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October 17, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Argentina - Staff Report for the 1989 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with Argentina and its request for a stand-by arrangement equivalent to SDR 1,104 million. The letter of intent from the Argentine authorities was circulated as EBS/89/194 on October 12, 1989. A background paper on recent economic developments in Argentina was circulated as SM/89/30 on February 8, 1989. Draft decisions appear on page 34.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Ferrán (ext. 8632) or Mr. Linde (ext. 8500) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

ARGENTINA

Staff Report for the 1989 Article IV Consultation and Request for Stand-By Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, Research, and Treasurer's Departments)

Approved by S.T. Beza and Eduard Brau

October 17, 1989

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I. Introduction

The 1989 Article IV consultation discussions with Argentina were held in Buenos Aires during two staff visits in July and September 1989 1/ in conjunction with discussionss on an economic program that could be supported with a stand-by arrangement. The discussionss were concluded in Washington during the week of the Annual Meetings.

Argentina has accepted the obligations under Article VIII, Sections 2, 3, and 4. The 1987 Article IV consultation was completed on July 23, 1987. At the same time, the Executive Board approved a stand-by arrangement for Argentina--through September 3, 1988 (EBS/87/155)--in the amount of SDR 1,113 million or 100 percent of quota. Argentina made an initial purchase equivalent to SDR 285.5 million upon the entry into effect of the arrangement and two additional purchases totalling SDR 331 million during the period of the arrangement. 2/ In that period, Argentina also made two drawings under the compensatory financing facility totalling SDR 751.9 million.

In the attached letter, the Argentine authorities request a stand-by arrangement for the period through March 1991 in the amount of SDR 1,104 million or 99.2 percent of quota (70 percent on an annual basis); purchases would be made in six equal quarterly installments, the first upon Board approval of the arrangement. The authorities have indicated that the stand-by arrangement they are requesting would pave the way for an extended arrangement from the Fund in support of a longer-term economic program. At the request of the authorities, a Fund resident representative will be stationed in Buenos Aires.

On September 30, 1989 total Fund credit outstanding to Argentina, including under the compensatory financing facility, stood at SDR 2,318.3 million, or 208.3 percent of quota. Assuming that purchases and repurchases are made as scheduled, Fund credit outstanding to Argentina at end-March 1991 would be SDR 2,569.2 million, or 230.8 percent of quota (Table 1).

After little activity for several years, World Bank lending to Argentina increased markedly in 1986-88. In September 1988 alone four new loans were approved totalling US$1.25 billion. The first tranche of a US$300 million trade policy loan was disbursed, and the release of the second is now being discussed, while a banking sector loan for US$400 million was allowed to lapse. The Bank is considering a number of sectoral loans in support of new structural reforms.

1/ The staff team that visited Buenos Aires in July 1989 consisted of Messrs. Lachman, Figuerola, Santos (all WHD), Stella (FAD), Ms. Atkinson (ETR), and Ms. Silva de Berta (Secretary-WHD). The September mission included Messrs. Ferrán, Linde, Figuerola (all WHD), MacKenzie (FAD), Ms. Atkinson (ETR), and Ms. Silva de Berta (Secretary-WHD).

2/ Performance under this arrangement is described in Appendix III.

II. Background

1. Historical perspective

Argentina's export-based growth strategy that had prevailed up to the Great Depression gave way to inward-looking policies that promoted import substitution, rural to urban transfers, and an enlarged public sector. By the 1950s a process of industrialization under protectionist policies largely had run its course, and growth slowed. In the mid-1950s there was a shift in economic strategy as relative prices were realigned in favor of the agricultural sector, and exports rose, but this policy was not sustained. Throughout the 1960s inflation was high by international standards, averaging about 20 percent a year. National savings remained at about one fifth of GDP as did fixed capital formation, while output growth averaged 3 1/4 percent a year, down from 5 percent in the 1950s but still sufficient to permit a continued improvement in per capita income.

A major setback occurred in the mid-1970s when political and social turmoil interacted with passive fiscal and monetary policies to produce a wage-price spiral that boosted inflation to over 300 percent a year in 1975-76. In the years that followed an attempt was made to correct the situation through a phased opening of the economy and a gradual reduction of the fiscal imbalance. Inflation was not brought under control, however, and the authorities resorted toward the end of the decade to delays in the adjustment of the exchange rate and public prices as anti-inflation devices. This resulted in a deterioration in both the fiscal and external current account balances and a sharp increase in external indebtedness. By 1981 the situation had reached crisis proportions and in response the Government reintroduced restrictive trade and payments regimes.

Economic growth, which had slowed to an annual rate of 2 1/2 percent in the 1970s slumped in the early 1980s with the onset of the debt problem and world recession. In 1982 Argentina was unable to meet its external debt obligations and domestic and external imbalances widened. In the 1981-88 period the average rate of price increase exceeded 300 percent a year, more than twice the pace of the 1970s. National saving fell off sharply, and domestic fixed capital formation dropped to about 15 percent of GDP from more than 23 percent in the 1970s, despite an increase in the use of foreign savings equivalent to 4 percentage points of GDP. Output is estimated to have contracted by close to 1 percent a year on average during the 1981-88 period, which implied a large decline in income per capita.

2. Developments since 1985

a. The Austral Plan and its sequels

Since the mid-1980s Argentina has made several attempts to deal with chronic inflation and large balance of payments imbalances, which impaired attainment of the country's growth potential by inhibiting domestic saving and investment in plant and equipment and by giving rise to tension and rigidities in the labor market. The most ambitious of these stabilization efforts was the Austral Plan, which was launched in June 1985 and which, in its initial stages, made significant strides in driving down inflation and turning around the balance of payments. However, the initial success of this plan was not sustained as the fiscal and credit restraint needed to achieve a lasting reduction of inflation was not maintained. Subsequent attempts to regain the momentum of adjustment, including those introduced in February 1977 and October 1987, 1/ proved short lived.

A common characteristic of these efforts was the use of wage and price controls with the aim of curbing cost-push spirals and breaking inflationary expectations while measures to correct the fiscal imbalance were taking hold. However, lack of sufficient follow-through in the fiscal and credit fronts led to pressures that made wage-price freezes and fixed exchange rate policies untenable. The upshot was strong balance of payments pressures and new rounds of high inflation.

b. The August 1988 plan

On August 3, 1988 the authorities announced a new adjustment program, known as Plan Primavera. 2/ As previous stabilization efforts, the plan resorted to incomes policies in an attempt to break the inflationary spiral. Leading firms agreed to restrict price increases through end-September 1988, on the understanding that the Government would freeze public sector prices, salaries in the national administration, and the official exchange rate. In October the agreement was extended through February 1989, with leading firms undertaking to limit price increases in line with monthly adjustments in public prices and the exchange rate. A key element of the plan was a temporary exchange scheme intended to tax the exporters' windfall gains arising from favorable grain prices, which was expected to yield the equivalent of 1 1/4 percent of GDP on an annual basis. Moreover, the authorities announced a tightening of rediscount policy. The plan also included increases in public utility rates as well as proposals to widen the value-added tax base and streamline tax exemptions under the system of industrial promotion, at the same time that the base rate of the value-added tax was lowered from 18 to 15 percent. In all, the aim was to reduce the combined public sector deficit to about 2 1/2 percent of GDP in 1989. As it turned out, monthly inflation declined to a 6-7 percent

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1/ A detailed description of these efforts, which were supported by a stand-by arrangement from the Fund, was presented in the staff report for the 1987 Article IV consultation (EBS/87/155) and the report on recent economic developments for the 1988 Article IV consultation (SM/89/30).

2/ A fuller description of this plan was presented in EBS/88/170 of August 17, 1988.

range in November-December 1988 from 28 percent in August, while industrial production weakened (Chart 1).

The decline in inflation and the introduction of the exchange tax helped reduce the operational deficit of the Central Bank substantially from the first to the second half of 1988, but outside the Central Bank the public finances failed to improve. The operational deficit of the nonfinancial public sector, which had narrowed from the first to the third quarter of 1988, widened again in the fourth quarter, as tax administration weakened, public sector prices became increasingly misaligned with other prices, and Congress did not pass the proposed widening of the base of the value-added tax. Credit to the private sector was substantially tightened to offset the expansionary impact of the fiscal deficit, to compensate for the public's failure to renew treasury bonds at maturity, and to allow for a slower than expected rate of remonetization. Rediscounts to the Mortgage Bank and to the export sector were cut back and legal reserve and investment requirements were raised. Interest rates rose sharply both in real terms and in relation to foreign interest rates (adjusted by the announced depreciation in the official exchange market), spurring a significant inflow of short-term capital.

In accordance with the agreement with leading firms, exchange rate adjustments were allowed to lag behind actual price inflation throughout most of the second half of 1988, but the trade surplus increased considerably owing to favorable terms of trade. For 1988 as a whole the current account deficit narrowed to US$1.6 billion from US$4.2 billion in 1987. Moreover, the inflow of private capital led to a substantial improvement in the capital account, particularly in the third quarter, and the overall balance of payments shifted from deficits that averaged US$700 million a quarter in the first half of 1988 to a surplus of nearly US$600 million in the third quarter. As markets increasingly came to expect a devaluation, however, by the last quarter capital inflows slowed notwithstanding high interest rates, and the overall balance of payments registered a deficit of more than US$500 million. During 1988 there was an increase in external payments arrears, primarily to commercial banks and Paris Club creditors, that exceeded the overall deficit, and the gross disposable reserves of the Central Bank rose substantially, to US$2.5 billion at year-end.

c. The economic collapse in early 1989

The economic situation worsened in the early part of 1989, as the guidelines for the adjustment of the official exchange rate and public sector prices were not modified despite the acceleration of inflation. Meanwhile, domestic interest rates were kept high to protect the capital account, and there was a massive buildup of domestic debt of the Central Bank. As strong pressures developed in the free exchange market starting in mid-January, the Central Bank stepped up its intervention in that market to prevent a widening in the spread between the free and the official exchange rates. In January and early February 1989, the Central Bank used close to US$900 million of reserves for this purpose.

This pace of intervention could not be sustained for long, and on February 6, 1989 the Central Bank replaced the dual exchange system hitherto in effect by a new system consisting of three exchange rates: a commercial rate for agricultural and 50 percent of industrial exports; a special rate, to be set with a spread of 25 percent over the commercial rate, applicable to the remainder of exports and imports; and a free rate for services and capital-related transactions in which the Central Bank was not to intervene. These changes, which implied a depreciation of almost 30 percent for capital transactions, were accompanied by the reimposition of minimum financing requirements for imports.

The flight from the austral, however, was not stopped. In the two weeks following the introduction of the new exchange system the spread between the commercial and free rates reached 80 percent, notwithstanding a further sizable increase in domestic interest rates. In an attempt to reduce this spread, in late February 20 percent of both agricultural and industrial exports were transferred to the free exchange market, which involved an effective depreciation for these two categories of exports of 15 and 13 percent, respectively, and a schedule was announced for further transfers of exports to the free market over the following four months.

The effects of the depreciation of the austral spilled over into prices, and by March 1989 the monthly inflation rate had risen to 17 percent. Inflation, in turn, resulted in a widening in the fiscal imbalance, as tax collections lagged increases in nominal income. The provinces experienced difficulties in adjusting spending to the lower tax collections, with the shortfall being made up by increased direct assistance from the Treasury, while the financial position of the public enterprises worsened in reflection of the continued decline of real public sector tariffs. In the first quarter of 1989, the operational deficit of the nonfinancial public sector rose to almost 8 percent of GDP, while the operational deficit of the Central Bank widened to more than 8 percent of GDP as a result of the high real interest rates paid and the effect of accelerating inflation on interest income from assets adjusted for inflation with a lag.

In these circumstances, the spread between the official and free exchange rates widened to well over 150 percent by the end of March. On April 4, the authorities merged the two official exchange rates, made the new rate applicable to 50 percent of all trade transactions, and transferred all other transactions to the free market. On April 13, all foreign exchange transactions were transferred to the free market and a tax on exports was introduced equivalent to the difference between the free exchange rate and a reference exchange rate to be fixed by the Central Bank. The expectation was that an estimated 2 percentage points of GDP would be raised by these means to help reduce the fiscal deficit. These modifications involved an average depreciation of the currency of about 50 percent, resulting in a real effective depreciation from end-December 1988 to end-April 1989 of 40 percent. However, in the context of the growing uncertainty surrounding the outcome of the presidential election scheduled for mid-May, these changes did not restore equilibrium in the financial markets. On May 2, the reference exchange rate for exports was replaced by a 20 percent export tax.

The unfolding financial crisis in the period leading up to the presidential and congressional elections of May 14 affected the liquidity position of the banking system by slowing loan recovery and lowering the demand for broad money. The monetary aggregates in nominal terms rose rapidly, however, as the Central Bank accommodated the growing borrowing needs of the nonfinancial public sector (including the retirement of maturing domestic debt that the public was not willing to roll over), acted to prevent a liquidity crunch in the banking system, and met the servicing of its own interest-bearing domestic debt. By May M-1 was growing by more than 50 percent on a monthly basis and inflation reached 78 percent (Chart 2).

d. The economic package of end-May 1989

On May 26, following the elections, the outgoing Government announced a new set of measures. The free exchange rate system was replaced by a fixed exchange rate initially set at ₳ 175 per U.S. dollar, exchange controls were reintroduced and all transactions outside the official exchange market were banned. Price controls were tightened and several revenue actions were introduced. The tax on agricultural exports was raised from 20 to 30 percent; the reduction in the value-added tax from 15 to 14 percent scheduled for August 1989 was postponed until January 1990; the 3 percent "statistical" tax on imports was extended to exports; the tax on foreign exchange transactions was doubled to 0.12 percent; a 5 percent tax on sales by agricultural producers was put into effect; the taxes on cigarettes, interest payments, and transfers of government securities introduced in 1987, which were due to expire on June 1989, were extended until the end of 1990; tax exemptions under industrial promotion laws were partially suspended for the remainder of 1989; and over a six-month period beneficiaries under tax rebate schemes were to be paid with bonds.

The above measures were expected to yield additional revenue equivalent to about 4 percent of GDP over a 12-month period, but their immediate effect was negligible. In addition, tax administration was unable to cope with growing tax evasion in a context of very high inflation, and the operating revenues of the public enterprises eroded as tariff adjustments were allowed to lag well behind the increase in costs; by the end of June these tariffs in real terms were some two thirds below the average of 1988. In all, in the second quarter of 1989 the operational deficit of the nonfinancial public sector reached 12 1/2 percent of GDP, while the operational deficit of the Central Bank was pushed up to 16 percent of GDP by high real interest rates. 1/

Although a larger part of the deficit of the nonfinancial public sector during this period was financed by an accumulation of external debt arrears, central bank net lending to the Treasury and to the social security system proceeded at a high rate, as did the placement of debt by the Central Bank to finance interest payments on its own domestic liabilities. As a result, the growth of M-1 during June climbed to almost 90 percent; in real terms, however, M-1 declined as inflation reached 124 percent (average of consumer and wholesale prices).

The austral was allowed to appreciate in real terms in June and early July, although at the end of June its real effective exchange value was still some 40 percent lower than in December 1988. The fixed exchange rate established in late May was adjusted in stages to around ₳ 300 per U.S. dollar by early July, prior to the transmission of power to the newly elected government, at which time the parallel exchange rate was around ₳ 560 per U.S. dollar. This spread, combined with the introduction of export taxes, discouraged exports and, together with an acceleration in the withdrawals of foreign currency deposits in the banking system, 2/ led to the virtual exhaustion of the disposable official international reserves. Late in June the Central Bank suspended operations in the official exchange market, and external commercial arrears began to accumulate.

The real depreciation of the austral early in 1989 and the contraction of economic activity in the first half of the year led to a decline in imports and to a narrowing in the external current account deficit. This improvement, however, was more than offset by substantial outflows of capital, and in the first half of 1989 the overall balance of payments deficit exceeded US$3 billion. In addition to the loss of official reserves, the deficit was financed by an accumulation of external payments arrears, which by the end of June stood at US$5.3 billion.

III. The Economic Program

1. Economic policy strategy

The Government that assumed office on July 8, 1989 designed a set of measures to deal in the short run with the severe internal and external imbalances that had developed in the first half of the year.

1/ The evolution of the overall balance of the nonfinancial public sector and the Central Bank is depicted in Chart 3.

2/ These deposits were subject to a reserve requirement close to 100 percent, and thus represented in effect foreign reserve liabilities of the Central Bank.

At the same time, the Government framed a strategy for the medium to longer term consisting of major structural reforms aimed at ensuring lasting conditions for price stability and external equilibrium, and at laying the basis for the resumption of sustained economic growth.

Because of the virulence inflation had reached by mid-1989 and because of the entrenchment of inflationary behavior and expectations in Argentina, the authorities ruled out a gradual approach to stabilization, and opted instead for a bold, all-encompassing attack. A key element of this approach was a major devaluation aimed at establishing a considerable cushion to facilitate the maintenance of a fixed exchange rate that would serve as an anchor for the domestic price system and for stabilization policies without compromising external objectives. It was clear that the fiscal deficit would need to be reduced drastically and without delay to permit the pursuit of a monetary and credit policy that would prevent an early erosion of the effects of the devaluation. The authorities also felt that incomes policy measures would be helpful in an initial stage in limiting the transitional costs of adjustment in terms of output foregone.

Realizing that earlier attempts to deal with inflation had failed because the initial fiscal effort had not been followed through, the authorities placed much emphasis on structural reforms to ensure a durable solution to Argentina's fiscal problem. These include a major tax reform and an overhaul of the tax collecting agencies aimed at strengthening tax enforcement, actions to reduce the size of the public sector, and steps to curtail subsidies to the private sector while making those that remain explicit in the budget. In particular, the Government has developed a far-reaching plan of privatization of public enterprises, which is expected to strengthen the public finances initially through an increase in capital revenue and more permanently through the lowering of demands on the Treasury. To give credibility to its commitment to deal with the fiscal problem, the Government intends to modify the charter of the Central Bank to make this institution independent of the Executive Branch and to limit any Central Bank accommodation of the Treasury.

In light of evidence that the inefficiency of the public enterprises has been a major factor behind the poor performance of the Argentine economy in recent decades, the privatization plan is a key component of the Government's efforts to improve resource allocation and economic growth. The Government is committed to withdraw from those activities that can be undertaken by the private sector. The objective is the creation of an environment in which markets function freely, which will involve the reduction of the scope of Government regulations, including in particular those that limit competition from abroad. Thus, the import regime is to be liberalized and foreign direct investment is to be given the same treatment as domestic investment.

Resource allocation also would be served by a major reform of the financial system, under which commercial banks would recover the function of allocating credit in accordance with market criteria. This would require a sharp reduction in legal reserve and investment requirements of commercial banks, with a start in this process expected to be facilitated by the remonetization of the economy. Also, the operations of the specialized official banks would be curtailed drastically, and other official banks would be expected to compete in financial markets without preferential treatment.

The above policy intentions were given content through two basic laws already passed by the National Congress: the Law of Reform of the State, which authorizes the privatization or liquidation of public enterprises, and the Economic Emergency Law, which includes a number of measures to improve the cash position of the public sector in the short run and a broad array of structural reforms.

2. Early implementation of the policy strategy and short-term outlook

In implementing the first stages of the strategy just described, on July 9 the authorities announced a devaluation of the austral from a little more than ₳ 300 per U.S. dollar to ₳ 650 per U.S. dollar; this compared with a rate of around ₳ 560 per U.S. dollar in the parallel market just preceding the devaluation. The exchange rate adjustment was supported from the beginning by measures aimed at a substantial strengthening of the public finances, the most important of which was an increase in public sector prices estimated to have averaged 690 percent. 1/ Moreover, there was an agreement between the Government and leading firms which was aimed at moderating the rise of prices and wages.

In the event, in July consumer prices rose by nearly 200 percent (Chart 4), compared with a projection of 175 percent, while wage increases appear to have been in excess of the guidelines. However, inflation slowed to a monthly rate of less than 10 percent after the beginning of August, and the authorities were of the view that the exchange rate remained highly competitive and that the real level of public sector prices in general continued to be adequate. Following the devaluation there was a pronounced turnaround in capital flows which, together with some bridge financing, resulted in a US$1 3/4 billion buildup of disposable international reserves by the end of September. At the same time, the remonetization of the economy permitted a reduction in interest rates during the third quarter without giving rise to pressures in the parallel exchange market. Indeed, during September there was no spread between the official and parallel exchange rates. 2/

1/ Movements in the relative price of goods and services sold by the public enterprises is presented in Chart 4.

2/ A spread re-emerged in early October that in the first half of the month has averaged about 5 percent.

The authorities recognized that a quick reduction of inflation to very low levels would be crucial for the consolidation of their strategy. They attributed the still relatively high rate of increase in consumer prices partly to lagged price adjustments under existing contracts, mostly as regards house rents and certain services. They said they had decided not to resort to the forced deindexation of contractual obligations, as had been done under the austral plan, because of the legal problems associated with such a procedure and the uncertainty that was created by challenges in the courts. 1/ The authorities also indicated that the need to bring inflation down quickly would dictate their wage, fiscal and monetary policies in coming months. Their aim was to lower the monthly rate of inflation to below 2 percent by the end of 1989 and to below 1 percent by late 1990.

With the slowdown in inflation and the decline in interest rates that had occurred by late September, there were indications of an incipient economic recovery. In any case, economic activity may be expected to pick up momentum in coming months as inflation and interest rates are reduced further. The program for 1990 has been framed on the assumption that real GDP will grow by about 5 percent following a 5 percent decline estimated for 1989 (Table 2).

3. Public sector policies

a. Operations of the public sector through end-1990

The fiscal program for the period through the end of 1990 provides for a major strengthening of the public finances, with a view to raising national savings and making room for an expansion of private sector activity. The measures already in place are expected to raise the primary balance of the nonfinancial public sector from a deficit of nearly 2 1/2 percent of GDP in the last quarter of 1988 to a surplus of about 2 percent of GDP in the last quarter of 1989. The operational and overall deficits would widen somewhat, however, because of a sizable increase in interest payments caused mostly by the impact on external interest obligations of the real depreciation that occurred between those two periods. For 1990, the authorities aim at raising the primary surplus to more than 6 percent of GDP from a small deficit in 1989 while the operational position would improve by a similar magnitude to approximate balance, as is shown in the following tabulation and in Table 3.

1/ The National Congress has just passed a law freezing rents in October, with adjustments in November and future months to be negotiated freely between the parties.

Balances of the Nonfinancial Public Sector

(In percent of GDP)

	1986	1987	1988	1989	1990	Fourth Quarter 1988	Fourth Quarter 1989
Primary 1/	1.8	-0.9	-1.0	-0.2	6.1	-2.4	1.9
Operational 2/	-2.5	-4.7	-5.1	-6.2	--	-5.8	-6.5
Overall	-2.5	-5.6	-6.3	-16.1	-1.2	-6.2	-7.4

The projected improvement in the primary balance in the last quarter of 1989 relative to one year earlier reflects the measures introduced in May (described in Section II.2.d. above), as well as a new, one-time 4 percent capital levy on holdings of certain financial assets introduced in September. It also reflects certain measures included in the Economic Emergency Law, such as the temporary suspension of subsidies and of a substantial part of tax exemptions under the regimes of industrial and mining promotion as well as a temporary change in the sharing arrangements for the petroleum tax that raises the proportion accruing to the Treasury at the expense of the special funds, the spending of which would be correspondingly reduced. Moreover, the forced rescheduling of interest obligations falling due on short-term government paper made under the Economic Emergency Law lowers the operational and overall deficits.

In August-September 1989 there was an improvement in the public finances. The extent of the improvement, however, is obscured by seasonal factors as well as by the extreme variability of the fiscal position from month to month in the first three quarters of 1989, which reflected major changes in interest rates in relation to inflation and the effect of variable lags on real revenue and expenditure at times of high and variable inflation. It may be noted, however, that in August-September there was a gain of 54 percent in real revenue collected by the Central Administration relative to the depressed level of the previous two months, 3/ resulting in large part from the decline in inflation as well as from better tax enforcement.

1/ The difference between revenue and noninterest expenditure.
2/ Overall balance excluding the nomninal component of domestic interest payments.
3/ The real increase was 43 percent if two new taxes--the tax on the sale of agricultural products and the levy on certain financial assets--are excluded.

The primary surplus of the nonfinancial public sector planned for the last quarter of 1989 would be insufficient to cover the cash losses of the Central Bank and certain net amortization and interest payments on external debt, partly to multilateral institutions. The fiscal plan for this period therefore calls for some net domestic financing. To some extent, this reflects the seasonality of expenditure which is high in the fourth quarter, and the authorities noted that part of the public sector's net domestic financing needs through the end of the year could be covered by the seasonal increase in the demand for money. They recognized, however, that--given the importance of assuring a quick reduction of inflation to very low levels--it would be desirable to strengthen further the fiscal position, and they explained that the tax reform and related legislation that would be submitted to the National Congress shortly would include certain features that would raise revenue before the end of 1989 if congressional action on such legislation were expeditious.

In any event, the authorities were determined to ensure that starting in the first quarter of 1990 there would be no net domestic financing to the public sector. For this purpose they were not only intending to implement without delay the proposed tax reform but would give a great deal of emphasis to the overhaul of the tax collecting agencies and, more generally, to the improvement of tax administration. According to present estimates, the shift toward surplus in the primary balance of 6 1/4 percent of GDP expected in 1990, and the corresponding improvement in the operational balance, would result from an increase in revenue equivalent to about 8 percent of GDP, partly offset by an increase in spending of nearly 2 percent of GDP (Table 4). The authorities noted, however, that they would review these estimates in the next few months, in the course of preparing the 1990 budget, and they envisaged the possibility that there would be a modification of the composition of the fiscal effort between revenue and expenditure in favor of expenditure restraint.

The revenue estimates for 1990 are based on a number of factors. The expected reduction of inflation is projected to raise the real value of revenue by the equivalent of more than 2 percent of GDP; the measures included in the Economic Emergency Law would add nearly 1 percent of GDP; an increase in nontax revenue (including asset sales and an increase in the operating surplus of the public enterprises) would yield an additional 1 1/2 percent of GDP; and certain other changes would raise another 0.7 percent of GDP. Also, it is assumed that social security contributions would increase by 1 percent of GDP, reflecting the extension of special facilities for the payment of back taxes and tightened administrative procedures. Finally, the tax reform is projected to yield some 2 percent of GDP, although this estimate will need to be reassessed in light of the legislation that will emerge from the National Congress. The authorities noted that some of the actions to raise revenue, e.g., the privatization of public enterprises, were taking the Government into areas in which there was little experience, and therefore the estimates were subject to significant risks. However, if evidence were to develop that the expected revenue was not materializing, they would take further measures to assure that the program's fiscal objectives were achieved.

Under the program, expenditure by the nonfinancial public sector (excluding interest payments and putting the public enterprises on a net basis) in relation to GDP would decline from 20.7 percent in 1988 to 19.8 percent in 1989 and then would increase to 21.6 percent in 1990. This increase, however, reflects the effect of the reduction of inflation on the real value of spending, which is similar to the effect on revenue. If a rough adjustment were made for this factor, the ratio of expenditure to GDP would change little from 1989 to 1990. It may also be noted that, in the absence of a budget plan for 1990, the expenditure estimates are tentative, and may be lowered as a result of certain policy initiatives now underway. In particular, the program allows for only a relatively small reduction in the capital outlays of the public enterprises, notwithstanding the expectation that some of these enterprises will be privatized in the course of 1990 while others would enter into association with private firms to improve their services; these actions would tend to reduce the need for investment by the enterprises without jeopardizing the provision of goods and services, but there is uncertainty as regards their timing and therefore the program estimates make little allowance for them.

The program involves significant changes in the composition of expenditure. It assumes a recovery in the real value of pensions paid by the social security system from their present depressed levels, as well as some expansion of social programs aimed at protecting the less privileged groups. However, the update in social security benefits will be dependent on an improvement in the collection performance of the system, inasmuch as the system will no longer receive any direct assistance from either the Treasury or the Central Bank.

The Treasury will not make any transfers for the operating budgets of the public enterprises except for meeting the payroll of the railways. To improve the financial performance of the public enterprises, government overseers will be appointed to 14 of the largest enterprises with authority to control the implementation of their current and capital budgets. Control over the public enterprises also is expected to be facilitated by a provision of the Economic Emergency Law which calls for the compensation of outstanding overdue obligations among public sector entities, involving mainly the enterprises and the provinces. For the future, the Government intends to establish a clearing system for intra-public sector obligations, with automatic settlement on a monthly basis.

Efforts will be made to put the financial relationship between the National Government and the provinces on a sound footing. The recent recovery of revenue has provided substantial relief to the provinces through their share in national taxes, and on this basis direct transfers from the Treasury to the provinces are to be discontinued as of October 1989. The tax reform described below is expected to result in a change in the composition of revenue, raising the proportion of the taxes that are shared with the provinces. To ensure that this does not result in an increase in total public sector expenditure, the Government has been discussing with the provinces an arrangement under which an equivalent amount of spending now carried out by the National Administration (in areas such as education, health, and social welfare) would be transferred to the provinces. The program also includes undertakings aimed at curbing central bank financing to the provinces through the provincial banks. It is recognized that some of the poorer provinces may need support from the Treasury, and a mechanism has been established under which Treasury assistance in limited amounts could be extended, but only if recipient provinces undertake adjustment measures under Treasury monitoring, to assure that such assistance is temporary.

The primary surplus of the nonfinancial public sector of 6 percent of GDP in 1990 would cover the cash losses of the Central Bank and certain net payments on external debt (principal and interest), mostly to multilateral institutions and bonded debt. In addition, it would include room for substantial (albeit not full) payment of interest on the medium- and long-term public sector debt to commercial banks.

b. Structural reforms in the public sector

As noted, a key component of the government's economic program is a reform of the tax system aimed at reducing its distortional effects, raising its efficiency, and ensuring a level of revenue sufficient to cover the needs of a streamlined public sector. The authorities expect that the reform will be enacted before the end of 1989 and will become effective at the beginning of 1990 at the latest.

A major element of the tax reform bill that is being submitted to the Congress is the extension of the value added tax to all goods and services, at a single rate of 15 percent, with elimination of the exemptions that are in effect at present. For newly taxed products, however, the bill authorizes the Executive Branch to phase in the 15 percent tax rate over a period not to exceed six months; during this transition period, agricultural production might continue to be subject to the special sales tax introduced in June, but by the end of this period it will come under the value-added tax at the 15 percent rate. Special regimes would apply to insurance and banking.

The proposed tax bill includes the simplification of the personal income tax and the the introduction of a 1 percent tax on corporate assets as a minimum tax to be computed against income tax liabilities. A number of taxes will be eliminated to simplify the tax system and facilitate tax administration. With a view to reducing distortions in the financial system, the tax on bank debits will be lowered from 7 per thousand to 3 per thousand, as a first step toward its elimination. Some of the taxes slated for elimination will be retained, for budgetary reasons, until there is satisfactory evidence of the positive effects of the tax reform on revenue.

The authorities stressed that achievement of the objective as regards revenue will require major improvements in tax administration, and they are counting on technical assistance from the Fund and the World Bank to overhaul the tax agencies and their procedures. A bill has been introduced to raise penalties for tax evaders, including prison terms for specified offenses. A measure that is expected to yield substantial benefits in terms of improved tax administration is the review of the incentives under the industrial promotion schemes, which is expected to lead to scaling down of these incentives, with those that remain being made explicit in the budget instead of taking the form of tax expenditures.

The Government is committed to move quickly on an ambitious program of privatization of public enterprises, the legal basis for which has been provided by the Law of Reform of the State. Steps already have been taken that are expected to lead toward the privatization of the state telephone company, several television and radio stations, part of the railroad system, and the maintenance services of segments of the national highway system. In the case of the state telephone company, the expectation is that bids will be sought before the end of January 1990. To strengthen the revenue performance of the electricity, water and natural gas companies, their measurement, billing and collection is to be contracted shortly to private firms. Perhaps the most crucial of all the efforts to reduce the size of the public sector will be the intensification of the process of opening up oil fields controlled by the state oil company to exploration and exploitation by private companies. The intention is to sell some 250 minor fields to private interests by end-1990, while the principal fields would be developed through joint ventures with major national and international companies.

4. Financial policies

a. Monetary and credit policy

The large reduction in the financing requirements of the public sector since mid-1989 has made it possible to frame a monetary policy consistent with a sharp reduction of inflation. The Central Bank absorbed liquidity that originated mostly in capital inflows, by auctioning paper at interest rates that were allowed to decline so long as pressures in the parallel exchange market did not intensify. In fact, short-term interest rates declined from around 30 percent a month in mid-July to 15 percent at the beginning of August and to about 6 percent in late September. Over this period, the spread between the official and parallel exchange rates was first reduced and in September it disappeared altogether (Table 5).

Interest rates declined sharply in relation to inflation (average of consumer and wholesale price indices) from June to July, when they were negative in real terms by very wide margins (Chart 5); 1/ they remained negative in real terms in August, but turned positive in September. Relative to foreign interest rates, domestic interest rates have been very attractive on the assumption that the exchange rate will not change, with the interest differential reflecting the country risk. As noted, there were large capital inflows after July 9, mainly under an export prefinancing scheme which in effect involved, in the view of the authorities, an exchange guarantee. With a view to slowing the buildup of central bank remunerated debt, which had given rise to large cash losses for the Bank, on August 8 the Central Bank suspended this scheme. However, capital inflows continued to be quite large, including significant amounts of financial capital that cannot be repatriated for a period of one year, and interest rates continued to decline.

The monetary and credit program for the period through end-1990 is based on a conservative estimate of the demand for money. Following an increase of 65 percent (seasonally adjusted and based on the average of the consumer and wholesale price indices) from July to September, 2/ real M-1 has been projected to rise by an additional 20 percent through December 1989, bringing it to the equivalent of 3.6 percent of GDP (about the level of last April and some 20 percent below the ratio in the first quarter of the year). Real M-2 would rise by 10 percent from September through December following a rebound of a little more than 50 percent from July to September; on this basis the ratio of M-2 to GDP in December would still be about one third below its level early in the year. For the 12-month period through December 1990, real M-1 and M-2 are projected to rise by 31 percent and 27 percent, respectively, with the ratio of M-1 to GDP recovering to about the level of early 1989 and that for M-2 remaining nearly 20 percent below that level.

On the basis of the above projections, limits have been set for the net domestic assets of the Central Bank which are consistent with the balance of payments objectives of the program (described in Section 6.a. below). Given the heavy cost in terms of central bank losses resulting from the policy of absorption of liquidity through the placement in the market of central bank paper as well as the longer term objective of reducing the intermediation role of the Central Bank, any excess of monetization in the last quarter of 1989 over the projection will not be sterilized but will be allowed to be reflected in credit. Policy in this regard for 1990 will be agreed at the time of the first review of the program.

1/ This resulted in a massive liquidation of assets and liabilities of the banking system.

2/ Based on the consumer price index alone, the rebound in real cash balances in August-September was less marked, as can be seen in Chart 6.

The authorities indicated that in implementing monetary policy, the Central Bank would continue to be guided by the spread between the official and parallel exchange rates, but attention also would be paid to the underlying trend of costs and prices and to the level of interest rates in relation to inflation. It is expected that as inflation recedes further and fiscal discipline is consolidated, interest rates will continue to decline. The authorities noted that at the levels of domestic interest rates prevailing during most of the third quarter, private sector demand for credit was virtually nonexistent. However, as monthly interest rates came down to the 6 percent zone, private credit demand could be expected to increase. Following a substantial decline in real terms during 1989 (due to the highly negative real interest rates in July), bank credit to the private sector is projected to recover by some 27 percent during 1990, including the intermediation of foreign currency deposits, the reserve requirements on which were lowered markedly in August 1989 at the same time that the deposit guarantee was withdrawn (Table 6).

b. Financial system reforms

A commission has been created under the Economic Emergency Law that is to propose a reform of the charter of the Central Bank, with a view to making the institution independent from the Executive Branch and establishing strict limits on the Bank's financing of the public sector. The authorities see this reform as essential to facilitate the Bank's basic function of preserving the value of the currency. The reform of the charter, in connection with which the authorities have requested technical assistance from the Fund, would provide for a new deposit insurance scheme, the creation of an agency that would handle the liquidation of bankrupt banks, the strengthening of bank supervision, the submission of periodic information to the Congress on the aims and conduct of monetary policy, and the weekly publication of the Bank's balance sheet.

Together with the reform of the charter of the Central Bank, the authorities intend to strengthen the financial position of the Central Bank. For this purpose, they will need to transfer the central bank losses to the Treasury, thereby giving transparency to the public sector accounts and facilitating the design of appropriate fiscal policies. This could be achieved, for instance, through the issuance of government long-term paper in the market to transfer resources to the Central Bank and thus reduce the need for the placement of central bank notes. More generally, mechanisms were being studied to recapitalize the Central Bank. For its part, the Central Bank has intensified efforts to limit the granting of rediscounts, and to recover as much as possible its outstanding rediscount portfolio, particularly as regards foreign trade financing which was extended at subsidized interest rates. Funding for this purpose is expected to be taken over by domestic commercial banks on the basis of their U.S. dollar deposits.

The authorities noted that the Central Bank at present intermediates most of the financial resources channeled through the banking system, and said it was their intention to return to commercial banks the function of allocating credit in accordance with market criteria. They recognized that the unwinding of the present position would take time, because it would involve an expansion of credit that had to be fitted within the confines of a tight overall credit policy. They hoped, however, that a beginning in this direction would be possible on the basis of the remonetization that was taking place. This could be done through a combination of a lowering of legal reserve requirements (which for demand deposits now average some 88 percent), the release of remunerated deposits frozen in the Central Bank, and a reduction in the stock of Central Bank marketable paper.

As part of the financial reform, and with the assistance of the World Bank, the authorities are considering substantive changes in the official banks. The operations of the National Mortgage Bank are to be curtailed drastically, and the National Development Bank is to be overhauled with a view to raising its operating efficiency. Consideration also will be given to reforms in other officials banks, in order to reduce their operating costs and to promote a more competitive banking environment. In the meantime, the Central Bank will enforce compliance of existing reserve requirements by official banks, including provincial banks, to avoid a repetition of the experience in early 1989 when reserve deficiencies were an important factor behind the expansion of credit. During 1989 official banks borrowed substantially in the short-term (overnight) interbank market, but this access will be monitored to ensure that the banks observe sound banking practices. In any event, it is the Central Bank's intention not to come to the rescue of official institutions which overextend their interbank market exposure. The objective is to ensure that official banks no longer be a drain on the resources of the Central Bank.

5. Incomes policies

The Government is of the view that incomes policies have a role to play in the transition toward price stability as a complement to financial policies, which have to bear the main burden. Beyond this transition, the Government does not expect to rely on these kinds of policies to any significant extent, except for maintaining a tight rein over public sector wages. In July 1989 the authorities set a guideline for wage increases in the private sector of 160 percent for the period through end-September and, as part of an agreement with leading firms, increases in excess of that amount were not to be reflected in prices. This agreement, which remains in force, provides that firms would not raise prices so long as the exchange rate or public utility rates were not adjusted.

In the public sector wages were adjusted in July by 180 percent throughout the end of the third quarter, including a retroactive adjustment to compensate for the loss of purchasing power of wages in

June. For the public enterprises, these increases--in combination with the increase in public sector prices referred to above--were expected to be consistent with a substantial strengthening of their financial position. 1/ There are indications that some enterprises gave wage raises in the course of the third quarter in excess of the guideline, as did the private sector, in part by not deducting in late July and late August a ₳ 30,000 advance granted in mid July. However, pressures for additional generalized adjustments in September, on the grounds that inflation in the intervening period had exceed official projections, were resisted by the authorities.

A round of collective bargaining will take place in October, to set wages for the six-month period through March 1990. The authorities have stressed that increases should be based on a forward-looking view of inflation, the intent being not to make allowance for the past reduction in real wages. For the private sector, any wage increase would need to be accommodated without raising prices. For the National Administration the authorities are considering to grant a wage increase in the form of a fixed sum, consistent with a rise in the wage bill of about 10 percent, which would benefit lower paid groups. For the public enterprises, the fixed sum increase would be the same as that granted in the National Administration, which would mean that the rise in their wage bill would be substantially lower than 10 percent.

6. External policies

a. The balance of payments and the exchange rate

The external current account deficit is expected to widen by about US$1 billion in 1989, to more than US$2 1/2 billion, with net interest payments alone (on an accrual basis) rising by US$1 1/4 billion, largely as a result of higher international interest rates. Notwithstanding a sizable decline in the volume of grain exports related to the effect of a severe drought early in the year on production of certain crops, mainly corn and soya, the trade surplus is projected to widen somewhat, as imports have been declining with the slowdown in economic activity. Substantial capital outflows associated with the disruption of exchange markets resulted in an overall balance of payments deficit of US$3.1 billion in the first half of the year and to the virtual exhaustion of the Central Bank's liquid international reserves. Since early July a reversal in private capital flows, partly through changes in leads and lags of trade financing, has taken place, and by end-September the gross disposable reserves of the Central Bank had risen to about US$1 3/4 billion.

The program for the last quarter of 1989 is consistent with a decline in the overall deficit for the second half of the year to US$500 million. Disposable reserves would fall substantially during the fourth

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1/ Wage developments in the public sector are presented in Chart 7.

quarter, reflecting the repayment of bridge financing in excess of US$500 million that was secured to bolster the Central Bank's gross reserve position, substantial payments of other foreign liabilities (including the settlement of all arrears to multilateral institutions), and the seasonality of the trade balance, which normally weakens in the last quarter.

The external current account deficit is projected to narrow to US$2 billion (2.7 percent of GDP) in 1990, on the strength of an increase in the value of exports of nearly 20 percent as agricultural output rebounds from the drought-depressed level of 1989 (Table 7). The capital account would remain highly positive, reflecting both an increase in disbursements from multilateral institutions and reflows of private capital in response to improved investment opportunities and the implementation of sound financial policies. After the large stock adjustment that took place upon the adoption of corrective measures in July 1989, however, total net capital inflows are expected to be running at a rate somewhat below that of the second half of 1989. In all, the overall balance of payments deficit would decline to US$560 million, a reduction of US$3.1 billion from 1989. The program envisages substantial financing needs, on the order of US$10 billion in 1990, as gross reserves are rebuilt and external payments arrears need to be regularized (Table 8).

The balance of payments projections just described are predicated on the maintenance of an exchange rate that is not seriously questioned in financial markets. Following the large devaluation in July, in real effective terms (on a trade-weighted basis and including the effect of export taxes) the austral was 10 percent more depreciated in September than in mid-1988, before the real appreciation that occurred under the August 1988 economic plan (Chart 8). Even if inflation remains for some time above international levels, the authorities believe that Argentina's international competitiveness can be maintained at an adequate level through the reduction in export taxes (for both agricultural and industrial exports) in accordance with a schedule that has been announced. They further believe that the fiscal, monetary, and wage policies described above are consistent with maintenance of the fixed exchange rate of A 650 per U.S. dollar, and have stressed that they are ready to take any additional actions in those areas that may be needed to assure the viability of the present exchange rate.

The authorities are well aware of the costs for the economy of attempts to maintain an exchange rate if it is no longer viable. For this reason, they have indicated that they will keep exchange rate developments under scrutiny with a view to preserving the country's external competitiveness and achieving the program's balance of payments objectives while making progress in liberalizing the exchange and trade system.

b. External debt, debt service, and financing assurances

By the end of 1988 Argentina's external debt amounted to US$58.7 billion (equivalent to more than 80 percent of GDP), and included US$2.9 billion of arrears, mostly on interest (Tables 9 and 10). Interest due on this debt in 1989 is estimated at US$6 billion, or about 8.8 percent of GDP. These ratios are high compared with those of most other debtor countries, and the authorities believe that debt and debt service reduction will be needed if investment is to be raised to a level that would make possible a satisfactory rate of growth in the medium to longer term. At the same time, the authorities have indicated that they attach great importance to restoring normal relations with Argentina's external creditors, and as a first step they have decided to become current with international organizations and Paris Club creditors.

Since 1987 Argentina has had arrears on debt service to international organizations, which as of end-September 1989 amounted to US$213 million. The intention is to settle the arrears to the IBRD (US$74 million at the end of September) by the end of October and the remainder of these arrears by year-end. Argentina expects an increase in loan disbursements from the multilateral lending agencies through the end of 1990, particularly on fast-disbursing policy-based loans from the World Bank.

The authorities will be seeking an agreement with official creditors under the aegis of the Paris Club before the end of 1989, on the rescheduling of arrears (estimated at more than US$1 billion at end-June 1989) and current service on pre-cutoff date medium- and long-term debt, including previously rescheduled debt. The authorities intend to expedite the conclusion of all bilateral agreements on previous reschedulings.

The authorities have had preliminary contacts with commercial banks, and in September the members of the steering committee indicated that they were ready to extend informally the trade maintenance and money market facilities that expired on September 25. The authorities place importance on developing an approach to banks that can command broad support, and plan to hold a further meeting with the steering committee in October, to begin discussions on a comprehensive agreement with commercial banks.

The authorities' immediate focus has been on the domestic policies needed to assure low inflation and lay the basis for the resumption of sustained economic growth. They are still therefore in the process of formulating their views on external debt policy and consulting with commercial banks and others on the options for the medium-term resolution of Argentina's debt difficulties. As noted, the authorities expect to re-establish full relations with official creditors before the end of 1989, while maintaining payments on short-term commercial and other debts. Given the extremely precarious liquidity position that the Government inherited, there also is a need to rebuild international reserves to restore confidence in the exchange system. After meeting these objectives, Argentina's overall cashflow position does not appear to provide any margin for payment of interest on medium- and long-term debt to commercial banks in the final quarter of this year, and on that basis arrears on such obligations would rise to an estimated US$5.3 billion by the end of 1989.

In 1990, the program does include margins (in both the balance of payments and fiscal targets) for payments to banks of US$1.5 billion on medium- and long-term debt, equivalent to some 45 percent of interest falling due on such debt, in addition to the payment of US$0.6 billion interest falling due on certain private sector and short-term public sector debt to banks not subject to refinancing. Thus, the program has room for meeting about one half of Argentina's total estimated interest obligations to banks of US$4 billion. To avoid prejudging the discussions between Argentina and its creditor banks, the program does not now make explicit how the margins will be used. In the period ahead, Argentina will be working with its creditor banks to advance toward a comprehensive agreement for the longer term, and the first review of the program that is to be completed by February 1990 will examine the authorities' plans for the use of the margins and assess progress in the negotiations with commercial banks.

Partly because of the immediate focus on domestic adjustment and partly because Argentina's negotiations with banks are still at a very early stage, it may be some time before a comprehensive agreement with commercial banks is reached. As noted, the authorities expected that a comprehensive agreement with banks would include debt and debt service reduction features, and to develop an appropriate menu and to allow for the provision of enhancements to support it in accordance with the debt strategy, a detailed analysis of medium-term prospects and policies will be needed. Work is proceeding on the elaboration of such an analysis and, as noted elsewhere, the authorities would expect that the stand-by arrangement that they are now requesting would pave the way for a medium-term arrangement with the Fund, once sufficient progress is made toward achieving the program's immediate objectives. It is envisaged that such an arrangement would incorporate set-asides and could provide for potential augmentation to support debt and debt service reduction operations, in the context of satisfactory settlement with commercial banks.

c. Policies as regards the trade and payments sytem

There have been frequent changes to Argentina's exchange and trade system during 1989. Exchange controls were reimposed and then tightened in response to the foreign exchange crisis in the first half of the year. More recently, some of these controls have been relaxed in reflection of the Government's intention to open the economy. The present system remains complex, and involves several exchange restrictions and multiple currency practices that are subject to approval under Article VIII. The exchange restrictions include arrears on payments for current international transactions, the suspension of foreign exchange sales for certain current transactions, and minimum financing requirements for most imports. There also is a restriction arising from an agreement with Bolivia under which some payments for imports of natural gas may be made into a special account, for use in paying Bolivian obligations to Argentina, rather than in cash. 1/ A multiple currency practice arises from the requirement that certain current payments, including those for remittances of profits and dividends, be made solely through the purchase of BONEX 2/ at par; some special programs for exports also have given rise to multiple exchange rates, but these are presently suspended. In addition, Argentina maintains quantitative restrictions on imports. 3/

As noted above, on May 26, 1989 exchange controls were reintroduced and the floating official exchange rate was replaced by a fixed rate, which on July 10 was set at ₳ 650 per U.S. dollar. Since then, access to official foreign exchange for import payments and interest on private debt has been restored, and the minimum import financing requirement has been reduced to 90 days for most goods. The authorities have indicated that most of the remaining restrictions on private sector access to foreign exchange at the official exchange rate will be eliminated by the end of 1989. The removal of restrictions on profit and dividend remittances is viewed as a means of providing adequate incentives for new foreign direct investment, although it may be noted that the restriction is not effective when there is no spread between the official and parallel exchange rates, as was the case in September. The remaining restrictions are expected to be eliminated in 1990, except for those evidenced by arrears on medium- and long-term public debt to commercial banks and other debt included in commercial bank debt refinancing arrangements. Arrears on other external payments are not to exceed $200 million by end-December 1989 and are to be eliminated by March 1990.

1/ This agreement is now being reviewed, and under an interim agreement Argentina has made the payments due in September and October 1989 fully in cash.

2/ U.S. dollar-denominated, marketable bonds of the Government of Argentina.

3/ A description of the exchange and trade system is presented in Appendix V.

Since 1987, Argentina has taken a number of steps to liberalize its import regime. Consistent with the provisions of the Economic Emergency Law, the price margin for local suppliers in public sector procurement has just been limited to 5 percent. More broadly, in the context of a trade policy loan from the World Bank, a wide range of goods was removed from the import list requiring prior consultation with producers' associations; imports on this list are effectively restricted. The quantitative restrictions (which include goods on the prior consultation list and those on a more limited list of food and drug items that are controlled for health reasons) were reduced from goods representing 62 percent of domestic industrial production at the beginning of 1987 to 30 percent by mid-1988 and to 18 percent by end-1988 with the removal of controls on some petrochemical products, capital goods, tractors, agricultural machinery and some textile inputs. In July 1989, buses, medium- and large-size automobiles, beer, and a range of pharmaceutical products were removed from the prior consultation list, bringing the goods remaining in this list down to the equivalent of 13.6 percent of domestic production.

The items that remain on the prior consultation list are mostly manufactured goods, in particular textiles (which account for about 5-6 percentage points of the remaining 13.6 percent), petrochemical products and some automobile products, as well as some mining and meat products and sugar. Goods not on the list may be imported freely, but in practice some of them are restricted under other protective devices, including for example iron and steel products. Certain other imports, accounting for about 1 1/2 percent of production, are effectively restricted through the application of high specific tariffs, while some electronic goods are also subject to high additional ad valorem tariffs which are to be phased out by September 1990. Specific tariffs were introduced on a number of electronic goods in January 1989 and also apply to some manufactured inputs such as automobile bearings.

Import licences are still required for all products. In March 1989, the Government abolished the full automaticity of the licensing process which had been established for 8,100 tariff positions, and under which importers could obtain licenses when arranging foreign exchange with commercial banks. The Government intends to restore before the end of 1989 the automaticity of import licences for goods not subject to quantitative restrictions.

The level and dispersion of import tariffs have been reduced since 1987. However, there remain a large number of different basic tariff rates, special additional tariffs for electronic goods referred to above, and some additional charges such as a 3 percent statistical tax and a 6 percent consular fee. The Government intends to reduce and simplify the tariff system further and a plan is expected to be announced soon to reduce the tariff schedule to a range no wider than 5-25 percent over a period of three-four years. As a first step, reductions of tariff rates have been just decreed as follows: basic rates in excess of 40 percent have been brought down to 40 percent; rates in the range of 14 to 40 percent have been reduced by 7 percent;

and a tax of 5 percent has been imposed on goods that thus far had not been subject to duty.

Some incentive schemes for exports have been suspended temporarily, including the system of export rebates under which payments equivalent to 5-15 percent of the f.o.b. value of exports of certain manufactures and agro-industrial products were made to compensate for indirect taxes. The temporary admission regime whereby imports of inputs used in the production of exports are permitted into Argentina duty free has, however, been expanded on several occasions and now covers all intermediate goods. Export taxes were reduced in 1987-88, but a new general export tax of 30 percent for agricultural products and 20 percent for manufactures was established in May 1989. The tax on industrial products is to be phased out in steps by mid-1990; the tax on agricultural products will be reduced, generally to a range of 10-22 percent. As noted, in August 1989 the Government suspended the export prefinancing regime so that all foreign exchange advance payments for and prefinancing of exports are now subject to the rules for financial loans, and may not be repaid directly with export receipts without these being surrendered to the Central Bank.

d. Medium-term balance of payments outlook

As noted above, thus far the Government's focus has been on the implementation of domestic policies to address Argentina's immediate economic problems of high inflation and a weak international reserve position. Numerous and far-reaching structural measures have started to be implemented or are being prepared, but it has not been possible yet to work out their implications for the balance of payments over the medium term nor has it been possible to work out the effects of different financing scenarios on investment and growth. However, the staff has prepared an illustrative medium-term balance of payments projection for the period 1990-95 that assumes that the financing needed to sustain a reasonable rate of growth and allow for the servicing of external obligations will be in the form of traditional "new money," at market interest rates (Table 11).

The scenario assumes the pursuit of satisfactory economic policies that result in real GDP growth of 4 1/2 percent a year. It also is based on the latest commodity price projections from the World Economic Outlook, a six-month LIBOR in U.S. dollars of 8.75 percent a year during 1990-95, and U.S. inflation of about 4 percent a year over the medium-term. Furthermore, it assumes that after 1991, when growth of both import and export volumes slows after the sharp rebound projected in 1990, the growth in Argentina's non-traditional exports will be somewhat faster in volume terms than the growth in its external markets. Reflecting the expected opening of the economy, over the medium term the volume of imports is projected to expand at an annual rate of about 7 percent, about 1 1/2 times the rate of economic growth. On this basis, the trade surplus is expected to decline gradually to below 5 percent of GDP by 1995. Interest payments on Argentina's external debt are projected at about 6 percent of GDP by 1995, resulting in a reduction in the current account deficit to a range of 1 1/2 to 2 percent of GDP.

The scenario envisages an increase in foreign direct investment and a period of sustained inflows of other private capital as investors respond to the structural reforms that are being planned. Official capital inflows for both project financing and balance of payments support are projected to rise in 1990 and remain high for the early part of the projection period before gradually declining.

Without new financing from commercial banks, a financing gap would remain throughout the projection period. This gap could be closed by increases in commercial bank exposure of about 5-6 percent a year (equivalent to beween one half and two thirds of the interest payments due on medium- and long-term commercial bank debt subject to rescheduling) or by some combination of new financing and debt reduction. In the absence of debt reduction, the ratio of external debt to GDP would be about 60 percent by the end of the projection period while the ratio of debt to exports of goods and services would decline to about 350 percent. Both of these ratios would be still be high in comparison with other middle-income countries.

Argentina's external indebtedness makes the country very vulnerable to increases in international interest rates, while the continued dependence on agricultural exports means that movements in commodity prices can have sizable effects on its economic performance. If interest rates were 1 percentage point higher and commodity prices 10 percent lower during the projection period, the current account deficit would widen to 3 1/2 percentage points of GDP in 1995, while the financing gap would double relative to the baseline scenario.

As noted, the authorities believe that debt and debt service reduction will be needed for the medium-term if investment is to be raised to a level consistent with a satisfactory rate of growth. The scenario presented by the staff shows that financing in the form of additional indebtedness would result in Argentina's debt ratios staying high. By lowering the expected after-tax rate of return in relation to the cost of capital, Argentina's heavy external debt burden carries the risk that the projected increase in investment would not occur even if financing were available, and thus would threaten the medium-term growth objective. Moreover, the current market valuation of bank claims on Argentina and the near-term difficulties of funding the large amount of outstanding arrears suggest that bank financing in the form of new money may be hard to arrange on the needed scale, while opportunities exist for market-based debt reduction. It would thus seem that a long-term agreement with commercial banks that addresses Argentina's external financing requirements would incorporate debt and debt service reduction.

e. Capacity to repay the Fund

Argentina's scheduled repurchases from the Fund rise steeply in 1991, to SDR 724 million or about 7 percent of projected exports of goods and nonfactor services, as obligations under earlier arrangements fall due. Thereafter, projected repurchases decline to SDR 320 million in 1993 before rising somewhat as repurchases fall due on purchases under the proposed standby arrangement. By 1995, projected repurchases would total SDR 305 million (27 percent of quota) and all debt service due to the Fund would amount to about 2 1/2 percent of exports of goods and nonfactor services, on the standard assumption that there is no further use of Fund resources after the proposed arrangement. On this basis, debt service to the Fund would account for about 10 percent of total debt service obligations in 1990 before declining to 4 1/2 percent by 1995.

In 1990, gross Fund purchases under the proposed arrangement would amount to about 10 percent of total gross financing needs. Argentina's outstanding use of Fund credit accounts for about 5 percent of its total external debt and is equivalent to about one quarter of current exports. On present projections this proportion would decline in the next few years.

The Argentine authorities are committed to the stabilization and structural reform of the economy, and to the re-establishment of relations with international creditors. This, together with the opening of the economy and encouragement of nondebt-creating capital flows--both foreign direct investment and reflows of private capital seeking longer term investment opportunities--provides reasonable assurance that the balance of payments position will be strengthened over the medium term and should lay the basis for restoration of external viability. Moreover, it should be noted that during the extreme foreign exchange crisis earlier this year the Argentine authorities made heroic efforts to maintain payments to the Fund. The staff thus believes that the proposed use of Fund resources is consistent with the need to safeguard the revolving character of these resources.

IV. Performance Criteria and Review Clauses 1/

The program contains the following performance criteria, all of which are referred to in paragraph 4 of the stand-by arrangement:

1. Quarterly austral limits for the combined overall deficit of the nonfinancial public sector and the Central Bank; a limit on the overall cash deficit of the nonfinancial public sector; and a limit on treasury outlays (paragraph 19 and Table 1 of the Memorandum on Economic Policy). 2/

1/ Quantitative performance criteria are presented in Table 12.
2/ Referred to as the "Memorandum" in the remainder of this section.

2. Quarterly austral limits on the net domestic assets of the Central Bank (paragraph 20 and Table 2 of the Memorandum).

3. Quarterly targets in U.S. dollars for the net international reserves of the monetary authorities (paragraph 25 and Table 3 of the Memorandum).

4. Limits on the total external debt of the public sector and a limit on the cumulative net disbursements of short-term external debt to public sector entities (paragraph 30 and Table 4 of the Memorandum).

5. The elimination of the remaining import prohibitions and quantitative restrictions on imports before the end of 1990 (paragraph 28 of the Memorandum).

6. The reduction of external payments arrears on public sector debt, with the exception of debt service arrears on medium- and long-term public debt to commercial banks and other debts subject to commercial bank debt refinancing, to no more than US$200 million by end-1989, the elimination of all such arrears by end-March 1990, and the avoidance of new arrears (paragraph 29 of the Memorandum).

As indicated in paragraph 31 of the Memorandum, before the end of February 1990 Argentina will review with the Fund the progress made in the implementation of the program in order to reach understandings on additional measures that may be needed to attain the program objectives. In the review, special attention will be given to the status of the negotiations with Argentina's foreign creditors (paragraph 31 of the Memorandum), and to the progress made in implementing the tax reform (paragraph 8 of the Memorandum), in strengthening tax administration and control over the public enterprises (paragraphs 10 and 13 of the Memorandum, respectively), and in the program of privatization (paragraph 14 of the Memorandum).

In the context of the review, understandings are to be reached regarding the implementation of a number of measures, including inter alia, the transfer from the Treasury to the provinces of spending equivalent to the increased provincial of tax revenues arising from the tax reform (paragraph 12 of the Memorandum), the reform of the official banks, in particular the National Mortgage Bank and the National Development Bank (paragraph 22 of the Memorandum), the reduction of export taxes and elimination of the system of export licensing (paragraph 27 of the Memorandum), the elimination of the outstanding stock of Central Bank advances to the social security system and the reduction of the Central Bank outstanding rediscounts (paragraphs 15 and 21 of the Memorandum, respectively) and a further simplification of the import tariff structure (paragraph 28 of the Memorandum).

V. Staff Appraisal

The Argentine economy has been affected for many years by severe internal and external imbalances which have resulted in a generally poor economic performance. The buildup of external debt in the late 1970s and early 1980s gave rise to further difficulties for economic management in subsequent periods. Repeated efforts have been made over the years to deal with the country's imbalances, but thus far these efforts have not been successful.

When the present Government assumed office on July 8, the economy was at a low ebb, with inflation at unprecedented levels, official international reserves exhausted, and economic activity on a downward trend. The Government acted with commendable speed in addressing the most immediate problems, and it designed an economic strategy aimed at ensuring that the gains achieved from the initial corrective actions would pave the way to lasting improvements in economic performance.

The initial measures have met with substantial success. The devaluation announced on July 9 and the accompanying increase in public sector prices, with support from a tightening of monetary policy, helped reverse the deterioration of the fiscal and balance of payments positions by correcting basic price relationships, and thus laid the basis for a sharp reduction of inflation and restoration of confidence. Indeed, the increase in the average of consumer and wholesale prices declined from 124 percent in June and 202 percent in July to 6 percent in September, there has been a substantial buildup of official international reserves, and in recent weeks there have been indications of an incipient economic recovery.

The authorities are aware that success of their strategy, based at the present stage on a fixed exchange rate, requires a quick reduction of inflation to very low levels. This requires, in turn, a very restrained wage policy and a major and prompt strengthening of the public finances. In setting wage policy, it must be borne in mind that real wage gains will depend on the growth of output and productivity, and that real gains cannot be achieved through nominal wage adjustments that are inconsistent with this standard. The budgetary plan calls for a significant improvement of the fiscal position in the last quarter of 1989 on the basis of measures that are already in place, but there remains a continuing domestic financing requirement. Because of the seasonal increase in money demand late in the year, the authorities believe that this requirement can be accommodated without giving rise to price pressures, but it must be recognized that continuing domestic financing of the public sector places a burden on the Central Bank and crowds out private investment. This situation cannot be allowed to last, and the authorities will thus be well advised to make every effort to implement on a timely basis the measures needed to ensure that the program's objective to eliminate any net domestic financing of the public sector from the beginning of 1990 is achieved.

The proposed tax reform and concurrent steps to improve tax administration are key elements in the effort to obviate any net domestic financing of the public sector in 1990 by raising the primary surplus of the nonfinancial public sector to 6 percent of GDP, and more generally to put the public finances on a sound footing for the longer run. A generalized value-added tax, without exemptions and at a single rate of 15 percent, is the centerpiece of the tax reform, and its timely introduction is essential to provide a reasonable assurance that the program's revenue objectives for 1990 will be achieved. Also essential is the overhaul of the tax collecting agencies, a task for which the authorities have requested assistance from the Fiscal Affairs Department of the Fund. Tax administration also would be helped by the proposed revisions of the penal code for tax evaders as well as by the new, simplified tax structure that is being sought under the reform. The suspension of subsidies and industrial promotion incentives under the Economic Emergency Law is another important measure that raises revenue in the short run and can be expected to facilitate tax administration through the elimination of tax expenditures.

Success in meeting the fiscal objectives through end-1990 will depend heavily on the capacity of the authorities to establish effective control over the public enterprises. A mechanism recently has been created to exercise this control, but the experience of many years demonstrates that the difficulty of this task should not be underestimated. The authorities will need to monitor developments closely to ensure that the actions of the enterprises are guided by economic criteria and not by political considerations. Public sector prices were raised substantially in July and in general appear to be adequate for the time being, but the situation in this regard needs to be kept under close review. The temptation of keeping a lid on public sector prices in an attempt to control inflation must be resisted, since such a policy would be self-defeating. Of course, pricing policy cannot be divorced from the all-important effort to keep down costs, including labor costs. Emphasis should be given to the establishment of an effective clearing system for intra-public sector obligations with automatic settlement on a monthly basis, as provided for in the Economic Emergency Law, to improve the enterprises' cash management and budget control.

The ambitious privatization program of the authorities is a major component of the strategy to deal with the fiscal problem, both through the revenue obtained from the sale of assets and through the reduction of future demands on the Treasury. It also is crucial as a means of improving resource allocation. The early passage of the Law of Reform of the State augurs well for the implementation of this program, which already is being pursued in some areas, particularly in the state telephone company. It will be important to push the privatization effort vigorously in other enterprises, especially the state oil company. The objective must be to open the way for competitive markets, without government interference, except in cases of natural monopolies which will need to be regulated in an effective manner.

The staff supports the objective of the decentralization of spending through the transfer to the provinces of programs that are now handled in the National Administration, to match the increase in the provinces' revenue under the coparticipation scheme arising from the tax reform. Given this improvement in the revenue base of the provinces, it must be clearly established that the provinces will live within their means. It is important to ensure that, with only limited exceptions under adjustment programs carefully monitored by the Treasury, the provinces do not receive transfers from the National Government and do not have access to Central Bank credit, whether directly or through the noncompliance of provincial banks with the legal reserve requirements.

The structural reforms included in the Government's program are expected to result in time in a scaling down of the size of the public sector and of the burden of public expenditure. For 1990 the ratio of expenditure to GDP is projected to go up in part because of the effect of declining inflation on the real value of expenditure. Moreover, some social programs have been expanded to protect the less privileged during the process of stabilization, including new cash transfers to targeted groups and the reinforcement of pensions under the social security scheme. While the fiscal adjustment in 1990 as now envisaged hinges on increased revenue, in developing the budget for 1990 in coming weeks the authorities should identify and implement measures to reduce expenditure, to limit the risks associated with the excessive reliance on revenue increases.

The tightening of fiscal policy that started in July has made it possible to frame a monetary and credit program consistent with a major deceleration of inflation. With the public sector eschewing the use of net domestic financing, in 1990 monetary policy should be able to consolidate the progress toward price stability with declining pressures on interest rates. The authorities have indicated that, in conducting monetary policy, the Central Bank will be guided by developments in the exchange markets as well as other indicators, such as the underlying rate of inflation. The use of a variety of indicators should reduce the risk of declines in interest rates that cannot be sustained.

Central Bank policy also will pursue a number of other important objectives. The Bank has stopped extending rediscounts at subsidized interest rates and will seek a recovery of such rediscounts that are outstanding, with a view to reducing its operational deficit. Rediscounts will be cut back more generally as part of a policy aimed at reducing legal reserve and investment requirements over the longer run. This policy, which is essential to restore to the commercial banks their proper function of allocating credit, also will be pursued by taking advantage of the process of remonetization and by transferring to the Treasury the quasi-fiscal operations of the Central Bank, as permitted by the development of markets for long-term securities. The restoration of a sound financial position for the Central Bank is a necessary complement to the revision of the charter of the Bank to grant it independence, which is now under discussion. Also important will be the reform of the official banks, for which the authorities have requested assistance from the World Bank.

In the transition to price stability, the authorities are counting on the use of flexible incomes policy guidelines to supplement the tightening of financial policies, with a view to limiting the effects of adjustment on output and employment. Incomes policies must be geared to ensuring that rises in costs are consistent with the objective of very low inflation. For this policy to succeed, it will be important that public sector wage guidelines be applied strictly in the public enterprises, where wage levels are high in relation to wages in the rest of the public sector and often even in relation to private sector wages.

In the past three months there has been a major turnaround in the balance of payments position with a rebuilding of gross disposable reserves, and the program provides for a consolidation of the reserve position through end-1990. The authorities are committed to pursuing financial policies consistent with the present exchange rate, but they also have indicated that the exchange rate will be kept under scrutiny with a view to preserving external competitiveness and achieving the balance of payments targets of the program while making progress in liberalizing the trade and exchange regime. The understanding that the authorities would not attempt to preserve any given exchange rate if there was evidence that it was not tenable is important from the standpoint of achieving an orderly implementation of the program.

The program provides for a phased opening of the economy to foreign competition, and the Government already has taken steps in this direction. This policy goes hand in hand with the privatization objective, and the two policies together constitute the basis for the transformation of the Argentine economy that is being sought. There is evidence that private capital reflows have begun, and measures to encourage direct investment capital inflows, such as those already taken under the Economic Emergency Law, are important to strengthen Argentina's balance of payments and making it less reliant on debt creating flows. In this regard, it would be important to eliminate the restriction that applies to the transfer of profits and dividends, to leave no doubts about the authorities' commitment in this area. The authorities intend to eliminate all payment restrictions in 1990, although a restriction would remain as long as interest arrears on medium- and long-term public debt to commercial banks persist. Last but not least, the staff would stress the urgency of eliminating all quantitative restrictions on imports, while further simplifying the import tariff schedule and reducing tariff rates and their dispersion.

In light of the authorities' intention to eliminate the existing multiple currency practice and all the exchange restrictions in 1990, with the possible exception just referred to, the staff recommends approval of the practices and restrictions described in Appendix V, Sections 1 and 2, b-g to this report, until the end of February 1990 or the completion of the first review of the program, whichever is earlier. The Fund welcomes the review of Argentina's bilateral payments arrangement with Bolivia relating to imports of natural gas and would urge the elimination of the restrictive features of this arrangement.

The authorities have indicated that they will seek a negotiated settlement of the outstanding issues in their relations with commercial banks, including ways to deal with the large interest arrears. Because Argentina's external debt and debt service is very high and poses an obstacle to the resumption of growth of investment and output on a sustained basis, a comprehensive agreement between Argentina and its bank creditors can be expected to include elements of debt and debt service reduction. Until an agreement with banks is concluded, Argentina's interest arrears to banks would increase further; current balance of payments estimates through 1990 indicate that Argentina should be able to resume partial payment of such interest while meeting the program's reserve target. In this situation, the negotiations between Argentina and its external creditors will need to be closely monitored; it is envisaged that the first review of the program, which is to be completed by end-February 1990, will assess these negotiations. Further reviews will be needed so long as a comprehensive agreement with banks is pending.

There are inevitable risks in the Argentine program, given the severity of the economic imbalances that it has to address, and it will be essential for the authorities to respond quickly to any deviations that might emerge. The substantial arrears to commercial banks and the absence of agreement as yet on how to deal with them and of an appropriate financing package for the future raise serious issues. Argentina has begun the process of re-establishing its relations with creditors, is committed to eliminate swiftly remaining arrears to official creditors, and intends to pursue a realistic approach to its bank debt. Nevertheless, it must be recognized that it may take considerable time before a comprehensive agreement with the banks is reached; in fact, such agreement, and the provision of resources for enhancements, may be possible only when Argentina's economic prospects become more settled and the country enters into an extended arrangement with the Fund. The Government of Argentina has embarked on an ambitious macroeconomic program and far-reaching structural reforms. The staff welcomes the measures already taken by the authorities and believes that prompt Fund support for Argentina's program is essential for the resolution of Argentina's severe external payments difficulties.

It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

(a) Stand-By Arrangement

1. The Government of Argentina has requested a stand-by arrangement for the period from ---------, 1989 to March 31, 1991 in an amount equivalent to SDR 1,104 million.

2. The Fund approves the stand-by arrangement set forth in EBS/89/199.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

(b) Exchange System

Argentina maintains exchange restrictions and a multiple currency practice as described in Appendix V to EBS/89/199. The Fund welcomes the intention of Argentina to eliminate the restrictions listed in Appendix V, Section 2, b-g and the multiple currency practice by the end of 1990. In the meantime, the Fund grants approval of these restrictions and the multiple currency practice listed in Appendix V, Sections 1 and 2, b-g, until February 28, 1990, or the completion by the Fund of the first review pursuant to paragraph 4(c) of the stand-by arrangement for Argentina, whichever is earlier.

Table 1. Argentina: Projections of Fund Position

	Out-standing 9/30/89	1989 IV Qtr.	1990 I Quarter	1990 II Quarter	1990 III Quarter	1990 IV Quarter	1991 I Quarter	Cumulatives IV Qtr.'89 I Qtr.'90
			(In millions of SDRs)					
Purchases		184.0	184.0	184.0	184.0	184.0	184.0	1,104.0
Under SBA		184.0	184.0	184.0	184.0	184.0	184.0	1,104.0
Under CCFF		--	--	--	--	--	--	--
Repurchases		143.5	179.9	94.3	118.3	121.1	196.1	853.1
Under SBA		109.1	145.5	94.3	118.3	56.2	131.1	654.7
Under CCFF		34.4	34.4	--	--	64.8	64.78	198.4
Total Fund credit outstanding (end of period)	2,318.3	2,358.8	2,363.0	2,452.6	2,518.4	2,581.3	2,569.2	
Under SBA	1,497.6	1,572.5	1,611.0	1,700.7	1,766.5	1,894.2	1,947.0	
Under CCFF	820.7	786.3	751.9	751.9	751.9	687.1	622.2	
			(In percent of quota)					
Total Fund credit outstanding (end of period)	208.3	211.9	212.3	220.4	226.3	231.9	230.8	
Under SBA	134.6	141.3	144.7	152.8	158.7	170.2	174.9	
Under CCFF	73.7	70.6	67.6	67.6	67.6	61.7	55.9	

Table 2. Argentina: Output, Savings, and Investment

	1983	1984	1985	1986	1987	1988	Projected 1989	Projected 1990
	(Annual changes in percent)							
Real GDP growth	3.0	2.6	-4.5	5.5	2.0	-3.1	-5.0	4.5
Changes in GDP deflator	349.1	654.3	685.4	78.0	133.7	370.2	2,843.8	106.5
Changes in consumer prices (end of period)	433.7	688.0	385.4	81.9	174.8	387.7	3.305.1	14.5
	(In percent of GDP)							
Gross domestic investment	17.3	14.5	12.4	12.2	13.7	13.6	12.5	13.3
Use of external savings	4.3	3.9	1.6	4.4	6.2	2.4	3.8	2.7
National savings	13.0	10.6	10.8	7.8	7.5	11.2	8.7	10.6

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

Table 3. Argentina: Summary of Public Sector Operations on a Cash Basis 1/

(In percent of GDP)

	1985	1986	1987	1988	1989 S1	1989 S2	1989 Year	1990 S1	1990 S2	1990 Year
Total revenue	21.2	22.7	21.3	19.8	18.0	21.1	19.5	27.4	28.0	27.7
Current revenue	20.5	22.0	21.0	18.9	15.5	20.8	18.1	25.9	25.8	25.8
Tax revenue	17.4	18.7	17.8	16.3	13.8	17.9	15.9	22.8	22.5	22.6
Nontax revenue	3.0	3.3	3.2	2.6	1.7	2.9	2.3	3.1	3.3	3.2
Of which: public enterprise operating surplus	0.6	1.2	1.3	1.2	0.2	1.2	0.7	1.3	1.6	1.4
Capital revenue	0.7	0.7	0.4	0.9	2.5	0.2	1.4	1.5	2.2	1.8
Total expenditure	26.3	25.2	26.0	24.9	28.6	22.8	25.7	26.7	28.5	27.6
Current expenditure	23.0	22.1	22.2	21.4	25.9	19.7	22.8	23.4	25.4	24.4
Capital expenditure	3.3	3.1	3.8	3.4	2.7	3.2	2.9	3.3	3.1	3.2
Primary surplus or deficit (-)	0.7	1.8	-0.9	-1.0	-1.8	1.3	-0.2	6.9	5.2	6.1
Operational deficit of nonfinancial public sector (-)	-5.1	-2.5	-4.7	-5.1	-10.6	-1.8	-6.2	0.6	-0.5	—
Overall deficit of nonfinancial public sector (-)	-5.1	-2.5	-5.6	-6.3	-23.2	-9.0	-16.1	-0.7	-1.8	-1.2
Central bank losses in real terms (-)	...	-1.1	-0.9	-1.4	-12.3	15.1	1.4	-1.6	-1.3	-1.5
Central bank losses in nominal terms (-)	-2.8	-1.6	-0.9	-0.6	-18.3	8.9	-4.7	-1.4	-1.2	-1.3
Operational deficit of combined public sector (-)	...	-3.6	-5.6	-6.5	-22.8	13.3	-4.7	-1.0	-1.8	-1.4
Overall deficit of combined public sector(-)	-7.9	-4.1	-6.5	-6.9	-41.5	-0.1	-20.8	-2.1	-2.9	-2.5

Sources: Ministry of Economy; and Fund staff estimates.

1/ Excludes operations of the provincial governments. However, government expenditure includes transfers from the central government to the provinces of their share of tax revenue under revenue-sharing as well as discretionary transfers. Tax revenue includes revenue shared with the provinces. Interest is accounted for when due, independently of whether it is paid or not.

Table 4. Argentina: Operations of the Nonfinancial Public Sector 1/ 2/

(In percent of GDP)

	1985	1986	1987	1988	1989 S1	1989 S2	1989 Year	1990 S1	1990 S2	1990 Year
I. National Administration										
Total revenue	16.6	17.1	15.7	14.0	13.8	15.9	14.8	21.1	21.3	21.2
Tax revenue	13.9	14.6	13.8	11.8	10.0	14.2	12.1	18.1	17.6	17.9
Nontax revenue	2.2	1.8	1.6	1.3	1.4	1.6	1.5	1.6	1.6	1.6
Capital revenue	0.5	0.6	0.3	0.9	2.4	0.1	1.3	1.4	2.0	1.7
Total expenditure	15.6	15.6	16.3	15.9	18.3	13.5	15.9	16.5	19.0	17.7
Current expenditure	14.8	14.7	15.3	14.9	17.5	12.9	15.2	15.9	18.0	17.0
Wages and salaries	4.0	3.4	3.6	3.5	4.0	3.3	3.7	3.4	3.5	3.5
Goods and services	1.2	1.5	1.4	1.3	1.2	1.0	1.1	0.8	1.6	1.2
Interest	3.1	2.4	2.3	2.5	5.1	0.1	2.6	3.6	3.4	3.5
Domestic 3/	0.1	0.1	0.4	0.5	1.2	-3.8	-1.3	0.6	0.4	0.5
External	3.0	2.3	2.0	2.0	3.9	4.0	3.9	3.1	3.0	3.0
Transfers 4/	6.5	7.2	7.7	7.4	7.1	8.3	7.7	7.9	9.4	8.7
Provinces and MBA	5.1	5.7	6.1	6.0	5.5	6.6	6.0	6.4	7.3	6.9
Pensions	0.6	0.7	0.7	0.7	0.9	0.8	0.8	0.8	0.8	0.8
Other	0.8	0.9	0.9	0.7	0.8	0.9	0.8	0.8	1.3	1.0
Extrabudgetary	—	0.1	0.3	0.2	0.1	0.2	0.2	0.1	0.1	0.1
Capital expenditure	0.8	1.0	1.0	1.0	0.8	0.6	0.7	0.5	1.0	0.8
Operational balance	0.9	1.5	-0.6	-1.8	-4.5	2.4	-1.0	4.7	2.3	3.5
II. Social Security System										
Total revenue	3.8	4.3	4.2	4.5	3.9	3.8	3.9	4.9	5.0	4.9
Tax revenue	3.6	4.0	4.0	4.4	3.8	3.8	3.8	4.7	4.9	4.8
Nontax revenue	0.2	0.3	0.3	0.1	0.1	0.1	0.1	0.2	0.1	0.2
Total expenditure	5.4	5.6	5.1	4.8	4.8	3.8	4.3	4.8	5.1	4.9
Operational Balance	-1.7	-1.3	-0.9	-0.3	-0.8	0.1	-0.4	0.1	-0.1	—
III. Nonfinancial public enterprises										
Total revenue	10.7	10.9	10.2	10.0	8.7	10.3	9.5	10.8	10.5	10.7
Current receipts	10.5	10.8	10.1	10.0	8.6	10.1	9.4	10.8	10.4	10.6
Capital revenue	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Total expenditure	15.1	13.7	13.4	13.0	13.9	14.5	14.2	15.0	13.3	14.1
Current expenditure	12.7	11.5	10.6	10.6	12.1	11.9	12.0	12.2	11.1	11.7
Wages and salaries	2.8	2.8	2.8	2.7	3.1	2.2	2.7	2.3	2.0	2.1
Goods and services	6.6	6.1	5.4	5.7	4.8	6.2	5.5	6.7	6.2	6.4
Interest 3/	2.8	1.9	1.4	1.6	3.7	3.0	3.3	2.7	2.4	2.5
Domestic	0.6	0.5	0.1	—	—	0.2	0.1	0.1	0.1	0.1
External	2.1	1.5	1.4	1.6	3.7	2.8	3.2	2.6	2.3	2.4
Transfer to Provinces	—	—	0.4	0.1	—	—	—	—	—	—
Other	0.5	0.7	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Capital expenditure	2.4	2.2	2.8	2.5	1.9	2.6	2.2	2.8	2.1	2.5
Operational balance	-4.4	-2.7	-3.2	-3.0	-5.2	-4.3	-4.8	-4.1	-2.7	-3.4

Table 4. Argentina: Operations of the Nonfinancial Public Sector 1/ 2/ (Concluded)

(In percent of GDP)

	1985	1986	1987	1988	1989 S1	1989 S2	1989 Year	1990 S1	1990 S2	1990 Year
IV. Nonfinancial public sector										
Total revenue	21.2	22.7	21.3	19.8	18.0	21.1	19.5	27.4	28.0	27.7
Current revenue	20.5	22.0	21.0	18.9	15.5	20.8	18.1	25.9	25.8	25.8
Tax revenue	17.4	18.7	17.8	16.3	13.8	17.9	15.9	22.8	22.5	22.6
Of which: social security	3.6	4.0	4.0	4.4	3.8	3.8	3.8	4.7	4.9	4.8
Nontax revenue	3.0	3.3	3.2	2.6	1.7	2.9	2.3	3.1	3.3	3.2
Of which: operating surpluses of public enterprises	0.6	1.2	1.3	1.2	0.2	1.2	0.7	1.3	1.6	1.4
Capital revenue	0.7	0.7	0.4	0.9	2.5	0.2	1.4	1.5	2.2	1.8
Total expenditure	26.3	25.2	26.0	24.9	28.6	22.8	25.7	26.7	28.5	27.6
Current expenditure	23.0	22.1	22.2	21.4	25.9	19.7	22.8	23.4	25.4	24.4
Wages and salaries	4.0	3.4	3.6	3.5	4.0	3.3	3.7	3.4	3.5	3.5
Goods and services	1.2	1.5	1.4	1.3	1.2	1.0	1.1	0.8	1.6	1.2
Interest	5.9	4.3	3.8	4.1	8.8	3.1	5.9	6.3	5.7	6.0
Domestic 3/	0.8	0.6	0.4	0.5	1.3	-3.6	-1.2	0.7	0.4	0.5
External	5.1	3.7	3.4	3.6	7.5	6.7	7.1	5.6	5.3	5.5
Transfers	11.9	12.8	13.2	12.3	11.8	12.1	11.9	12.7	14.5	13.6
Provinces and MBA	5.1	5.7	6.5	6.2	5.5	6.6	6.0	6.4	7.3	6.9
Pensions	6.0	6.2	5.8	5.4	5.6	4.6	5.1	5.6	5.9	5.7
Of which: social security	5.4	5.6	5.1	4.8	4.8	3.8	4.3	4.8	5.1	4.9
Other	0.8	0.9	0.9	0.7	0.8	0.9	0.8	0.8	1.3	1.0
Extrabudgetary	—	0.1	0.3	0.2	0.1	0.2	0.2	0.1	0.1	0.1
Capital expenditure	3.3	3.1	3.8	3.4	2.7	3.2	2.9	3.3	3.1	3.2
Operational surplus or deficit	-5.1	-2.5	-4.7	-5.1	-10.6	-1.8	-6.2	0.6	-0.5	—
Primary surplus or deficit (-)	0.7	1.8	-0.9	-1.0	-1.8	1.3	-0.2	6.9	5.2	6.1
Inflation adjustment	—	—	0.9	1.2	12.7	7.2	9.9	1.3	1.3	1.3
Overall surplus or deficit (-)	-5.1	-2.5	-5.6	-6.3	-23.2	-9.0	-16.1	-0.7	-1.8	-1.2
Financing	5.1	2.5	5.6	6.3	23.2	9.0	16.1	0.7	1.8	1.2
External	0.9	1.1	4.2	1.7	6.9	4.8	5.8	3.0	3.8	3.4
Domestic	4.2	1.4	1.4	4.6	16.3	4.2	10.3	-2.3	-2.0	-2.2
Memorandum items										
Net intrasectoral transfers (paid -)										
National administration	-4.4	-3.3	-2.7	-1.5	-1.1	-1.7	-1.4	-2.0	-2.2	-2.1
Public enterprises	2.9	1.9	2.1	1.5	1.1	1.7	1.4	2.0	2.2	2.1
Social security	1.6	1.4	0.7	—	—	—	—	—	—	—

Sources: Ministry of Economy; and Fund staff estimates.

1/ On a cash basis, except for external interest payments, which are on an accrual basis.
2/ Annual and semi-annual figures are simple averages of quarterly ratios.
3/ Excludes inflationary component.
4/ Excludes intrasectoral transfers.

Table 5. Argentina: Selected Financial Indicators

(In percent)

	Growth of Aggregates 1/ M-1	M-2	Monthly Interest Rate 2/	Exchange Rate Spread 3/	Monthly Inflation Rate 4/
1987					
I	5.3	5.9	7.2	26.0	7.0
II	5.7	6.0	8.4	27.9	4.8
III	3.8	7.3	13.4	34.8	12.7
IV	13.4	10.8	12.2	22.5	11.3
1988					
I	5.2	11.9	14.8	35.2	12.6
II	11.1	14.6	17.6	24.4	19.2
III	18.6	22.6	13.7	22.2	21.4
IV	15.3	12.2	9.5	22.0	6.0
1989					
I	12.9	13.2	17.0	72.9	11.6
II	51.6	53.0	113.9	57.6	86.7
III	68.2	62.9	18.4	5.2	77.7
1988					
January	4.0	10.1	13.6	41.3	10.6
February	3.4	10.4	14.5	34.6	11.9
March	8.3	15.2	16.2	29.6	15.5
April	13.2	13.3	17.1	22.0	17.0
May	10.0	15.5	16.8	23.2	19.5
June	10.2	15.1	19.1	28.2	21.0
July	12.5	18.2	24.0	27.7	25.3
August	24.3	28.0	9.5	18.7	29.8
September	19.1	21.6	7.6	20.3	9.1
October	16.4	11.2	8.3	23.2	6.8
November	10.2	11.0	9.2	22.1	4.8
December	19.2	14.5	11.1	20.8	6.3
1989					
January	11.4	16.3	10.6	23.8	7.9
February	14.6	9.8	19.7	57.1	9.0
March	12.6	13.6	20.8	137.7	18.0
April	12.2	21.8	51.2	79.1 5/	45.7
May	53.6	41.0	146.3	n.a. 5/	91.1
June	89.1	96.3	144.2	93.8	123.4
July	110.5	104.5	36.2	13.8	202.4
August	62.3	59.9	12.3	1.7	23.2
September	31.8	24.2	6.7	--	6.0

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

1/ Average seasonally adjusted monthly increase.
2/ Seven-day operations, with security of Government of Argentina bonds denominated in U.S. dollars (BONEX).
3/ Percentage difference in terms of australes per U.S. dollar between the exchange rates in the parallel and official exchange markets.
4/ Average monthly increase of consumer and wholesale prices.
5/ From mid-April until the end of May the official rate was allowed to float freely.

Table 6. Argentina: Summary Operations of the Financial System 1/

	End-December								
	1982	1983	1984	1985	1986	1987	1988	Proj. 1989	Proj. 1990
I. Consolidated Financial System									
(Percentage change during previous 12 months)									
Net external assets 2/	-67.5	-60.6	-27.0	-8.8	-19.7	-58.5	-42.1	-21.0	-4.6
Net domestic assets 2/	177.7	415.3	558.4	329.0	120.3	207.5	398.5	569.3	53.6
Private sector	138.6	287.0	360.5	196.7	67.3	122.9	232.5	300.6	26.8
Nonfinancial public sector	70.4	297.6	294.1	126.4	48.7	106.4	295.1	884.1	11.1
Other 3/	-31.3	-169.3	-96.2	5.9	4.3	-21.8	-129.1	-615.3	15.7
Liabilities to private sector	110.2	354.7	531.4	320.2	100.6	149.0	356.5	548.3	49.0
Monetary liabilities	224.7	368.2	524.7	596.2	85.5	124.9	337.6	2,749.0	51.4
Other liabilities	80.5	349.3	533.8	249.0	108.1	158.8	361.8	411.9	48.2
II. Central Bank									
(Percentage change during previous 12 months)									
Net international reserves 4/	-277.3	-62.6	-59.7	-30.9	-22.5	-58.6	-35.2	-681.9	-5.7
Net domestic assets 4/	1,031.8	418.8	506.9	735.9	95.2	182.9	508.0	3,908.3	34.2
Credit to financial system and private sector 5/	885.2	227.3	394.7	295.0	97.6	168.3	564.5	4,494.5	31.1
Nonfinancial public sector	221.1	364.3	385.0	379.0	47.8	105.7	447.7	3,017.0	9.5
Other 3/	-74.5	-172.8	-272.8	61.9	-50.2	-91.1	-504.2	-3,603.2	-6.3
Liabilities to financial system and nonfinancial private sector	754.5	356.2	447.2	705.0	72.7	124.3	472.8	3,226.4	28.6
Nonfinancial private sector	191.9	427.1	583.2	561.7	97.6	129.4	365.7	1,952.7	50.8
Rest of financial system	1,542.5	338.6	406.5	762.8	65.0	122.5	513.7	3,595.7	25.0

Source: Central Bank of Argentina.

1/ Assets and liabilities denominated in foreign currency are valued at the average exchange rate for each year.

2/ Change as a percentage of liabilities to private sector at the beginning of the period.

3/ Includes counterpart to unrequited foreign exchange transactions (including SDR allocations and valuation adjustments).

4/ Change as a percentage of Central Bank liabilities at the beginning of the period.

5/ Includes capitalization of unpaid interest.

Table 7. Argentina: Summary Balance of Payments

(In millions of U.S. dollars)

	1984	1985	1986	1987	1988	1989	Prog. 1990	Jan.- June 1989	July- Dec. 1989
Current account	-2,391	-953	-2,859	-4,238	-1,615	-2,584	-2,000	-947	-1,637
Merchandise trade	3,523	4,582	2,128	540	3,810	4,140	4,512	2,461	1,679
Exports, f.o.b.	8,107	8,396	6,852	6,360	9,134	8,840	10,512	4,663	4,177
Imports, c.i.f.	-4,584	-3,814	-4,724	-5,820	-5,324	-4,700	-6,000	-2,202	-2,498
Nonfactor services (net)	-205	-231	-573	-285	-298	-309	-141	-337	28
Factor services	-5,712	-5,304	-4,416	-4,485	-5,127-	-6,415	-6,371	-3,071	-3,344
Profits and dividends	-439	-425	-482	-558	-660	-674	-700	-389	-285
Interest payments	-5,537	-5,132	-4,291	-4,145	-4,678	-6,006	-6,052	-2,824	-3,182
Interest receipts	264	253	357	218	211	265	381	142	123
Transfers	3	--	2	-8	--	--	--	--	--
Capital account 1/	647	397	784	138	234	-1,076	1,440	-2,200	1,124
Direct investment 2/	269	919	574	-19 3/	1,147	1,092	790	708	384
Export financing	511	140	-57	111	879	-171	-285	-564	393
Import financing	-11	-952	-483	-603	-1,564	-651	126	-666	15
Loans from multilateral organizations	123	182	394	733	386	331	611	216	115
Other 4/	-245	108	356	84	-614	-1,677	198	-1,894	217
Overall balance	-1,744	-556	-2,075	-4,100	-1,381	-3,660	-560	-3,147	-513
Financing	1,744	556	2,075	4,100	-1,381	3,660	560	3,147	513
Change in assets (increase -)	-207	-1,871	563	1,111	-1,785	1,963	-2,500 5/	2,324	-361
Arrears	940	-2,445	-1,174	39	2,128	2,504	-5,431	2,395	109
IMF position	--	1,007	145	614	18	-482	286	-325	-157
Purchases	--	1,007	547	1,253	541	235	942	--	235
Repurchases	--	--	-402	-639	-523	-717	-656	-325	-392
Official creditors	600	1,017	897	384	387	-244	-275	-108	-136
Paris Club, 6/	--	1,617	897	384	387	-244	-275	-108	-136
Other	600	-600	--	--	--	--	--	--	--
Commercial banks 7/	--	3,096	1,207	1,244	454	--	--	--	--
Other liabilities 8/	411	-248	437	708	199	-81 9/	8,480 9/	-1,139	1,058 9/
Memorandum item									
Gross official reserves (months of imports)	6.9	14.6	10.9	1.7 5/	5.5 5/	2.0 5/	3.6 5/	0.3 5/	2.0 5/

Source: Central Bank of Argentina and staff estimates.

1/ Excludes from gross capital outflows the amortizations rescheduled with commercial banks and with other nonofficial creditors; the financing counterpart is likewise excluded from capital inflows.

2/ Includes debt capitalization of US$467 million in 1985, US$382 million in 1988, and US$365 million in 1989.

3/ Includes US$610 million in negative direct investment related to the purchase by Argentina of the COGASCO pipeline, which is largely compensated by foreign borrowing included in other capital.

4/ Includes payments of government bonds, the transformation of private debt with exchange guarantee into public debt, and other private capital flows.

5/ Excludes illiquid reserves.

6/ Previous reschedulings.

7/ New money raised through concerted lending.

8/ Includes valuation, changes in residents' foreign currency deposits, and other adjustments.

9/ Includes financing gap.

Table 8. Argentina: Financing of the Balance of Payments, October 1989 - December 1990

(In millions of U.S. dollars)

	Fourth Quarter 1989	Year 1990
Overall balance of payments deficit	950	560
Increase in gross disposable reserves	-480	2,500 1/ 2/
Reduction in arrears, net 3/	657	5,431
IMF repurchases	185	656
Amortization under previous Paris Club agreements	28	275
Other central bank liabilities, net 4/	456	862 2/
Total financing needs	1,796	10,284
IMF purchases	235	942
Financing gap	1,561	9,342 1/

Source: Central Bank of Argentina and staff estimates.

1/ The projected increase in gross reserves in 1990 includes a margin of US$1.5 billion for payments to commercial banks which, if used, would reduce the size of the financing gap.

2/ Nondisposable reserves are included in other central bank liabilities.

3/ Assumes a further increase in interest arrears to commercial banks during October-December 1989, and a settlement of these arrears in 1990 which increases gross financing needs in that year.

4/ Includes foreign currency deposits by residents and bridge financing.

Table 9. Argentina: External Debt and Debt Service

	1984 1/	1985 1/	1986 2/	1987 2/	1988 3/	Proj. 1989	Prog. 1990
	(In millions of U.S. dollars; end-year)						
Total disbursed debt 4/	46,171	49,326	51,422	58,324	58,734	59,038	61,679
By borrowing sector							
Public sector	35,527	40,869	44,726	51,793	...	...	...
Private sector	10,644	8,458	6,696	6,531	...	...	...
By maturity							
Medium- and long-term	...	...	...	...	...	...	...
Short-term	...	...	...	...	...	...	...
Arrears	4,163	1,718	544	583	2,927	5,431	--
By type of creditor							
International organizations	2,818	4,569	5,605	8,320	8,391	7,654	8,542
Official creditors	2,018	2,961	5,132	6,007	6,461	6,553	6,708
Banks	32,740	33,777	33,695	36,848	37,300	38,933	41,291
Bondholders	4,208	4,307	3,922	3,638	2,922	2,526	1,772
Other	4,288	4,097	3,352	3,621	3,660	3,372	3,366
	(In percent of total)						
Disbursed debt by type of creditor 5/	100.0	100.0	100.0	100.0	100.0	100.0	100.0
International organizations	6.1	9.3	10.9	14.3	14.3	13.0	13.9
Official creditors	4.4	6.0	10.0	10.3	11.0	11.1	10.9
Banks	70.9	68.5	65.5	63.2	63.5	66.0	66.9
Bondholders	9.3	8.0	7.1	6.0	5.0	4.3	2.9
Other	9.3	8.3	6.5	6.2	6.2	5.6	5.4
	(In millions of U.S. dollars and in percent)						
Debt service 6/	9,858	9,301	9,645	6,412 7/	...	...	...
Amortization	4,321	4,169	5,354	2,267 7/	...	...	...
Interest	5,537	5,132	4,291	4,145	4,678	6,006	6,052
Exports of goods, nonfactor services and transfers	10,050	10,259	8,738	8,472	11,301	11,123	13,040
Interest ratio to exports	55.1	50.0	49.1	48.9	41.4	54.0	46.4
	(In percent of GDP) 8/						
Debt outstanding	75.8	82.2	79.1	85.3	85.7	86.4	82.2
Debt service	16.2	15.5	14.8	9.4	...	...	...
Interest	9.1	8.6	6.6	6.1	6.8	8.8	8.1

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

1/ Based on data from debt reporting system for 1983 and data from balance of payments flows.
2/ Based on data from debt reporting system.
3/ Based on data from debt reporting system for 1987 and data from provisional 1988 balance of payments flows, adjusted for exchange rate movements.
4/ Includes arrears on interest.
5/ Before rescheduling.
6/ Includes amortization on loans with an original maturity of more than one year, and all interest payments. Includes both public and private debt.
7/ After 1987 rescheduling of commercial bank debt.
8/ GDP in U.S. dollars is derived by converting GDP in australes using the U.S. dollar/austral exchange rate that would maintain the rate at its real level in the second half of 1989.

Table 10. Argentina: Outstanding External Arrears

(In millions of U.S. dollars)

	1986	1987		1988		1989	
	Dec.	June	Dec.	June	Dec.	June	Proj. Dec.
Total	544	449	583	1,447	2,927	5,322	5,431
Suppliers and commercial creditors	...	152	40	111	236	322	64
Paris Club	...	118	188	314	532	1,011	--
International organizations	...	12	107	182	188	326	--
Commercial banks 1/	...	152	228	825	1,956	3,493	5,264
Other	...	15	20	15	15	170	103

Source: Central Bank of Argentina.

1/ Includes Argentine banks.

Table 11. Argentina: Medium Term Balance of Payments Projections, 1990-95

	1990	1991	1992	1993	1994	1995
	In billions of U.S. dollars)					
Current balance	-2.0	-2.3	-2.3	-2.3	-2.1	-1.9
Trade balance	4.5	4.4	4.5	4.8	5.1	5.4
Exports	(10.5)	(10.9)	(11.8)	(12.9)	(14.1)	(15.6)
Imports	(-6.0)	(-6.5)	(-7.3)	(-8.1)	(-9.0)	(-0.2)
Nonfinancial services	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2
Financial services	-6.4	-6.5	-6.7	-6.9	-7.0	-7.1
Of which: interest payments	(-6.0)	(-6.1)	(-6.2)	(-6.3)	(-6.4)	(-6.4)
Capital account	2.0	2.3	2.3	2.3	2.1	1.9
Nondebt-creating flows	0.8	1.2	1.3	1.5	1.5	1.4
Other capital 1/	8.8	2.3	2.3	1.8	1.8	1.6
Gross reserves (increase -)	-2.5	-0.5	-0.5	-0.6	-0.6	-0.6
Use of IMF credit	0.3	-0.7	-0.8	-0.4	-0.6	-0.4
Change in arrears	-5.4	--	--	--	--	--
Memorandum item						
External debt	61.7	63.0	64.3	65.4	66.4	67.5
	(In percent)					
Interest rate (U.S. dollar, 6-month LIBOR)	8.8	8.8	8.8	8.8	8.8	8.8
Export volumes (annual change)	20.0	1.0	4.0	5.0	5.0	6.0
Import volumes (annual change)	26.0	5.0	7.0	7.0	7.0	7.0
Terms of trade (annual change)	-2.3	-0.9	-0.1	0.3	--	0.1
Real growth (annual change)	4.5	4.5	4.5	4.5	4.5	4.5
Current account balance/GDP	-2.7	-2.8	-2.6	-2.4	-2.0	-1.7
Interest payments/GDP	8.1	7.5	7.0	6.6	6.2	5.8
External debt/GDP	82.2	77.0	72.0	67.8	63.6	59.9
	(In percent of exports of goods and nonfactor services)					
Interest payments	46.4	44.6	42.0	39.3	36.6	33.9
Total debt service						
before rescheduling	71.4	68.6	62.4	58.5	58.1	55.4
after rescheduling	63.6	63.6	57.2	53.6	54.2	50.7
	(In months of merchandise imports)					
Gross disposable reserves	3.6	4.2	4.6	5.0	5.3	5.5

Source: Staff estimates.

1/ Includes unidentified financing.

Table 12. Quantitative Performance Criteria Under Stand-By Arrangement

	Oct. 1990- Dec. 1989	Oct. 1989- Mar. 1990	Oct. 1989- June 1990	Jan. 1990- Sep. 1990	Jan. 1990- Dec. 1990
Limit on the overall cash deficit of the nonfinancial public sector (in millions of australes)	-830,300	-776,300	-990,300	-178,000	-626,000
Limit on the combined overall deficit of the nonfinancial public sector and the Central Bank (in millions of australes)	-770,500	-945,700	-1,259,900	-736,200	-1,244,000
Limit on Treasury outlays (in million of australes)	1,444,400	2,755,100	4,267,100	4,429,400	6,288,600
Limit on change in net domestic assets of the Central Bank (in millions of australes)	1,497,450	1,999,350	2,752,750	1,659,700	2,707,400
Limit on change in net international reserves of the monetary authorities (in millions of U.S. dollars)	-950	-1,140	-1,185	80	-560
Limit on totaloutstanding external debt of the public sector (in millions of U.S. dollars)	53,000	53,000	53,000	53,000	53,000
Limit on net disbursement of short-term debt of the public sector contracted after September 30, 1989 (in millions of U.S. dollars)	1,000	1,000	1,000	1,000	1,000

Source: Memorandum on Economic Policy.

Fund Relations with Argentina
(As of September 30, 1989)

I. Membership Status

(a) Date of Membership: September 1956
(b) Status: Article VIII

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 1,113.0 million

		Millions of SDRs	Percent of Quota
(b)	Total Fund holdings of australes	3,431.3	308.3
(c)	Fund credit	2,318.3	208.3
	Credit tranches (ordinary resources)	545.5	49.0
	Enlarged access resources	952.2	85.6
	CFF	820.7	73.7

III. Recent Stand-By Arrangements and Special Facilities

(a) Stand-by arrangements

Duration	Amount Drawn (SDR million)	Status
July 23, 1987-Sept. 30, 1988	616.5	Expired on Sept. 30, 1988 with two purchases for a total of SDR 331.0 million undrawn
Dec. 28, 1984-June 30, 1986	1,182.5	Expired
Jan. 24, 1983-April 24, 1984	600.5	Canceled, Jan. 23, 1984

(b) Special Facilities: CFF

Year Approved	Amount (SDR million)
1988	233.1
1987	518.8
1984	275.0
1983	520.1

IV. SDR Department

(a) Net cumulative allocation: SDR 318.37 million
(b) Holdings: SDR 0.0 million or 0.0 percent of net cumulative allocation.
(c) Current Designation Plan: not applicable

V. Financial Obligations Due to the Fund

	Principal and Interest Due (SDR million)		
	Oct. 1-Dec. 31, 1989	1990	1991
Repurchases	143.5	513.6	723.8
Charges and Interest including SDR and TF (provisional)	38.1	204.9	152.6
Total	244.4	718.5	876.4

B. Nonfinancial Relations

VI. Exchange Rate

On February 6, 1989 Argentina established an exchange system comprising three exchange rates: a commercial exchange rate applicable to agricultural exports and to 50 percent of industrial exports; a special commercial exchange rate, to be fixed at 25 percent above the commercial exchange rate, applicable to 50 percent of industrial exports and to the major part of imports; and a free exchange rate applicable to all other services and to capital transactions. On February 21, 1989 twenty percent of both agricultural and industrial exports were transferred to the free market.

On April 4, 1989 the special commercial exchange rate was eliminated, and the percentage of trade transactions to be conducted at the free exchange rate was set at a uniform 50 percent, with the remainder to be conducted at the single official rate.

On April 13, 1989 the multiple exchange rate system was replaced by a unified floating exchange rate for all external current and capital transactions of the private and public sectors. However, in the case of exports, a 100 percent tax was levied on the difference between the free rate and a reference rate set at ₳ 36 per U.S. dollar. On May 2, 1989 this tax was replaced by a 20 percent tax on exports, and export receipts were entitled to the unified exchange rate.

On May 28, 1989, the floating exchange system was replaced by a unified fixed exchange system, exchange controls were reintroduced, and the free exchange market was banned. It was announced that the new official exchange rate would be adjusted periodically and that there would be a preferential exchange rate for pharmaceuticals. Also on that date, the tax on agricultural exports was raised from 20 to 30 percent. On August 8, 1989 the Central Bank suspended temporarily the access of loans for export prefinancing to the official exchange market.

From October 1, 1988 to April 13, 1989 the official exchange rate was subject to frequent adjustments, and by April 13 it stood at ₳ 20.15 per U.S. dollar (selling). Following the unification of the exchange markets, the exchange rate depreciated at a rapid pace and as of May 26, 1989, the floating exchange rate stood at ₳ 180 per U.S. dollar (selling). On May 28, 1989, the official exchange rate was fixed at ₳ 177 per U.S. dollar (selling) and after additional adjustments it stood at ₳ 305 per U.S. dollar (selling) on July 7, 1989. On July 9, 1989 the official exchange rate was fixed at ₳ 655 per U.S. dollar (selling).

VII. Last Article IV Consultation

The 1987 Article IV consultation was concluded on July 23, 1987 (EBM/87/107).

VIII. Technical Assistance

A Fund panel expert was assigned to Argentina by the Fiscal Affairs Department for a period of two years that ended in June 1988 to implement the recommendations of a report prepared by the Fiscal Affairs Department on ways to improve the reporting of the operations of the Treasury and other parts of the public sector. In 1987, a mission from the Fiscal Affairs Department visited Argentina to review the information system on the government finances. In August 1989, an FAD mission visited Buenos Aires to advise on the design of a comprehensive tax reform.

Relations with the World Bank

Following five years of relatively little lending, World Bank lending operations in Argentina expanded substantially in the period 1986-88 to gross disbursements averaging US$580 million a year (see tabulation below). This increase reflected the initiation of quick disbursing policy based loans as well as improvements in project execution which resulted in the faster disbursement of project loans.

In September 1988, Argentina reached agreement with the World Bank on a package of four loans for a total of US$1.25 billion to be disbursed through end-1989. This package included (i) a second Trade Policy Loan in the amount of US$300 million, (ii) revisions to the initial conditions of a Banking Sector Loan in the amount of US$400 million originally approved in April 1988, (iii) a Housing Sector Loan in the amount of US$300 million, and (iv) an Electric Power Sector Loan in the amount of US$250 million. The first tranche of the Trade Policy Loan was disbursed in late 1989. However, in late March 1989, because of the failure of the authorities to meet the loan conditions, further tranche releases under the trade policy loan and the banking sector loan were suspended. Disbursements under the Housing Sector Loan and the Electric Power Sector Loan were not affected by this decision.

Recently, the World Bank agreed with the authorities to send a mission to Argentina to review the conditions for the release of the second tranche of the trade policy loan and a mission is now scheduled for late October. At the same time, the Bank and the authorities agreed to let the 1988 Banking Sector Loan lapse. However, the World Bank agreed to send to Buenos Aires a technical assistance mission to advise on the reform of the charter of the Central Bank and a reform of the official banking system. This mission is scheduled for mid-October.

In addition, the Bank is currently considering the possibility of further lending operations to be focussed on the rationalization of the public sector enterprises, on the support of initiatives in the transport, power, and hydrocarbons sectors, on social sector reform, and on the support of provincial structural change. Support for infrastructure development through investments in areas such as water supply, oil, and gas, is also under consideration.

Financial Relations with the World Bank

(In millions of U.S. dollars)

	Commitments (Net of Cancellations)	Disbursements	Undisbursed Amount
I. IBRD Operations (as of June 30, 1989)			
Fully disbursed loans	1,184.03	1,184.03	--
Loans in process of disbursement			
Agricultural and rural developments	456.5	368.8	87.7
Industry and industrial credit	216.0	104.1	111.9
Power and hydrocarbon	1,125.6	612.3	513.3
Public sector management	25.0	8.9	16.1
Transport and municipal development	270.0	96.2	173.8
Water supply	60.0	6.6	53.4
Trade policy	800.0	646.0	154.0
Banking sector	400.0	...	400.0
Social sector	328.0	17.8	310.2
Total loans	4,885.1	3,044.7	1,820.4
Repaid 1/	891.1	--	--
Outstanding	3,974.0	--	--
II. IFC Operations (as of June 30, 1989)			
	Loans	Equity	Total
Commitments	431.0	28.6	459.6
Total held by IFC	293.4	16.7	310.1
Total undisbursed (including other participants)	64.3	2.5	66.8

III. IBRD Loan Transactions

	1986	1987	1988	1989
Disbursements	407.7	794.7	486.7	376.8
Repayments	134.0	133.1	167.8	242.7
Net lending	273.7	661.6	318.9	134.1

Source: World Bank.

1/ Includes repayment to third parties.

Performance Under the Last Stand-By Arrangement

An economic program was announced in February 1987, which aimed at reducing the rate of increase in consumer prices from 82 percent during 1986 to around 40 percent during 1987, while bringing down the overall balance of payments deficit from US$2.1 billion in 1986 to below US$1.7 billion in 1987. 1/ A price and wage freeze that had recently been introduced was to be relaxed as inflationary expectations improved, and the external trade and payments system was to be liberalized. This program was supported by the approval in principle of a 15-month stand-by arrangement.

A key element in the attainment of the program's objectives was a planned reduction in the combined public sector deficit from 4.5 percent of GDP in 1986 to 2.5 percent of GDP in 1987. At the same time, the rate of growth of money was to be slowed in line with the projected reduction in inflation, and exchange rate policy was to be managed flexibly to ensure the attainment of the balance of payments objective.

During the first half of 1987, there were substantial deviations in program implementation and most of the performance criteria that had been established for March and June 1987 were not observed. In this regard, the combined public sector deficit widened to 6 3/4 percent of GDP for the first half of 1987 rather than narrowing to 4 percent of GDP as had been projected, while the net domestic assets of the Central Bank rose much faster than had been programmed; narrow money (M-1) increased at a monthly rate of 5 1/2 percent rather than the 3 1/4 percent that had been envisaged under the program. In response to these developments, there was a renewed pick up in inflation and a significant weakening in the balance of payments, mainly as a result of substantial short-term capital outflows.

Against the background of slippages in policies, in July 1987 the authorities announced a revised economic program aimed at reducing inflation from 8 percent in June 1987 to below 4 percent a month by year-end while containing the overall balance of payments deficit to US$2.0 billion in 1987 as a whole. To that end, the combined public sector deficit was to be reduced from 6 3/4 percent of GDP to 2 percent of GDP from the first to the second half of 1987, mainly through measures directed at enhancing revenue, while credit policy was to be based on monetary growth remaining below the targeted rate of inflation. In addition, wage increases were to be limited to rates consistent with the inflation objective and the authorities were to administer the system of price controls flexibly. On the basis of this program and the assurance that adequate arrangements had been made for financing the balance of payments in 1987, on July 23, 1987 the Executive Board approved the

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1/ A more detailed description of the February 1987 economic program was presented in the staff report for the 1987 Article IV consultation (EBS/87/155).

entry into effect of the stand-by arrangement that had been approved in principle in February.

During the third quarter of 1987, the programmed increase in fiscal revenues did not materialize and the combined public sector deficit in terms of GDP was little changed from that prevailing in the first half of 1987 and over 3 percentage points of GDP above its targeted level. Over this period, expectations were adversely affected by the impending congressional and gubernatorial elections, as well as by a sharp rise in beef prices and by uncertainty regarding possible revisions to labor legislation. The authorities responded to this situation by announcing their continued commitment to a restrained wage and price policy and by tightening monetary policy through increasing regulated interest rates and mandatory investment requirements. However, this proved insufficient to prevent an acceleration in inflation to a monthly average of 12 3/4 percent in the third quarter of 1987. At the same time, the overall balance of payments, rather than being in approximate equilibrium as had been programmed, registered a deficit of US$1.3 billion mainly in reflection of a substantial outflow of short-term capital. As a result, many of the program's quantitative performance criteria for end-August were not observed by wide margins.

On October 14, 1987, the authorities announced a new comprehensive package of measures. This package included the reintroduction of a wage-price freeze; a set of revenue measures, together with a forced savings plan, to be sent to Congress intended to raise revenues on a full-year basis by around 6 1/2 percentage points of GDP; a 15 percent average increase in real public enterprise prices; a substantial depreciation of the currency in the commercial exchange market; the introduction of a second exchange market with a freely fluctuating exchange rate for various service and capital transactions; and a far-reaching financial reform. In addition, the authorities announced their intention to proceed with various structural reforms aimed at strengthening the finances of the public enterprises, overhauling the system of revenue sharing between the National Government and the provinces, revising petroleum pricing policy, opening up to the private sector certain activities previously reserved for the public sector, and liberalizing import controls.

At the time the October package was announced, it was anticipated that its timely implementation would contribute to the goal of reducing the combined overall deficit of the nonfinancial public sector and the Central Bank to 4.3 percent of GDP in the last quarter of 1987 and to 2 percent of GDP in 1988. In the event, however, there were substantial delays in congressional consideration of the package, which was only approved in a modified form at the beginning of January 1988. Moreover, because the cumulative rate of inflation in the last quarter of 1987 was higher than projected, the increase that had been programmed in the real level of public enterprise prices did not materialize. As a result, notwithstanding a substantial strengthening in the Central Bank's operating position, the combined overall public sector deficit widened in the last quarter of 1987 and for the year as a whole the deficit amounted to 6 1/3 percent of GDP.

Notwithstanding the revenue package that was approved in January 1988, 1/ central administration revenue collections in relation to GDP in the first eight months of 1988 were actually below their level in the corresponding period of the previous year, due in part to a higher than programmed rate of inflation and in part to a pronounced weakening in tax administration. At the same time, there was an appreciable widening in the quasi-fiscal deficit of the Central Bank. As a result, rather than declining to 3 percent of GDP as had been programmed, the combined public sector deficit amounted to 6 1/2 percent of GDP in the first half of 1988.

In the external area, there was a strong recovery of exports in the first half of 1988, reflecting both higher volumes and markedly higher prices. Thus, the current account deficit was reduced from around 5 percent of GDP in the first half of 1987 to 3 1/2 percent of GDP in the first half of 1988. However, at US$1.4 billion, the overall deficit in the first half of 1988 exceeded the programmed limit.

1/ This package included a trebling in the tax rate on bank checks, a forced savings plan similar to that introduced in 1985 and 1986, special taxes on gasoline and telephone services, an increase in the import surcharge, an increase in excise taxes on cigarettes, and the tightening of income tax deductions (see EBS/88/41, p. 10).

Argentina: Performance Under Stand-by Arrangement, 1987-88

	March 1987			June 1987			August 1987			October 1987			March 1988			June 1988		
	Target 1/	Actual	Margin	Target 1/	Actual	Margin	Target 2/	Actual	Margin	Target 3/	Actual	Margin	Target 4/	Actual	Margin	Target 4/	Actual	Margin
Limit on overall deficit of the nonfinancial public sector (in millions of australes)	500	988	-488	1,150	2,767	-1,617	200	1,275	-1,075	3,150	3,239	-89	...	...	...	...	...	...
Limit on combined overall deficit of the nonfinancial public sector and the Central Bank (in millions of Australes)	1,120	1,490	-360	2,220	3,356	-1,136	850	1,884	-1,034	4,200	4,226	-26	6,400	8,104	-1,704	5,300	15,187	-9,887
Limit on combined operational deficit of the nonfinancial public sector plus operating result of the Central Bank (in millions of australes)	...	...	...	...	...	...	...	...	...	...	...	...	6,000	7,874	-1,874	5,600	14,964	-9,364
Limit on Treasury outlays (in millions of australes)	3,570	3,265	305	7,700	7,327	373	3,700	3,484	216	8,200	8,160	40	10,600			25,900		
Limit on change in net domestic assets of the Central Bank (in millions of australes)	900	1,250	-350	1,800	3,459	-1,659	1,070	1,372	-302	4,450	3,915	535	5,100	4,462	638	10,000	12,789	-2,789
Limit on change in net international reserves of the monetary authorities (in millions of dollars)	-500	-461	39	-800	-1,829	-1,029	-225	-711	-486	-1,700	-1,546	154	-1,100	-1,001	99	-1,150	-1,438	-288
Limit on total outstanding external debt of the public sector (in millions of dollars)	40,500	37,051	3,449	40,500	37,372	3,128	43,100	38,250	4,850	43,100	41,112	1,988	44,000	42,629	1,371	44,000	43,458	542
Limit on net disbursement of short-term debt of the public sector contracted after December 31, 1986 (in millions of dollars)	1,200	87	1,113	1,200	199	1,101	1,200	344	856	1,200	434	766	1,200	590	610	1,200	781	419
Average regulated interest rate on 30-day deposits (percent)	6.4	4.3	-2.1	6.5	6.3	-0.2	12.5	9.5	-3.0	...	...	...	...	...	...	...	...	...

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

1/ Letter of Economic Policy of February 1987.
2/ Letter of Economic Policy of July 8, 1987.
3/ Memorandum on Economic Policy of November 12, 1987.
4/ Letter of Economic Policy of February 24, 1988.

Summary of Economic Program

1. Principal objectives

a. The program aims at reducing inflation to international levels by the end of 1990 based on a major improvement in the public finances. Real GDP is expected to recover from this year's decline and expand by about 5 percent in 1990.

b. The program envisages a reduction in the current account deficit to 2.7 percent of GDP in 1990 (3.8 percent in 1989) and in the overall balance of payments deficit to US$560 million (US$3.7 billion in 1989), with a substantial buildup of the Central Bank's disposable international reserves.

c. It is expected that Argentina's relations with external creditors will be regularized in the course of the program period.

2. Main assumptions

a. The external economic environment would evolve according to the most recent projections in the World Economic Outlook.

b. Money demand would strengthen as inflation recedes, with M1 rising from a low 1.7 percent of GDP in July 1989 to 3.6 percent of GDP in December 1989 and to 4.5 percent in December 1990.

c. Domestic interest rates in real terms would average 2 percent a month by the end of 1989 and about 1 percent a month in 1990; the Central Bank's cash losses would decline from 2 3/4 percent of GDP in the last quarter of 1989 to 1 3/4 percent of GDP in the last quarter of 1990.

d. Arrears and current maturities on eligible debts to Paris Club countries would be rescheduled before the end of 1989. There would be no change in the cut-off date.

3. Principal targets and instruments

a. Fiscal policy

The primary balance of the nonfinancial public sector moves from a small deficit in 1989 to a surplus equivalent to 6 percent of GDP in 1990. The operational result of the nonfinancial public sector would be in approximate balance, compared with a deficit of 6 1/4 percent of GDP in 1989. The overall deficit of the combined public sector (PSBR) would decline from nearly 21 percent of GDP in 1989 to 2 1/2 percent in 1990.

The improvement in the fiscal accounts in 1990 would come from an increase in revenue equivalent to about 8 percent of GDP, partly offset by an increase in spending of nearly 2 percent of GDP. These estimates are to be reviewed in the context of the budget exercise for 1990. The expected reduction of inflation would have little effect on the deficit, raising both treasury revenue and expenditure by about 2 percent of GDP.

b. Monetary policy

Domestic financing of the nonfinancial public sector would be curtailed substantially in the last quarter of 1989, and would be completely eliminated in 1990. On this basis the program makes room for an expansion of bank credit to the private sector of about 27 percent during 1990, after a substantial decline in 1989. The Central Bank would not extend advances to official banks to meet their legal reserve requirements and would pursue a tight rediscount policy. The social security system would not make use of the check-float with the Central Bank.

c. Incomes policies

For the round of collective bargaining that is to begin in October, the authorities have emphasized that any adjustment in wages should not reward past inflation and should be consistent with the overall price objectives for the period through end-March 1990. Any wage increases would have to be absorbed without passing them on to prices unless changes in the exchange rate or public sector tariffs become necessary.

For the National Administration, the intention is to give a wage award for the six-month period ending March 1990 that would raise the wage bill by no more than 10 percent. The increase would be given in the form of a fixed sum. Employees of the public enterprises would receive the same fixed form, implying an average increase of less than 10 percent.

d. External sector policies

The austral at present is some 10 percent more depreciated in real effective terms than in mid-1988. The authorities intend to assure the viability of the present exchange rate through tight fiscal. credit and wage policies. However, the authorities would keep the exchange rate under scrutiny with a view to preserving external competitiveness and achieving the balance of payments objectives of the program while making progress in liberalizing the exchange and trade system.

e. Structural policies

There will be a reform of the tax system centered on the extension of the value added tax to all goods and services at a single rate of 15 percent. Tax administration is to be strengthened and increased penalties will be established for tax evaders. Industrial promotion programs and other subsidies have been suspended and will be reviewed.

Public sector enterprises are to be privatized, starting with the state telephone company, a number of television and radio stations, and segments of the railway system. Road maintenance and the billing and collection of the public utilities are to be contracted out to private firms, and the state oil company is to enter into joint ventures with private companies for oil exploration and exploitation.

The central bank charter will be modified to make the institution independent from the Executive Branch and the financial position of the Bank will be strengthened. Legal reserve and investment requirements would be reduced over time to return to commercial banks the credit allocation function. There will be a reform of the official banks, with the operations of some of them being drastically cut back.

The import tariff will be lowered and simplified and the dispersion in creates will be reduced. All import prohibitions and quantitative restrictions are to be eliminated. Exchange restrictions on current transactions also would be eliminated. Export taxes would be eliminated for industrial products and reduced for agricultural products, and export licenses would no longer be required.

Exchange and Trade System 1/

Argentina's exchange and trade system involves the following multiple currency practices and restrictions on payments and transfers for current international transactions.

1. Multiple currency practices 2/

Service payments related to certain transactions including the transfer of dividends and profits, royalties, technical assistance, and passenger travel, can be effected only through the acquisition from the Central Bank of Argentina of marketable Government of Argentina bonds denominated in U.S. dollars (BONEX).

2. Exchange restrictions

a. There exists an exchange restriction evidenced by arrears on payments of interest on medium and long-term public debt to commercial banks and on other debt subject to the commercial bank debt rescheduling. According to official estimates, at the end of June 1989 these arrears amounted to US$3.5 billion.

b. There exists a further exchange restriction evidenced by arrears on other payments and transfers for current international transactions. According to official estimates, at the end of June 1989 these arrears amounted to US$1.8 billion. In accordance with paragraph 29 of the Memorandum on Economic Policy attached to the authorities' letter of October 12, 1989, these arrears are to be eliminated no later than end-March 1990.

1/ A more detailed description of the system as of December 31, 1988 is provided in the 1988 "Annual Report on Exchange Arrangements and Exchange Restrictions" and in Section VI, pp. 74-81 of the report on recent economic developments for the 1988 Article IV consultation (SM/89/30, 2/8/89).

2/ In addition to the multiple currency practice related to current transactions, two multiple currency practices related to capital transactions arise from the existence of swaps and from an option for the early cancellation of loans covered by central bank exchange rate guarantees. In November 1986, the Government introduced the option for the early cancellation of the exchange rate guarantee covering US$180 million in swap arrangements undertaken, and US$600 million in debts taken over, by the Central Bank in 1981-82. Under the program the domestic debtor may accept a U.S. dollar-denominated bond for that part of the underlying obligation for which the Government is responsible as a consequence of the foreign exchange contract. The debtor would continue to owe to its creditor the difference between the debt assumed by the Government and the original amount of the obligation. Such amounts, however, would be deleted from the Central Bank register and consequently the debtor would not be entitled to buy foreign exchange at the official rate.

c. The sale of exchange is not permitted for a number of bona fide current payments and transfers, including residents' payments for travel abroad.

d. The sale of exchange is not permitted for the repayment of foreign loans for which the domestic borrower obtained an exchange rate guarantee during 1981 and 1982; in some cases these loans were related to trade finance. In order to obtain repayment, the foreign creditor must reschedule such loans, either by accepting a U.S. dollar-denominated debt instrument of the Government of Argentina, or by renegotiating the loan directly with the domestic borrower according to minimum terms established by the Central Bank.

e. Minimum foreign financing terms of one year apply to imports of capital goods valued at more than US$50,000, although up to 15 percent of the f.o.b. value of the import may be paid in advance on presentation of shipping documents.

f. Minimum foreign financing terms of 90 days have been established for imports other than capital goods valued at more than US$50,000, with the exception of imports shipped from and originating in member countries of the Latin American Integration Association which may be paid immediately or financed according to agreement between the parties.

g. If an import-related obligation is not cancelled at maturity, it may be rescheduled for a similar minimum period of 90 days for most imports; if not paid within one year, the obligation would be subject to the same rules of access to official foreign exchange as those applying to financial loans at that time.

h. According to an agreement under which Bolivia exports natural gas to Argentina, a fixed proportion of payments by Argentina may be made into a noninterest-bearing account at the Central Bank of Argentina that can be used by Bolivia solely for purchases of Argentine goods to be used in Bolivia, and for Bolivia's debt service payments to Argentina.

3. Imports

All imports require a Sworn Declaration of Import Need (Declaracion Jurada de Necesidades de Importacion). Under the import licensing system introduced in 1984, imports are divided into three categories: prohibited goods; imports subject to prior Government approval, which customarily follows the recommendations of domestic producers' associations; and other imports for which clearance is more readily available. Quantitative restrictions arise from the prohibitions in the first category of imports, which now cover 900 tariff positions and account for about 3.5 percent of production coverage of industrial products, and from the prior consultation with domestic producers required for the second category of goods which now account for 10 percent of industrial production coverage.

The total production coverage of quantitative import restrictions, now 13.6 percent, has been reduced from over 60 percent at the beginning of 1987. When initially introduced, the prohibited list covered imports of most consumer goods and many industrial goods produced in Argentina. Imports requiring prior approval included most capital goods and certain industrial imports; in the case of iron and steel, control was exercised by the General Directorate of Military Industries, rather than by the Secretariat for Industry and External Trade (SICE). At present, prohibited goods are largely pharmaceuticals and food items controlled for health and quality reasons. The imports on the prior consultation list are mostly manufactured goods, in particular textiles (5-6 percent of the 13.6 percent total), petrochemical products, and small automobiles and automobile products, as well as some mining and meat products and sugar. A further category of imports, including electronic goods, are effectively deterred through the application of very high specific tariffs; such tariffs apply to 1.7 percent of production coverage. Electronic goods are also subject to additional ad valorem tariffs.

Imports of goods not legally subject to quantitative controls, which now include iron and steel products, must have declarations cleared through SICE; this is supposed to be for information purposes only. Imports of a number of these products remain very limited. Before March 1989, full automaticity had been established for 8,100 of the total 11,800 tariff positions under a system whereby import declarations could be cleared through the banking system.

The structure of import tariffs remains complex, although the level and dispersion of rates have been reduced since 1987. Basic import tariffs are now in a range of 5-40 percent. In addition to tariffs, surcharges and the value-added tax, importers also must pay a 3 percent statistical tax, a consular fee of 6 percent and some other charges.

4. Exports

Export taxes are applied to all exports at present; a general tax of 20 percent for industrial exports and 30 percent for agricultural exports was established in May 1989. The tax is to be phased out gradually on industrial products and reduced on agricultural products.

A number of special export schemes (described in SM/89/30) have been temporarily suspended under the Economic Emergency Law. Another scheme, which permits exporters to have automatic duty-free access to a range of imported inputs provided these are re-exported within one year, has been expanded so that it now covers the bulk of raw materials and basic inputs.

Statistical Issues

In recent years, statistical information in Argentina has been subject to considerable problems, which have hampered the evaluation of economic policies and the monitoring of developments. In some areas, the data base is poorly developed and statistics are based on rough estimates. In other areas, while reporting systems are in place, coverage is sometimes incomplete and the data become available with substantial lags.

In the course of 1983, it became apparent that the external debt statistics did not adequately record debt movements during a period of payments disruption, and the existing reporting system was discontinued. A new survey of the stock of debt at the end of 1983 was completed, but the new system for collecting debt statistics did not become operational and estimates of the stock of debt after 1983 were based on end-1983 data and flow data from the balance of payments. A registration of private and public debt was completed in 1987 and debt estimates are now available for December 1986.

The difficulties with the external debt data affect the measurement of the borrowing requirements of the nonfinancial public sector. Data on domestic financing of the nonfinancial public sector also present some problems. There are delays in the reporting of public sector deposits with the banking system, while information on financing received by provincial governments, particularly in the form of debt issues or floating debt, is not gathered on a systematic basis. Moreover, there is a lack of information on changes in credits from domestic suppliers to the public enterprises.

On the revenue and expenditure of the nonfinancial public sector, monthly data are available in a timely fashion for the Central Administration. However, a cash accounting of the operations of other segments of the nonfinancial public sector on a quarterly basis was begun only in 1983, and problems remain, particularly as regards the public enterprises and the provinces; it may be noted that there have been significant discrepancies between estimates of the deficit of the nonfinancial public sector from above and below the line. Furthermore, there is a lack of up-to-date information on fiscal operations on a budget execution basis, which are prepared only on an annual basis. As a result, a close monitoring of nonfinancial public sector revenue and spending is not possible, which makes it difficult to analyze fiscal trends and to exercise budgetary control. During a two-year period that ended in mid-1988 technical assistance was provided by the Fiscal Affairs Department to improve the provision of fiscal information.

There are also difficulties in the measurement of the operating losses of the Central Bank, in part because the accounting system in the Bank was designed to provide an annual audit and not to track the financial situation of the institution on a monthly or quarterly basis. In particular, information on the Central Bank's outstanding rediscounts has been limited, and detailed data on the interest accrued and capital adjustments on outstanding credits have not been available. The World Bank has been providing technical assistance to improve the quality and timeliness of information on rediscounts.

In the area of monetary statistics, information is available with less than a month's lag on the monthly averages of the monetary aggregates, based on data on the required reserves of financial institutions. However, comprehensive information from this source is only available since the end of 1983 and does not distinguish between public and private holdings. Data on the monetary aggregates on an end-of-month basis (from the accounts of the financial institutions) have a longer historical reach and distinguish between public and private deposits, but this information is subject to a delay of three months or more.

There are shortcomings in the Central Bank balance sheet, including delayed recording of external transactions. Purchases of foreign exchange by the Central Bank are reflected in the accounts at the exchange rate of the date of each operation, while sales of foreign exchange are recorded at the average exchange rate of past transactions; consequently, the net stock of foreign exchange is accounted for at an average exchange rate that historically has differed substantially from the end-of-period rate. In addition, there is no breakdown available for Central Bank claims on commercial banks and claims on other financial institutions, or a breakdown of investments with the Central Bank between commercial banks and financial institutions.

The statistical base for certain important series on prices and output is outdated. The index of industrial production is based on an establishment survey conducted in 1970, and does not take account of the changes in the structure of the industrial sector since then, which are believed to have been important; this may have led to a considerable underestimation of industrial production in the National Accounts. A new industrial census was undertaken in 1984 and is now being used to revise the establishment survey; figures for industrial production on this new basis should be available by end-1989. The employment index would be revised at the same time. A new consumer price index was introduced in 1989, with weights based on a family expenditure survey of 1985-86.

The situation as regards the data published in Fund publications is as follows:

1. Government Finance Statistics Yearbook (GFSY)

The 1987 issue of the GFSY includes data in the statistical and derivation tables through 1985 for the consolidated central government. Data for provincial governments also are included through 1985. No data are available for local governments.

2. International Financial Statistics (IFS)

The data published in IFS are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Argentina. The currentness and coverage of data published in the country page for Argentina in the September 1989 issue of IFS are shown below:

Real Sector	- National Accounts	1983
	- Prices: wholesale prices	February 1989
	- consumer prices	February 1989
	- Production: manufacturing	Q2 1987
	- Employmnet	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1986
	- Financing	1986
	- Debt	1986
Monetary Accounts	- Monetary Authorities	Q4 1988
	- Deposit Money Banks	Q4 1988
	- Other Financial Institutions	Q4 1988
	- Interest Rates: deposit rate	Q3 1987
	lending rate	Q3 1986
	bond yield	n.a.
External Sector	- Merchandise Trade: value	March 1988
	prices	December 1988
	- Balance of Payments	Q4 1988
	- International Reserves	December 1988
	- Exchange Rates	July 1989

Argentina--Basic Data

Area and demographic indicators	
Area	2,766.9 thous. sq. km.
Population (1987)	31.5 million
Annual rate of population growth (1983-87)	1.6 percent
Density (1987)	11.4 per sq. km.
Crude birth rate	23.6 per 1,000
Crude death rate	8.9 per 1,000
Infant mortality	34.4 per 1,000 live births
Social indicators	
Population per physician	500
Population per hospital bed	200
Percent of personal income, highest quintile (1970-76)	50.3
lowest quintile (1970-76)	4.4
Percent of population - urban (1980)	65.0
rural (1980)	17.0
Access to electricity (1980)	87.0 percent of population
Consumption per capita (1985)	14.60 kg. of oil equivalent
Calorie intake (1982-85)	119.2 percent of requirement
Per capita protein intake (1982-85)	99.7 grams per day
Adult literacy rate (1978)	93.0 percent
Primary school enrollment (1982-85)	107.0 percent
GDP (1989)	SDR 50,793 million 1/
	US$68,352 million 1/
	₳ 22,427,160 billion
GDP per capita (1989)	SDR 1,588 1/

	1985	1986	1987	1988	Projected 1989	Projected 1990
			(percent)			
Origin of GDP						
Agriculture, livestock and fishing	15.9	14.6	14.7	15.4	14.6	15.5
Mining	2.7	2.5	2.5	2.6	2.7	2.6
Manufacturing	22.6	24.2	23.6	22.5	22.9	21.9
Construction	3.2	3.3	3.7	3.4	3.1	3.1
Electricity, gas, and water	4.7	4.8	4.9	5.0	5.3	5.4
Commerce	14.1	14.5	14.5	14.8	14.8	14.8
Transport and communications	11.7	11.5	11.6	11.9	12.3	12.2
Finance and banking	7.8	7.9	8.0	8.0	8.2	8.1
Other services	17.4	16.7	16.5	16.4	16.3	16.4
Ratios to GDP						
Exports of goods and nonfactor services 1/	17.1	13.4	12.4	16.5	16.2	17.3
Imports of goods and nonfactor services 1/	9.8	11.0	12.0	11.4	10.7	11.6
Factor services (net) 1/	-8.8	-6.8	-6.6	-7.5	-9.4	-8.5
Current account of the balance of payments 1/	-1.6	-4.4	-6.2	-2.4	-3.8	-2.7
Central government revenues 2/	20.4	21.4	19.9	18.5	18.7	26.1
Central government expenditures 2/3/	23.9	23.1	23.5	22.1	22.1	24.7
Nonfinancial public sector savings 2/3/	-2.5	-0.1	-1.3	-2.6	-4.7	1.4
Nonfinancial public sector overall balance 2/4/	-5.1	-2.5	-5.6	-6.3	-16.1	-1.2
Central bank losses 4/	-2.8	-1.6	-0.9	-0.6	-4.7	-1.3
Overall deficit combined public sector 4/	-7.9	-4.1	-6.5	-6.9	-20.8	-2.5
External debt (end of year) 1/	82.2	79.1	85.3	85.7	86.4	82.2
Gross national savings	10.7	7.8	7.5	11.2	8.7	10.6
Gross aggregate investment	12.3	12.2	13.7	13.6	12.5	13.3
Financial system liabilities to private sector (average)	13.5	18.5	19.4	19.8	15.1	16.7
Annual changes in selected economic variables						
Real GDP per capita	-5.9	4.0	0.4	-4.7	-6.6	2.9
Real GDP at 1970 prices	-4.5	5.5	2.0	-3.1	-5.0	4.5
GDP at current prices	649.7	87.7	138.5	355.6	2,696.6	115.8
Domestic expenditures (at current prices)	637.3	92.3	141.3	338.8	2,661.6	116.7
Consumption	652.9	93.2	139.3	336.6	2,693,2	114.8
Investment	551.1	87.0	155.5	353.0	2,470.4	129.6
GDP deflator	685.4	78.0	133.7	370.2	2,843.7	106.5
Wholesale prices (annual average)	662.5	63.9	122.9	412.5	3,150.4	105.3
Consumer prices (annual average)	672.2	90.1	131.3	343.0	2,777.2	125.1
Central government revenues 2/	809.4	84.6	119.4	321.0	2,953.8	186.1
Central government expenditures 2/3/	662.1	76.8	138.4	322.7	2,632.3	148.0
Financial system liabilities to private sector	320.2	100.6	149.0	356.5	548.3	49.0
Monetary liabilities	596.2	85.5	124.9	337.6	2,749.0	51.4
Other liabilities	249.1	108.1	158.8	361.8	411.9	48.2
Net domestic assets 5/6/	329.0	120.3	207.5	398.5	569.3	53.6
Credit to private sector 5/	196.7	67.3	122.9	232.5	300.6	26.8
Credit to public sector 5/6/	126.4	48.7	106.4	295.1	884.1	11.1
Other 5/	5.9	4.3	-21.8	-129.1	-615.3	15.7
Merchandise exports (f.o.b. in U.S. dollars)	3.6	-18.4	-7.2	43.6	-3.2	18.9
Merchandise imports (c.i.f. in U.S. dollars)	-16.8	23.9	23.2	-8.5	-11.7	27.7

	1985	1986	1987	1988	Projected 1989	1990
Central government finances 2/		(millions of australes)				
Revenue	8,540	15,762	34,580	145,570	4,445,485	12,717,993
Expenditure 3/	9,779	17,291	41,203	174,161	4,758,636	11,799,900
Current account balance	-1,155	-1,266	-5,367	-27,947	-263,227	466,400
Overall balance	-1,239	-1,530	-6,623	-28,591	-313,151	918,093
Balance of payments		(billions of U.S. dollars)				
Merchandise exports, f.o.b	8.4	6.9	6.4	9.1	8.8	10.5
Merchandise imports, c.i.f.	3.8	4.7	5.8	5.3	4.7	6.0
Travel (net)	-0.1	-0.3	-0.3	-0.3	-0.2	-0.1
Interest payments	5.1	4.3	4.2	4.7	6.0	6.1
Other factor income (net)	-0.2	-0.1	-0.3	-0.4	-0.4	-0.3
Other services and transfers (net)	-0.1	-0.2	-0.1	--	--	--
Balance on current account	-1.0	-2.9	-4.2	-1.6	-2.6	-2.0
Direct investment	0.9	0.6	--	1.1	1.1	0.8
Loans from international organizations	0.2	0.4	0.7	0.4	0.3	0.6
Other capital flows	-0.7	-0.2	-0.6	-1.3	-2.5	--
SDR allocations and valuation adjustments	0.4	0.4	-0.1	0.1	--	--
Changes in net official reserves (increase -)	0.1	1.7	4.2	1.3	3.7	0.6

	December 31 1985	1986	1987	1988	Projected 1989	1990
International reserve position			(billions of SDRs)			
Central Bank (gross)	4.2	3.5	2.1	3.7	2.4	4.5
Central Bank (net)	-5.6	-6.5	-8.6	-10.3	-13.6	-14.4
Central Bank and Treasury (net)	-7.7	-8.3	-10.1	-11.7	-15.2	-15.6

1/ GDP in U.S. dollars is derived by converting GDP in australes using the U.S. dollar/austral exchange rate that would maintain the rate at its real level in the second half of 1985. GDP in SDRs is obtained by converting this estimate for GDP in U.S. dollars using the actual SDR/U.S. dollar exchange rate.

2/ Data are on a cash basis, except external interest payments which are on an accrual basis.

3/ Interest payments exclude inflationary component.

4/ Annual figures are calculated as simple average of quarterly ratios.

5/ Change as a percentage of liabilities to the private sector at the beginning of the period.

6/ Includes credit to the nonfinancial public sector and the operating losses of the Central Bank.

Table 13. Argentina: National Accounts in Current Prices

(In millions of australes)

	1983	1984	1985	1986	1987	1988
Gross domestic expenditure	649.3	5,111.2	36,850.0	72,892.5	177,017.8	775,883.6
Consumption	531.0	4,345.0	31,960.2	63,296.6	152,742.1	666,081.1
Private	441.9	3,643.8	27,027.4	53,843.1	128,634.1	...
Government	89.1	701.2	4,932.8	9,453.5	24,108.0	...
Gross domestic investment	118.3	766.2	4,889.8	9,595.9	24,275.7	109,802.5
Fixed capital formation	117.9	812.7	5,323.6	9,756.8	24,617.6	104,963.2
Private	53.3	391.7	2,600.8	4,194.9	10,934.0	...
Public	64.6	421.0	2,722.8	5,561.9	13,683.6	...
Change in inventories	0.4	-46.5	-433.8	-160.9	-341.9	4,839.3
Foreign balance	33.3	169.8	2,742.5	1,416.5	177.2	31,487.5
Exports of goods and nonfactor services	100.2	641.0	6,200.3	8,181.6	18,073.9	112,224.6
Imports of goods and nonfactor services	-66.9	-471.2	-3,457.8	-6,765.1	-17,896.7	-80,737.1
Gross domestic product at market prices	682.7	5,281.0	39,592.5	74,309.0	177,195.0	807,371.0
Net factor payments abroad	-62.2	-418.3	-3,461.9	-4,168.0	-9,823.6	-60,940.0
Gross national product at market prices	620.5	4,862.7	36,130.6	70,141.0	167,371.4	746,431.0

Source: Ministry of Economy; Central Bank of Argentina; and Fund staff estimates.

Table 14. Argentina: National Accounts in Constant Prices

(In australes at 1970 prices)

	1983	1984	1985	1986	1987	1988
Gross domestic expenditure	9,828	10,166	9,339	10,172	10,461	9,803
Consumption	8,358	8,859	8,293	8,953	9,027	8,486
Private	7,110	7,585	7,013	7,620	7,614	...
Government	1,248	1,274	1,280	1,333	1,437	...
Gross domestic investment	1,470	1,307	1,046	1,219	1,434	1,316
Fixed capital formation	1,458	1,326	1,172	1,267	1,451	1,258
Private	656	608	590	554	650	...
Public	802	718	582	713	801	...
Change in inventories	12	-19	-126	-48	-18	59
Foreign balance	493	419	766	484	393	728
Exports of goods and nonfactor services	1,519	1,508	1,697	1,578	1,563	1,752
Imports of goods and nonfactor services	-1,026	-1,089	-931	-1,094	-1,170	-1,024
Gross domestic product at market prices	10,321	10,585	10,105	10,656	10,863	10,531
Net factor payments abroad	-940	-837	-883	-597	-600	-791
Gross national product at market prices	9,381	9,748	9,221	10,059	10,272	9,740

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

Table 15. Argentina: Industrial Origin of Gross Domestic Product

	1983	1984	1985	1986	1987	1988
(In thousands of australes at 1970 prices)						
GDP at factor cost	9,145	9,378	8,953	9,441	9,624	9,330
Primary sector	1,653	1,693	1,662	1,607	1,649	1,676
Agriculture, livestock and fishing	1,403	1,445	1,420	1,375	1,416	1,421
Mining	250	248	242	232	233	255
Secondary sector	2,937	2,969	2,721	3,040	3,100	2,913
Manufacturing	2,170	2,253	2,020	2,280	2,267	2,109
Construction	380	304	283	311	357	305
Electricity, gas and water	387	412	418	448	476	499
Service sector	4,554	4,716	4,569	4,794	4,876	4,741
Commerce	1,315	1,374	1,260	1,370	1,390	1,305
Transport and communications	1,033	1,090	1,049	1,102	1,131	1,070
Finance and banking	698	707	698	746	768	762
Other services	1,508	1,545	1,562	1,575	1,587	1,605
(Percentage change)						
GDP at factor cost	3.0	2.6	-4.5	5.5	1.9	-3.1
Primary sector	2.1	2.5	-1.8	-3.3	2.6	1.6
Agriculture, livestock and fishing	2.4	3.0	-1.7	-3.2	3.0	0.4
Mining	0.2	-0.6	-2.7	-3.9	0.2	9.5
Secondary sector	6.2	1.1	-8.3	11.7	2.0	-6.0
Manufacturing	10.2	3.8	-10.3	12.9	-0.6	-7.0
Construction	-13.1	-20.0	-6.6	9.5	14.7	-14.5
Electricity, gas and water	8.0	6.5	1.4	7.4	6.1	4.9
Service sector	1.4	3.5	-3.1	4.9	1.7	-2.8
Commerce	4.3	4.5	-8.3	8.7	1.4	-6.1
Transport and communications	4.2	5.4	-3.8	5.1	2.7	-5.4
Finance and banking	-7.0	1.3	-1.3	7.0	2.7	-0.8
Other services	1.2	2.5	1.1	0.8	0.8	1.1
(Percentage distribution)						
GDP at factor cost	100.0	100.0	100.0	100.0	100.0	100.0
Primary sector	18.1	18.1	18.6	17.0	17.1	17.9
Agriculture, livestock and fishing	15.3	15.4	15.9	14.6	14.7	15.2
Mining	2.7	2.6	2.7	2.5	2.4	2.7
Secondary sector	32.1	31.7	30.4	32.2	32.2	31.2
Manufacturing	23.7	24.0	22.6	24.2	23.6	22.6
Construction	4.2	3.2	3.2	3.3	3.7	3.3
Electricity, gas and water	4.2	4.4	4.7	4.8	4.9	5.3
Service sector	49.8	50.3	51.0	50.8	50.7	50.9
Commerce	14.4	14.6	14.1	14.5	14.4	14.0
Transport and communications	11.3	11.6	11.7	11.7	11.8	11.5
Finance and banking	7.6	7.5	7.8	7.9	8.0	8.2
Other services	16.5	16.5	17.4	16.7	16.5	17.2

Source: Central Bank of Argentina.

Table 16. Argentina: Index of Agricultural Production

(1970 = 100)

	1983	1984	1985	1986	1987	1988
Total	134.9	140.7	138.8	134.9	137.4	138.0
Agriculture	162.3	173.4	169.8	161.1	167.6	169.0
Cereals	150.9	151.3	138.5	120.3	112.4	102.3
Oilseeds	388.1	522.6	557.2	517.7	583.3	621.8
Industrial crops	132.8	122.2	114.5	117.6	128.4	137.8
Fruits and flowers	121.2	122.7	114.8	122.5	130.2	129.3
Vegetables	124.7	125.7	133.9	139.9	137.8	136.3
Livestock	109.5	105.9	106.7	105.9	108.2	109.2
Cattle	106.3	103.5	101.9	98.3	97.9	99.8
Other livestock	72.5	63.4	65.5	66.2	75.0	75.7
Wool	87.2	82.8	77.3	81.3	88.3	93.4
Milk	134.5	126.7	139.7	147.8	155.1	153.8
Forestry	110.1	112.2	113.7	113.7	114.4	114.4
Fishing	204.4	155.6	195.6	202.2	251.1	226.8

Source: Central Bank of Argentina.

Table 17. 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 hectare)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Cereals							
Wheat							
Planted area	7,410	7,200	6,000	5,700	5,000	4,850	4,530
Harvested area	7,320	7,073	5,900	5,381	4,893	4,789	4,407
Yield	2.05	1.84	2.31	1.62	1.78	1.88	0.68
Production	15,000	13,000	13,600	8,700	8,700	9,000	3,000
Corn							
Planted area	3,440	3,484	3,620	3,820	3,650	2,825	2,600
Harvested area	2,970	3,025	3,340	3,231	2,900	2,438	2,236
Yield	3.03	3.14	3.56	3.75	3.19	3.79	2.04
Production	9,000	9,500	11,900	12,100	9,250	9,200	4,570
Oats							
Planted area	1,856	1,800	1,774	1,739	1,530	1,950	...
Harvested area	408	410	434	333	312	466	...
Yield	1.56	1.45	1.65	1.20	1.58	1.40	...
Production	637	593	717	400	495	650	...
Barley							
Planted area	353	292	282	226	209	242	...
Harvested area	119	96	107	76	76	126	...
Yield	1.77	1.73	2.09	1.55	1.84	2.29	...
Production	211	166	224	118	140	289	...
Rye							
Planted area	1,483	1,223	1,070	830	775	532	...
Harvested area	174	160	159	90	65	95	...
Yield	0.85	0.81	0.98	1.04	0.93	0.90	...
Production	148	130	156	94	60	85	...
Rice							
Planted area	109	131	111	117	98	92	...
Harvested area	81	129	105	100	90	92	...
Yield	3.42	3.74	3.61	3.78	3.92	4.18	...
Production	277	480	379	378	352	383	...
Sorghum							
Planted area	2,657	2,550	2,040	1,400	1,127	1,150	1,200
Harvested area	2,520	2,371	1,965	1,280	977	956	1,044
Yield	3.27	2.91	3.16	3.13	3.07	3.35	4.41
Production	8,100	6,900	6,200	4,000	3,000	3,200	4,600

Table 17. 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 hectare

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Oilseeds							
Linseed							
Planted area	910	810	620	750	758	720	602
Harvested area	864	804	603	688	745	719	...
Yield	0.84	0.82	0.83	0.67	0.84	0.91	...
Production	730	660	500	460	622	652	473
Sunflower seeds							
Planted area	1,930	2,131	2,380	3,140	1,891	2,115	2,350
Harvested area	1,902	1,989	2,360	3,046	1,735	2,028	2,232
Yield	1.26	1.11	1.45	1.35	1.27	1.43	1.41
Production	2,400	2,200	3,400	4,100	2,200	2,900	3,140
Soybeans							
Planted area	2,362	2,920	3,300	3,340	3,700	4,413	5,100
Harvested area	2,281	2,910	3,269	3,314	3,550	4,373	4,998
Yield	1.75	2.41	1.99	2.14	2.03	2.26	1.80
Production	4,000	7,000	6,500	7,100	7,200	9,900	9,000
Groundnuts							
Planted area	125	146	146	170	240	194	176
Harvested area	125	146	146	170	238	190	...
Yield	1.28	1.61	1.64	1.21	1.47	1.63	...
Production	160	235	240	205	350	310	...
Industrial crops							
Cotton							
Planted area	373	486	463	353	292	...	...
Harvested area	343	470	447	338	273	...	...
Yield	1.09	1.30	1.20	0.98	1.18	...	...
Production	373	610	536	330	323	673	...
Tobacco							
Planted area	67	64	43	55	55	...	...
Harvested area	60	61	40	49	51	...	...
Yield	1.23	1.23	1.50	1.35	1.41	...	...
Production	74	75	60	66	68	70	...
Sugarcane							
Planted area	354	358	347	359	357	...	...
Harvested area	313	319	...	...	...	...	...
Yield	48.15	48.49	...	...	...	...	...
Production	15,070	15,468	14,140	14,475	14,355	14,000	...

Sources: Central Bank of Argentina; and Secretariat of Agriculture and Livestock.

Table 18..Argentina: Unemployment and Labor Force Participation

(In percent of active population)

	Unemployment Rate: National Average	Unemployment Rate: Greater Buenos Aires	Underemployment Rate 1/	Labor Force Participation Rate 2/
1980				
April	2.6	2.3	4.7	39.3
October	2.5	2.2	4.5	39.4
1981				
April	4.2	4.0	4.6	39.5
October	5.3	5.0	5.8	39.2
1982				
April	6.0	5.7	6.4	39.1
October	4.6	3.8	5.6	39.2
1983				
April	5.5	5.2	4.6	38.1
October	3.9	3.1	4.9	37.7
1984				
April	4.7	4.1	4.5	38.4
October	4.4	3.5	4.7	38.8
1985				
April	6.3	5.7	5.5	38.9
October	5.9	4.9	6.6	38.9
1986				
April	...	4.8	6.4	39.6
October	5.2	4.4	6.3	40.0
1987				
April	6.0	5.4	8.0	40.9
October	5.7	5.2	7.8	40.1
1988				
May	6.5	6.3	7.7	40.4
October	...	5.7	7.4	40.5

Source: National Statistical Office.

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

2/ In percent of total population.

Table 19. Argentina: Public and Private Sector Wages

(Percentage change during previous 12 months)

	December						April
	1983	1984	1985	1986	1987	1988	1989
	(In nominal terms)						
National Administration	514.3	562.7	244.6	79.0	183.0	461.3	2,678.2 1/
Public enterprises	637.4	611.5	339.1	99.9	148.4	551.9	4,132.1 1/
Average monthly wage in manufacturing	603.1	733.5	303.9	88.6	148.8	482.3	391.9
Average hourly wage in manufacturing	591.7	801.8	284.1	80.0	157.3	442.6	449.3
	(In real terms) 2/						
National Administration	15.1	-15.9	-30.3	-3.5	3.0	-1.6	-29.3 1/
Public enterprises	40.3	-10.2	-9.5	9.9	-9.6	-14.3	7.7 1/
Average monthly wage in manufacturing	31.7	5.8	-16.8	3.7	-9.4	-2.1	-2.0
Average hourly wage in manufacturing	29.2	14.4	-21.2	-1.0	-6.4	-4.9	9.4
Purchasing power of hourly wage 3/	25.1	17.8	-13.0	0.5	-9.5	0.9	-10.6

Sources: Ministry of Economy; Ministry of Public Works and Services; and National Institute of Statistics.

1/ September.
2/ Deflated by the consumer price index.
3/ Assumes that 25 percent of wage is spent in the month in which it is earned and the rest in the following month.

Table 20. 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
1980				
December	3.8	87.6	0.9	57.7
1981				
December	8.8	131.3	10.6	180.2
1982				
December	10.6	209.7	10.2	311.3
1983				
December	17.1	433.7	18.7	411.3
1984				
December	19.7	688.0	23.2	625.7
1985				
December	3.2	385.4	1.0	364.0
1986				
January	3.0	299.7	--	282.9
February	1.7	236.8	0.8	227.5
March	4.6	178.6	1.4	160.1
April	4.7	125.4	3.0	103.7
May	4.0	87.4	2.7	59.5
June	4.5	50.1	4.6	17.2
July	6.8	50.9	5.1	24.4
August	8.8	59.3	9.4	34.0
September	7.2	67.5	6.8	42.2
October	6.1	74.2	5.3	48.6
November	5.3	79.2	4.9	54.8
December	4.7	81.9	3.0	57.9
1987				
January	7.6	89.9	5.3	66.3
February	6.5	98.9	6.9	76.5
March	8.2	105.6	7.8	87.6
April	3.4	103.0	1.9	85.7
May	4.2	103.2	4.9	89.6
June	8.0	110.0	6.7	94.0
July	10.1	116.6	9.4	101.4
August	13.7	126.6	14.6	111.0
September	11.7	135.8	16.6	130.4
October	19.5	165.8	30.4	185.6
November	10.3	178.3	4.3	183.9
December	3.4	174.8	2.2	181.8
1988				
January	9.1	178.7	12.1	199.9
February	10.4	189.0	13.3	218.1
March	14.7	206.3	16.2	242.4
April	17.2	247.6	16.8	293.0
May	15.7	286.0	23.3	361.7
June	18.0	321.8	24.0	429.4
July	25.6	381.2	25.0	513.7
August	27.6	440.0	31.9	606.5
September	11.7	440.0	6.3	544.3
October	9.0	392.4	4.6	416.7
November	5.7	372.0	3.9	414.7
December	6.8	387.5	5.7	431.9
1989				
January	8.9	387.0	6.9	407.2
February	9.6	383.2	8.4	385.0
March	17.0	392.8	18.9	396.1
April	33.4	460.8	58.0	570.9
May	78.5	765.0	103.7	1,008.6
June	114.5	1,472.8	132.3	1,976.0
July	196.6	3,612.9	208.2	5,017.8
August	37.9	3,911.8	8.5	4,108.8
September	9.4	3,829.5	2.5	3,954.0

Source: National Institute of Statistics.

Table 21. Argentina: Relative Price Movements

(Percentage change during year or quarter)

	Consumer Prices for Buenos Aires	Wholesale Price Index			
		General	Agri-cultural Goods	National Nonagri-cultural Goods	Imported Goods
1981	131.3	180.2	212.8	166.6	237.5
1982	209.7	311.3	314.0	295.9	497.3
1983	433.7	411.3	392.3	426.6	342.2
1984	688.0	625.7	619.8	624.4	661.5
1985	385.4	363.9	336.4	363.9	405.7
1986	81.8	57.9	74.4	55.8	53.5
1987	174.8	181.8	153.5	182.8	215.8
1984					
1st Quarter	58.4	52.8	69.8	46.5	56.4
2nd Quarter	63.6	65.5	60.3	68.4	62.5
3rd Quarter	85.3	75.7	81.2	78.5	65.7
4th Quarter	64.2	63.0	45.9	64.5	80.8
1985					
1st Quarter	91.0	82.2	49.3	87.2	87.8
2nd Quarter	111.4	145.5	95.9	149.8	166.8
3rd Quarter	11.6	1.2	32.6	-2.0	0.1
4th Quarter	7.7	2.5	12.5	1.3	0.8
1986					
1st Quarter	9.6	3.1	2.7	1.8	4.6
2nd Quarter	13.9	10.6	18.7	9.7	7.4
3rd Quarter	24.5	22.8	42.2	19.8	19.8
4th Quarter	17.0	13.8	0.6	16.5	14.0
1987					
1st Quarter	24.0	21.4	24.0	20.9	21.8
2nd Quarter	16.3	14.1	17.7	13.7	11.8
3rd Quarter	39.9	46.2	46.2	45.6	51.2
4th Quarter	36.3	39.2	18.7	41.3	53.5
1988					
1st Quarter	38.2	47.7	40.3	48.6	49.6
2nd Quarter	60.0	78.7	78.4	79.0	76.5
3rd Quarter	79.0	75.4	104.2	72.6	65.6
4th Quarter	23.1	14.9	8.8	15.5	17.3
1989					
1st Quarter	39.6	37.8	56.4	33.4	48.3
2nd Quarter	410.8	647.7	554.0	608.2	1,148.9
3rd Quarter	347.5	242.8	...	...	...

Source: National Institute of Statistics.

Table 22. Argentina: Operations of the Nonfinancial Public Sector (Cash Basis) 1/

(In millions of australes)

	1985	1986	1987	1988	1989 2/
Total revenue	8,907.6	16,534.8	36,330.7	156,051.3	4,723,271.0
Current revenue	8,596.6	15,995.0	35,708.9	148,789.7	4,610,654.0
Tax revenue	7,201.2	13,601.2	30,255.8	127,651.1	3,980,575.0
Nontax revenue	1,395.4	2,393.8	5,453.1	21,138.6	630,079.0
Of which:					
Operating surplus of public enterprises	343.8	941.4	2,180.8	10,067.2	249,540.0
Capital revenue	311.0	539.8	621.8	7,261.6	112,617.0
Total expenditure	10,879.4	18,764.5	45,324.5	196,773.7	5,387,557.5
Current expenditure	9,509.9	16,439.2	38,398.2	170,228.4	4,676,051.5
Wages and salaries	1,579.9	2,515.6	6,305.3	29,013.2	761,732.0
Goods and services	517.7	1,135.3	2,354.8	9,629.3	224,149.0
Interest	2,305.0	3,120.7	6,887.8	31,358.0	939,347.5
Domestic	287.3	389.0	716.0	2,998.0	-649,073.8
External	2,017.7	2,731.7	6,171.8	28,360.0	1,588,421.3
Transfers	5,095.3	9,590.9	22,330.8	99,245.6	2,707,778.0
Provinces and MBA	2,353.1	4,288.3	10,788.0	47,811.2	1,462,127.0
Pensions	2,452.7	4,623.5	9,996.7	45,638.1	1,051,023.0
Other	289.5	679.1	1,546.1	5,796.3	194,628.0
Extrabudgetary	12.0	76.7	519.5	982.3	43,045.0
Capital expenditure	1,369.5	2,325.3	6,926.3	26,545.3	711,506.0
Operational surplus or deficit (-)	-1,971.8	-2,229.7	-8,993.8	-40,722.4	-664,286.5

1/ Public enterprises included on a net basis.
2/ Estimated.

Table 23. Argentina: Nonfinancial Public Sector Revenue 1/

(In millions of australes)

	1985	1986	1987	Prel. 1987 2/	Prel. 1988	Prel. 1989 3/
Total revenue	11,052.6	20,282.3	44,263.0	36,207.2	145,984.0	4,473,731.0
By type of revenue						
Current revenue	10,691.8	19,446.9	42,885.9	34,850.6	138,722.0	4,361,114.0
Tax revenue	8,748.7	16,598.7	37,508.2	31,218.9	127,651.1	3,980,575.0
Taxes on income	378.8	890.0	2,612.7	2,612.7	10,037.7	237,400.0
Taxes on wages	1,906.3	3,800.2	8,818.3	8,818.3	26,445.4	635,914.0
Social security contributions	1,421.2	2,936.2	6,686.6	6,686.8	26,445.4	635,914.0
Other taxes on wages	485.1	864.0	2,131.5	2,131.5	...	...
Taxes on property	780.2	1,505.4	3,930.8	1,442.7	5,775.3	125,023.0
Net wealth taxes	256.7	566.2	1,300.0	1,300.0	5,775.3	125,023.0
Tax on transfers of financial assets	22.7	45.4	142.7	142.7	...	...
Property taxes (provincial)	338.2	639.1	1,696.4	—	—	—
Automobile license tax (provincial)	162.6	254.7	791.7	—	—	—
Taxes on goods and services	3,743.6	7,144.4	15,708.7	12,429.0	42,247.5	999,635.0
Value-added tax	1,173.0	2,289.2	4,670.7	4,670.7	15,298.4	467,042.0
Excise taxes	1,881.9	3,303.8	7,758.3	7,758.3	26,949.1	532,593.0
Consolidated excises	529.9	1,139.4	2,589.7	2,589.7	10,027.9	219,448.0
Tax on fuels	1,098.9	1,669.0	3,199.3	3,199.3	6,395.6	104,886.0
Other taxes on oil derivates, crude oil and energy	207.7	319.5	1,270.1	1,270.1	10,525.6	208,259.0
Other	45.4	175.9	699.2	699.2	...	...
Turnover tax	688.7	1,551.4	3,279.7	—	—	—
Taxes on international trade	1,214.4	1,820.6	3,396.0	3,386.0	11,874.7	735,221.0
Import duties	308.4	831.2	2,345.4	2,345.4	7,583.4	161,889.0
Export duties 4/	851.2	899.5	834.9	834.9	3,057.6	496,493.0
Exchange tax	54.8	89.9	205.7	205.7	1,233.7	76,849.0
Miscellaneous taxes	387.2	950.7	2,070.4	1,631.8	9,281.5	201,480.0
Stamp taxes	203.5	540.3	779.0	340.4	1,188.4	27,556.0
Tax collection under amnesties	13.7	1.5	550.7	550.7	229.4	--
Tax on bank account drafts	170.0	408.9	740.7	740.7	7,863.7	173,924.0
Unclassified tax receipts 5/	338.2	487.4	981.3	898.4	21,988.9	1,045,902.0
National taxes	309.7 6/	428.9	898.4	898.4	21,988.9	1,045,902.0
Provincial taxes	29.0	58.5	82.9	—	—	--
Nontax revenue 7/	1,943.1	2,848.2	5,377.7	3,631.7	11,071.0	380,539.0
Capital revenue 8/ 9/	360.8	835.4 10/	1,377.1	1,356.6	7,261.6	112,617.0
Memorandum items						
National taxes 11/	7,403.1	13,753.0	31,218.9	31,218.9	127,651.1	3,980,575.0
Provincial taxes	1,345.6	2,845.6	6,289.3	—	—	--

Source: Ministry of Economy.

1/ Includes provinces and the Municipality of Buenos Aires up to 1987.
2/ Excludes provinces and the Municipality of Buenos Aires.
3/ Estimated.
4/ Includes small amount of other customs duties.
5/ Includes small amounts of nontax revenue.
6/ Includes small amounts of income tax surcharges.
7/ Excludes operating surplus of public enterprises.
8/ Includes carry-overs from previous fiscal years ₳ 245.2 million in 1986, and ₳ 520.9 million in 1987.
9/ Includes receipts from the forced-saving plan.
10/ Includes special economic emergency tax.
11/ Includes tax revenue of the national social security systems.

Table 24. Argentina: Operating Result of the Central Bank

(In percent of GDP)

	Domestic			External 4/	Total	
	Real 1/	Inflation adjustment 2/	Overall 3/		Real 1/	Overall 3/
1983	...	...	-1.6	0.5	...	-1.1
1984	...	...	-2.4	-0.1	...	-2.5
1985	...	...	-2.7	-0.1	...	-2.8
1986	-0.7	-0.5	-1.2	-0.4	-1.1	-1.6
1987	-0.3	--	-0.3	-0.6	-0.9	-0.9
1988	-1.0	0.8	-0.2	-0.4	-1.4	-0.6
1989	2.5	-6.2	-3.6	-1.1	1.4	-4.7
1990	-0.6	0.2	-0.4	-0.9	-1.5	-1.3
1985						
1st quarter	...	...	-3.6	-0.3	...	-3.9
2nd quarter	...	...	-5.1	-0.1	...	-5.2
3rd quarter	...	...	-0.8	-0.4	...	-1.2
4th quarter	...	...	-1.2	0.2	...	-1.0
1986						
1st quarter	-1.1	--	-1.1	-0.4	-1.6	-1.6
2nd quarter	-0.6	-0.4	-1.0	-0.3	-0.9	-1.3
3rd quarter	0.1	-1.0	-0.9	-0.3	-0.2	-1.2
4th quarter	-1.1	-0.7	-1.8	-0.5	-1.6	-2.3
1987						
1st quarter	-0.5	-0.6	-1.1	-0.7	-1.1	-1.8
2nd quarter	-1.1	-0.3	-1.4	-0.4	-1.5	-1.7
3rd quarter	-0.7	0.1	-0.6	-0.8	-1.5	-1.4
4th quarter	0.9	1.0	1.9	-0.6	0.3	1.2
1988						
1st quarter	-2.6	1.8	-0.8	-1.0	-3.6	-2.4
2nd quarter	-0.7	1.2	0.5	-0.2	-0.9	1.0
3rd quarter	1.1	-0.4	0.7	-0.8	0.3	3.8
4th quarter	-1.8	0.4	-1.4	0.4	-1.4	1.3
1989						
1st quarter	-7.4	0.9	-6.6	-1.1	-8.5	-7.6
2nd quarter	-15.1	-12.9	-28.1	-0.8	-16.0	-28.9
3rd quarter	32.0	-12.8	19.2	-2.1	29.9	17.0
4th quarter	0.7	0.3	0.9	-0.4	0.3	0.5
1990						
1st quarter	-0.7	0.2	-0.5	-1.5	-2.2	-2.0
2nd quarter	-0.7	0.2	-0.5	-0.3	-1.0	-0.8
3rd quarter	-0.5	0.2	-0.3	-1.5	-2.0	-1.8
4th quarter	-0.3	0.1	-0.2	-0.3	-0.6	-0.5

Source: Central Bank of Argentina.

1/ Including only real interest receipts and payments.
2/ Defined as the net asset position of the Central Bank on interest-related domestic operations multiplied by the average of consumer and wholesale price inflation.
3/ Including nominal interest receipts and payments.
4/ Includes exchange tax.

Table 25 Argentina: Summary Accounts of the Financial System

(In thousands of australes)

	US$1 = ₳ 0.06765 December		US$1 = ₳ 0.6018 December		US$1 = ₳ 0.9430 December		US$1 = ₳ 2.1473 December		US$1 = ₳ 8.6 December		US$1 = ₳ 13.37 June	
	1983	1984	1984	1985	1985	1986	1986	1987	1987	1988	1988	1989
I. Consolidated Financial System												
Net foreign assets	-880,156	-959,343	-8,534,113	-8,472,795	-13,276,579	-14,725,302	-33,530,901	-45,150,613	-180,829,542	-204,618,099	-301,239,743	-333,411,305
Central Bank (NIR)	-431,810	-559,601	-4,978,090	-5,065,351	-7,937,231	-9,547,875	-21,741,413	-30,883,757	-123,690,360	-135,398,400	-211,866,782	-252,572,670
Rest of system	-448,346	-399,742	-3,556,023	-3,407,444	-5,339,348	-5,177,427	-11,789,489	-14,266,856	-57,139,182	-69,219,699	-89,372,961	-80,838,635
Net domestic assets	1,137,053	2,581,280	10,640,980	17,325,375	22,370,375	32,970,390	52,816,690	93,166,851	237,778,434	464,565,236	415,795,682	2,113,317,060
Credit to public sector	437,702	1,193,128	4,286,331	6,948,893	9,656,986	14,087,298	24,857,531	45,373,595	114,196,734	282,256,634	224,240,236	1,972,387,968
Interest Equalization Fund	40,688	423,812	423,812	2,282,629	2,282,629	5,488,726	5,488,726	17,776,008	17,776,008	106,605,278	41,875,088	616,424,689
Other public sector (net)	397,014	769,316	3,862,519	4,666,264	7,374,357	8,598,572	19,368,805	27,597,587	96,420,726	175,651,356	182,365,148	1,355,963,279
Local currency	129,487	377,562	377,562	-110,202	-110,202	165,184	165,184	4,694,938	4,694,938	43,547,736	12,018,332	1,101,059,241
Lending	168,521	588,088	588,088	2,307,526	2,307,526	4,184,254	4,184,254	11,183,488	11,183,488	76,806,529	29,157,785	1,313,199,606
Deposits	39,034	210,526	210,526	2,417,728	2,417,728	4,019,070	4,019,070	6,488,550	6,488,550	33,258,793	17,139,453	212,140,365
Foreign currency	267,527	391,754	3,484,957	4,776,466	7,488,559	8,433,388	19,203,621	22,902,649	91,725,788	132,103,620	170,346,816	254,904,038
Arrears	137,194	231,634	2,060,563	1,000,192	1,567,266	512,992	1,168,131	1,251,876	5,013,800	25,172,600	19,402,015	71,155,140
Other	130,333	160,120	1,424,394	3,776,275	5,917,293	7,920,396	18,035,490	21,650,774	86,711,988	106,931,020	150,944,801	183,748,898
Central Bank	—	—	—	2,335,711	3,659,978	5,752,883	13,099,857	16,606,872	66,511,015	84,129,420	119,130,367	149,910,020
Lending	—	—	—	2,522,956	3,953,386	5,782,918	13,168,250	16,675,414	66,785,527	84,662,878	123,675,199	155,173,334
Deposits	—	—	—	187,245	293,407	30,035	68,393	68,542	274,512	533,458	4,544,831	5,263,314
Other	130,333	160,120	1,424,394	1,440,564	2,257,315	2,167,514	4,935,633	5,043,901	20,200,973	22,801,600	31,814,434	33,838,878
Lending	133,544	162,689	1,447,243	1,447,394	2,268,016	2,170,496	4,942,425	5,061,552	20,271,665	22,894,528	31,861,828	33,908,076
Deposits	3,211	2,569	22,850	6,829	10,701	2,983	6,792	17,651	70,692	92,928	47,394	690,198
Credit to private sector	603,088	1,529,275	4,317,293	8,461,472	9,823,175	15,938,931	19,526,750	43,237,665	69,221,839	201,630,337	126,485,119	1,115,871,021
Local currency	195,475	1,176,173	1,176,173	6,059,735	6,059,735	13,129,570	13,129,570	34,590,770	34,590,770	158,150,312	69,786,922	1,063,201,018
Foreign currency	407,613	353,102	3,141,120	2,401,737	3,763,440	2,809,361	6,397,180	8,646,895	34,631,069	43,480,025	56,698,197	52,670,003
Arrears	80,774	49,993	444,730	33,701	52,808	—	—	—	—	—	—	—
Other	326,839	303,109	2,696,389	2,368,036	3,710,632	2,809,361	6,397,180	8,646,895	34,631,069	43,480,025	56,698,197	52,670,003
Counterpart unrequited foreign exchange	174,696	142,339	2,320,817	3,928,157	4,903,361	7,504,678	12,992,926	16,972,805	66,777,075	70,906,587	96,822,288	127,183,518
Allocation of SDRs	-22,555	-21,114	-187,822	-210,452	-329,771	-367,230	-836,217	-878,903	-3,884,266	-3,798,375	-5,905,148	-5,905,148
Valuation adjustment	197,251	163,452	2,508,639	4,138,608	5,233,132	7,871,908	13,829,143	17,851,708	70,661,341	74,704,962	102,727,436	133,088,666
Other									-12,417,215	-90,228,322	-31,751,961	-1,102,125,446
Official capital and surplus	-7,341	-182,999	-182,999	-152,714	-152,714	-442,655	-442,655	-7,257,926	-7,257,926	-35,008,558	-26,874,550	-802,580,196
Private capital and surplus	-104,618	-780,609	-780,609	-3,511,401	-3,511,401	-6,272,322	-6,272,322	-17,463,592	-17,463,592	-75,382,004	-41,402,229	-954,386,385
Intrasystem float	56,080	-136,820	-136,820	179,292	179,292	4,375,532	4,375,532	11,570,723	11,570,723	150,462,633	45,977,947	-215,763,994
Unclassified assets (net)	-22,555	816,967	816,967	1,471,676	1,471,676	-2,221,072	-2,221,072	733,580	733,580	-130,300,393	9,453,129	870,605,129
Liabilities to Private Sector	256,897	1,621,937	2,107,867	8,852,580	9,093,796	18,245,088	19,285,789	48,016,237	56,948,892	259,947,17	114,555,939	1,779,905,755
Monetary liabilities	69,127	431,357	431,857	3,006,799	3,006,799	5,577,290	5,577,290	12,540,537	12,540,537	54,879,489	20,085,369	266,560,071
Quasi-money	158,869	1,069,510	1,069,510	4,994,661	4,994,661	11,445,927	11,445,927	31,621,315	31,621,315	184,582,207	72,501,641	1,434,835,416
Saving	32,053	247,172	247,172	1,517,570	1,517,570	2,610,332	2,610,332	6,182,819	6,182,819	23,892,039	10,759,304	99,373,723
Fixed term	101,418	542,990	542,990	3,246,522	3,246,522	8,397,672	8,397,672	23,867,245	23,867,245	152,941,551	57,311,935	1,006,042,592
Accrued interest	25,398	279,348	279,348	230,569	230,569	437,923	437,923	1,571,251	1,571,251	7,748,617	4,430,402	329,419,101
Foreign exchange deposits	24,506	61,416	546,346	425,449	666,665	814,897	1,855,598	2,972,568	11,905,223	16,645,589	20,366,706	8,102,069
Other									881,817	3,839,852	1,602,223	70,408,199
Mortgage bonds	—	—	—	—	—	—	—	—	—	—	—	—
Other	4,395	59,154	59,154	425,671	425,671	406,974	406,974	881,817	881,817	3,839,852	1,602,223	70,408,199

Table 25. Argentina: Summary Accounts of the Financial System (Continued)

(In thousands of australes)

	US$1 = ₳ 0.06765 December 1983	US$1 = ₳ 0.06765 December 1984	US$1 = ₳ 0.6018 December 1984	US$1 = ₳ 0.6018 December 1985	US$1 = ₳ 0.9430 December 1985	US$1 = ₳ 0.9430 December 1986	US$1 = ₳ 2.1473 December 1986	US$1 = ₳ 2.1473 December 1987	US$1 = ₳ 8.6 December 1987	US$1 = ₳ 8.6 December 1988	US$1 = ₳ 13.37 June 1988	US$1 = ₳ 13.37 June 1989
II. Central Bank												
Net international reserves	-431,810	-559,601	-4,978,090	-5,065,351	-7,937,231	-9,547,875	-21,741,413	-30,883,757	-123,690,360	-135,398,400	-211,321,418	-252,572,670
Net domestic assets	629,456	1,641,097	6,059,586	13,771,194	16,643,074	24,584,246	36,777,784	64,616,537	157,423,140	328,619,855	285,321,418	1,177,431,291
Credit to public sector	306,179	1,067,101	2,896,030	6,993,722	8,885,064	13,049,859	21,051,972	36,941,937	90,608,004	241,617,280	185,723,916	1,303,398,236
Interest Equalization Fund	40,688	423,812	423,812	2,282,629	2,282,629	5,488,726	5,488,726	17,776,008	17,776,008	106,605,278	41,875,088	616,424,689
Other public sector (net)	265,491	643,289	2,472,218	4,711,093	6,602,435	7,561,133	15,563,246	19,165,929	72,831,996	135,012,002	143,848,828	686,973,547
Local currency	128,297	411,655	411,655	1,375,191	1,375,191	1,295,258	1,295,258	1,307,181	1,307,181	25,709,982	5,316,446	465,908,387
Deposits	9,033	6,526	6,526	5,468	5,468	61,897	61,897	38,391	38,391	127,120	5,354,424	466,508,699
Foreign currency	137,194	231,634	2,060,563	3,335,902	5,227,244	6,265,875	14,267,988	17,858,748	71,524,815	109,302,020	37,978	600,312
Arrears	137,194	231,634	2,060,563	1,000,192	1,567,266	512,992	1,168,131	1,251,876	5,013,800	25,172,600	138,532,382	221,065,160
Other	—	—	—	2,335,711	3,659,978	5,752,883	13,099,857	16,606,872	66,511,015	84,129,420	19,402,015	71,155,140
Lending	—	—	—	2,522,956	3,953,386	5,782,918	13,168,250	16,675,414	66,785,527	84,662,878	119,130,367	149,910,020
Deposits	—	—	—	187,245	293,407	30,035	68,393	68,542	274,512	533,458	123,675,199	155,173,334
Credit to financial system	139,392	950,300	950,300	4,551,353	4,551,353	13,097,249	13,097,249	38,397,410	38,397,410	228,819,734	4,544,831	5,263,314
Credit to commercial banks	123,079	855,682	855,682	...	...	...	...	...	...	...	...	...
Credit to rest of system	16,313	94,618	94,618	...	...	...	...	...	...	...	...	...
Private sector external arrears	80,774	49,993	444,730	33,701	52,808	—	—	—	—	—	—	—
Counterpart unrequited foreign exchange	164,407	194,743	2,389,565	3,936,198	4,897,629	7,844,956	12,036,380	19,621,427	58,761,964	81,768,688	89,399,970	172,405,978
Allocation of SDRs	-22,555	-21,114	-187,822	-210,452	-329,771	-367,230	-367,230	-836,217	-3,884,266	-3,798,375	-5,905,148	-5,905,148
Valuation adjustment	186,962	215,856	2,577,387	4,146,650	5,227,399	8,212,185	12,403,609	20,457,644	62,646,229	85,567,063	95,305,118	178,311,126
Official capital and surplus	-7,341	-182,999	-182,999	-152,714	-152,714	-442,655	-442,655	-7,257,926	-7,257,926	-35,008,558	-26,874,550	-802,580,196
Unclassified assets (net)	-53,956	-438,041	-438,041	-1,591,066	-1,591,066	-8,965,162	-8,965,162	-23,086,312	-23,086,312	188,577,289	-50,569,051	-715,089,326
Liabilities to banking system	146,257	751,218	751,218	6,625,453	6,625,453	10,948,577	10,948,577	24,367,391	24,367,391	149,589,153	58,988,122	728,985,007
Currency	19,796	157,358	157,358	966,089	966,089	1,256,400	1,256,400	2,678,840	2,678,840	14,005,972	5,721,763	77,853,911
Deposits	126,461	571,335	571,335	2,150,089	2,150,089	1,684,561	1,684,561	1,565,828	1,565,828	12,755,442	3,426,963	95,863,712
Local currency	126,461	571,335	571,335	...	...	...	...	...	...	...	...	...
Foreign currency	—	—	—	...	...	...	...	...	...	...	...	...
Special investments 1/	—	22,525	22,525	3,509,275	3,509,275	8,007,616	8,007,616	20,122,723	20,122,723	122,827,739	49,839,396	555,267,384
Liabilities to other financial institutions	5,873	19,334	19,334	22,931	22,931	22,556	22,556	39,636	39,636	205,745	85,424	1,286,056
Currency	826	2,947	2,947	7,522	7,522	10,210	10,210	26,758	26,758	158,948	66,974	846,573
Deposits	5,047	16,387	16,387	15,409	15,409	12,346	12,346	12,878	12,878	46,797	18,450	439,483
Special investments 1/	—	...	...	...	...	...	...	...	...	...	...	...
Liabilities to private sector	45,516	310,944	310,944	2,057,459	2,057,459	4,065,238	4,065,238	9,325,753	9,325,753	43,426,557	14,381,090	194,587,558
Currency in circulation	45,516	310,453	310,453	2,014,750	2,014,750	3,979,407	3,979,407	9,234,725	9,234,725	43,029,811	14,257,684	193,214,989
Other 2/	—	491	491	42,709	42,709	85,831	85,831	91,028	91,028	396,746	123,406	1,372,569

Table 25. Argentina: Summary Accounts of the Financial System (Continued)

(In thousands of australes)

	US$1 = ₳ 0.06765 December		US$1 = ₳ 0.6018 December		US$1 = ₳ 0.9430 December		US$1 = ₳ 2.1473 December		US$1 = ₳ 8.6 December		US$1 = ₳ 13.37 June	
	1983	1984	1984	1985	1985	1986	1986	1987	1987	1988	1988	1989
III. Commercial Banks												
Net foreign assets	-448,209	-399,686	-3,555,521	-3,409,017	-5,341,814	-5,178,697	-11,792,381	-14,265,385	-57,133,290	-69,230,685	-89,384,210	-80,844,320
Reserves and investments	142,479	742,790	742,790	6,640,427	6,640,427	11,142,991	11,142,991	24,495,572	24,495,572	148,757,724	58,794,799	730,352,119
Reserves	142,479	719,774	719,774	3,088,443	3,088,443	3,049,543	3,049,543	4,281,821	4,281,821	25,533,239	8,831,997	173,712,166
Investments 1/	—	23,016	23,016	3,551,984	3,551,984	8,093,448	8,093,448	20,213,751	20,213,751	123,224,485	49,962,802	556,639,953
Net domestic assets	579,315	1,968,507	5,609,273	7,557,528	9,731,539	15,996,178	23,650,564	53,579,207	105,379,768	207,469,918	168,928,019	2,328,582,069
Credit to public sector	130,456	123,396	1,385,381	-52,816	763,450	1,023,430	3,790,278	8,362,469	23,529,899	40,356,918	38,278,993	659,414,151
Local currency	603	-36,434	-36,434	-1,492,527	-1,492,527	-1,143,087	-1,143,087	3,338,645	3,338,645	17,566,615	6,484,167	625,615,293
Lending	30,604	167,566	167,566	919,733	919,733	2,814,086	2,814,086	9,788,804	9,788,804	50,698,288	23,585,642	837,155,346
Deposits	30,001	204,000	204,000	2,412,260	2,412,260	3,957,173	3,957,173	6,450,159	6,450,159	33,131,673	17,101,475	211,540,053
Foreign currency	129,853	159,830	1,421,815	1,439,711	2,255,977	2,166,517	4,933,365	5,023,824	20,191,254	22,790,303	31,794,826	33,798,358
Lending	133,063	162,399	1,444,665	1,446,540	2,266,679	2,169,500	4,940,156	5,041,474	20,261,946	22,883,231	31,842,220	33,868,056
Deposits	3,211	2,569	22,850	6,829	10,701	2,983	6,792	17,650	70,692	92,928	47,394	69,198
Credit to private sector	505,241	1,404,117	3,797,383	8,196,785	9,539,376	15,553,872	19,141,673	42,365,403	68,349,386	198,256,653	124,859,413	1,091,466,747
Local currency	178,424	1,101,010	1,101,010	5,828,756	5,828,756	12,744,525	12,744,525	33,718,573	33,718,573	154,776,824	68,161,216	1,038,798,811
Foreign currency	326,817	303,107	2,696,373	2,368,029	3,710,620	2,809,347	6,397,148	8,646,830	34,630,813	43,479,829	56,698,197	52,667,936
Counterpart unrequited foreign exchange	10,529	3,014	-11,471	-8,847	6,307	-341,042	958,695	-2,631,733	8,017,415	-10,874,570	7,433,108	-46,110,812
Capital and surplus	-99,523	-751,352	-751,352	-3,444,822	-3,444,822	-6,197,270	-6,197,270	-17,278,036	-17,278,036	-73,604,126	-40,886,231	-934,199,094
Unclassified assets (net)	32,613	1,189,332	1,189,332	2,867,228	2,867,228	5,957,188	5,957,188	22,761,104	22,761,104	53,335,044	39,242,737	1,558,011,076
Liabilities to Central Bank	74,388	1,045,746	1,045,746	4,156,156	4,156,156	8,160,003	8,160,003	26,096,296	—	—	—	—
Liabilities to private sector	199,197	1,265,865	1,750,795	6,632,781	6,873,997	13,800,469	14,841,170	37,713,098	46,645,753	210,853,136	97,788,487	1,549,669,311
Demand deposits	23,611	121,404	121,404	992,049	992,049	1,597,883	1,597,883	3,305,812	3,305,812	11,849,678	5,827,685	73,345,082
Savings deposits	30,842	240,231	240,231	1,476,689	1,476,689	2,562,314	2,562,314	6,107,437	6,107,4337	23,687,651	10,654,572	98,749,638
Time deposits	92,803	518,460	518,460	3,133,458	3,133,458	8,079,215	8,079,215	23,003,272	23,003,272	147,667,464	55,137,518	978,943,081
Mortgage deposits	—	—	—	—	—	—	—	—	—	—	—	—
Foreign exchange deposits	24,506	61,416	546,346	425,449	666,665	814,897	1,855,598	2,972,568	11,905,223	16,645,589	20,366,706	8,102,069
Accrued interest	23,142	265,819	265,819	224,440	224,440	426,415	426,415	1,537,533	1,537,533	7,577,364	4,340,143	321,785,099
Other	4,293	58,535	58,535	380,696	380,696	319,745	319,745	786,476	786,476	3,425,390	1,461,863	68,744,342

Table 25. Argentina: Summary Accounts of the Financial System (Concluded)

(In thousands of australes)

	US$1 = ₳ 0.06765		US$1 = ₳ 0.6018		US$1 = ₳ 0.9430		US$1 = ₳ 2.1473		US$1 = ₳ 8.6		US$1 = ₳ 13.37	
	December		December		December		December		December		June	
	1983	1984	1984	1985	1985	1986	1986	1987	1987	1988	1988	1989
IV. Other Financial Institutions												
Net foreign assets	-137	-56	-501	1,573	2,465	1,270	2,893	-1,471	-5,892	10,986	11,250	5,685
Reserves and investments	6,925	23,372	23,372	38,655	38,655	50,348	50,348	70,732	70,732	430,409	165,026	1,809,544
Reserves 3/	6,925	23,372	23,372	38,655	38,655	50,348	50,348	70,732	70,732	430,409	165,026	1,809,544
Investments 1/	—	...	...	...	...	...	...	...	...	...	...	...
Net domestic assets	11,594	114,601	115,046	368,715	367,823	1,111,683	1,110,060	1,797,793	1,802,214	6,832,564	3,209,430	42,364,294
Credit to public sector	1,067	2,631	4,919	7,987	8,471	14,009	15,281	51,539	58,831	282,436	237,327	9,575,581
Local currency	587	2,341	2,341	7,134	7,134	13,013	13,013	49,112	49,112	271,139	217,719	9,535,561
Foreign currency	480	290	2,578	853	1,337	996	2,268	2,427	9,719	11,297	19,608	40,020
Credit to private sector	17,073	75,165	75,180	230,987	230,991	385,059	385,077	872,261	872,454	3,373,685	1,625,706	24,404,273
Local currency	17,051	75,163	75,163	230,979	230,979	385,045	385,045	872,197	872,197	3,373,488	1,625,706	24,402,207
Foreign currency	22	2	17	8	12	14	32	64	257	197	—	2,066
Counterpart unrequited foreign exchange	-240	387	-1,471	806	-574	764	-2,148	761	-2,303	12,469	-10,790	888,352
Capital and surplus	-5,095	-29,257	-29,257	-66,579	-66,579	-75,052	-75,052	-185,556	-185,556	-1,777,878	-515,998	-20,187,291
Unclassified assets (net)	-1,212	65,676	65,676	195,514	195,514	786,902	786,902	1,058,788	1,058,788	4,941,852	1,873,185	27,683,379
Liabilities to Central Bank	6,198	92,789	92,789	246,603	246,603	783,920	783,920	889,668	889,668	1,606,515	999,344	8,530,637
Liabilities to private sector	12,184	45,128	45,128	162,340	162,340	379,381	379,381	977,386	977,386	5,667,444	2,386,362	35,648,886
Savings deposits	1,211	6,941	6,941	40,881	40,881	48,018	48,018	75,382	75,382	204,388	104,732	624,085
Time deposits	8,615	24,530	24,530	113,064	113,064	318,457	318,457	863,973	863,973	5,274,087	2,174,417	27,099,511
Accrued interest	2,256	13,529	13,529	6,129	6,129	11,508	11,508	33,718	33,718	171,253	90,259	7,634,002
Other deposits	102	128	128	2,266	2,266	1,398	1,398	4,313	4,313	17,716	16,954	291,288
Foreign currency items												
Net foreign assets											0.84	0.43
Credit to public sector											1.47	2.99
Credit to private sector											—	0.15
Counterpart unrequited foreign exchange											—	—
Exchange rate (Austral/US$)											13.3700	13.3700

Source: Central Bank of Argentina.

1/ Includes bonds and frozen deposits in the Central Bank.
2/ Includes private sector holding of Central Bank paper.
3/ Includes deposits held with commercial banks.

Table 26. Argentina: Financial System Assets and Liabilities in Real Terms 1/

(Index based on private sector liabilities in December 1981=100)

	1981	1982	1983	1984	1985		1986		1987		1988		1989		1990
	Dec.	Dec.	Dec.	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.	Dec.
Credit to public sector	40.3	55.1	75.8	67.4	63.7	64.5	63.0	70.3	81.6	94.5	112.6	120.3	291.9	182.9	165.5
Local currency	32.6	26.5	49.2	29.4	24.0	16.4	16.5	23.3	30.5	34.0	36.9	46.6	74.7	58.6	61.2
Foreign currency	7.8	28.6	26.6	38.0	39.7	48.1	46.5	46.8	51.1	60.5	75.8	73.7	217.2	124.4	104.3
Arrears	—	15.0	13.6	22.5	19.8	10.1	6.4	2.8	2.3	3.3	8.6	12.1	60.6	32.2	—
Other	7.8	13.6	13.0	15.5	20.0	38.0	40.1	44.0	48.7	57.2	67.1	61.5	156.6	92.2	104.3
Credit to private sector	119.9	119.4	97.1	77.4	73.3	70.0	67.1	70.2	69.9	75.2	73.0	70.0	91.1	58.7	65.2
Local currency	91.8	76.2	56.5	43.2	38.1	45.8	49.7	54.6	54.6	52.3	47.7	49.1	46.2	25.2	31.3
Foreign currency	28.1	43.2	40.5	34.3	35.2	24.2	17.4	15.6	15.3	22.8	25.2	21.0	44.9	33.5	33.9
Arrears	—	4.0	8.0	4.8	4.5	0.3	--	--	--	--	--	--	--	--	--
Other	28.1	39.1	32.5	29.4	30.7	23.8	17.4	15.6	15.3	22.8	25.2	21.0	44.9	33.5	33.9
Liabilities to private sector	100.0	74.3	69.7	63.2	59.0	68.0	72.5	77.0	77.2	76.0	73.5	83.5	69.6	59.5	77.4
Money	21.7	22.8	20.0	15.9	13.3	22.7	22.6	23.2	19.9	19.0	13.7	17.0	11.6	14.2	18.8
Other	78.3	51.5	49.7	47.4	45.7	45.3	49.9	53.8	57.3	57.0	59.7	66.5	58.0	45.2	58.6
Local currency	73.6	46.4	47.2	41.4	40.1	41.0	45.6	49.3	51.8	49.2	50.7	58.4	51.1	36.4	45.6
Foreign currency	4.6	5.1	2.4	6.0	5.6	4.3	4.2	4.5	5.4	7.9	9.1	8.0	6.9	8.9	12.9

Source: Central Bank of Argentina.

1/ End of month data; deflated by consumer price index.

Table 27. Argentina: Interest Rates

(In percent per month)

	Deposit Rates 1/		Regulated Lending Rates		Interfirm Market Rate 2/	
	Nominal	Real 3/	Nominal	Real 4/	Nominal	Real 4/
1985						
January	17.5	-6.1	19.5	-1.4	24.9	3.1
February	18.0	-2.2	20.0	1.9	22.4	3.9
March	20.0	-5.1	22.0	-4.5	25.5	-1.7
April	24.0	-4.2	26.0	-4.2	28.8	-2.1
May	30.0	3.9	32.0	0.6	40.5	7.1
June	16.0	-11.1	18.0	-17.1	26.8	-11.0
July	3.5	-2.5	5.0	6.0	7.7	8.7
August	3.5	0.4	5.0	3.4	8.6	7.0
September	3.5	1.5	5.0	4.4	6.2	5.6
October	3.1	1.2	4.5	3.7	5.3	4.5
November	3.1	0.7	4.5	3.8	5.6	4.9
December	3.1	-0.1	4.5	3.5	6.0	5.0
Average 1985	12.1	-2.0	13.8	—	17.4	2.9
1986						
January	3.1	0.1	4.5	4.5	5.7	5.7
February	3.1	1.4	4.5	3.7	5.6	4.8
March	3.1	-1.5	4.5	3.1	4.2	2.8
April	3.1	-1.6	4.5	1.5	4.5	1.5
May	3.1	-0.9	4.5	1.8	4.4	1.7
June	3.3	-1.2	4.7	0.1	4.5	-0.1
July	3.5	-3.3	5.0	-0.1	5.1	--
August	5.1	-3.7	6.6	-2.8	6.6	-2.8
September	4.5	-2.5	6.0	-0.8	7.3	0.5
October	5.0	-1.1	6.5	1.2	8.0	2.7
November	5.5	0.2	7.0	2.1	8.3	3.4
December	5.5	0.8	7.0	4.0	9.3	6.3
Average 1986	4.0	-1.1	5.4	1.5	6.1	2.2
1987						
January	5.5	-2.1	7.0	1.7	8.7	3.4
February	6.0	-0.5	7.0	0.1	8.5	1.6
March	3.0	-5.2	4.0	-3.8	4.4	-3.4
April	4.2	0.8	5.2	3.3	8.3	6.4
May	4.7	0.5	5.7	0.8	8.3	3.4
June	6.5	-1.5	7.5	1.0	8.5	2.0
July	7.5	-2.6	9.0	-0.4	10.7	1.3
August	9.5	-4.2	11.0	-3.6	13.0	-1.6
September	11.0	-0.7	12.5	-4.2	16.5	-0.2
October	13.5	-6.0	15.0	-15.4	12.5	-17.9
November	8.9	-1.4	n.a.	n.a.	9.5	5.2
December	12.4	9.0	n.a.	n.a.	14.6	12.4
Average 1987	7.7	-2.7	n.a.	n.a.	10.3	1.1
1988						
January	13.2	4.1	n.a.	n.a.	13.6	1.5
February	13.3	2.9	n.a.	n.a.	14.5	1.2
March	15.6	0.9	n.a.	n.a.	16.2	-0.1
April	16.2	-1.0	n.a.	n.a.	17.1	0.3
May	17.3	1.6	n.a.	n.a.	16.8	-6.4
June	19.5	1.5	n.a.	n.a.	19.1	-5.0
July	22.7	-2.9	n.a.	n.a.	24.0	-1.0
August	10.8	-16.8	n.a.	n.a.	9.5	-22.4
September	9.1	-2.6	n.a.	n.a.	7.6	1.3
October	9.3	0.3	n.a.	n.a.	8.3	3.7
November	10.2	4.5	n.a.	n.a.	9.2	5.3
December	12.2	5.4	n.a.	n.a.	11.2	5.5
Average 1988	14.1	-0.2	n.a.	n.a.	13.0	-1.3
1989						
January	12.1	3.2	n.a.	n.a.	10.6	3.7
February	19.0	9.4	n.a.	n.a.	19.7	11.3
March	21.6	4.6	n.a.	n.a.	20.8	3.9
April	44.7	11.3	n.a.	n.a.	51.2	-6.8
May	115.4	36.9	n.a.	n.a.	146.3	42.6
June	136.9	22.4	n.a.	n.a.	144.2	11.9
July	33.9	-162.7	n.a.	n.a.	36.2	-172.0
August	12.8	-25.1	n.a.	n.a.	12.3	3.8
September	7.4	-2.0	n.a.	n.a.	6.7	4.2

Sources: Central Bank of Argentina; and National Institute of Statistics.

1/ Over the period 1985-October 1987, regulated rate for 30-day deposits. For November 1987 to present, average interest paid on free rate deposits (including 7-day, 14-day, 21-day and 28-day operations), reported in Central Bank survey.
2/ Seven-day operations against collateral of Government of Argentina bonds denominated in U.S. dollars (BONEX).
3/ Deflated by the consumer price index.
4/ Deflated by the wholesale price index.

Table 28. Argentina: Reserve and Investment Requirements

(In percent)

I. Regulated Rate Deposits

	Current Accounts Group 1/		Savings Accounts Regular Group 1/		Savings Accounts Special Group 1/		Term Deposits 7-14 Days Group 1/	
	I	II	I	II	I	II	I	II
September 1985-October 14, 1987 2/	88.5	89.5	11.0	12.0	6.5	8.0	15.0	16.0
October 15, 1987 to date	88.5	88.5	N/A	N/A	N/A	N/A	N/A	N/A

	Term Deposits 15-22 Days Group 1/		Term Deposits 23-29 Days Group 1/		Term Deposits 30 Days and More Group 1/		Investment Requirement on Savings Accounts and Term Deposits
	I	II	I	II	I	II	
July 1985-October 14, 1987 2/	11.0	12.0	8.5	10.0	6.5	8.0	60.0
October 14, 1987 to date	N/A	N/A	N/A	N/A	N/A	N/A	N/A

II. Free Market Rate Deposits

	Reserve Requirement: Savings Accounts Regular	Savings Accounts Special	Time Deposits 3/ 7-29 Days	Time Deposits 3/ 30-89 Days	Time Deposits 3/ 90-119 Days	Time Deposits 3/ 120 Days and More	Investment Requirement: Basic	Special	Regular Savings Account
1986									
January	...	...	7.5	7.5	7.5	7.5	38.0	...	...
February	...	...	7.5	7.5	7.5	7.5	40.0	...	...
March	...	...	7.5	7.5	7.5	7.5	42.0	...	...
April	...	...	7.5	7.5	7.5	7.5	42.0	80.0 4/	...
May	...	...	7.5	7.5	7.5	7.5	45.0	78.0 4/	...
June	...	...	7.5	7.5	7.5	7.5	46.0	75.0 4/	...
July	...	...	7.5	7.5	7.5	7.5	47.0	73.0 4/	...
August	...	...	7.5	7.5	4.0	--	50.0	66.0 4/	...
September	...	...	7.5	7.5	4.0	--	53.0	63.5 4/	...
October	...	...	3.0	1.5	--	--	...	...	...
November	...	...	3.0	1.5	--	--	...	...	...
December	...	...	3.0	1.5	--	--	...	...	...
1987									
January	...	...	3.0	1.5	--	--	...	...	...
February	...	...	3.0	1.5	--	--	...	...	...
March	...	...	3.0	1.5	--	--	1.5	...	...
April	...	...	3.0	1.5	--	--	7.0	100.0 5/	...
May	...	...	3.0	1.5	--	--	2.0	...	...
June	...	...	3.0	1.5	--	--	2.0	...	...
July	...	...	3.0	1.5	--	--	--	...	...
August	...	...	3.0	1.5	--	--	2.0	...	...
September	...	...	3.0	1.5	--	--	2.0	...	...
October	25.0	1.5	3.0	1.5	--	--	2.0	...	50.0
November	25.0	1.5	3.0	1.5	--	--	2.0	...	50.0
December	25.0	1.5	3.0	1.5	--	--	3.0	3.5 6/	50.0

Table 28. Argentina: Reserve and Investment Requirements (Concluded)

(In percent)

II. Free Market Rate Deposits (Concluded)

	Reserve Requirement						Investment Requirement		
	Savings Accounts		Time Deposits 3/						
	Regular	Special	7-29 Days	30-89 Days	90-119 Days	120 Days and More	Basic	Special	Regular Savings Account
1988									
January	25.0	1.5	3.0	1.5	--	--	1.5	...	50.0
February	25.0	1.5	3.0	1.5	--	--	1.0	...	50.0
March	25.0	1.5	3.0	1.5	--	--	5.0	7.0 7/	50.0
April	25.0	1.5	3.0	1.5	--	--	5.0	7.0 7/	50.0
May	25.0	1.5	3.0	1.5	--	--	5.0	10.6 8/	50.0
June	25.0	1.5	3.0	1.5	--	--	5.0	17.0	50.0
July	25.0	1.5	3.0	1.5	--	--	5.0	17.0	50.0
August	25.0	1.5	3.0	1.5	--	--	... 9/	... 9/	50.0
September	25.0	1.5	3.0	1.5	--	--	...	6.5 10/	50.0
October	25.0	1.5	3.0	1.5	--	--	2.5	6.5	50.0
November	25.0	1.5	3.0	1.5	--	--	3.5	8.5 11/	50.0
December	25.0	1.5	3.0	1.5	--	--	3.5	9.5 12/	50.0
1989									
January	25.0	1.5	3.0	1.5	--	--	3.5	8.5	50.0
February	25.0	1.5	3.0	1.5	--	--	3.5	6.5	50.0
March	25.0	1.5	3.0	1.5	--	--	3.5	6.5	50.0
April	25.0	1.5	3.0	1.5	--	--	3.5	4.0	50.0
May	25.0	1.5	3.0	1.5	--	--	3.5	2.5	50.0
June	25.0	1.5	3.0	1.5	--	--	3.5	1.5	50.0
July	25.0	1.5	3.0	1.5	--	--	3.5	--	50.0
August	25.0	1.5	3.0	1.5	--	--	3.5	--	50.0
September	25.0	1.5	3.0	1.5	--	--	3.5	--	50.0

Source: Central Bank of Argentina.

1/ Group I consists of provincial and municipal official banks, private commercial banks of the interior with one or no branches in the greater Buenos Aires area, and nonbank financial intermediaries; Group II consists of all remaining entities.
2/ Reserve requirements on current account deposits in most provincial and municipal banks were lowered to 20 percent in April 1986 and eliminated in December 1986. Reserve and investment requirements on savings accounts and term deposits in these banks were eliminated in April 1986, but were reintroduced in October 1987 on increases in such deposits above the average level of October 1-14, 1987. Regulated interest rates on savings and term deposits were eliminated on October 14, 1987.
3/ Includes nonregulated rate deposits and, from October 1986, swaps and acceptances.
4/ Applied on increase in nonregulated deposits above level in March 1986 multiplied by a factor that was increased each month.
5/ Applied on increase in free rate deposits above average of February 1987 multiplied by 1.2.
6/ Applied on free rate deposits in November 1987 multiplied by 1.09, for December 1-14.
7/ Applied on free rate deposits in January 1988.
8/ Applied on free rate deposits in March 1988, at rate of 8 percent up to May 22 and 17 percent for the rest of the month.
9/ In August, investments required in July 1988 were consolidated in frozen deposits at the Central Bank.
10/ Applied on free rate deposits in August 1988.
11/ Includes additional requirement of 2 percent of free rate deposits applied from November 21.
12/ Includes additional requirement of 3 percent of free rate deposits applied from December 1 to December 18.
13/ Included average additional requirement on free rate deposits applied in January.

Table 29. Argentina: Balance of Payments

(In millions of U.S. dollars)

	1983			1984			1985			1986			1987			1988		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Current account	9,993	12,454	-2,461	10,314	12,705	-2,391	10,515	11,468	-953	9,098	11,957	-2,859	8,701	12,939	-4,238	11,514	13,129	-1,615
Merchandise trade 1/	7,836	4,505	3,331	8,107	4,584	3,523	8,396	3,814	4,582	6,852	4,724	2,128	6,360	5,820	540	9,134	5,329	3,810
Nonfactor services	1,677	2,077	-400	1,920	2,125	-205	1,846	2,077	-231	1,865	2,438	-573	2,112	2,397	-285	2,167	2,465	-298
Freight and insurance	560	—	560	557	—	557	500	—	500	454	—	454	586	—	586	567	—	567
Other transportation	420	595	-175	489	634	-145	558	579	-21	526	663	-137	584	768	-184	613	718	105
Travel	454	514	-60	602	682	-80	523	671	-148	564	888	-324	615	890	-275	639	975	343
Other government, n.i.e.	50	173	-123	62	132	-70	52	170	-118	68	210	-142	63	199	-136	66	213	147
Royalties	3	518	-515	4	445	-441	8	420	312	16	420	-404	14	280	-266	6	288	-282
Other services	190	277	-87	206	232	-26	205	237	-32	237	257	-20	250	260	-10	281	271	10
Investment income	446	5,853	-5,407	265	5,977	-5,712	255	5,559	-5,304	360	4,776	-4,416	218	4,703	-4,485	211	5,338	-5,127
Profits and dividends	6	431	-425	1	440	-439	2	427	-425	3	485	-482	—	558	-558	—	660	-660
Interest	440	5,422	-4,982	264	5,537	-5,273	253	5,132	-4,879	357	4,291	-3,934	218	4,145	-3,927	211	4,678	-4,487
Unrequited transfers	34	19	15	22	19	3	18	18	—	21	19	2	11	19	-8	2	2	—
Capital account	...	...	-111	...	...	647	...	...	397	...	...	784	...	...	138	...	...	234
Banking system	...	...	326	...	...	-594	...	...	-187	...	...	-196	...	...	-151	...	...	-342
Central Bank 2/	...	...	1	...	...	-39	...	...	-184	78	281	-203	62	179	-117	...	335	-335
Other	...	...	325	...	...	-555	...	...	-3	...	...	7	...	...	-34	...	...	-57
Other long-term capital	4,099	4,174	-75	3,001	3,010	-9	2,848	2,257	591	2,012	1,310	722	2,359	1,490	869	2,397	1,309	1,088
Direct investment	185	2	183	268	—	268	977	—	977	574	—	574	591	610	-19	1,147	—	1,147
Trade finance 3/	—	206	-206	—	131	-131	9	—	9	—	—	—	—	—	—	—	—	—
Financial loans 4/	3,914	3,966	-52	2,733	2,879	-146	1,862	2,257	395	1,438	1,290	148	1,768	880	888	1,250	1,309	-59
Government 5/	1,468	1,674	-206	2,455	309	2,146	1,302	328	974	666	376	290	1,086	300	786	531	625	-94
State enterprises	355	661	-306	225	116	109	478	145	333	489	240	249	449	293	156	528	346	182
Private sector	2,091	1,631	460	53	2,454	-2,401	82	1,784	-1,702	283	674	-391	233	287	-54	191	330	-147
Other short-term capital	...	...	-362	...	...	1,250	...	...	—	...	...	258	...	...	-580	...	...	-462
Trade finance 6/	...	...	-205	...	...	632	...	...	-821	...	...	-540	...	...	-492	...	...	-685
Other public sector	...	...	814	...	...	6	...	...	21	22	1	21	64	4	60	27	5	22
Other private sector 7/	...	...	-971	...	...	612	...	...	800	...	...	777	...	...	-148	...	...	201
Allocation of SDRs			—			—			—			—			—			—
Valuation adjustment 8/			-260			-145			411			367			-138			—
Change in net international reserves (increase -)			2,832			1,889			145			1,708			4,238			1,381

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

1/ Exports f.o.b.; imports c.i.f.
2/ Includes changes in foreign assets not considered part of international reserves.
3/ Included in short-term trade finance in 1986 and 1987.
4/ Includes Argentine government bonds denominated in foreign currency. For 1983, does not reflect shift of liability from private sector to government in respect of matured loans with exchange rate guarantees.
5/ Includes Central Government and provincial and municipal governments.
6/ Includes long-term trade finance in 1986 and 1987.
7/ Includes errors and omissions.
8/ Changes in net international reserves due to exchange rate movements and other adjustments.

Table 30. Argentina: International Reserves of the Monetary Authorities

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

	1983	1984	1985	1986	1987 June	1987 Dec.	1988 June	1988 Dec.	June 1989
Total net international reserves	-6,383	-8,272	-8,417	-10,125	-12,096	-14,363	-15,801	-15,744	-18,891
Central Bank	-4,293	-5,796	-6,159	-7,999	-9,857	-12,138	-13,833	-13,804	-17,015
Assets	2,671	2,637	4,639	4,287	2,982	3,018	3,374	4,979	2,718
Gold 1/	1,421	1,421	1,421	1,421	1,421	1,421	1,421	1,421	1,421
SDRs	23	26	13	13	1	--	36	38	140
IMF reserve tranche	--	--	--	--	--	--	--	--	--
Foreign exchange 2/	1,172	1,243	3,111	2,717	1,484	1,617	1,849	3,362	936
LAIA (net) 3/	55	-53	94	143	76	-20	68	157	221
Liabilities	6,964	8,433	10,798	12,286	12,839	15,156	17,207	18,783	19,733
IMF	1,173	1,139	2,289	2,719	2,549	3,825	3,721	3,678	3,218
Payments arrears	3,222	4,163	1,718	544	449	583	1,447	2,927	5,322
Foreign currency swaps	1,228	937	730	639	572	329	290	235	222
Balance of payments support loans	1,298	1,873	5,219	7,573	8,490	9,688	10,453	10,528	10,356
To Central Bank	1,250	1,850	3,597	5,059	5,763	6,790	7,307	7,479	7,415
Via residents 4/	48	23	5	--	--	--	--	--	--
Paris Club rescheduling	--	--	1,617	2,514	2,727	2,898	3,146	3,049	2,941
Other liabilities	43	321	842 5/	811	779	731	1,295	1,415	615
Treasury liabilities 6/	2,090	2,476	2,258	2,126	2,239	2,225	1,953	1,940	1,876

Source: Central Bank of Argentina.

1/ Valued at US$325 per fine troy ounce.

2/ On December 6, 1983, US$1.2 billion in Central Bank foreign claims on Banco de la Nacion and the corresponding Banco de la Nacion claims on the Argentine public sector were cancelled and replaced by domestic claims of the Central Bank on the public sector.

3/ Balances under the multilateral clearing system of the Latin American Integration Association (LAIA).

4/ Reflects external obligations of residents, the foreign currency proceeds of which were surrendered to the Central Bank without the borrowing entity receiving the counterpart in pesos.

5/ Does not include an upward adjustment of US$401 million to offset a reduction in the estimate of external payments arrears.

6/ Foreign currency bonds (BONEX) issued in lieu of providing foreign exchange to effect external payments. Such bonds are issued upon the surrender of the austral equivalent of the external payment.

Table 31. Argentina: Exchange Rates

	Official Exchange Rate (A per US$) 1/2/	Parallel Exchange Rate 1/ 2/	Parallel Exchange Rate Spread (In percent)	Real Effective Exchange Rate (Index; 1980=100) 3/
1978	0.00008	0.00008	—	53.99
1979	0.00013	0.00013	--	76.09
1980	0.00018	0.00018	—	100.00
1981	0.00044	0.00061	38.6	92.29
1982	0.00219	0.00363	66.0	51.27
1983	0.01053	0.01452	37.8	43.36
1984	0.06774	0.08831	30.3	51.08
1985	0.60156	0.69423	15.4	43.97
1986	0.94150	1.05410	12.0	44.16
1987	2.14600	2.73300	27.3	40.90
1988	8.72100	10.98900	26.0	39.20
1985				
July	0.800	0.934	16.8	39.87
August	0.800	0.944	18.0	40.30
September	0.800	0.931	16.4	41.42
October	0.800	0.916	14.5	40.82
November	0.800	0.895	11.9	40.99
December	0.800	0.850	6.2	41.54
1986				
January	0.800	0.899	12.4	42.20
February	0.800	0.863	7.9	42.01
March	0.800	0.911	13.9	43.36
April	0.825	0.919	11.4	44.04
May	0.845	0.897	6.1	43.96
June	0.873	0.894	2.4	44.49
July	0.902	0.914	1.3	45.25
August	0.962	1.085	12.7	45.40
September	1.048	1.225	16.9	44.43
October	1.090	1.200	10.0	45.05
November	1.148	1.345	17.2	45.29
December	1.210	1.563	29.2	44.48
1987				
January	1.289	1.711	32.7	43.40
February	1.385	1.713	23.6	42.69
March	1.535	1.869	21.7	41.40
April	1.535	2.028	32.1	41.41
May	1.585	2.063	30.1	41.97
June	1.701	2.075	21.9	42.56
July	1.885	2.373	25.8	42.75
August	2.108	2.917	38.3	43.29
September	2.450	3.439	40.3	40.99
October	3.232	3.963	22.6	37.06
November	3.507	4.069	16.0	35.96
December	3.523	4.542	28.9	36.35
1988				
January	3.905	5.519	41.3	35.71
February	4.317	5.811	34.6	36.15
March	4.907	6.360	29.6	36.15
April	5.698	6.952	22.0	35.92
May	6.604	8.136	23.2	35.86
June	8.021	10.283	28.2	35.09
July	9.595	12.253	27.7	37.69
August	11.920	14.149	18.7	39.00
September	11.920	14.340	20.3	42.90
October	12.140	14.950	23.2	45.20
November	12.590	15.400	22.3	44.70
December	13.040	15.780	21.0	45.90
1989				
January	13.670	16.940	23.92	43.18
February	14.490	25.230	74.12	43.76
March	15.290	40.900	167.50	41.76
April	20.150	50.800	152.11	26.04
May	175.000	310.000	77.14	17.04
June	210.000	402.380	91.61	23.45
July	560.290	635.280	13.38	25.23
August	655.000	665.600	1.62	30.61
September	655.000	655.000	—	31.89

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

1/ Period averages of buying rates.

2/ From October 14, 1987 to the present, the exchange market has been split into an official and a free market; for this period, the rate is shown for the parallel exchange rate.

3/ Based on nominal exchange rates, price indices that are not 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. After May 1989, includes impact of general export taxes introduced in that month.

Table 32. Argentina: External Trade: Value, Volume, and Price Indices

	1983	1984	1985	1986	1987	1988	Proj. 1989	Proj. 1990
			(1980 = 1.00)					
Export value	0.98	1.01	1.05	0.85	0.79	1.13	1.10	1.31
Export price	0.77	0.81	0.73	0.64	0.63	0.74	0.79	0.78
Export volume	1.27	1.24	1.44	1.33	1.25	1.52	1.38	1.66
Import value	0.43	0.44	0.36	0.45	0.55	0.50	0.44	0.57
Import price	0.89	0.87	0.90	0.93	1.01	1.08	1.07	1.09
Import volume	0.48	0.50	0.40	0.48	0.54	0.46	0.41	0.52
Terms of trade	0.87	0.94	0.81	0.69	0.63	0.69	0.74	0.73
			(Percentage changes)					
Export value	2.8	3.5	3.6	-18.4	-7.2	43.6	-3.2	18.9
Export price	-9.9	5.7	-10.8	-11.5	-1.7	17.7	6.3	-0.9
Export volume	14.1	-2.1	16.1	-7.8	-5.6	22.0	-9.0	20.0
Import value	-15.6	1.8	-16.8	23.9	23.2	-8.5	-11.7	27.7
Import price	-6.9	-2.4	3.6	3.9	8.0	7.0	-0.9	1.5
Import volume	-9.2	4.5	-20.0	19.0	14.1	-14.5	-10.8	25.8
Terms of trade	-3.2	8.3	-13.9	-14.9	-9.0	10.0	7.3	-2.4
Memorandum items								
Export value (in millions of U.S. dollars)	7,836	8,107	8,396	6,852	6,360	9,134	8,840	10,512
Import value (in millions of U.S. dollars)	4,504	4,585	3,814	4,724	5,820	5,324	4,700	6,000

Source: *Central Bank of Argentina.*

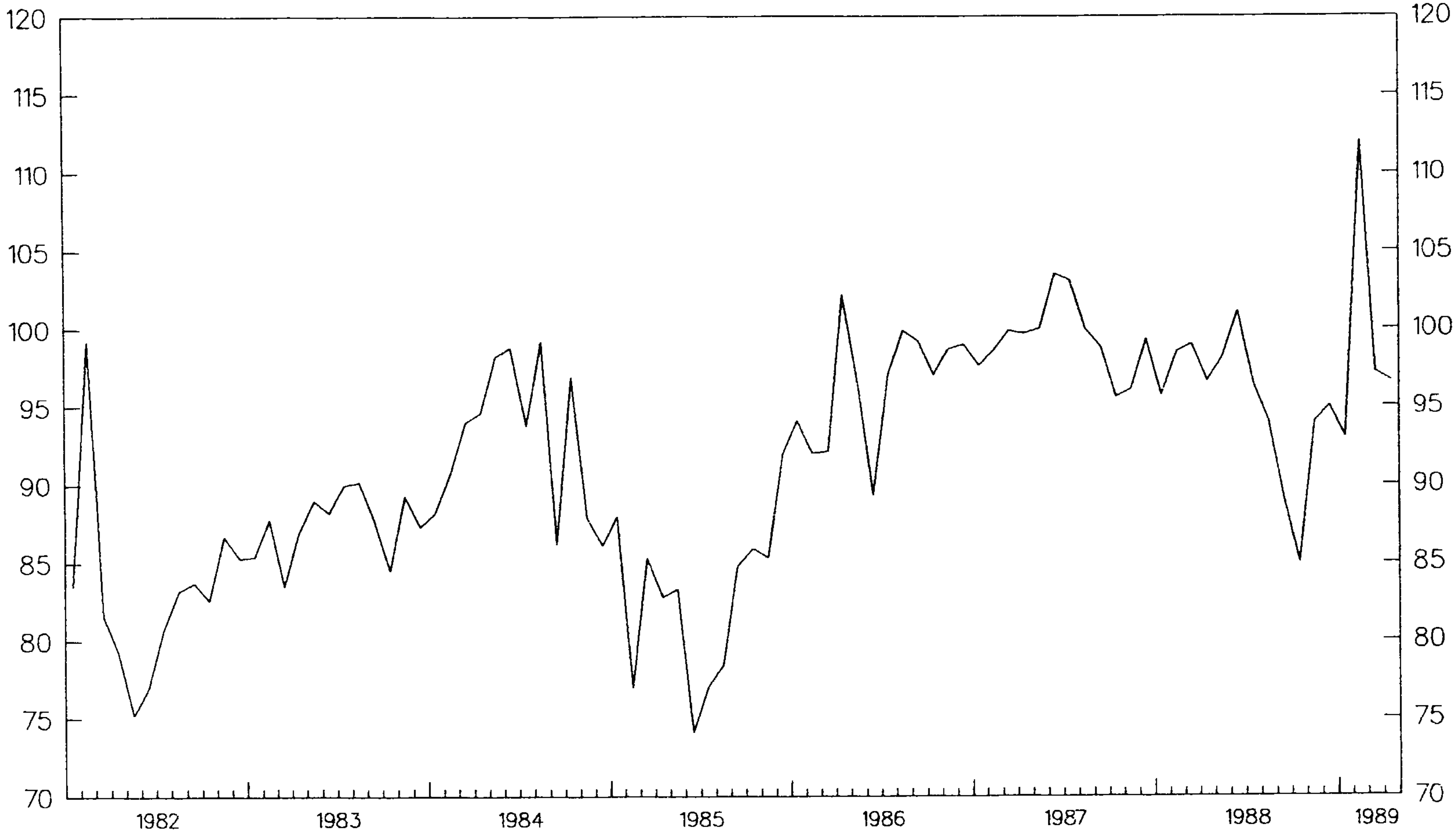
Table 33. Argentina: Agricultural Export Values, Volumes, and Unit Prices

(Value in millions of U.S. dollars; volume in thousands of tons; unit price in U.S. dollars per ton; figures refer to value unless otherwise indicated)

	1982	1983	1984	1985	1986	1987	Prel. 1988	Proj. 1989
Total agricultural products	5,435	6,379	6,562	6,155	5,115	4,449	6,226	5,723
Cereals	1,821	2,894	2,240	2,265	1,245	733	920	835
Wheat	676	1,474	923	1,133	393	348	320	647
Volume	3,800	10,182	6,926	9,582	3,998	4,154	3,303	4,200
Unit price	178	145	133	118	98	84	97	154
Corn	585	803	744	766	651	291	377	150
Volume	5,226	6,525	5,489	7,069	7,379	3,909	4,233	1,300
Unit price	112	123	135	108	88	74	89	115
Sorghum	508	554	451	296	152	66	125	38
Volume	5,326	5,295	4,166	3,273	1,958	993	1,506	400
Unit price	95	105	108	90	77	66	83	95
Other cereals	52	63	122	70	49	28	98	...
Soy beans	426	322	849	582	488	254	559	117
Volume	1,889	1,434	3,117	2,962	2,584	1,338	2,126	450
Unit price	225	225	272	196	188	190	263	260
Soy oil	72	134	314	311	210	224	377	367
Volume	174	293	469	550	675	724	897	840
Unit price	414	457	671	565	312	310	420	437
Soy pellets	176	326	430	351	585	688	1,203	936
Volume	968	1,572	2,482	2,521	3,396	3,622	5,058	4,050
Unit price	182	207	173	139	172	190	238	231
Sunflower oil	197	259	409	516	337	212	238	422
Volume	394	615	577	863	996	662	773	950
Unit price	500	421	709	598	338	320	437	444
Sunflower pellets	84	118	95	68	125	95	122	143
Volume	618	943	797	1,185	1,396	948	1,094	1,250
Unit price	136	125	120	57	90	100	112	114
Beef	488	338	182	160	225	277	310	357
Volume	275	197	101	99	110	101	123	104
Unit price	1,773	1,716	1,805	1,614	2,049	2,736	2,520	3,433
Beef products	190	162	145	161	169	255	231	230
Volume	69	62	63	79	80	96	110	101
Unit price	2,757	2,612	2,307	2,035	2,107	2,668	2,100	2,475
Other meat	129	104	69	65	72	61	71	...
Fish and fish products	189	166	158	147	215	258	262	280
Volume	232	186	127	148	197	227	217	234
Unit price	815	891	1,249	994	1,091	1,137	1,207	1,197
Fresh fruit	170	122	95	123	124	149	158	...
Volume	370	370	327	422	296	438	...	...
Unit price	459	329	297	292	419	339	...	...
Wool	185	144	163	130	123	137	217	...
Volume	88	88	92	82	86	85	90	...
Unit price	2,102	1,636	1,768	1,585	1,430	1,612	2,441	...
Other	1,308	1,290	1,413	1,276	1,197	1,106	513	2,016

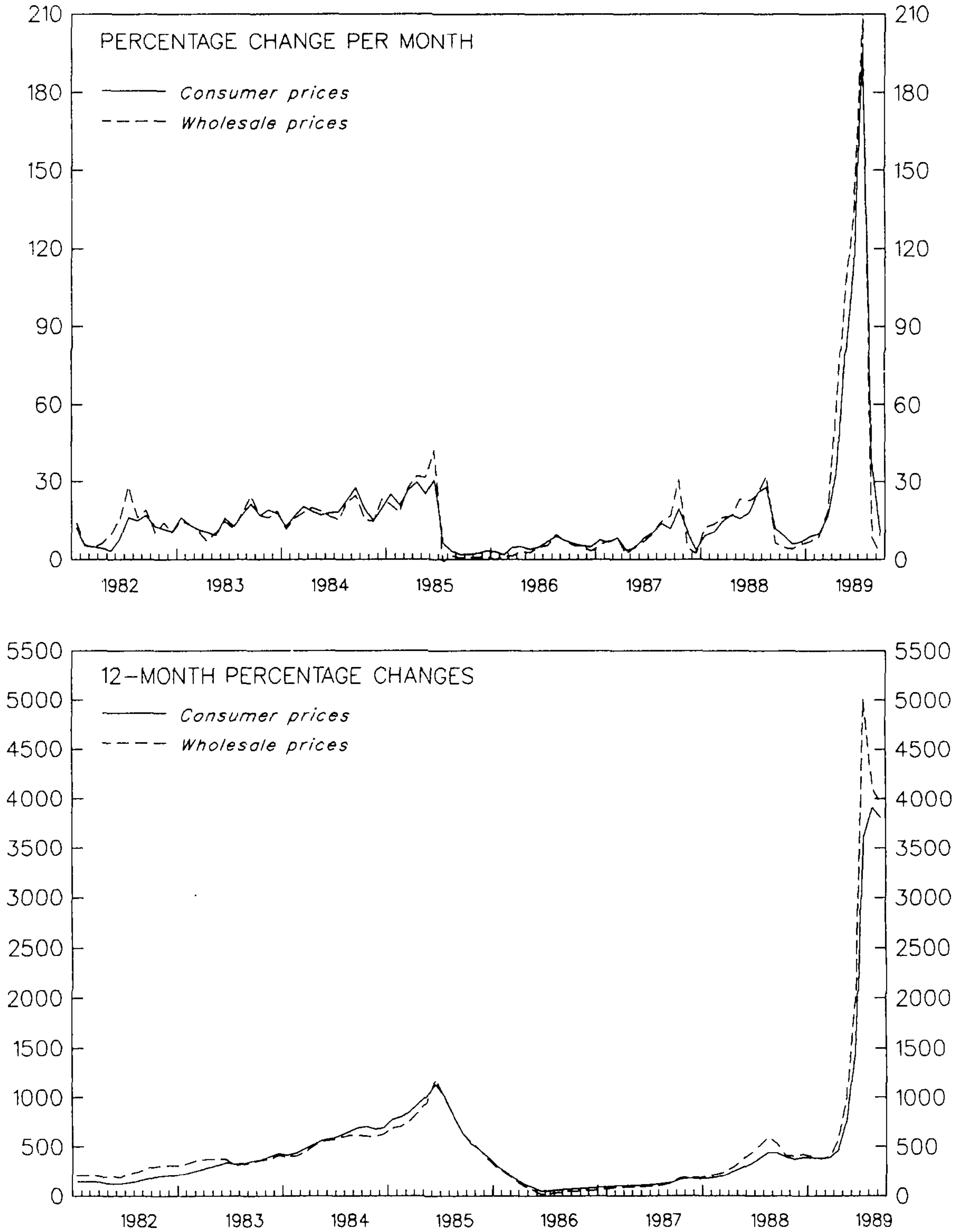
Source: Central Bank of Argentina.

CHART 1
ARGENTINA
INDUSTRIAL PRODUCTION[1]
(Index 1980=100)



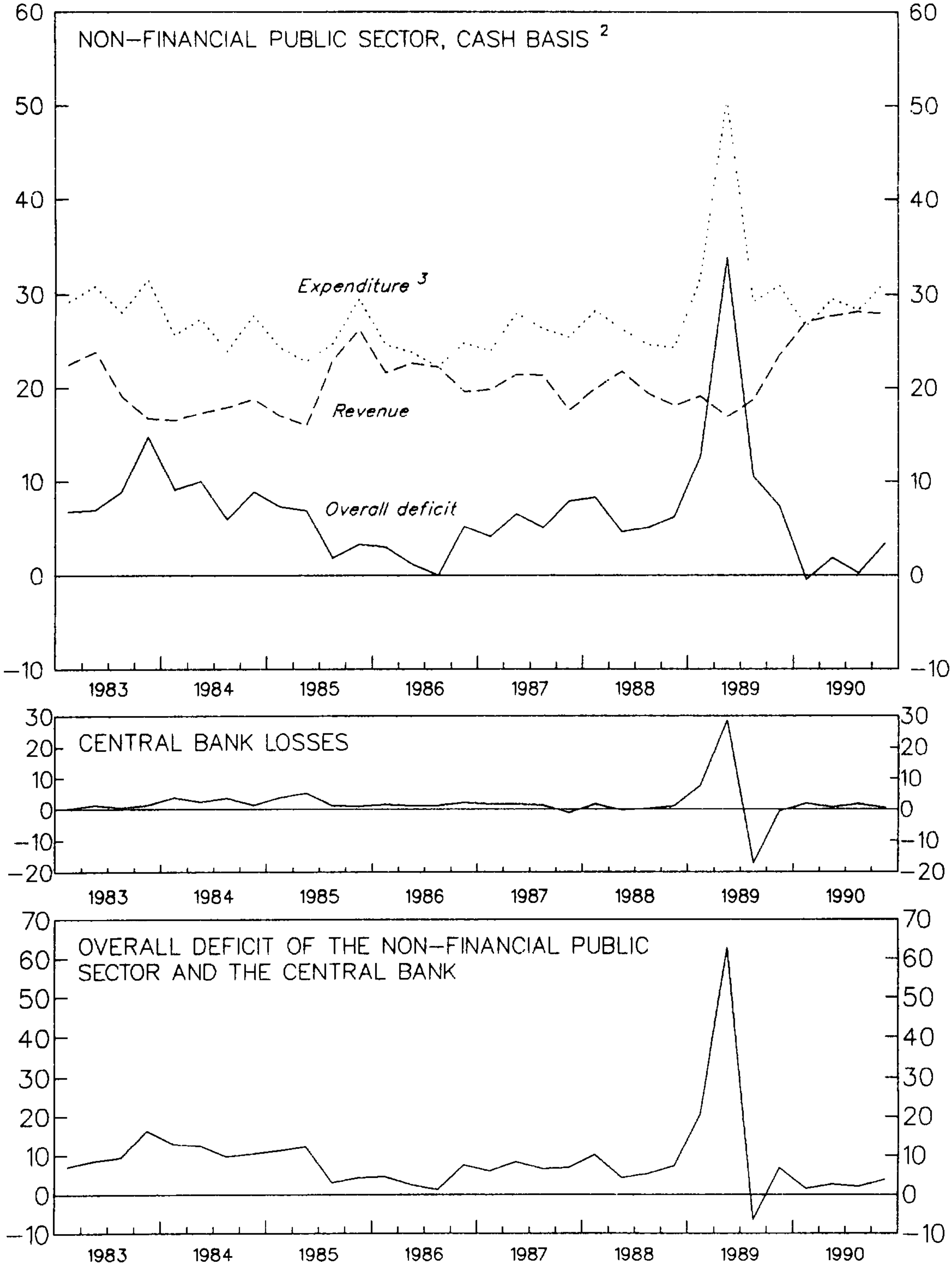
Sources: Central Bank of Argentina and National Institute of Statistics.
[1] Based on the production of a sample of firms that represent about 25 percent of industrial output.

CHART 2
ARGENTINA
CONSUMER AND WHOLESALE PRICES



Source: National Institute of Statistics.

CHART 3
ARGENTINA
OPERATIONS OF THE PUBLIC SECTOR[1]
(In percent of GDP)



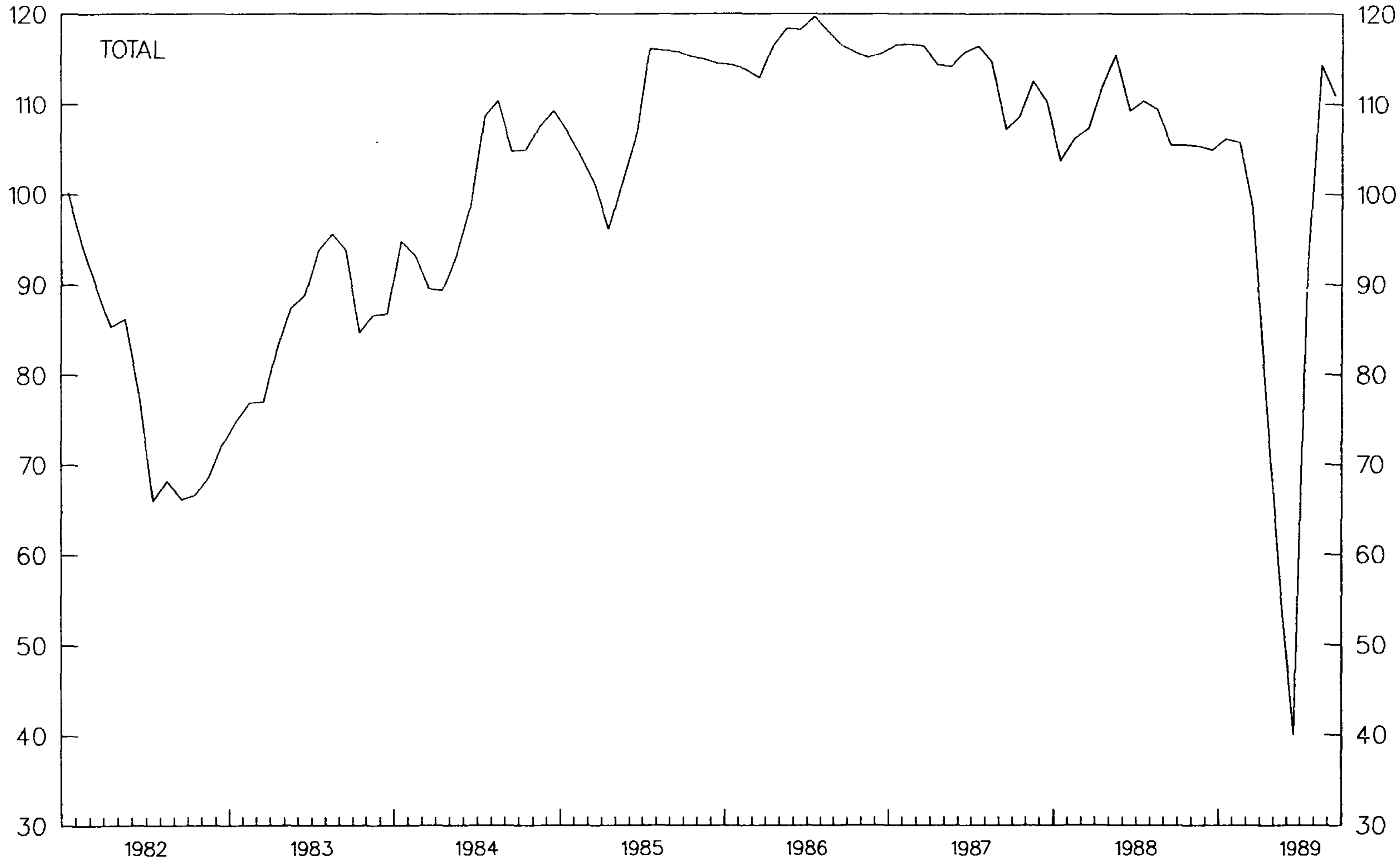
Sources: Ministry of Economy, Central Bank of Argentina, and Fund staff estimates.
1 Data shown are provisional actuals through the second quarter of 1989, and projections thereafter.
2 Operations of the provinces and the public enterprises are treated on a net basis. Expenditure includes the deficit of the provinces and the operating losses and capital expenditure of the public enterprises.
3 Including nominal interest payments on domestic debt.

CHART 4

ARGENTINA

RELATIVE PRICE OF GOODS AND SERVICES MARKETED BY PUBLIC ENTERPRISES[1]

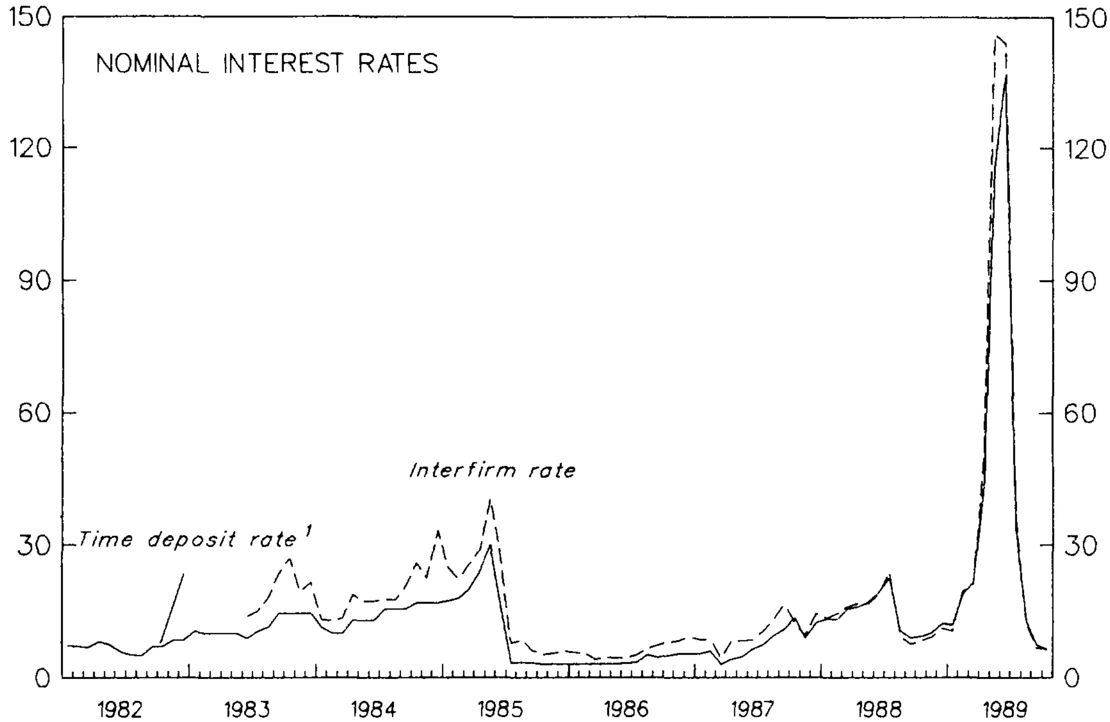
(1981=100)

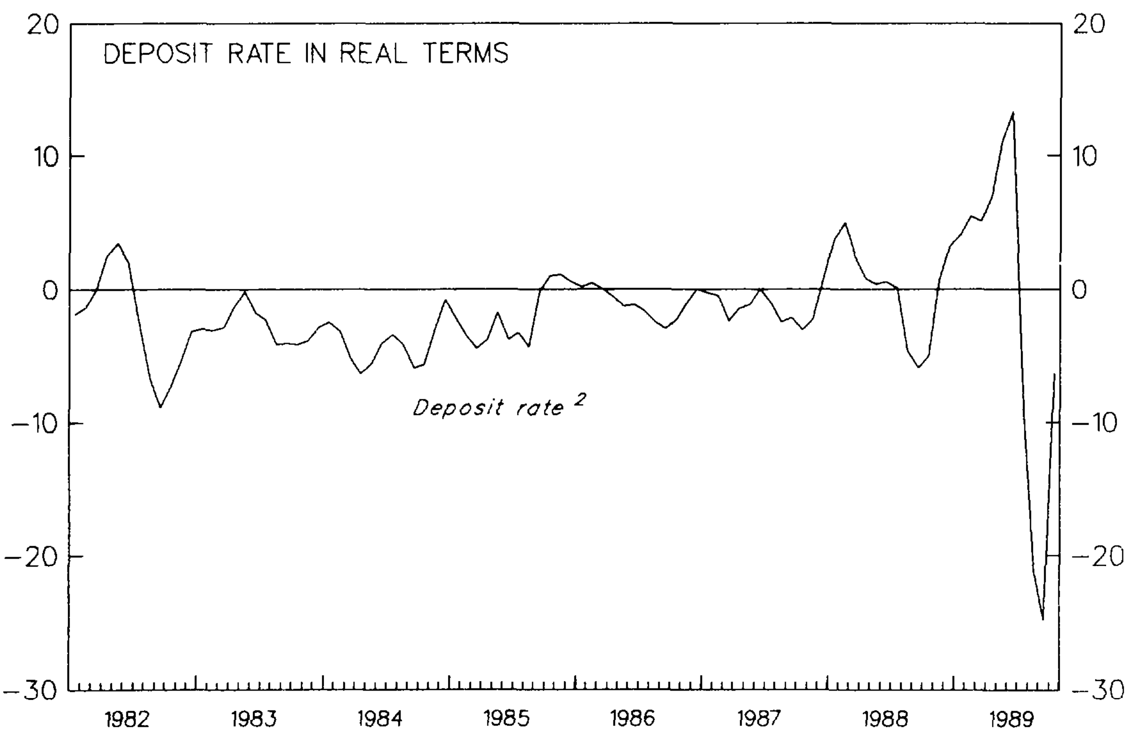


Sources: Ministry of Economy; and State Enterprises Comptrollers' Office (SIGEP).

[1] Prices paid by users, including taxes, deflated by the wholesale price index for national non-agricultural goods.

CHART 5
ARGENTINA
INTEREST RATE DEVELOPMENTS
(In percent per month)

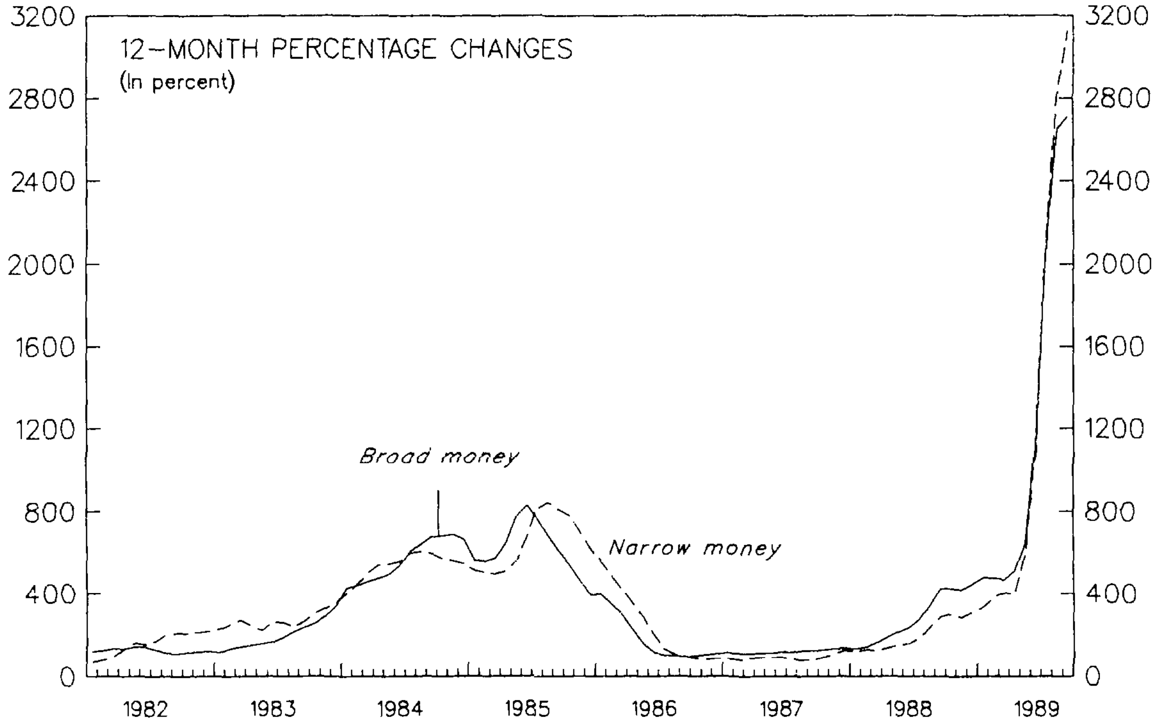


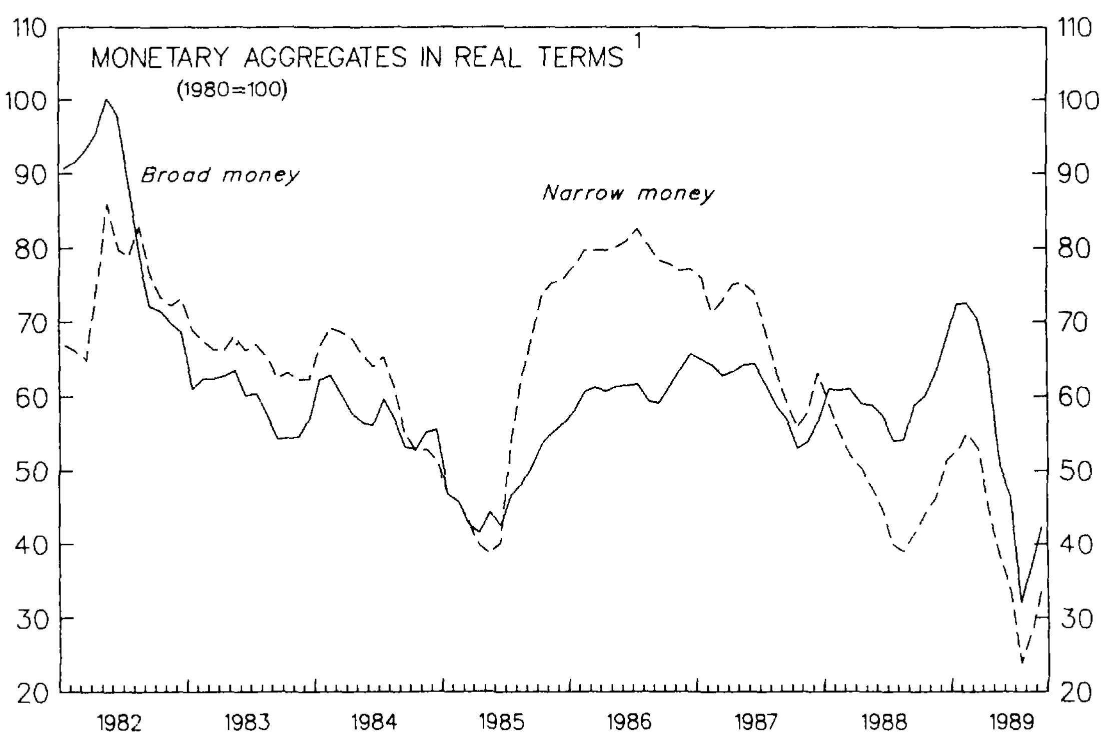


Source: Central Bank of Argentina.

1 Regulated rate from June 1982 to October 1987; otherwise unregulated rate.
2 Nominal rate deflated by change in consumer price index, 3 month moving average.

CHART 6
ARGENTINA
MONETARY DEVELOPMENTS





Source: Central Bank of Argentina.

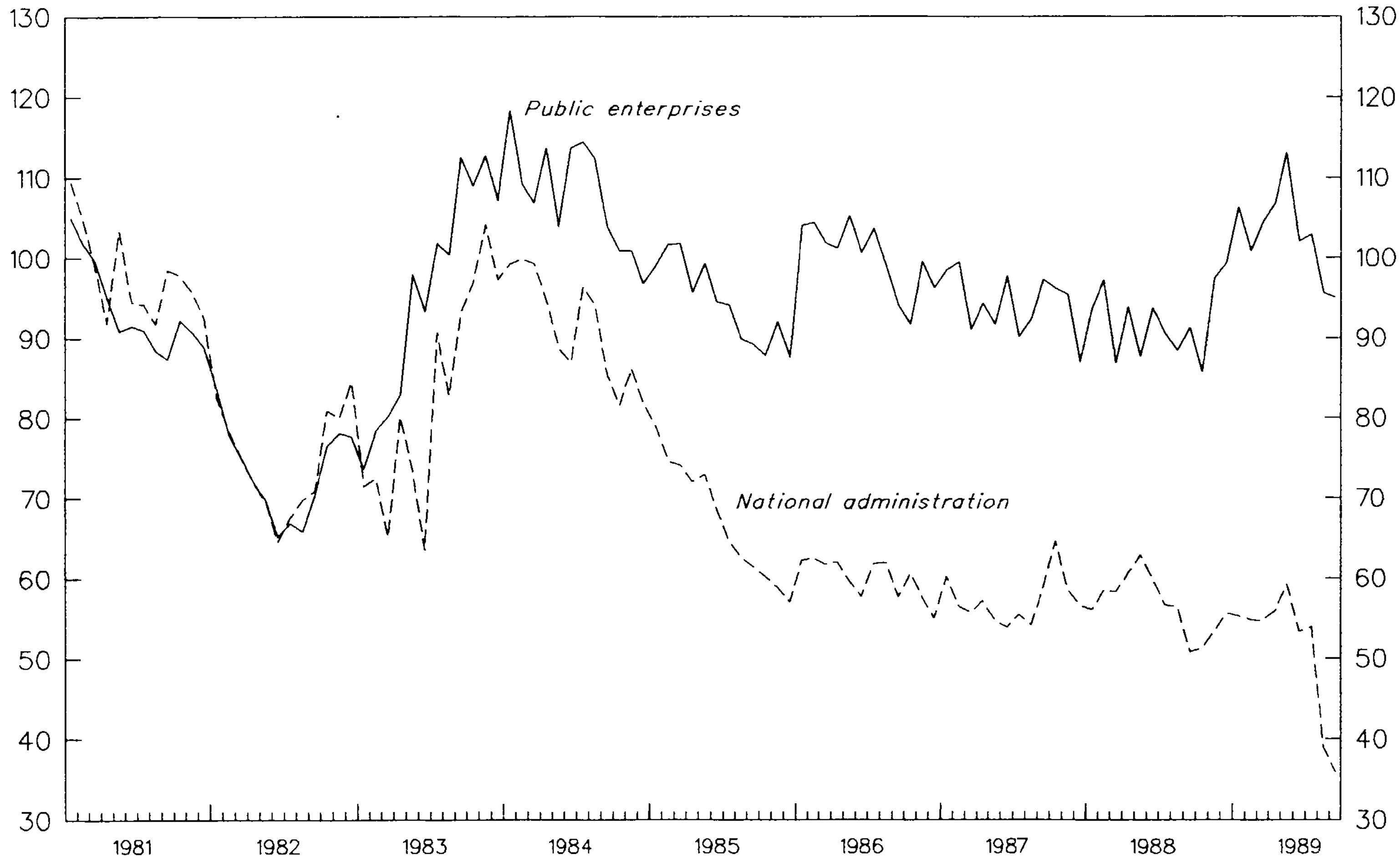
[1] Seasonally adjusted, deflated by the consumer price index.

CHART 7

ARGENTINA

REAL WAGES IN THE PUBLIC SECTOR

(Deflated by consumer price index; 1980=100)

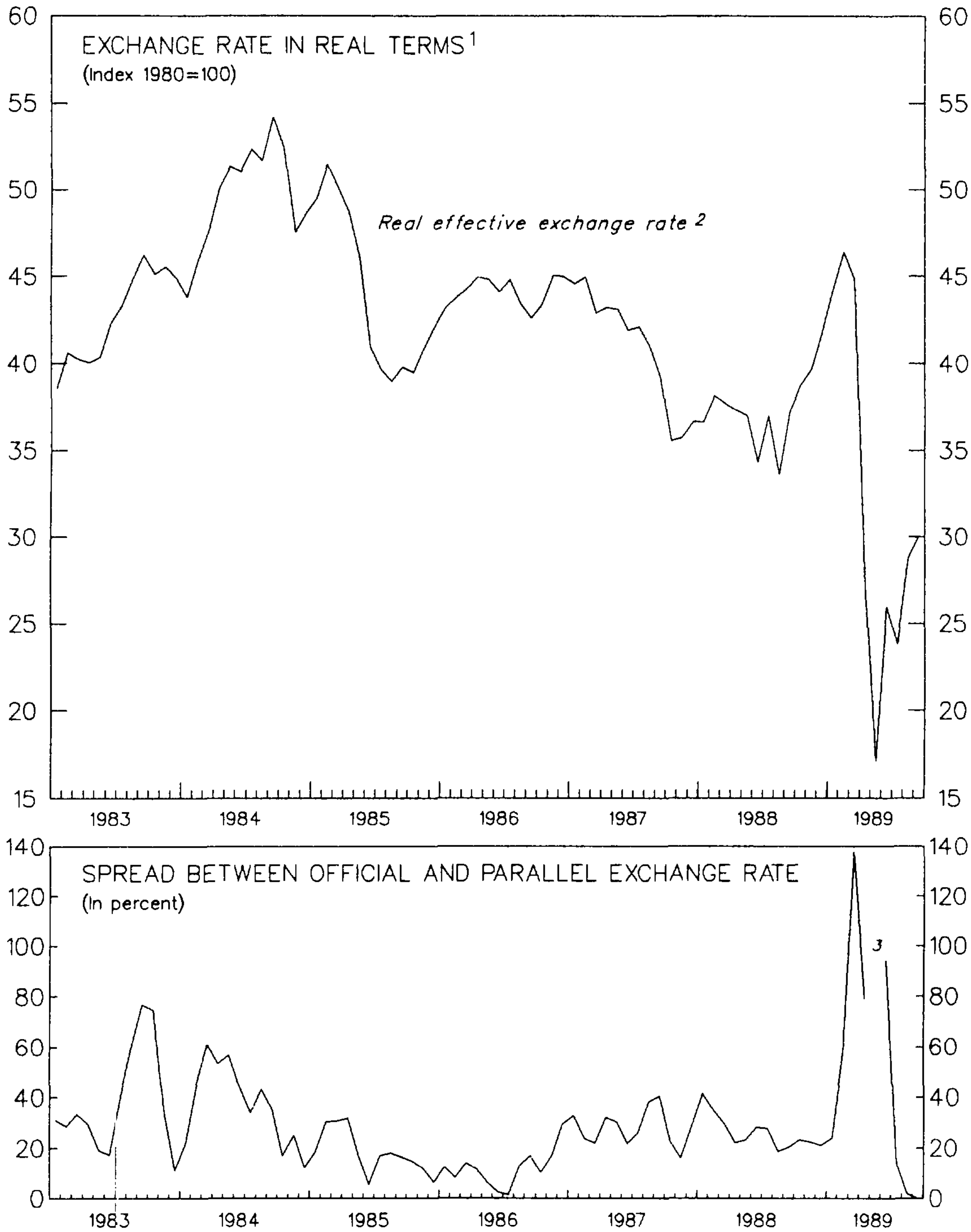


Source: Ministry of Economy; Fund staff estimates.

CHART 8

ARGENTINA

EXCHANGE RATE DEVELOPMENTS



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

[1] Based on official exchange rate through July 1988 and average of official and free exchange rates thereafter.

[2] Index is trade weighted and includes nominal exchange rates of major trading partners, deflated by consumer prices; increase means appreciation.

[3] From mid-April to end-May 1989, the official exchange rate floated freely.

Stand-By Arrangement--Argentina

Attached hereto is a letter with an annexed memorandum, dated October 12, 1989 from the Minister of Economy and the President of the Central Bank of the Republic of Argentina, requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Argentina intend to pursue for the period of this stand-by arrangement, and understandings of Argentina with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that Argentina will pursue for the period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from ______________ 1989 to March 31, 1991 Argentina will have the right to make purchases from the Fund in an amount equivalent to SDR 1,104 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 184 million until February 15, 1990, the equivalent of SDR 368 million until May 15, 1990, the equivalent of SDR 552 million until August 15, 1990, the equivalent of SDR 736 million until November 15, 1990, and the equivalent of SDR 920 million until February 15, 1991.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Argentina' currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12 1/2 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Argentina will not make purchases under this arrangement that would increase the Fund's holdings of Argentina's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12 1/2 percent of quota:

(a) during any period in which the data at the end of the preceding calendar quarter indicate that

(i) the limit on the combined deficit of the nonfinancial public sector and the Central Bank specified in Table 1 of the Memorandum on Economic Policy annexed to the attached letter, or

(ii) the limit on the cash deficit of the nonfinancial public sector specified in Table 1 of the Memorandum on Economic Policy annexed to the attached letter, or

(iii) the limit on treasury outlays specified in Table 1 of the Memorandun on Economic Policy annexed to the attached letter, or

(iv) the targets for change in the net domestic assets of the Central Bank specified in Table 2 of the Memorandum on Economic Policy annex to the attached letter, or

(v) the targets for change in net international reserves specified in Table 3 of the Memorandum on Economic Policy annexed to the attached letter, or

(vi) the limit on the external debt of the public sector and the limit on net disbursements of short-term debt of the public sector specified in Table 4 of the Memorandum on Economic Policy annexed to the attached letter,

are not observed; or

(b) if Argentina fails to carry out

(i) the intention regarding the elimination by the end of 1990 of the remaining import prohibitions and restrictions referred to in paragraph 28 of the Memorandum on Economic Policy annexed to the attached

(ii) the intention regarding the reduction of external payments arrears on public sector debt and the elimination of all such arrears by end-March 1990 as described in paragraph 29 of the Memorandum on Economic Policy annexed to the attached letter; or

(c) during any period after February 14, 1990, until the review contemplated in paragraph 31 of the Memorandum on Economic Policy annexed to the attached letter has been completed and understandings on additional measures that may be needed to attain the program's objectives have been reached, or after such understandings have been reached, while they are not being observed; or

(d) during the entire period of this stand-by arrangement, if Argentina

(i) imposes new or intensifies existing restrictions on payments and transfers for current international transactions, or

(ii) introduces new or modifies existing multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensified import restrictions for balance of payments reasons.

When Argentina is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Argentina and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Argentina will not make purchases under this stand-by arrangement during any period of the arrangement in which Argentina has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Argentina's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally, or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Argentina. When notices of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Argentina and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and

procedures of the Fund, and may be made in SDRs if, at the request of Argentina, the Fund agrees to provide them at the time of the purchase.

8. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. Argentina will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

9. Argentina shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

10. (a) Argentina shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as Argentina's balance of payments and reserve position improves.

(b) Any reductions in Argentina's currency held by the Fund shall reduce the amounts subject to repurchase under (a) abov in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that the repurchases will be completed not later than seven years from the date of purchase.

11. During the period of the stand-by arrangement Argentina shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Argentina or of representatives of Argentina to the Fund. Argentina shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Argentina in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

12. In accordance with the last paragraph of the attached letter, Argentina will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the stand-by arrangement and while Argentina has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Argentina's balance of payments policies.