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September 7, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Argentina - Supplementary Background Material for the GATT

The attached paper has been prepared by the staff to supply more recent background information on Argentina in connection with the forthcoming consultations between the CONTRACTING PARTIES to the GATT and Argentina (EBD/88/244, 8/31/88). In the absence of objection from an Executive Director by noon on Wednesday, September 14, 1988, the paper will be transmitted to the CONTRACTING PARTIES for their information and use.

Mr. Lachman (ext. 8648) or Mr. Collyns (ext. 8604) is available to answer technical or factual questions relating to this paper.

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INTERNATIONAL MONETARY FUND

ARGENTINA

Supplementary Background Material for the GATT

Prepared by the Western Hemisphere and Exchange and Trade Relations Departments

Approved by S. T. Beza and Eduard Brau

September 2, 1988

This supplement updates the Fund report of July 10, 1987, entitled "Argentina--Recent Economic Developments."

During 1987 there was a resurgence of inflation from the relatively low levels experienced in the period following the launching of the Austral Plan in June 1985 and there was a faltering in the recovery of economic activity that had got under way in late 1985. The average of consumer and wholesale price inflation during the 12 months ended in December 1987 amounted to 178 percent, compared with 78 percent during 1986, despite the imposition of temporary price-wage freezes in both February and October (Table 1). Real GDP increased 1 1/2 percent in 1987, down from 5 1/2 percent in 1986, as there was a slowing in the rate of growth of domestic demand and a continued deterioration in the external balance.

The pick up in inflation in 1987 owed in large part to slippages in financial policies despite efforts by the authorities to bolster the stabilization program initiated in June 1985. The combined deficit of the nonfinancial public sector and the Central Bank widened to 7 percent of GDP in 1987 from 4 1/2 percent of GDP in 1986, as there was both an increase in spending and a decline in revenues (Table 2). The loss in revenues occurred as inflation gathered momentum, as collections from a tax amnesty implemented in mid-1987 were less than expected and as a tax package announced in October was only approved by Congress in early 1988. At the same time, credit policy was generally expansionary as Central Bank rediscounts continued to increase at a rapid pace despite efforts to control their growth (Table 3).

The external current account balance widened from US$2.9 billion in 1986 to US$4.3 billion in 1987, largely as a result of a narrowing in the trade surplus from over US$2 billion to around US$600 million. The deterioration in the trade account was due in large part to the effect of adverse weather conditions on crop exports, as well as a deterioration in the terms of trade and a strong increase in import volumes. The latter reflected continued strong growth in investment and the need for oil imports as domestic petroleum production declined. The surplus on the capital account (excluding extraordinary financing) was reduced to US$200 million as increased outflows related to trade financing and a reduction in private capital inflows more than offset a further rise in lending by multilateral agencies. The resulting overall balance of payments deficit was financed to an important degree by a drawdown in international reserves and by disbursements under a new money package with creditor banks. In May 1987, Argentina reached agreement with the Paris Club on a rescheduling of payments coming due through mid-1988 and in August 1987 Argentina signed a multiyear rescheduling arrangement with commercial bank creditors covering US$30.2 billion or almost the entirety of Argentina's debt with the banks.

During the first half of 1988 free collective wage bargaining was restored for the first time since 1976 and there was a substantial liberalization of price controls. Within this new institutional setting and reflecting corrective price increases and the stance of financial policies, the 12-month rate of inflation rose to 350 percent by July. Preliminary indications suggest that the fiscal position did not improve in the first half of 1988 despite the approval by Congress of a revenue package in January, as tax collections in real terms were adversely affected by rising inflation and as the new tax measures yielded less than anticipated. Moreover, while the Central Bank did exercise tighter control over its rediscount policy, its operating losses increased reflecting the need for a substantial rise in remunerated reserve requirements to refinance the domestic debt of the Government that came due. Over the same period, there was also a sharp decline in real money balances.

The external trade surplus rose appreciably in the first half of 1988, owing mainly to a rebound in crop exports, which stemmed from favorable harvests and a rise in world prices, and to weakness of domestic demand. This improvement was, however, partly offset by a rise in interest payments and by a further rundown in trade financing. Moreover, in the absence of adequate arrangements for the financing of Argentina's balance of payments in 1988, there was a substantial build up of external payments arrears to the commercial banks in the second quarter of 1988.

Argentina's trade and exchange system involves a number of restrictions and multiple currency practices, in addition to the dual exchange market introduced in October 1987. 1/ Since June 1985 steps have been taken to liberalize the system through a relaxation of quantitative import controls, the reduction of external payments arrears, and the reduction, or elimination, of export taxes on a number of products. In 1987 and the first half of 1988, quantitative import restrictions on a wide range of products (including steel, petrochemical

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1/ For more detailed information, see the attached excerpt from the forthcoming Annual Report on Exchange Arrangements and Exchange Restrictions, 1987 which has been updated to include changes in January-June 1988.

products, processed food, paper and cardboard products, and textiles) were eliminated in the context of a World Bank trade policy loan. It is estimated that the proportion of domestic manufacturing production protected by import controls was reduced from 62 percent in December 1986 to 30 percent by May 1988. As regards export promotion, the system of export rebates that is intended to offset approximately the incidence of indirect taxes during the production process was extended in October 1987 to apply to exporters of agricultural-based manufactured goods. In addition, the coverage of a temporary admissions regime, which permits duty-free imports of inputs used in the production of exports, was expanded in 1987 by 3,750 items.

Argentina's external debt rose from US$48 billion at end-1985 to an estimated US$56 billion, or 77 percent of GDP, at the end of 1987 (Table 5). The bulk of this--about two thirds of the total--is owed to commercial banks. The amount of debt owed to international organizations, including the Fund, has increased during this period to an estimated 13 percent of total debt. The debt service ratio, after rescheduling, was estimated at 91 percent of exports of goods and nonfactor services in 1987, with interest payments equivalent to almost 50 percent of exports or 6 percent of GDP.

As regards exchange rate policy, in October 1987 the exchange market was split, with trade and trade-related transactions, public sector transactions, disbursements, and amortizations of loans from international organizations and the servicing of loans originally disbursed through the official market continuing to be channeled through the official market and most other transactions being transferred to a free exchange market. Immediately prior to the introduction of the dual exchange market, there was a substantial depreciation of the currency and by end-1987 the real effective exchange rate was 18 percent below its level a year earlier. During the first half of 1988, the real effective exchange rate was maintained at around its end-1987 level through a policy of frequent exchange rate adjustments.

On August 3, 1988 the Argentine authorities announced a package of measures aimed at bolstering the adjustment effort. The key element of this policy package was the shifting to the free exchange market of practically all import payments and 50 percent of industrial exports, while retaining agricultural exports and the remaining 50 percent of industrial exports in the official market, which was intended to reduce the public sector deficit by 1 1/4 to 1 1/2 percent of GDP on a full year basis. In addition, diesel and electricity prices were raised 15 percent in real terms, treasury transfers to a number of energy and highway projects were to be suspended starting in 1989 and measures were to be undertaken to streamline the National Administration. Accompanying these measures was the announcement of a price agreement between the Government and the representatives of 400 leading manufacturing firms to restrict price increases, initially through a price freeze. At the same time, public enterprise tariffs, salaries in the Central Administration, and the official exchange rate were all to be frozen through the end of September following immediate adjustments to these items of 30 percent, 25 percent, and 11 1/2 percent, respectively. The authorities also announced a series of measures directed at trade liberalization, including the removal of a substantial number of items from the list of imports requiring prior authorization and the reduction of customs duties and their dispersion beginning in mid-September, and the gradual unification beginning in April 1989 of the exchange market.

Table 1. Argentina: GDP, National Income, and Prices

(Annual percentage change)

	1983	1984	1985	1986	1987
GDP at current market prices	362.5	673.7	649.7	87.7	138.5
GDP at 1970 market prices	2.9	2.5	-4.4	5.4	1.6
Real GDP per capita	1.2	1.0	-5.9	3.7	--
National income at 1970 prices	2.8	3.9	-4.9	6.3	1.8
GDP deflator	351.0	655.1	684.1	78.1	134.6
Consumer prices					
Annual average	343.8	626.7	672.2	90.1	131.3
Year end	433.7	688.0	385.4	81.9	173.1
Wholesale prices					
Annual average	360.9	574.0	662.5	63.9	122.9
Year end	424.1	624.0	405.7	57.9	183.6

Source: Central Bank of Argentina.

Table 2. Argentina: Public Sector Operations 1/

(In percent of GDP)

	1983	1984	1985	1986	1987
Total revenue	19.1	18.3	21.6	21.2	19.3
Current revenue	18.8	18.2	20.9	20.6	18.9
Tax revenue	15.5	15.6	18.3	18.4	17.1
Nontax revenue	3.3	2.6	2.6	2.2	1.9
Capital receipts 2/	0.3	0.1	0.7	0.6	0.4
Total expenditure	29.3	25.9	25.8	24.0	25.8
Current expenditure 3/	23.8	22.6	22.4	20.8	21.9
Central government current expenditure	22.2	20.6	20.8	20.3	20.8
Provinces and municipality of Buenos Aires overall deficit	--	0.6	-0.3	-0.2	0.5
Public enterprises operating deficit	1.6	1.5	1.8	0.6	0.6
Capital expenditure 4/	5.5	4.3	3.5	3.1	3.9
Overall deficit of nonfinancial public sector (-)	-10.2	-7.6	-4.3	-2.7	-6.6
Operating result of Central Bank	-1.1	-2.5	-2.1	-1.6	-0.5
Overall deficit of combined public sector	-11.3	-10.1	-6.4	-4.3	-7.1

Source: Ministry of Economy.

1/ Cash basis.
2/ Includes capital receipts from public enterprises and receipts from forced-saving plan in 1985, 1986, and small amount in 1987.
3/ Includes net extrabudgetary expenditure.
4/ Includes capital outlays by public enterprises.

Table 3. Argentina: Summary of Operations of Financial System 1/

	December					
	1982	1983	1984	1985	1986	1987
I. Consolidated Financial System						
(Percentage change during previous 12 months)						
Net external assets 2/	-68.6	-65.9	-30.8	-8.0	-16.9	-58.5
Net domestic assets 2/	178.8	420.6	562.2	328.2	117.6	207.5
Private sector	138.6	287.0	360.5	196.7	67.3	122.9
Nonfinancial public sector	70.4	297.6	294.1	126.4	48.7	106.4
Other 3/	-30.2	-164.0	-92.4	5.1	1.6	-21.9
Liabilities to private sector	110.2	354.7	531.4	320.2	100.6	149.0
Monetary liabilities	224.7	368.2	524.7	596.2	85.5	124.9
Other liabilities	80.5	349.3	533.8	249.0	108.1	158.8
(Change during previous 12 months, in millions of U.S. dollars)						
Net external assets	-6,626	-3,247	-1,171	-281	-1,634	-5,254
II. Central Bank						
(Percentage change during previous 12 months)						
Net international reserves 4/	-64.9	-57.5	-49.7	-15.1	-18.7	-45.6
Net domestic assets 4/	819.4	413.7	496.9	720.1	91.4	170.0
Credit to financial system and private sector	885.2	227.3	394.7	295.0	97.6	168.3
Nonfinancial public sector	221.1	364.3	385.0	379.0	47.8	105.7
Other 3/	-286.9	-177.9	-282.8	46.2	-54.0	-103.9
Liabilities to financial system and nonfinancial private sector	754.5	356.2	447.2	705.0	72.7	124.3
Nonfinancial private sector	191.9	427.1	583.2	561.7	97.6	129.4
Rest of financial system	1,542.5	338.6	406.5	762.8	65.0	122.5
(Change during previous 12 months, in millions of U.S. dollars)						
Net international reserves	-6,271	-2,832	-1,889	-528	-1,806	-4,100

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.

Table 4. Argentina: Balance of Payments, 1982-87

(In millions of U.S. dollars)

	1982	1983	1984	1985	1986	1987
Current account	-2,358	-2,461	-2,391	-953	-2,859	-4,285
Merchandise trade	2,287	3,331	3,523	4,582	2,128	556
Exports, f.o.b.	7,624	7,836	8,107	8,396	6,852	6,356
Imports, c.i.f.	-5,337	-4,505	-4,584	-3,814	-4,724	-5,800
Nonfactor services (net)	43	-400	-205	-231	-573	-348
Factor services	-4,719	-5,408	-5,712	-5,304	-4,416	-4,485
Profits and dividends	-316	-425	-439	-425	-482	-558
Interest payments	-4,926	-5,423	-5,537	-5,132	-4,291	-4,145
Interest receipts	523	440	264	253	357	218
Transfers	31	16	3	--	2	-8
Capital account 1/	-3,808	-111	647	397	784	185
Direct investment	257	183	269	919 2/	574	-19
Export financing	-504	260	511	140	-57	115
Import financing	-2,216	-617	-11	-952	-483	-699
Loans from multilateral organizations	114	113	123	182	394	733
Other 4/	-1,459	-50	-245	108	356	55
Overall balance	-6,166	-2,572	-1,744	-556	-2,075	-4,100
Financing	6,166	2,572	1,744	556	2,075	4,100
Change in assets (increase -)	755	-1,445	-207	-1,871	563	1,111
Arrears	2,540	682	940	-2,445	-1,174	39
IMF position	--	1,178	--	1,007	145	614
Purchases	--	1,178	--	1,007	547	1,253
Repurchases	--	--	--	--	-402	-639
Official creditors	--	--	600	1,017	897	384
Paris Club, net	--	--	--	1,617	897	384
Other	--	--	600	-600	--	--
Commercial banks 5/	--	1,250	--	3,096	1,207	1,244
Other liabilities 6/	2,871	907	411	-248	437	708 7/
Memorandum item						
Gross official reserves (months of imports)	5.7	7.1	6.9	14.6	10.9	6.2

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 US$467 million of capitalization of private debt with exchange guarantee.
3/ Includes US$160 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 the transformation of private debt with exchange guarantee into public debt, and errors and omissions.
5/ New money raised through concerted lending.
6/ Includes valuation and other adjustments.
7/ Includes refinanced arrears to Bolivia.

Table 5. Argentina: External Debt and Debt Service

	1982	1983 1/	1984 2/	1985 2/	1986 3/	Est. 1987 4/
	(In millions of U.S. dollars; end-year)					
Total disbursed debt	43,634	45,069	46,578	48,075	51,422	56,229
By borrowing sector						
Public sector	28,616	31,709	35,875	41,048	44,722	50,002
Private sector	15,018	13,360	10,703	7,027	6,700	6,227
By maturity						
Medium- and long-term	28,784	...	...	...	...	...
Short-term	12,310	...	...	...	...	...
Arrears	2,540	3,222	4,163	1,718	544	583
	(In percent of total)					
Disbursed debt of public sector, by type of creditor 5/	100.0	100.0	100.0	100.0	100.0 6/	100.0 6/
International organizations	5.0	6.4	6.0	8.8	10.9	13.1
Official creditors	1.4	4.1	5.2	8.2	10.0	9.4
Banks	71.1	69.6	67.3	66.4	66.0	62.7
Bondholders	18.1	9.3	9.3	7.9	7.1	6.5
Private firms	4.3	10.6	11.7	8.7	6.0	8.2
	(In millions of U.S. dollars and in percent)					
Debt service 7/	9,971	11,984	12,180	9,301	10,903	7,693
Amortization	5,045	6,561	6,643	4,169	6,612	3,548 8/
Interest	4,926	5,423	5,537	5,132	4,291	4,145
Exports of goods, nonfactor services and transfers	9,575	9,547	10,049	10,242	8,738	8,459
Debt service ratio	104.1	125.5	121.2	90.8	124.8	90.9
	(In percent of GDP) 9/					
Debt outstanding	74.7	74.1	72.3	74.4	73.7	76.7
Debt service	17.8	20.0	17.8	14.4	15.6	10.5
Interest	8.5	8.7	8.4	7.9	6.1	5.7

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

1/ Estimates based on Central Bank debt reporting system; using end-1983 exchange rates takes into account shift of US$4.8 billion in liabilities related to exchange guaranteed loans from private to public sector.
2/ Based on data from debt reporting system for 1983 and data from balance of payments flows.
3/ Based on data from debt reporting system.
4/ Based on data from debt reporting system for 1986 and data from 1987 balance of payments flows, taking into account end-1987 exchange rates.
5/ Before rescheduling for 1983, distribution excludes external payments arrears.
6/ Total debt of public and private sector.
7/ Includes amortization on loans with an original maturity of more than one year, and all interest payments. Includes both public and private debt. Numbers for 1982 through 1986 reflect amounts due rather than amounts actually paid.
8/ After rescheduling.
9/ 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 1970 level.

ARGENTINA
(Position on December 31, 1987)

Exchange Arrangement

The currency of Argentina is the Austral (plural Australes). A dual exchange rate system is operated, with a freely fluctuating, market-determined exchange rate for all transactions not required to be channeled through the official exchange market. The transactions to be conducted at the official exchange rate include all merchandise trade, 1/ all public sector transactions, all disbursements from international organizations, the amortization and refinancing of private sector loans disbursed before October 9, 1987, and the servicing of debt contracted through the official market. The official exchange rate for the austral in terms of U.S. dollars is announced on a daily basis by the Central Bank of Argentina. On December 31, 1987 the closing rate for the austral in terms of the U.S. dollar was ₳ 3.75 = US$1 (selling).

Transactions are allowed in certain other currencies, 2/ with daily quotations based on the buying and selling rates for the U.S. dollar on markets abroad. Purchases and sales of foreign exchange are subject to a tax of 0.6 percent. Forward exchange operations are permitted in the private sector with maturities of up to 180 days and at rates agreed by buyers and sellers; such operations must be related to trade transactions, financial loans, or other transactions for which transactions in foreign currency are permitted. Exchange rate guarantees operate in respect of certain financial transactions (see section on Capital, below).

Argentina formally accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Fund Agreement, as from May 14, 1968.

Administration of Control

All exchange transactions must be carried out through entities authorized expressly for this purpose. These authorized entities include banks, exchange agencies, exchange houses, and exchange offices; each of these types of institution may be subject to separate regulation. Arrears are maintained with respect to external payments.

Prescription of Currency

Virtually all payments between Argentina and Bolivia, Brazil, Chile, Colombia, the Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela are made through accounts maintained by the

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1/ Except for a small number of transactions that have to be effected through the free market.

2/ Austrian schillings, Belgian francs, Canadian dollars, Danish kroner, deutsche mark, Finnish markkaa, French francs, Italian lire, Japanese yen, Netherlands guilders, Norwegian kroner, pounds sterling, Portuguese escudos, Spanish pesetas, Swedish kronor, and Swiss francs.

Central Bank of Argentina and the central banks concerned, under reciprocal credit agreements within the framework of the multilateral clearing system of the Latin American Integration Association (LAIA). Under an agreement maintained with Bolivia, a fixed proportion of Argentina's payments for Bolivia's natural gas exports is made into a non-interest-bearing account at the Central Bank of Argentina, and it is used solely for purchases of Argentine goods to be consumed in Bolivia and for Bolivia's debt-service payments to Argentina. Argentina maintains reciprocal credit arrangements with Bulgaria, Cuba, Hungary, Poland, and the U.S.S.R. by means of special accounts in each central bank through which transactions are settled. Transactions with other countries must be settled in freely usable currencies.

Nonresident Accounts

Authorized banks may open accounts in australes and in foreign exchange in the name of any nonresident, provided that the accounts are credited with remittances of convertible currencies only. Balances on nonresident accounts may be used freely for any purpose, in Argentina or abroad. Transfers between accounts may be effected freely, except in payment for exports.

Imports and Import Payments

Import payments may be effected in convertible currencies, except as otherwise specified in the regulations on prescription of currency. Settlement of payments for imports by the private sector may be freely effected by authorized financial entities, provided that the financing conforms to terms established by the Central Bank, and payment may be effected up to two business days prior to the due date; otherwise, if payment is not effected on the due date, it is postponed for a minimum period as defined in the prevailing regulation for such an operation. Payment may be effected before the expiration of the minimum period if the domestic debtor pays a premium to the Central Bank. The premium is calculated by the application of specified rates, determined daily by the Central Bank, on the f.o.b. value of the debt (converted at the exchange rate in effect at the time of shipment) for the period since the original maturity date. Imports and related payments by the public sector require the prior approval of the Central Bank. In addition to customs duties, imports are subject to a stamp duty of 0.6 percent and selective internal taxes ranging from 5 percent to 22 percent; certain imports are subject to a special emergency import surcharge of 15 percent.

Most public and private sector imports require a "Sworn Declaration of Need to Import" to be submitted by the importer to the intervening banks, which are authorized to accept, check, and process these declarations and submit them to the National Import Directorate. Some imports require an import license (Certificate of Sworn Declaration of Need to Import) issued by the National Import Directorate. Certain public enterprises are also permitted to import under foreign treaties without the issuance of an import license.

Import license requests submitted by the private sector to the Industry and Foreign Trade Secretariat are issued only after the importer has placed with a bank a deposit equal to either the estimated duty payable on the import, or 5 percent of the import value, in cases of lower or equivalent value. The deposits are blocked until the import duty is paid or for a period of time defined in the Central Bank regulations, whichever is earlier; they are indexed in terms of the U.S. dollar.

The following set of procedures apply to the acquisition of an import license for all imports that require licensing. Although the import of goods classified as "nonessential" (List I) is technically prohibited, all goods on List I have been transferred to List II (see below) on a temporary basis. The goods temporarily on List II include consumer goods and industrial inputs for which close substitutes are amply available in Argentina. The prohibition on the importation of goods on List I, when it applies, does not apply to temporary imports, goods included in the border traffic scheme, or samples and prototypes. The Secretary of Commerce is empowered to grant import licenses for goods on List I when the item is considered necessary for scientific or technical reasons, or in light of the quantity or quality of domestic production.

Most capital goods, certain industrial inputs, and goods temporarily transferred from the list of prohibited goods are included in List II. For goods on this list, the Industry and Commerce Secretariat issues import licenses in consultation with an Honorary Import Advisory Committee on which both government institutions and competent commercial and industrial organizations are represented. When the industrial section of the Industry and Foreign Trade Secretariat does not approve an import license request, the Secretariat is empowered to study the individual case and make a determination. Import licenses for certain raw materials and inputs for the pharmaceutical industry and for medical and health services (List III) require the prior approval of the Ministry of Health and Social Action, and licenses for imports intended for national defense and for the security and police forces require the prior approval of the Ministries of Defense or Interior.

Import licenses are granted automatically for all goods not specifically covered by the foregoing provisions. These include goods imported under the Temporary Admission Regime. Also, goods imported under concessions granted by any instrument of the LAIA agreement are exempt from the prohibition applicable to goods on List I and the review requirement for goods on List II. Import licenses are issued automatically for goods covered under the Argentine-Uruguayan Economic Cooperation Agreement.

The actual import value (f.o.b.) must be no more than 10 percent above the stated value of the sworn declaration submitted in application for an import license.

Countertrade is permitted for firms engaging in the exportation of promoted exports. In such cases, import payments can take the form of the exportation of promoted goods.

Most imports are subject to minimum financing terms of at least 180 days, calculated from the date of shipment. However, imports of goods on the negotiated lists from the LAIA have a minimum financing term of 90 days, and those not in the negotiated lists, a term of 120 days. Most other imports from Latin America, including those from the Central American Common Market (CACM), Cuba, the Dominican Republic, Haiti, and Panama, are subject to minimum financing terms of 120 days from shipment. Payment against shipping documents is permitted in the following cases: goods imported from Bolivia (within the LAIA framework); from Brazil ("negotiated goods"); Chile ("negotiated goods"); Ecuador ("negotiated goods"); Mexico (goods under trade compensation programs); Paraguay (certain specified goods); Peru (goods negotiated under LAIA Agreement No. 6); Uruguay (goods negotiated under the Partial Scope Agreement on Economic Complementation No. 1 and the 1984 Agricultural Agreement); fresh fruit received on a consignment basis; and periodicals.

Imports destined for the Special Customs Area of Tierra del Fuego (Law No. 19640) are subject to the following minimum financing terms: 75 days for imports on the "Negotiated List" shipped from and originating in LAIA countries; 105 days for "nonnegotiated" imports from the LAIA and imports from the CACM, Cuba, the Dominican Republic, Haiti, or Panama; and 150 days for imports from all other countries.

Special minimum financing terms apply to imports of capital goods valued at more than US$50,000. Not more than 5 percent of the f.o.b. value may be settled prior to shipment, and an additional 10 percent may be paid upon the submission of shipping documents. The balance of 85 percent is to be paid in equal installments beginning not earlier than six months after shipment, according to the following schedule.

Value of Import (f.o.b.) (In thousands of U.S. dollars)	Minimum Financing Term
50-250	1 year
250-500	2 years
500-1,000	3 years
1,000-1,500	4 years
1,500-2,000	5 years
More than 2,000	To be determined upon consultation with the Central Bank

Imports of capital goods for which financing amounting to 85 percent of the f.o.b. value as a minimum is provided by international organizations or official creditors are exempt from these minimum terms (the terms of the contract loans apply in these cases), as are imports by firms located in the National Territories of Tierra del Fuego, Antarctica, and the Islands of the South Atlantic, which are subject to the terms indicated above.

Payments for Invisibles

Certain payments for invisibles require prior approval by the Central Bank. In general, the sale of foreign exchange at the official rate is not permitted for invisible payments; all payments may be made through the free exchange market, with the exception of transfers of profits and dividend earnings. Authorized entities may carry out most types of transactions without prior authorization of the Central Bank.

Exports and Export Proceeds

Minimum export prices (reference prices) are established for many agricultural and livestock exports as a basis for the payment of duties and the surrender of export proceeds. The full f.o.b. proceeds from all exports must be repatriated and surrendered; the proceeds must not be less than the reference price, or if there is no reference price, the f.o.b. value declared on the shipping permit. Proceeds may be received in any convertible currency. Proceeds from traditional exports must be received before shipment by means of advance payments or irrevocable letters of credit payable against shipping documents in Argentina. Proceeds from promoted exports must be repatriated within 180 days from the date of shipment. In both cases, export proceeds must be surrendered within 15 working days from the respective time limits.

A number of traditional exports (soybeans, beef, and processed hides) are subject to export taxes. Certain nontraditional exports are eligible for rebates of estimated indirect taxes paid in the process of production. Exports shipped through certain ports are eligible for additional rebates ranging from 7 percent to 12 percent.

Many exports, particularly nontraditional exports, are eligible for other export incentives of various kinds. The Central Bank has established a number of special financing regimes to be granted to Argentine exporters through banks, with a view to promoting exports of certain goods and services. Also, the Argentine Export Credit Insurance Company provides credit insurance against commercial and ordinary risks and also coverage for extraordinary risks (on the account of the Central Government) for exports of capital goods and other specified consumer goods. Certain products, mostly nontraditional exports, may be shipped "on consignment" for 360 days; if not sold within that period, the goods must be returned to Argentina.

Various export incentives are provided for promoted exports in accordance with the Export Promotion Laws of December 16, 1984. These include: (1) a deduction from taxable profits, up to 10 percent of the value of certain exports; (2) the creation of export consortia and cooperatives and the granting of an incentive equal to 4 percent of the f.o.b. value of exports over a period of five years; (3) the establishment of international trading companies; (4) permission for firms to engage in countertrade when marketing promoted exports; (5) a tax drawback scheme under which rebates would be allowed for taxes of imported inputs and other taxes; (6) the elimination of the 0.5 percent stamp tax for exports from the Federal Capital Area; and (7) the funding of an Export Promotion Fund to finance participation in trade fairs and exhibitions.

Under the ARGEX program, enterprises that can establish that their export receipts are at least three times their import payments are eligible for automatic and unrestricted access to the Temporary Admission Regime for all inputs and intermediate products and to prefinancing. Under the Special Export Programs, exporters of specified goods who commit themselves to expanding exports are eligible for special payments from the Treasury of up to 15 percent of the increase in the f.o.b. value of exports, for access to Central Bank prefinancing, and for other benefits.

For traditional exports, the maximum terms for anticipated payments and foreign currency export prefinance are 360 days for processed goods, 240 days for vegetable oils and their by-products, peas, garden produce, chickpeas, rice, wheat flower, and processed meats, and 180 days for grains and other unprocessed agricultural products. For nontraditional exports, the maximum term for anticipated payments and foreign currency export prefinance is 360 days.

Proceeds from Invisibles

Foreign currency receipts devised from private sector invisibles transactions need not be surrendered to the official exchange market, but may be sold in the free exchange market. Travelers may bring in freely any amount in domestic or foreign bank notes and coin, as well as gold coin and "good delivery" gold bars.

Capital

Proceeds from private sector financial loans must be transacted in the free foreign exchange market after October 1987; those transacted before this date in the unified exchange market are eligible for subsequent purchases of official foreign exchange to service such loans. Private sector loans disbursed since October 1987 are serviced through the free exchange market. Proceeds of loans from international organizations, and of all public sector borrowing, may be transacted in the free or official foreign exchange market and must be serviced through the market where the proceeds were transacted. Proceeds from financial loans must be transacted through the official market only if they are to be used as supplementary funds in relending operations. For these loans, interest rates may not exceed LIBOR plus 1 percent, must have maturities of at least 360 days, and in all cases must have fixed maturity dates. There are no conditions, on maturity dates or interest rates, for financial loans transacted through the free market. Principal and interest payments for loans received after November 28, 1984 may be effected directly through authorized entities on the maturity date without prior central bank authorization. All amortization payments for loans received not subject to regulation A 558 and not related to import operations carried out in accordance with the minimum conditions specified for such payments may be settled through the subscription of U.S. dollar bonds of the Central Bank of the Argentine Republic, payable in 15 semiannual installments, with a grace period of three years.

All loans outstanding and covered by a swap agreement with the Central Bank as of December 4, 1982 and all loans for which the domestic borrower has obtained an exchange rate guarantee from the Central Bank and which fell due through the end of 1985 have been extended under minimum terms established by the Central Bank. Loans covered by swap agreements that fell due in 1985 were either to be rescheduled by means of the issuance of U.S. dollar-denominated obligations of the Central Bank (BCRA Notes) with a ten-year maturity, or by a direct refinancing between debtor and creditor for up to five years followed by the issuance of a BCRA Note for the remainder of a ten-year period. Loans covered by exchange rate guarantees that fell due in 1986 were rescheduled by means of the issuance of U.S. dollar-denominated obligations of the Government of Argentina (Notes) with a 19-year maturity from October 1987.

The inflow of financial loans undertaken by local foreign-owned enterprises and originating from foreign enterprises that either directly or indirectly control the borrowing enterprises or are their subsidiaries requires the prior approval of the Central Bank. Loans endorsed or guaranteed by the State also require prior authorization from the Central Bank. Banks may accept foreign currency sight or term deposits; in the latter case, deposits must be for the account and to the order of the Central Bank, with maturities of 60-360 days. Foreign borrowing by the public sector is regulated by Decree-Law No. 19328 of October 29, 1971 and Decree No. 3532 of November 24, 1975. Outward capital transfers are not permitted through the official market but may be effected through the free market without restrictions.

The foreign investment regime is governed by the Foreign Investment Law (codified text of 1980), which incorporates the amendments made under Law No. 22208 to Law No. 21382. Promulgated by Decree No. 1062 of June 30, 1980, the Foreign Investment Law is regulated by Decree No. 103 of January 19, 1981. Investments may be made in freely convertible foreign currency in the form of new or used capital goods and their spare parts and accessories; profits and capital in Argentine currency belonging to foreign investors (provided that they are legally transferable abroad); capitalization of external credits received in freely convertible foreign currency; intangible assets; and any other form acceptable to the implementing authority or covered by a special regime or a promotion regime.

For approval purposes, investments are classified into three categories, as follows:

(1) Subject to prior approval by the National Executive are (a) investments in the defense and national security sectors, in public service sectors including the postal system, electricity, gas, telecommunications, computers, electronic equipment, and in radio transmitters, television stations, newspapers, periodicals and magazines, energy, education, and financial and insurance institutions; (b) transfers of capital and the acquisition of shares (the latter is permissible only in exceptional cases when it is manifestly beneficial to the national economy) that involve changing the national ownership structure of a local firm belonging to national investors and having net assets exceeding US$10 million; (c) new transfers of freely convertible foreign currency not exceeding US$5 million and not involving a change in the national ownership structure of an existing local firm; (d) investment in any of Argentina's stock markets, provided that the amount does not exceed US$2 million for each foreign investor and so long as total foreign investment does not exceed 2 percent of the capital of the company involved; (e) investments in which the investor is a juridical person under public law; and (f) investments in which special or promotional benefits are requested that can only be granted by the National Executive and the proposed investment is contingent on them.

(2) No prior approval is required for (a) total or partial reinvestment of a registered foreign investor's profits (even in the sectors referred to in item (1) above), provided that they do not involve changing the national ownership structure of the receiving firm and are intended to foster the activities for which the original investment was approved or in which the firm was engaged when the law entered into force; (b) new investments in freely convertible foreign currency made for the same purposes as mentioned in item (1) above, and not exceeding 30 percent of the registered capital in the receiving firm and which do not involve converting it into a "domestic firm with foreign capital," or new investments that are made pursuant to a preferential right and in order to maintain an interest equal to or lower than what was held up to that time; (c) new transfers of freely convertible foreign currency not exceeding US$5 million and not involving a change in the national ownership structure of an existing local firm; and (d) investment in any of Argentina's stock markets, provided that the amount does not exceed US$2 million for each foreign investor and so long as total foreign investment does not exceed 2 percent of the capital of the company involved.

(3) All other foreign investments are subject to prior approval by the implementing authority, which must give its decision within 120 days from the date on which the investment proposal is submitted.

Foreign investments existing prior to the entry into force of the Foreign Investment Law are governed by its provisions, which include a special regime for their inscription and recognition. Existing and new foreign investments, as well as all capital movements relating thereto, may be recorded in the Register of Foreign Investments, which is kept by the Ministry of Economy.

Since September 1984, the Central Bank has entertained applications for the capitalization into foreign direct investment of principal falling due with an exchange rate guarantee. From February to September 1985, many such applications were approved, but since then approval has not been forthcoming. In addition, although no Central Bank circular has provided formal authorization, certain requests for the capitalization into foreign direct investment of swaps falling due were approved in 1985. No transactions of this type took place in 1986 or 1987.

In October 1987 a debt conversion scheme was announced that would allow investments to be financed through conversion of external loan claims into domestic currency at the free foreign exchange market rate. The value of the loan claims would be determined through an auction system. The scheme came into effect on January 1, 1988, and the first auction was held in January 1988. Profits on investments under this scheme may not be remitted for at least four years, and capital may not be repatriated for ten years.

Other registered foreign investments may generally be repatriated three years after entry into Argentina, unless a longer period was fixed when the investment was approved. The right to transfer profits and to repatriate capital related to properly registered investments can be suspended only by the National Executive. In that event, registered foreign investors are entitled to receive, for the remittance of profits abroad, the equivalent of the sum to be transferred in external public debt securities denominated in foreign currency at the rate of interest prevailing in the international market, against provision of the equivalent in Argentine currency; this regulation is applied under Decree No. 1506/84, which also prohibits the repatriation of capital.

Profits on registered foreign capital are subject to a special tax on after-tax profit when they exceed 12 percent of registered capital on an annual basis. This tax is 15 percent for profits of more than 12 percent and up to 15 percent of registered capital, 20 percent for those of more than 15 percent and up to 20 percent of registered capital, and 25 percent for those of more than 20 percent of registered capital.

The extension of domestic credit to "domestic firms with foreign capital" is subject to special provisions, as set forth in Law No. 21382 (Article 17) and Decree No. 283/77 (Article 71, as amended in 1980).

Gold

Residents may hold gold coin and gold in any other form in Argentina or abroad. Financial institutions, exchange houses, and exchange agencies may buy or sell gold in the form of coin or "good delivery" bars among themselves or buy such gold from their clients. Gold exports must be paid for in convertible currencies. Imports of gold by industrial users are subject to a statistical duty of 0.6 percent, and those by other users are subject in addition to a sales tax. Institutions may carry out arbitrage operations on coined gold or good delivery gold with their clients, against foreign bank notes.

Changes During 1987

Exchange Arrangement

October 14. The dual exchange rate system was introduced, whereby certain current and capital transactions were allowed to be transacted through the free exchange market. Transactions that are initially channeled through the official exchange market include all merchandise trade; all public sector transactions, including the servicing of all public and publicly guaranteed debt; disbursement and amortization of loans from international organizations; amortization and refinancing of all private sector loans disbursed before October 9, 1987; and the servicing of all loans disbursed through the official exchange market. The exchange rate in the official market was initially set at ₳3.50 per US$ 1. All other transactions may be effected through the free exchange market.

December 30. Trade-related service payments were shifted from the official to the free exchange market. The official exchange rate was also depreciated to ₳3.75 per US$ 1.

Imports and Import Payments

March 4. Some 3,100 items were added to the temporary admission regime, under which imports of inputs used in the production of exports are permitted duty free. Certain petrochemical products were excluded from the list of products, subject to prior authorization.

March 26. Certain food items and various textile products were excluded from the list of imports subject to prior study, thus allowing imports of these products without restriction. For goods remaining subject to prior study, the period of review was reduced to a maximum of 15 days.

October 14. Some 650 items were added to the temporary admission regime.

October 16. An import surcharge of 5 percent was introduced for the period through end-1988, in addition to the 10 percent surcharge.

October 21. Paper and paper products were excluded from the list of imports subject to prior authorization.

December 20. Certain chemical and petrochemical products were excluded from the list of imports subject to prior authorization.

December 21. Producers of goods used in the production of exports were given access to the temporary admission regime.

Payments for Invisibles

June 1. Remittance of profits accruing from investment made under the debt-equity conversion scheme was permitted after four years.

Exports and Export Proceeds

September 9. Producers of inputs used in the production of exports were given access to the regime of prefinancing for promoted exports.

September 22. Export taxes were eliminated on wheat, corn, sorghum, and edible oil and reduced on unprocessed soybeans, sunflower seeds, flax, and wood products.

October 14. Certain agro-industrial exports were included in the scheme under which a rebate of up to 5 percent of indirect taxes that had been incurred in the process of export production is given.

November 12. An insurance mechanism was introduced to provide collateral for export financing operations by small- and medium-sized enterprises.

Capital

June 1. General guidelines were announced for the debt-equity conversion scheme. Most publicly guaranteed debt would be eligible for conversion, and projects that result in the purchase of new equipment, establishment of new plants, or increases in capacity would be eligible investments under the program. Eligible debt would be converted at face value at the official exchange rate and would need to be accompanied by an inflow of matching funds at least equal to the face value of the debt. Redemption or distribution of the resulting investment would not be permitted for ten years from the date of the investment. Annual quotas are set for the amount of debt to equity conversion, providing for a total conversion of US$1.9 billion over five years.

October 14. The debt conversion scheme was modified. Investors were now required to provide matching funds of 30 percent rather than 50 percent of the approved investment, and these funds may be in foreign or domestic currency. However, the import content of any new investment financed through conversion schemes must be covered with foreign exchange. With the introduction of a market-determined exchange rate for nontrade transactions by the private sector, debt will now be converted into domestic currency at the exchange rate in the free, rather than the official, exchange market.

ATTACHMENT

Argentina: Changes in the Exchange and Trade System

January-June 1988

Imports and import payments

February 8, 1988. The import duty on seamless pipes for manufacturing natural gas cylinders was reduced (Resolution ME 105/88).

March 25, 1988. There was a comprehensive reduction in import duties and quantitative restrictions on imports of petrochemicals and of iron and steel products. In the case of petrochemicals, a range of products was exempted from the prior consultation requirement, and import duties were generally reduced to a maximum of 20 percent plus a 5 percent transitional tariff through end-1988 (Resolution ME 202/88). In the case of iron and steel, existing import authorization requirements were eliminated while tariffs were also reduced to a maximum of 20 percent for most items, plus a 5 percent transitional tariff through end-1988 (Resolution ME 203/88).

March 4, 1988. All transfers abroad for payment of medical services or the purchase of medical supplies were transferred from the financial exchange market to the official exchange market ("A" 1159).

March 30, 1988. Waste paper imports were exempted from import duty until September 30, 1988 and waste paper exports were prohibited for the same period (Resolution SICE 119/88).

April 15, 1988. The suspension of import duties on lubricants was extended until August 31, 1988 (Resolution SICE 125/88).

April 18, 1988. Import duties on a number of agro-chemical products were reduced.

June 6, 1988. A range of agricultural machinery and equipment items (including tractors and tractor parts) were removed from the list requiring prior authorization. At the same time, import tariffs were eliminated for some products and were set in the range of 10-38 percent for others. (Resolutions ME 428/88 and 429/88).

Exports and export proceeds

April 4, 1988. "Drawbacks" on exports were increased to include the additional import duties introduced in October 1987 (Resolution SICE 179/88).

May 6, 1988. Export duties on turkey exports were reduced (Resolution ME 350/88).

June 3, 1988. The export prefinancing and export financing regimes were revised, with the aims of increasing incentives to obtain external financing and of imposing a stricter control on the quality of operations financed.

For export prefinancing (applicable to "promoted" exports), the portion of foreign currency deposits that can be used for export prefinancing was raised from 10 percent to 20 percent; the limit on utilization of rediscounts was raised from 75 percent to 100 percent of the bank's capital (with the excess over 50 percent still required to be offset by a special deposit); and banks were permitted to use foreign borrowing to fund export prefinancing. The annual interest rate paid by the exporter was raised from 1 percent to 5 percent (plus the exchange rate differential). Additionally, for the operations funded by foreign borrowing, the central bank would pay the intermediary bank an 8 percent premium. For operations funded by foreign currency deposits, the central bank received 1 1/2 percent (of the 5 percent paid by the client) and for operations funded by regular rediscounts, the central bank was to retain 2 percent of the 5 percent charged ("A" 1204).

For export financing, the financing available for goods with low domestic content was to be restricted more than previously; the interest rate structure was tilted in favor of shorter maturities; the guarantee requirements were raised; the minimum size of eligible operations was increased; a maximum was established for the excess of import financing of inputs over the export receipts of the eventual export; and a maximum period of 8 1/2 years was to be applied to all exports ("A" 1205).