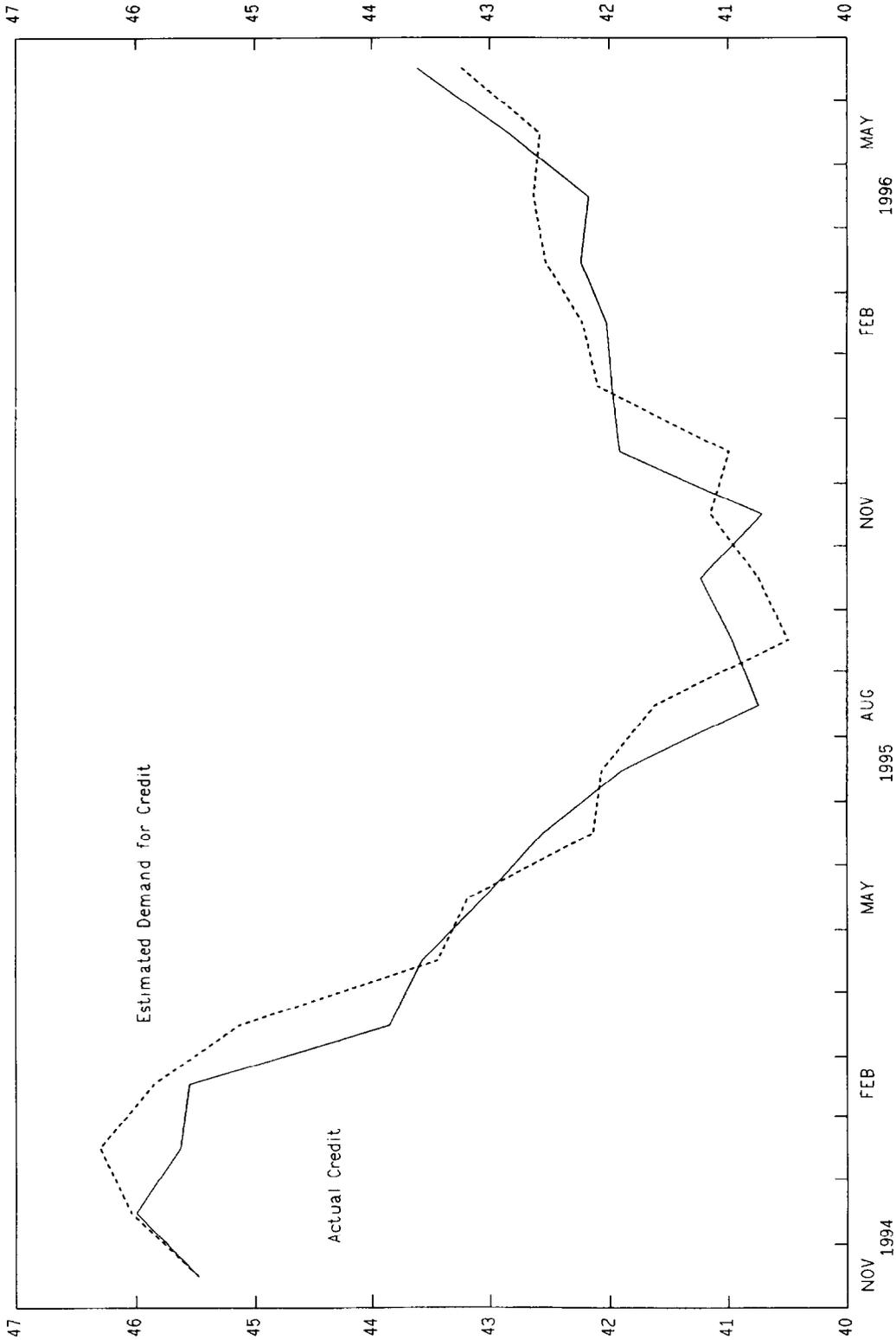
#### III. Bank Concentration and the Supply of Credit <sup>1/</sup>

This note examines the process of concentration of financial institutions in Argentina after the December 1994 devaluation of the Mexican peso

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<sup>1/</sup> Prepared by Gustavo Cañonero.

CHART No 3  
ARGENTINA  
Bank Credit to the Private Sector 1/  
(billions of pesos)



Source: Central Bank of Argentina and Fund Staff Estimates.  
1/ Net of problem loans.



and its effects on the supply of credit. 1/ While the concentration process may have improved the efficiency of domestic financial intermediation, the analysis suggests that it also may have contributed to the temporary contraction in bank lending observed during 1995.

1. Background

Out of 173 private financial institutions, some 123 survived the withdrawal of deposits and the liquidity crisis experienced between February and May 1995. Of the 50 banks that disappeared, 24 were absorbed by other banks, 19 banks were merged in 4 banks, 10 were liquidated and 1 is still suspended. Small and medium-sized private institutions (i.e., private domestic banks, cooperatives and credit unions each with less than 1.5 percent of total assets of the system) were those most adversely affected by the financial crisis. The deposits of these financial institutions fell by about Arg\$4.5 billion or 30 percent during 1995, while deposits of big private banks increased by Arg\$2.0 billion, or 14 percent (Table 5). 2/ During the same period, loans extended by small and medium-sized private financial institutions shrunk by Arg\$3.5 billion, or 21 percent, while those of big private banks increased by Arg\$1.4 billion, or 8 percent.

The concentration in financial intermediation activity that occurred in 1995 would not have had any effect on total lending to the private sector if expanding institutions could have fully replaced shrinking institutions on the credit side as well as the deposit side. However, an argument can be made, based on the literature on asymmetric information, that large financial institutions are not able in the short run to substitute for the decline in credit provided by small institutions, particularly in circumstances such as those prevailing in Argentina in 1995. A financial institution's knowledge about its customers' past and current situation is fundamental for evaluating credit worthiness 3/ and such knowledge is difficult to exchange between banks, at least in the short run. In this context, a process of bank concentration that entails a loss of specific information about customers' creditworthiness could contribute to a

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1/ This section focuses in the micro-aspect of banking concentration. See section II for a detailed discussion on the macro determinants of banking credit to the private sector in Argentina since early 1995.

2/ Minor differences could arise between the figures reported here and other aggregate data for the financial system reported by the Central Bank, as the balance-sheet information may not be updated for a few banks.

3/ Although information asymmetries also affect the deposit side, this note addresses this issue exclusively from a credit perspective.

temporary decline in credit. <sup>1/</sup> The adverse consequences of information asymmetries can be limited by the use of collateral, the public dissemination of information about borrowers, and the strengthening of enforcement mechanisms. However, the effectiveness of such tools is generally limited.

Information difficulties tend to affect more credit provision in countries with a weak legal framework and an inefficient judicial system that preclude strong enforcement mechanisms; inadequate accounting practices; and where there are no credit rating agencies. Such was the case in Argentina through 1995. Moreover, small Argentine financial institutions, which suffered the largest contraction in deposits in 1995, usually had a much higher share of unguaranteed loans extended on the basis of personal relationships. In contrast, foreign banks and large Argentine financial institutions, which tended to expand their intermediation activities in 1995, generally demanded stricter accounting procedures, more credit guarantees, and other requirements that normally only few relatively big firms could meet.

## 2. Financial institutions' portfolios

An examination of the portfolios of financial institutions provides an insight into the likely relevance of imperfect information in the Argentine credit market. Table 6 presents average loan portfolios by type of financial institution in 1993-94, along with an indicator of portfolio quality. It also reports the results of tests for differences in average portfolio among different types of financial institutions after controlling for the quality of their assets.

Various results arise. First, in all types of institutions lending with some form of guarantee is smaller than unguaranteed lending: on average, about 10 percent of assets are in guaranteed loans compared with more than 25 percent of total assets in uncollateralized personal loans and about 17 percent in uncollateralized advances to customers. This, together with the institutional weaknesses noted above, suggests that there was room

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<sup>1/</sup> A similar effect on banking concentration has been recently reported for the United States. For example, A. Berger et al in "The Transformation of the U.S. Banking Industry: What a Long, Strange Trip it's Been"; Brookings Papers on Economic Activity 2: 1995, find evidence that the increase in the proportion of assets controlled by the largest banking organizations in the 1990s, due to the liberalization of geographic restrictions on banking, may have been responsible for part of the credit crunch observed in 1989-92. J. Peek and E. Rosengren in: "Small Business Credit Availability: How Important is Size of Lender?", in Universal Banking: Financial System, Design Reconsidered, edited by Saunders and Walter, Irwin Publishing (1966), and A. Berger and G. Udell in "Relationship Lending and Lines of Credit in Small Firm Finance"; Journal of Business, 1996, Vol. 68, No. 3, derive similar conclusions.

for information asymmetries to play a role in determining credit flows once the concentration process accelerated.

Second, there are significant differences among financial institutions in the composition of loan portfolios: 1/ (1) Foreign and domestic commercial banks had similar shares of loans to assets, while credit unions and cooperatives had higher shares of loans in total assets. (2) Credit unions and cooperatives concentrated most of their lending in unguaranteed loans; in contrast, foreign banks allocated a relatively high share of their portfolio to the overnight inter-bank market--classified as other loans in the balance sheet. (3) Advances comprised a relatively important share of the lending activities of credit unions and cooperatives (27.8 percent and 19.7 percent, respectively). In addition, finance houses and banks allocated an important share of their assets to the inter-bank market, while cooperatives and credit unions only a limited proportion; cooperatives and credit unions had a larger share of peso deposits and loans; and finance houses and cooperatives suffered from a significantly higher share of nonperforming loans. 2/

Third, although portfolio differences among institutions of different size were not found to be statistically significant, the differences are suggestive. For example, large banks had a higher share of guaranteed lending than small institutions and much higher share of dollar denominated lending. Also, large banks had a higher share of "other" loans (including those in the interbank overnight market) than small institutions.

The above portfolio differences, together with the severe loss of confidence in (and disruption of) the banking sector during the 1995 crisis, suggest that the restructuring of the financial system could have had an important effect on credit provision. This is because unguaranteed lending accounted for almost 85 percent of total lending, and because information on customers' creditworthiness was likely lost with the disappearance of many institutions, and as the rebuilding of this information in remaining institutions generally takes time to complete. Additionally, the decline of deposits of cooperatives and credit unions not only reduced their lending capacity, but also could have affected adversely that of the system as a whole given their higher "propensity" to lend.

### 3. Estimation error of bank lending for 1995

Notwithstanding that total assets of private financial institutions increased by 10.1 percent, credit to the private sector declined by 6 percent during 1995. A weaker demand for loans, but especially a more

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1/ The null hypothesis of equal asset shares among banks is rejected at 95 percent confidence level for each type of asset.

2/ The share of nonperforming loan is defined as the ratio of all loans with some performance problem (i.e., those loans not reported in a "normal situation" in their balance-sheets) to total loans.

cautious lending behavior on the part of banks and increased prudential requirements that reduced the supply of loanable funds largely explain the decrease in lending. 1/ However, information destruction as a result of increased concentration also seems to have played a role.

To estimate the short-run effect of the increased concentration of financial institutions on the supply of credit, lending reaction functions were estimated for the period 1993-1994 and applied to 1995. The estimated lending equations explain the changes in each category of loan provided by the different types of financial institution in terms of the changes in the source of funds, changes in interest rates, and changes in the quality of the portfolio, which affects provisioning and capital adequacy ratios. 2/ The projection for 1995 was done after adjusting for the effects of changes in reserve/liquidity requirements introduced during that year, which reduced loanable funds. Table 7 shows the regression results using cross section data for 1993-94 from financial institutions that continued operating through the end of 1995. On the basis of the estimated lending functions, Table 8 presents estimates of the actual and projected changes in the levels of credit by loan category observed in 1995 in the 123 institutions that continued in operation. 3/

As indicated earlier, the decline in credit to the private sector from the institutions that disappeared was not fully made up by the surviving institutions. But even among the latter, the actual change in total private lending during 1995 fell substantially short of the projected change. The projection indicated that lending was to grow by 18.1 percent, compared with an actual increase of only 7 percent. Although, there are a number of factors that explain the reduced pace of lending, there is evidence that financial concentration also contributed to this result. The estimation error, i.e., the difference between the projected and actual expansion of credit, is more pronounced for large banks than for small banks, both absolutely and as a share of their assets. Similarly, once excluding operations in the interbank market, the estimation error is relatively more important for foreign banks, than for domestic banks. These statistically significant results imply that the banks that benefitted from the system-wide shift in deposits lent out less of the new funds than what they would have done based on their previous history. The loss of information resulting from concentration is likely to have contributed to this result. Such a loss could, in theory, have been overcome by an increase in the

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1/ See "Bank Credit to the Private Sector" in this report.

2/ The different financing sources were introduced as separate explanatory variables in the regressions recognizing the different financing costs associated with each of them. This issue was particularly important in 1995 as Central Bank rediscounts and borrowing from abroad, two relatively expensive financing sources, increased the most. All variables were deflated by the GDP deflator.

3/ The differences with Table 5 account for the assets and liabilities of institutions that disappeared in the course of 1995.

collateralization of loans, and a limited move in this direction actually occurred in 1995 as interest rates on guaranteed loans fell slightly, while interest rate on personal loans rose. However, a corresponding shift in credit was not detected and both guaranteed and personal loans fell far short of projected levels in the lending equations estimated above. Although other factors (such as the worsening in the quality of collaterals resulting from the recession or a change in the demand for loans) may have contributed to the observed outcome, the larger than expected asymmetry in lending between expanding and contracting institutions lends support to the hypothesis that financial concentration and loss of information played a role in explaining the decline in credit that took place in 1995.

The effect of banking concentration on the supply of credit is largely a short-run phenomenon. Financial concentration may be expected to be beneficial in the long run when efficiency gains materialize and creditor information is rebuilt. Moreover, institutional changes, such as the creation of an effective credit rating agency, improvements in the legal framework for the use of credit guarantees, and the strengthening of property rights, also will help reduce the role of information asymmetries in financial intermediation activity and enhance financial deepening on a lasting basis.

#### IV. Cyclically Adjusted Fiscal Position 1/

##### 1. Introduction and summary

The cyclically adjusted fiscal balance is obtained by excluding from the actual balance the portion that, under unchanged policies, is related to the business cycle--i.e. to the output gap when actual and potential GDP differ. 2/ This note compares the actual public sector balance in Argentina with estimates of Argentina's cyclically adjusted public sector balance during the period 1992-96. The analysis suggest three main conclusions: (1) the public finances were allowed to weaken relative to what would have been a cyclically neutral position in the years 1993-94, when real GDP is estimated to have been above potential GDP; (2) the shortfall of the actual balance with respect to the cyclically neutral balance was reduced in 1995 and 1996--a period when actual GDP is estimated to be below potential GDP. In these years, the increase in the cyclically adjusted fiscal deficit exceeded that of the actual deficit. And (3),

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1/ Prepared by Bob Traa.

2/ With unchanged policies, when actual output falls below potential output (a negative output gap), overall fiscal revenue would tend to fall below trend, and selected expenditures, such as on unemployment insurance and other forms of income assistance, would tend to rise above trend--thereby worsening the overall fiscal balance beyond the structural balance. Opposite effects would tend to occur when actual output rises above potential output (a positive output gap).

fiscal policy was procyclical in 1993-96. That is to say, when GDP was above potential, the fiscal impulse was expansionary, and when GDP was below potential, it was contractionary. 1/

## 2. Actual and potential GDP and the base year

To carry out the analysis of cyclically adjusted fiscal balances there is a need for estimates of potential GDP and potential GDP growth. Two approaches were followed to arrive at such estimates. First, long time series of annual data on investment flows (for business structures and for machinery and equipment) were employed to derive estimates of Argentina's net productive capital stock. 2/ Together with figures on employment, these data were used to estimate the parameters of a Cobb-Douglas production function for the period 1974-95. The estimated Cobb-Douglas production function then was combined with estimates of the labor force at its full-employment level (consistent with a natural rate of unemployment of 5 percent) to arrive at figures for potential GDP. This approach suggested that by the mid-1990s, potential GDP in Argentina was growing at between 4 and 5 percent annual rate. The higher estimate of potential growth was achieved by allowing for a structural break in Argentina's output performance in 1980-90. 3/

Alternatively, a Hodrick-Prescott (H-P) time-series filter was used on long time series of annual real GDP data through 1998 (the last three years were projected assuming real GDP growth of 2.5, 7, and 7 percent respectively to avoid end-of-period bias). The results of this exercise suggest somewhat lower estimates of potential GDP growth for Argentina (some 3.5 percent a year) as compared with those obtained from the Cobb-Douglas regressions. The H-P technique employed on quarterly data from 1990-95 were broadly consistent with the estimates obtained from annual data. However, the H-P technique does not fully take into account the many changes in the productive structure of the economy that happened in the period after 1991.

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1/ This points to a political economy bias whereby there is a tendency for stepped-up expenditure when the economy is strong and growth is robust, whereas financing constraints tighten when the economy is weak and growth is slow, forcing governments to cut expenditure and raise taxes.

2/ The methodology follows Andre A. Hoffman, "The Role of Capital in Latin America: a Comparative Perspective of Six Countries for 1950-1989", UN-ECLAC Working Paper No. 4, December 1991.

3/ The data suggests that the decade of the 1980s was an outlier in Argentina's economic development and that the evolution of real GDP and real GDP growth during the early 1990s returned to the historical patterns prior to the 1980s. Thus, the Cobb-Douglas production function was estimated with a single time trend and one that allows for structural shift in effect from 1980-90 when Argentina experienced hyperinflation, a decline in the net productive capital stock, and poor output performance.

Based on the above estimates, this note uses two scenarios of potential growth, one assuming 4 percent and the alternative assuming 5 percent a year. Regardless of the scenario used, the potential and actual level of GDP would appear to have been approximately equal around 1992-93. For this note, the levels of actual and potential GDP in Argentina are assumed to have coincided in 1992.

### 3. Actual and cyclically adjusted fiscal balances and the base year

The public sector broadly defined comprises the Federal Government, the provinces, 1/ fiduciary and other off-budget funds since 1995, and capitalized interest on BOCONs (which have accrued since 1992). 2/ The cyclically adjusted overall fiscal balance was defined as the cyclically adjusted primary balance plus the actual (or projected) interest bill. The difference between cyclically adjusted revenue and cyclically adjusted noninterest expenditure was defined to be the cyclically adjusted primary balance. 3/ Cyclically adjusted revenue was computed by relating actual GDP in each year to the revenue ratio established in the base year of 1992--i.e. cyclically adjusted revenue corresponds to actual GDP multiplied by the base-year revenue/GDP ratio. 4/ Cyclically adjusted noninterest expenditure was estimated by relating potential GDP to the noninterest expenditure/GDP ratio established in the base year of 1992--i.e. cyclically adjusted noninterest expenditure corresponds to potential GDP multiplied by the base year noninterest expenditure/GDP ratio. The fiscal position in the base year need not be in equilibrium. In the case of Argentina, it would appear that there was a structural deficit of 0.5 percent of GDP in 1992. 5/

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1/ The provincial fiscal balance, usually reported on accrual basis, is adjusted to approximate a cash basis by assuming an accumulation of arrears of Arg\$1.5 billion in 1995 and a repayment of Arg\$0.4 billion of these arrears in 1996.

2/ It excludes receipts from privatization and the issuance of government bonds to clear arrears on domestic payments (largely accumulated prior to 1992). All projections and estimates of cyclically adjusted balances are staff calculations.

3/ For a more extensive discussion on cyclical adjustment see Peter S. Heller, Richard D. Haas, and Ahsan S. Mansur: "A Review of the Fiscal Impulse Measure." International Monetary Fund, Washington DC, May 1986.

4/ For simplicity, this procedure implicitly assumes a unitary revenue-output elasticity.

5/ The balance in 1992 may have differed slightly from the true underlying "structural" balance to the extent that there could have been some interplay with random events and potentially lagged effects of previously implemented short-term stabilization measures. This note assumes that these deviations in 1992 were not significant.

#### 4. Findings for 1992-96

Estimates of actual and potential (nominal) GDP are depicted in Chart 4, assuming potential real GDP growth of 4 percent and 5 percent, and with 1992 as the base year. As depicted in Chart 5 (top panel), the output gap was positive in 1993 and 1994, and turned negative thereafter. Furthermore, the output gap is projected to continue increasing in 1996 as the rate of growth of GDP, projected for that year at 2.5 percent, falls short of potential.

Chart 5 (panel b) and Table 9 summarize the actual fiscal balance, the fiscal stance, and the year-on-year fiscal impulse under each scenario. <sup>1/</sup> In both scenarios, the cyclically adjusted fiscal balance is estimated to have been positive (a surplus) during the high growth years 1993-94. Instead, the actual balance showed a deficit in these years, indicating that the fiscal stance was expansionary. During the recession year 1995, the cyclically adjusted balance turned sharply to a deficit and started to narrow its difference with the actual balance. This implies that while the fiscal stance remained expansionary relative to the base year 1992, the fiscal impulse was contractionary in 1995 relative to the year before (Table 9).

In 1996, with an output gap larger than in 1995, the cyclically adjusted deficit is estimated to continue to widen relative to 1995. Based on the assumptions above, if potential real GDP growth is 4 percent a year, the deficit projected for 1996 would remain larger than the cyclically adjusted deficit and the fiscal stance would remain expansionary; however, the fiscal impulse would be virtually neutral relative to 1995. In contrast, if potential real GDP growth is 5 percent, the larger cyclically adjusted deficit implied by the larger output gap would approximate the deficit actually projected, the fiscal stance would shift to about neutral, and the fiscal impulse would be considered slightly contractionary.

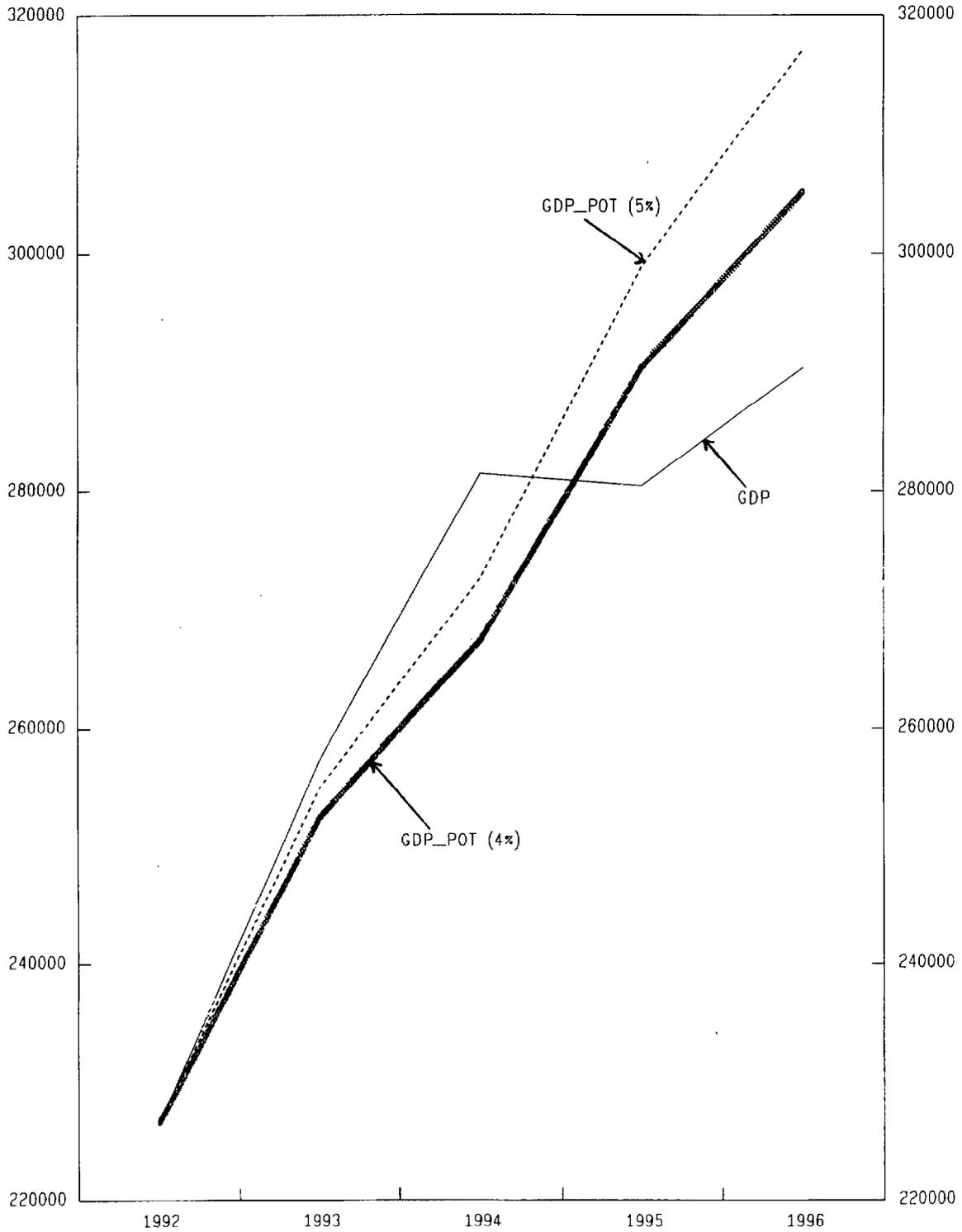
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It should be noted that the above analysis does not necessarily imply that the structural deficit has remained unchanged since 1992. Indeed, some permanent fiscal policy changes have taken place since then that would suggest that the structural deficit is larger now than in 1992. Three changes come to mind: (1) in late 1992, pension payments were regularized, adding some Arg\$1.5-2 billion a year (0.7 percent of GDP) to annual pension benefit payments; (2) the reform of the social security system that was

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<sup>1/</sup> The fiscal stance indicates the difference between the cyclically adjusted and the actual balance. If the actual balance is less than the cyclically adjusted balance (a larger deficit or a smaller surplus) then the fiscal stance is deemed to be expansionary. The fiscal impulse is the change in the fiscal stance, in percentage points of GDP, from one year to the next.

**Actual and Potential GDP**  
(millions of pesos)

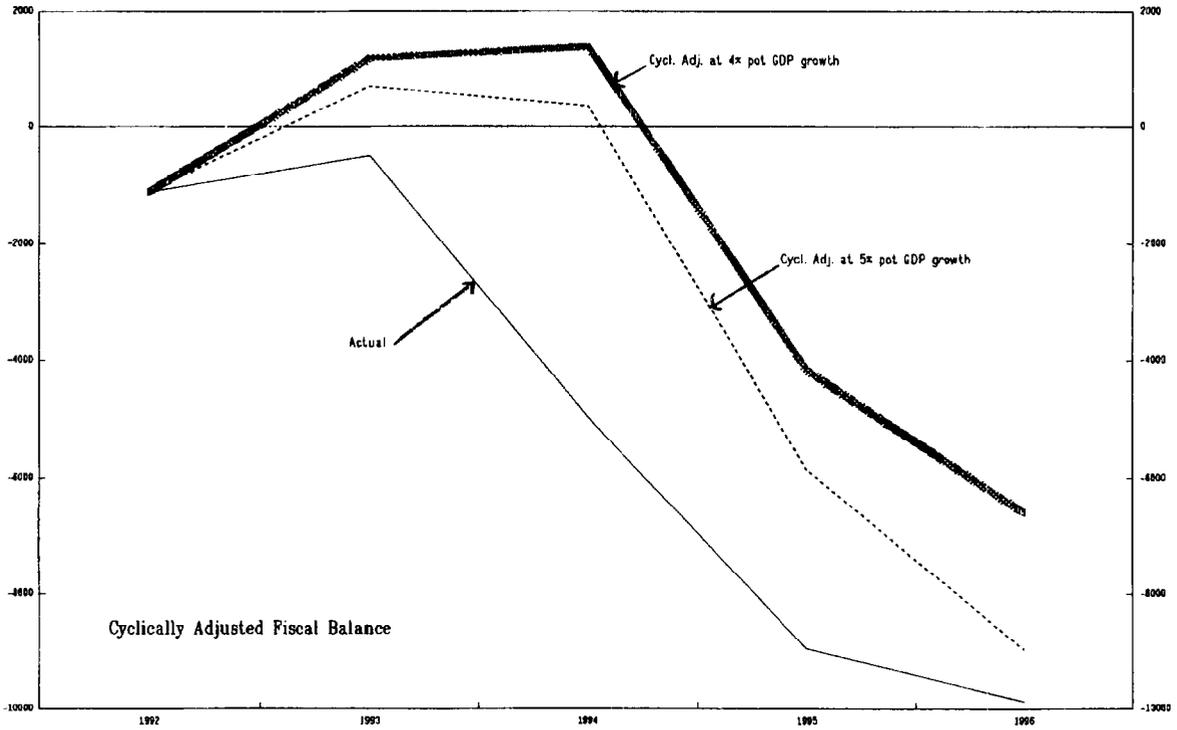
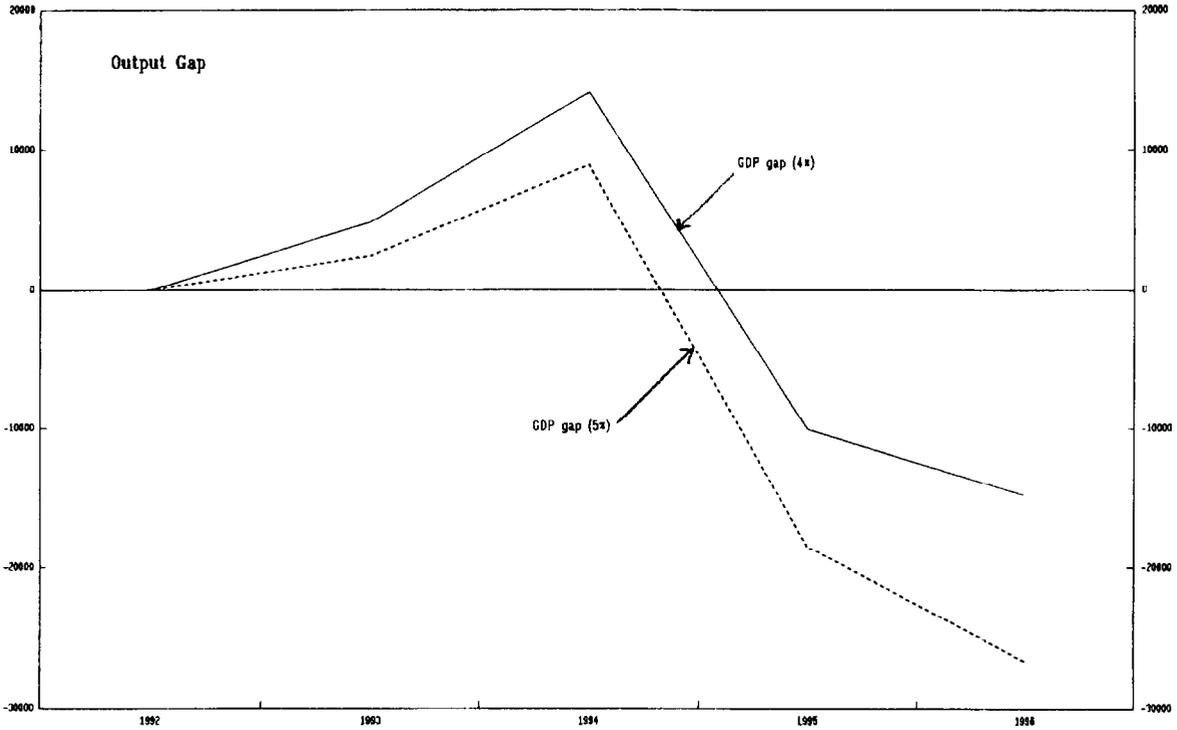


Source: Ministry of Economy; and Fund staff calculations.

CHART No 5

ARGENTINA

Output Gap and Cyclically Adjusted Fiscal Balance  
(millions of pesos)



Source: Fund staff calculations.

implemented in the second half of 1994 shifted some Arg\$2.5 billion a year (0.8 percent of GDP) in contributions from the public sector to the private pension system; and (3) the reduction in employer contributions to the social security system implemented in late 1995 reduced revenue by some Arg\$2.5 billion a year (0.8 percent of GDP). The partial compensations for the increase in the underlying deficit undertaken so far by the authorities, by measures such as raising the VAT rate to 21 percent and holding down capital spending, may not be sustainable over the longer run.

Also, the above analysis does not consider the general equilibrium conditions for sustainable growth and external and internal balance. Indeed, there is no assurance that the elimination of the output gap, i.e., a return to potential growth of 4-5 percent a year, would be consistent with external viability at existing relative factor prices and with the underlying structural fiscal balance. In other words, the analysis leaves unanswered the question whether the underlying fiscal balance is consistent with low-unemployment labor market equilibrium at current relative factor prices.

#### V. Reform of Provincial Finances 1/

Reform of the provincial public finances 2/ has acquired increased importance as the provinces have contributed significantly to fiscal imbalances over time, while increased decentralization has made it all the more imperative that the provinces both develop reliable and efficient own revenue sources and improve the efficiency of their service provision. At the same time, the current system of revenue-sharing between the central government and provinces (coparticipation) is overly complex and has distorted policy-making at both levels of government.

The provinces have begun to address these issues in fundamental ways, rationalizing their public sectors, privatizing public enterprises and banks, and transferring their provincial pension systems to the central government. The issue of relations between the central and provincial governments is also being addressed in the context of discussions on a new revenue-sharing arrangement between these levels of government. 3/

##### 1. Background

Argentina has experienced increased decentralization since the mid-1970s and this trend is codified in the Constitution. The move toward

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1/ Prepared by Jerald Schiff.

2/ There are 23 provincial governments, in addition to the municipal administration of the City of Buenos Aires.

3/ These discussions had been originally scheduled to be completed by end-1996. However, it now appears likely that the current arrangement will be extended through 1998.

decentralization took an important step in December 1991, with the transfer to provincial governments of health and education services (as discussed further below), accounting for expenditures equivalent to roughly 1 percent of GDP. Responsibilities for service provision were shifted without always making sufficient additional financing available to the provinces; 1/ rather, it was expected that the provinces would finance these activities mainly out of the pool of shared federal-provincial revenues, which was growing as a result of tax reform and improved tax administration at the federal government level.

There are three mechanisms for revenue sharing between the national and provincial governments: a "coparticipation scheme," which provides automatic non-earmarked transfers and which accounts for about two-thirds of all federal-provincial transfers; other automatic transfers, earmarked for specific purposes (e.g., the Housing Fund and Road Fund); and discretionary transfers. The basic structure of the coparticipation scheme has existed since 1935, but it has undergone many changes and gained in complexity over time. 2/ Under this scheme, income tax, excise taxes, the VAT, and some other small taxes are subject to revenue sharing, which resulted by 1992 in the provinces receiving 56.66 percent of all revenue subject to coparticipation. Other taxes, such as fuel taxes, are shared according to separate earmarking rules outside of the coparticipation scheme. 3/ The coparticipation scheme determines both a primary distribution of tax revenue between national and provincial levels and a secondary distribution, among provinces, which aims to be explicitly redistributive. 4/

The present coparticipation system is extremely complex, and fails to provide incentives for efficient behavior for either the national or provincial governments. Provinces have little incentive to improve on their own revenue performance in the presence of growing coparticipated and discretionary transfers. The national government, in turn, has incentives to focus its efforts on increasing revenue through noncoparticipated taxes, introducing distortions into the tax system. In addition, the secondary distribution of coparticipated revenues among provinces appears not to be progressive, and income inequality across regions has increased over time.

The first federal-provincial fiscal pact (Pacto Fiscal I), which was agreed to in August 1992 in the context of increasing federal revenue

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1/ The provinces receive about Arg\$105 million in transfers to compensate them in part for the shift in expenditure responsibilities.

2/ For further details, see Claire Liuksila and Gerd Schwartz, "Argentina," in the forthcoming volume on Fiscal Federalism, edited by Teresa Ter-Minassian.

3/ For further details, see International Monetary Fund, "Argentina: Recent Economic Developments," 1995.

4/ The secondary distribution is determined through a formula based on population size and density, the numbers of houses and cars per capita and the average level of education.

transfers to the provinces, aimed at codifying the December 1991 transfer of expenditure responsibilities for public health--including the transfer of virtually all hospitals and clinics previously operated by the central government-- education (other than higher education) and housing to the provincial governments. The Pact also called for the transfer to the provinces of the administration of the resources of the Housing Fund, FONAVI (about Arg\$900 million per year). In addition, the Pact sub-divided the pool of revenues entering into coparticipation by shifting 15 percent of all previously coparticipated revenue to the national social security system, which had accumulated large arrears to pensioners. This "precoparticipation" effectively reduced the coparticipation rate from 56.66 percent to 48 percent. In return, the provinces obtained a minimum guarantee of monthly transfers, and some other guaranteed fixed transfers, which provided a floor of Arg\$10.4 billion in transfers per year.

In 1994, the second federal-provincial pact (Pacto Fiscal II) went into effect. While the basic structure of the agreement was largely unchanged since Pacto Fiscal I, the agreement increased the minimum guarantee, and provided incentives for, or committed the provinces to, fiscal reform. Provinces were encouraged to carry out deregulation and privatization, and committed themselves to tax reform, including the elimination of the provincial turnover tax, the stamp tax on checking accounts, and taxes on the transfer of fuel, gas and electricity. In addition, the provinces were provided the option to transfer their pension system to national government. This agreement underlies a number of the currently ongoing reforms.

The provinces lack sufficient own revenue, raising only 40 percent of their total expenditure (4.2 percent of GDP) from these sources in 1995. The provincial turnover tax and stamp tax, accounted for 65 percent of the provinces' own revenues in 1995. 1/ Thus, when these taxes are eliminated, it will be important to find alternative sources of own revenue. It is envisaged to replace the turnover tax by a retail sales tax, but it may be difficult to do so in a revenue neutral manner.

The provinces' ability to raise own revenue has been complicated by shortcomings in tax administration. For instance, a recent FAD technical assistance mission to the Province of Buenos Aires identified a number of problems in tax administration, including cumbersome procedures, lack of accurate and timely data on taxpayer compliance, ineffective audit programs, and an inadequate level of financial support for the tax collection agency. In addition, there is little coordination between provincial and federal tax collection agencies, and real estate cadastres are long out of date, resulting in an extremely small tax yield for such taxes.

With respect to expenditure composition, the provinces spent in 1995 53 percent of their total budget on wages and salaries, while allocating

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1/ Other provincial taxes include the vehicle tax (10.6 percent of own revenue in 1995), real estate tax (17.9 percent), and other (6.6 percent).

just 14 percent for capital spending. During the years 1983-90, provincial employment doubled, as provincial governments took on the role of employer of last resort, in particular in poor provinces. Several programs have recently been put in place to reduce provincial government employment, as noted below. Provincial expenditure management, including budgeting, accounting, and audit, also could be improved as budgets are often adopted late and do not control actual spending; there are no comprehensive public investment plans; and audit systems do not produce prompt and accurate financial reports.

## 2. Privatization of provincial public enterprises

Provincial enterprises had been inefficiently managed and had become an increasingly large drain on the provincial governments. During the last two years, provinces have made important progress in privatizing these enterprises. As of August 1996, 36 public enterprises had been privatized (including 8 energy utilities and 2 water companies); 2 others were in the process of being privatized; 2 had conditions of sale set; 18 more had authorizing laws and, where applicable, regulatory frameworks for their privatization were in place; and 9 had authorizing laws passed with regulatory frameworks pending. Only 15 enterprises remained in the hands of the provinces without a declared intention to being privatized.

## 3. Privatization of provincial banks

Most of the provincial banks emerged from the hyperinflation period of the late 1980s with serious problems, including a large stock of bad debts. A number of these banks were also hard hit by the financial crisis in early 1995. In these circumstances, and given the difficult fiscal situation they were facing, a number of provincial governments accelerated their plans to privatize these banks. In March 1995, a Trust Fund for Provincial Bank Privatization was established, financed by loans from the World Bank and the Inter-American Development Bank for a maximum of Arg\$1.3 billion, to support the restructuring, privatization, or closure of provincial financial institutions. As of August 1996, 14 provincial banks have been privatized, and there are laws authorizing the privatization of 3 additional banks. Presently, there are no plans to privatize the remaining 10 provincial and municipal banks.

## 4. Structural adjustment and reform

In addition to the privatization of banks and enterprises, a number of provinces have undertaken structural reforms, several with World Bank financing, aiming to improve the efficiency of public service delivery, reduce tax-induced distortions, and achieve long-run financial sustainability (Table 10). Included in these reforms are reductions in the civil service workforce; reforms in the education and health sectors; pension reforms; and the reform of real estate tax cadastres.

The province of Cordoba, for instance, has put a number of measures in place since October 1995, including a reduction in public sector employment of nearly 7,000 workers (9 percent of total positions); a reduction in pension benefits; the transfer of the responsibility for primary health care and water and sanitation to municipalities; and the development of plans for the restructuring of provincial banks. Other examples of ongoing provincial structural adjustment programs include those in Corrientes, where salaries and pensions have been reduced and the water and energy utilities privatized; and Misiones, where the civil service workforce has been reduced, a solidarity tax put in place for all public sector salaries above Arg\$700 per month, the provincial bank privatized, and laws for privatization of the water and energy utilities passed.

5. Transfer of provincial pension funds

It is expected that 11 provinces will shift their pension systems to the central government under a program supported by the World Bank (see Table 1). 1/ As the pension systems of these provinces were projected to incur some Arg\$800 million in losses in 1996, and were financially unsustainable over the medium-term, this transfer will generate important fiscal savings for provinces in both the short and medium-term. By July 1996, 8 pension systems had been transferred and, as a result, provincial pension spending is expected to decline by about Arg\$200 million in 1996. More importantly, the transfer will allow the federal government to rationalize benefit structures, increase retirement ages, and reduce fraudulent or incorrect benefits, and will provide the opportunity for provincial workers to opt for the private pension scheme operated at the national level. 2/

VI. Pension Reform, 1994-96 3/

Argentina has implemented in recent years a far-reaching reform of its pension system, including the introduction of a privately-managed and fully-funded pension option. This reform has been similar to those in a number of other Latin American countries, including Chile, Peru and Colombia, but there are important differences as well. In this note, we describe the historical background to this reform, noting problems with the previous system; review the move to a mixed public/private pension system in 1994; and summarize reforms undertaken and planned since then.

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1/ This includes three provincial pension systems transferred prior to 1996.

2/ For further details, see below: "Argentina: Pension Reform, 1994-96".

3/ Prepared by Jerald Schiff.

## 1. Background

The national and provincial pension systems that existed prior to 1994 were financially unsustainable, reflecting both rapid benefit growth and erosion of revenues over time. Pension benefits were generous in certain respects. In the national system, the retirement age of 60 for men and 55 for women was low in relation to the high life expectancy in Argentina, and the minimum years of required contributions was also low, at 20. In addition, the pensionable base was calculated as the average of the three highest wages (after adjustment for inflation) received in the last 10 years prior to retirement. Moreover, the system was riddled by fraudulent benefit claims, resulting from the lack of individual worker contribution histories; in order to receive benefits, workers were simply required to produce, upon retirement, notarized declarations from employers regarding years of employment. The system also suffered from a complex, inequitable benefit structure with many separate pension plans (including noncontributory pensions of various types), which also increased administrative costs. <sup>1/</sup>

Overall social security contribution rates were high, with combined employer and employee contributions of nearly 50 percent of wages; some 26 percentage points accounted for pension contributions. Evasion of contributions was also high, reaching at times to 70 percent for self-employed (independent) workers and 40 percent for private sector employees. This poor compliance reflected both high statutory rates, and a lack of a link between contributions and benefits.

Between 1990 and 1994, social security benefits at the federal level increased from 4 percent of GDP to 5.4 percent of GDP. <sup>2/</sup> In part, the increase in total benefits paid reflected a number of specific discretionary changes; e.g., following the privatization of public utilities, the Social Security Administration (ANSES) assumed responsibility for the existing subsidy on electricity and natural gas rates. However, the impact of general increases was more important; in March 1991, an overall pension increase of 25 percent was granted. In addition, in August 1991, a law was passed requiring the Government to recognize and consolidate pension arrears of 7.5 billion pesos (3.5 percent of 1991 GDP). To settle the debt, the Government offered cash payments with a limit of 1,580 pesos or payments with bonds with a maturity of ten years. In addition, pension benefits were brought up to their statutory levels in October 1992,--an average increase of about 30 percent--to arrest the further accumulation of arrears. The latter helps explain the observed increase in pension spending.

At the same time, there were additional benefit outlays corresponding to judicial rulings in favor of retirees affected by the hyperinflation of

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<sup>1/</sup> For further details, see International Monetary Fund, "Argentina: Recent Economic Developments," July 1, 1993.

<sup>2/</sup> See "Background and Basic Principles of the Social Security Solidarity Bill," Argentina, Secretariat of Social Security, 1994.

the 1980s. In the face of rapid inflation; the real value of pension benefits had eroded and by 1989 the average replacement rate was only 31 percent despite a defined benefit of at least 70 percent of previous earnings. In response, a large number of retirees, largely from middle and upper income households had taken their cases to court and received judgements increasing their benefits. In the first nine months of 1994, 25 thousand cases were heard, resulting in one-time payments of Arg\$625 million, in addition to increases in monthly payments.

Finally, it was hoped that the move to privately-managed capitalized savings accounts, together with steps to strengthen the public system's finances, would both increase the level of national savings and improve its allocation, while helping further to develop Argentina's capital markets. In addition, it was expected that individual workers would not view contributions to individual private savings account entirely as a tax, thereby reducing the distorting effect of pension contributions on labor market decisions.

## 2. The 1994 reform

In July 1994, the Government implemented a new national pension system. <sup>1/</sup> The reform had the twin goals of improving the financial sustainability of the pay-as-you-go public system, while providing workers the option of moving to a fully-funded privately-managed plan. Participation in one or the other system is compulsory for all workers, including the self-employed. The statutory retirement age is to be gradually increased by five years, to 65 years for men and 60 years for women by 2005. In addition, eligibility requirements were tightened, while contributions and benefits were more closely linked to limit fraud and abuse. Retirees will receive a basic pension from either the public or private scheme, as well as a minimum pension, and a compensatory pension based on contributions made under the old pension system.

The private system is operated by private pension funds (AFJPs), and functions as a defined-contribution scheme <sup>2/</sup> with individual capitalization accounts. It is financed by an employee contribution of 11 percent of wage earnings that applies equally to workers and the self-employed, with about 70 percent of this (7.7 percent of wages) going toward capital accumulation, and the remainder covering administrative expenses and insurance premia for group disability and term life insurance. The old-age pension from this tier is to be paid in the form of a life annuity or scheduled withdrawals based on the accumulated balance in each account. The

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<sup>1/</sup> For a detailed description of this system, see the International Monetary Fund, "Argentina: Recent Economic Developments, 1994."

<sup>2/</sup> In a defined contribution scheme, contributions are set by law, while benefits are determined by the rate of return earned on the investment of the contributions. In a defined benefit scheme, benefits are determined through an explicit formula, typically based on previous earnings.

system also pays disability and survivors pensions in the form of defined-benefit payments, on the basis of group disability and term life insurance. The AFJPs that manage the private system are supervised by a newly-created Superintendency for Pension Funds, and are subject to a number of restrictions in terms of the types of investments undertaken. In order to reduce risk to workers opting for the private system, the Government created a Fluctuation Fund (Fondo de Fluctuación), which receives excess investment returns from over-performing AFJPs. In addition, if, in a given year, the return on investment by any AFJP falls below 70 percent of the average return on investment of the group of all AFJPs, that AFJP is to be merged with other AFJPs.

The basic public pension is funded by an 11 percent wage tax on workers choosing this option, and general budget resources. It is operated as a defined-benefit scheme that pays 0.85 percent of the average individual salary (indexed) over the last 10 years of employment for every year of service under the new system.

All new pensioners--in either the private or public system--receive a minimum pension, equal to approximately 27.5 percent of the average covered wage, and subject to a minimum contribution period of 30 years and a regular retirement age of 65 for men and 60 for women. 1/ In addition, pensioners will receive a compensatory pension for past contributions to the old pension system, amounting to 1.5 percent of a person's average indexed salary of the last 10 years of employment for every year of contribution to the old system, capped at a maximum of 35 contribution years or 52.5 percent of the indexed salary. These two pensions are funded via an employer contribution, which was initially set at 16 percent of wage earnings, but which has since been reduced (see below). Finally, current pensioners and retirees will continue to receive their pensions under preexisting rules. The latter two payments--the compensatory pension for new retirees and pensions to current retirees--are transitional elements of the pension system, which will disappear as current retirees and workers move out of the system.

As an example of the overall replacement rate implied by the system, consider an individual earning the average wage in the economy, who contributed for 15 years under the old pension system, and 20 years under the new (public) system. This individual would earn 17 percent of his or her average indexed wage over the last ten years from his individual pension, an additional 27.5 percent under the basic universal pension, and a compensatory pension of 22.5 percent of average wage. Thus, the total replacement rate would equal 67 percent of average wage over the last ten years. The same individual in the private system would earn the latter two

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1/ The minimum pension increases for each year of contributions beyond 30, with a maximum of 45 years. After 45 years, the minimum pension would equal 31.6 percent of covered wage. For further details, see International Monetary Fund, "Argentina Recent Economic Developments," 1994.

pensions, equaling 50 percent of average wages, in addition to the return on his investment in the private scheme.

3. Experience under the new system

In the new national system, benefit levels have been tightened and inequities reduced; fraud has been lowered through the use of individual worker contribution histories; and savings and work incentives have been improved through the introduction of a fully-funded pension scheme. However, the transition to the new system has imposed significant costs on the budget. In addition, several problems of the previous system, such as a poor compliance rate of contributors, remain to be solved.

a. Transition to the new system

The new system has been fairly successful in attracting workers to the new private system. Within a month of the introduction of the reform, some 30 percent of the affiliates had switched their employee contributions to the AFJPs. This increased to 47 percent by January 1995 and 66 percent (5.4 million workers) by July 1996. 1/ This migration to the private system may have a positive impact on savings and the development of private capital markets in Argentina, as well as on the future retirement income of the elderly. 2/ The workers choosing to migrate to the private pension system have tended to be young; about 44 percent of the affiliates of AFJPs are less than 35 years of age and 67 percent are less than 45 years of age.

Because current retirees continue to receive their pensions under the old public system, while over two-thirds of the current workers have opted to make contributions to the private scheme, there is a fiscal cost of transition to the new mixed system. The more workers that move to the private scheme, the higher is the fiscal cost of transition and, other things equal, the more funding of the public system out of general revenues or other sources becomes necessary. The cost has gradually increased, reaching approximately Arg\$210 million per month, or about Arg\$2.7 billion (1 percent of GDP) per year. The substantial transition costs can be viewed as an investment in an improved pension system, which may have an important impact on the efficiency of the economy. As such, it involves significant income redistribution from the current generation--who are largely paying the transition costs, in terms of some combination of higher taxes and lower public spending--to future generations. 3/

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1/ It is expected that the percentage of workers opting for the private pension plan will increase somewhat over the next several years, although most of the older workers will likely remain in the public system.

2/ However, as noted below, if compliance in the private system remains poor, this could adversely affect retirement income.

3/ To the extent that the transition costs are reflected in higher fiscal deficits, some portion of the costs are delayed into the future.

Partly as a result of these transitional costs, the pension system has become an increasing drain on the central government budget. The transitional cost represented about 60 percent of the total shortfall, before non earmarked transfers from the central government, of Arg\$4.4 billion in 1995. 1/ In 1995, contributions covered just 50 percent of expenditures, down from 60 percent in 1994. To address this, the Government has earmarked a number of taxes for social security, including 11 percent of the VAT, the tax on personal wealth, 15 percent of co-participated revenues and 30 percent of privatization revenue. The Social Security System received 1.1 percent of GDP in earmarked taxes and other transfers in 1992; this increased to 2.2 percent in 1995 and is projected to rise to 3.1 percent in 1996.

b. Performance of the AFJPs

As of July 1996, there are 23 AFJPs, with the six largest ones accounting for nearly three quarters of all contributions to the private pension system. 2/ The value of these funds has increased steadily, reaching Arg\$4 billion (Arg\$731 per affiliate) by end-July 1996, with growth of about 150 percent over the previous 12 months. It has been estimated by the association of Private Pension Fund Administrators that the value of the funds will increase to about Arg\$20 billion by the year 2000. The investment portfolio of the AFJPs consists of Treasury bills (48 percent of total investment), fixed rate deposits (18 percent), local stocks (12 percent), and commercial paper (11 percent). For the year ending July 1996, the average rate of return across AFJPs reached 20.5 percent, while the rate of return since the implementation of the private pension scheme has been 16.9 percent.

The AFJPs charge a combination of a fixed monthly charge and a charge that varies with the size of an affiliate's contribution. The average effective commission is 3.4 percent of wages, including the cost of life and disability insurance, which is similar to those experienced in other countries with similar systems. There is significant movement between AFJPs, indicating that competition is functioning at least to some extent; about 5 percent of all affiliates transferred from one AFJP to another during the first half of 1996. In fact, the movement between AFJPs is viewed by some as excessive, since attracting new affiliates is quite costly to the AFJP, with marketing and other administrative costs of about Arg\$250 per affiliate gained.

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1/ This loss is projected to be Arg\$4.5 billion for 1996. Excluding revenue from earmarked taxes, the loss was Arg\$7.8 billion in 1995, and is projected to rise to Arg\$8.7 billion in 1996.

2/ In September 1996, two of the larger AFJPs merged, becoming the largest single AFJP, with some 17 percent of all affiliates.

c. Continuing problems

Poor compliance, which was a major problem of the pre-1994 pension system has continued to plague the new scheme. In fact compliance has been weakening over the past two years. The number of workers affiliated in the system (both private and public) has continued to grow, from 5.7 million in September 1994 to 7.7 million at end-1995, and 8.2 million by July 1996, with most of this growth going to the private system. However, while in November 1994 contributions were received for 73 percent of all insured, this had dropped to 57 percent by end-1995, and 55 percent by July 1996. This may reflect, in part, the high unemployment and tight credit conditions during 1995-96.

It might be expected that the private scheme would have higher compliance, as worker contributions go directly to their own accounts, with noncompliance, in theory, only reducing savings available for the individual's retirement. However, compliance in the private system appears to be weak as well: in July 1996 contribution payments were received for just 50 percent of those insured under the private system, but for 62 percent of those insured under the public system. 1/ If this poor compliance were to continue, there is a risk that the much lower-than-planned average retirement income for future retirees under the private system may at some point generate political pressures for additional public expenditure.

To address the problem of compliance the Government is proposing to lower the contribution rate of low-income independent workers. In addition, dependent workers in both the public and private systems are beginning to be sent periodic information on the status of their account, in the hope that workers will help to enforce employer contributions. Finally, the authorities plan to increase the number of pensions denied for lack of contributions.

The level of benefits promised under the public system remains high compared to what has been found to be sustainable and adequate in other economies. As noted above, a typical retiree could be expected to receive a replacement rate (defined in terms of a ten-year average of wages) of approximately 67 percent. 2/ The existence of parallel public and private systems that are subject to significantly different benefit regimes, gives rise to the possibility that benefit levels will differ significantly between the two tiers. If this happens, the government could face public

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1/ The compliance figures for the private sector may exaggerate somewhat the extent of the problem. It is believed that the number of AFJP affiliates may have been artificially inflated by sales agents, although the size of this problem is not known.

2/ This compares, e.g., with the following replacement rates for the year 1991: Mexico, 60 percent; Peru, 80 percent; Austria 57 percent; and Portugal 66 percent. See World Bank, Averting the Old Age Crisis, 1994, p. 369.

pressures to intervene in order to reduce the divergence of pension levels between the two schemes.

#### 4. Pension Solidarity Law of 1995

While the pension reform of 1994 addressed a number of the shortcomings of the previous system, financial problems remained. In addition, pension benefits had continued to grow, particularly at the upper end of the income scale, while the minimum pension had remained unchanged since 1991, at Arg\$150 per month. In response to this, the Government passed the Pension Solidarity Law of 1995. This law has the principal objective of improving the financial sustainability of the pension system, while protecting the pension incomes of the poorest retirees. First, it limits benefit increases to budgeted levels, rather than having them set automatically, based on wage increases, as was previously done. <sup>1/</sup>

Second, the spending limit constrains payments made on arrears resulting from court decisions. Once the amount earmarked for payment of judgements has been depleted in a given year, those still owed are required to wait until the following year. As of July 1996, there are some 160 thousand cases waiting to be heard, with a disputed amount of about Arg\$3 billion.

Finally, the law set a ceiling on a maximum pension, Arg\$3,100 per month, with gradual reductions for those above the ceiling. The Government has recently sent to Congress a bill to reduce the maximum pension to Arg\$2,500 per month, including for so-called privileged pensions.

#### 5. Reduction in payroll tax rates in 1994-95

Following the reform of 1994, total employer and employee contributions for social security, health care, unemployment insurance and family allowances totaled 50 percent (Table 11). This tax burden was viewed as too high, particularly in the context of Argentina's need to maintain competitiveness in the context of its fixed exchange rate policy. Thus, in order to reduce labor costs, in particular in poor regions, the Government implemented, in April 1994, a cut in employer contributions ranging from zero to 80 percent, depending on location as well as sector of production. Economically weak regions received larger reductions, and these reductions were limited to agriculture, industry, construction, and scientific research; tourism and the service sector, representing almost half of the labor force, received no reductions. The resulting system of contributions was excessively complicated and economically distorting, implying that enterprises in different industries in the same province, or in the same industry in different provinces, would be paying different tax rates. Even

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<sup>1/</sup> However, indexing the base of new pensions (i.e., of the wages of the last ten years) has remained in place. A law to be proposed to Congress in 1996 will seek to eliminate this indexing as well.

within provinces, enterprises paid different rates depending on whether they were located in a rural or urban area.

In March 1995, in view of the overwhelming importance of strengthening the public finances in order to deal with the financial crisis at that time, the system of payroll taxes was simplified and the rate reduction partly rolled back. The rates were generally unified across sectors, although differences remain across provinces. Once the financial situation had stabilized, a reduction of 30 percent was introduced in three steps between September 1995 and January 1996. This last reduction is estimated to have reduced revenue to the public pension system by about Arg\$175 million per month, or some Arg\$2.3 billion per year. 1/

This reduction, combined with the transitional costs, noted above, accounts for a shortfall in the pension system of about Arg\$5 billion per year, beginning in 1996. This is equivalent to about 60 percent of the gap between pension benefits and contributions.

#### 6. Takeover of provincial pension systems

One further problem that remains is that of provincial pension plans, i.e., the pension schemes for provincial public sector employees. These plans typically have had very generous benefit structures and low retirement ages. As a result, the provincial pensions have experienced sizable losses, amounting to about Arg\$800 million in 1995, despite the use of general revenue to supplement contributions. Moreover, given the benefit structures, outlays were set to grow substantially over the medium- and long-term, further burdening the provincial finances and crowding-out spending in high-priority areas, such as investment in economic and social infrastructure.

As an important component of provincial reform, the Central Government has begun to take over and reform the provincial pension schemes. Through July 1996, eight provincial pension systems have been taken over by the central administration, and an additional two are expected to be transferred in the remainder of 1996. 2/ The authorities anticipate that three others will be transferred during 1997. The transfer of the provincial pension schemes will have several important benefits. First, the elimination of separate administrative agencies will lower administrative costs substantially, in particular in conjunction with the ongoing reform of the national pension administration (ANSES). Second, the integration of the provincial pensions into the national system will allow for the rationalization of benefit structures and retirement ages, thereby improving the financial viability of Argentina's pension system and enhancing the equity of the system. The integration of the pension plans will also

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1/ Including the two months in which bonuses (aguinaldos) are paid, there are 13 months of salary paid out during the year.

2/ For further details on the transfer of provincial pension systems, see the note on provincial reform above.

provide the provincial workers with the opportunity to opt for the private pension plan of the national system, with the advantages noted above. Finally, it should also improve labor mobility, as workers can move from provincial government employment to the private sector, while maintaining their pension plan. This takes on particular importance as provinces begin to downsize their public sectors.

The fiscal costs to the central government of this takeover will, however, be sizable, amounting to at least Arg\$1 billion annually in the initial years. 1/ The current combined deficit of the 16 provincial pensions systems 2/ that likely will be absorbed was approximately Arg\$700 million in 1995. Further increasing the fiscal cost is the fact that workers may opt for an AFJP upon integration into the national system; thus the national system will be gaining the current retirees of the provincial pensions, but only a portion of the current workers' contributions. In fact, among affiliates of those provincial pension systems that have already switched, upwards of 70 percent have opted for the private pension system, a percentage higher than the existing national average. In addition, employee contributions are lower in the national system than in the provinces, tending to increase the deficit upon transfer to the central government. Provinces have also supported pensions with other revenues, which will no longer be available to the central government.

Over time, however, the deficits resulting from the takeover of provincial pensions will decline, for a number of reasons. First, new pensioners will receive lower benefits, as the impact of the rationalization of benefits begins to take effect. Second, ANSES will continue its efforts (see below) to clean the system of beneficiaries who are not legally eligible for the benefits they receive. Third, gains will also be experienced as total administrative costs begin to fall, as a result of consolidation of a number of pension schemes into one. Fourth, the minimum retirement age of those workers in the transferred systems will increase to that of national system further reducing costs, although this will also have effect only over time. Finally, provincial pensions will become subject to the Solidarity Law of 1995, and so will be limited by budget allocations.

#### 7. Reform of ANSES

The Government is moving ahead with the organizational reform of its social security administration, ANSES. This reform becomes particularly important as provincial funds are transferred to ANSES. It is important to note that the current ANSES resulted from the merging of 18 previous pension administrations, leading to substantial internal inefficiency, including an overly large staff with an inappropriate skill mix. In addition, there are

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1/ Preliminary projections for 1997 indicate a cost of about \$1.2 billion.

2/ These sixteen pension plans had 1.4 million contributors and 494,000 beneficiaries.

a large number of inaccurate or fraudulent benefit payments; a government study indicated that potential savings of more than Arg\$300 million per year would be possible by eliminating these payments. This figure may well be substantially higher if one considers the integrated provincial systems, which are said also to suffer from fraudulent benefits.

The Government is following a two-pronged approach with respect to pension reform, looking to make improvements in its system of benefits payments in the short-run, while transforming the organization more generally over the next two years. The short-run "emergency plan" already underway includes enhanced audits of beneficiary files; a review of the contributors' data base of persons within six months of retirement; a follow-up to the Census of Beneficiaries, which identified about 300 thousand irregular cases; and a review of invalidity claims. Steps have been taken to implement a more fundamental change in the organizational structure of ANSES as well, including a review of the accounting and internal auditing systems.

## VII. Competitiveness of the Argentine Economy 1/

This note examines the issue of the competitiveness of the Argentine economy since the enactment of the Convertibility Law in April 1991 2/ from a number of alternative perspectives. It concludes that over this period there is no clear evidence of loss of competitiveness.

### 1. Saving-investment balance

Argentina's external current account deficit reached a level equivalent to 3.7 percent of GDP in 1994 3/ (Table 12), a sharp turnaround from a surplus of 1.3 percent of GDP reached only four years earlier. However, the increased use of foreign savings did not reflect a decline in national savings relative to GDP: indeed, between 1990 and 1994 the growth of consumption was restrained and national savings increased by 1 percentage point of GDP. The main determinant of the higher use of external savings was an increase in gross domestic investment of 6 percentage points of GDP to a level of almost 20 percent of GDP in 1994.

In the aftermath of the Mexican crisis, foreign financing available to Argentina dropped sharply. In 1995 gross domestic investment declined by 1.6 percentage points of GDP, while real GDP declined by 4.6 percent. At

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1/ Prepared by Paul Gruenwald and Marco Piñon-Farah.

2/ For the purpose of this note, the base period is March-April 1991, even though the real effective exchange rate prevailing at that time may have been somewhat below its equilibrium value.

3/ The authorities' estimate of the external current account deficit is 0.3-0.5 percent of GDP lower than that of the staff owing to higher estimates of interest receipts on residents' foreign asset holdings.

the same time, the external current account deficit declined by about 2.3 percentage points of GDP, reflecting a large drop in absorption and dynamic export performance (see Section 2). Thus the evolution of the external current account during 1990-95 appears to have been closely related to changes in domestic investment. In turn, such investments were associated with variations in the availability of external financing.

## 2. Export performance

During the early years of the convertibility regime, domestic absorption rose sharply and export performance was dampened, and by 1992 total exports were below the 1990 level. Since then, however, the export sector has gained strength and accompanied the rapid growth of the economy. In 1994, merchandise exports totaled US\$15.8 billion, almost 30 percent above their 1992 level, with a cumulative volume increase of 24 percent. Moreover, over half of the nominal increase in exports was explained by higher exports of manufactures of industrial origin. In 1995, exports increased further to almost US\$21.0 billion, some 32 percent above their 1994 level, including an increase of 27 percent in volume. As in previous years, exports of manufactures of industrial origin recorded the largest increase, reaching 31 percent of total exports, compared with 23 percent in 1992. This expansion in exports reflects the trade deepening that resulted from the substantial structural reforms and changes in trade policy and taxation undertaken since 1990, including Argentina's joining the MERCOSUR free trade agreement.

Part of the surge in exports can be explained by developments that could be viewed as transitory. Specifically, the rapid expansion of exports in 1995 reflects the recession and the strong growth of exports to Brazil, which increased by over 49 percent from 1994, reaching a share of 26 percent of total exports in 1995, up from 12 percent in 1990. Excluding exports to Brazil, total exports increased by 27 percent in 1995. Nevertheless, export performance in 1996 continued strong and, notwithstanding a marked slowdown in demand from Brazil, grew by 9 percent in the first eight months of the year, compared with the same period in 1995.

## 3. Real effective exchange rate indices

The evolution of the real effective exchange rate (REER) since March-April 1991 can be divided into two distinct periods. <sup>1/</sup> Through January 1994, the CPI-based REER appreciated considerably--by 35 percent (Table 13)--in large part due to the slow convergence of domestic prices to international levels. Since February 1994, however, owing to several factors, both external and domestic, it depreciated by 16 percent, and as of June 1996 was 13 1/2 percent above its pre-convertibility level. A WPI-based REER has shown less cumulative appreciation and less variability since

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<sup>1/</sup> The discussion of both the CPI- and WPI-based REER is based on calculations using 1995 trading partner weights.

the implementation of the convertibility plan; though June-1996 it has appreciated by about 1 1/2 percent in real effective terms since the base period, with a 3.4 percent real appreciation through January 1994 offset by a real depreciation of 1.7 percent since February 1994.

Since the Argentine peso is pegged to the U.S. dollar, a convenient way to analyze variations in the real effective rate of the peso 1/ is to decompose its movements into: (i) the U.S. dollar REER with respect to Argentina's trading partners (USREER); and (ii) movements of the real bilateral exchange rate with respect to the U.S. (RERUS). The latter only reflects differences in U.S. and Argentine CPI inflation, and after appreciating by almost 30 percent through January 1994, has since depreciated by 2 percent. The greater part of the recent depreciation of the REER, however, is explained by the changes in the USREER (i.e., third-country currency effects), which since February 1994 has depreciated by almost 17 percent. This is explained to some extent by the real depreciation of the U.S. dollar with respect to the main European currencies and the Japanese Yen, but more importantly, by the real appreciation of other South American currencies, particularly the Brazilian Real since the adoption of the "Real Plan" in mid-1994 (Table 14). Note that while Argentina's real bilateral exchange rate (BRER) has depreciated with respect to most currencies since 1994, in the case of European currencies, this has only offset partially its previous appreciation. With respect to Brazil and Chile, however, the BRER has depreciated 8.6 percent and 2.6 percent, respectively, since March-April 1991.

#### 4. Relative unit labor costs

An alternative measure of the REER can be formulated in terms of unit labor costs. Since this variable embodies the evolution of both wages and productivity, it may be viewed as a better indicator of competitiveness than the standard REER (as long as other relative costs do not deviate substantially from relative labor costs). Notwithstanding data quality constraints, the data show that after increasing by 27 percent during the period April 1991-February 1994, Argentina's weighted relative unit labor costs (WRULC) declined 21 percent through April 1996 (Table 15) and thus were virtually unchanged over the entire period.

The sharp turnaround in the WRULC since early 1994 is explained mostly by relative increases in productivity in Argentina, but also reflects a relative decline in domestic wages. This is apparent from the bilateral unit labor cost ratio (ULCR) with respect to the U.S. which, after increasing by almost 6 percent during the early years of the convertibility regime, subsequently remained constant. The turnaround of the WRULC with respect to other key trading partners, however, was more pronounced.

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1/ This exercise is done only for the CPI-based REER.

## 5. Equilibrium exchange rate

The analysis conducted so far focuses on movements of the REER as a proxy for changes in competitiveness. It could also be argued, however, that the numerous structural reforms undertaken during the recent years have changed the equilibrium REER. In particular, there have been changes in relative productivity between the nontradeable and tradeable sectors and in external indirect taxes. This issue may be seen from the perspective of the relative price of nontradeable goods (RPNT) and the factors that may have changed the relative profitability of the export sector.

The calculations use a composite of consumer prices in the services sector as an indicator of prices in the nontradeable sector, and wholesale prices of imported goods as the indicator of prices in the tradeables sector. A proxy for relative productivity is derived using per capita output in the construction sector relative to that in manufacturing sectors. The results indicate that although the price of nontradeables increased by over 44 percent relative to the price of tradeables (Table 16), productivity in the tradeables sector relative to nontradeables sector increased by 14 percent. Thus, there is a 26 percent increase of the RPNT that is not accounted by increases in productivity. Some of this could be explained by the virtual elimination of export taxes, and the implementation of indirect tax rebates to exporters, which resulted in a decrease in net export taxes equivalent to over 15 percent of the value of merchandise exports during 1991-95 (Table 17). For import taxes the changes 1991-95 have been less substantial, mainly because an increase during 1991-93 was reverted in 1995 as a result of the reduction of the statistical tax and its elimination from MERCOSUR transactions. Thus, there would be only about 10 percent of the change in relative prices that remains unexplained and could be interpreted as a loss of competitiveness. However, in light of other reforms are likely to have further contributed to lowering the cost of doing business in Argentina, such as the ongoing labor markets reforms, deregulation, and the sharp reduction in the costs of ports and public utilities following their privatization, this range may be viewed as an upper limit.

## 6. Conclusion

Alternative measures of competitiveness suggest that the Argentine economy has experienced little or no loss of competitiveness over the period from early 1991 to the present. The indicators range from a maximum loss of about 13 1/2 percent as measured by movements in the REER based on consumer prices, to almost no loss as measured by movements in the REER based on wholesale prices and in relative unit labor costs. These findings reflect a significant turnaround in most indicators since early 1994 owing largely to developments in the Brazilian economy, the depreciation of the U.S. dollar relative to other major currencies, as well as substantial relative productivity growth and wage restraint in Argentina.

### VIII. Poverty

During the 1980s, Argentina experienced a sharp increase in poverty. This was related to economic stagnation and the lack of dynamism in employment, and to the corrosive effects on purchasing power of hyperinflation. With the return of economic stability and high growth in the early 1990s, the situation improved considerably. Poverty declined in the early 1990s, and data suggest that the poor did not experience as extreme poverty as in the past. A recent World Bank study reports that the poverty gap index (the difference between the poverty line and mean income of the poor) decreased to less than half through 1994, while the poverty severity index (a decline indicating less absolute poverty) decreased to two-fifths of its 1990 level.

Recent data from the Ministry of Economy show that in early 1996 in the area of Buenos Aires, some 3 million persons (or 26.7 percent of the urban population) were living below the poverty line--an increase of 500,000 persons compared with a year earlier. Moreover, the rate of indigence among families (a measure of the number of families who cannot afford basic needs) increased by 1 percentage point during the 12-month period through May 1996 to 5 1/2 percent of the total number of family households in Buenos Aires. The main reasons for this increase in poverty was the effect of the recession of 1995 and the jump in unemployment, and the increase in the price of basic foodstuffs that are included in the basic basket of consumer items for low income persons and families. Nevertheless, overall poverty remains below its levels of the late 1980s.

The distribution of income in Argentina worsened during the 1980s. By 1993, however, the income of the lowest quintile had recovered much of the purchasing power lost between 1980 and 1989. These variations reflected mostly developments in overall growth and inflation as the relative share of income of the lowest quintile remained little changed. In turn the latter reflected the high unemployment and underemployment experienced by the most vulnerable groups, even during the recent period of high growth.

With the modernization of the economy in recent years, the importance of educational level as a determinant of income and poverty has become more pronounced. The educational level of the household head especially figures prominently in reducing the probability of being poor. In this regard, evidence suggests that many children from poor families enter primary school at a later age and suffer from high drop-out rates; the authorities are improving targeting mechanisms and are examining potential incentives for youths to remain in school.

The functioning of the labor markets can have a dramatic impact on poverty. On one hand, studies have shown that a significant wage differential persists between male and female employees with similar

education credentials. On the other, a large subgroup of the poor, the so-called vulnerable poor with income levels in a band 25 percent above and below the poverty line, are particularly sensitive to inflexibilities and the lack of price clearing in labor markets.

Table 1. Argentina: Determinants of the Unemployment Rate

	Urban Population <u>1/</u> (N)	Labor Force <u>1/</u> (L)	Employ- ment <u>1/</u> (E)	Unem- ployed <u>1/</u> (U)	Partici- pation Rate <u>2/</u> (P)	Unem- ployment Rate (U/L)	In Percent				
							E/L	d(U/L) =(1)+ (2)+(3)	(E/L)*gn (1)	(E/L)*gp (2)	-(E/L)*ge (3)
1988	18,045	7,067	6,618	449	39.2	6.3	93.7				
1989	18,341	7,265	6,700	566	39.6	7.8	92.2	1.5	1.5	1.1	-1.2
1990	18,644	7,262	6,731	532	39.0	7.3	92.7	-0.4	1.6	-1.5	-0.4
1991	18,964	7,478	6,994	484	39.4	6.5	93.5	-0.9	1.5	1.1	-3.6
1992	19,264	7,696	7,159	537	40.0	7.0	93.0	0.5	1.5	1.2	-2.2
1993	19,584	8,043	7,274	770	41.1	9.6	90.4	2.7	1.5	2.6	-1.5
1994	19,909	8,135	7,204	931	40.9	11.4	88.6	1.9	1.5	-0.5	0.9
1995	20,240	8,479	7,007	1,472	41.9	17.4	82.6	6.1	1.5	2.2	2.4
1996 <u>3/</u>	20,506	8,402	6,975	1,427	41.0	17.0	83.0	-0.3	1.1	-1.8	0.4

Sources: INDEC; and Fund staff estimates.

1/ In thousand of persons. Includes Great Buenos Aires and urban agglomerates outside Buenos Aires but excludes the category "other urban" in the census statistics, consistent with the official methodology of measuring nationwide unemployment.

2/ Defined as a percentage of the urban population.

3/ May.

Table 2. Argentina: Determinants of Aggregate Employment

(In percent)

	Changes in real GDP ( $\Delta y$ )	Changes in capital stock ( $\Delta k$ )	Changes in Employment ( $\Delta l$ )	Contribution to Employment Growth		
				Changes in Real GDP $dy/(1-\alpha)$	Changes in TFP $-da/(1-\alpha)$	Changes in Net Capital Stock $-dk\alpha/(1-\alpha)$
1989	-6.2	-1.4	1.0	-10.3	10.4	1.0
1990	0.1	-2.4	1.1	0.2	-0.7	1.6
1991	8.9	-2.0	4.3	14.8	-11.9	1.4
1992	8.7	-0.3	2.7	14.5	-12.0	0.2
1993	5.9	1.4	1.3	9.8	-7.6	-0.9
1994	7.4	2.8	-0.2	12.3	-10.7	-1.9
1995	-4.6	2.5	-2.6	-7.3	6.3	-1.6

Sources: Ministry of Economy; and Fund staff estimates.

Table 3. Argentina: Credit Indicators

(In billion of pesos)

	Banking Credit			BCRA Net Credit to NFPS	Total Credit Banks+ BCRA
	Private Sector Credit	Public Sector Credit	Total Credit		
<u>1991</u>					
December	22.770	7.263	30.033	5.827	35.860
<u>1992</u>					
January	23.520	7.460	30.980	5.818	36.798
February	24.230	7.312	31.542	6.238	37.780
March	25.470	7.048	32.518	5.415	37.933
April	26.510	6.945	33.455	5.550	39.005
May	27.660	6.262	33.922	5.692	39.614
June	29.030	5.752	34.782	5.628	40.410
July	30.050	5.295	35.345	5.896	41.241
August	30.940	5.020	35.960	5.727	41.687
September	32.280	5.025	37.305	5.207	42.512
October	33.440	4.515	37.955	3.512	41.467
November	34.060	4.419	38.479	3.660	42.139
December	35.000	5.513	40.513	3.940	44.453
<u>1993</u>					
January	36.010	4.112	40.122	5.242	45.364
February	37.080	4.825	41.905	5.019	46.924
March	38.170	5.223	43.393	4.140	47.533
April	38.920	5.254	44.174	6.036	50.210
May	38.340	4.070	42.410	6.089	48.499
June	39.390	4.512	43.902	5.754	49.656
July	40.090	3.778	43.868	6.119	49.987
August	40.220	2.920	43.140	5.829	48.969
September	40.690	4.440	45.130	5.302	50.432
October	41.020	2.862	43.882	6.305	50.187
November	42.230	3.169	45.399	6.453	51.852
December	43.260	4.775	48.035	5.750	53.785
<u>1994</u>					
January	44.189	3.635	47.824	7.045	54.869
February	44.964	3.446	48.410	7.402	55.812
March	45.489	4.111	49.600	6.692	56.292
April	46.337	3.458	49.795	7.470	57.265
May	47.526	2.901	50.427	7.558	57.985
June	47.857	3.594	51.451	6.195	57.646
July	48.545	2.770	51.315	8.318	59.633
August	49.251	4.416	53.667	7.496	61.163
September	50.274	5.042	55.316	6.902	62.218
October	50.886	4.424	55.310	8.413	63.723
November	51.328	4.002	55.330	7.780	63.110
December	52.029	4.148	56.177	7.365	63.542
<u>1995</u>					
January	52.084	3.883	55.967	7.520	63.487
February	52.234	3.811	56.045	8.115	64.160
March	50.886	5.255	56.141	8.391	64.532
April	50.723	4.437	55.160	9.783	64.943
May	50.598	6.048	56.646	9.910	66.556
June	50.422	6.556	56.978	8.212	65.190
July	49.993	6.703	56.696	9.483	66.179
August	48.683	7.482	56.165	9.467	65.632
September	48.994	7.960	56.954	8.775	65.729
October	49.368	7.169	56.537	9.864	66.401
November	49.249	8.560	57.809	9.989	67.798
December	49.953	8.788	58.741	8.985	67.726
<u>1996</u>					
January	50.089	7.826	57.915	10.350	68.265
February	50.147	7.427	57.574	9.673	67.247
March	50.044	8.196	58.240	9.694	67.934
April	49.968	7.690	57.658	10.505	68.163
May	50.815	7.715	58.530	10.614	69.144
June	51.420	8.515	59.935	9.343	69.278
July	51.552	8.455	60.007	10.644	70.651

Sources: Central Bank of Argentina; and Fund staff estimates.

1/ Pases pasivos plus lelibans.

2/ According to 1996 program definition. Authorities' definition subtracts pases activos.

3/ Based on lending capacity, i.e., actual from base year plus growth of lending capacity.

4/ Stock at end-of-period according to balance sheet of financial institutions.

5/ Proportion of encaje tecnico used to meet reserve or liquidity requirements. Measure introduced to help banks meet exigencia during the crisis of early 1995. It expired on February 29, 1996.

Table 4. Argentina: Regression Analysis of Demand for Credit  
by the Private Sector 1/

(Dependent Variable: Monthly Percent Change in Credit to  
the Private Sector Net of Problem Loans)

	Coefficient	T-Ratio
<u>Explanatory variables:</u>		
Constant	-0.32**	-3.45
Log of Credit-GDP ratio, one-month lag	-0.06**	-3.54
Interest rate	-0.18*	-2.41
GDP growth	0.15*	2.41
<u>Dependent variable lagged:</u>		
two months	0.22	1.94
three months	0.32**	2.89
<u>Summary and diagnostic statistics:</u>		
Number of observations: 61 (1991 June - 1996 June)		
R-Square statistic = 0.66		
Adjusted R-Square = 0.63		
F-Statistic, F(5,55) = 21.76 **		
DW-Statistic = 1.82		
Dickey-Fuller Statistic = -7.08*		
Augmented Dickey-Fuller Statistic = -5.91* (one-month lag)		
Lagrange Multiplier Statistic: t = 0.44 (one-month lag)		
t = -0.97 (one-month lag)		
t = -0.18 (three-month lag)		
* Indicates significance at the 5 percent level.		
** Indicates significance at the 1 percent level.		

Source: Fund staff estimates.

1/ Ordinary Least Squares estimates. Instrumental variables were used for the current level of interest rate and for GDP growth (see text).

Table 5. Argentina: Changes in Balance-Sheets of Private Financial Institutions during 1995

(In millions of Arg\$)

	Number of Banks	Change in Total Assets	Change in Loans to the Private Sector 1/							Change in Deposits		
			Total	Arg\$	US\$	Guaranteed	Personal	Advances	Others	Total	Arg\$	US\$
Total private system	173	5,116	-2,063	-1,194	-869	-631	-942	-544	54	-2,441	-1,067	-1,373
Domestic banks	64	2,347	-598	-138	-460	-245	56	134	-543	-524	-4	-520
Foreign banks	30	5,682	1,196	307	889	81	298	53	764	907	317	590
"Financieras"	25	-314	-344	-144	-200	-107	-140	-53	-43	-332	-117	-214
Cooperatives	40	-2,548	-2,275	-1,193	-1,083	-362	-1,113	-676	-125	-2,451	-1,240	-1,212
Credit unions	14	-52	-41	-27	-14	1	-42	-2	1	-40	-23	-17
By size of institutions 2/												
Large	10	5,826	1,396	854	543	147	889	713	-353	2,020	946	1,074
Medium	22	615	-429	-498	70	13	-228	-360	146	-911	-352	-560
Small	141	-1,325	-3,030	-1,549	-1,481	-792	-1,603	-897	262	-3,549	1,662	-1,887

Sources: Central Bank of Argentina; and Fund staff estimates.

1/ Guaranteed loans include loans guaranteed by real estate, goods, bonds, and third party endorsements. Advances include advances in checking accounts. Others include the remaining loans net of provisions.

2/ Large institutions include those with more than 1.5 percent of total assets as of December 1994; medium institutions include those with more than 0.5 percent of total assets but less than 1.5 percent; and small institutions include those with less than 0.5 percent of total assets.

Table 6. Argentina: Private Financial Institutions, 1993-94 <sup>1/</sup>(As a proportion of total assets in each group; in percent) <sup>2/</sup>

	Number of Banks	Loans to the Private Sector							Share of Normal Debt <sup>3/</sup>	Share of Peso Deposits
		Total	Arg\$	US\$	Guaranteed	Personal	Advances	Other		
Total private banking system	123	62.2	25.8	36.4	9.3	28.9	17.2	6.8	86.4	46.8
		1.2	1.1	1.2	0.9	1.4	1.0	1.5	0.9	1.6
Domestic banks	52	58.7	22.0	36.7	9.7	27.8	16.2	5.0	87.7	44.8
		1.7	1.1	1.2	0.9	1.8	1.0	1.5	1.2	2.0
Foreign banks	29	58.5	14.1	44.3	4.6	18.3	12.3	23.2	90.0	39.5
		2.8	1.1	1.2	0.9	2.1	1.8	3.1	1.6	3.2
"Financieras"	19	63.7	29.9	33.8	20.6	34.1	20.2	-11.1	81.8	46.8
		3.7	1.1	1.2	4.1	4.2	3.8	3.9	2.6	5.0
Cooperatives	13	69.1	34.6	34.6	7.8	33.8	19.7	7.9	84.0	54.8
		1.1	1.1	1.2	1.2	2.5	1.5	3.1	2.4	3.1
Credit unions	10	75.6	52.1	23.5	2.0	49.1	27.8	-3.3	88.3	62.4
		2.6	1.1	1.2	1.0	6.8	6.3	4.6	2.5	7.7
Large institutions	10	67.0	18.1	48.9	12.1	23.3	18.5	13.1	92.3	36.5
		1.6	1.1	1.2	1.6	2.2	2.1	3.7	0.8	1.5
Medium institutions	17	67.5	26.9	40.7	9.9	27.9	17.4	12.3	84.0	46.0
		1.9	1.1	1.2	1.1	2.2	1.2	3.6	3.8	2.3
Small institutions	96	60.7	26.7	34.1	9.0	30.1	17.2	4.5	86.0	48.2
		1.5	1.1	1.2	1.1	1.7	1.3	1.7	1.0	2.0
Tests of differences in average shares (P value; in percent) <sup>4/</sup>										
Bank type		--	--	0.5	--	1.8	2.2	--	...	...
Bank size		2.9	79.0	1.7	16.4	85.8	30.8	3.1	...	...
Share of Non-performing Loans		0.7	22.9	2.3	54.7	0.1	26.6	--	...	...

Sources: Central Bank of Argentina; and Fund staff estimates.

<sup>1/</sup> For the definition of bank groups see Table 1.<sup>2/</sup> The standard deviation of the average share of total assets is presented directly below the share itself.<sup>3/</sup> Excluding nonperforming loans.<sup>4/</sup> The smaller the P-value, the more significant are the differences in average shares.

Table 7. Argentina: Estimates of Lending Functions 1/

(Panel of Private Financial Institutions; 1993-1994)

	Guaranteed		Personal		Advances		Others	
	Arg\$	US\$	Arg\$	US\$	Arg\$	US\$	Arg\$	US\$
Peso deposits	<b>-0.057</b> 0.025	0.163 0.104	<b>0.298</b> 0.070	0.185 0.156	<b>0.197</b> 0.066	<b>-0.580</b> 0.131	<b>0.327</b> 0.061	0.279 0.176
Dollar deposits	-0.001 0.015	<b>-0.363</b> 0.065	<b>-0.176</b> 0.043	0.021 0.097	<b>0.092</b> 0.041	<b>0.583</b> 0.082	<b>-0.201</b> 0.037	<b>0.269</b> 0.109
Borrowed funds 2/	0.005 0.007	<b>0.081</b> 0.029	0.020 0.020	0.057 0.044	-0.016 0.018	-0.050 0.037	-0.021 0.017	0.067 0.049
Other liabilities	-0.026 0.112	<b>-2.704</b> 0.470	<b>1.471</b> 0.316	<b>-3.823</b> 0.703	0.221 0.297	<b>1.733</b> 0.589	0.429 0.273	<b>5.118</b> 0.791
Own capital	-0.147 0.039	<b>0.441</b> 0.164	<b>0.210</b> 0.110	<b>1.097</b> 0.245	0.141 0.103	0.013 0.205	-0.044 0.095	<b>-0.736</b> 0.276
Interest rates	<b>-7.618</b> 3.310	3.311 13.890	1.220 9.347	25.160 20.768	7.025 8.784	-16.844 17.401	2.756 8.074	-6.499 23.376
Stock of peso deposits	<b>0.058</b> 0.010	-0.021 0.042	0.030 0.028	<b>-0.125</b> 0.063	<b>-0.054</b> 0.026	0.084 0.053	<b>-0.081</b> 0.024	-0.019 0.071
Stock of dollar deposits	<b>-0.019</b> 0.007	<b>0.161</b> 0.029	<b>0.081</b> 0.020	<b>0.073</b> 0.034	0.010 0.018	-0.051 0.038	<b>0.073</b> 0.017	0.084 0.050
Share of performing loans	<b>7.497</b> 3.832	-5.545 16.082	-5.444 10.822	-22.135 24.037	-5.498 10.170	16.778 20.146	-2.528 9.348	-1.579 27.064
N. Obs.	123	123	123	123	123	123	123	123
R square	0.425	0.813	0.802	0.527	0.299	0.507	0.300	0.560
Adjusted R square	0.375	0.797	0.785	0.487	0.238	0.464	0.240	0.522
Standard error	4.879	20.475	13.778	30.602	12.948	25.649	11.901	34.456
F (Wald test)	8.557	50.294	46.900	12.912	4.932	11.868	4.969	14.743
Sig. level	--	--	--	--	--	--	--	--

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Source: Fund staff estimates.

1/ The coefficients are OLS estimates. A system of equations was also estimated and the results did not change. The significance level of the Wald test shows the P-Value for the whole equation to be significantly different from zero. Numbers below the estimates correspond to standard errors. Bold indicates that a coefficient is statistically significant from zero at the 5 percent level.

2/ Includes rediscounts and funds borrowed abroad.

Table 8. Argentina: Actual and Projected Changes in Private-Sector Credit during 1995 1/2/

(In millions of Arg\$)

	Total	Arg\$	Change in Loans to the Private Sector				Advances	Others
			US\$	Guaranteed	Personal			
<u>(Actual)</u>								
Total private system	2,078	532	1,546	52	1,209	509	309	
Domestic banks	307	284	23	-118	520	333	-428	
Foreign banks	1,694	417	1,277	143	492	303	756	
"Financieras"	-203	-106	-98	-63	-79	-48	-13	
Cooperatives	298	-50	348	89	294	-78	-7	
Credit unions	-18	-14	-4	1	-18	-1	--	
Large institutions	1,396	854	543	147	889	713	-353	
Medium institutions	1,242	133	1,109	189	562	221	270	
Small banks	-560	-455	-105	-284	-243	-425	392	
<u>(Projected)</u>								
Total private system	5,345	1,365	3,980	1,872	3,012	-78	711	
Domestic banks	2,363	858	1,505	1,148	1,282	-307	411	
Foreign banks	2,467	572	1,895	748	1,404	225	116	
"Financieras"	-7	-115	108	-22	86	-66	3	
Cooperatives	541	123	418	62	192	70	185	
Credit unions	-19	-73	54	-64	49	--	-3	
Large institutions	3,425	1,324	2,101	1,340	1,562	139	550	
Medium institutions	1,388	523	865	444	684	41	220	
Small institutions	122	-443	565	170	469	-455	-62	

Sources: Central Bank of Argentina; and Fund staff estimates.

1/ For the definition of bank groups see Table 1.2/ Data reflect only those financial institutions that continued operating through the end of 1995.

Table 9. Argentina: Fiscal Stance and Impulse (Public Sector)

	1992	1993	1994	1995	1996
Actual GDP growth	8.7	6.0	7.4	-4.6	2.5
Potential GDP growth	4.0	4.0	4.0	4.0	4.0
Actual GDP	222,631	257,385	281,331	280,388	290,551
Potential	226,631	252,431	264,285	290,403	305,333
Public sector primary balance	3,029	3,417	113	-1,379	-2,943
Federal government	3,107	5,053	2,178	214	-1,241
Other	--	--	--	-801	-1,090
Provinces	-78	-1,636	-2,065	-792	-612
Cyclically adjusted primary balance	3,029	5,092	6,447	1,831	151
Interest	4,148	3,917	5,073	6,004	6,796
Actual balance public sector	-1,119	-500	-4,960	-7,383	-9,739
Federal Government	-491	2,326	-1,305	-3,878	-6,000
Funds and capitalized interest	-200	-700	-1,000	-1,989	-2,228
Provinces <u>1/</u>	-428	-2,126	-2,655	-1,516	-1,508
Cyclically neutral balance public sector	-1,119	1,175	1,374	-4,173	-6,645
Fiscal stance	--	1,675	6,334	3,210	3,094
Percent of GDP	--	0.7	2.3	1.1	1.1
Fiscal impulse (+ expansionary)	...	0.7	1.6	-1.1	-0.1
<u>Memorandum items:</u>					
With potential growth at 5 percent					
Fiscal stance	--	1,192	5,305	1,526	722
Percent of GDP	--	0.5	1.9	0.5	0.2
Fiscal impulse (+ expansionary)	...	0.5	1.4	-1.3	-0.3

Sources: Ministry of Economy; and Fund staff estimates.

1/ The provincial fiscal balance, which is reported on accrual basis, was adjusted downward by Arg\$1.5 billion in 1995, and upward by Arg\$0.4 billion in 1996, to reflect assumed changes in arrears.

Table 10. Argentina: Summary of Provincial Reforms as of August 1996

	Privatization of Public Enterprises	Privatization of Provincial Banks	Transfer of Pension Fund	Other Reforms
1. Buenos Aires	In process	No	No	--
2. Catamarca	Yes	In process	Yes	Administrative Reform; reduction in civil service work force.
3. Cordoba	No	No	No	Reduced salaries by 10 percent; plan of voluntary retirement; restructuring of education and health sectors.
4. Corrientes	Yes	Yes	No	Reduced salaries and pensions; administrative reform.
5. Chaco	Yes	Yes	No	Set maximum pension and wage; program of voluntary retirement.
6. Chubut	No	No	No	Reduced salaries and maximum pensions.
7. Entre Rios	Yes	Yes	Yes	Reduced civil Service.
8. Formosa	Yes	Yes	No	Solidarity tax on public employees; administrative reform.
9. Jujuy	In process	In process	Authorized	Solidarity tax on public employees.
10. La Pampa	No	No	No	--
11. La Rioja	Yes	No	Yes	--
12. Municipality of Buenos Aries	No	No	No	--

Table 10. Argentina: Summary of Provincial Reforms as of August 1996 (concluded)

	Privatization of Public Enterprises	Privatization of Provincial Banks	Transfer of Pension Fund	Other Reforms
13. Mendoza	In process	Yes	No	Administrative reform; voluntary retirement; cuts in spending on goods and services.
14. Misiones	In process	Yes	No	Reduced civil service work force; solidarity tax on public employees; reforms in education and health sectors.
15. Neuquen	Yes	No	No	Cuts in administrative spending through reforms.
16. Rio Negro	Yes	Yes	Yes	Cuts in current spending; program of early retirement; reforms in education and health, allowing spending cuts.
17. Salta	In process	Yes	Yes	Reduced civil service work force; solidarity tax on public employees.
18. San Juan	Yes	In process	Yes	Reduced work force; suspended automatic wage increases.
19. San Luis	Yes	Yes	Negotiating	--
20. Santa Cruz	Yes	Yes	No	--
21. Santa Fe	Yes	Authorized	No	Program of pension reform, including maximum pension; administrative reform.
22. Santiago del Estero	Yes	No	No	Reduced wage bill; health and education sector reform.
23. Tucuman	Yes	Yes	In process	Solidarity tax on public employees.
24. Tierra del Fuego	No	No	No	Civil service salaries reduced.

Source: Ministry of Economy.

Table 11. Argentina: Social Security Contribution Rates, May 1996

(As a percentage of wages)

	Rates Before Reductions	Reduced Rates <u>1/</u>
Employee's contribution	17.0	17.0
Social security	11.0	11.0
PAMI	3.0	3.0
Obras sociales	3.0	3.0
Employer's contribution	33.0	22.8
Social security	16.0	10.6
PAMI	2.0	1.3
Asignaciones familiares	7.5	5.0
Fondo nacional empleo	1.5	1.0
Obras sociales	6.0	5.0 <u>2/</u>
Total	50.0	39.8

Source: Ministry of Economy.

1/ Average effect of reduction. Reductions range from 30 to 80 percent depending on geographic and economic considerations.

2/ This rate was reduced from 6 percent to 5 percent, across the board.

Table 12. Argentina: Saving-Investment Balance, and Exports 1990-95

	1990	1991	1992	1993	1994	1995
<u>(As percentage of GDP)</u>						
Gross domestic investment	14.0	14.6	16.7	18.3	19.9	18.3
Gross national savings	15.3	14.4	13.9	15.2	16.3	16.8
External savings	-1.3	0.2	2.8	3.1	3.7	1.4
<u>(In thousands of U.S. dollars)</u>						
<u>Exports</u>	<u>12,354</u>	<u>11,978</u>	<u>12,235</u>	<u>13,117</u>	<u>15,841</u>	<u>20,968</u>
Primary products	3,339	3,301	3,499	3,272	3,742	4,816
Manufactures of agricultural origin	4,664	4,927	4,827	4,956	5,800	7,474
Manufactures of industrial origin	3,364	2,983	2,824	3,665	4,647	6,504
Petroleum products	985	766	1,082	1,224	1,651	2,169
Change in export volume (percent)	43.4	-0.1	1.8	8.0	14.9	27.3

Sources: National Institute of Statistics; Ministry of Economy; and Fund staff estimates.

Table 13. Argentina - Real Effective Exchange (REER) Indicators

(Percentage changes as indicated)

	REER			CPI Bilateral Arg\$/US\$ RERUS	CPI US\$ REER 2/Weights USREER	REER WPI 1995
	CPI Weights 1995	Export Weights 1995	Import Weights 1995			
Since implementation of the convertibility regime <u>1/</u>	13.6	8.6	17.6	27.0	-12.7	1.6
March/April 1991 - January 1994	34.9	34.0	35.6	29.7	4.9	3.4
February 1994 - June 1996	-15.8	-18.9	-13.3	-2.1	-16.8	-1.7
<u>12-month change at:</u>						
December 1991	-8.3	-7.7	-8.8	-11.8	4.8	-20.1
December 1992	15.2	14.2	16.0	14.2	1.1	1.6
December 1993	4.9	4.0	5.6	3.6	1.5	-0.9
December 1994	-12.1	-15.3	-9.5	0.9	-15.4	-9.0
December 1995	-2.7	-2.9	-2.6	-0.7	-2.5	2.8
June 1996 (6 month change)	-1.5	-1.6	-1.5	-2.3	0.9	4.9

Source: Fund staff estimates.

1/ Cumulative percentage change from March/April 1991 to June 1996.

2/ Real Effective Exchange Rate of the U.S. dollar using Argentina's 1995 trading partners weights.

Table 14. Argentina: Bilateral Real Exchange Rates with Major Trading Partners  
(Percentage changes, end period)

	Bilateral Real Exchange Rates with Respect to:							
	REER <u>1/</u>	U.S.	Brazil	Chile	Germany	Japan	France	Italy
Trade weight	...	20.4	7.6	1.7	11.6	8.4	7.8	7.0
1991	7.3	9.5	24.9	7.7	3.1	3.0	4.9	4.0
1992	17.5	14.2	8.8	6.4	14.4	12.6	16.2	34.0
1993	7.0	3.6	-5.1	6.0	11.5	-6.8	13.1	22.1
1994	-6.0	0.9	-27.4	-10.2	-7.0	-6.0	-5.5	-4.5
1995	-3.5	-0.7	1.2	-4.5	-8.7	3.8	-8.5	-6.1
1996 (January-June)	-0.2	-2.3	-3.5	-6.5	4.8	6.3	2.5	-5.2
<u>Since implementation of the convertibility regime</u>	<u>22.0</u>	<u>27.0</u>	<u>-8.6</u>	<u>-2.6</u>	<u>17.1</u>	<u>12.1</u>	<u>22.1</u>	<u>44.6</u>

Source: IMF staff estimates.

1/ Based on 1990 CPI weights.

Table 15. Argentina: Relative Unit Labor Cost Ratio

	With respect to:				Weighted Average
	Brazil	USA	Germany	Italy	
(Index: 1990=1.00)					
1990	1.000	1.000	1.000	1.000	1.000
1991	1.624	1.253	1.293	1.277	1.448
1992	1.869	1.342	1.290	1.334	1.603
1993	2.298	1.414	1.383	1.796	1.897
1994	2.228	1.430	1.345	1.868	1.870
1995	1.713	1.475	1.207	1.975	1.620
(Percentage changes)					
<u>Since implementation of the convertibility regime</u>	-5.4	5.7	-9.4	37.8	0.8
April 1991-February 1994	37.3	5.7	3.8	48.2	27.2
March 1994-April 1996	-31.1	--	-12.7	-7.0	-20.7
<u>Annuary Averages</u>					
1991	62.3	25.3	29.3	27.8	44.7
1992	15.1	7.1	-0.2	4.4	10.8
1993	22.9	5.4	7.1	34.7	18.3
1994	-3.0	1.2	-2.7	4.0	-1.4
1995	-23.1	3.1	-10.3	5.7	-13.4

Source: IMF staff estimates.

Table 16. Argentina: Nontradeables Relative Price and Productivity

	Relative Price End-period	Productivity		Ratio
		Nontradeables	Tradeables	
<u>(1990=1.00)</u>				
1990	1.69	1.00	1.00	1.00
1991	1.95	0.85	0.97	0.87
1992	2.30	0.99	1.09	0.91
1993	2.68	0.95	1.09	0.87
1994	2.47	0.96	1.12	0.86
1995	2.44	...	...	...
<u>(Percentage changes)</u>				
1991	15.52	-15.07	-2.50	12.89
1992	18.17	16.47	11.81	-4.17
1993	16.37	-3.45	0.45	3.88
1994	-7.88	0.62	2.39	1.73
1995	-0.99	...	...	...
Cumulative	44.38	-3.90	12.12	14.28

Source: Fund staff estimates.

Table 17. Argentina--External Trade Taxes

	1990	1991	1992	1993	1994	1995
<u>(In millions of U.S. dollars)</u>						
<u>Import taxes</u>	<u>433</u>	<u>868</u>	<u>1,975</u>	<u>2,441</u>	<u>2,768</u>	<u>1,979</u>
Tariffs	327	622	1,435	1,289	1,563	1,763
Statistical tax	106	246	540	1,152	1,205	216
<u>Export rebates, net of taxes</u>	<u>-1,172</u>	<u>-147</u>	<u>224</u>	<u>767</u>	<u>847</u>	<u>1,238</u>
Taxes	1,177	238	50	25	31	33
Rebates	5	91	274	792	878	1,271
<u>(In percent of merchandise imports)</u>						
<u>Import taxes</u>	<u>10.6</u>	<u>10.5</u>	<u>13.3</u>	<u>14.5</u>	<u>12.8</u>	<u>9.8</u>
Tariffs	8.0	7.5	9.6	7.7	7.2	8.8
Statistical tax	2.6	3.0	3.6	6.9	5.6	1.1
<u>(In percent of merchandise exports)</u>						
<u>Export rebates, net of taxes</u>	<u>-9.5</u>	<u>-1.2</u>	<u>1.8</u>	<u>5.9</u>	<u>5.3</u>	<u>5.9</u>
Taxes	9.5	2.0	0.4	0.2	0.2	0.2
Rebates	--	0.8	2.2	6.0	5.5	6.1
<u>Memorandum items</u>						
Trade balance (in U.S. dollars)	8,275	3,703	-2,637	-3,666	-5,749	844
Merchandise exports (f.o.b.)	12,354	11,978	12,235	13,117	15,841	20,968
Merchandise imports (c.i.f.)	4,079	8,275	14,872	16,783	21,590	20,124

Sources: Ministry of Economy; and Fund staff estimates.

Table 18. Argentina: GDP and Prices  
(Percentage changes from preceding year)

	1990	1991	1992	1993	1994	Prel. 1995
GDP at 1986 prices	0.1	8.9	8.7	6.0	7.4	-4.6
Real GDP per capita	-1.2	7.5	7.7	4.8	6.0	-5.9
GDP deflator	2,023.7	141.0	15.3	7.1	1.9	4.5
Consumer prices						
Average	2,314.7	171.7	24.9	10.6	4.1	3.4
End of period	1,344.5	84.0	17.5	6.8	3.0	1.6
Wholesale prices						
Average	1,606.0	110.5	5.9	1.6	0.6	7.6
End of period	797.5	56.6	3.1	0.1	3.0	5.8
Nominal GDP (billions of pesos)	68.9	180.9	226.8	257.6	281.6	280.0

Sources: Statistical Appendix Tables 19, 20, 26, and 27.

Table 19. Argentina: National Accounts in Constant Prices

(In thousands of pesos at 1986 prices)

	1989	1990	1991	1992	1993	1994	Prel. 1995
(In thousands of pesos at 1986 prices)							
<u>Gross domestic expenditure</u>	<u>8,961.7</u>	<u>8,765.2</u>	<u>10,065.3</u>	<u>11,540.6</u>	<u>12,330.9</u>	<u>13,375.6</u>	<u>12,282.1</u>
Consumption <sup>1/</sup>	7,478.2	7,429.1	8,393.4	9,351.8	9,816.6	10,397.9	9,789.8
Gross domestic investment	1,483.5	1,336.1	1,671.9	2,188.8	2,514.3	2,977.7	2,492.3
<u>Foreign balance</u>	<u>462.6</u>	<u>665.2</u>	<u>204.7</u>	<u>-381.9</u>	<u>-498.9</u>	<u>-665.4</u>	<u>-156.6</u>
Exports of goods and nonfactor services	981.0	1,187.2	1,092.2	1,059.0	1,101.4	1,269.9	1,556.2
Imports of goods and nonfactor services	518.4	522.0	887.5	1,441.0	1,600.3	1,935.2	1,712.7
<u>Gross domestic product</u>	<u>9,424.3</u>	<u>9,430.4</u>	<u>10,270.0</u>	<u>11,158.7</u>	<u>11,832.0</u>	<u>12,710.2</u>	<u>12,125.5</u>
Net factor payments abroad	-311.5	-155.7	-175.8	-142.9	-153.3	-171.0	-180.3
<u>Gross national product</u>	<u>9,112.8</u>	<u>9,274.7</u>	<u>10,094.2</u>	<u>11,015.8</u>	<u>11,678.7</u>	<u>12,539.2</u>	<u>11,945.2</u>
(Percentage changes)							
<u>Gross domestic expenditure</u>	<u>-8.1</u>	<u>-2.2</u>	<u>14.8</u>	<u>14.7</u>	<u>6.8</u>	<u>8.5</u>	<u>-8.2</u>
Consumption <sup>1/</sup>	-4.1	-0.7	13.0	11.4	5.0	5.9	-5.8
Gross domestic investment	-24.4	-9.9	25.1	30.9	14.9	18.4	16.3
<u>Foreign balance <sup>2/</sup></u>	<u>1.8</u>	<u>2.1</u>	<u>-4.5</u>	<u>-5.3</u>	<u>-1.0</u>	<u>-1.3</u>	<u>4.2</u>
Exports of goods and nonfactor services	6.2	21.0	-8.0	3.0	4.0	15.3	22.5
Imports of goods and nonfactor services	-17.9	0.7	70.0	62.4	11.1	20.9	-11.5
<u>Gross domestic product</u>	<u>-6.2</u>	<u>0.1</u>	<u>8.9</u>	<u>8.7</u>	<u>6.0</u>	<u>7.4</u>	<u>-4.6</u>

Sources: Ministry of Economy.

<sup>1/</sup> Includes changes in inventories.<sup>2/</sup> Percentage points contribution to growth.

Table 20. Argentina: National Accounts in Current Prices

(In millions of pesos)

	1989	1990	1991	1992	1993	1994	1995
<u>Gross domestic expenditure</u>	<u>3,036</u>	<u>64,915</u>	<u>177,926</u>	<u>230,524</u>	<u>262,722</u>	<u>288,812</u>	<u>279,891</u>
Consumption <u>1/</u>	2,533	55,268	151,448	192,670	215,350	232,557	229,462
Gross domestic investment	503	9,647	26,478	37,854	47,373	56,256	50,429
<u>Foreign balance</u>	<u>208</u>	<u>4,007</u>	<u>2,872</u>	<u>-3,877</u>	<u>-5,152</u>	<u>-7,187</u>	<u>109</u>
Exports of goods and nonfactor services	421	7,201	14,048	15,138	15,993	18,919	24,211
Imports of goods and nonfactor services	213	3,194	11,074	18,813	21,146	26,087	24,102
<u>Gross domestic product</u>	<u>3,244</u>	<u>68,922</u>	<u>180,898</u>	<u>226,847</u>	<u>257,570</u>	<u>281,645</u>	<u>280,000</u>
Net factor payments abroad	-141	-948	-2,194	-1,936	-2,138	-2,448	-2,673
<u>Gross national product</u>	<u>3,103</u>	<u>67,974</u>	<u>178,704</u>	<u>224,911</u>	<u>255,432</u>	<u>279,197</u>	<u>277,327</u>
GDP deflator							
Percentage change	3,013.7	2,023.7	141.0	15.3	7.1	1.9	4.5

Source: Ministry of Economy.

1/ Includes changes in inventories.

Table 21. Argentina: Sectoral Origin of Gross Domestic Product

	1990	1991	1992	1993	1994	1995
(In thousands of pesos at 1986 prices)						
Total	9,430	10,270	11,159	11,832	12,710	12,126
Primary sector	1,091	1,109	1,129	1,136	1,201	1,242
Agriculture, livestock, and fishery	839	872	872	863	896	917
Mining	252	238	257	273	304	325
Secondary sector	3,132	3,526	3,854	4,082	4,336	4,033
Manufacturing	2,512	2,811	3,017	3,153	3,285	3,055
Construction	423	513	624	692	800	713
Electricity, gas, and water	198	203	214	237	251	265
Service sector	5,255	5,630	6,067	6,501	7,049	6,839
Commerce	1,464	1,705	1,863	1,946	2,103	1,937
Transportation and communication	476	497	553	591	637	638
Finance and banking	1,410	1,552	1,757	1,932	2,179	2,175
Other services	1,904	1,877	1,895	2,032	2,131	2,090
Plus: Import taxes minus imputed financial services <sup>1/</sup>	-48	4	108	113	124	11
(Percentage changes)						
Total	0.1	8.9	8.7	6.0	7.4	-4.6
Primary sector	10.0	1.6	1.8	0.6	5.7	3.4
Agriculture, livestock, and fishery	11.4	3.9	0.1	-1.0	3.8	2.3
Mining (including oil extraction)	5.6	-5.8	8.2	6.0	11.7	6.7
Secondary sector	-0.4	12.6	9.3	5.9	6.2	-7.0
Manufacturing	2.0	11.9	7.3	4.5	4.2	-7.0
Construction	-15.7	21.3	21.7	10.9	15.7	-10.9
Electricity, gas, and water	8.7	2.3	5.4	11.0	6.0	5.6
Service sector	-0.5	7.2	7.7	7.2	8.4	-3.0
Commerce	1.8	16.5	9.2	4.5	8.0	-7.9
Transportation and communication	-4.3	4.4	11.2	6.9	7.8	0.2
Finance and banking	-2.3	10.0	13.2	10.0	12.8	-0.2
Other services	0.1	-1.4	1.0	7.2	4.9	-1.9
(Percentage distribution)						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Primary sector	11.6	10.8	10.1	9.6	9.4	10.2
Agriculture, livestock, and fishery	8.9	8.5	7.8	7.3	7.1	7.6
Mining	2.7	2.3	2.3	2.3	2.4	2.7
Secondary sector	33.2	34.3	34.5	34.5	34.1	33.3
Manufacturing	26.6	27.4	27.0	26.6	25.8	25.2
Construction	4.5	5.0	5.6	5.8	6.3	5.9
Electricity, gas, and water	2.1	2.0	1.9	2.0	2.0	2.2
Service sector	55.7	54.8	54.4	54.9	55.5	56.4
Commerce	15.5	16.6	16.7	16.4	16.5	16.0
Transportation and communication	5.0	4.8	5.0	5.0	5.0	5.3
Finance and banking	15.0	15.1	15.7	16.3	17.1	17.9
Other services	20.2	18.3	17.0	17.2	16.8	17.2
Plus: Import taxes minus imputed financial services <sup>1/</sup>	-0.5	--	1.0	1.0	1.0	0.1

Sources: Ministry of Economy; and staff calculations.

<sup>1/</sup> Includes residual.

Table 22. Argentina: Index of Agricultural Production <sup>1/</sup>  
(1986=100)

	1990	1991	1992	1993	1994	Prel. 1995
<u>Total</u> <sup>2/</sup>	<u>104.0</u>	<u>108.5</u>	<u>107.4</u>	<u>110.8</u>	<u>114.7</u>	<u>118.0</u>
<u>Agriculture</u>	<u>111.1</u>	<u>119.9</u>	<u>113.8</u>	<u>114.8</u>	<u>123.7</u>	<u>130.5</u>
Cereals	83.6	94.2	90.3	108.9	108.1	100.4
Oilseeds	149.1	155.4	146.1	141.4	158.3	175.7
Industrial crops	120.2	125.8	111.7	95.1	108.8	131.5
Fruits	121.5	121.5	133.7	128.6	139.2	145.1
Vegetables	93.8	100.8	98.8	101.8	109.3	111.4
Flowers	67.5	74.9	84.1	72.6	75.6	67.1
<u>Livestock</u>	<u>99.3</u>	<u>97.9</u>	<u>94.1</u>	<u>98.2</u>	<u>95.3</u>	<u>90.2</u>
Cattle	101.0	99.1	94	98.2	95.1	89.6
Other livestock <sup>3/</sup>	87.3	89.1	94.6	98.5	96.9	94.2
<u>Wool</u>	<u>78.6</u>	<u>77.7</u>	<u>78.9</u>	<u>76.2</u>	<u>69.3</u>	<u>66.3</u>
<u>Milk</u>	<u>106.5</u>	<u>104.2</u>	<u>113.6</u>	<u>120.3</u>	<u>134.2</u>	<u>147.9</u>
<u>Forestry</u>	<u>113.5</u>	<u>122</u>	<u>122.8</u>	<u>107</u>	<u>114.6</u>	<u>114.6</u>
<u>Fishing</u>	<u>137.2</u>	<u>150.9</u>	<u>229.4</u>	<u>306.9</u>	<u>297.6</u>	<u>311.5</u>

Sources: Ministry of Economy, National Accounts Office.

<sup>1/</sup> Value added.

<sup>2/</sup> Includes hunting.

<sup>3/</sup> Includes sheep, goats, pigs, and horses.

Table 23. Argentina: Selected Data on Planted and Harvested Area, Production, and Yield

(Area in thousands of hectares; production in thousands of metric tons; yields in tons per harvested hectare)

	1990/91	1991/92	1992/93	1993/94	1994/95	Prel. 1995/96
<b>Cereals</b>						
<b>Wheat</b>						
Planted area	6,178	4,751	4,548	4,910	5,308	5,043
Harvested area	5,797	4,547	4,255	4,777	5,221	4,791
Yield	1.90	2.17	2.32	2.02	2.17	1.92
Production	10,992	9,884	9,874	9,659	11,306	9,199
<b>Corn</b>						
Planted area	2,160	2,686	2,963	2,781	2,958	3,395
Harvested area	1,900	2,365	2,503	2,445	2,522	2,600
Yield	4.04	4.52	4.36	4.24	4.52	4.10
Production	7,685	10,701	10,901	10,360	11,404	10,660
<b>Oats</b>						
Planted area	1,815	2,180	2,006	1,971	1,972	1,840
Harvested area	451	456	372	303	259	214
Yield	1.54	1.34	1.61	1.44	1.38	1.21
Production	695	610	600	437	357	260
<b>Barley</b>						
Planted area	147	233	239	202	147	231
Harvested area	146	230	226	196	146	217
Yield	2.21	2.48	2.57	2.33	2.34	1.77
Production	323	570	580	456	341	385
<b>Rye</b>						
Planted area	507	452	463	460	473	390
Harvested area	68	51	48	73	56	51
Yield	0.81	0.90	0.71	0.88	0.96	0.78
Production	55	46	34	64	54	40
<b>Rice</b>						
Planted area	98	139	144	148	189	211
Harvested area	86	132	140	141	185	192
Yield	4.05	5.31	4.34	4.30	5.01	5.11
Production	348	701	608	606	926	981
<b>Sorghum</b>						
Planted area	752	823	810	670	622	671
Harvested area	676	764	723	612	477	550
Yield	3.33	3.62	3.96	3.51	3.46	3.85
Production	2,252	2,767	2,860	2,148	1,650	2,118

Table 23. Argentina: Selected Data on Planted and Harvested Area, Production, and Yield (Concluded)

(Area in thousands of hectares; production in thousands of metric tons; yields in tons per harvested hectare)

	1990/91	1991/92	1992/93	1993/94	1994/95	Prel. 1995/96
<u>Oilseeds</u>						
<u>Linseed</u>						
Planted area	590	431	215	148	156	196
Harvested area	573	416	207	142	153	193
Yield	0.80	0.82	0.86	0.79	0.99	0.79
Production	457	343	177	112	152	152
<u>Sunflower seeds</u>						
Planted area	2,372	2,694	2,187	2,206	2,880	3,390
Harvested area	2,301	2,562	2,060	2,153	2,825	3,213
Yield	1.75	1.33	1.43	1.90	1.95	1.74
Production	4,034	3,408	2,956	4,095	5,520	5,600
<u>Soybeans</u>						
Planted area	4,967	5,004	5,320	5,817	6,011	5,962
Harvested area	4,775	4,936	5,116	5,748	5,934	5,882
Yield	2.27	2.29	2.16	2.04	2.04	2.15
Production	10,862	11,310	11,045	11,720	12,133	12,646
<u>Groundnuts</u>						
Planted area	198	153	110	134	155	239
Harvested area	179	153	110	134	155	239
Yield	1.74	1.44	2.12	1.56	1.53	1.90
Production	311	221	233	209	237	454
<u>Industrial crops</u>						
<u>Cotton</u>						
Planted area	639	615	378	504	762	1,014
Harvested area	539	529	302	484	680	914
Yield	1.46	1.23	1.43	1.46	1.65	1.35
Production	789	652	431	706	1,125	1,234
<u>Tobacco</u>						
Planted area	65	75	76	56	58	...
Harvested area	58	71	69	52	53	...
Yield	1.64	1.54	1.62	1.58	1.49	...
Production	95	109	112	82	79	...
<u>Sugarcane</u>						
Planted area	341	332	307	312	...	...
Harvested area	292	255	256	239	...	...
Yield	49.32	50.33	40.27	47.18	...	...
Production	14,400	12,834	10,310	11,275	13,692	12,000

Source: Ministry of Economy, National Accounts Office.

Table 24. Argentina: Industrial Production Index

Base 1984=100

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
(With Seasonality)													
January	91.0	88.2	94.0	99.0	95.7	90.3	81.6	88.1	93.3	95.9	108.0	98.6	86.8
February	74.5	69.0	73.5	78.2	87.0	88.4	73.1	75.5	82.7	80.0	86.3	103.8	95.4
March	97.9	92.5	97.0	107.3	105.7	103.4	81.3	83.0	105.0	107.8	114.0	117.4	111.3
April	97.5	91.2	101.8	109.6	96.9	101.6	82.3	89.6	106.3	107.5	110.1	104.1	110.8
May	102.6	91.1	106.7	108.2	108.5	90.5	91.2	99.1	106.2	108.9	118.6	112.0	116.7
June	105.0	79.9	94.1	112.5	106.1	89.5	92.7	94.3	110.2	113.1	115.0	106.2	102.7
July	106.7	84.9	109.5	119.1	108.5	87.4	89.4	106.5	109.6	116.0	115.5	107.0	119.0
August	108.6	87.1	114.1	114.4	108.7	92.8	106.7	106.1	105.7	114.7	121.2	109.3	119.3
September	102.9	95.3	115.6	113.6	100.2	91.6	101.2	104.5	111.0	116.3	122.7	105.5	...
October	111.3	101.7	118.5	113.6	100.8	98.4	105.0	108.6	109.1	115.1	122.6	108.4	...
November	104.0	100.5	109.9	103.3	102.4	98.1	100.5	106.2	106.4	114.9	122.8	106.9	...
December	98.0	98.8	105.9	102.3	98.4	95.8	99.4	102.2	105.4	110.4	114.8	100.9	...
Average	100.0	90.0	103.4	106.8	101.6	94.0	92.0	97.0	104.2	108.4	114.3	106.7	...
Percent change	5.6	-10.0	14.8	3.3	-4.9	-7.5	-2.1	5.4	7.5	4.0	5.5	-6.7	...
(Deseasonalized)													
January	91.2	88.4	96.3	103.6	100.4	94.6	86.7	94.6	101.2	104.0	126.5	118.5	102.4
February	92.5	85.7	92.1	102.8	115.3	118.4	94.6	101.8	103.3	100.0	97.3	117.6	106.4
March	96.3	91.0	97.5	106.5	106.1	103.3	81.4	82.9	110.9	113.7	111.4	113.2	109.6
April	96.8	90.5	104.6	110.2	96.6	99.8	83.0	87.3	108.0	109.1	111.5	108.0	111.6
May	102.5	91.0	107.5	105.4	105.2	87.9	87.5	96.6	102.9	105.5	116.2	106.0	110.9
June	106.6	81.1	93.8	113.3	111.1	93.3	92.1	91.6	107.7	110.4	113.1	104.5	111.1
July	106.0	84.3	105.8	116.3	105.8	83.5	82.4	101.0	101.3	107.7	112.2	105.1	112.8
August	105.5	84.6	106.0	109.5	103.2	88.2	98.4	99.7	99.9	108.4	116.3	103.8	114.9
September	98.0	90.8	109.5	106.8	93.9	84.8	95.8	101.1	103.8	108.8	117.2	101.1	...
October	107.5	98.3	111.0	104.3	89.6	88.7	98.5	101.6	101.8	108.7	116.5	101.8	...
November	96.8	93.5	102.9	95.9	96.2	94.2	99.1	101.4	102.3	111.6	117.9	102.8	...
December	96.3	97.1	106.9	101.5	96.1	94.6	100.7	99.6	104.3	109.6	115.9	102.7	...
Average	99.7	89.7	102.8	106.3	101.6	94.3	91.7	96.6	104.0	108.1	114.3	107.1	...
Percent change		5.6	-10.0	14.6	3.4	-4.4	-7.2	-2.7	5.4	7.6	4.0	-6.3	...

Source: FIEL.

Table 25. Argentina: Automobile Production, Domestic Demand, Exports, and Imports

(In units)

Year	Total Production	Domestic Demand	Exports	Imports
1980	281,793	343,419	3,607	68,361
1981	172,363	238,974	285	60,126
1982	132,117	137,144	3,234	5,339
1983	159,876	151,640	5,202	1,075
1984	167,323	165,578	4,243	519
1985	137,675	146,271	774	747
1986	170,490	166,621	357	1,049
1987	193,315	192,357	460	1,530
1988	164,160	163,896	1,662	1,369
1989	127,823	133,563	1,841	642
1990	99,639	95,960	1,126	1,173
1991	138,958	165,806	5,205	28,631
1992	262,022	349,245	16,353	105,882
1993	342,354	421,006	29,976	109,793
1994	408,777	508,152	38,657	147,431
1995	285,435	327,983	52,747	102,995

Source: Argentine Automobile Manufacturer's Association.

Table 26. Argentina: Price Indices

(Percentage change during the year)

	Consumer Prices for Buenos Aires	Wholesale Price Index			Imported Goods
		General	Agri- cultural Goods	National Nonagri- cultural Goods	
1985	385.4	363.9	336.3	364.2	405.6
1986	81.9	57.9	83.7	55.9	53.4
1987	174.8	181.8	153.3	182.8	216.0
1988	387.5	431.4	456.1	430.3	412.9
1989	4,928.6	5,386.7	5,023.6	5,138.0	7,600.3
1990	1,344.5	797.5	656.7	879.5	406.5
1991	84.0	56.6	62.0	54.8	69.5
1992	17.5	3.1	9.5	2.0	4.4
1993	6.8	0.1	0.1	0.6	-5.4
1994	3.0	3.0	3.1	2.3	8.9
1995	1.6	5.8	11.0	4.7	4.3

Source: National Institute of Statistics.

Table 27. Argentina: Rates of Price Increase

(In percent)

	Consumer Price Index		Wholesale Price Index	
	Change over Preceding Month	Change over 12 months	Change over Preceding Month	Change over 12 months
<u>1993</u>				
January	0.8	15.1	0.8	3.5
February	0.7	13.4	0.9	3.8
March	0.8	12.0	-0.6	1.7
April	1.0	11.7	0.8	2.4
May	1.3	12.3	0.4	2.8
June	0.7	12.2	-0.1	1.9
July	0.3	10.7	-0.1	0.9
August	--	9.0	0.4	0.7
September	0.8	8.8	--	--
October	0.6	8.1	0.4	0.3
November	0.1	7.6	-1.5	0.7
December	--	6.8	-1.2	0.1
<u>1994</u>				
January	0.1	6.6	--	-0.6
February	--	5.8	-0.2	-1.7
March	0.1	5.1	-0.2	-1.3
April	0.2	4.3	0.5	-1.6
May	0.3	3.2	0.6	-1.4
June	0.4	2.9	1.5	0.2
July	0.9	3.6	0.7	1.0
August	0.2	3.8	0.3	0.9
September	0.7	3.7	0.3	1.2
October	0.3	3.3	0.7	1.5
November	0.2	3.4	0.9	3.9
December	0.2	3.0	0.7	3.0
<u>1995</u>				
January	1.2	4.8	1.4	7.4
February	--	4.8	0.4	6.0
March	-0.4	4.3	-0.6	5.3
April	0.5	4.6	3.3	8.4
May	--	4.3	0.1	7.3
June	-0.2	3.7	0.3	6.8
July	0.4	3.2	0.4	6.6
August	-0.2	2.7	0.3	7.1
September	0.2	2.2	--	7.1
October	0.3	2.2	-0.1	6.7
November	-0.2	1.7	-0.2	5.6
December	0.1	1.6	0.3	5.8
<u>1996</u>				
January	0.3	0.7	0.2	4.6
February	-0.3	0.3	-0.1	4.1
March	-0.5	0.2	0.8	5.5
April	--	-0.3	1.5	3.6
May	-0.1	-0.4	0.2	3.7
June	--	-0.2	-0.8	2.6
July	0.5	--	-0.1	2.2
August	-0.1	0.2	-0.3	1.5

Source: National Institute of Statistics.

Table 28. Argentina: Urban Labor Force, Employment, and Unemployment

(Thousands of persons)

	Labor Force	Employment	Unemployment
1980 April	8,672	8,433	239
October	8,778	8,531	247
1981 April	8,852	8,459	393
October	8,926	8,440	486
1982 April	9,012	8,447	565
October	9,193	8,731	462
1983 April	9,160	8,636	524
October	9,068	8,644	424
1984 April	9,291	8,813	478
October	9,335	8,870	465
1985 May	9,477	8,852	625
November	9,663	9,044	619
1986 April	9,825	9,194	631
November	9,946	9,384	562
1987 April	10,184	9,535	649
October	10,185	9,573	612
1988 May	10,326	9,634	692
October	10,484	9,820	664
1989 May	10,739	9,788	951
October	10,621	9,865	756
1990 May	10,684	9,784	900
October	10,753	10,064	689
1991 June	11,061	10,262	799
October	11,138	10,437	701
1992 May	11,332	10,538	794
October	11,546	10,712	834
1993 May	11,877	10,739	1,138
October	11,866	10,788	1,078
1994 May	12,084	10,813	1,271
October	12,071	10,650	1,421
1995 May	12,635	10,426	2,209
October	12,455	10,466	1,989
1996 May	12,505	10,461	2,044

Source: Ministry of Economy.

Table 29. Argentina: Unemployment and Labor Force Participation Rates

(In percent of active population)

	Unemployment Rate			Under-employment Rate 1/			Labor Force Participation Rate 2/		
	Greater Buenos Aires	Other Areas	Total	Greater Buenos Aires	Other Areas	Total	Greater Buenos Aires	Other Areas	Total
1983									
April	5.2	6.1	5.5	4.6	8.0	5.9	38.0	37.4	37.4
October	3.1	5.8	3.9	4.9	8.0	5.9	37.5	36.5	37.3
1984									
April	4.1	5.9	4.7	4.5	6.9	5.4	38.4	36.8	37.8
October	3.6	6.0	4.4	4.7	8.0	5.9	38.4	36.5	37.9
1985									
May	5.5	7.4	6.3	5.5	8.6	7.5	38.9	36.4	37.9
October	4.9	7.5	5.9	6.6	7.9	7.1	38.8	37.1	38.2
1986									
April	4.8	7.6	5.9	6.4	9.7	7.7	39.6	37.1	38.6
November	4.5	6.5	5.2	6.1	9.5	7.4	40.0	36.9	38.7
1987									
April	5.4	7.1	6.0	8.0	8.7	8.2	40.9	37.3	39.5
October	5.2	6.6	5.7	7.8	9.6	8.5	40.0	37.3	38.9
1988									
May	6.3	7.0	6.5	7.7	8.7	8.9	40.4	37.2	38.7
October	5.7	6.8	6.1	7.4	9.0	8.0	40.5	37.6	39.4
1989									
May	7.6	9.8	8.1	8.5	10.8	8.6	41.9	37.5	40.2
October	7.0	7.2	7.1	8.0	9.3	8.6	40.8	37.0	39.3
1990									
May	8.6	8.3	8.6	8.4	10.9	9.3	40.9	36.6	39.1
October	6.0	6.7	6.3	8.1	10.4	8.9	40.3	36.9	39.0
1991									
June	6.3	7.9	6.9	7.7	9.9	8.6	40.9	37.5	39.5
October	5.3	7.0	6.0	7.0	9.4	7.9	40.8	37.6	39.5
1992									
May	6.6	7.3	6.9	7.6	9.5	8.3	41.4	37.6	39.8
October	6.7	7.6	7.0	7.3	9.4	8.1	41.7	38.1	40.2
1993									
May	10.6	8.8	9.9	8.2	9.9	8.8	44.2	37.6	41.5
October	9.6	8.7	9.3	9.1	9.5	9.3	43.3	37.6	41.0
1994									
May	11.1	10.1	10.8	10.2	10.3	10.2	43.4	38.0	41.1
October	13.1	10.8	12.2	10.1	10.9	10.4	43.1	37.6	40.8
1995									
May	20.2	15.4	18.4	10.7	12.4	11.3	45.9	38.1	42.6
October	17.4	15.5	16.6	12.6	12.4	12.5	44.2	38.0	41.4
1996									
May	18.0	15.9	17.1	12.6	12.6	12.6	43.5	38.0	41.0

Source: Ministry of Economy, National Accounts Office.

1/ Defined as workers employed for less than 35 hours a week desiring to work more hours.

2/ In percent of total urban population.

Table 30. Argentina: Consolidated Public Sector

	1991	1992	1993	1994	1995
(In billions of pesos)					
<u>Public sector balance</u>					
Federal Government	-3.2	-0.5	2.3	-1.3	-3.9
Provincial governments	-1.3	-0.4	-2.1	-2.7	-3.0
Trust funds	...	...	...	...	-0.8
Capitalized interest	...	-0.2	-0.7	-1.0	-1.2
Total	-4.5	-1.1	-0.5	-5.0	-8.9
<u>Capital operations</u>					
Change in arrears	...	-5.3	-11.1	-5.1	1.5
Privatizations	5.0	5.5	12.3	1.9	1.1
Total	5.0	0.2	1.2	-3.2	2.6
<u>Federal Government debt</u>	<u>58.7</u>	<u>62.4</u>	<u>66.9</u>	<u>80.5</u>	<u>88.6</u>
(In percent of GDP)					
<u>Public sector balance</u>	<u>-2.4</u>	<u>-0.4</u>	<u>-0.2</u>	<u>-1.8</u>	<u>-3.2</u>
<u>Federal Government debt</u>	<u>31.0</u>	<u>27.3</u>	<u>26.0</u>	<u>28.6</u>	<u>31.6</u>

Source: Fund staff estimates.

Table 31. Argentina: Summary of Federal Government Operations, 1991-96

(In percent of GDP)

	1991	1992	1993	1994	January- June 1995	January- June 1996	
<b>Revenues</b>	<b>15.5</b>	<b>17.0</b>	<b>17.1</b>	<b>17.3</b>	<b>16.2</b>	<b>16.5</b>	<b>15.7</b>
Taxes <u>1/</u>	10.0	11.7	11.4	11.4	10.9	11.1	11.4
Social security contributions <u>2/</u>	4.3	4.3	4.6	4.8	4.2	9.2	3.4
Nontax revenues	1.2	0.9	1.0	1.1	1.2	1.1	0.9
Capital revenue excluding privatization	--	--	0.1	--	--	--	--
<b>Expenditure (excluding interest payments) <u>3/</u></b>	<b>15.3</b>	<b>15.8</b>	<b>15.4</b>	<b>16.5</b>	<b>15.5</b>	<b>16.4</b>	<b>16.0</b>
Wages	2.7	2.5	2.6	2.8	2.5	2.7	2.7
Goods and services	1.0	0.9	1.1	0.8	0.8	0.8	0.8
Pensions	5.0	5.6	5.1	5.4	5.0	5.5	5.2
National administration	0.4	0.5	0.1	0.1	0.1	0.2	0.2
Social security administration <u>2/</u>	4.6	5.0	5.0	5.3	5.0	5.3	5.0
Transfer to provinces	5.1	5.6	4.9	4.5	4.3	4.4	4.4
Other noncapital expenditure	0.4	0.4	0.7	1.7	1.8	1.8	1.7
Capital expenditure	1.1	0.8	1.0	1.4	1.2	1.1	1.2
<b>Operating surplus of public enterprises</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>-0.1</b>	<b>--</b>	<b>--</b>	<b>--</b>
Revenue	5.2	4.0	1.9	0.5	0.4	0.4	--
Expenditure	5.0	3.8	1.7	0.6	0.4	0.5	0.1
<b>Primary balance (excluding privatization)</b>	<b>0.6</b>	<b>1.4</b>	<b>2.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.1</b>	<b>-0.3</b>
Interest payments <u>4/</u>	2.6	1.5	1.1	1.2	1.3	1.5	1.4
<b>Overall balance (excl. privatization)</b>	<b>-2.1</b>	<b>-0.1</b>	<b>0.8</b>	<b>-0.5</b>	<b>-0.7</b>	<b>-1.4</b>	<b>-1.7</b>
Central Bank quasi-fiscal balance	-0.4	-0.1	0.1	--	--	0.1	--
<b>Overall balance plus quasi-fiscal balance <u>3/</u></b>	<b>-2.5</b>	<b>-0.2</b>	<b>0.9</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-1.3</b>	<b>-1.7</b>
<b>Memorandum items</b>							
Clearing of expenditure arrears <u>5/</u>	--	2.3	4.3	1.8	0.9	0.6	0.4
Privatization receipts in cash	1.2	0.8	1.5	0.3	0.1	0.4	0.2
Military expenditure	...	...	1.3	1.2	...	1.2	...

Sources: Statistical Appendix Table 32; Ministry of Economy; and Fund staff estimates.

1/ Adjusted for differences between the face value and market value of bonds received as payment of tax liabilities.

2/ Prior to 1994 includes, under social security contributions, only the balance of various social security operations, e.g. the Medical Fund for Pensioners (PAMI). Since 1994, revenue and expenditure of these operations are included separately.

3/ Excludes clearing of expenditure arrears to pensioners, suppliers, and provinces, financed by bonds (BOCONs and BCRHs), and compensation payments to enterprises for the elimination of loss carry-forward provisions on losses accumulated before March 31, 1991, financed by bonds ("quebrantos").

4/ Accrual basis.

5/ To pensioners, suppliers, and provinces financed by bond issues (consolidation bonds (BOCONs) and hydrocarbon bonds (BCRHs)). Excludes cash settlements, and settlements via stock distributions.

Table 32. Argentina: Federal Government Operations, 1991-96

(In percent of GDP)

	1991	1992	1993	1994	January- June 1995	1995	January- June 1996
<b>I. National Administration 1/</b>							
<u>Total revenues</u>	<u>10.4</u>	<u>11.2</u>	<u>10.9</u>	<u>10.7</u>	<u>10.4</u>	<u>10.4</u>	<u>10.5</u>
Tax revenue 2/	9.7	10.6	10.0	9.9	9.4	9.6	9.8
Nontax and capital revenue (excluding privatization receipts)	0.7	0.6	0.9	0.8	1.0	0.8	0.7
<u>Expenditures excluding interest payments 3/4/</u>	<u>8.7</u>	<u>9.3</u>	<u>8.4</u>	<u>8.5</u>	<u>8.0</u>	<u>8.3</u>	<u>8.4</u>
Wages	2.1	2.3	2.1	2.2	1.9	2.1	2.0
Goods and services	0.7	0.8	0.9	0.6	0.5	0.6	0.6
Transfers 4/	5.8	6.1	4.9	4.7	4.6	4.7	4.8
Provinces and Buenos Aires Municipality	5.0	5.5	4.8	4.4	4.2	4.3	4.3
Pensions	0.6	0.5	0.1	0.1	0.1	0.2	0.2
Other transfers	0.2	0.1	--	0.2	0.3	0.2	0.2
Other (including extrabudgetary)	--	--	--	--	0.1	0.1	--
Capital Expenditure	0.1	0.1	0.4	1.0	0.8	0.8	1.1
<u>Primary balance before transfers (excluding privatization receipts) 4/</u>	<u>1.7</u>	<u>2.0</u>	<u>2.5</u>	<u>2.2</u>	<u>2.4</u>	<u>2.1</u>	<u>2.1</u>
Net transfers from rest of public sector	-0.5	-0.9	-1.6	-1.6	-1.4	-1.7	-2.2
Primary balance (excluding privatization receipts) 5/	<u>1.2</u>	<u>1.1</u>	<u>0.9</u>	<u>0.6</u>	<u>1.0</u>	<u>0.4</u>	<u>-0.1</u>
<b>II. Decentralized Agencies</b>							
<u>Revenue</u>	<u>0.5</u>	<u>0.4</u>	<u>0.5</u>	<u>0.6</u>	<u>0.6</u>	<u>0.7</u>	<u>0.5</u>
Tax revenue	0.2	0.2	0.3	0.4	0.4	0.4	0.3
Nontax and capital revenue (excluding privatization receipts)	0.3	0.3	0.2	0.2	0.2	0.3	0.2
<u>Expenditure 4/</u>	<u>1.0</u>	<u>0.8</u>	<u>0.8</u>	<u>0.9</u>	<u>1.0</u>	<u>1.0</u>	<u>0.8</u>
Wages	0.2	0.2	0.4	0.4	0.4	0.5	0.5
Other goods and services	0.2	0.1	0.1	0.1	0.2	0.2	0.2
Capital expenditure	0.3	0.2	0.2	0.2	0.3	0.2	0.1
Transfers 4/	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Provinces	--	--	--	--	--	--	--
<u>Primary balance before transfers (excluding privatization) 4/</u>	<u>-0.4</u>	<u>-0.3</u>	<u>-0.3</u>	<u>-0.3</u>	<u>-0.4</u>	<u>-0.3</u>	<u>-0.3</u>
Net transfer from rest of public sector	-0.4	0.3	0.7	0.6	0.6	0.6	0.5
Primary balance (excluding privatization) 5/	<u>-0.7</u>	<u>--</u>	<u>0.4</u>	<u>0.4</u>	<u>0.2</u>	<u>0.3</u>	<u>0.2</u>
<b>III. Social Security 6/</b>							
<u>Total revenue</u>	<u>4.6</u>	<u>5.3</u>	<u>5.7</u>	<u>6.0</u>	<u>5.4</u>	<u>5.4</u>	<u>4.7</u>
Tax revenue	0.3	0.9	1.0	1.1	1.1	1.2	1.2
Social security contributions	4.3	4.3	4.6	4.8	4.2	4.2	3.4
Nontax and capital revenue (excluding privatization)	0.1	--	--	0.1	--	--	--
<u>Total expenditure 4/</u>	<u>4.6</u>	<u>5.2</u>	<u>5.9</u>	<u>7.0</u>	<u>6.5</u>	<u>7.1</u>	<u>6.7</u>
Pensions	4.5	5.0	5.0	5.3	4.9	5.4	5.0
Transfers to provinces	0.1	--	0.1	0.1	0.1	0.1	0.1
Other 4/	--	0.1	0.7	1.5	1.3	1.7	1.7
<u>Primary balance before transfers (excluding privatization) 4/</u>	<u>--</u>	<u>--</u>	<u>-0.2</u>	<u>-1.0</u>	<u>-1.2</u>	<u>-1.7</u>	<u>-2.0</u>
Net transfers from rest of public sector	--	0.2	0.7	0.8	0.7	1.0	1.6
Primary balance (excluding privatization) 5/	<u>--</u>	<u>0.2</u>	<u>0.5</u>	<u>-0.2</u>	<u>-0.6</u>	<u>-0.7</u>	<u>-0.4</u>

Table 32. Argentina: Federal Government Operations, 1991-96 (concluded)

(In percent of GDP)

	1991	1992	1993	1994	January- June 1995	January- June 1995	January- June 1996
<b>IV. National Public Enterprises</b>							
<u>Current revenue</u>	5.2	4.0	1.9	0.6	0.4	0.4	--
<u>Current expenditure</u> 4/	5.0	3.8	1.7	0.5	0.4	0.5	0.1
Wages	1.4	1.4	0.7	0.2	0.2	0.2	--
Other	3.6	2.4	1.0	0.3	0.2	0.3	--
<u>Operating surplus</u>	0.3	0.2	0.3	-0.1	--	--	--
Capital revenue	--	--	--	--	--	--	--
Capital expenditure	0.8	0.5	0.4	0.1	0.1	0.1	--
<u>Primary balance before transfers</u> (excluding privatization) 4/	-0.6	-0.3	-0.1	-0.1	-0.1	-0.1	--
Net transfers from rest of public sector	0.8	0.4	0.2	0.2	0.1	0.1	--
<u>Primary balance (excluding privatization) 5/</u>	0.2	0.1	0.2	--	--	--	--
<b>V. Overall</b>							
<u>Primary balance (excluding privatization)</u>	0.6	1.4	2.0	0.8	0.7	0.1	-0.3
Interest payments 7/	2.6	1.5	1.1	1.2	1.3	1.5	1.4
<u>Overall balance</u>	-2.1	-0.1	0.8	-0.5	-0.7	-1.4	-1.7
Central bank quasi-fiscal balance	-0.4	-0.1	0.1	--	--	0.1	--
<u>Overall balance plus quasi-fiscal balance</u>	-2.5	-0.2	0.9	-0.5	-0.6	-1.3	-1.7
<u>Memorandum items</u>							
Clearing of expenditure arrears 8/	--	2.3	4.3	1.8	0.9	0.6	0.4
Privatization receipts in cash	1.2	0.8	1.5	0.3	0.1	0.4	0.2
Military expenditure	1.8	1.8	1.3	1.2	...	1.2	...

Sources: Ministry of Economy; and Fund staff estimates.

1/ Includes the operations of the special accounts.

2/ Adjusted for differences between face value and market value of bonds received as a payment of tax liabilities.

3/ Excludes clearing of expenditure arrears to pensioners, suppliers, and provinces, and compensation payments to enterprises, financed by bonds ("quebrantos"), for the elimination of loss-carry forward provisions on losses accumulated before March 31, 1991.

4/ Not consolidated for transfers within the nonfinancial public sector.

5/ Consolidated for transfers within the nonfinancial public sector

6/ Prior to 1994, only the balance of various social security operations, e.g., the operations of the Medical Fund for Pensioners (PAMI), is included on the revenue side. Since 1994, revenue and expenditure of these operations are included separately.

7/ Interest payments on an accrual basis.

8/ To pensioners, suppliers, and provinces financed by bond issues (consolidation bonds (BOCONs) and hydrocarbon bonds (BCRHs)). Excludes cash settlements, and settlements via stock distribution. These arrears clearing operations are excluded from expenditures.

Table 33. Argentina: Federal Government Revenue, 1991-96

(In percent of GDP)

	1991	1992	1993	1994	1995	Prel. January- June 1995	Prel. January- June 1996
<u>Tax revenue 1/</u>	<u>10.0</u>	<u>11.3</u>	<u>10.9</u>	<u>11.1</u>	<u>10.8</u>	<u>10.6</u>	<u>11.0</u>
Direct taxes	1.0	1.5	1.9	2.3	2.4	2.5	2.4
Income tax	0.6	1.1	1.7	2.1	2.2	2.3	2.3
Other	0.4	0.3	0.2	0.2	0.2	0.2	0.1
Indirect taxes	9.1	9.8	9.0	8.8	8.4	8.2	8.6
Value-added taxes	3.7	5.9	6.0	5.8	5.8	5.6	6.0
Excise tax	1.1	1.0	0.8	0.8	0.7	0.7	0.7
Tax on bank debts	1.1	--	--	--	--	--	--
Export taxes	0.1	--	--	--	--	--	--
Import taxes	0.3	0.9	0.9	1.0	0.7	0.7	0.6
Fuel Tax	1.5	1.1	0.8	0.7	0.6	0.7	0.7
Other	2.2	1.0	0.4	0.5	0.6	0.5	0.6
<u>Collection of taxes in arrears 2/</u>	<u>...</u>	<u>0.4</u>	<u>0.5</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.4</u>
<u>Nontax revenue (excluding privatization)</u>	<u>1.2</u>	<u>0.9</u>	<u>1.1</u>	<u>1.1</u>	<u>1.1</u>	<u>1.2</u>	<u>0.9</u>
<u>Social security contributions 3/</u>	<u>4.3</u>	<u>4.3</u>	<u>4.6</u>	<u>4.8</u>	<u>4.2</u>	<u>4.2</u>	<u>3.4</u>
<u>Operating surplus of the nonfinancial financial public enterprises</u>	<u>0.3</u>	<u>0.2</u>	<u>0.3</u>	<u>-0.1</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Total</u>	<u>15.8</u>	<u>17.1</u>	<u>17.4</u>	<u>17.3</u>	<u>16.5</u>	<u>16.2</u>	<u>15.7</u>
<u>Memorandum items</u>							
Tax expenditure on export rebates	...	...	0.3	0.4	0.4	0.4	0.3
Privatization receipts in cash	1.2	0.8	1.5	0.3	0.4	0.1	0.2

Source: Ministry of Economy.

1/ Adjusted for differences between face and market values of bonds received as a payment of tax liabilities.

2/ Included under other direct and indirect taxes during 1990-91.

3/ Prior to 1994, only the net revenue (revenue minus expenditure) of various social security operations, e.g., the Medical Fund for Pensioners (PAMI) is included. Since 1994, gross revenue is shown amounting to 0.7 percent of GDP. From June 1994, contributions to private pension funds are excluded, amounting to 0.8 percent of GDP on an annual basis.

Table 34. Argentina: Summary of Provincial Public Finances, 1991-95 <sup>1/</sup>

	1991	1992	1993	1994	1995
(In millions of pesos)					
<u>Revenue</u>	<u>14,900</u>	<u>21,930</u>	<u>24,982</u>	<u>26,920</u>	<u>26,358</u>
Current	13,473	20,407	22,999	24,708	24,060
Own tax revenue	4,678	7,357	8,781	9,614	9,085
Own nontax revenue	730	1,182	1,483	1,748	1,798
Transfers from the Federal Government	8,065	11,329	12,188	12,788	12,582
Capital	1,427	1,523	1,893	2,212	2,298
Own capital revenue	85	124	280	299	288
Other, including transfers from the Federal Government	1,342	1,399	1,703	1,913	2,010
<u>Noninterest expenditure</u>	<u>15,981</u>	<u>22,008</u>	<u>26,592</u>	<u>28,985</u>	<u>28,650</u>
Current	13,793	19,594	23,307	24,048	24,738
Wages	8,431	11,954	14,097	15,044	15,065
Goods and services	1,722	2,315	2,778	3,125	3,045
Transfers	3,640	5,325	6,432	6,852	6,628
Provincial social security	661	1,019	1,086	911	934
Education	261	570	735	945	1,086
To municipalities and other	2,718	3,736	4,610	4,996	4,608
Capital	2,188	2,414	3,285	3,937	3,912
<u>Interest</u>	<u>266</u>	<u>346</u>	<u>490</u>	<u>590</u>	<u>724</u>
<u>Primary balance</u>	<u>-1,081</u>	<u>-78</u>	<u>-1,610</u>	<u>-2,065</u>	<u>-2,292</u>
<u>Overall balance</u>	<u>-1,347</u>	<u>-424</u>	<u>-2,100</u>	<u>-2,655</u>	<u>-3,016</u>
(In percent of GDP)					
<u>Revenue</u>	<u>8.4</u>	<u>9.5</u>	<u>9.7</u>	<u>9.6</u>	<u>9.4</u>
Current	7.6	8.9	8.9	8.8	8.6
Capital	0.8	0.7	0.8	0.8	0.8
<u>Noninterest expenditure</u>	<u>9.0</u>	<u>9.6</u>	<u>10.3</u>	<u>10.3</u>	<u>10.2</u>
Wages	4.7	5.2	5.5	5.3	5.4
Goods and services	1.0	1.0	1.1	1.1	1.1
Transfers	2.0	2.3	2.5	2.4	2.4
Capital	1.2	1.0	1.3	1.4	1.4
<u>Interest</u>	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>
<u>Primary balance</u>	<u>-0.6</u>	<u>--</u>	<u>-0.6</u>	<u>-0.7</u>	<u>-0.8</u>
<u>Overall balance</u>	<u>-0.8</u>	<u>-0.2</u>	<u>-0.8</u>	<u>-0.9</u>	<u>-1.1</u>

Sources: Ministry of Economy; and Fund staff estimates.

<sup>1/</sup> Figures for provinces are only available on an accrual basis.

Table 35. Argentina: Registered Outstanding Debt of the National Public Sector at the End of the Period

(In billions of U.S. dollars)

	1991	1992	1993	1994	1995	Prel. June 1996
Foreign commercial banks	30.1	28.9	25.9	26.9	27.3	26.4
International organizations <sup>1/</sup>	7.7	7.6	10.9	11.6	15.4	15.7
Paris Club creditors	8.8	8.9	8.9	8.0	8.0	7.6
BONEX	4.6	4.0	3.6	5.1	5.3	5.3
New money bonds	0.1	0.1	0.1	0.1	--	--
Euronotes and other titles	0.5	0.8	2.5	5.1	8.4	13.3
BOCON	--	5.3	8.4	16.0	15.5	16.4
To pensioners	--	3.7	6.1	11.0	11.0	11.3
To suppliers	--	1.6	2.3	5.0	4.5	5.1
Hydrocarbon bonds	--	0.4	0.4	--	--	--
Other	6.9	6.4	6.2	7.9	9.2	9.9
<u>Total</u>	<u>58.7</u>	<u>62.4</u>	<u>66.9</u>	<u>80.7</u>	<u>89.1</u>	<u>94.6</u>
Local currency	1.5	4.0	5.0	8.4	6.1	7.0
Foreign currency	57.2	58.4	61.9	72.2	83.0	87.6
External debt	57.2	55.1	56.6	61.6	67.7	71.8
Domestic debt	--	3.3	5.3	9.6	15.3	15.8

Sources: Ministry of Economy; and Fund staff estimates.

<sup>1/</sup> IMF, World Bank, and IDB.

Table 36. Argentina: Annualized Interest Rates

(In percent)

	Deposit Rates 1/		Lending Rates 2/	
	Pesos	U.S. dollars	Pesos	U.S. dollars
<b>1993</b>				
January	20.07	...	...	...
February	15.94	...	...	...
March	13.02	...	...	...
April	11.61	6.62	10.80	8.20
May	10.51	6.49	10.24	7.71
June	9.91	6.3	10.53	7.80
July	11.01	6.36	11.94	8.43
August	10.01	6.2	9.93	7.49
September	8.84	5.96	9.85	7.45
October	8.36	5.86	9.71	7.50
November	8.14	5.79	9.16	7.33
December	8.67	5.77	10.40	8.09
<b>1994</b>				
January	8.07	5.65	9.12	7.48
February	6.44	5.45	8.21	7.05
March	7.03	5.45	8.57	7.62
April	7.69	5.51	10.18	8.31
May	7.83	5.57	10.32	8.25
June	8.08	5.66	10.32	8.36
July	8.44	5.81	10.60	8.41
August	8.55	5.76	10.28	8.26
September	8.33	5.67	9.71	8.06
October	8.27	5.71	9.83	8.15
November	8.72	5.82	10.00	8.33
December	9.55	6.14	13.56	9.80
<b>1995</b>				
January	10.65	6.54	18.06	11.51
February	11.64	6.88	19.06	12.11
March	19.38	9.91	34.05	23.03
April	19.07	11.09	26.45	20.14
May	15.54	10.84	22.13	17.81
June	10.83	8.45	16.19	13.61
July	10.24	8.05	14.57	12.37
August	9.17	7.42	13.29	11.79
September	9.21	7.22	13.26	11.35
October	8.92	7.21	12.55	11.03
November	9.02	7.31	12.31	10.93
December	9.16	7.41	12.24	10.82
<b>1996</b>				
January	8.62	7.15	11.54	10.31
February	7.62	6.53	10.65	9.58
March	7.27	6.27	10.23	9.27
April	7.11	6.14	9.99	8.97
May	6.66	5.90	9.74	8.74
June	6.55	5.74	9.70	8.76
July	6.67	5.78	9.98	8.99

Source: Central Bank of Argentina.

1/ Weighted average of rates on 30-89 day time deposits through mid-August 1993 and on 30-59 day time deposits thereafter.

2/ 30-day prime lending rates.

Table 37. Argentina: Summary Operations of the Financial System

(In millions of pesos)

	December				Prel.
	1992	1993	1994	1995	June 1996
<b>I. Consolidated Financial System</b>					
<u>Net foreign assets</u>	<u>5,122</u>	<u>7,577</u>	<u>5,961</u>	<u>2,052</u>	<u>5,093</u>
Central Bank (NIR)	8,541	11,465	11,391	9,373	10,502
Rest of system	-3,419	-3,888	-5,430	-7,321	-5,409
<u>Net domestic assets</u>	<u>23,695</u>	<u>34,919</u>	<u>44,036</u>	<u>46,481</u>	<u>48,874</u>
Credit to public sector (net) <sup>1/</sup>	9,453	10,525	11,512	17,773	17,856
Credit to private sector	34,988	43,243	52,029	49,953	51,420
Private capital and surplus	-10,809	-12,705	-13,492	-13,969	-14,334
Official capital and surplus and unclassified assets (net)	-9,937	-6,145	-6,013	-7,276	-6,068
<u>Liabilities to private sector</u>	<u>28,767</u>	<u>42,495</u>	<u>49,997</u>	<u>48,533</u>	<u>53,967</u>
Monetary liabilities (M1)	9,999	13,476	15,206	15,404	15,629
Quasi-money	8,088	11,860	13,187	11,811	14,626
Foreign exchange deposits	10,680	17,159	21,604	21,318	23,712
<b>II. Central Bank <sup>2/</sup></b>					
<u>Net international reserves <sup>2/</sup></u>	<u>8,541</u>	<u>11,465</u>	<u>11,391</u>	<u>9,373</u>	<u>10,502</u>
<u>Net domestic assets</u>	<u>2,469</u>	<u>3,524</u>	<u>4,877</u>	<u>7,329</u>	<u>7,470</u>
Credit to public sector (net) <sup>1/</sup>	3,940	5,750	7,365	8,985	9,343
Credit to financial system	2,410	1,495	1,514	3,061	2,177
Official capital and surplus and unclassified assets (net)	-3,881	-3,721	-4,002	-4,717	-4,050
<u>Monetary liabilities</u>	<u>11,010</u>	<u>14,989</u>	<u>16,268</u>	<u>16,702</u>	<u>17,972</u>
Currency issued	9,648	12,173	13,317	13,050	12,804
Currency in circulation	7,682	10,061	11,218	11,148	10,793
Cash in vault	1,966	2,112	2,099	1,902	2,011
Reserve deposits <sup>4/</sup>	1,362	2,816	2,951	3,652	5,168
<b>III. Banks and Non-Bank Financial Institutions</b>					
<u>Net foreign assets</u>	<u>-3,419</u>	<u>-3,888</u>	<u>-5,430</u>	<u>-7,321</u>	<u>-5,408</u>
<u>Net claims on BCRA</u>	<u>918</u>	<u>3,433</u>	<u>3,536</u>	<u>2,493</u>	<u>5,002</u>
<u>Net domestic assets</u>	<u>23,586</u>	<u>32,888</u>	<u>40,673</u>	<u>42,213</u>	<u>43,580</u>
Credit to the public sector (net) <sup>1/</sup>	5,513	4,775	4,148	8,788	8,513
Credit to private sector	34,988	43,243	52,029	49,953	51,420
Capital and reserves	-10,969	-12,705	-13,492	-13,969	-14,334
Other (net)	-5,946	-2,425	-2,012	-2,559	-2,019
<u>Liabilities to private sector</u>	<u>21,085</u>	<u>32,433</u>	<u>38,779</u>	<u>37,385</u>	<u>43,174</u>
Local currency deposits	10,405	15,274	17,175	16,067	19,462
Sight deposits	2,317	3,414	3,988	4,256	4,836
Time and savings deposits	8,088	11,860	13,187	11,811	14,626
Foreign currency deposits	10,680	17,159	21,604	21,318	23,712

Sources: Central Bank of Argentina; and Fund staff estimates.

<sup>1/</sup> All public sector entities, including provincial governments.<sup>2/</sup> The BCRA net international reserves comprise gold, foreign currency holdings, Aladi (net) and IMF liabilities. See Statistical Appendix Table 48.<sup>3/</sup> Includes current account deposits, swaps ("pases pasivos") and treasury liquidity notes ("Lelibans") held by financial institutions at the Central Bank.

Table 38. Argentina: Legal Reserve Requirements and Legal Liquidity Requirements

(In percent)

	Domestic Currency Deposits											
	Demand Deposits				Time Deposits							
	Savings Deposits		To 59 Days		60-89 Days		90-179 Days		180-365 Days			
	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.
<u>1994</u>												
January	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
February	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
March	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
April	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
May	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
June	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
July	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
August	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
September	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
October	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
November	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
December	43.0	...	43.0	...	3.0	...	3.0	...	--	...	--	...
<u>1995</u>												
January	35/30 <u>2/</u>	...	35/30 <u>2/</u>	...	1.0	...	1.0	...	--	...	--	...
February	32.0	...	32.0	...	1.0	...	1.0	...	--	...	--	...
March	33.0	...	33.0	...	2.0	...	2.0	...	--	...	--	...
April	33.0	...	33.0	...	2.0	...	2.0	...	--	...	--	...
May	33.0	...	33.0	...	2.0	...	2.0	...	--	...	--	...
June	33.0	...	33.0	...	2.0	...	2.0	...	--	...	--	...
July	33.0	...	33.0	...	2.0	...	2.0	...	--	...	--	...
August	30.0	...	30.0	...	...	6.0	...	2.0	...	2.0	...	--
September	20.0	6.0	20.0	6.0	...	6.0	...	6.0	...	3.0	...	2.0
October	10.0	10.0	10.0	10.0	...	10.0	...	10.0	...	7.0	...	3.0
November	...	15.0	...	15.0	...	15.0	...	15.0	...	10.0	...	5.0
December	...	15.0	...	15.0	...	15.0	...	15.0	...	10.0	...	5.0
<u>1996</u>												
January	...	15.0	...	15.0	...	15.0	...	15.0	...	10.0	...	5.0
February	...	15.0	...	15.0	...	15.0	...	15.0	...	10.0	...	5.0
March	...	15.0	...	15.0	...	15.0	...	15.0	...	10.0	...	5.0
April	...	15.0	...	15.0	...	15.0	...	15.0	...	10.0	...	5.0
May	...	15.0	...	15.0	...	15.0	...	15.0	...	10.0	...	5.0
June	...	15.0	...	15.0	...	15.0	...	15.0	...	10.0	...	5.0
July	...	16.0	...	16.0	...	16.0	...	16.0	...	11.0	...	6.0
August	...	16.0	...	16.0	...	16.0	...	16.0	...	11.0	...	6.0

Table 38. Argentina: Legal Reserve Requirements and Legal Liquidity Requirements (Continued)

	<u>Dom. Curr. Deposits</u>		<u>Foreign Currency Deposits</u>							
	<u>Time Deposits</u>		<u>Demand Deposits</u>		<u>Savings Deposits</u>		<u>Time Deposits</u>			
	<u>365 Days or More</u>						<u>To 59 Days</u>		<u>60-89 Days</u>	
	<u>Res. Req.</u>	<u>Liq. Req.</u>	<u>Res. Req.</u>	<u>Liq. Req.</u>	<u>Res. Req.</u>	<u>Liq. Req.</u>	<u>Res. Req.</u>	<u>Liq. Req.</u>	<u>Res. Req.</u>	<u>Liq. Req.</u>
<u>1994</u>										
January	--	...	43.0	...	43.0	...	3.0	...	3.0	...
February	--	...	43.0	...	43.0	...	3.0	...	3.0	...
March	--	...	43.0	...	43.0	...	3.0	...	3.0	...
April	--	...	43.0	...	43.0	...	3.0	...	3.0	...
May	--	...	43.0	...	43.0	...	3.0	...	3.0	...
June	--	...	43.0	...	43.0	...	3.0	...	3.0	...
July	--	...	43.0	...	43.0	...	3.0	...	3.0	...
August	--	...	43.0	...	43.0	...	3.0	...	3.0	...
September	--	...	43.0	...	43.0	...	3.0	...	3.0	...
October	--	...	43.0	...	43.0	...	3.0	...	3.0	...
November	--	...	43.0	...	43.0	...	3.0	...	3.0	...
December	--	...	43.0	...	43.0	...	3.0/1.0 <u>1/</u>	...	3.0/1.0 <u>1/</u>	...
<u>1995</u>										
January	--	...	35/30 <u>2/</u>	...	35/30 <u>2/</u>	...	1.0	...	1.0	...
February	--	...	32.0	...	32.0	...	1.0	...	1.0	...
March	--	...	33.0	...	33.0	...	2.0	...	2.0	...
April	--	...	33.0	...	33.0	...	2.0	...	2.0	...
May	--	...	33.0	...	33.0	...	2.0	...	2.0	...
June	--	...	33.0	...	33.0	...	2.0	...	2.0	...
July	--	...	33.0	...	33.0	...	2.0	...	2.0	...
August	...	--	30.0	...	30.0	...	...	6.0	...	2.0
September	...	--	20.0	6.0	20.0	6.0	...	6.0	...	6.0
October	...	--	10.0	10.0	10.0	10.0	...	10.0	...	10.0
November	...	--	...	15.0	...	15.0	...	15.0	...	15.0
December	...	--	...	15.0	...	15.0	...	15.0	...	15.0
<u>1996</u>										
January	...	--	...	15.0	...	15.0	...	15.0	...	15.0
February	...	--	...	15.0	...	15.0	...	15.0	...	15.0
March	...	--	...	15.0	...	15.0	...	15.0	...	15.0
April	...	--	...	15.0	...	15.0	...	15.0	...	15.0
May	...	--	...	15.0	...	15.0	...	15.0	...	15.0
June	...	--	...	15.0	...	15.0	...	15.0	...	15.0
July	...	--	...	16.0	...	16.0	...	16.0	...	16.0
August	...	--	...	16.0	...	16.0	...	16.0	...	16.0

Table 38. Argentina: Legal Reserve Requirements and Legal Liquidity Requirements (Concluded)

	Foreign Currency Deposits						Average Reserve Requirements (Domestic and Foreign Currency)
	Time Deposits						
	90-179 Days		180-365 Days		365 Days or More		
Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.		
<u>1994</u>							
January	3.0	...	3.0	...	--	...	17.5
February	3.0	...	3.0	...	--	...	17.5
March	3.0	...	3.0	...	--	...	17.6
April	3.0	...	3.0	...	--	...	17.9
May	3.0	...	3.0	...	--	...	17.9
June	3.0	...	3.0	...	--	...	17.8
July	3.0	...	3.0	...	--	...	17.7
August	3.0	...	3.0	...	--	...	17.2
September	3.0	...	3.0	...	--	...	16.9
October	3.0	...	3.0	...	--	...	16.6
November	3.0	...	3.0	...	--	...	16.6
December	3.0/1.0 <u>1/</u>	3.0/1.0 <u>1/</u>	--	...	16.5	...	
<u>1995</u>							
January	1.0	...	1.0	...	--	...	12.5
February	1.0	...	1.0	...	--	...	12.1
March	2.0	...	2.0	...	--	...	13.4
April	2.0	...	2.0	...	--	...	14.1
May	2.0	...	2.0	...	--	...	14.2
June	2.0	...	2.0	...	--	...	13.6
July	2.0	...	2.0	...	--	...	13.5
August	...	2.0	...	--	...	--	11.3
September	...	3.0	...	2.0	...	--	13.3
October	...	7.0	...	3.0	...	--	13.5
November	...	10.0	...	5.0	...	--	14.7
December	...	10.0	...	5.0	...	--	14.7
<u>1996</u>							
January	...	10.0	...	5.0	...	--	14.7 <u>3/</u>
February	...	10.0	...	5.0	...	--	15.4 <u>3/</u>
March	...	10.0	...	5.0	...	--	15.3 <u>3/</u>
April	...	10.0	...	5.0	...	--	15.2 <u>3/</u>
May	...	10.0	...	5.0	...	--	15.4 <u>3/</u>
June	...	10.0	...	5.0	...	--	15.4 <u>3/</u>
July	...	11.0	...	6.0	...	--	16.5 <u>3/</u>
August	...	11.0	...	6.0	...	--	...

Source: Central Bank of Argentina.

1/ Beginning on December 16, 1994.

2/ Beginning on January 15, 1995.

3/ Preliminary estimates.

Table 39. Argentina: Financial Assets <sup>1/</sup>

(In millions of pesos)

	Currency in Circulation	M-1	M-2	Foreign Currency Deposits	M3
<u>1991</u>					
I	2,426	3,980	7,913	3,530	11,443
II	3,541	5,986	9,865	4,749	14,614
III	3,742	6,380	10,885	5,893	16,778
IV	5,219	8,785	13,432	6,583	20,015
<u>1992</u>					
I	4,770	8,807	14,615	7,993	22,608
II	5,602	10,743	17,746	9,002	26,748
III	5,648	10,733	18,951	10,384	29,335
IV	7,682	12,852	21,465	10,842	32,307
<u>1993</u>					
I	6,652	12,671	23,891	12,290	36,181
II	7,502	13,938	25,444	13,822	39,266
III	8,064	14,319	26,945	16,484	43,429
IV	10,061	17,318	30,377	17,532	47,909
<u>1994</u>					
I	9,110	17,249	31,306	19,822	51,128
II	9,079	16,979	31,219	21,131	52,260
III	9,397	16,038	31,814	22,246	54,060
IV	11,223	18,240	32,496	23,419	55,915
<u>1995</u>					
I	9,154	15,366	26,847	20,754	47,601
II	9,239	16,092	27,721	20,664	48,385
III	9,311	16,137	27,864	22,253	50,117
IV	11,148	18,327	30,347	23,442	53,789
<u>1996 (Prel.)</u>					
I	10,091	17,633	31,902	25,455	57,357
II	10,793	19,688	34,833	26,079	60,912

Sources: Central Bank of Argentina; and Fund staff estimates.

<sup>1/</sup> End of period. M-1 includes currency in circulation and local currency demand deposits; M-3 comprises M-1 plus time and savings deposits in pesos; and M-3 in addition includes all foreign currency deposits.

Table 40. Argentina: Balance of Payments

(In millions of U.S. dollars)

	1993	1994	1995	January- June 1995	January- June 1996
<u>Current account</u> <sup>1/</sup>	<u>-7,853</u>	<u>-10,341</u>	<u>-4,060</u>	<u>-1,659</u>	<u>-2,232</u>
Trade balance	-2,427	-4,238	2,239	1,546	1,289
Exports (f.o.b.)	13,117	15,841	20,967	10,854	11,253
Imports (f.o.b.)	-15,544	-20,079	-18,728	-9,308	-9,964
Non-factor services	-2,633	-2,845	-2,163	-1,273	-1,361
Receipts	2,507	2,668	2,886	1,410	1,448
Expenditures	-5,140	-5,513	-5,049	-2,683	-2,809
Factor services	-3,204	-3,578	-4,567	-2,173	-2,335
Profits and dividends	-1,273	-1,270	-1,624	-780	-950
Interest due	-3,231	-4,177	-5,444	-2,596	-2,675
Non-financial public sector	-2,419	-2,913	-3,539	-1,669	-1,758
Financial system	-605	-796	-1,194	-589	-500
BCRA	-251	-223	-298	-146	-93
Other	-354	-573	-896	-443	-407
Non-financial private sector	-207	-468	-711	-338	-417
Interest earnings	1,300	1,869	2,501	1,202	1,289
Non-financial public sector	134	237	261	111	112
Financial system	531	727	983	453	550
BCRA	452	641	778	370	380
Other	79	86	205	83	170
Non-financial private sector <sup>1/</sup>	635	905	1,257	638	627
Transfers (net)	411	320	431	242	175
<u>Capital account</u>	<u>11,002</u>	<u>10,571</u>	<u>2,066</u>	<u>-3,347</u>	<u>3,359</u>
Non-financial public sector	7,082	2,847	5,137	1,291	4,260
National government	6,399	3,835	5,784	1,581	4,370
Multilateral organizations	...	355	1,539	918	132
Bilateral and commercial	...	2,516	3,473	864	4,156
Privatization receipts	...	321	963	--	194
Other	...	643	-191	-201	-112
Rest of NFPS	683	-988	-647	-290	-110
Financial system	-3,131	1,624	2,238	1,679	-1,913
Non-financial private sector	3,378	1,698	1,677	635	564
Other capital <sup>2/</sup>	3,673	4,402	-6,986	-6,952	448
<u>Net international reserves</u>	<u>-3,149</u>	<u>-230</u>	<u>1,993</u>	<u>5,006</u>	<u>-1,127</u>
Assets	-4,377	-569	58	3,430	-1,395
Liabilities	1,228	339	1,935	1,576	268
Of which: IMF	1,228	460	1,915	1,404	267
Purchases	1,612	875	2,410	1,647	487
Repurchases	-384	-415	-495	-243	-220
<u>Memorandum items</u>					
Current Account (percent of GDP)	-3.1	-3.7	-1.4	...	...
Gross Reserves (months of imports)	10.7	8.6	9.1	6.5	9.7
Export Volume (percentage change)	8.0	15.0	27.1	33.7	7.1
Import Volume (percentage change)	11.5	26.9	-11.3	7.2	-2.4
Terms of Trade (percentage change)	-1.9	3.6	-1.0	3.1	0.4
External public debt/GDP (percent)	23.4	21.9	24.1	...	...

Sources: Ministry of Economy.

<sup>1/</sup> Efforts to estimate private assets abroad are currently underway, which the authorities believe will imply higher interest receipts and a lower current account deficit, by about US\$1.5 billion a year.

<sup>2/</sup> Includes errors and omissions.

Table 41. Argentina: Detailed Balance of Payments

(In millions of U.S. dollars)

	1991			1992			1993			1994 8/			1995 8/		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
<b>Current account</b>	<b>17,624</b>	<b>17,883</b>	<b>-259</b>	<b>17,579</b>	<b>23,920</b>	<b>-6,341</b>	<b>17,550</b>	<b>25,404</b>	<b>-7,853</b>	<b>20,918</b>	<b>31,258</b>	<b>-10,341</b>	<b>27,509</b>	<b>31,117</b>	<b>-4,060</b>
Merchandise trade <u>1/</u>	11,978	8,275	3,703	12,235	14,872	-2,637	13,117	16,784	-3,666	15,841	21,591	-5,750	20,967	20,123	844
Nonfactor services	2,762	3,577	-815	3,032	3,945	-913	2,507	3,901	-1,394	2,668	4,000	-1,332	2,886	3,653	-767
Freight and insurance	586	--	586	695	--	695	686	--	686	694	--	694	739	--	739
Other transportation	957	901	56	1,064	1,055	9	398	823	-425	463	830	-367	459	872	-413
Travel	782	1,739	-957	782	2,211	-1,429	837	2,445	-1,608	936	2,575	-1,639	1,061	2,024	-963
Other government	234	238	-4	280	252	28	154	242	-88	165	261	-96	166	275	-109
Royalties	4	420	-416	1	192	-191	7	184	-177	14	192	-178	2	206	-204
Other services	199	279	-80	210	235	-25	425	207	218	398	142	256	459	276	183
Investment Income	2,063	6,003	-3,940	1,514	5,054	-3,540	1,329	4,533	-3,204	1,871	5,449	-3,578	2,518	7,085	-4,567
Profits and Dividends	2	807	-805	--	845	-845	29	1,302	-1,273	2	1,272	-1,270	17	1,641	-1,624
Interest	2,061	5,196	-3,135	1,514	4,209	-2,695	1,300	3,231	-1,931	1,869	4,177	-2,308	2,501	5,444	-2,943
Unregistered transfers	821	28	793	798	49	749	597	186	411	538	218	320	688	256	432
<b>Capital Account</b>	<b>...</b>	<b>...</b>	<b>663</b>	<b>...</b>	<b>...</b>	<b>8,026</b>	<b>...</b>	<b>...</b>	<b>14,930</b>	<b>...</b>	<b>...</b>	<b>11,940</b>	<b>...</b>	<b>...</b>	<b>2,066</b>
Long-term capital	4,815	813	4,002	7,885	2,862	5,023	17,356	2,418	14,938	10,016	4,149	5,867	13,690	7,538	6,152
Direct investment	2,439	...	2,439	4,179	...	4,179	6,305	...	6,305	1,882	...	1,882	2,087	...	2,087
Of which: privatization	1,974	...	1,974	3,661	...	3,661	5,700	...	5,700	321	...	321	963	...	963
Financial loans <u>2/</u>	2,376	813	1,563	3,706	2,862	844	11,051	2,418	8,633	8,134	4,149	3,985	11,603	7,538	4,065
Government <u>3/</u>	1,106	301	805	574	1,429	-855	4,975	662	4,313	4,654	1,644	3,010	8,405	5,301	3,104
State enterprises	401	390	11	79	563	-484	367	602	-235	265	1,070	-805	121	932	-811
Private sector	869	122	747	3,053	870	2,183	5,709	1,154	4,555	3,215	1,435	1,780	3,077	1,305	1,772
Short-term capital	...	...	-3,339	...	...	3,003	...	...	-8	...	...	6,073	...	...	-4,086
Trade Finance <u>4/</u>	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Other public sector	...	...	-30	...	...	-4,253	...	...	-492	...	...	645	...	...	-201
Other private sector <u>5/</u>	...	...	-3,309	...	...	7,256	...	...	-484	...	...	5,428	...	...	-3,885
Allocation and FSDRs	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Valuation adjustment <u>6/</u>	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Exceptional financing <u>7/</u>	...	...	2,367	...	...	1,207	...	...	-3,928	...	...	-1,369	...	...	...
Of which: net change	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
in arrears	...	...	1,644	...	...	872	...	...	-9,279	...	...	...	...	...	...
Changes in NIR (increase -)	...	...	-2,771	...	...	-2,892	...	...	-3,149	...	...	230	...	...	1,933

Sources: Ministry of Economy; and Fund staff estimates.

1/ Exports f.o.b; imports c.i.f.2/ Includes Argentina government bonds denominated in foreign currency.3/ Includes Central Government and provincial and municipal governments.4/ Includes long-term trade finance.5/ Includes errors and omissions.6/ Changes in net international reserves due to exchange rate movements and other adjustments.7/ This figure was adjusted downward by US\$38 million in 1990, US\$7.6 billion in 1991, US\$6.0 billion in 1992 and US\$3.8 billion in 1993, to exclude net placement of compulsory bonds.8/ Data from 1994 onward may not be strictly comparable to earlier years due to a change in methodology.

Table 42. Argentina: Exchange Rates

(Annual averages)

	Official Exchange Rate (₳ per US\$) <u>1/2/</u>	Parallel Exchange Rate <u>3/</u>	Parallel Exchange Rate Spread (In percent)	Real Effective Exchange Rate (Index 1980=100) <u>4/</u>
1984	0.06774	0.08831	30.3	52.0804
1985	0.60156	0.69423	15.4	46.6692
1986	0.94150	1.05410	12.0	46.1286
1987	2.14600	2.73300	27.3	42.2993
1988	8.72100	10.98900	26.0	38.8340
1989	397.15750	475.81250	19.8	33.9938
1990	4,876.45480	...	...	49.9313
1991	9,541.32270	...	...	68.2155
1992	0.99065	...	...	77.2595
1993	0.99946	...	...	85.9183
1994	0.99996	...	...	84.6813
1995	1.00000	...	...	80.1534
<u>1991</u>				
January	6,492	...	...	67.7365
February	9,387	...	...	57.2643
March	9,479	...	...	65.3177
April	9,793	...	...	65.5704
May	9,867	...	...	67.0016
June	9,940	...	...	69.7283
July	9,939	...	...	71.1133
August	9,940	...	...	70.8749
September	9,916	...	...	71.1098
October	9,915	...	...	71.9935
November	9,911	...	...	70.6847
December	9,918	...	...	70.1908
<u>1992</u>				
January	0.9910	...	...	72.2440
February	0.9913	...	...	74.4856
March	0.9921	...	...	77.0389
April	0.9911	...	...	77.7562
May	0.9910	...	...	77.1808
June	0.9913	...	...	76.3473
July	0.9912	...	...	75.8306
August	0.9911	...	...	75.8377
September	0.9911	...	...	76.6606
October	0.9910	...	...	79.1438
November	0.9940	...	...	82.0861
December	0.9917	...	...	82.5028
<u>1993</u>				
January	0.9995	...	...	83.3161
February	0.9998	...	...	84.5632
March	0.9997	...	...	84.7332
April	0.9993	...	...	83.6088
May	0.9995	...	...	84.2572
June	0.9993	...	...	85.9347
July	0.9990	...	...	87.3273
August	0.9995	...	...	87.1953
September	1.0000	...	...	86.1908
October	0.9997	...	...	87.2832
November	0.9992	...	...	88.3643
December	0.9990	...	...	88.2454

Table 42. Argentina: Exchange Rates (Concluded)

(Annual averages)

	Official Exchange Rate (₳ per US\$) <u>1/2/</u>	Parallel Exchange Rate <u>3/</u>	Parallel Exchange Rate Spread (In percent)	Real Effective Exchange Rate (Index 1980=100) <u>4/</u>
<u>1994</u>				
January	0.9994	...	...	88.5942
February	0.9994	...	...	87.7976
March	0.9999	...	...	86.3629
April	0.9992	...	...	86.6715
May	0.9992	...	...	86.0666
June	0.9990	...	...	85.2474
July	0.9991	...	...	83.6166
August	0.9997	...	...	82.9971
September	0.9999	...	...	82.5522
October	0.9996	...	...	81.4792
November	0.9999	...	...	81.8154
December	0.9992	...	...	82.9745
<u>1995</u>				
January	0.9999	...	...	83.5310
February	1.0000	...	...	82.6512
March	1.0000	...	...	80.5955
April	1.0000	...	...	79.2472
May	1.0000	...	...	79.2304
June	1.0000	...	...	78.5475
July	1.0000	...	...	78.3854
August	1.0000	...	...	79.5463
September	1.0000	...	...	80.4735
October	1.0000	...	...	79.7554
November	1.0000	...	...	79.7554
December	1.0000	...	...	80.0945
<u>1996</u>				
January	1.0000	...	...	80.5916
February	1.0000	...	...	80.1897
March	1.0000	...	...	79.7208
April	1.0000	...	...	79.9452
May	1.0000	...	...	80.0433
June	1.0000	...	...	79.9577
July	1.0000	...	...	79.7364

Sources: Ministry of Economy; IMF Information Notice System; and Fund staff estimates.

1/ On January 1, 1992 the peso (Arg\$) replaced the Austral (₳) at a ratio of 1:10,000.2/ Period averages of selling rates.3/ From June to November 1981, July to November 1982, and from October 1987 to May 1989, the exchange market was split into an official and a free market; for this period, the ratio shown for the parallel exchange rate corresponds to the free market rate. On December 19, 1989, the foreign exchange market was unified under a floating rate system. A fixed rate system was implemented in late January 1991.4/ Based on nominal exchange rates, consumer price indices seasonally adjusted and trade shares of most trading partners; increase denotes appreciation. From August 1988 to May 1989, based on trade-weighted average of exchange rates in the official and free markets.

Table 43. Argentina: Exports by Principal Product Category

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	Preliminary	
						1995	1996
<u>Primary products</u>	<u>3,301</u>	<u>3,499</u>	<u>3,279</u>	<u>3,742</u>	<u>4,816</u>	<u>2,418</u>	<u>2,496</u>
Live animals	8	9	13	51	98	48	19
Fish and seafood	200	312	435	446	498	240	299
Honey	43	52	50	54	70	47	40
Fresh fruits	262	282	215	244	417	232	245
Cereals	1,067	1,548	1,454	1,333	1,863	1,080	1,131
Oil seeds and beans	1,081	790	696	952	884	401	461
Tobaccos	137	143	117	89	101	43	59
Wool	55	41	49	75	86	63	32
Cotton fibers	203	76	26	176	433	118	80
Other	245	246	224	322	366	147	133
<u>Manufacture of agricultural origin</u>	<u>4,927</u>	<u>4,827</u>	<u>4,924</u>	<u>5,800</u>	<u>7,474</u>	<u>2,787</u>	<u>3,130</u>
Meat	892	767	748	918	1,229	463	436
Fish and seafood products	246	237	271	279	416	171	161
Milk and milk products	67	35	76	135	260	92	116
Other animal products	9	10	12	17	16	6	9
Dry Fruits	23	24	22	32	26	7	7
Tea, herbs, and spices	45	47	62	60	67	30	28
Oils	1,221	1,110	1,079	1,533	2,097	796	717
Sugar and candies	74	65	43	59	122	21	33
Beverages	58	64	64	80	165	45	65
Other food products	1,270	1,459	1,451	1,348	1,254	438	751
Extracts	42	40	44	43	40	15	16
Leather	514	475	618	763	937	392	356
Refined wool	87	92	96	113	116	55	50
Other	379	402	338	420	727	254	384
<u>Manufactures of industrial origin</u>	<u>2,983</u>	<u>2,824</u>	<u>3,679</u>	<u>4,647</u>	<u>6,589</u>	<u>2,858</u>	<u>2,361</u>
Chemical products	504	533	559	727	972	419	377
Plastics	146	148	133	181	341	141	132
Rubber products	48	40	55	82	129	53	52
Leather products	77	79	118	157	138	47	51
Paper products	113	127	150	202	414	139	139
Textiles and textile products	148	121	165	210	383	175	112
Shoes and shoe products	59	52	92	87	102	38	35
Ceramics	79	71	79	71	110	39	41
Jewelry and precious stones	4	4	52	252	23	17	2
Metals and their manufacture	912	643	702	760	1,214	409	460
Machinery and electrical products	561	518	755	867	983	388	357
Transportation equipment	266	405	719	918	1,308	530	535
Others	65	83	100	133	387	264	89
<u>Petroleum products</u>	<u>766</u>	<u>1,082</u>	<u>1,236</u>	<u>1,651</u>	<u>2,169</u>	<u>841</u>	<u>1,077</u>
<u>Total</u>	<u>11,978</u>	<u>12,235</u>	<u>13,118</u>	<u>15,839</u>	<u>20,963</u>	<u>8,703</u>	<u>9,066</u>

Sources: National Institute of Statistics; and Ministry of Economy.

Table 44. Argentina: Principal Agricultural Exports

(Value in millions of U.S. dollars; volume in thousands of tons; unit price in U.S. dollars per ton)

	1991	1992	1993	1994	1995
<u>Total agricultural products</u>	<u>8,228</u>	<u>8,329</u>	<u>8,203</u>	<u>9,541</u>	<u>12,290</u>
Cereals	1,064	1,548	1,454	1,333	1,863
Wheat	466	635	723	670	987
Volume	5,345	6,047	5,685	5,172	6,782
Unit price	87	105	127	130	146
Corn	401	626	516	479	666
Volume	3,882	6,085	4,864	4,146	5,902
Unit price	103	103	106	119	113
Sorghum	115	103	74	43	18
Volume	1,316	1,146	910	424	189
Unit price	87	90	81	100	95
Other cereals	83	184	141	141	192
Soy beans	917	641	545	690	536
Volume	4,430	3,053	2,418	2,909	2,549
Unit price	207	210	225	237	210
Soy oil	513	521	594	844	928
Volume	1,233	1,308	1,360	1,480	1,524
Unit price	416	372	437	570	609
Soy pellets	940	1,209	1,239	1,146	1,017
Volume	5,476	6,501	6,621	6,671	6,854
Unit price	172	186	187	172	146
Sunflower oil	529	432	335	502	868
Volume	1,222	1,037	739	872	1,459
Unit price	433	417	453	576	595
Sunflower pellets	132	130	124	120	125
Volume	1,597	1,375	1,182	1,286	1,898
Unit price	82	95	105	93	86
Beef	389	338	332	495	695
Volume	92	60	68	140	218
Unit price	4,228	5,633	4,882	3,536	3,188
Beef products	349	340	258	277	368
Volume	130	104	86	103	126
Unit price	2,685	2,510	2,688	2,689	2,921
Other meat	117	125	141	133	153
Fish and fish products	446	558	707	725	915
Volume	304	328	508	535	584
Unit price	1,467	1,712	1,392	1,355	1,567
Fresh fruit	262	292	247	251	426
Volume	602	583	503	536	753
Unit price	435	501	491	468	586
Wool	90	80	93	122	120
Volume	39	33	46	53	37
Unit price	2,323	2,424	2,022	2,302	3,243
Other agricultural exports (Value)	2,480	2,115	2,134	2,903	4,267

Sources: Ministry of Economy.

Table 45. Argentina: External Trade by Principal Countries and Regions

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	January-May	
						1995	1996
<u>Exports</u>							
<u>Total</u>	<u>11,978</u>	<u>12,235</u>	<u>13,118</u>	<u>15,839</u>	<u>20,963</u>	<u>8,703</u>	<u>9,066</u>
LAIA	3,369	3,917	5,262	6,957	9,573	3,930	4,215
Of which: Brazil	1,489	1,671	2,814	3,655	5,459	2,384	2,450
United States	1,245	1,349	1,273	1,737	1,801	725	752
EEC	3,956	3,732	3,650	3,890	4,451	1,801	1,920
Former U.S.S.R.	224	103	108	46	91	13	54
Japan	454	375	467	445	456	211	238
Other	2,730	2,758	2,358	2,764	4,591	2,023	1,887
<u>Imports</u>							
<u>Total</u>	<u>8,275</u>	<u>14,872</u>	<u>16,784</u>	<u>21,590</u>	<u>20,122</u>	<u>7,847</u>	<u>8,108</u>
LAIA	2,748	4,981	5,434	5,945	5,758	2,330	2,657
Of which: Brazil	1,532	3,367	3,664	4,325	4,175	1,689	1,949
United States	1,871	3,226	3,859	4,373	4,170	1,786	1,809
EEC	2,033	3,633	4,141	6,140	6,006	2,357	2,336
Former U.S.S.R.	15	30	45	95	86	39	54
Japan	393	697	669	986	708	299	263
Other	1,214	2,303	2,635	4,029	3,394	1,036	989

Sources: National Institute of Statistics; and Ministry of Economy.

Table 46. Argentina: External Trade: Value, Volume, and Price Indices

	1990	1991	1992	1993	1994	1995
(1980 = 1.00)						
Export value	1.55	1.49	1.53	1.64	1.97	2.61
Export price	0.73	0.71	0.71	0.71	0.74	0.77
Export volume	2.12	2.12	2.16	2.33	2.68	3.39
Import value	0.39	0.79	1.41	1.59	2.05	1.91
Import price	1.12	1.13	1.14	1.15	1.17	1.23
Import volume	0.35	0.7	1.24	1.39	1.76	1.55
<u>Terms of trade</u>	<u>0.65</u>	<u>0.63</u>	<u>0.62</u>	<u>0.61</u>	<u>0.63</u>	<u>0.63</u>
(Percentage changes)						
Export value	29.1	-3.0	2.1	7.8	20.5	32.5
Export price	-10.0	-2.9	0.3	-0.7	5.0	4.1
Export volume	43.4	-0.1	1.8	8.0	14.9	27.3
Import value	-2.9	102.9	79.7	12.9	28.8	-6.8
Import price	2.5	1.0	1.0	1.2	1.4	5.1
Import volume	-5.2	100.9	77.9	11.5	27.0	-12.0
<u>Terms of trade</u>	<u>-12.2</u>	<u>-3.9</u>	<u>-0.7</u>	<u>-1.9</u>	<u>3.6</u>	<u>0.1</u>
<u>Memorandum items</u>						
Export value (in millions of U.S. dollars)	12,354	11,978	12,235	13,117	15,821	20,893
Import value (in millions of U.S. dollars)	4,079	8,275	14,872	16,783	21,612	19,968

Sources: Ministry of Economy; National Institute of Statistics; and Fund staff estimates.

Table 47. Argentina: Imports by Economic Classification

	1991	1992	1993	1994	1995	January-May	
						1995	1996
(In millions of U.S. dollars)							
<u>Total, c.i.f.</u>	<u>8,276</u>	<u>14,872</u>	<u>16,784</u>	<u>21,590</u>	<u>20,122</u>	<u>8,445</u>	<u>8,684</u>
Consumption goods	1,514	3,205	3,527	3,907	3,174	1,348	1,296
Capital goods	1,637	3,888	4,964	7,409	5,552	2,373	2,419
Fuels	462	416	387	606	809	323	284
Other intermediate goods	4,671	7,363	7,906	9,668	10,587	4,401	4,683
(In percent of total)							
<u>Total, c.i.f.</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Consumption goods	18.3	21.6	21.0	18.0	15.8	16.0	14.9
Capital goods	19.8	26.1	29.9	34.3	27.6	28.1	27.9
Fuels	5.5	2.8	23.0	2.7	1.9	3.8	3.3
Other intermediate goods	68.5	49.6	47.1	44.9	54.7	52.1	53.9

Sources: Ministry of Economy; and National Institute of Statistics.

Table 48. Argentina: International Reserves of the Central Bank

(In millions of U.S. dollars; end of period)

	1990	1991	1992	1993	1994	1995	June 1996
<u>Central bank net international reserves</u>	<u>3,106</u>	<u>5,839</u>	<u>8,623</u>	<u>11,482</u>	<u>11,255</u>	<u>9,373</u>	<u>10,502</u>
<u>Assets</u>	<u>6,409</u>	<u>8,663</u>	<u>11,382</u>	<u>15,460</u>	<u>16,029</u>	<u>15,963</u>	<u>17,355</u>
Gold <u>1/</u>	1,613	1,430	1,446	1,672	1,651	1,679	1,659
SDRs	107	224	413	455	563	539	135
IMF reserve tranche	--	--	--	--	--	--	--
Foreign exchange	4,295	6,722	9,528	13,339	13,758	13,723	15,516
LAIA (net) <u>2/</u>	394	287	-5	-5	57	22	45
<u>Liabilities</u>	<u>3,303</u>	<u>2,824</u>	<u>2,759</u>	<u>3,979</u>	<u>4,774</u>	<u>6,590</u>	<u>6,853</u>
IMF	3,303	2,824	2,759	3,979	4,774	6,590	6,853
Other	--	--	--	--	--	--	--

Source: Ministry of Economy.

1/ Valued at market prices.2/ Balances under the multilateral clearing system of the Latin American Integration Association (LAIA).

Table 49. Argentina: International Bond Issues

	1991	1992	1993	1994	1995	<u>January-September</u>	
						1995	1996
(In millions of U.S. dollars)							
<u>Total bond placement</u>	765	1,619	6,308	5,320	6,356	3,544	8,884
Public sector	500	389	2,406	2,740	5,403	3,250	6,991
Private sector	265	1,230	3,902	2,580	953	294	1,893
By currency							
U.S. dollars	765	1,609	5,688	4,070	2,426	1,571	3,650
Deutsche marks	...	...	620	300	1,533	725	3,031
Yen	...	...	...	352	1,672	1,032	1,146
Other	...	10	...	598	725	216	1,058
(In years) 1/							
Average maturity							
Public sector							
U.S. dollars	2.0	4.7	7.2	4.8	5.0	4.9	3.8
Deutsche marks	...	...	5.0	3.0	5.8	5.0	10.2
Yen	...	...	...	3.9	3.0	5.0	7.0
Private sector							
U.S. dollars	5.0	3.9	5.2	4.5	2.6	2.0	4.1
(In basis points) 2/							
Average yield spread at launch							
Public sector							
U.S. dollars	375	324	313	257	280	291	403
Deutsche marks	...	...	250	220	380	310	425
Yen	...	...	...	281	319	291	331
Private sector							
U.S. dollars	355	392	387	410	570	...	417

Sources: Staff estimates based on Euromoney Database, Euroweek, Financial Times, and International Financial Review (IFR).

1/ Unweighted average.

2/ Yield spread measured as the difference between the bond yield at issue and the prevailing yield for industrial country government bonds in the same currency and of comparable maturity. All figures are weighted averages.

Table 50. Argentina: Outstanding External Debt by Creditor <sup>1/</sup>

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	End-June 1996
<u>Public sector</u>	<u>57,239</u>	<u>55,053</u>	<u>56,596</u>	<u>61,274</u>	<u>67,002</u>	<u>69,312</u>
International organizations	7,704	7,610	10,903	11,322	15,088	15,139
IMF	2,489	2,320	3,539	4,186	6,120	6,390
Other	5,215	5,290	7,364	7,136	8,968	8,749
Paris Club	8,816	8,901	8,923	7,978	8,024	7,603
Commercial banks	30,139	28,870	25,887	24,504	23,208	22,440
Refinanceable <sup>2/</sup>	22,259	19,397	--	--	--	--
Arrears <sup>2/</sup>	7,880	8,583	--	--	--	--
Other	--	890	25,887	24,504	23,208	22,440
Public bonds <sup>3/</sup>	8,525	8,541	9,869	12,377	14,770	19,224
Other <sup>4/</sup>	2,055	1,131	1,074	5,093	5,912	4,906
<u>Total</u>	<u>62,226</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>

Source: Ministry of Economy.

<sup>1/</sup> Excludes BONEX held by the Central Bank.<sup>2/</sup> Total debt eligible for rescheduling under the Brady Plan.<sup>3/</sup> Includes domestic bonds denominated in foreign currency, but excludes BOCONs which are considered to be held mostly by domestic residents.<sup>4/</sup> Includes other debt with commercial banks noneligible for rescheduling under the Brady Plan.