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EBS/89/184

CONFIDENTIAL

September 13, 1989

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

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Argentine austral.

Mr. Leipold (ext. 8526) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

ARGENTINA

Real Effective Exchange Rate - Information Notice

Prepared by the Western Hemisphere Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department
and the Research Department)

Approved by S. T. Beza and Eduard Brau

September 13, 1989

The real effective exchange rate of the Argentine austral, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of June 1989 the austral had depreciated in real effective terms by significantly more than 10 percent since the last occasion on which Argentina's exchange rate developments were brought to the attention of the Executive Board, in the Information Notice on the Real Effective Exchange Rate and Modification of the Exchange System of February 27, 1989 (EBS/89/32). The real effective depreciation of the austral is estimated to have been 44 percent since February 1989 and 24 1/2 percent in the 12 months to June 1989.

The recent slide of the austral began with the ending on February 6, 1989 of the Plan Primavera, a package of stabilization measures introduced in August 1988 (see EBS/88/170, 8/17/88). Capital outflows intensified over the subsequent four months against the background of uncertainty as to the direction of economic policy, a marked weakening in the public finances, and an acceleration in inflation that by the month of June reached an unprecedented monthly rate of around 115 percent.

Over the past several months, frequent changes have been made in Argentina's exchange system. As communicated to the Executive Board in EBS/89/32, on February 6, 1989 the authorities introduced a multiple exchange rate system comprising a commercial exchange rate applicable to agricultural exports and to 50 percent of industrial exports, a special exchange rate (25 percent above the commercial exchange rate) applicable to 50 percent of industrial exports and to the major part of imports, and a free market exchange rate applicable to all other services and capital related transactions. This system was replaced on April 13, 1989 by a unified floating exchange rate for all current and capital

transactions, subject to a tax on exports equivalent to the difference between the free rate and a reference rate set at \$ 36 per U.S. dollar. On May 2, 1989, the export tax was modified to a tax of 20 percent on the value of exports.

On May 28, 1989, the floating exchange rate was replaced by a unified fixed exchange rate that was set at \$ 177 per U.S. dollar. At the same time, exchange controls were reintroduced and the export tax was raised from 20 percent to 30 percent for agricultural products.

The Government that assumed office on July 8, 1989, five months ahead of the date stipulated by the Constitution, has announced measures to combat inflation as well as to introduce fundamental structural reforms, especially in the area of the public enterprises and the tax system. These measures included the adjustment of the official exchange rate to \$ 650 per U.S. dollar or to a level some 20 percent above the rate prevailing in the parallel market immediately prior to the devaluation. The authorities also announced that export taxes would be retained through year-end, as part of their effort to limit central bank financing of the public sector. These taxes will be phased out in the context of a tax reform during 1990.

As noted in an earlier notification of delay circulated to the Executive Board (EBD/88/264, 10/7/88), the 1988 Article IV consultation with Argentina should have been concluded by October 23, 1988. Consultation discussions with the previous administration were initiated in July 1988 and continued thereafter in conjunction with discussions on an economic program that might have been supported by use of Fund resources. On February 9, 1989 a report was circulated to the Executive Board on Recent Economic Developments in Argentina (SM/89/30). In July 1989, the staff initiated discussions with the new authorities on the 1989 Article IV consultation as well as on the design of an economic program that could be supported by the use of Fund resources. A mission is currently in Buenos Aires to continue these discussions.

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

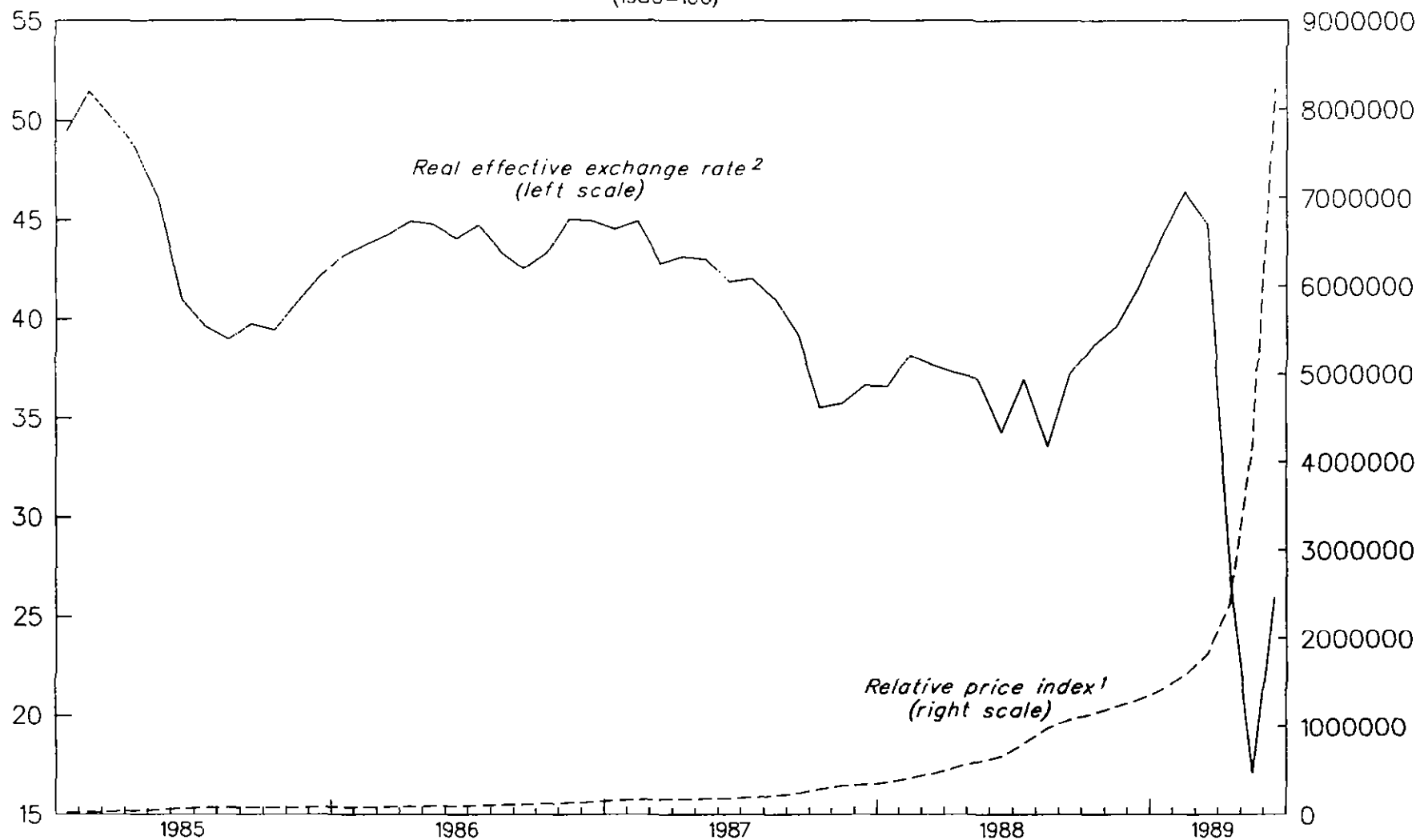
(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1984						
I	45.8	1.13	4,074.1	0.66	6,704.8	6,613.9
II	50.8	0.79	6,467.3	0.45	11,009.7	10,947.6
III	52.7	0.51	10,593.3	0.27	18,705.1	19,104.8
IV	49.5	0.27	18,031.8	0.14	33,114.5	33,181.8
1985						
I	50.3	0.16	32,393.1	0.08	61,718.6	60,489.7
II	45.2	0.07	63,353.8	0.04	125,021.2	124,382.8
III	39.5	0.05	81,821.9	0.02	166,717.0	171,156.3
IV	40.8	0.05	86,003.9	0.02	182,353.1	183,302.2
1986						
I	43.7	0.047	93,327.2	0.02	205,609.0	199,536.2
II	44.6	0.043	102,244.2	0.02	227,759.3	225,764.7
III	43.6	0.037	116,664.4	0.019	263,537.0	272,740.4
IV	44.5	0.031	140,960.4	0.016	324,433.7	327,208.3
1987						
I	44.1	0.026	172,661.9	0.013	410,646.9	395,697.0
II	42.7	0.023	186,567.1	0.011	469,275.6	463,922.2
III	40.8	0.018	225,596.5	0.009	594,784.8	618,409.0
IV	36.0	0.011	321,920.5	0.005	882,510.5	893,651.2
1988						
I	37.5	0.009	420,130.0	0.004	1,206,660.3	1,155,646.3
II	36.2	0.006	600,226.2	0.003	1,816,451.8	1,793,474.0
III	35.9	0.004	958,773.8	0.0016	3,098,334.8	3,232,717.5
IV	40.0	0.003	1,230,085.6	0.0013	4,258,607.2	4,323,637.4
1989						
I	45.1	0.003	1,604,887.3	0.0011	5,895,465.7	5,637,899.3
II	23.4	0.001	4,941,505.1	0.0002	18,929,284.6	18,880,847.7
Monthly						
1989						
Feb. <u>3/</u>	46.4	0.0020	1,582,410.5	0.0011	5,815,067.2	5,487,169.0
Mar.	44.8	0.0024	1,820,073.4	0.0009	6,749,379.9	6,419,988.0
Apr.	27.2	0.0011	2,386,510.7	0.0004	8,935,874.9	8,564,264.0
May	17.1	0.0004	4,186,699.0	0.0001	15,872,887.9	15,287,211.0
June	26.0	0.0003	8,251,305.5	0.0001	31,979,090.9	32,791,068.0
Percentage change						
Feb. 1989- June 1989	-44.0	-89.3	421.4	-90.0	449.9	

Source: Information Notice System

- 1/ Increases mean appreciation.
2/ Using seasonally adjusted price indices.
3/ Date of latest consideration by Executive Board.

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



Source: Information Notice System.

¹ Seasonally adjusted.

² Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. increases mean appreciation.

