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To: Members of the Executive Board
From: The Secretary
Subject: Argentina - Recent Economic Developments

This paper provides background information to the staff report on the 1982 Article IV consultation discussions with Argentina and a request from Argentina for a stand-by arrangement (EBS/83/8, 1/10/83).

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INTERNATIONAL MONETARY FUND

ARGENTINA

Recent Economic Developments

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Approved by the Western Hemisphere and the
Exchange and Trade Relations Departments

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Argentina--Basic Data

Area and population

Area (continental)	2,792,000 sq. kilometers
Population (mid-1981)	28.1 million
Annual rate of population increase (1976-81)	1.5 per cent
GDP at market prices (1981) 1/	SDR 57,292 million

GDP per capita (1981 est.) 1/

SDR 2,039

Origin of GDP

	1979	1980	1981 (per cent)	Est. 1982
Agriculture	13.5	12.5	13.9	14.9
Manufacturing	26.0	24.9	22.3	22.0
Construction	7.0	7.4	7.2	6.0
Transportation and communications	11.0	11.0	11.2	11.2
Commerce	14.1	14.4	14.0	13.4
Other	28.4	29.8	31.4	32.3

Ratios to GDP

Exports of goods and services	9.0	6.9	9.5	13.6
Imports of goods and services	8.8	9.0	9.7	9.6
General government revenue	24.4	26.4	23.7	21.6
General government expenditure	28.7	31.9	34.3	29.0
External public debt (end of year) 1/	17.3	22.0	29.6	32.6
Saving	23.6	22.6	17.9	12.7
Investment	24.1	25.7	22.0	17.1
Money and quasi-money (end of year)	37.2	35.0	37.9	27.0

Annual changes in selected economic indicators

Real GDP per capita	5.5	-0.8	-7.3	-5.6
Real GDP	7.1	0.7	-6.0	-4.3
GDP at current prices	168.6	102.5	93.5	187.9
Domestic expenditures (at current prices)	178.9	107.4	89.8	175.8
Investment	160.8	116.2	65.5	124.4
Consumption	185.2	104.6	98.0	190.3
GDP deflator	150.7	101.1	105.9	200.8
Wholesale prices (annual averages)	149.3	75.4	109.6	258.0
Consumer prices (annual averages)	159.5	100.8	104.5	159.2
General government revenues	161.5	113.3	73.5	162.8
General government expenditures	157.8	119.2	107.6	143.7
Money and quasi-money	188.2	90.1	109.8	105.0
Money	140.9	97.6	69.7	165.2
Quasi-money	210.3	87.4	125.0	87.7
Net domestic financial assets 2/	182.6	106.9	132.1	133.8
Credit to public sector (net) 2/	14.0	15.9	46.0	41.6
Credit to private sector 2/	144.0	81.6	88.7	88.0
Merchandise exports (f.o.b., in U.S. dollars)	22.0	2.7	14.0	-11.4
Merchandise imports (c.i.f., in U.S. dollars)	74.8	57.3	-11.0	-41.4

<u>General government finances</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Est. 1982</u>
	(billions of Argentine pesos)			
Revenues	34,921	74,474	121,187	339,460
Expenditures	41,060	90,023	186,871	455,411
Overall deficit (-)	-6,139	-15,549	-57,684	-115,951
External financing (net)		436	-125	9,619
Internal financing (net)	5,703	15,674	48,065	124,951
 <u>Balance of payments</u>				(millions of U.S. dollars)
Merchandise exports, f.o.b.	7,810	8,021	9,143	8,100
Merchandise imports, c.i.f.	-6,700	-10,540	-9,380	-5,500
Interest payments (net)	-493	-947	-2,964	-4,508
Other services and transfers (net)	-1,153	-1,302	-1,391	-322
Balance on current and transfer accounts	-536	-4,768	-4,592	-2,230
Financial loans to nonfinancial public sector	1,222	2,957	4,535	-655
Other capital flows 3/	3,694	-983	-3,923	-2,615
Allocation of SDRs	73	74	70	--
Change in net official reserves (increase -)	-4,453	2,720	3,910	5,500
 <u>International reserve position</u>	<u>Nov. 30</u>	<u>Dec. 31</u>	<u>Nov. 30</u>	
	<u>1981</u>	<u>1981</u>	<u>1982</u>	
	(millions of SDRs)			
Central Bank (gross)	2,989.4	3,001.4	2,981.9	
Central Bank (net)	2,774.6	2,709.0	2,370.5	
Central Bank and Treasury (net)	2,759.1	2,694.8	2,360.0	
 <u>IMF data (as of December 31, 1982)</u>				
<u>Article VIII status</u>				
Intervention currency and rate	U.S. dollar at \$a 48,570 per US\$			
Quota	SDR 802.5 million			
Cumulative purchases	SDR 1,432.5 million			
Regular purchases	SDR 1,072.4 million			
Compensatory financing facility purchases	SDR 284.0 million			
Oil facility purchases	SDR 76.1 million			
Cumulative repurchases	SDR 1,142.0 million			
Cumulative currency sales	SDR 243.0 million			
Cumulative use of Argentine pesos in repurchases	SDR 60.8 million			
Fund holdings of Argentine pesos under tranche policy	88.7 per cent of quota			
Total Fund holdings of Argentine pesos	88.7 per cent of quota			
Special Drawing Rights Department				
Cumulative SDR allocation	SDR 318.4 million			
Net acquisition or utilization (-) of SDRs	-SDR 318.4 million			
Holdings of SDRs	zero			
Share of profits from gold sales	US\$69.9 million			

1/ GDP in dollars or SDRs is derived by converting GDP in Argentine pesos using the U.S. dollar/peso exchange rate that would maintain this exchange rate at its real 1970 level.

2/ Effective flows in relation to the adjusted stock of liabilities to the private sector.

3/ Includes direct investment, trade credits, trade related leads and lags, and errors and omissions.

I. An Overview

Argentina is in the midst of an economic crisis. In the past two years output declined, inflation accelerated, large balance of payments deficits were recorded, and a serious external debt service problem emerged. The economy did not grow in 1980 and output went down by 6 per cent in 1981 and an estimated 4 per cent in 1982 (Table 1). National income (defined to exclude factor payments abroad and to include terms of trade effects) declined even faster. Industrial employment dropped 20 per cent in the past two years and the rates of unemployment and underemployment have risen substantially, to their highest level in about ten years; real wages in industry have declined by 20 per cent since 1980. Inflation, as measured by changes in the wholesale price index, accelerated from 60 per cent during 1980 to 180 per cent during 1981 and about 310 per cent during 1982. (In the third quarter of 1982, the rate of increase of wholesale prices reached an annual rate of 875 per cent.)

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

(Annual percentage change)

	1978	1979	1980	Prel. 1981	Est. 1982
GDP at current market prices	148.6	168.6	102.5	93.5	187.9
GDP at 1970 market prices	-3.4	7.1	0.7	-6.0	-4.3
Real GDP per capita	-4.7	5.5	-0.8	-7.3	-5.6
National income at 1970 prices	-5.4	8.2	0.9	-10.2	-9.7
Real per capita income	-6.6	6.5	-0.5	-11.4	-11.2
GDP deflator	157.3	150.7	101.1	105.9	200.8
Wholesale prices:					
Annual average	145.9	149.3	75.4	109.6	258.0
Year-end	143.3	128.9	57.7	180.3	310.0
Consumer prices:					
Annual average	175.5	159.5	100.8	104.5	159.2
Year-end	169.8	139.7	87.6	127.1	215.0

Sources: Statistical Appendix Tables 46, 48, and 49.

Real investment declined sharply in 1981 and 1982 and investment as a percentage of GDP dropped from about 26 per cent in 1980 to about 17 per cent in 1982 (Table 2). However, saving of the nonfinancial public sector and the private sector came down markedly in 1981 and 1982 and Argentina's reliance on foreign saving rose. In 1981, there

was substantial public sector borrowing abroad, but this was largely offset by private sector capital outflows and a large balance of payments deficit was recorded. In 1982, Argentina's access to the international financial market was limited, the outflows of private capital continued, and the balance of payments deficit rose further.

Table 2. Argentina: Saving and Investment

(As per cent of GDP)

	1978	1979	1980	Prel. 1981	Est. 1982
<u>National saving</u>	27.8	23.6	22.6	17.9	12.7
Private sector	21.7	20.0	21.0	21.3	17.8
Nonfinancial public sector	6.1	3.6	1.6	-3.4	-5.1
<u>Gross domestic investment 1/</u>	24.8	24.1	25.7	22.0	17.1
Private sector	11.8	13.3	15.6	11.1	8.0
Nonfinancial public sector	13.0	10.8	10.2	10.9	9.1
<u>External saving</u>	-3.0	0.5	3.1	4.1	4.4
Capital inflow	1.9	4.5	1.4	1.0	-5.5
Nonfinancial public sector	2.1	1.2	1.9	4.8	-1.1
Other 2/	-0.2	3.3	-0.5	-3.8	-4.4
Valuation adjustment	0.2	0.2	-0.1	-0.3	-0.2
Change in net international reserves (increase -)	-5.1	-4.2	1.8	3.4	10.1

Source: Statistical Appendix Table 47.

1/ Public sector capital transfers to the private sector and extra-budgetary expenditure are included as public sector investment and subtracted from private sector investment as defined in the national accounts.

2/ Includes trade credits of the nonfinancial public sector and the private sector, direct investment, trade related leads and lags, and errors and omissions.

The external debt of Argentina has increased by US\$21 billion since the end of 1978 and the debt service burden has risen to a very high level. The country recorded a cumulative balance of payments deficit of US\$12 billion in the period 1980-82. This was financed in part by extensive reliance on foreign currency swaps with private residents and

foreign currency bonds issued in lieu of providing foreign exchange to meet private sector foreign obligations. The Central Bank's freely disposable international reserves fell to a low level and large payments arrears were accumulated in 1982.

The present economic situation in Argentina cannot be attributed to a single set of factors, nor did it develop suddenly. In late 1978, the direction of economic policies was changed and the reduction of inflation was made the first priority. A key element of the program was the announcement of the exchange rate several months in advance which implied a progressive deceleration over time in the rate of depreciation of the peso; the hope was that this policy would force an eventual convergence of domestic with foreign rates of inflation. Monetary policy was kept tight through 1979, but domestic inflation did not come down sufficiently; the real exchange rate increased sharply, leading to a decline in the profitability of firms in the tradeable goods sector. At the same time the deficit of the public sector remained high, which put upward pressure on domestic interest rates and exacerbated the financial problems of private firms.

The financial system came under increasing strains; in March 1980 a major banking crisis developed and a number of banks were liquidated and the Central Bank was forced to relax credit policy. Meanwhile the authorities continued with the policy of gradually slowing the rate of currency depreciation and the peso continued to appreciate in real terms. Expectations of an imminent change in exchange rate policy contributed to the demand for credit and the peso came under severe pressure. In early 1981 the policy of preannouncing the depreciation of the peso was discontinued and the peso was depreciated substantially in the first half of the year. In June the exchange market was split into a financial market and a commercial market. However, fiscal and monetary policies were not sufficiently restrictive to prevent a further deterioration in the balance of payments.

With a change in administration at the end of 1981, a strict austerity program was introduced and the exchange market was unified. This stabilization effort met with considerable success in the first quarter of 1982, but it was terminated with the outbreak of hostilities in the South Atlantic in early April. There was another change of administration in late June, when hostilities ended, and once again policies were altered radically. The new economic team was of the view that many of Argentina's economic problems derived from the high level of public sector deficits and high real interest rates in recent years and that their goals of reactivating the economy and improving the labor market situation could only be achieved by a large one-time transfer of resources from savers to debtors. A major change in financial policy was implemented which involved the setting of interest rates at sharply negative levels in real terms and the exchange market was split again into a commercial market and a financial market. Success of this program would have required strict adherence to prudent economic policies

and tight financial policies but, in the event, none of these requirements was met. Nominal wages in the private and public sectors were increased sharply and the demand for financial assets dropped in real terms and in relation to income.

The economic team was replaced in late August and the present team moved gradually during the remainder of the year to modify the policies that had been introduced in July and August. Interest rates were increased in September and October, the rate of depreciation of the commercial peso was stepped up and the financial and commercial markets were unified in November. However, at year end, domestic interest rates remained well below the rate of inflation and of the rate of currency depreciation. For the year as a whole, there was a sharp decline in real financial assets, the counterpart of which was a marked acceleration in inflation and serious balance of payments pressures.

This paper is divided in the following way: Section II reviews exchange and trade policy; Section III discusses domestic policies; Section IV describes the effects of policies on domestic demand, inflation and output; and Section V covers balance of payments developments. Separate appendices deal with changes in the exchange and trade system, the external debt situation, the tax system, and the financial reform of July 1982.

II. Exchange and Trade Policies 1/

1. Exchange rate policy

Argentina's balance of payments had improved dramatically during 1976-1978, and by the end of 1978 gross international reserves were equal to 16 months' imports. In December 1978, the authorities abandoned their previous policy of flexible management of the exchange rate and adopted a new strategy whereby a schedule of daily exchange rates was announced several months in advance (the tablita). This preannounced depreciation schedule reflected the targeted deceleration of inflation, which was to be achieved by the coordinated implementation of fiscal, monetary, incomes, and trade policies.

Although implementation of the supporting policies fell short of objectives and inflation exceeded targeted rates by a substantial margin, the tablita system was maintained over the following two years and between December 1978 and December 1980 the peso appreciated by about 40 per cent in real effective terms (Chart 1).^{2/} The consequences of this increasing overvaluation of the peso were severe, both for Argentina's balance of payments and for its industries. From 1978 to 1980 imports almost tripled and the current account moved from a surplus equal to about 4 per cent of GDP to a deficit of more than 7 per cent of GDP.^{3/} Initially, the tablita, by reducing both the risk and the peso cost of foreign borrowing, encouraged capital inflows which offset the deterioration of the current account. These capital flows were, however, reversed as the consequences of the overvaluation of the peso became increasingly apparent.^{4/} Between September 1980 and March 1981 short-term capital outflows exceeded US\$4 billion and net official international reserves fell by almost US\$5 billion (Table 3). Despite this massive loss of reserves, the authorities were unwilling to abandon the concept of the tablita. In February 1981 they devalued the peso by 10 per cent vis-a-vis the U.S. dollar but announced at the same time a daily exchange rate schedule for the next seven months.

The administration which took office on April 1, 1981 immediately devalued the peso by 23 per cent and terminated the tablita system. Thereafter, the exchange rate was to be adjusted by small amounts at frequent intervals. Capital flight abated for a brief period after

1/ A description of Argentina's exchange and trade system and a list of changes during 1982 are provided in Appendix A.

2/ See also Statistical Appendix Table 35.

3/ The wide swings in the real exchange rate for the Argentine peso in recent years result in large changes from one year to the next in GDP measured in U.S. dollars if the peso figures are converted at actual average exchange rates. Therefore, in this Chapter and in Chapter V, GDP has been converted into U.S. dollars using a nominal exchange rate which maintains the real peso/dollar rate at its 1970 level.

4/ A detailed discussion of Argentina's external debt situation is provided in Appendix B.

Table 3. Argentina: Quarterly Balance of Payments, 1980-82

(In millions of U.S. dollars)

	1980				1981				1982		
	I	II	III	IV	I	II	III	IV	I	II	III
Current account	-767	-989	-1,145	-1,867	-2,067	-888	-159	-1,479	-356	-392	-535
Trade balance	-233	-361	-747	-1,188	-624	224	559	-396	686	995	570
Exports, f.o.b.	2,059	1,924	2,036	2,002	1,990	2,848	2,719	1,586	2,170	2,345	1,800
Imports, c.i.f.	-2,282	-2,286	-2,782	-3,190	-2,614	-2,624	-2,160	-1,982	-1,484	-1,350	-1,230
Services	-545	-541	-405	-681	-1,431	-1,107	-709	-1,085	-1,046	-1,400	-1,110
Nonfactor services	-419	-150	-11	-160	-691	-54	97	-8	-92	-33	83
Investment income	-125	-491	-394	-522	-740	-1,052	-807	-1,078	-954	-1,367	-1,193
Transfers	1	13	7	2	-12	-5	-9	3	3	13	5
Capital account	1,206	-756	1,523	215	-752	1,287	175	265	218	-2,264	-1,030
Banking system	-76	-95	-124	-224	-127	224	86	-144	-250	646	112
Central Bank 1/	-5	-13	-14	-57	--	24	-27	-122	-82	6	60
Other	-71	-82	-110	-167	-127	200	113	-22	-168	640	52
Other long-term capital	1,270	887	930	1,595	2,509	2,172	2,563	2,244	563	74	399
Direct investment	145	240	129	273	378	309	102	116	90	121	16
Trade finance	101	-57	37	57	-87	-148	-201	-248	-57	-170	-98
Financial loans 2/	1,024	704	764	1,265	2,218	2,011	2,662	2,376	530	123	481
Government 3/	(363)	(85)	(186)	(122)	(623)	(208)	(359)	(978)	(126)	(115)	(42)
State enterprises	(383)	(428)	(346)	(716)	(995)	(437)	(179)	(322)	(140)	(-90)	(-251)
Private sector	(278)	(191)	(232)	(427)	(600)	(1,366)	(2,124)	(1,076)	(264)	(98)	(690)
Other short-term capital	12	-1,548	717	-1,156	-3,134	-1,109	-2,474	-1,835	-95	-2,984	-1,541
Trade finance	157	-110	13	-314	-542	-589	-1,324	-366	33	-1,459	-648
Other public sector	-38	124	-173	416	890	459	-178	-739	-259	-187	-293
Other private sector 4/	-107	-1,562	877	-1,258	-3,482	-979	-972	-730	131	-1,338	-600
SDR allocation	74	--	--	--	70	--	--	--	--	--	--
Valuation adjustment 5/	-280	294	-41	-187	-213	-164	-20	34	-60	-32	-20
Net international reserves (increase -)	-233	1,451	-337	1,839	2,961	-235	4	1,180	198	2,688	1,585

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

1/ Includes changes in foreign assets not considered part of international reserves.

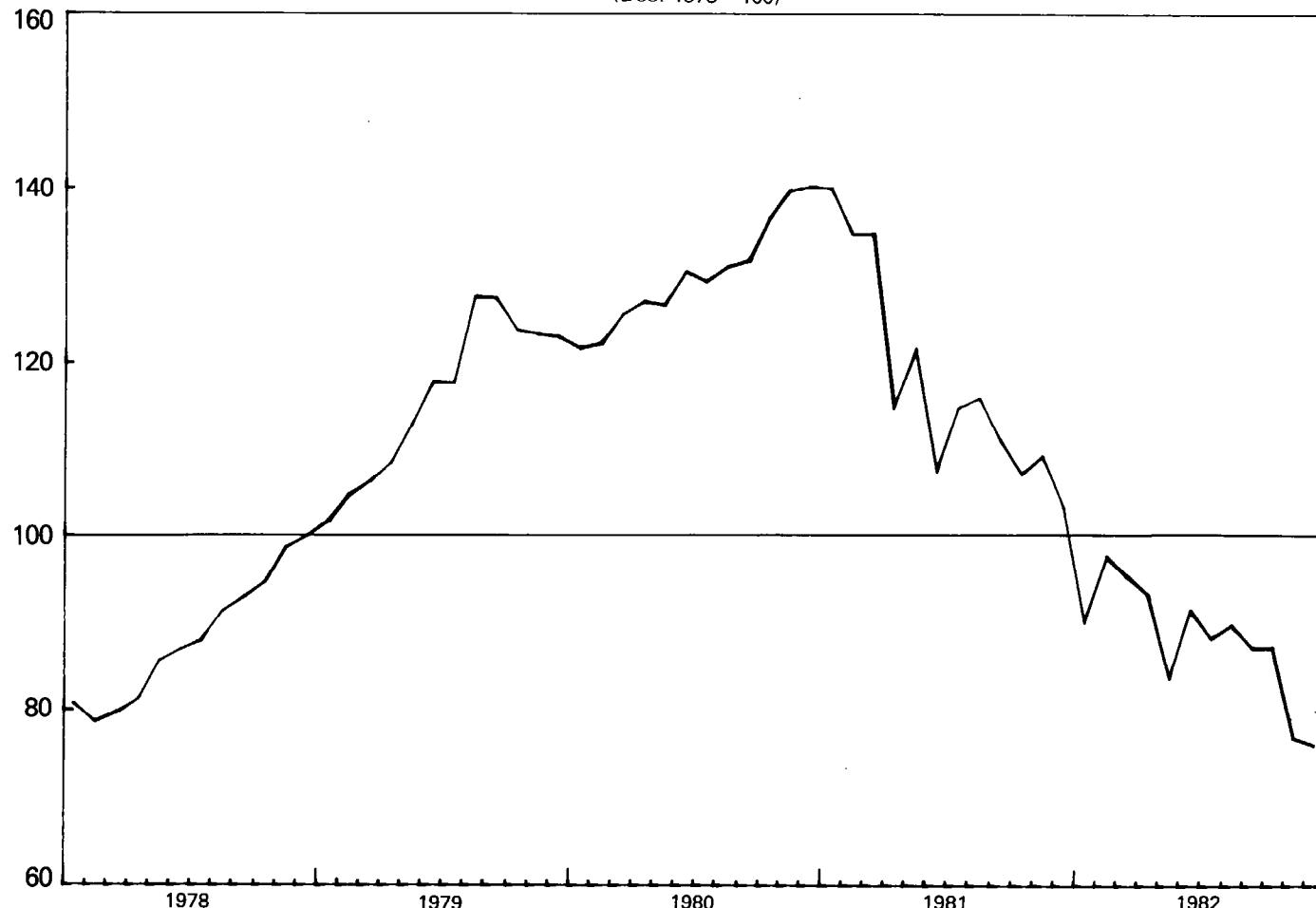
2/ Includes Argentine Government bonds denominated in foreign currency.

3/ Includes Central Government and provincial and municipal governments.

4/ Includes errors and omissions.

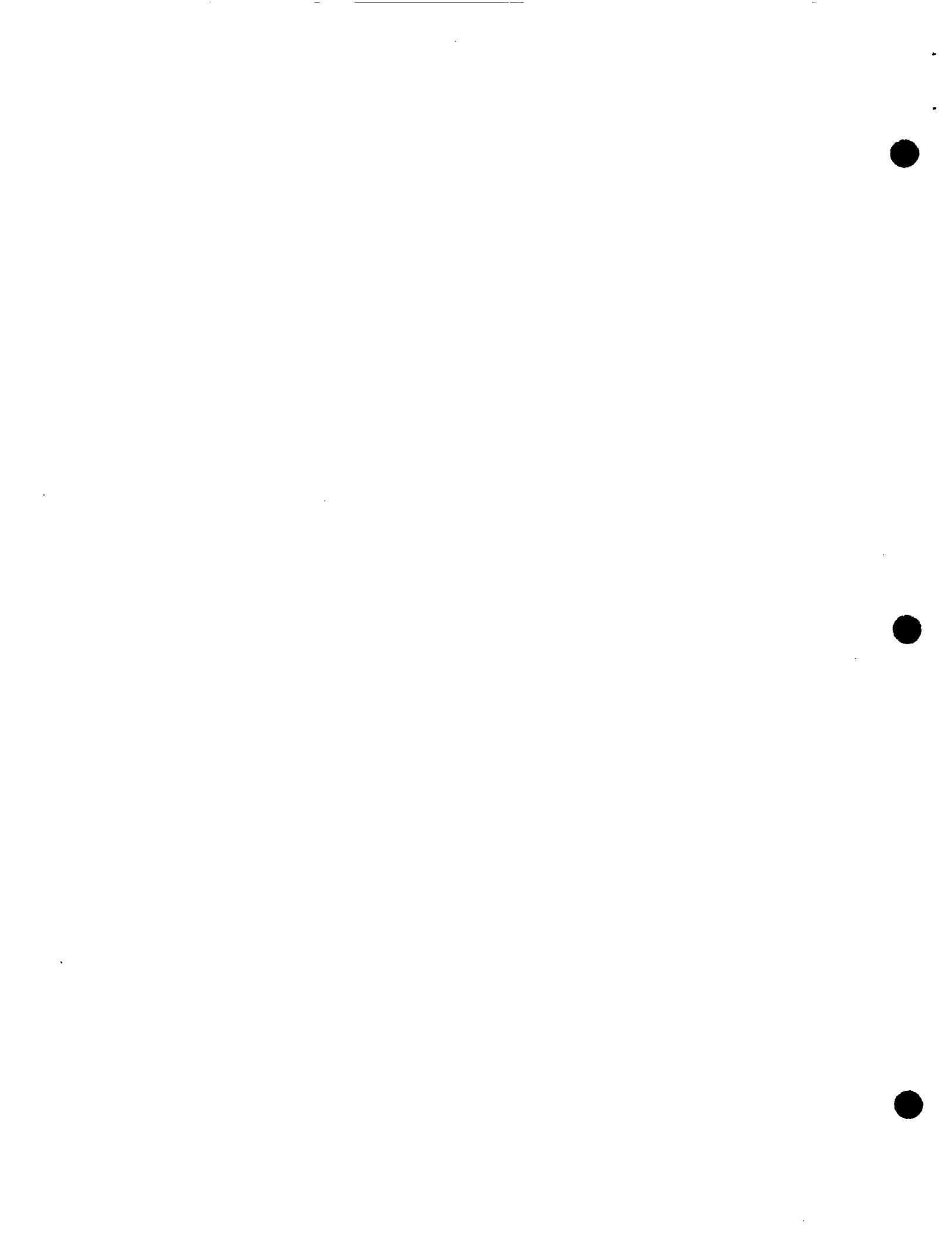
5/ Changes in net international reserves due to exchange rate movements.

CHART 1
ARGENTINA
REAL EFFECTIVE EXCHANGE RATE FOR TRADE TRANSACTIONS¹
(Dec. 1978 = 100)



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

¹Based on monthly averages of the nominal exchange rate adjusted by price (WPI) and exchange rate movements in Argentina's major trading partners..From June 22, 1981 to December 24, 1981 and from July 5, 1982 to November 1, 1982, when the exchange market was split, the exchange rate applicable to trade transactions(i.e. commercial or "mixed" rate) was used. Increase in the index value represents an appreciation of the peso in real terms.



this action, but soon resumed, and on June 2 the peso was once again devalued by 23 per cent. On June 22 the exchange market was split into a commercial market, in which the exchange rate would continue to be adjusted daily, and a financial market, in which the rate would be determined by supply and demand. Within a few days, the peso fell by about 20 per cent in the financial market.

Imports responded rapidly to this large real depreciation of the peso. Compared with their levels a year earlier, imports were down by 25 per cent in the third quarter of 1981 and by almost 40 per cent in the fourth quarter. Nonetheless, large reserve losses were recorded near the end of the year as the capital account remained weak and exports declined.

In December 1981 a new administration took office and announced its intention to return to the economic policies of 1976-1978. On December 24 the exchange market was unified and the peso in principle left to float freely. After an initial sharp depreciation relative to the former commercial rate, the peso rebounded somewhat in early 1982 to a level that gave a real effective exchange rate about equal to that which had prevailed in December 1978, when the tablita had been introduced.

Short-term capital outflows came virtually to a halt during the first quarter of last year, imports recorded a further large decline, and export receipts picked up somewhat. This marked progress on the balance of payments front was, however, abruptly reversed as the outbreak of the conflict in the South Atlantic in April disrupted trade flows and led to massive capital flight. The peso, while still in principle floating, de facto was set by the authorities; it was devalued by about 15 per cent on May 5. Despite the introduction of extensive exchange and trade controls (see section 3 below), short-term capital outflows reached almost US\$3 billion during the second quarter and the overall balance of payments recorded a deficit of US\$2.7 billion, financed primarily by the accumulation of US\$2.1 billion in external payments arrears. The change of administration in June was followed by another abrupt shift in exchange and other policies. In the first week of July 1982 the exchange market was again split into a commercial and a financial market. The rate in the commercial market, which applied to trade transactions, was to be announced daily by the Central Bank; the opening rate of \$a 20,000 per U.S. dollar represented a devaluation of 21 per cent. The financial peso was allowed to float freely for several weeks and then pegged at \$a 39,000 per U.S. dollar. A rate of \$a 33,000 per U.S. dollar was established for certain swap operations and for nontrade transactions of the public sector. The extensive payments restrictions introduced in the second quarter had encouraged the growth of the parallel exchange market and, in response to the uncertainties engendered by the financial and other policies being introduced, the parallel rate moved as high as \$a 60,000 per U.S. dollar during July.

In conjunction with the July devaluation, the authorities increased substantially taxes on traditional exports and reduced somewhat tax rebates granted to promoted exports. A tax of 25 per cent was imposed on Argentina's main agricultural exports (e.g., grains, cattle, wool, and leather); a tax of 20 per cent was established for other agricultural exports; and other traditional exports were taxed at 10 per cent. Rebates for certain promoted exports were set at 5 per cent or 10 per cent of the exchange proceeds surrendered.^{1/} The differential between the lowest effective exchange rate (that for the main agricultural exports) and the parallel rate was, therefore, at times as high as 300 per cent. This array of exchange rates gave a strong incentive both to smuggling and to over and underinvoicing. Further large capital outflows and reserve losses were recorded.

The thrust of economic policy, particularly monetary policy, had been altered radically during July and August; the new economic team installed at the end of August moved away only gradually from the policies instituted by its predecessor. The special \$a 33,000 rate was abolished from the outset, and in September the authorities announced their intention to unify the exchange markets. During September and October the financial rate remained pegged while the rate of depreciation of the peso in the commercial market was accelerated. Beginning in mid-September, a weighted average of the commercial and financial rates was applied for trade transactions; the weight of the financial rate was increased on October 1. The gradual move toward convergence of the rates encouraged an undesired pattern of leads and lags, and on November 1 the authorities jumped the trade rate up to the financial rate, unifying the markets at \$a 39,000 per U.S. dollar. This move represented a 14 per cent devaluation for trade transactions. During the last two months of 1982 the rate was adjusted by about 11.5 per cent per month, approximately offsetting domestic inflation during that period. The rates in the unified exchange market as of December 31, 1982 were \$a 48,520 per U.S. dollar (buying) and \$a 48,570 (selling). The parallel market rate, which had generally remained below \$a 50,000 per U.S. dollar during September and the first half of October, rose fairly steadily thereafter to reach about \$a 70,000 per U.S. dollar by the end of the year.

^{1/} Changes in export tax and rebate rates are usually synchronized with large exchange rate movements. At times the structure of effective exchange rates resulting from this export tax and rebate system has become quite complex (Statistical Appendix Table 36). When the peso was allowed to float in December 1981, a uniform tax rate of 10 per cent was established for all nonpromoted exports and the maximum rebate rate, which previously had ranged up to 25 per cent, was lowered to 10 per cent. At the time of the May 1982 devaluation, tax rates for some exports were lowered to 5 per cent and rebate rates were increased to a range of 5 to 14 per cent.

As was noted above, the large exchange rate adjustments that took place in 1981 had offset fully the substantial appreciation of the peso that occurred in 1979 and 1980. Despite the gyrations in exchange rate policy over the course of 1982, the real effective rate changed little between January and October. However, the 14 per cent devaluation on November 1 and the subsequent policy of moving the rate to offset domestic inflation enabled the authorities to begin 1983 with a real effective exchange rate that was somewhat more depreciated than the average rate in 1977-78, a period in which Argentina generated substantial trade surpluses. It should be noted, however, that the high export tax rates introduced in July 1982 resulted in an effective exchange rate for most agricultural exports above the 1977-78 level.

2. Exchange rate guarantees, swaps, and BONEX

Shortly after the June 1981 devaluation, the third large devaluation in five months, the Central Bank of Argentina introduced a system of exchange rate guarantees for private sector loans. Under the original provisions of the scheme, the exchange rate guarantees were available for the repayment of principal on private sector loans contracted or renewed for at least 540 days.^{1/} Guarantees of more than two years could be approved only on a case-by-case basis. The domestic borrower paid a premium for the guarantee. This premium was set by the Central Bank for the first 180 days of the contract at a rate which ranged between 30 and 40 per cent per annum, depending upon when the guarantee was granted. For the remaining period of the contract, the premium was set equal to either (a) the differential between the changes in the Argentine and the U.S. wholesale price indices or (b) the differential between the Argentine 30-day deposit rate and LIBOR, at the domestic borrower's option. Most opted for the interest rate differential. These premia were to be paid every six months.

Almost US\$5.1 billion in exchange rate guarantees were contracted under this scheme in 1981. This compares to total private sector debt outstanding at the end of 1981 of US\$15.6 billion. While the exchange rate guarantees do not appear to have induced a noticeable increase in the rate of private sector borrowing from abroad, they did induce a very marked shift from borrowing of less than one year to borrowing in the 540-730 day range, thereby creating a severe bunching of maturities over the period December 1982-May 1983.

In early December 1981, with exchange losses mounting, the Central Bank began to undertake foreign currency swap operations with the private sector for the first time since the mid-1970s. The disastrous

^{1/} On September 24, 1981 the scheme was modified to (a) limit eligibility to the renewal of foreign financial loans received before June 19, 1981; (b) limit the total amount which could be guaranteed by any one firm to 50 per cent of its outstanding foreign financial debt as of June 30, 1981; and (c) extend the guarantee scheme to cover interest as well as principal as long as the repayment of interest was postponed until the loan came due.

consequences of the earlier swap schemes for domestic monetary control had been widely recognized, and the renewed resort to swaps further undermined private sector confidence in monetary and exchange rate policy. Almost US\$500 million in 180-day swap operations were undertaken in December at a fixed monthly premium of 5 per cent.

The economic team that took office at the end of December 1981 and floated the peso also terminated both the swap and the exchange rate guarantee schemes. At the end of May 1982, however, the Central Bank--faced with both massive capital flight and the maturing swaps from December--once again announced its willingness to undertake such operations, and most of the swaps which had been contracted in December 1981 were renewed in June for another 180 days.

During the course of the conflict in the South Atlantic the Central Bank also resorted to issuing U.S. dollar-denominated bonds of the Government of Argentina (BONEX) in lieu of providing foreign exchange to meet certain external obligations. As in the case of swaps, this device was last employed during the economic crisis of the mid-1970s. BONEX, which are issued in \$1,000 denominations and carry an interest rate equal to six-month LIBOR, had been sold during the intervening years as part of Argentina's normal debt operations and are traded both in Argentina and abroad. On April 20, 1982, the Government suspended the right to transfer profits and to repatriate investments, and it stipulated that, until the foreign exchange position improved, exchange would not be made available for the transfer of profits, dividends, royalties, or technical assistance payments; such transfers could, however, be effected by accepting BONEX. The Central Bank was also empowered to issue BONEX in lieu of providing foreign exchange for other types of payments. The implicit exchange rate which results from converting pesos to BONEX at the official rate and then selling BONEX to obtain foreign exchange currently differs substantially from the official exchange rate; in fact, arbitrage keeps the implicit BONEX rate very close to the parallel market rate.

Use of both swaps and BONEX increased sharply in the third quarter of 1982 after special schemes were introduced to encourage the use of these devices to clear the private sector arrears that had accumulated in the second quarter. On July 5 the exchange market had been split, with the rate for trade transactions being changed from \$a 15,750 to \$a 20,000 per U.S. dollar and then adjusted daily and the financial rate being allowed to float up to \$a 39,000 and then pegged. Shortly thereafter, special temporary provisions were established whereby amounts in arrears as of July 2 could be cleared by purchasing BONEX at the predevaluation rate of \$a 15,750 or, for arrears on import payments, by undertaking a swap operation at \$a 33,000 and using part of the peso proceeds to repurchase the same amount of foreign exchange at \$a 15,750. The Central Bank also stood ready to undertake normal swap operations at a premium cost of 4 per cent per month; domestic financial institutions could undertake these swaps and relend the funds in the local market at freely determined interest rates. On August 2 it was

announced that any import-related loans contracted prior to July 2 could be repaid by purchasing BONEX at a rate of \$a 15,750, provided the peso counterpart was paid in by August 6.

The private sector responded strongly to these schemes. Outstanding swaps rose to almost US\$1.2 billion at the end of September, compared with US\$400 million at the end of June, and US\$1 billion in BONEX was issued in the third quarter, up from about US\$450 million in the second. As a result of these operations, private sector arrears were brought down from US\$1.6 billion at the end of June to about US\$550 million at the end of September. Public sector arrears, however, increased substantially, resulting in a net reduction in total arrears over the quarter of only US\$400 million (Table 4).

Table 4. Argentina: External Payments Arrears, 1982

(In millions of U.S. dollars)

	June	Sept.	Oct.	Nov.
<u>Total external payments arrears</u>	<u>2,100</u>	<u>1,722</u>	<u>1,956</u>	<u>1,976</u>
<u>Public sector</u>	<u>527</u>	<u>1,155</u>	<u>1,362</u>	<u>1,467</u>
Commercial arrears	227	469	565	696
Financial arrears	211	475	528	506
Principal	(65)	(147)	(129)	(94)
Interest	(146)	(328)	(399)	(412)
Other arrears <u>1/</u>	89	211	268	265
<u>Private sector</u>	<u>1,573</u>	<u>557</u>	<u>594</u>	<u>509</u>
Commercial arrears	850	300	327	242
Financial arrears	723	257	257	257
Other arrears <u>1/</u>	--	10	10	10

Source: Central Bank of Argentina.

1/ Includes freight, insurance, royalties, scholarships, and other services and transfers.

Exchange rate guarantees, which had been terminated in late December 1981, were also reintroduced in July. Such guarantees could now be obtained for principal and interest on loans outstanding as of July 6, 1982, provided the borrower obtained an extension of at least one year beyond the original term of the loan.1/ The guaranteed rate was

1/ The exchange guarantee on interest applied only through December 31, 1982.

\$a 15,750 adjusted after July 6 by the difference in the changes in the wholesale price indices in Argentina and the United States. Loans covered by guarantees under the 1981 scheme could, upon maturity, be covered under the new scheme provided the borrower obtained a further extension of one year.

Originally a deadline of September 4 was set for applications for guarantees under the 1982 scheme. The new economic team installed at the end of August subsequently extended that deadline to October 15 and, to make the guarantees more attractive, provided the borrower with a range of options for the premium charged for the guarantee. The requirement of a minimum one-year extension of the loan was retained, but special incentives were introduced to encourage extensions on longer terms.^{1/} By the time the scheme was closed in October, applications had been received for US\$4.5 billion in guarantees on previously un-guaranteed debt. The combined effect of the 1981 and 1982 schemes was, therefore, to provide exchange rate guarantees for US\$9.6 billion of the US\$13.7 billion in private sector debt which was outstanding at the end of August 1982, the most recent date for which data are available.

One of the major objectives of the 1982 guarantee scheme had been to encourage the further extension of loans for which exchange rate guarantees had been granted in 1981. By the time applications closed, however, renewals had been requested for only US\$950 million of the US\$5.1 billion in loans that had received guarantees during 1981. This posed a major problem for the Argentine authorities, since almost US\$1.5 billion of these loans matured in the last five weeks of 1982 and a further US\$1.7 billion came due in the first quarter of 1983. The Central Bank did not have the foreign exchange to permit the repayment of these debts. On the other hand, the monetary expansion that would have resulted from letting the private sector roll over these loans by repaying them at the guaranteed rate and renewing them at the current exchange rate would have been extremely inflationary. For example, the loans coming due in December had an average guaranteed exchange rate of \$a 4,351 per U.S. dollar, compared to an actual exchange rate of \$a 43,570 on December 1.^{2/} Under the provisions by which a loan with a 1981 guarantee could be extended with a 1982 guarantee, the difference between the peso value of the loan at the old and at the new exchange rate was to be used to cancel domestic debt at low, regulated interest rates, which probably accounts for the limited interest in that option.

In addition to the maturing loans with exchange rate guarantees, the authorities were faced with US\$1.1 billion in swaps coming due between the beginning of December 1982 and the end of March 1983. Most

^{1/} The new premia options were quite complex. They are set down in detail in the September 24 entry in the list of changes in the exchange and trade system provided in Appendix A.

^{2/} The fact that the premia on these guarantees had been paid semi-annually compounded the problem faced by the authorities upon the maturity of these loans; the premia on the 1982 exchange rate guarantee contracts are payable in full at maturity.

of these swaps had been contracted at a rate of \$a 33,000 per U.S. dollar and, as with the exchange rate guarantees, renewal at the current rate of exchange would have entailed an unacceptable monetary expansion.

Confronted with this situation, the Argentine Government had initially considered assuming these obligations, after the private sector had paid in the appropriate peso amounts, and incorporating them into the general package of debts which the authorities hoped to reschedule during 1983. The actual course adopted was different. On November 17 the Central Bank announced that principal on all loans carrying a 1981 exchange rate guarantee, and not renewed under the 1982 scheme, had to be rescheduled and established the minimum terms for that rescheduling. The foreign creditor either could accept a U.S. dollar-denominated bond or promissory note of the Government of Argentina carrying a grace period of about 3-1/2 years and a total maturity of about 5 years or could renegotiate the loan directly with the Argentine borrower, provided that the repayment terms were no shorter than those attached to the bonds or promissory notes. The renegotiated loans would not, however, carry an exchange rate guarantee. Interest on these loans continued to be freely transferable. In early December the Central Bank announced that all maturing swaps must be rolled over for at least 90 days at the original contract exchange rate and original premium rate.

External payments arrears, which had been reduced to US\$1.7 billion in the third quarter, rose again to almost US\$2 billion at the end of November. The public sector accounted for all of this increase in arrears and for fully three quarters of arrears outstanding in November. Arrears are estimated to have increased further to about US\$2.5 billion by the end of the year, although the disbursement in early January of the first tranche (US\$600) million of the bridge loan from an international group of banks enabled the authorities to reduce outstanding arrears at the beginning of this year.

3. Imports and import payments 1/

Severe controls were imposed on imports during the conflict in the South Atlantic. From April 29, all imports were made subject to prior licensing; from May 4, all nonessential imports came under a requirement of "prior study" before licensing and were, thereby, effectively banned; and, from May 24, imports were made subject to minimum foreign financing terms of 180 days from the date of shipment. The list of nonessential imports included most consumer goods and represented about 10 to 15 per cent of total imports. Also, special minimum financing terms of from one to five years were imposed on August 2 for capital goods imports valued at more than US\$50,000. All of these measures remain in effect.

1/ For further details on the measures listed here, see the entries under the respective dates in the list of changes in the exchange and trade system included in Appendix A.

A system of U.S. dollar limits on imports was announced in May and imposed on an ad hoc basis. The implementing regulations, which were issued on July 21, established separate U.S. dollar limits for imports in each customs category for each importer. This system of limits proved to be both burdensome and, given the reduced demand for imports, largely redundant, and it was eliminated at the end of October.

4. Other exchange control measures 1/

On April 30, 1982 the Central Bank of Argentina announced that, henceforth, no foreign exchange could be sold, no payment could be made abroad, and no external payment commitment could be entered into without the prior consent of the Central Bank. That directive changed an exchange system which had previously provided almost unrestricted freedom for current payments and transfers into a system of absolute and comprehensive exchange control.2/ Over the following months these provisions were liberalized gradually by permitting the automatic sale of exchange for various amounts and types of transactions. Currently, all payments and transfers fall into one of three categories: (a) permitted automatically, (b) permitted with Central Bank approval, and (c) prohibited.3/

From July 5, the sale of exchange by authorized entities was permitted automatically for import payments (provided the minimum financing terms had been met), for amortization and interest payments on foreign loans, and for freight, insurance, reinsurance, and certain other payments associated with foreign trade. Initially payment for imports contracted before the new minimum financing terms were established remained subject to Central Bank approval, but after August 2 such import payments could also be effected automatically.

From August 6, the sale of exchange for certain payments and transfers was permitted automatically up to specified limits: US\$200 per month for family transfers; US\$300 per month for students abroad; and US\$5,000 one time only for foreign medical treatment. Automatic sales

1/ The exchange and trade measures vis-a-vis the United Kingdom, the members of the European Economic Community, and certain other countries which were introduced during the conflict in the South Atlantic and later rescinded are not discussed here. They are, however, detailed in the list of changes in the exchange and trade system provided in Appendix A.

2/ Certain restrictions had, however, been imposed on a temporary basis earlier in the month after the outbreak of the conflict in the South Atlantic.

3/ In principle, the arrears concept used by the Central Bank encompasses only category (b), i.e., amounts which have been approved but for which no foreign exchange has been provided. Most of the private sector arrears reported as outstanding as of end-November relate to items which required approval when the application was submitted, but which were subsequently made eligible for the automatic sale of exchange.

of exchange for foreign travel were limited to US\$50 per day up to a maximum of US\$500 per year for travel to countries in South America and to US\$100 per day up to a maximum of US\$2,000 per year for travel outside South America. Transfers of pensions and payments for medicine could be effected automatically without limit.

Most payments and transfers other than those itemized above remained subject to prior Central Bank approval. In addition, from November 19, repayment of principal on private sector loans was once again made subject to prior approval, although the automaticity of transfers of interest payments on such loans was retained. Sales of exchange for repatriation of capital and for the transfer of profits, dividends, royalties, and technical assistance payments are prohibited under regulations issued on April 20, 1982.1/

1/ See, however, the discussion of BONEX in section (b) above.

III. Domestic Policies

1. Public sector finances

a. Structure of the public sector

The public sector as presented in this report comprises the general government and the nonfinancial state enterprises. The general government includes the Central Administration (Treasury); the special accounts, which handle revenues earmarked for defense, transport, and energy-related expenditures; the decentralized agencies, which include a number of state universities and development and regulatory institutions; the Social Security System; and the 24 provinces and the Municipality of Buenos Aires. The nonfinancial state enterprises consist of 17 fully owned concerns, three binational hydroelectric entities, and a number of corporations in which the Government has varying degrees of ownership or control. The major state enterprises are involved in the production of oil, natural gas and other fuels as well as the provision of public utilities and services. Public sector expenditure accounts for a large percentage of total expenditure in Argentina, and the public sector has a major impact on aggregate demand and expectations. In particular, wage developments in the public sector are seen as having an important influence on wage demands in the private sector.

b. Overall trends

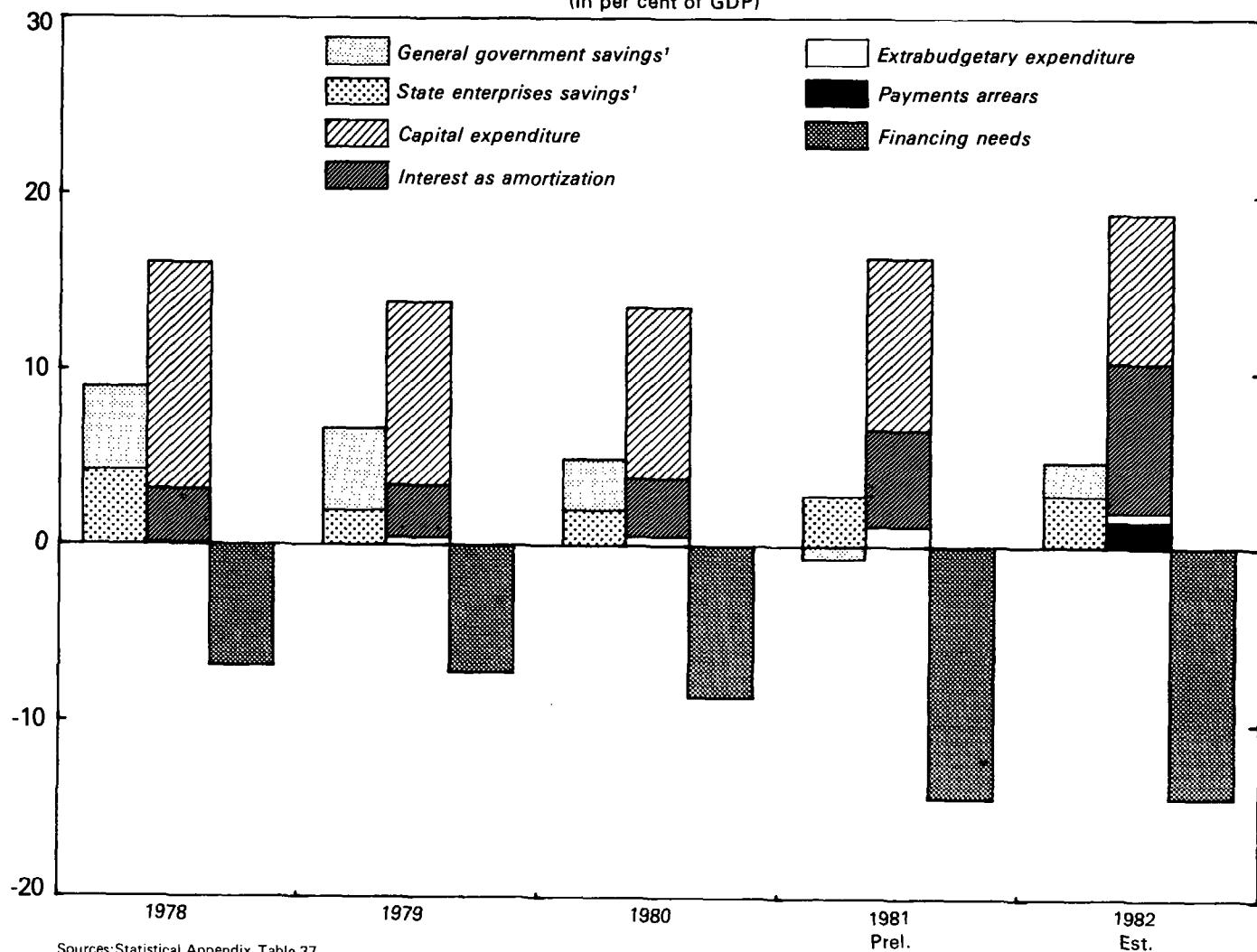
Success of the economic strategy that was adopted in 1979 and 1980 would have required a reduction in the financing needs of the public sector but in fact these needs actually increased relative to GDP in both years reaching about 8-1/2 per cent of GDP in 1980 (Table 5 and Chart 2).^{1/} There was a substantial deterioration in the operating balances of the state enterprises in 1979, while in 1980 the finances of the general government weakened, owing to a rise in current outlays.

The overall financing needs of the public sector rose to over 14 per cent of GDP in 1981 and remained at about that level in 1982. The substantial pickup in inflation in 1981 contributed to a decline

^{1/} According to the accounting methodology employed in Argentina, interest payments are separated into a real component and an inflation premium. The real component is treated as a current expenditure while the interest cost related to the inflation premium is seen as reducing the real level of public sector debt and is treated as amortization. Current spending and savings are thus defined to exclude interest treated as amortization and the overall balance or deficit excludes these interest payments and extrabudgetary expenditure. A more comprehensive definition of the deficit that includes interest treated as amortization and extrabudgetary operations is referred to as the overall or total financing needs. These definitions are retained in the discussion in this section.

CHART 2
ARGENTINA
PUBLIC SECTOR OPERATIONS

(In per cent of GDP)



Sources: Statistical Appendix Table 37.

¹Includes capital receipts.

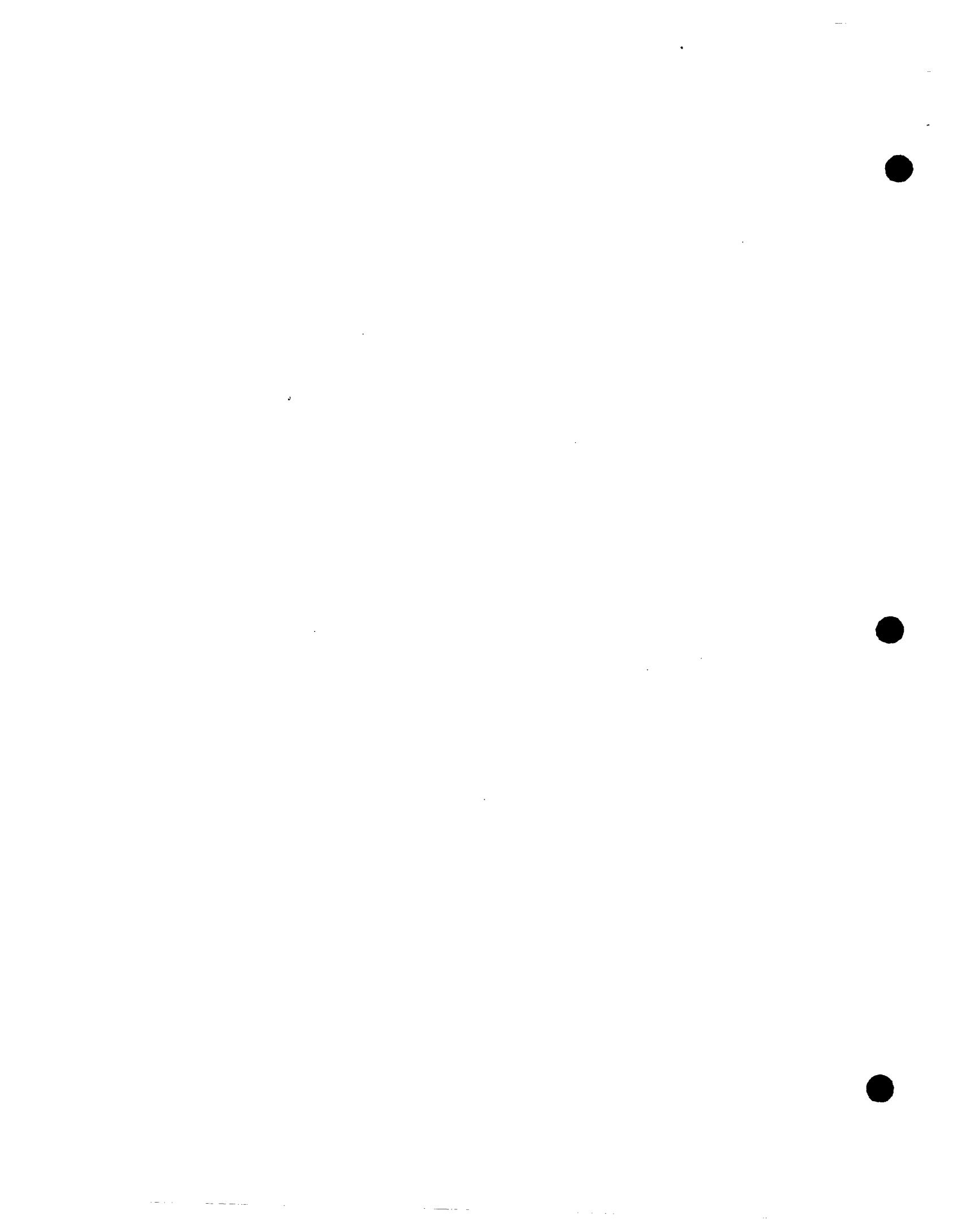


Table 5. Argentina: Summary of Public Sector Operations
(As per cent of GDP)

	1978	1979	1980	Prel. 1981	Est. 1982
General government current account surplus or deficit (-) 1/	4.9	4.7	2.9	-0.7	1.9
State enterprises' savings 2/	4.2	1.9	2.0	2.8	2.9
Consolidated public sector savings	9.1	6.6	4.9	2.1	4.8
Capital expenditure	12.9	10.4	9.7	9.8	8.5
<u>Consolidated public sector surplus or deficit (-)</u>	<u>-3.8</u>	<u>-3.8</u>	<u>-4.3</u>	<u>-7.7</u>	<u>-3.7</u>
General Government (Before transfers)	-2.9	-1.9	-3.2	-7.0	-3.1
State enterprises (Before transfers)	(-1.7)	(-1.2)	(-2.3)	(-6.1)	(-2.6)
Interest as amortization	-0.9	-1.9	-1.6	-0.7	-0.6
Extrabudgetary expenditure	(-2.2)	(-2.6)	(-2.5)	(-1.7)	(-1.2)
Payments arrears	--	--	--	--	-1.4
<u>Financing needs</u>	<u>6.9</u>	<u>7.2</u>	<u>8.6</u>	<u>14.3</u>	<u>14.2</u>
External (net)	2.0	1.7	1.4	4.4	3.0
Internal (net)	4.8	5.5	7.2	9.9	11.2
<u>Memorandum item:</u>					
Total expenditure 3/	36.8	33.5	37.0	40.8	38.7

Source: Statistical Appendix Table 37.

1/ Includes capital receipts.

2/ Includes capital revenue and net transfers from General Government.

3/ Includes interest as amortization, extrabudgetary expenditure, and, in 1982 only, payments arrears.

in the ratio of revenue to GDP in that year.^{1/} In addition, interest payments rose, and other expenditures also went up, due in part to the effect of the downturn in economic activity on government spending. In 1982, further increases in interest payments all but offset a drop in other spending, and government revenues declined relative to GDP for the second straight year. About 20 per cent of the financing needs of the public sector were supplied by foreign sources in 1982 (including the buildup of arrears in payments to abroad which covered about 10 per cent of the total financing needs); this was a substantially lower percentage than in 1981, but in line with the average of the period 1978-80.

c. Developments in 1981

The Administration that took office in late March 1981 indicated its intention to adhere to the public sector budget that had been approved by the outgoing administration. The budget called for a reduction of the deficit from 5 per cent of GDP in 1980 to 3 per cent in 1981. To this end, a fiscal program was adopted in May 1981 that established an emergency tax on agricultural exports, raised import taxes and a number of excise taxes, and included a policy of raising public sector tariffs in real terms in order to improve the financial position of the public enterprises. On the expenditure side, the wage bill and purchases of goods and services were to be cut in real terms by a number of administrative measures and no new investment projects or public works bids were to be authorized. In the event, as the pace of inflation accelerated in the wake of the large exchange rate adjustments of April and June and the slack in economic activity became greater, the original budget targets became unattainable and the fiscal situation deteriorated substantially. Total expenditure of the public sector rose to almost 41 per cent of GDP in 1981 (from 37 per cent in 1980) and the deficit rose to 7-1/2 per cent of GDP; total financing needs (including sizable payments of interest treated as amortization and extrabudgetary expenditures) exceeded 14 per cent of GDP.

(1) The general government in 1981

The overall deficit of the general government widened to 7 per cent of GDP in 1981, from about 3 per cent in 1980, reflecting a sharp drop in savings; the general government's financing needs rose by 5 percentage points to 10-1/2 per cent of GDP (Table 6). Revenues dropped by about 3 percentage points to 23-1/2 per cent of GDP, while current expenditure rose by almost 1 percentage point to about the same level. The weakening in revenue growth was accounted for by the decline in

^{1/} Tax revenue is quite closely related to GDP (as is evidenced by the fact that over a long period of time during which GDP has increased at a very high rate, the ratio of revenue to GDP has not changed substantially); however, revenues generally are collected with a lag and, in years of accelerating inflation, the growth of revenues tends to fall behind the growth of nominal income and revenues decline relative to GDP. The tax system, as presently structured, is described in Appendix C.

Table 6. Argentina: General Government Operations

(As per cent of GDP)

	1978	1979	1980	Prel. 1981	Est. 1982
Current revenue	25.3	24.3	26.3	23.6	21.5
Current expenditure	19.5	19.1	22.6	23.5	19.1
<u>Current account surplus or deficit (-)</u>	<u>5.8</u>	<u>5.2</u>	<u>3.7</u>	<u>0.1</u>	<u>2.4</u>
Transfers to state enterprises (net)	-1.3	-0.6	-0.9	-0.9	-0.6
Capital receipts	0.4	0.1	0.1	0.1	0.1
Capital expenditure	7.8	6.6	6.1	6.3	5.0
<u>Overall surplus or deficit (-)</u>	<u>-2.9</u>	<u>-1.9</u>	<u>-3.2</u>	<u>-7.0</u>	<u>-3.1</u>
Central Administration (Before transfers)	<u>-2.4</u>	<u>-2.2</u>	<u>-3.3</u>	<u>-5.2</u>	<u>-3.2</u>
Special accounts (Before transfers)	(0.5)	(-0.1)	(-0.5)	(-1.0)	(-0.1)
Decentralized agencies (Before transfers)	--	0.4	0.8	-0.4	0.5
Social security system (Before transfers)	(1.3)	(1.3)	(1.8)	(0.4)	(1.1)
Provinces and Municipality of Buenos Aires (Before transfers)	-0.3	0.1	-0.4	-0.4	-0.5
Interest as amortization	(-1.6)	(-0.1)	(-1.4)	(-1.8)	(-1.7)
Extrabudgetary expenditure	--	--	--	0.1	--
Financing needs	4.9	4.3	5.5	10.6	7.4
External (net)	<u>0.5</u>	<u>0.3</u>	<u>--</u>	<u>1.8</u>	<u>0.6</u>
Internal (net)	4.4	4.0	5.5	8.8	6.8

Source: Statistical Appendix Table 37.

receipts accruing to the special accounts, decentralized agencies and provinces. This was associated with a reform of the import tariff structure 1/ and with a modification of the value-added tax toward the end of 1980 which eliminated a number of earmarked revenues. Provincial revenues, which account for about one third of general government revenues, also declined in relation to GDP--by about 1-1/2 percentage points--because of a drop in collections of national taxes subject to revenue sharing and the adoption earlier in the year of installment plans to settle provincial tax liabilities in response to recessionary local conditions.

In 1981, central administration tax revenue (which is net of transfers to the Social Security System) remained unchanged in terms of GDP, as increases in tax rates were offset by the effects of the lag in tax collections and increases in transfer payments to the Social Security System (Table 7). The behavior of income and wealth tax collections mainly reflected advances and payment of income taxes by state enterprises. Collection of foreign trade taxes benefited from the increase in the peso value of imports arising from the exchange rate adjustments, from some increase in average import duties--in the May 1981 fiscal package import duties were raised by 5 percentage points for goods subject to rates ranging from 0 to 43 per cent, excluding agricultural inputs and pharmaceutical products--and, to a lesser extent, from the temporary imposition of taxes on agricultural exports in early April. The growth in receipts from taxes on internal transactions resulted from the expansion in the coverage and the increase in the rate of the value-added tax decreed in October 1980, from increases in some excise tax rates, and from the substantial growth in receipts from the fuel tax reflecting fuel price increases during the year.

On the spending side, the efforts of the authorities to trim substantially the general government's current and capital outlays in 1981 proved unsuccessful, although real wages declined by about 10 per cent and general government employment increased only slightly (Statistical Appendix Table 39). There was an increase in the ratio of purchases of goods and services to GDP, and transfers to the private sector and to the financial system rose sharply. Within the general government, there was a substantial increase in central administration transfers to the provinces, whose finances had deteriorated considerably in the light of weak revenue performance and of the need to grant salary increases decreed by the national authorities. The central administration also compensated for employers' contributions to provincial Social Security Systems and capitalized faltering provincial banks affected by tight financial conditions in the regional economies. Transfers to the special accounts and to the decentralized agencies also were raised in terms of GDP to compensate for revenue lost as the result of the elimination of earmarked taxes for special funds, as well as for the effect of the economic downturn on the collections of major specialized agencies.

1/ Several import surcharges were incorporated into the basic import tariff. These surcharges previously had been used to finance agricultural, mineral, steel, and highway funds.

Table 7. Argentina: Central Administration Operations

(As per cent of GDP)

	1978	1979	1980	1981	Revised Budget 1982
<u>Revenue</u>	<u>6.4</u>	<u>6.6</u>	<u>6.0</u>	<u>6.2</u>	<u>6.3</u>
Tax revenue	5.3	4.8	5.4	5.4	5.6
Income and wealth	1.1	0.9	1.1	1.2	1.3
Internal transactions	3.0	2.6	3.0	4.2	3.9
International trade	0.8	1.0	1.3	1.6	1.7
Other	0.4	0.3	--	-1.6	-1.3
Other revenue	1.1	1.8	0.6	0.8	0.7
<u>Expenditure</u>	<u>8.4</u>	<u>8.2</u>	<u>9.3</u>	<u>11.5</u>	<u>9.5</u>
Current expenditure	5.2	4.8	5.7	6.0	5.1
Wages and salaries	3.0	2.7	3.5	3.2	2.5
Goods and services	1.1	0.9	1.0	1.4	1.0
Interest	--	--	--	0.1	0.2
Transfers to private sector	1.1	1.1	1.2	1.3	1.5
Transfers to rest of public sector	2.4	2.7	3.0	4.5	3.9
Special accounts	0.4	0.7	0.7	0.9	1.2
Decentralized agencies	0.4	0.3	1.1	1.3	1.4
Provinces	0.5	0.8	0.3	1.4	0.7
State enterprises	1.1	0.9	0.8	0.7	0.6
Other	--	--	--	0.2	--
Capital expenditure	0.8	0.7	0.6	0.9	0.5
Other	--	--	--	0.1	--
<u>Overall deficit (-)</u>	<u>-2.0</u>	<u>-1.6</u>	<u>-3.3</u>	<u>-5.3</u>	<u>-3.2</u>
Interest as amortization	1.8	1.6	1.5	2.7	2.1
<u>Financing needs</u>	<u>3.8</u>	<u>3.2</u>	<u>4.8</u>	<u>8.0</u>	<u>5.3</u>
External (net)	0.8	0.2	0.3	1.7	--
Internal (net)	3.0	3.0	4.5	6.3	5.3
Central Bank (net)	0.2	--	3.5	5.1	...
Bonds and Treasury bills	1.8	2.1	--	0.8	...
Other	1.0	0.9	1.0	0.4	...

Source: Statistical Appendix Table 38.

(2) State enterprises in 1981

The financing needs of the state enterprises rose to above 3-1/2 per cent of GDP in 1981 from 3 per cent in the previous year (Table 8). The current surplus rose by almost 1 percentage point, reflecting a drop in real wages of public enterprise employees and real increases in public sector tariffs and prices.^{1/} However, there was an increase in interest payments equivalent to 1-1/2 per cent of GDP; foreign interest rates increased (and interest payments on foreign loans went up even more as a result of the exchange rate adjustments) and domestic interest rates also rose sharply. Investment outlays of the state enterprises were restrained in 1981; relative to GDP, capital spending was virtually unchanged, which implied a substantial drop in real terms. Capital spending continued to be implemented in the framework of a ten-year program which placed high priority on the energy sector, particularly hydroelectric projects.

d. Developments in 1982

The new Administration that took office at the end of 1981 implemented a drastic tightening of fiscal policy aimed at reducing inflation and reappraising the role of the public sector in the Argentine economy. This process included eliminating the practice of indexing public sector remunerations and tariffs to past inflation, deregulation of private sector activities, and trimming of the Government through total or partial divestiture of state activities which could be carried out more efficiently by the private sector. The authorities' objective was to reduce the overall public sector deficit (excluding interest payments treated as amortization and extrabudgetary expenditure) to 2 per cent of GDP in 1982 from about 7-1/2 per cent in the previous year.

The 1982 budget was prepared on the basis of 1981 prices (previously, budgets were based on projected prices) with the understanding that price increases would have to be compensated by reductions in physical outlays in order to remain within budgetary appropriations. On the revenue side, the budget incorporated several tax measures adopted in December 1981, namely, a tax on nonpromoted exports; a reduction of the maximum rate for export tax rebates; an increase in the minimum import duty; and a lowering of the maximum import duty. On the expenditure side, it was announced that salary adjustments for workers in the public sector were to be suspended indefinitely and budgetary appropriations were reduced by 10 per cent in real terms with respect to prior levels. Also, transfers to the provinces were drastically reduced and were to be restricted to only the least developed ones. Capital outlays were to be trimmed, with a view to reducing the relative

^{1/} The main improvement came in the finances of the State Petroleum Company (YPF) and the Argentine Railroads. The finances of YPF were strengthened by fuel price increases considerably in excess of inflation (Statistical Appendix Table 41). The finances of the Argentine Railroads were strengthened by a continued trimming of the labor force.

Table 8. Argentina: Operations of the State Enterprises
(As per cent of GDP)

	1978	1979	1980	1981	Est. 1982
<u>Current account surplus or deficit (-)</u>	2.6	1.1	0.8	1.7	2.1
State Petroleum Company (YPF)	1.5	0.9	0.5	0.9	1.3
State Gas Corporation (GE)	0.5	0.3	0.2	0.2	-0.2
Electricity Company Greater Buenos Aires (SEGBA)	0.2	0.1	0.2	0.3	--
State Telecommunications Corporation (ENTEL)	0.6	0.3	0.5	0.5	0.4
Argentine Railways (FA)	-0.5	-0.6	-0.7	-0.5	-0.5
Others	0.3	0.1	0.2	0.3	1.1
<u>Net intertransfers with</u>					
General Government	1.3	0.6	0.9	0.9	0.6
State Petroleum Company (YPF)	--	-0.3	-0.2	-0.2	-0.4
State Gas Corporation (GE)	--	-0.1	--	-0.1	--
Electricity Company Greater Buenos Aires (SEGBA)	--	-0.1	-0.1	-0.1	-0.1
State Telecommunications Corporation (ENTEL)	--	-0.1	-0.1	-0.1	-0.1
Argentine Railways (FA)	0.4	0.4	0.5	0.6	0.6
Others	0.9	0.8	0.8	0.8	0.6
<u>Capital receipts</u>	0.3	0.2	0.2	0.2	0.2
State Petroleum Company (YPF)	--	--	--	--	0.1
State Gas Corporation (GE)	--	--	--	--	--
Electricity Company Greater Buenos Aires (SEGBA)	0.1	--	--	--	--
State Telecommunications Corporation (ENTEL)	--	--	--	--	--
Argentine Railways (FA)	0.1	--	--	--	--
Others	0.1	0.2	0.2	0.2	0.1
<u>Capital expenditure</u>	5.1	3.8	3.6	3.5	3.5
State Petroleum Company (YPF)	1.6	1.4	0.9	0.9	0.9
State Gas Corporation (GE)	0.3	0.2	0.2	0.1	0.2
Electricity Company Greater Buenos Aires (SEGBA)	0.2	0.2	0.1	0.2	0.2
State Telecommunications Corporation (ENTEL)	0.3	0.3	0.6	0.5	0.5
Argentine Railways (FA)	0.3	0.3	0.3	0.2	0.3
Others	2.4	1.4	1.5	1.5	1.4
<u>Overall surplus or deficit (-)</u>	-0.9	-1.9	-1.6	-0.8	-0.6
State Petroleum Company (YPF)	-0.1	-0.8	-0.6	-0.1	0.1
State Gas Corporation (GE)	0.1	--	-0.2	--	-0.4
Electricity Company Greater Buenos Aires (SEGBA)	0.1	-0.1	-0.1	-0.1	-0.3
State Telecommunications Corporation (ENTEL)	0.3	-0.1	-0.2	-0.2	-0.2
Argentine Railways (FA)	-0.3	-0.5	-0.5	-0.2	-0.2
Others	-1.0	-0.4	-0.1	-0.2	0.4
<u>Interest as amortization</u>	1.1	1.0	1.5	2.9	4.8
<u>Financing needs</u>	2.0	2.9	3.1	3.7	5.4
External (net)	1.5	1.4	1.5	2.6	2.4
Internal (net)	0.5	1.5	1.6	1.1	3.0

Sources: Ministry of Economy; and Statistical Appendix Table 40.

size of the public sector, promoting the continued decentralization of services, and meeting the requirement that they should generate adequate rates of return.

In the first half of 1982 the overall public sector deficit was cut in half to about 3-1/2 per cent of GDP, as budgetary appropriations were strictly adhered to, especially during the first quarter of the year. Expenditure levels dropped significantly relative to GDP during January-June, in reflection of the freeze in public sector wages and of delays associated with the conflict in the South Atlantic in the implementation of investment programs. There was also a decline in real tax receipts, however, related to the continued weakness of economic activity. To help finance the costs of the war, in May 1982 the authorities adopted additional revenue measures, namely an emergency tax on gasoline; an increase in the basic value-added tax rate; an increase in excise taxes on cigarettes and alcoholic beverages; and a specific tax on cereal and other agricultural exports. Furthermore, in early June a 1-1/2 to 2 per cent, one-time, emergency tax was imposed on financial assets held as of December 31, 1981.1/

With the change in administration following the cessation of hostilities in late June, the tight fiscal policy of the first half of the year was relaxed. Taking into account the revised budget for 1982 and extrabudgetary expenditure and payments arrears, it is estimated that the financing needs of the public sector exceeded 14 per cent of GDP for the second straight year. The peso value of interest payments treated as amortization rose by 3 percentage points of GDP (reflecting major exchange rate changes in 1982), which offset a decline in current government spending and a drop in capital expenditure.

Wages of government workers, which had declined by about 30 per cent in real terms during the first half of the year, were increased on average by 23 per cent in July and there were increases each month during the remainder of the year. These included lump sum increases in August and September, but in November higher-paid workers were given special increases to help restore the differential between the salaries of the highest and lowest paid workers.2/ Notwithstanding the

1/ The tax did not apply to total financial holdings of up to \$a 20,000,000 (US\$1,370 at the exchange rate prevailing at the end of May 1982) and was to be collected in three equal installments in July, September, and November.

2/ In addition to the lump sum increases in August and September which increased average salaries by a total of about 30 per cent, salaries were increased by 17 per cent in October (the rate of increase in consumer prices in September) and by 10 per cent in November and 14 per cent in December. It is estimated that the salary increase in July, which was larger in the case of lower-paid workers, and the lump sum increases in August and September, lowered the ratio of salaries of the highest paid workers to salaries of the lowest paid workers from 10:1 to 5:1. The increases in salaries of the highest paid workers needed to restore the previous salary structure will be implemented in stages and is to be completed in 1984.

adjustments in the second half of the year, wages of government workers are estimated to have declined by about 10 per cent in real terms in 1982; real wages of workers in the public enterprises declined by somewhat more.

In an effort to stimulate economic activity and to reduce unemployment, in October the authorities announced an emergency public works program whose total cost was put at about \$a 38 trillion (equivalent to about 2-1/2 per cent of GDP in 1982). The program consisted of a reactivation of labor intensive projects already underway and of the execution of those for which bids had already been received but had not been assigned, and it was concentrated in the energy, transportation and communications sectors. There were delays in implementing the program and, to a large extent, funds made available by the program compensated for the unexpectedly sharp increases in prices in the second half of the year and served mainly to limit the decline in real capital spending.

To help contain the budget deficit, the range of export taxes on nonpromoted exports was raised in July to 10-25 per cent from 0-10 per cent and the maximum rate for export rebates was lowered to 10 per cent from its previous level of 14 per cent. Public sector tariffs were raised in nominal terms by a total of 25 per cent in July and August and by a further 15 per cent in September; in October, the authorities began implementing a program whereby public sector tariffs and prices were to be raised each month by about 3 percentage points in real terms. Also, to facilitate the payment of overdue taxes, the authorities established a 20-month deferred payment system for tax liabilities outstanding as of August 31, 1982. In October, the value-added tax on food-stuffs and pharmaceutical products was lowered from 12 to 8 per cent, but this measure was expected to affect revenues only in 1983.

(1) The general government in 1982

The deficit of the general government is estimated to have narrowed to 3 per cent of GDP in 1982, reflecting a marked improvement in savings and a substantial drop in capital expenditure (see Table 6). Revenues are estimated to have fallen by about 2 percentage points to 21-1/2 per cent of GDP in 1982, but current expenditure declined by about 4-1/2 percentage points. After adding interest payments and extrabudgetary expenditure (but not including payments arrears of the public sector totalling about 1.4 per cent of GDP which could not be distributed between the general government and the public enterprises), the general government's financing needs declined to about 7-1/2 per cent of GDP from 10-1/2 per cent in the previous year.

The weakening of revenue growth is accounted for entirely by the decline in real terms of revenues accruing to the Social Security System and to the provinces; relative to GDP, the revenues accruing to the central administration, special accounts, and decentralized agencies are

estimated to have remained at about the previous year's level. The erosion in social security revenues resulted mostly from the drop in public and private sector wages during the year, while provincial revenues declined relative to GDP in reflection of the lag in adjusting property taxes for inflation and of the adverse impact of falling automobile-related taxes.

The behavior of central administration revenue to a large extent reflected policy measures. Fuel taxes were instrumental in preventing a larger drop in taxes on internal transactions, while external taxes increased as the imposition of export taxes offset the sharp drop in import tax collections. On the other hand, the impact of a higher average value-added tax rate on foodstuffs and medicines was more than compensated by lower VAT collections on reduced levels of imports and of automotive production and sales during the year. The decline in real wages of government workers indirectly favored the Treasury's revenue performance during 1982 as transfers to the Social Security System, which are deducted from value-added tax collections, declined relative to GDP.

The substantial reduction in general government current expenditure reflected the reduction of the wage bill and cuts in purchases of goods and services, and to a lesser degree, lower transfers to the private sector by the special accounts and the provinces. Capital outlays are also estimated to have dropped considerably--to their lowest level in recent years. Capital spending by provincial governments, which accounts for almost one-half of total capital spending by the general government, declined in real terms as a result of strict adherence to original budget appropriations and because of the nonrecurrent nature of 1981 transfers for the capitalization of provincial banks.

(2) State enterprises in 1982

The financial situation of the state enterprises weakened considerably in 1982 on account of rising interest payments. Whereas the deficit, excluding interest treated as amortization, is estimated to have narrowed somewhat, the financing needs of state enterprises rose to 5-1/2 per cent of GDP from 3-1/2 per cent in the previous year. Interest payments treated as amortization are estimated to have risen to almost 5 per cent of GDP, up from 3 per cent of GDP in 1981, as the effect of exchange rate adjustments on foreign interest payments more than compensated for the decline in interest rates abroad and for the lowering of domestic interest rates in the second half of 1982.

State enterprises are estimated to have maintained their investment levels during 1982. The State Petroleum Company's investment activities continued to be concentrated in oil exploration, production, and industrialization projects, the latter including completion of the reconversion of two distilleries in Lujan de Cuyo and La Plata. The State Gas Company's major new investment project was the initiation of the construction of the parallel gas duct San Geronimo-General Rodriguez,

and the Electricity Company of Greater Buenos Aires (SEGBA) continued work on transmission and distribution lines that will connect the hydro-electric power plant under construction by HIDRONOR in Alicura with the transforming station in Abasto. In spite of some delays in the expansion of urban and interurban lines, the State Telecommunications Corporation (ENTEL) added some 140,000 new lines during 1982 and deployed the third satellite communications antenna. The Argentine Railways continued with the upgrading of tracks, the acquisition of diesel locomotives and of communications and signal equipment, and the electrification of the Ferrocarril General Roca route.

2. Financial intermediation

Credit policy was restrictive in 1978 and 1979, there was a substantial monetization of the economy, and net foreign assets of the financial system increased in both years. However, credit policy was progressively relaxed in the following three years and net international reserves declined. In 1981 and particularly in 1982, there was a marked decline in the real holdings of financial assets in Argentina.

a. Background

Financial system liabilities to the private sector went up by about 185 per cent in 1978, or about 10 per cent in real terms, and by 190 per cent in 1979, or 24 per cent in real terms (Table 9). In both years, the increase exceeded the rise in net domestic credit; net foreign assets of the financial system increased by US\$2-1/2 billion in 1978 and about US\$2 billion in 1979. Reflecting the tightness of domestic conditions, financial institutions increased their foreign indebtedness to finance credit expansion and the net international reserves of the Central Bank increased by US\$3.2 billion in 1978 and US\$4.3 billion in 1979.

During these years, real interest rates rose to very high levels. The high level of interest rates, which was due in part to the failure to reduce the public sector's borrowing needs, lowered profits in the private sector and firms in the tradeable goods sector were also adversely affected by the continued real appreciation of the peso.^{1/} The ability of firms to meet their obligations to financial institutions came increasingly into question and severe strains on the financial system developed in late 1979 and early 1980.

^{1/} As shown in Chart 3, lending and deposit rates tended to decline in nominal terms in 1980. However, the rate of increase in wholesale prices moderated substantially (in part owing to the effects of exchange rate policy on the rate of increase in tradeable goods prices) and lending rates deflated by the increase in wholesale prices were highly positive during much of 1980 (Chart 4). The rate of increase in consumer prices remained above the increase in wholesale prices in 1980 and in reflection of this, plus the substantial spread between lending and deposit rates, the deposit rate deflated by increases in consumer prices was less positive in 1980.

Table 9. Argentina: Growth of Financial System Credit
and Liabilities to Private Sector

	Year Ended October				
	1978	1979	1980	1981	1982
<u>(Percentage changes during the year)</u>					
Liabilities to private sector	183.8	190.2	90.8	117.3	126.5
Net domestic credit 1/	160.4	182.6	106.9	132.1	145.8
Credit to private sector 1/	123.2	144.0	81.6	88.7	102.4
<u>(Changes as percentage of GDP)2/</u>					
Liabilities to private sector	26.0	28.4	19.5	25.4	18.3
Net domestic credit	22.7	27.3	22.9	28.6	21.1
Credit to private sector	17.4	21.5	17.5	19.2	14.8
<u>(Percentage changes during the year)</u>					
<u>Memorandum items</u>					
Average of wholesale and consumer prices 3/	156.6	134.3	72.6	155.8	247.2
Private sector liabilities deflated by average of wholesale and consumer prices	10.6	23.9	10.5	-15.0	-34.8

Sources: Central Bank of Argentina; and Statistical Appendix Table 42.

1/ In relation to the stock of liabilities to the private sector at the beginning of the year.

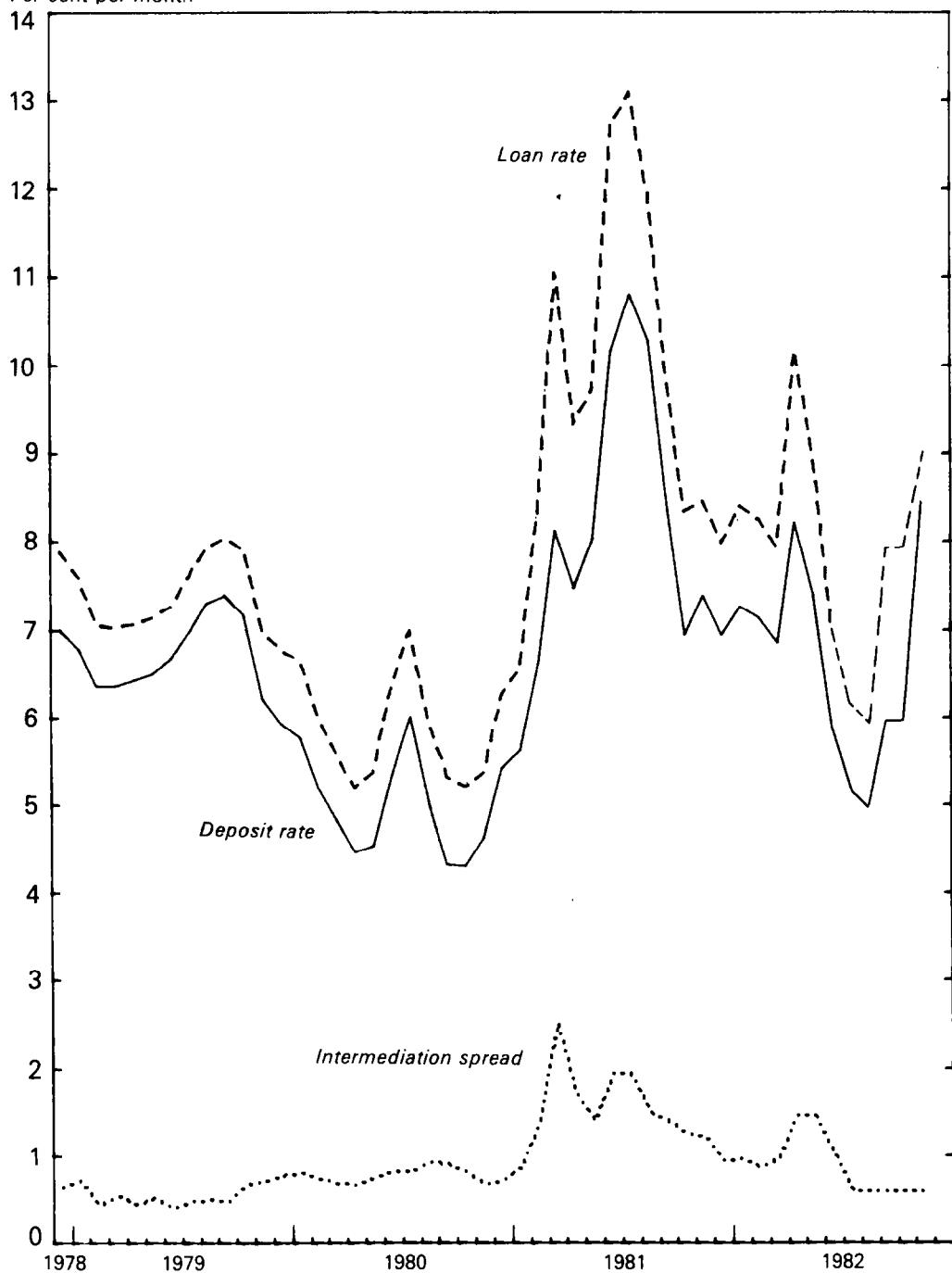
2/ Change in stocks during the year as a percentage of GDP in each year.

3/ The increase in the GDP deflator (for which data are available only on an annual basis) can generally be approximated by the average of wholesale and consumer prices.

In March 1980, a major banking crisis developed which resulted eventually in the liquidation of the biggest private investment bank and a large number of smaller financial institutions. The Central Bank provided credit to financial institutions through a special discount facility and this was a major factor in a higher rate of credit expansion by the Central Bank in 1980. Real interest rates remained high as the continued failure to control the public sector deficit meant that a growing share of domestic credit went to the public sector

CHART 3
ARGENTINA
DEPOSIT, LOAN RATES AND INTERMEDIATION SPREAD

Per cent per month



Source: Central Bank of Argentina.

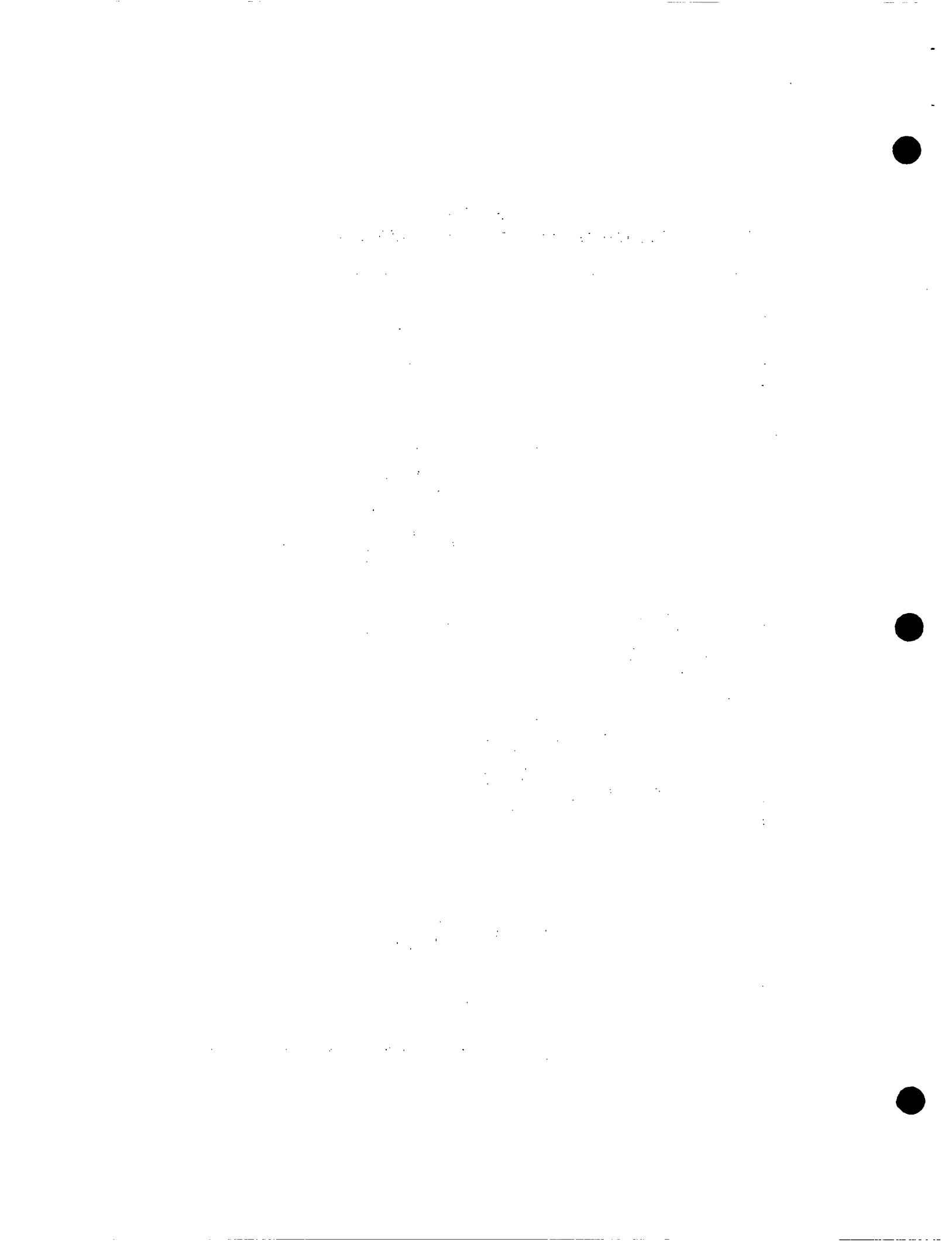
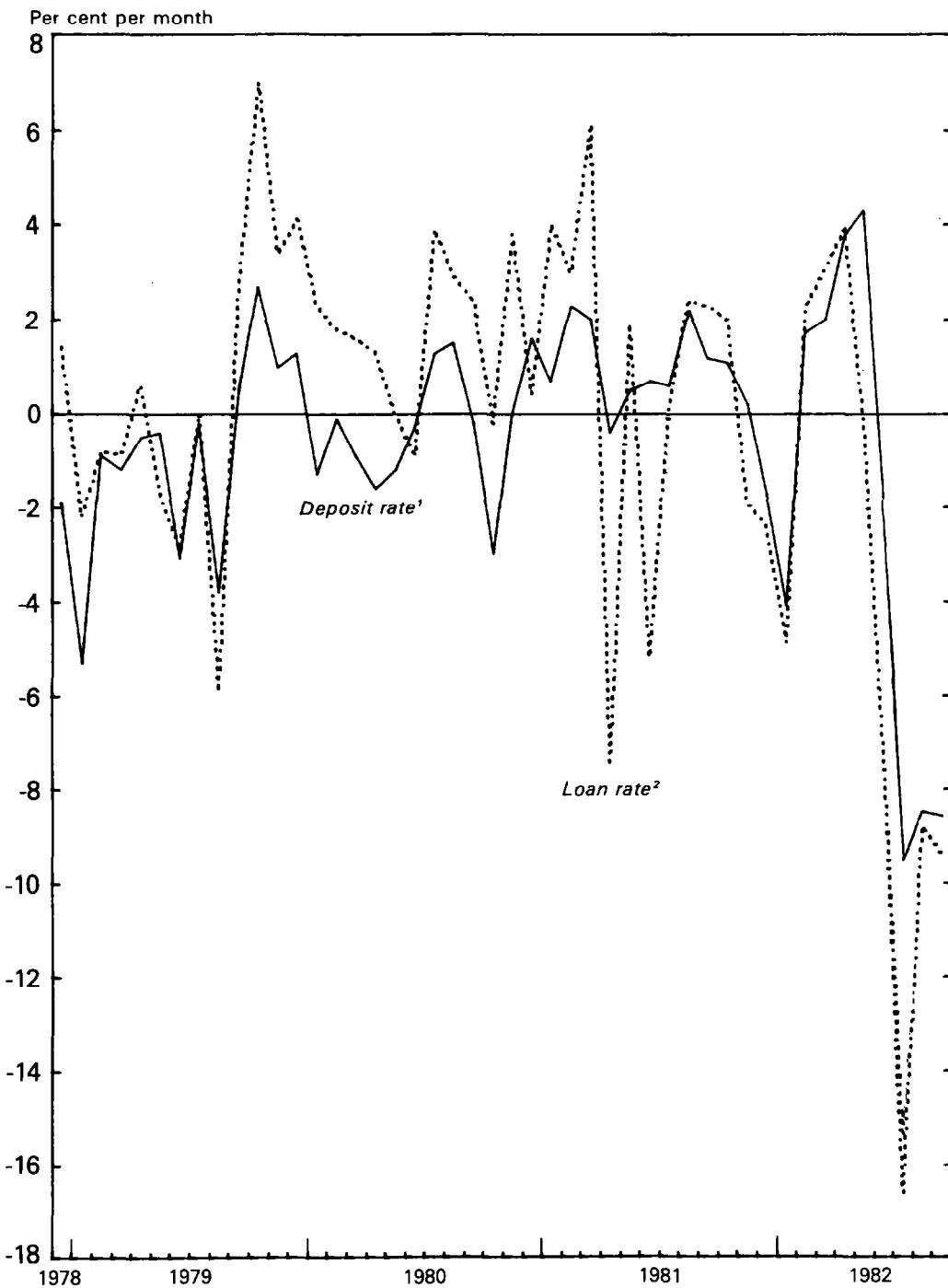


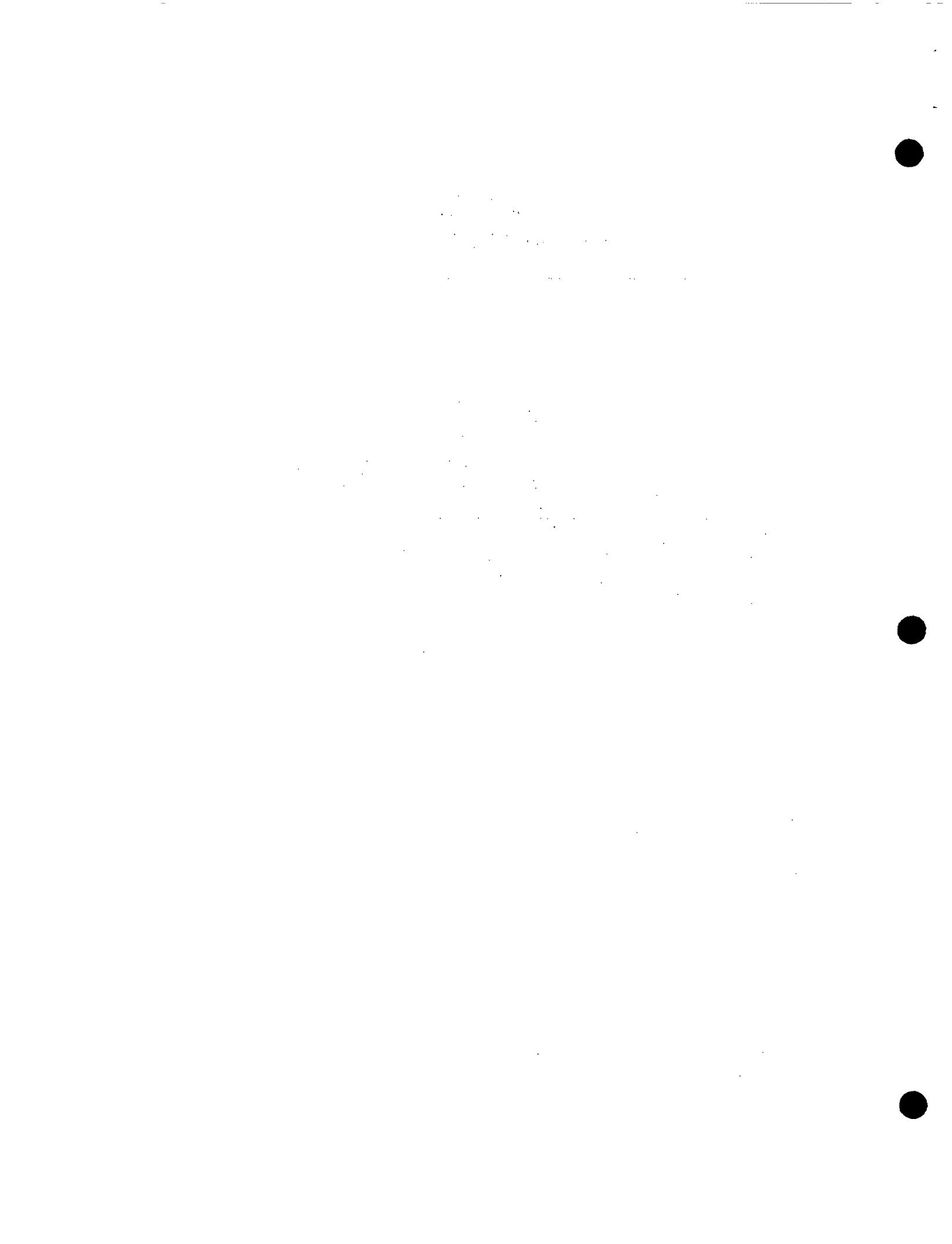
CHART 4
ARGENTINA
REAL INTEREST RATES



Sources: Central Bank of Argentina and Fund staff estimates.

¹Deflated by changes in CPI.

²Deflated by changes in WPI.



(Table 10). Meanwhile, the lingering effects of the banking crisis and the increasing overvaluation of the peso undermined confidence in the ability of the authorities to maintain the existing exchange rate policy and private sector demand for credit remained high. During 1980, liabilities to the private sector rose by 90 per cent, representing an increase in real terms of about 10 per cent. Nevertheless, net foreign assets of the financial system declined by US\$4.3 billion and net international reserves of the Central Bank declined by US\$2.9 billion.

b. Money and credit in 1981

The substantial depreciation of the peso in 1981 was not supported by sufficient restraint in domestic financial policy. Interest rates rose substantially around mid-year but this did not compensate for the acceleration in inflation and there was a sharp increase in credit going to the public sector. The rate of credit expansion went up, inflation accelerated, and at year end domestic interest rates were substantially negative in real terms (Statistical Appendix Table 43). There was a decline in the real stock of financial system liabilities to the private sector, and net international reserves fell.

In 1981, a number of facilities were created to reduce the financial burden of firms, particularly those engaged in the production of tradeable goods. During the period May-July, financial institutions were allowed to borrow from the Central Bank up to 12 per cent of their deposit liabilities to extend consolidation loans with a four-year maturity and a two-year grace period; most of the loans were to go to the primary and manufacturing sectors. In October, a second consolidation scheme was put into effect, whereby up to 50 per cent of the debt in the manufacturing sector and 40 per cent of the debt in other sectors was converted into seven year loans with a three-year grace period. Also, steps were taken to alleviate the financial burden on private firms arising from foreign debts. Beginning in June, firms that renewed loans for a period of 18 months to 2 years were, under certain conditions, eligible for exchange rate guarantees.

In 1981, liabilities to the private sector rose by 117 per cent, representing a decline of about 15 per cent in real terms. Domestic credit grew by 132 per cent of beginning of period liabilities (compared with 101 per cent in 1980) and net foreign assets declined by US\$4.2 billion. Net foreign borrowing by financial institutions increased slightly, attributable in part to the availability of exchange rate guarantees on foreign borrowing, and net international reserves of the Central Bank declined by US\$3.5 billion.

c. Money and credit in 1982

Following the change of administration and the introduction of a stabilization program at the end of 1981, there was a marked improvement in monetary control in the first quarter of 1982. The monetary base increased by 18 per cent, half the rate in the last quarter of

Table 10. Argentina: Changes in Credit by Destination and Financing
 (In billions of Argentine pesos)

	1978	1979	1980	1981	Oct. 1981-Oct. 1982
Total	11,421	36,952	62,871	156,894	321,177
Destination					
Central Government					
(net)	1,607	3,250	12,525))
Rest of public sector) 54,199) 100,464
(net)	-743	-347	-2,917))
Interest Equalization					
Fund	1,425	1,219	-1,723	3,536	30,801
Private sector	9,027	29,942	49,323	104,545	232,361
Other 1/	105	2,888	5,663	-5,386	-42,449
Financing					
Liabilities to private					
sector	13,470	39,563	54,851	138,162	286,887
Allocation of SDRs	11	98	114	148	--
Net international re-					
serves (increase -)	-2,507	-5,666	5,290	15,667	18,151
Other external assets					
(increase -)	447	2,957	2,616	2,917	16,139
Total	100.0	100.0	100.0	100.0	100.0
Destination					
Public sector (net)	7.6	7.9	15.3	34.5	31.3
Interest Equalization					
Fund	12.5	3.3	-2.7	2.3	9.6
Private sector	79.0	81.0	78.0	66.6	72.3
Other 1/	0.9	7.8	9.0	-3.4	-13.2
Financing					
Liabilities to private					
sector	118.0	107.0	87.4	88.1	89.3
Net foreign assets 2/	-18.0	-7.0	12.6	11.9	10.7

Source: Statistical Appendix Table 42.

1/ Includes intersystem float and valuation adjustment.

2/ Includes net international reserves and other external assets.

1981 and 2 percentage points less than programmed, even though there was an unexpected increase in net international reserves. The success in controlling credit was attributable in large part to the major tightening of fiscal management, and the authorities adjusted reserve requirements to mitigate the effects on domestic liquidity of the changes in international reserves. With the onset of labor unrest and evidence of a developing crisis in the South Atlantic in March, the peso came under downward pressure in the foreign exchange market. The initial reaction of the authorities was to tighten monetary conditions; however, when hostilities in the South Atlantic broke out in April, there was a run on bank deposits and to assist the banks the Central Bank lowered reserve requirements and expanded rediscount facilities.

With the change of administration following the end of hostilities in late June, major changes in financial policy were made. The new economic team was of the view that high interest rates were an important factor contributing to the high level of the public sector deficit, which complicated the task of monetary management. The view was also that high interest rates were contributing to corporate bankruptcies, thereby creating the need for increased Central Bank credit to financial institutions. In order to achieve their goal of reactivating the economy, the authorities decided to engineer a transfer of resources from savers to the corporate sector by sharply lowering the real interest rate.^{1/}

In July, a 100 per cent reserve requirement on the level of deposits of June 30 was imposed and private debts held by the financial system as of that date were refinanced at a negative real interest rate out of the proceeds of a rediscount line from the Central Bank. Public sector debt held by financial institutions was to be taken over by the Central Bank. The interest rate on refinanced loans was initially set at 6 per cent a month, well below the rate of inflation. Interest rates on government guaranteed deposits of up to 90 days were fixed at 2-1/2 to 5 per cent a month. Interest rates on deposits of more than 90 days were to be freely determined, but there were limits on the amounts of these deposits that each bank could accept.

The authorities recognized that the negative real interest rate would result in a decline in the demand for real financial assets, but it was expected that once an initial stock adjustment had taken place the demand for financial assets would stabilize. It was also anticipated that government guaranteed, one-year cost-of-living (COL) indexed deposits (and the two-year indexed loans that they were to finance) would become increasingly important instruments of financial intermediation. There was an unexpected surge in liquidity in late July and

^{1/} The lowering of interest rates was only one aspect of a financial reform that had implications for most aspects of financial intermediation in Argentina. See Appendix D for a discussion of the main features of the July program.

open market operations were resumed in order to tighten credit conditions and to establish a floor to the free interest rate. (Reflecting the limit on the amount of these deposits, the interest rate on unregulated 90-day deposits was only 6-1/2 per cent a month.)

The demand for financial assets continued to decline in real terms and after the present economic team took office in August, regulated interest rates were increased. The interest rate on 30-day deposits was raised in September to 7 per cent and to 8-1/2 per cent in November; the rate on domestic refinancing loans financed by Central Bank rediscounts was raised in September to 7-1/2 per cent and to 9 per cent in November. Also, to increase the demand for COL-indexed deposits their maturity was reduced from 1 year to 180 days. However, on average, real interest rates remained negative through the remainder of the year. During the 12-month period ended October 1982, the growth of financial system liabilities to the private sector grew by 125 per cent representing a decline of about 35 per cent in real terms.^{1/} The growth of net domestic credit went up in nominal terms to about 145 per cent during the same period, and net foreign assets declined by US\$1.5 billion. Financial institutions increased their net foreign indebtedness--borrowing was undertaken to cover the loss of foreign currency deposits at the time of the conflict in the South Atlantic--and net international reserves, as conventionally defined, declined by less than US\$1 billion.

In addition to the decline in net reserves, there was an accumulation of arrears, an increase in swap arrangements with the private sector, and in some instances external public sector bonds were issued in lieu of foreign exchange to meet obligations to abroad. These instruments substituted for the provision of domestic credit, or forced residents to hold domestic financial assets in excess of the amounts they would have held had foreign exchange been made available. Treating these instruments as reserve liabilities, the decline in net international reserves would have amounted to US\$5.5 billion in 1982.

3. Wage and price policy

From late 1978 until mid-1982, the government limited its direct intervention in private sector wage determination to the setting of minimum and basic conventional wages; since 1976 these wages had not kept pace with inflation and had become increasingly irrelevant, and

^{1/} The large increase in private holdings of Treasury bills in the second half of 1982 accounts for part of this decline and during the year ended October 1982 private sector holdings of Treasury bills and financial institution liabilities to the private sector taken together declined by 31 per cent in real terms. Treasury bills were fully guaranteed, had a maturity of 28 days and yielded 11 per cent a month which made them attractive relative to other financial assets. As shown in Statistical Appendix Table 44, at the end of October 1982 the share of Treasury bills in total private sector financial assets had risen to 7 per cent.

during the period from late 1978 to mid-1982 the setting of government wages was a more important factor determining overall wage developments. In this respect, in the second half of 1981, the Government had originally intended to limit the wage increases for government workers to 5 per cent a month but in the event wages were increased by substantially more; minimum and basic contractual wages were also increased substantially in the second half of the year. In the first half of 1982, salaries of government workers were frozen and no adjustments were made to the minimum and basic wages; there was also considerable moderation in the rate of increase in private sector wages and real wages in the private sector declined substantially (Statistical Appendix Table 45 and Chart 5).

In July 1982, in an effort to support the level of private consumption, government wages were increased by an average of 23 per cent, and the minimum wage was increased by about 40 per cent. In August and September, the government decreed lump sum increases for workers in the public and private sector, and in September the minimum wage was increased by an additional 40 per cent. In October, there was a further wage adjustment for all workers of 17 per cent. In November and December, government wages were increased about in line with the rate of inflation; an increase of 14 per cent for workers in the private sector was decreed in December, and the minimum wage was increased by 45 per cent.^{1/} As a result of the wage adjustments in the second half of 1982, and despite the moderating trend in the first half of the year, wages in the private sector and in the government rose by about 130 per cent in 1982, compared with an increase of about 85 per cent in 1981 (Table 11 and Chart 6); nevertheless, real wages in industry and in government declined by about 10 per cent in 1982 for the second consecutive year (Chart 7).

As regards price policy, for several years direct government control of private sector pricing had been limited; in July 1982 the Government introduced a voluntary system of price agreements that in August was replaced by a system of controls for 725 large firms who play leading roles in their industries. Authorization to increase prices is granted once a month in the light of changes in costs. In October, the period for government review of requests to raise prices was reduced from 10 to 7 days and 65 firms were dropped from the program.

^{1/} There were also substantial increases in basic conventional wages in November and December 1982, the first since October 1981; nonetheless, in December 1982 these wages were, in real terms, about 50 per cent below their level of October 1981.

Table 11. Argentina: Increases in Earnings and Prices

(Annual average percentage change)

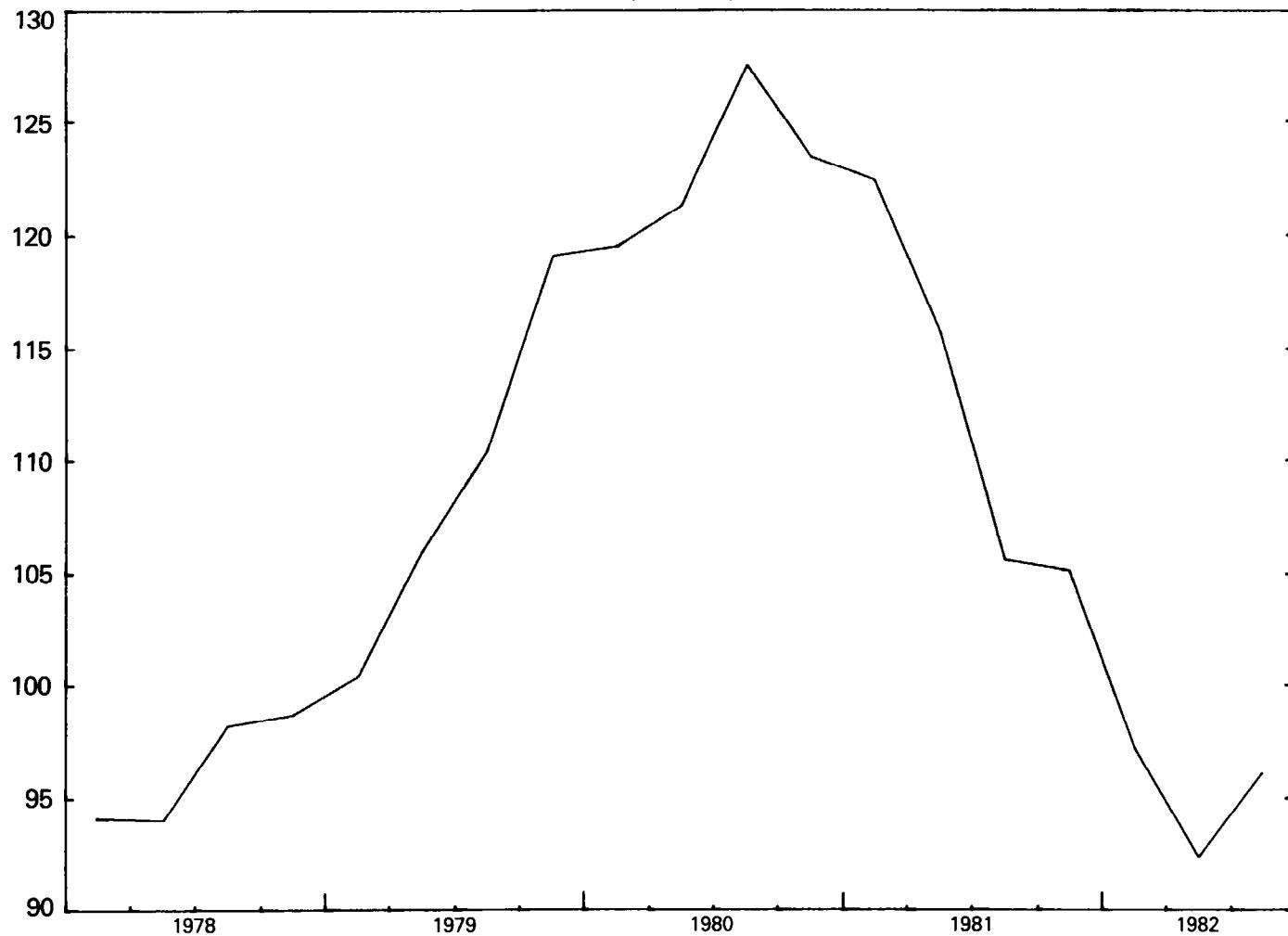
Industry	General Government 1/	State Enterprises 1/	Consumer Prices
1977	189.2	161.2	176.0
1978	171.2	224.8	175.5
1979	196.7	161.3	159.5
1980	123.5	139.6	100.8
1981	83.4	83.6	104.5
1982 (Est.)	130.9	128.2	160.0

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

1/ Wage bill divided by number of employees.

In the past few years, the government has attempted to influence the rate of price increase and inflationary expectations by altering the rate at which public sector tariffs and prices are adjusted. In 1979, such a policy had led to a decline of tariffs of almost 20 per cent in real terms, and during 1980 and early 1981, tariffs were adjusted in excess of the overall rate of price increase (Chart 8). The rate of increase in the first half of 1981 was somewhat less than the rate of inflation but in the second half of the year the rate of adjustment was stepped up in order to avoid a further deterioration in the finances of the state enterprises. Following the change in administration in late December 1981, there was an additional tariff adjustment and then tariffs were frozen. Tariffs declined on average by 38 per cent in real terms during January-July 1982, with fuel prices declining by slightly less than the average--35 per cent--as a result of the 30 per cent emergency tax on gasoline decreed in May 1982. From July to October, tariffs were increased on a monthly basis by slightly more than the rate of inflation and in October the authorities announced an 18-month program whereby public sector tariffs would be raised each month by about 3 per cent more than the rate of increase in wholesale prices.

CHART 5
ARGENTINA
REAL WAGES IN MANUFACTURING¹
(1976 = 100)



Source: National Institute of Statistics ; and Fund staff estimates.

¹Average monthly wages per worker (excluding year end bonuses) deflated by the consumer price index.

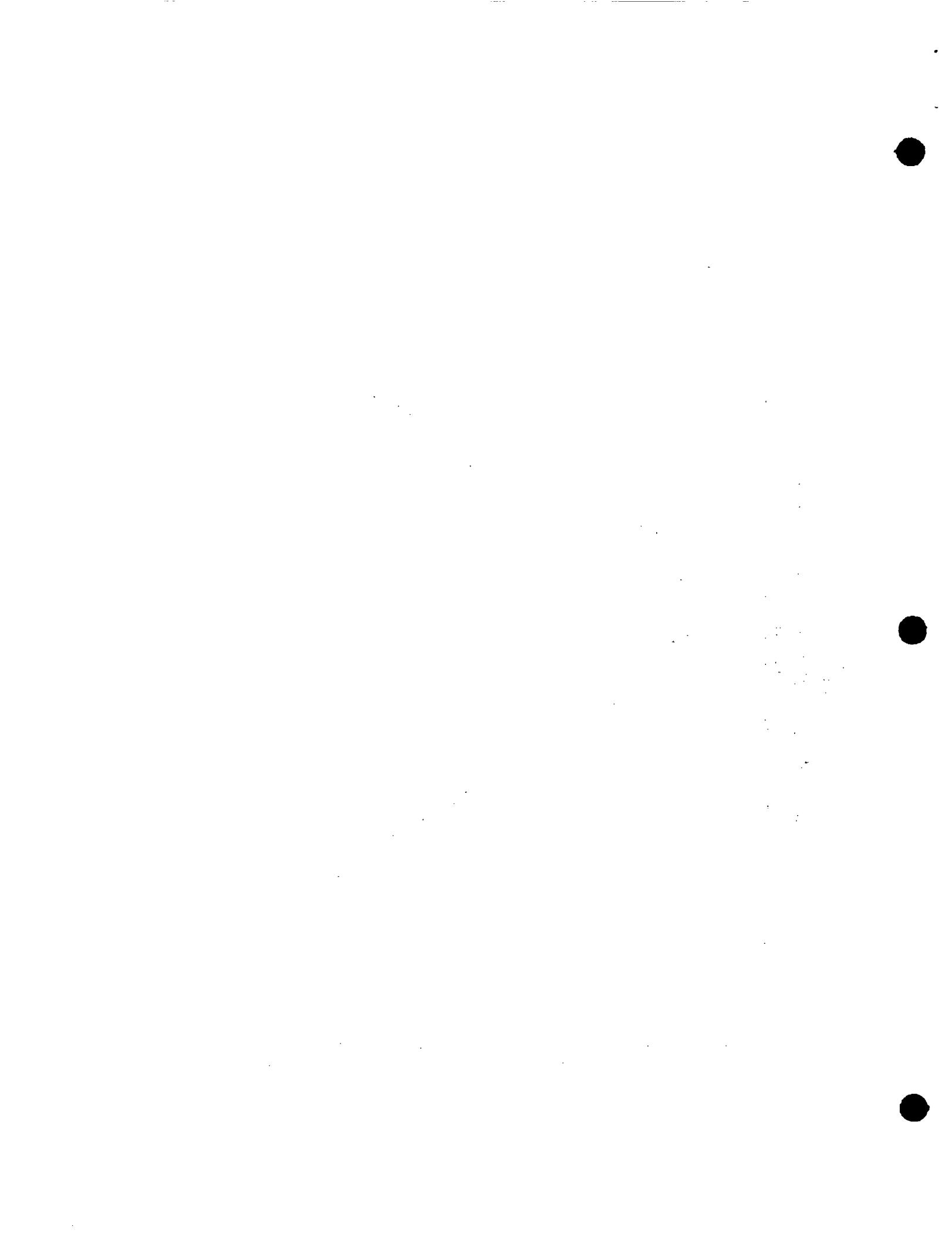
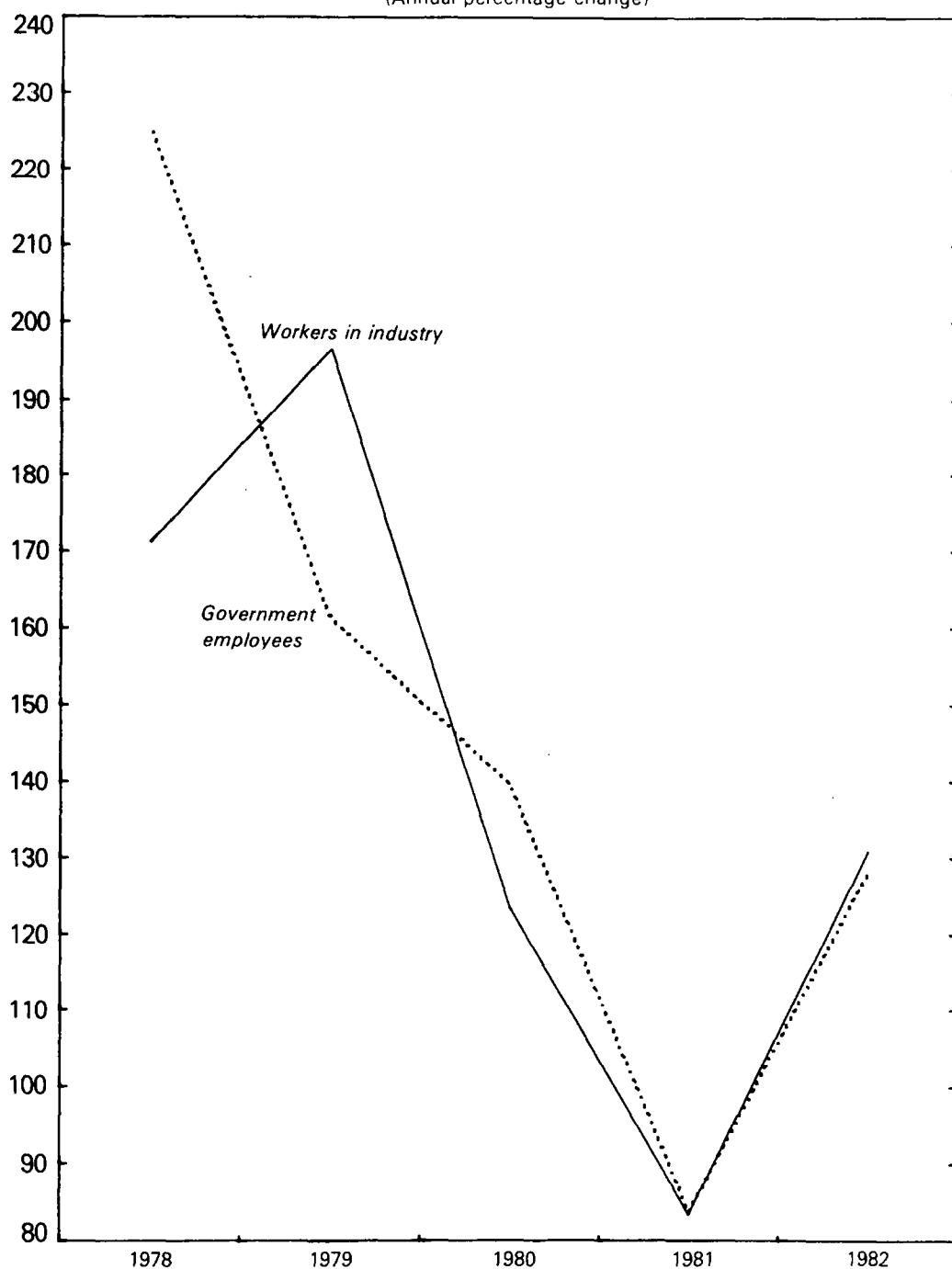


CHART 6
ARGENTINA
NOMINAL WAGE PER EMPLOYEE
(Annual percentage change)



Source: Ministry of Economy; and National Statistical Institute.

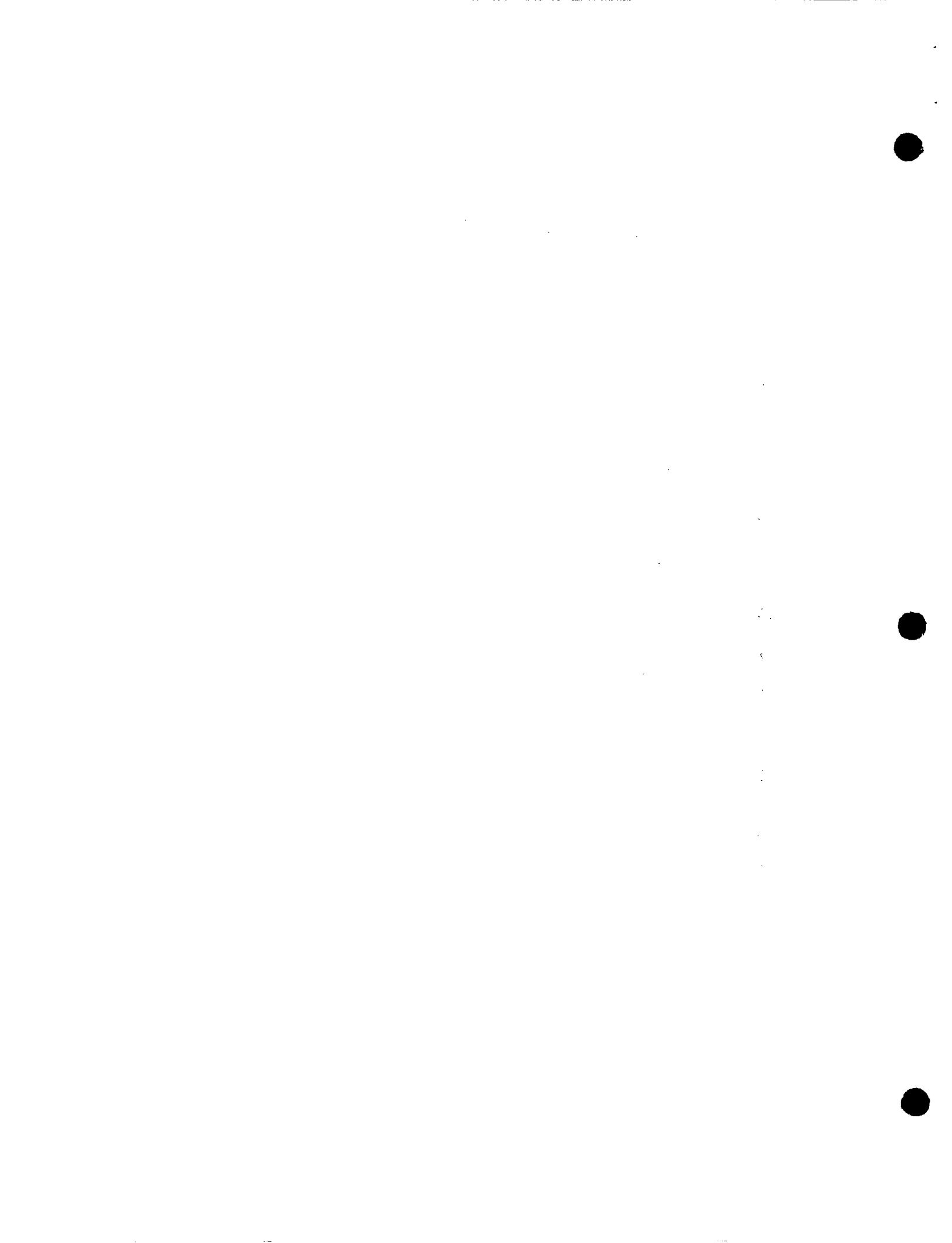
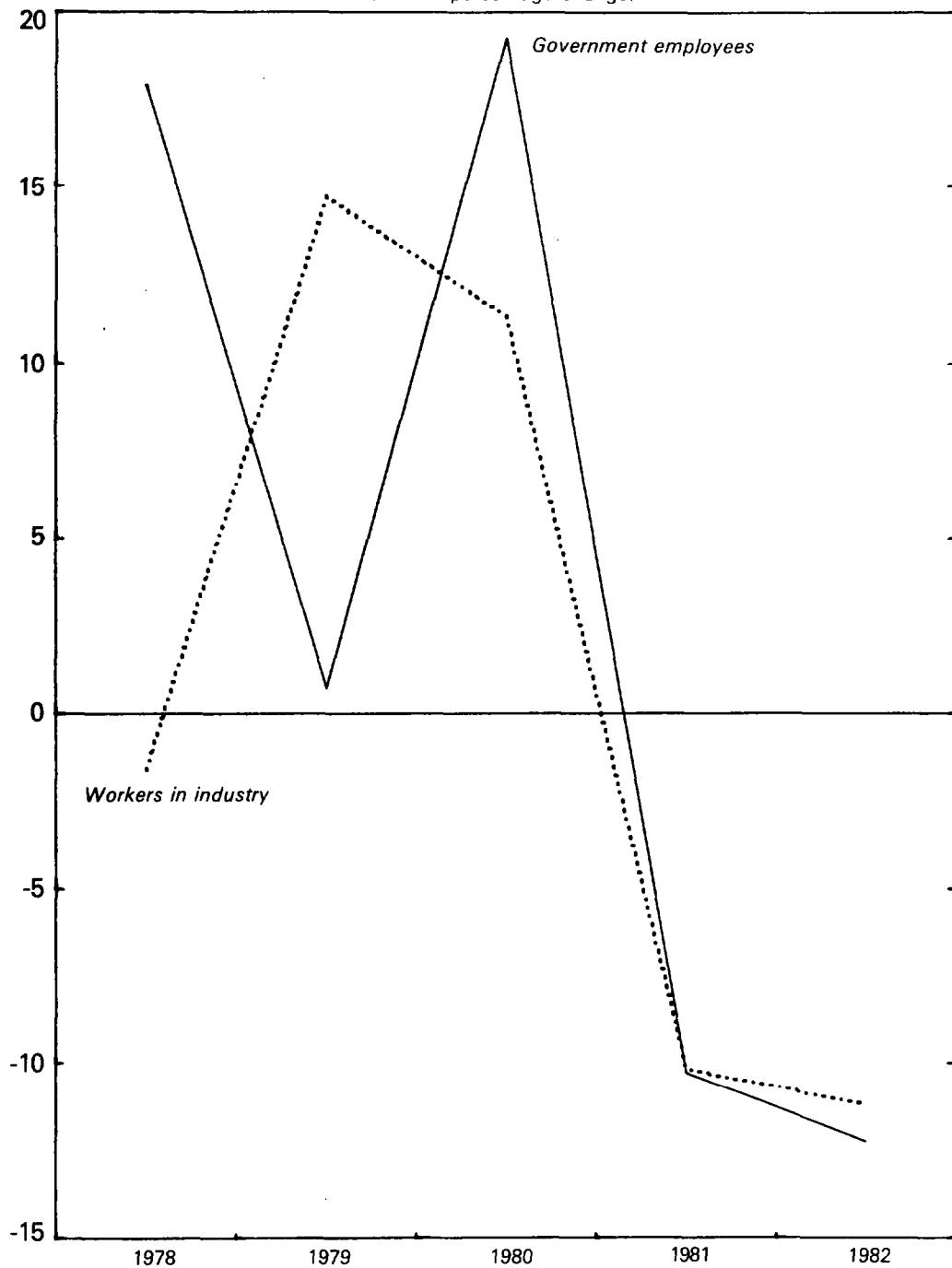


CHART 7
ARGENTINA
REAL EARNINGS PER EMPLOYEE
(Annual percentage change)



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

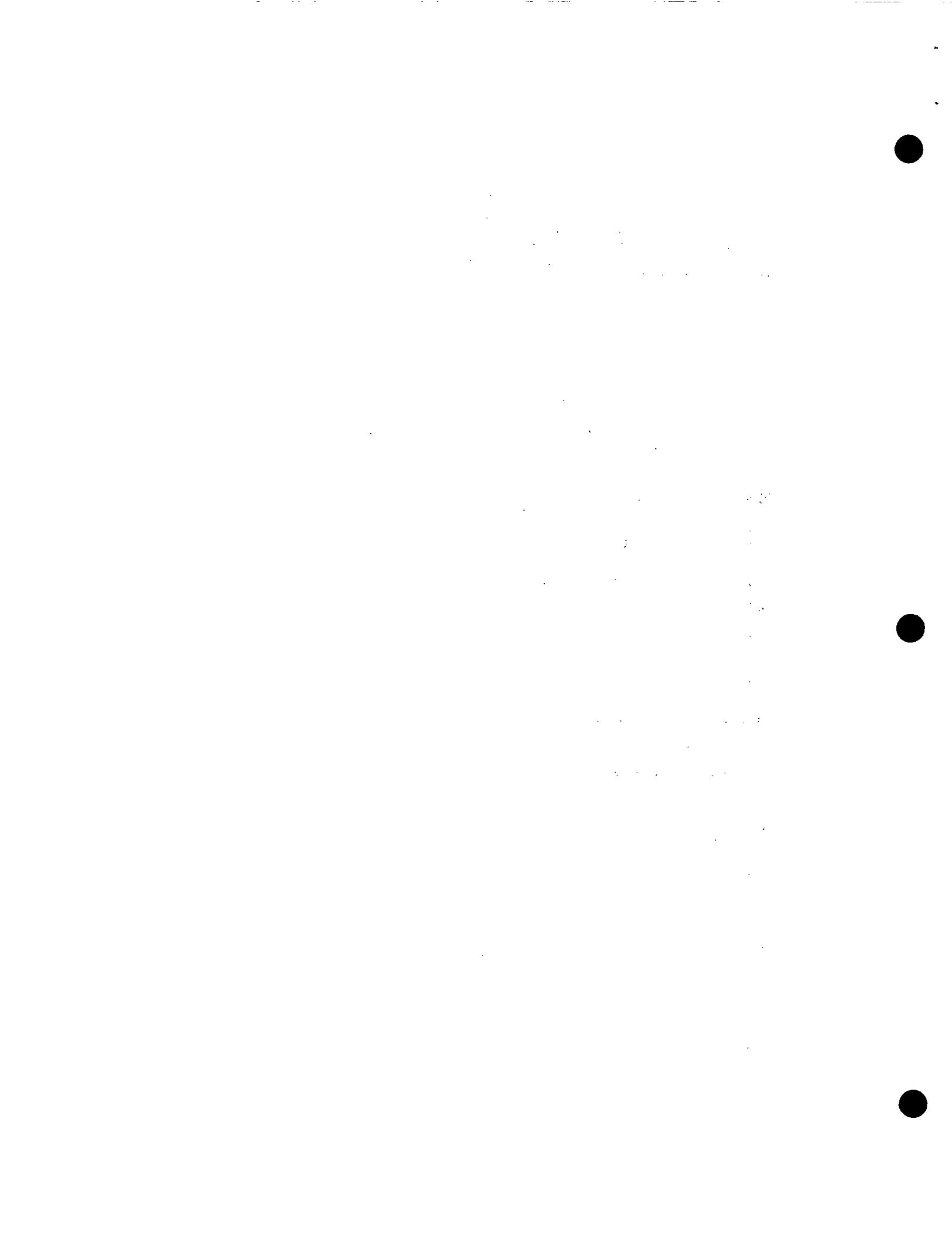
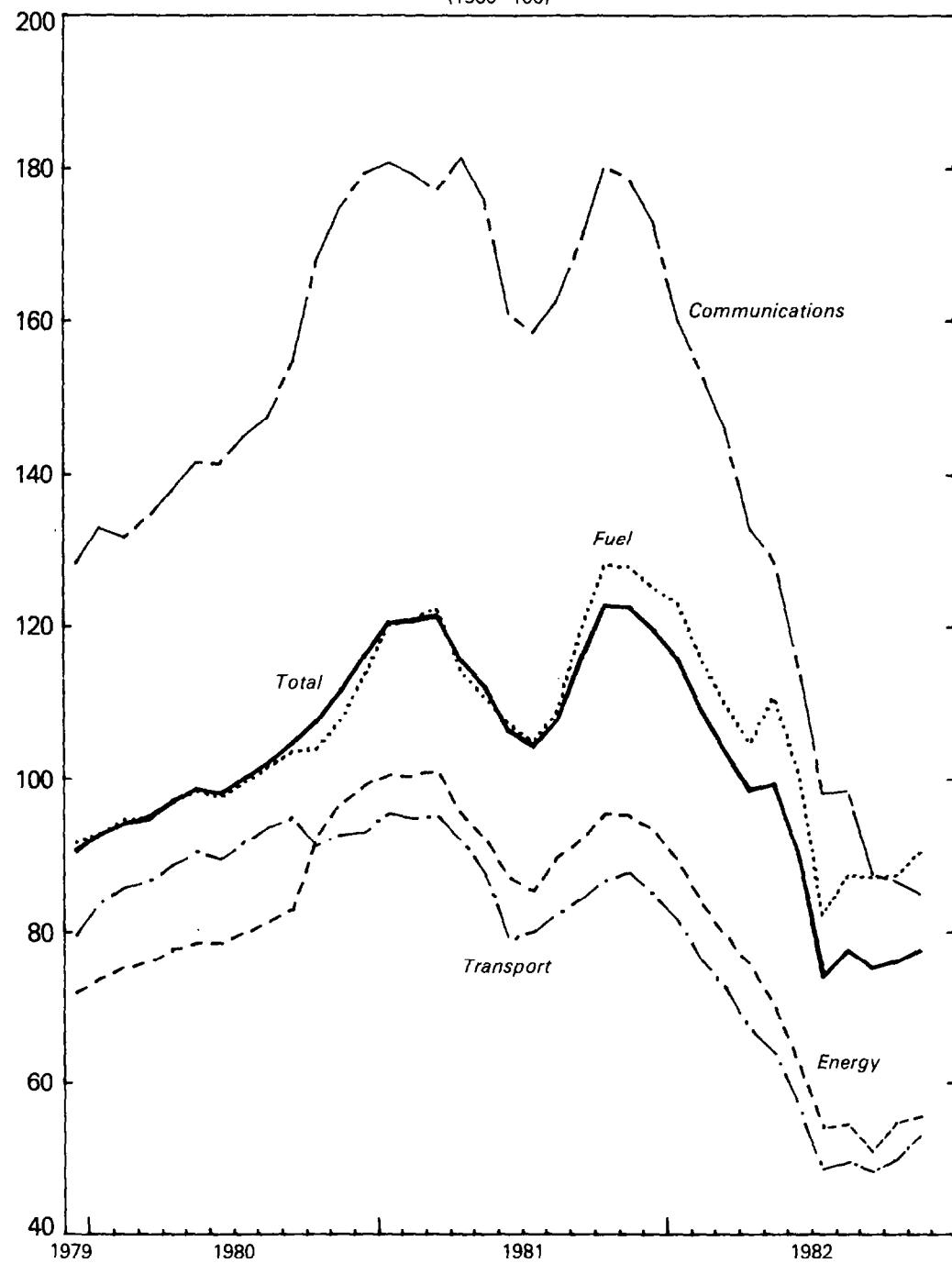
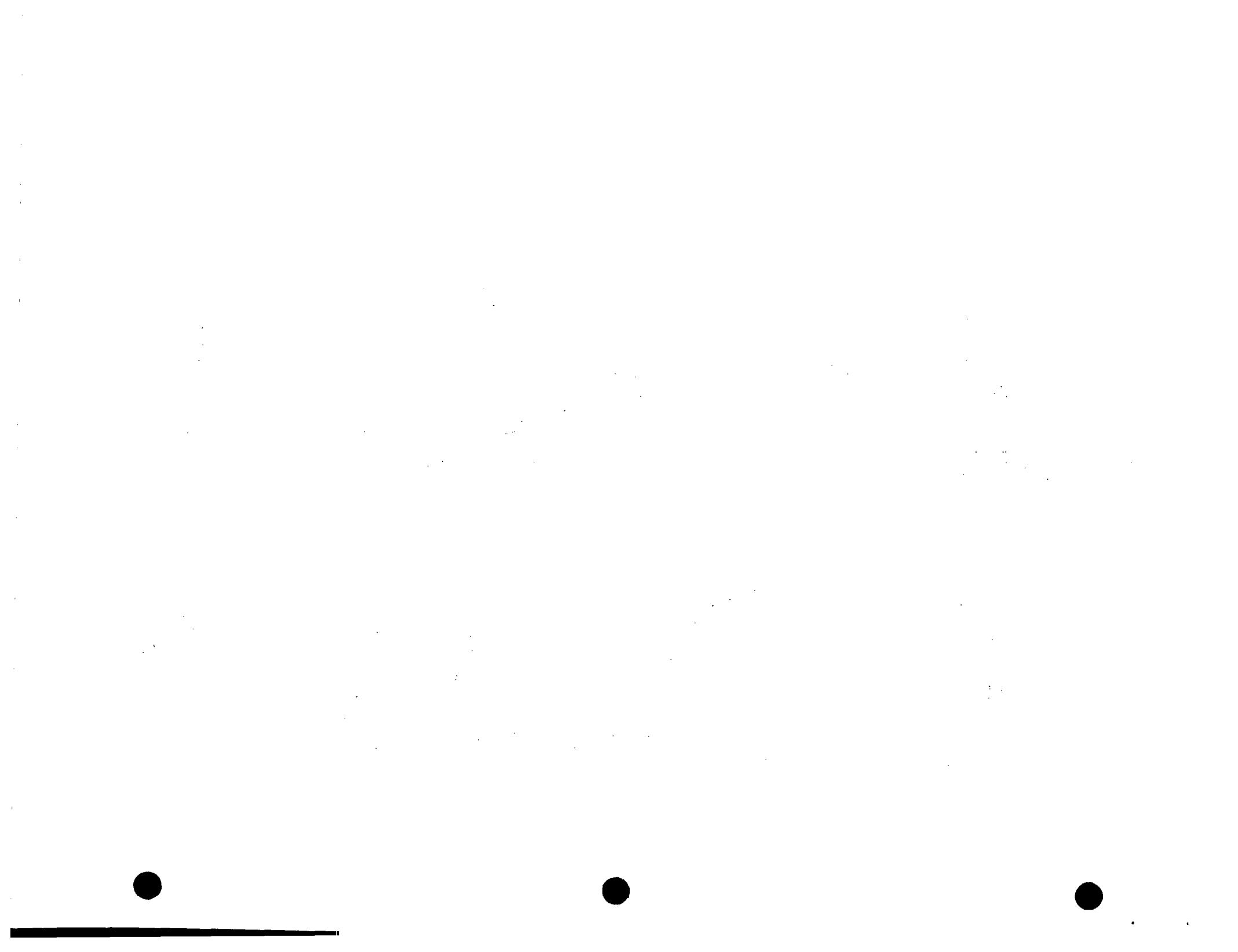


CHART 8
ARGENTINA
RELATIVE PRICES OF PUBLIC SECTOR SERVICES¹
(1960 = 100)



Source: Ministry of Public Works and Services.

¹Prices paid by the consumer deflated by the wholesale price index for national nonagricultural goods.



IV. Domestic Expenditure, Price Performance, and Supply Response

1. Domestic expenditure

The rate of growth of domestic expenditure had been brought down to a little over 100 per cent in 1980 and 90 per cent in 1981 from a level of about 175 per cent in 1979; however, reflecting the substantial wage adjustments and the movement out of financial assets into goods in the second half of 1982, the rate of growth in domestic expenditure moved back up to 175 per cent in 1982 (Table 12). The rate of increase in nominal consumption rose from about 100 per cent in 1981 to 190 per cent in 1982; private consumption rose by over 200 per cent in 1982 compared with an increase of about 100 per cent in the previous year, owing in part to the higher rate of increase in wages in 1982. Investment expenditure rose much less quickly than consumption in 1982 (in particular private fixed capital formation rose only slightly faster than in 1981). There was little or no change in inventories for the year as a whole, as a drawdown of inventories in the first half of 1982 was offset by restocking in the second half of the year. Consequently, total investment accounted for only 17 per cent of GDP in 1982, compared with 22 per cent in 1981 and an average of about 25 per cent in the previous three years.

In constant prices, domestic expenditure declined by 10 per cent in 1982, following a drop of 8 per cent in 1981. Real consumption fell by 6-1/2 per cent; the decline in real wages affected real private consumption and real consumption by the government went down by 12 per cent. Real investment spending, particularly private fixed capital formation, continued to fall in 1982.

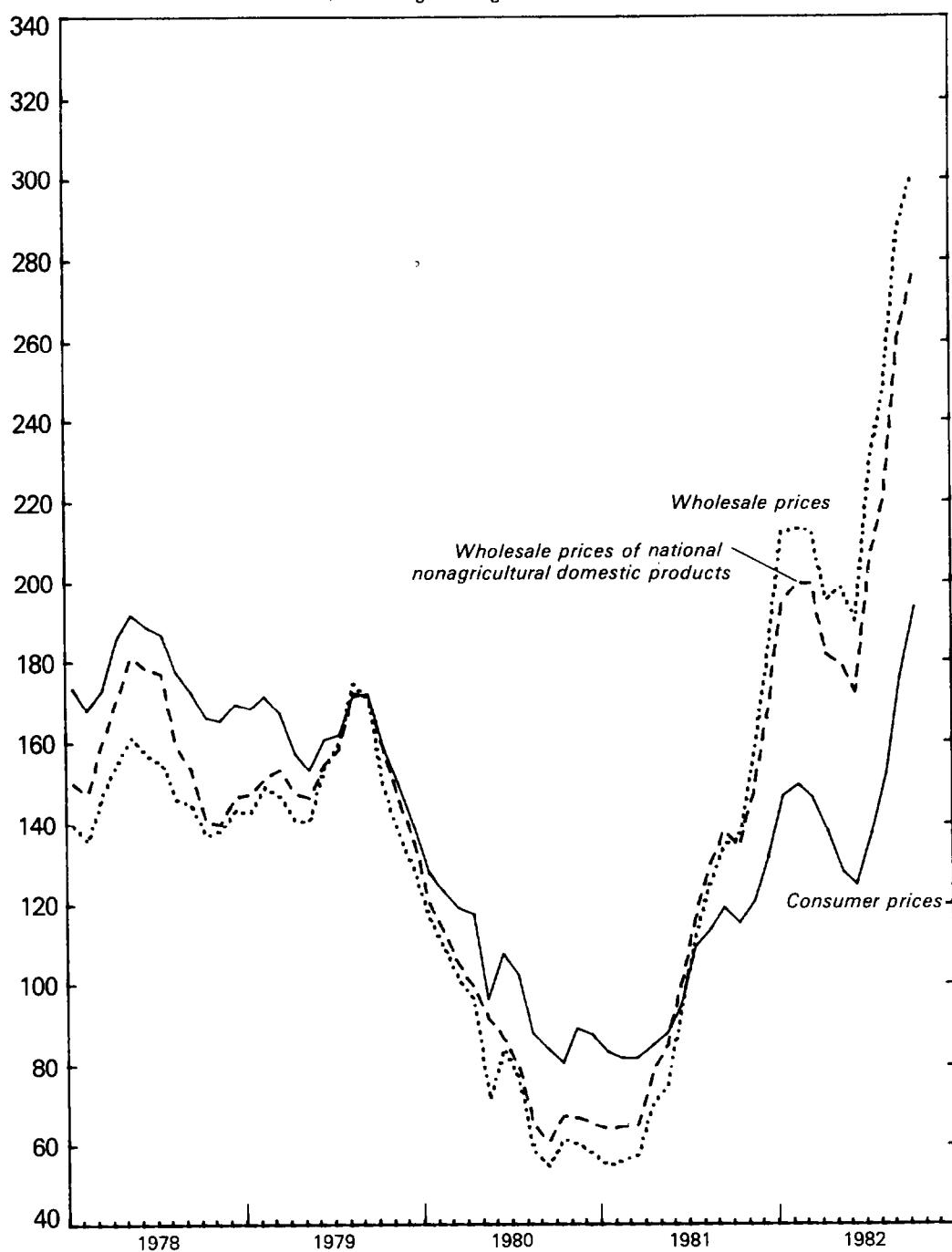
2. Price performance

Inflation, which had been brought down markedly in 1980 and again in the early months of 1982, went up sharply in the second half of the year as nominal demand picked up and the rate of depreciation of the peso was accelerated (Table 13 and Chart 9). Consumer prices rose at an annual rate of 80 per cent in the period February to June 1982, and at an annual rate of 400 per cent in the next 5 months. The wholesale price index, which gives a higher weight to tradeable goods, began to accelerate in June 1982 following the step depreciation of the peso in May; wholesale prices rose faster than the consumer price index in the following months, owing in part to the further depreciation of the peso, including the step adjustments in July and November. From June to November, wholesale prices rose at an annual rate of over 550 per cent compared with an annual rate of 110 per cent from February to May. During the 12-month period ended November 1982, consumer prices rose by slightly more than 200 per cent and wholesale prices rose by about 310 per cent (Statistical Appendix Table 49).

Table 12. Argentina: Changes in Expenditure and Output

	1978	1979	1980	Prel. 1981	Est. 1982	1982		
						I	II	III
<u>(Annual per cent changes at 1970 prices)</u>								
GDP at market prices	-3.4	7.1	0.7	-6.0	-4.3	-5.9	-8.2	-2.8
Gross domestic expenditure	-5.3	11.9	5.8	-8.1	-10.3	-14.6	-14.3	-5.8
Consumption	-2.7	12.5	4.7	-4.3	-6.6	-12.1	-10.8	-5.7
Investment	-13.3	9.9	9.6	-20.5	-25.4	-26.8	-28.4	-6.2
Of which:								
private fixed capital formation	-14.2	12.1	13.5	-17.6	-37.4
public fixed capital formation	-4.7	-4.8	1.5	-10.6	-14.8
Exports of goods and nonfactor services	7.7	-2.3	-3.9	8.0	0.1	15.7	-7.2	-17.0
Imports of goods and nonfactor services	-9.7	51.2	42.8	-9.8	-42.8	-46.7	-48.2	-42.2
<u>(Annual per cent changes at current prices)</u>								
GDP at market prices	148.6	168.6	102.5	93.5	187.9			
Gross domestic expenditure	146.4	178.9	107.4	89.8	175.8			
Consumption	154.7	185.2	104.6	98.0	190.3			
Investment	125.5	160.8	116.2	65.5	124.4			
Of which:								
private fixed capital formation	120.7	190.2	116.0	73.3	93.3			
public fixed capital formation	142.5	115.1	103.8	78.3	167.8			
Exports of goods and nonfactor services	123.5	106.2	55.1	164.7	311.8			
Imports of goods and nonfactor services	95.2	202.1	109.3	106.7	184.5			

CHART 9
ARGENTINA
CONSUMER AND WHOLESALE PRICES
(Percentage change over 12 months)



Source: National Statistical Institute.

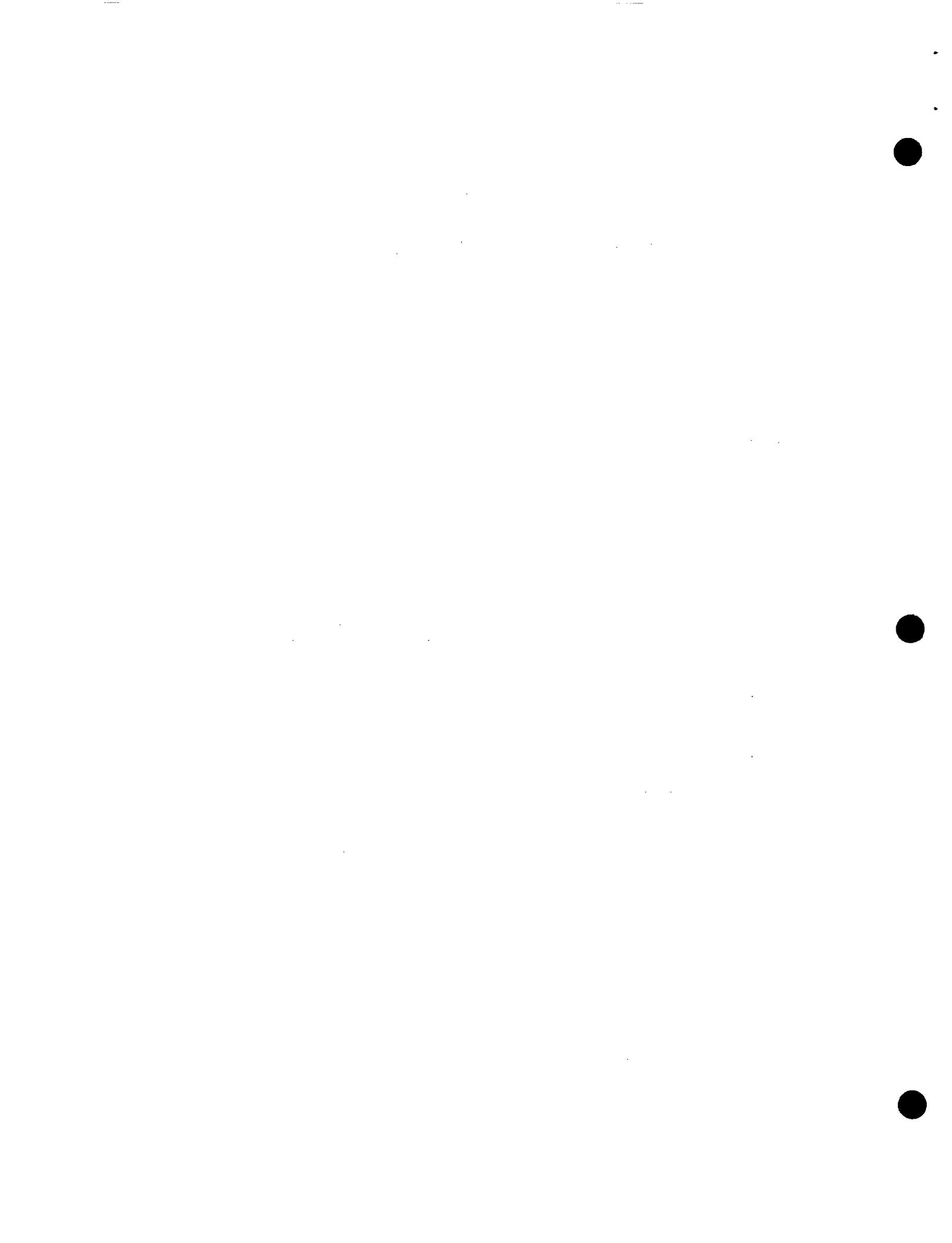


Table 13. Argentina: Price Movements

(Percentage change during period)

	Consumer Prices for Buenos Aires	Wholesale Price Index			
		General	Crops	Live- stock Produc- tion	Indus- trial Goods
<u>December-December</u>					
1978	169.8	143.3	147.4	165.3	138.9
1979	139.7	128.9	95.2	137.2	133.9
1980	87.6	57.5	51.8	21.5	65.0
1981	131.3	180.2	205.7	222.4	170.7
<u>1979</u>					
1st quarter	30.6	28.4	15.3	29.7	30.6
2nd quarter	25.5	28.2	25.3	36.5	27.2
3rd quarter	27.6	29.8	33.8	41.7	26.7
4th quarter	14.7	7.2	1.0	-5.4	11.1
<u>1980</u>					
1st quarter	19.5	12.8	5.5	10.2	14.4
2nd quarter	18.8	17.5	28.8	20.9	15.1
3rd quarter	13.1	9.0	22.0	-7.1	9.8
4th quarter	16.9	9.1	-8.4	-1.8	14.1
<u>1981</u>					
1st quarter	15.8	12.9	2.6	12.9	14.4
2nd quarter	26.9	44.0	55.9	48.8	41.9
3rd quarter	27.5	32.1	63.0	12.5	30.4
4th quarter	23.4	30.3	17.2	70.6	27.8
<u>1982</u>					
1st quarter	23.4	25.9	12.4	18.7	29.2
2nd quarter	15.9	33.7	57.1	10.9	29.3
3rd quarter	56.1	77.0	71.7	103.1	73.0

Source: National Statistical Institute.

3. Domestic Supply

a. Summary

The domestic economy has not performed well in recent years. The marked deterioration in performance as regards inflation was accompanied by declining private sector confidence and a drop in real GDP in 1981 and large changes in relative prices brought on by movements in the real exchange rate caused large swings in the output of individual sectors (Chart 10). In the first quarter of 1982, real GDP rose substantially (compared with the last quarter of 1981, on a seasonally adjusted basis) but this was offset by a sharp decline in the second quarter of the year.^{1/} In the third quarter of 1982 activity recovered slightly, although real GDP remained below the level of a year earlier and on average output is estimated to have declined again in 1982.

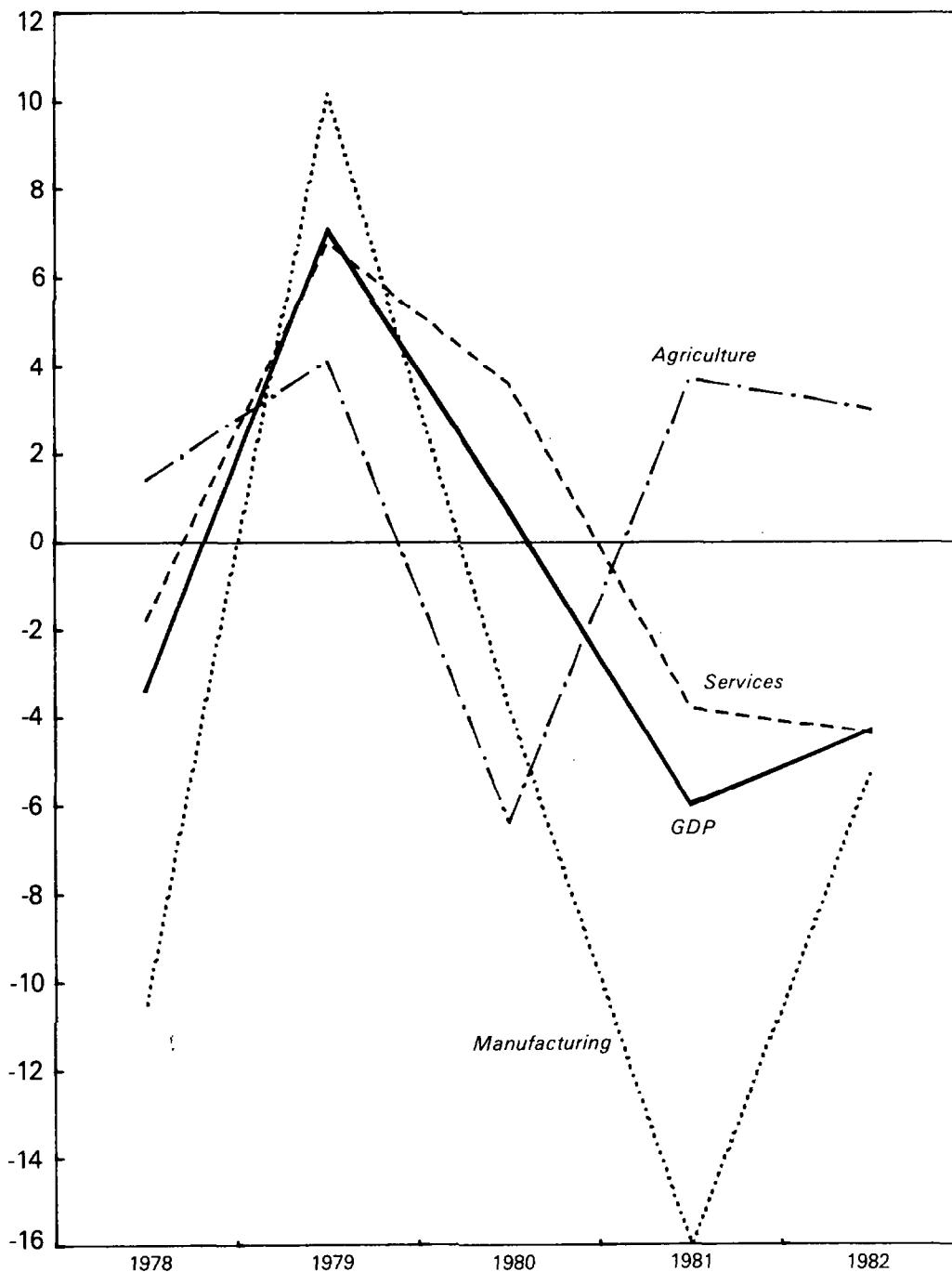
In 1980, agricultural output was affected by adverse weather conditions and the manufacturing sector was affected by the real appreciation of the peso; the nontradeable goods sectors such as construction and services fared relatively better (Table 14). The output of almost all sectors declined in 1981, except for the agricultural sector which benefited from improved weather conditions. The real depreciation of the peso contributed to the decline in services in the second half of the year; construction was also affected by the change in relative prices of tradeable and nontradeable goods and increasing uncertainty associated with the acceleration of inflation. In the manufacturing sector, a high level of inventories had been accumulated and as these were run down output continued to decline. In 1982 agricultural output rose again, partly in response to the real depreciation of the peso. There was also some response in manufacturing in the second half of 1982 to the depreciation of the peso and the introduction of sharply negative real interest rates in July. However, in reflection of the high level of excess capacity in the economy, and the uncertainty about economic policy in the longer run, construction activity continued to decline sharply.

b. Agriculture and livestock

From 1970 to 1981, agricultural output rose at an annual average rate of about 2 per cent, attributable to substantially higher crop production (Statistical Appendix Table 51); by way of comparison, over the same period, the other components of GDP rose at an annual rate of about 1-1/2 per cent. In the second half of the 1970s the agricultural sector made good use of technological innovations, particularly in crop cultivation, and despite the high real external value of the peso, agricultural output continued to rise (Table 15). Adverse weather conditions reduced output in 1980, but the weather improved in 1981 and the sector also benefited from the real depreciation of the peso. It is

^{1/} Official Argentine data were seasonally adjusted by the Fund staff.

CHART 10
ARGENTINA
REAL GDP BY MAJOR SECTORS
(Annual percentage change; 1970 prices)



Source: Statistical Appendix Table 50.

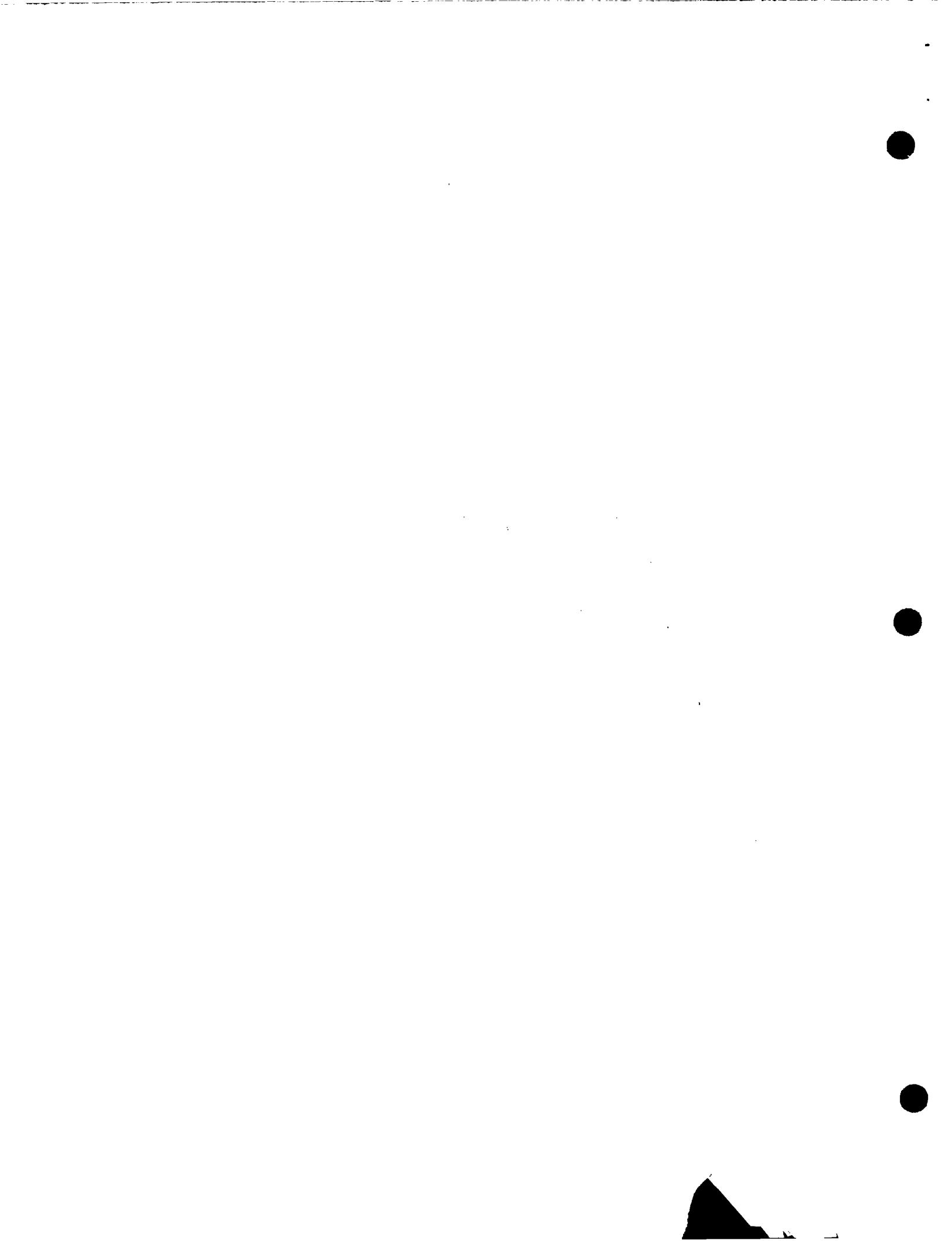


Table 14. Argentina: Gross Domestic Product (at Factor Cost) in 1970 Prices

(Percentage change from a year earlier)

	GDP	Agri-culture	Mining	Manu-facturing	Construction	Electricity, Gas, Water Services	
1978	-3.4	1.4	1.9	-10.5	-0.6	3.3	-1.8
1979	7.1	4.1	6.3	10.2	2.7	10.7	6.8
1980	0.7	-6.4	3.8	-3.8	6.4	7.8	3.6
1981	-6.0	3.7	0.2	-16.0	-8.2	-1.1	-3.8
<u>1981</u>							
1st quarter	-0.7	0.6	-0.3	-5.5	1.5	-1.0	0.8
2nd quarter	-1.4	13.0	4.4	-13.2	3.7	-1.1	0.2
3rd quarter	-10.4	-1.5	0.9	-23.7	-4.0	-2.1	-7.6
4th quarter	-11.3	3.1	-4.0	-20.0	-25.6	-0.2	-8.6
<u>1982</u>							
1st quarter	-5.9	7.8	-2.7	-13.2	-15.1	3.6	-6.2
2nd quarter	-8.2	0.5	-1.4	-14.5	-20.2	3.9	-7.4
3rd quarter	-2.8	0.8	1.0	3.5	-22.9	3.2	-4.2

Source: Central Bank of Argentina.

estimated that agricultural output rose by about 3 per cent in 1982 and on the basis of area planted and extremely favorable weather conditions to date, the outlook is for a record crop in the 1982/83 crop year. It is important to note that the relatively strong performance of the sector in recent years has occurred despite small increases or declines in livestock production. The cattle herd has fallen to a very low level, and further declines in production are to be expected as the herd is built up.

Table 15 .. Argentina: Agricultural Production
(Annual percentage change)

	1976	1977	1978	1979	1980	1981
<u>Total</u>	<u>4.6</u>	<u>2.7</u>	<u>1.4</u>	<u>4.1</u>	<u>-6.4</u>	<u>3.7</u>
<u>Agriculture</u>	<u>4.5</u>	<u>2.4</u>	<u>1.2</u>	<u>3.9</u>	<u>-5.9</u>	<u>3.8</u>
Crops	<u>6.7</u>	<u>6.5</u>	<u>1.8</u>	<u>6.3</u>	<u>-5.1</u>	<u>8.2</u>
Livestock	2.1	-2.8	1.7	0.7	-6.8	-1.3
<u>Forestry</u>	<u>9.8</u>	<u>8.0</u>	<u>-7.7</u>	<u>9.6</u>	<u>-25.8</u>	<u>-5.3</u>
<u>Fishing</u>	<u>8.1</u>	<u>34.6</u>	<u>52.0</u>	<u>8.3</u>	<u>-34.4</u>	<u>-3.5</u>

Source: Central Bank of Argentina.

In the 1981/82 crop year, output of cereals and oil seeds amounted to 33 million tons, compared with the record crop of 35 million tons in 1980/81 (Statistical Appendix Table 52). This decline in 1981/82 occurred despite the fact that area seeded remained roughly unchanged from the high level of about 21 million hectares planted in 1980/81, as the highly favorable weather conditions in 1980/81 (particularly for corn production) were not repeated; also, wheat production was affected adversely by a winter drought in the province of Buenos Aires, the main wheat growing area.

The outlook for the 1982/83 crop year is extremely favorable. A wheat crop well in excess of the previous record of 11 million tons is projected and if weather conditions are normal or better for the coarse grain crop, total crop production in 1982/83 would substantially exceed the previous record of 1980/81. Total area seeded rose by an estimated 8 per cent in the current crop year, weather conditions have been very favorable and a considerable increase in yield per hectare is expected. The area seeded for fine grains, which in general were planted before

the increase in the tax on grain exports in July, went up by about 12 per cent; the area seeded for coarse grains, which are planted somewhat later, rose by about 4 per cent.

The increase in seeded area occurred despite a substantial decline in world prices for most major crops in 1982 (Chart 11).^{1/} The depreciation of the peso increased the share of the export price received by the producer (as the share of the total price accruing to taxes and middlemen did not rise in line with the increased cost of foreign exchange). More generally, the depreciation of the exchange rate has raised substantially the relative price of agricultural products (Table 16).

The cattle industry was adversely affected in the latter part of the 1970s by the real appreciation of the peso and by high domestic interest rates, and in 1980 by a drop in world beef prices. Beef production tended to decline, but the relatively high level of slaughtering and the loss of cattle in the droughts and floods of 1978 and 1980 caused the herd to fall steadily from the peak level of 61 million head reached in 1977. The total slaughter continued to decline in the first three quarters of 1982, but nonetheless the herd dropped further to about 52-1/2 million head (Table 17). Beef production is estimated to have declined by about 13 per cent in 1982, and the domestic price of beef began to rise very rapidly in the third quarter of 1982. Exports increased slightly in 1982 and domestic consumption declined on average to a very low rate of about 67 kilos per person (Table 18).

^{1/} The average prices shown in Statistical Appendix Table 53 are averages for months during which the products are marketed (mainly in the first half of the year) and in general do not reflect the increase in the export tax in July.

Table 16. Argentina: Relative Prices 1/
(1960 = 100, period averages)

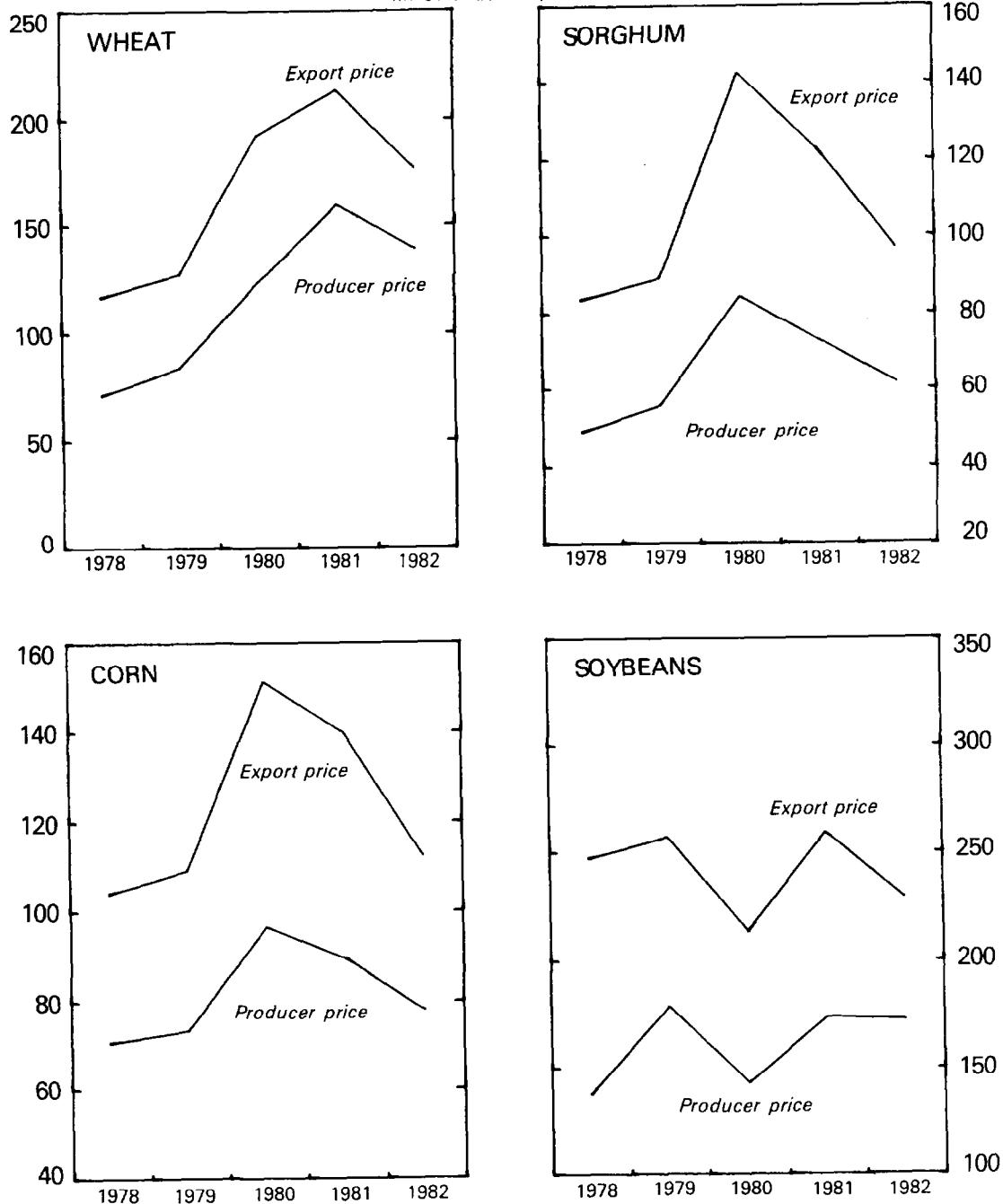
	Agricultural Prices					Public Utilities			
	General	Crops	Cereals	Livestock	Beef	Petroleum Products	Elec-tricity	Trans-port	Communi-cations
1978	93.9	101.9	88.5	83.8	88.9	118.4	91.0	108.9	192.4
1979	92.8	83.4	67.7	102.2	111.9	95.3	78.9	94.1	143.0
1980	83.9	81.0	72.0	86.1	95.3	100.4	82.7	105.4	149.1
1981	76.7	80.5	78.6	71.5	77.4				
<u>1980</u>									
1st quarter	85.8	76.3	74.0	94.7	103.5	94.1	75.1	98.8	133.0
2nd quarter	87.1	79.6	70.3	94.1	103.8	97.6	78.3	106.2	139.8
3rd quarter	87.9	88.1	73.0	86.8	97.2	101.5	81.4	109.5	149.0
4th quarter	76.6	78.8	70.9	73.7	81.4	108.3	96.0	107.9	174.0
<u>1981</u>									
1st quarter	69.3	65.4	67.2	72.0	79.2	121.2	100.7	110.5	179.2
2nd quarter	70.3	69.5	70.2	69.8	74.0	110.3	91.2	102.3	172.0
3rd quarter	77.1	84.7	84.3	67.9	72.5	110.9	88.9	100.6	163.7
4th quarter	83.1	90.2	90.5	74.9	81.6	126.5	94.6	107.9	177.2
<u>1982</u>									
1st quarter	79.9	76.3	77.8	82.6	90.3	116.1	84.2	96.4	153.2
2nd quarter	83.9	86.2	84.2	80.4	87.5	105.6	69.3	77.0	127.5
3rd quarter	95.6	95.0	93.9	95.4	107.8	85.6	53.7	65.0	94.9

Sources: National Statistical Institute; and National Enterprises Corporation.

1/ Price indices deflated by the wholesale price index for national nonagricultural goods.

CHART 11
ARGENTINA
PRODUCER AND EXPORT PRICES FOR MAJOR CROPS

(In U. S. dollars per ton)



Source: Statistical Appendix Table 53.

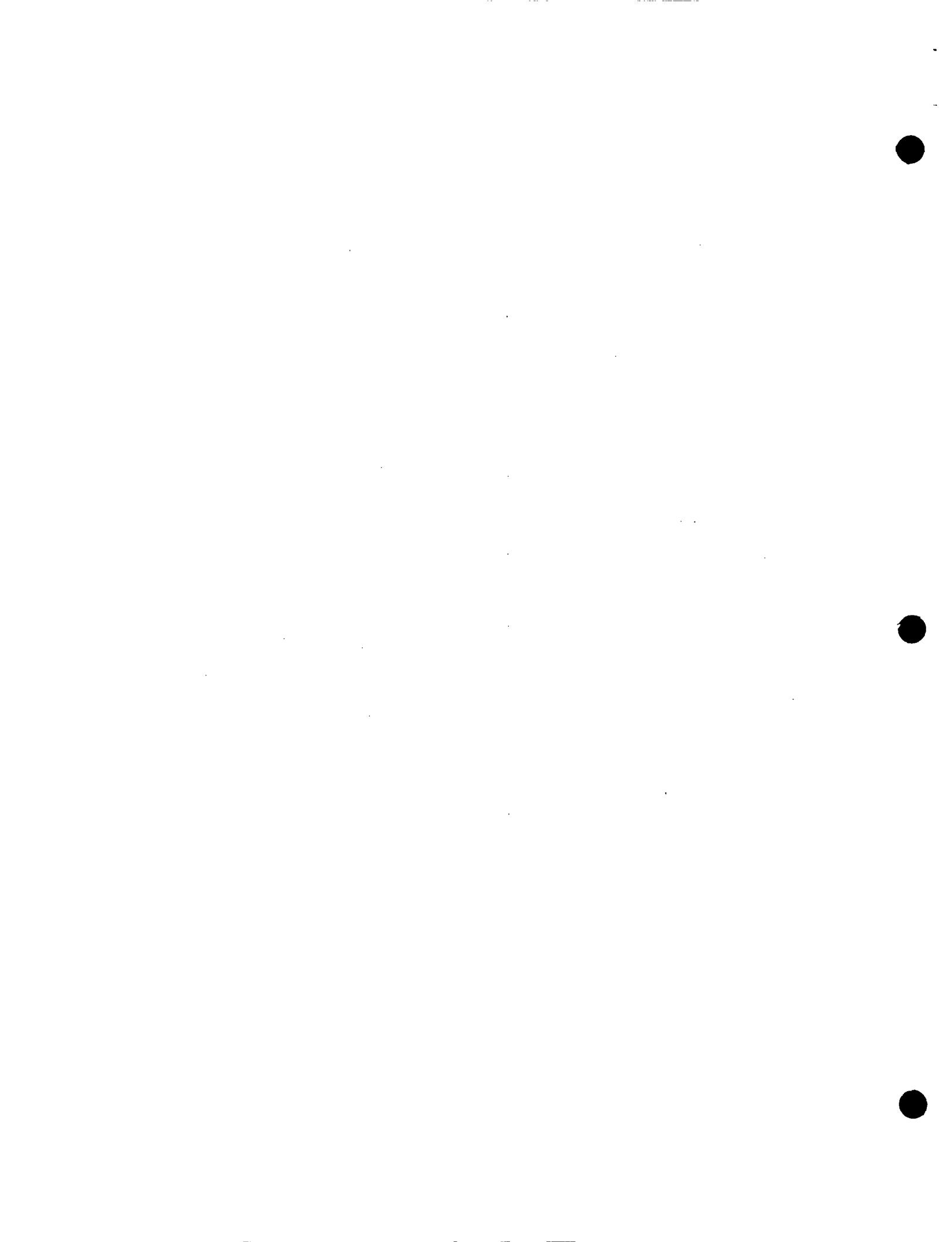


Table 17. Argentina: Population, Slaughter, and Price Data for Cattle

	Cattle Popula- tion 1/ Slaughter (Millions)	Sales in Total Market (Millions)	Sales in Liniers Market (Millions)	Ratio of Cows to Sales in Liniers (Per cent)	Average Weight in Liniers (Kilos)	Average Prices in Liniers (\$a per kilo)		
						In 1960 Wholesale Prices Index	Prices Deflated by: Crop Price Index	Industrial Price Index
1978	57.8	16.3	3.34	23.1	372	328.22	0.121	0.129
1979	56.9	15.6	2.95	22.1	385	1,096.52	0.162	0.190
1980	55.8	14.1	2.67	17.2	390	1,784.14	0.150	0.176
1981	54.2	14.5	3.01	18.6	383	3,107.00	0.125	0.146
<u>1980</u>								
<u>1st three quarters</u>	55.8	10.3	1.99	18.4	389	1,747.88	0.156	0.183
<u>1981</u>								
<u>1st three quarters</u>	54.2	11.1	2.23	20.0	381	2,515.89	0.119	0.142
<u>1982</u>								
<u>1st three quarters</u>	52.4	9.7	2.05	20.3	389	10,124.00	0.146	0.165

Sources: National Meat Board; and National Statistical Institute.

1/ Midyear estimate.

Table 18. Argentina: Beef Production and Consumption
(In thousands of tons)

	Production	Exports	Consumption	Consumption per Person (Kilos)
1978	3,146	712	2,434	90
1979	3,020	698	2,322	85
1980	2,826	448	2,378	85
1981	2,955	519	2,436	86
1982 1/	2,488	543	1,945	67

Source: National Meat Board.

1/ Projected.

c. Manufacturing sector

Activity in the manufacturing sector started to weaken in the second half of 1979 following the sharp increase in the real external value of the peso that began in early 1978 and from the first half of 1979 to the first half of 1982, real manufacturing output dropped by 25 per cent. The decline was shared by all industries, but the output of the textile, furniture, and machinery and equipment industries fell by more than average and the output of the chemical, and iron and steel industries--which have a higher degree of government involvement--declined by less. The manufacturing sector showed signs of recovery in the third quarter of 1982 and, compared with a year earlier, manufacturing output increased by 3-1/2 per cent (Table 19). The recovery reflected increased final sales and a higher rate of stock building of manufactured goods. The pickup in activity occurred in a number of industries with by far the most impressive gains being made by the automobile industry.1/

1/ For many years prior to 1976, when an effort was begun to make Argentina's economy more open, the manufacturing sector was heavily protected from foreign competition and subject to price controls. From 1970 to 1979, manufacturing output increased at an annual average rate of only slightly more than 2 per cent, and following the output declines in the next two years, output of the sector was less in 1981 than in 1970; from 1970 to 1981 employment in manufacturing dropped by almost 25 per cent. Despite the increase in production in the third quarter of 1982, a further drop in output is estimated for 1982 as a whole and the share of manufacturing output to real GDP fell to about 22 per cent in 1982 compared with 27 per cent in 1970.

Table 19. Argentina: Manufacturing Production at Constant Prices
 (Percentage change from corresponding period one year earlier)

	Total Pro- duction	Food, Beverages and Tobacco	Textiles and Leather	Wood Products	Paper and Printing Material	Chemi- cals	Non- Metallic Minerals	Machinery and Transport Equipment	Machinery and Transport Equipment
									Other
1978	-10.5	-2.7	-14.2	-1.0	3.2	-8.0	0.4	-5.5	-20.2
1979	10.2	5.3	10.8	11.0	1.8	12.3	7.0	17.0	13.5
1980	-3.8	1.8	-15.1	3.0	-6.8	0.9	-3.4	-8.0	-4.5
1981	-16.0	-3.9	-20.1	-12.9	-18.2	-7.4	-17.6	-13.0	-28.1
1981									
1st quarter	-5.5	-3.3	-12.4	16.1	-13.2	8.6	-10.9	-12.2	-10.0
2nd quarter	-13.2	2.7	24.3	-6.1	-21.0	-4.8	-12.0	-21.0	-22.0
3rd quarter	-23.7	-3.8	-27.4	-22.1	-20.7	-16.4	-20.8	-17.3	-41.6
4th quarter	-20.0	-11.0	-14.1	-30.8	-17.2	-13.5	-25.1	-0.4	-34.4
1982									
1st quarter	-13.2	-7.6	-13.8	-39.5	-4.4	-6.2	-16.8	14.8	-27.7
2nd quarter	-14.5	-11.9	-6.3	-33.0	-1.0	-10.8	-17.2	7.7	-26.8
3rd quarter	3.5	-13.8	10.9	4.4	11.1	-0.1	-7.4	14.3	19.9
Memorandum item									
<u>Weight 1/</u>	25.3	5.4	2.8	0.5	1.4	3.5	1.4	1.4	7.1
									1.7

Source: Central Bank of Argentina.

1/ Percentage contribution to GDP at factor cost in 1978.

The pickup in manufacturing in the third quarter of 1982 was partly related to the decline in real interest rates in July (and the consequent movement out of financial assets into goods) and the temporary effects of restrictions on a wide range of imported goods in the second quarter of the year. It is probable that another important factor was the marked decline in real unit labor costs in the past two years (Chart 12). The sharp decline in the ratio of wage costs to producer prices since early 1981 more than offset a fairly substantial drop in output per hour and in the second quarter of 1982 real unit labor costs were almost 40 per cent below the level of the first quarter of 1981 (Table 20 and Statistical Appendix Table 54).

Table 20. Argentina: Compensation, Output per Hour, and Real Unit Labor Costs in Manufacturing

(1976 = 100)

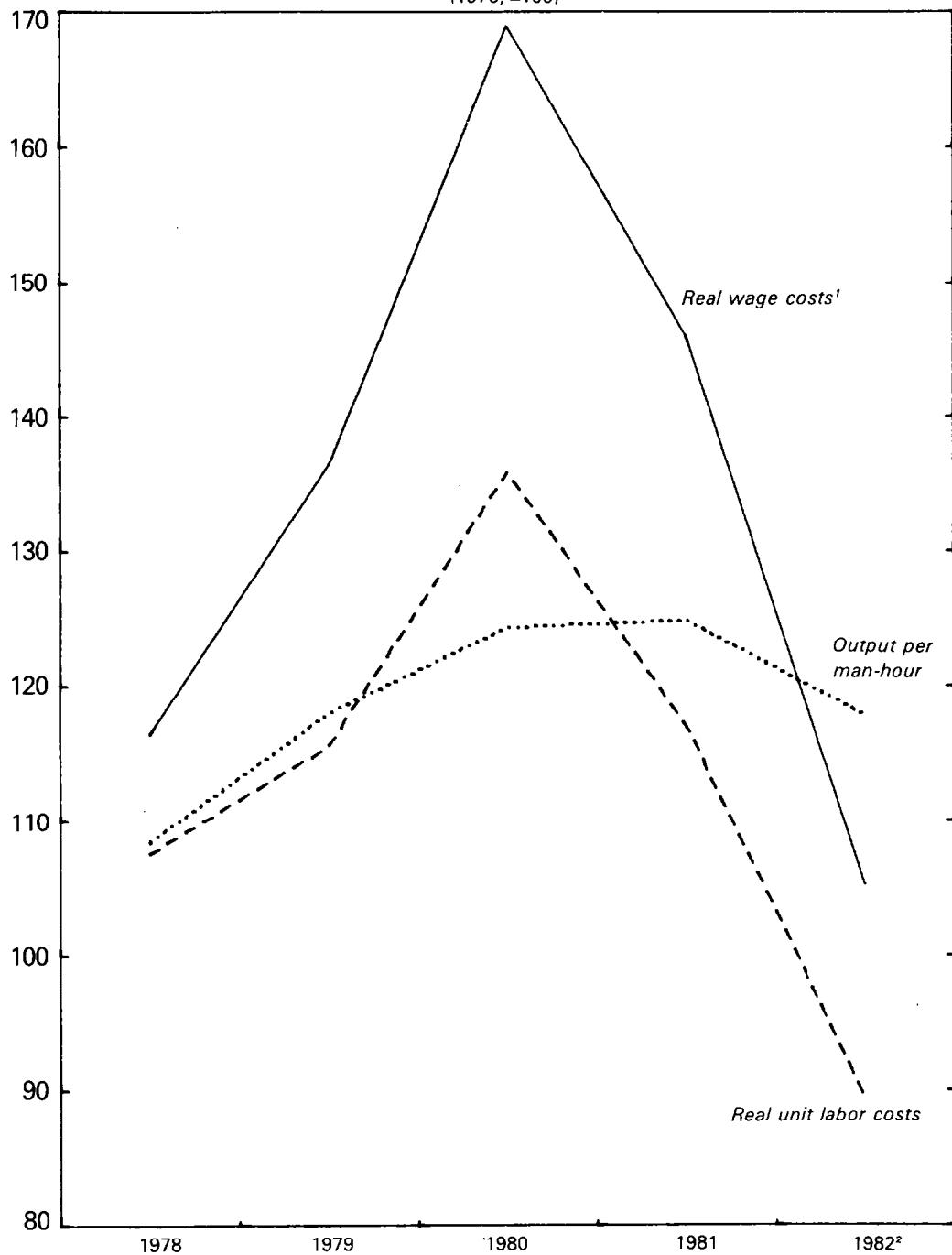
	Real Wage Cost 1/	Output per Hour	Real Unit Labor Costs
1978	116.5	108.4	107.5
1979	136.4	118.0	115.6
1980	169.0	124.4	135.9
1981	146.1	124.4	117.4
<u>1980</u>			
1st quarter	157.4	118.7	132.6
2nd quarter	159.8	120.4	132.7
3rd quarter	170.2	126.5	134.5
4th quarter	182.3	131.6	138.5
<u>1981</u>			
1st quarter	179.2	127.7	140.3
2nd quarter	152.6	122.8	124.3
3rd quarter	131.6	120.8	108.9
4th quarter	139.0	126.5	109.9
<u>1982</u>			
1st quarter	118.3	120.6	98.1
2nd quarter	100.8	116.8	86.3

Sources: National Statistical Institute; and Fund staff estimates.

1/ Nominal wage deflated by wholesale prices for national nonagricultural goods.

CHART 12
ARGENTINA
REAL WAGE COSTS, PRODUCTIVITY, AND
REAL UNIT LABOR COSTS IN MANUFACTURING

(1976, =100)



Source: National Statistical Institute; and Fund staff estimates.

1 Nominal wage deflated by wholesale prices for national nonagricultural goods.

2 Based on data for the first half of the year.



(d) Energy

Proven crude oil reserves have remained approximately unchanged for several years at slightly below 400 million cubic meters (14 years of production at the current extraction rate), while natural gas reserves have more than tripled since 1976 to over 600 trillion cubic meters (50 years of production at the current rate of production). Hydropower capacity has also been increased substantially in recent years.^{1/}

Imports of oil products declined in the first ten months of 1982 (compared with the same period a year earlier); however, Argentina continued to import hydrocarbons on a net basis, including the importation of natural gas from Bolivia under a long-term contract. In the same period, natural gas production increased by 16 per cent, mainly as a result of completion of the center-west pipeline; this pipeline connects one of the major new producing areas with urban centers and made possible a greater utilization of domestic production (Table 21). On the other hand, production of crude oil declined slightly, owing to a decline of almost 7 per cent in production by private firms under contract to the state oil company (YPF).

Well-head prices for oil paid to private contractors declined from the equivalent of about US\$120 per cubic meter in January 1982 to about US\$70 per cubic meter in early November (compared with a world price of about US\$200 per cubic meter).^{2/} At the consumer level, the relative price of energy also declined considerably in real terms in 1982 (Table 22 and Chart 13). In October 1982 the Government began implementing a program of adjustments designed to substantially raise the price of energy products over an 18-month period; except for a special increase in gasoline prices in May, prices were fixed in nominal terms through the first half of 1982.

^{1/} For a detailed description of the energy sector in Argentina, see Appendix A to the 1981 recent economics development paper (SM/81/239; 12/8/81).

^{2/} At year end these contracts were being renegotiated and the Government has indicated that the domestic price could rise to the equivalent of 60 per cent of the world price.

Table 21. Argentina: Production and Consumption of Natural Gas,
Crude Petroleum, and Petroleum Derivatives

(In millions of cubic meters unless otherwise indicated)

	1978	1979	1980	1981	Jan.-Oct. 1981	1982
I. Production						
Natural gas 1/	7,353.3	8,719.2	9,409.5	9,788.6	8,152.5	9,486.4
Crude petroleum	26.25	27.43	28.57	28.83	24.03	23.68
Derivatives						
Gasoline						
Regular	2.92	3.05	3.21	3.23	2.55	2.74
Extra	3.17	3.24	3.90	3.85	3.19	3.12
Kerosene	0.81	0.65	0.73	0.52	0.49	0.49
Gas oil	6.51	6.91	7.52	7.81	6.33	6.38
Diesel oil	0.95	1.15	1.19	1.09	0.97	0.98
Lubricants	0.27	0.34	0.32	0.30	0.25	0.28
Fuel oil	8.88	9.03	8.22	8.05	6.81	6.29
L.P.G. (thousands of tons)	0.64	0.62	0.67	0.77	0.64	0.81
II. Consumption						
Natural gas 2/3/	9,609.9	10,540.7	11,448.0	11,984.3	9,982.9	11,620.0
Derivatives						
Gasoline						
Regular	2.94	3.17	3.23	3.27	2.71	2.81
Extra	3.15	3.56	4.11	4.05	3.42	3.09
Kerosene	0.83	0.76	0.79	0.67	0.62	0.55
Gas oil	6.09	6.49	6.58	6.43	5.34	5.43
Diesel oil	1.40	1.59	1.28	1.19	1.00	0.99
Lubricants	0.26	0.31	0.30	0.28	0.24	0.30
Fuel oil	6.51	6.91	5.27	4.72	3.99	3.51
L.P.G. (thousands of tons)	0.85	0.88	0.91	0.87	0.73	0.72

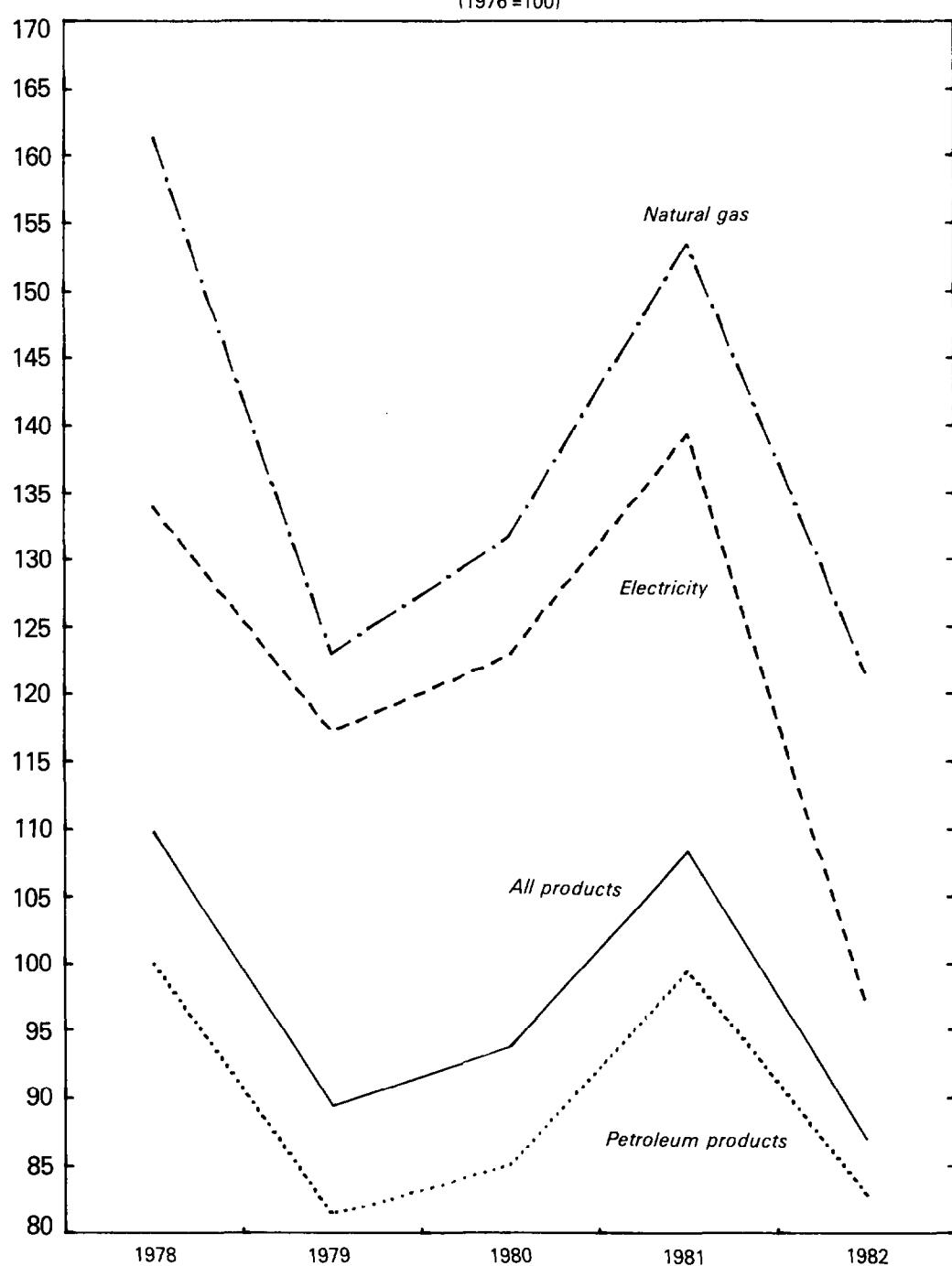
Sources: Ministry of Economy; Secretariat of Energy; and Central Bank of Argentina.

1/ Net of reinjection and losses.

2/ Includes direct consumption of the National Oil Company (YPF).

3/ Differences with production data correspond to changes in stocks and to imports from Bolivia and Chile.

CHART 13
ARGENTINA
RELATIVE PRICES OF MAJOR ENERGY PRODUCTS¹
(1976 = 100)



Source: National Enterprises Central Office; and Fund staff estimates.

¹Nominal prices deflated by the wholesale price index for national nonagricultural goods.



Table 22. Argentina: Relative Prices of Major Energy Products 1/

(1976 = 100)

	1978	1979	1980	1981	I	II	III	1982
All products	109.7	89.4	93.8	108.3	103.0	90.6	77.2	
Petroleum products	100.0	81.3	85.1	99.4	93.8	90.4	73.8	
Gasoline, regular	88.1	71.7	75.5	86.5	84.8	82.4	68.5	
Gasoline, extra	94.7	77.2	81.7	94.1	91.4	88.7	71.9	
Diesel oil	112.6	95.8	102.4	119.9	117.6	97.1	83.1	
Fuel oil	147.6	122.2	131.8	157.8	157.3	130.1	111.9	
Gas oil	124.5	100.2	101.6	123.6	124.6	102.9	80.6	
Kerosene	126.7	102.1	103.7	125.9	126.9	104.8	82.0	
Natural gas	161.3	123.0	131.7	153.5	156.5	129.3	100.4	
Electricity	133.9	117.2	122.9	139.3	125.1	103.3	79.8	

Source: National Enterprises Central Office.

1/ Nominal prices deflated by the wholesale price index for national nonagricultural goods.

4. Labor market developments

Data on labor market developments are available through the first half of 1982. They indicate that industrial employment declined sharply from the first half of 1980 and that the unemployment rate increased substantially. There was also a marked increase in underemployment and limited available data suggest that labor force participation rates declined slightly.

From the second quarter of 1980 to the second quarter of 1982, total employment in industry declined by 20 per cent and between April 1980 and April 1982, the unemployment rate in major cities increased by 3 to 4 percentage points. In the greater Buenos Aires area, the unemployment rate rose from 2-1/4 per cent in April 1980 to 5-3/4 per cent in April 1982, the highest rate in 10 years (Table 23). Underemployment (measured by the number of persons who work less than 35 hours a month) also rose in the greater Buenos Aires area, from 5-3/4 per cent in April 1980 to 7-3/4 per cent in April 1982. This may reflect the fact that a number of the newly unemployed in the industrial sector took up jobs in the services sector, where underemployment is relatively more common.1/

1/ There was no unemployment insurance scheme in Argentina during this period and newly-unemployed workers would have had a considerable incentive to quickly accept alternative employment; this may explain why recent unemployment rates, although high by historical standards in Argentina, were quite low by international standards.

Table 23. Argentina: Unemployment at Selected Dates

(In per cent of active population)

	Greater Buenos Aires	Cordoba	Rosario	Tucuman	Greater Mendoza
1978					
April	3.9	5.3	5.4	6.8	2.9
October	1.7	2.7	2.3	4.9	3.5
1979					
April	2.0	2.6	3.1	5.9	2.8
October	2.0	1.8	2.7	4.9	3.4
1980					
April	2.3	2.1	4.3	6.3	1.4
October	2.2	2.7	2.4	8.3	3.1
1981					
April	4.0	2.9	5.0	8.5	4.2
October	5.0	4.7	6.5	8.7	5.3
1982					
April	5.7	4.8	8.3	9.2	4.8

Source: National Statistical Institute.

V. The Balance of Payments

Following a severe crisis in the mid-1970s, Argentina's balance of payments registered a cumulative surplus of almost US\$10 billion over the period 1977-1979. Thereafter, however, the payments situation deteriorated rapidly. The overall balance shifted from a surplus of US\$4.5 billion in 1979 to a deficit of US\$2.7 billion in 1980. The deficit increased further to US\$3.9 billion in 1981 and is estimated to have reached US\$5.5 billion in 1982 (Table 24). Argentina was initially able to finance these deficits by running down its large disposable reserves, but the 1982 deficit was financed primarily by the accumulation of external payments arrears (US\$2.5 billion), the contracting of new foreign currency swaps (US\$1 billion), and the issuing of U.S. dollar-denominated bonds in lieu of providing foreign exchange to meet current international payments (US\$1.5 billion). 1/

Movements in the real effective exchange rate were a major factor behind the sharp swings in Argentina's balance of payments over recent years. Both exchange rate policy and the array of exchange and trade measures introduced in 1981 and 1982 in response to the current difficulties have been discussed in Section II in the context of quarterly developments in Argentina's balance of payments. This chapter provides a description of broad movements in various components of Argentina's balance of payments over the period 1978-1982. 2/

1. The current account

The peso appreciated by about 40 per cent in real effective terms between the end of 1978 and the end of 1980, but a series of large devaluations over the course of 1981 brought the real effective rate back approximately to the level of the latter part of 1978. During 1982 the peso was depreciated by a further 15 per cent in real effective terms to one of the most depreciated levels of the past decade.

The merchandise trade balance reflected these movements in the real effective exchange rate, moving from a surplus of US\$2.6 billion in 1978 to a deficit of US\$2.5 billion in 1980 and back to an estimated surplus of US\$2.6 billion for 1982; nonfactor services followed roughly this same pattern. The substantial improvement in the balance on goods and nonfactor services that was achieved during 1981 and 1982 was, however, largely offset by rising net interest payments abroad, reflecting not only sharply higher interest rates but also Argentina's mounting foreign debt and rapidly declining international reserves. As a result, the overall current account balance, which had fallen from a surplus of

1/ Information on the net international reserves of the monetary authorities is presented in Statistical Appendix Table 55.

2/ For a detailed presentation of Argentina's balance of payments, see Statistical Appendix Table 56.

Table 24. Argentina: Summary Balance of Payments

(In millions of U.S. dollars)

	1978	1979	1980	1981	Prel. 1982
Current account	<u>1,833</u>	<u>-536</u>	<u>-4,768</u>	<u>-4,592</u>	<u>-2,230</u>
Merchandise trade	2,566	1,110	-2,519	-237	2,600
Exports, f.o.b.	6,400	7,810	8,021	9,143	8,100
Imports, c.i.f.	-3,834	-6,700	-10,540	-9,380	-5,500
Nonfactor services	-100	-761	-740	-656	-5
Travel	-307	-998	-1,447	-1,058	-91
Other	207	237	707	402	86
Investment income	-681	-920	-1,531	-3,677	-4,839
Profits and dividends (net)	-276	-427	-584	-713	-331
Interest receipts	315	681	1,228	886	523
Interest payments	-720	-1,174	-2,175	-3,850	-5,031
Transfers	48	35	23	-22	15
Capital account	<u>1,250</u>	<u>4,784</u>	<u>2,187</u>	<u>975</u>	<u>-3,160</u>
Direct investment	274	265	788	904	270
Banking system 1/	-33	-175	-518	39	500
Trade finance 2/	-423	778	-115	-3,504	-2,405
Other public sector	1,388	1,222	2,957	4,535	-655
Other private sector 3/	44	2,694	-925	-998	-870
SDR allocation	--	<u>73</u>	<u>74</u>	<u>70</u>	--
Valuation adjustment 4/	<u>166</u>	<u>132</u>	<u>-213</u>	<u>-363</u>	<u>-110</u>
Change in net international reserves (increase -)	-3,249	-4,453	2,720	3,910	5,500
Memorandum items:			(As per cent of GDP) 5/		
Trade balance	5.3	1.9	-3.8	-0.4	3.89
Current account	3.8	-0.9	-7.2	-6.7	-3.22
Overall balance	6.7	7.7	-4.1	-5.8	-8.07

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

1/ Includes changes in Central Bank foreign assets not considered part of international reserves.

2/ Includes trade-related leads and lags, as well as identified trade credits.

3/ Includes errors and omissions.

4/ Changes in net international reserves due to exchange rate movements.

5/ GDP is converted to U.S. dollars using an exchange rate for the Argentine peso that would keep the peso/dollar exchange rate constant in real terms at its 1970 level.

US\$1.8 billion in 1978 (3.8 per cent of GDP) to a deficit of US\$4.8 billion in 1980 (7.2 per cent of GDP), recorded almost no improvement in 1981 and in 1982 still showed a deficit of US\$2.2 billion (3.2 per cent of GDP).

a. Imports

Imports responded very strongly to these large swings in the real effective exchange rate. Total imports jumped from US\$3.8 billion in 1978 to US\$10.5 billion in 1980 and then fell back to an estimated US\$5.5 billion in 1982 (Table 25). The peso had reached its most appreciated level in real terms in the fourth quarter of 1980, and in that quarter alone Argentina's imports were almost US\$3.2 billion. By the fourth quarter of 1981 imports had fallen back to below US\$2 billion and by the third quarter of 1982 they had been reduced to US\$1.2 billion.

Table 25. Argentina: Imports by Economic Classification

	1978	1979	1980	Prel. 1981	Est. 1982
(In millions of U.S. dollars)					
Total imports, c.i.f.	3,834	6,700	10,541	9,380	5,500
Capital goods	1,096	1,568	2,392	1,900	1,100
Consumer goods	212	700	1,857	1,520	280
Intermediate goods	2,526	4,432	6,292	5,960	4,120
Fuels and lubricants	472	1,099	1,075	1,022	650
Other	2,054	3,333	5,517	4,938	3,470
(In per cent of total)					
Total imports, c.i.f.	100.0	100.0	100.0	100.0	100.0
Capital goods	28.6	23.4	22.7	20.3	20.0
Consumer goods	5.5	10.5	17.6	16.2	5.1
Intermediate goods	65.9	66.1	59.7	63.5	74.9
Fuels and lubricants	12.3	16.4	10.2	10.9	11.8
Other	53.6	49.7	49.5	52.6	63.1

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

Other factors did, of course, have an impact on import levels. Economic activity and real incomes had expanded strongly in 1979 and leveled off in 1980 before declining precipitously in 1981 and 1982. Tariff reductions in 1979 and 1980 probably contributed to the rapid

growth of consumer goods imports during those years.^{1/} In 1982 restrictions were imposed on imports and import payments; consumer goods imports were effectively banned; and Argentine importers found it increasingly difficult to open letters of credit. Nevertheless, the timing and the magnitude of the recorded shifts in imports would indicate that the exchange rate was by far the most important single factor determining the changes in the level of Argentina's imports over these five years.

Consumer goods imports displayed the sharpest swings, jumping from US\$200 million in 1978 to almost US\$1.9 billion in 1980 before falling back to less than US\$300 million in 1982. Most consumer goods imports have been effectively banned since early May 1982. Argentina is largely self-sufficient in energy, and the higher outlays for fuel imports accounted for less than 10 per cent of the rise in Argentina's import bill between 1978 and 1980. In 1982, rising domestic energy production at a time of reduced economic activity resulted in a decline of 40 per cent in the value of Argentina's fuel imports. Imports of intermediate goods other than fuels had increased by 170 per cent between 1978 and 1980, while capital goods imports had risen by 120 per cent. Both of these categories of imports fell off sharply after mid-1981 but, while intermediate goods imports in 1982 were somewhat above the 1978 level in real terms, capital goods imports last year had fallen back to the nominal U.S. dollar level recorded in 1978. This sharp real contraction in capital goods imports reflects also the decline in private investment in plant and equipment in 1982.

In 1981 the EEC provided about one quarter of Argentina's imports, while the United States and the Latin American Integration Association (LAIA) area each accounted for about 20 per cent (Statistical Appendix Table 58). Over the past five years, the share of the EEC and of other European countries in Argentina's imports has been declining, while that of the U.S. and Japan has been rising. In 1981 Japan provided 11 per cent of Argentina's imports, second only to the United States.

b. Exports

Agricultural and agro-based products account for three quarters of Argentina's exports (Table 26). Year-to-year movements in Argentina's total exports are, therefore, heavily dependent upon weather and upon changes in world prices for Argentina's commodity exports. Weather conditions were good in 1979 and 1981, while price developments were favorable in 1979 and 1980. The value of Argentina's exports rose by 22 per cent in 1979, increased only marginally in 1980, and advanced by

^{1/} Under a tariff reform initiated in 1979, duties on most goods were to have been reduced from an existing range of 10-85 per cent to a range of 10-40 per cent by the end of 1983. Duties were reduced by 5 percentage points in 1979 and by 8 percentage points in 1980, before the tariff reform was suspended in April 1981. See Appendix Table 57 for the current structure of duties.

a further 14 per cent in 1981. Corn accounted for 70 per cent of the total increase in exports in 1981, as a record corn harvest coincided with large purchases by the U.S.S.R. after the U.S. grain embargo was imposed.

Table 26. Argentina: Exports, f.o.b.

(In millions of U.S. dollars)

	1978	1979	1980	1981	Jan.- June 1982
<u>Total</u>	<u>6,400</u>	<u>7,810</u>	<u>8,021</u>	<u>9,143</u>	<u>4,525</u>
<u>Major agricultural products</u>	<u>3,041</u>	<u>4,070</u>	<u>4,081</u>	<u>5,113</u>	<u>2,362</u>
Wheat	173	605	815	763	624
Corn	587	606	512	1,306	389
Sorghum	358	322	208	637	305
Other cereals	104	74	96	125	34
Seeds and oilseeds	551	730	633	591	197
Beef	426	737	568	564	269
Vegetable and animal oils	391	540	524	395	285
Fruit (fresh)	213	207	180	163	92
Wool	184	184	234	287	149
Sugar	54	65	311	282	18
<u>Other agricultural and agro-based products</u>	<u>1,625</u>	<u>1,995</u>	<u>1,801</u>	<u>1,545</u>	<u>805</u>
<u>Mineral products</u>	<u>74</u>	<u>70</u>	<u>315</u>	<u>658</u>	<u>287</u>
Fuel and lubricants	53	50	280	622	267
Other	21	20	35	36	20
<u>Industrial products</u>	<u>1,660</u>	<u>1,675</u>	<u>1,824</u>	<u>1,827</u>	<u>1,071</u>
Chemical products	160	195	324	320	170
Hides, skins, and leather manufactures	404	460	500	436	205
Textiles (excluding wool)	129	95	105	73	49
Metal manufactures	294	263	217	414	285
Machinery	285	300	339	297	160
Transport equipment	218	182	174	126	99
Other	170	180	165	161	103

Source: Statistical Appendix Table 59.

Fuels and lubricants first emerged as an important export in 1980, and by 1981 they represented about 7 per cent of total exports. Industrial products accounted for one quarter of Argentina's exports in 1978, but over the next three years the value of such exports rose by only 10 per cent, implying a significant decline in real terms. The sharp appreciation of the peso was probably the major reason for this stagnation and, on the basis of orders received, industrial exports are expected to have picked up in the latter part of 1982 and to expand strongly in 1983.^{1/}

For 1982, total export earnings are projected at US\$8.1 billion, a decline of more than 10 per cent from the record 1981 level. Prices for almost all of Argentina's major agricultural exports declined last year, and export volumes for corn, soybeans, and wheat fell sharply. Export developments in 1982 are discussed in detail in the paper accompanying Argentina's request for a purchase under the compensatory financing facility (EBS/83/11, 1/11/83).

The U.S.S.R., which had taken only about 5 per cent of Argentina's exports in 1978 and 1979, accounted for fully 20 per cent of exports in 1980 and 37 per cent in 1981 (Statistical Appendix Table 58). The United States maintained its share over this period and, with 8 per cent, was the second largest single purchaser of Argentine goods. The share of every other region declined, with that for the EEC falling from 33 per cent in 1978 to 20 per cent in 1981.

c. Nonfactor services

The most important components of Argentina's nonfactor services account are travel and freight, insurance, and other payments associated with international trade. Tourism, like imports, proved to be extremely sensitive to movements in the real effective exchange rate. Expenditures by Argentine tourists abroad jumped from less than US\$600 million in 1978 to US\$1.8 billion in 1980; such expenditures peaked in the first quarter of 1981 and declined sharply in the second half of the year. Sales of foreign exchange for tourism were made subject to Central Bank approval in April 1982, although from August 6 authorized agencies were permitted to sell exchange for foreign travel up to specified limits. Total expenditures by Argentine tourists are estimated to have dropped back to less than US\$600 million in 1982. Receipts from tourism were much less variable, rising from a low of about US\$250 million in 1979 to somewhat less than US\$500 million in 1982. Changes in freight and insurance receipts offset somewhat the rise and fall in tourist expenditures, as the swing in imports (c.i.f.) paralleled that in tourism. The overall deficit on account of nonfactor services only rose, therefore, from US\$100 million in 1978 to US\$740 million in 1980 and is estimated to have been reduced almost to zero in 1982.

1/ See Statistical Appendix Table 60 for information on promoted exports.

d. Investment income

Argentina's external debt almost tripled between 1978 and 1982, and the average interest rate on that debt more than doubled. As a result, total interest payments rose steadily from US\$700 million in 1978, to US\$2.2 billion in 1980, and to US\$5 billion in 1982. Such payments had been equal to only 9 per cent of exports of goods and services in 1978; by 1982, that ratio had soared to over 50 per cent. In 1979 and 1980 the impact of rising international interest rates on Argentina's debt service had been offset to an important extent by larger interest receipts on Argentina's then very high level of gross international reserves. Thereafter, however, interest receipts declined rapidly while interest payments continued to climb and net interest payments rose from less than US\$1 billion in 1980 to US\$4.5 billion in 1982. Outflows on account of profits and dividends also increased steadily from 1978 through 1981, but fell off steeply in 1982. The sale of exchange for the transfer of profits and dividends has been suspended since April 1982. At present such transfers can only be effected by purchasing U.S. dollar denominated bonds which sell at a substantial discount in the market.

2. The capital account

Between end-1978 and end-1982, Argentina increased its external debt by US\$21 billion, received more than US\$2 billion in direct investment, drew down its gross international reserves by US\$2 billion, and accumulated more than US\$2 billion in payments arrears. These four items sum to US\$27 billion, compared to a cumulative current account deficit of only US\$12 billion during these four years, implying a capital outflow on other accounts of almost US\$15 billion.^{1/} While the available balance of payments data do not permit analysis of these gross inflows and outflows, this overall picture must be kept in mind in reviewing capital account developments during this period. (A discussion of Argentina's external debt is presented in Appendix B).

Net capital inflows increased almost fourfold in 1979 to a record level of US\$4.8 billion. This was the only year in the period under review when the "trade finance" item in the Argentine balance of payments showed a net inflow. This item picks up not only movements in registered trade credits, but also the difference between exports and imports, as recorded by customs, and actual export receipts surrendered and import payments made. Other private sector capital inflows also increased dramatically in 1979. This increase was probably a response to the elimination of deposit requirements on private sector foreign borrowing and to the reduction in both the relative cost and the risk of foreign borrowing as a result of the introduction of the tablita.

^{1/} Since approximately 80 per cent of Argentina's external debt is denominated in U.S. dollars, valuation adjustments could account for but a small part of this discrepancy.

Over the next two years both direct investment and borrowing by the public sector increased very rapidly, but large net outflows were recorded on account of other private sector capital transactions. The banking crisis of March 1980 had precipitated a private capital outflow of almost US\$1.5 billion during the second quarter of that year, but these outflows were substantially reversed during the following three months. In the latter part of 1980, however, the private sector came increasingly to believe that a large devaluation of the peso could not be avoided and capital flight began on a massive scale. Between September 1980 and March 1981, short-term private capital outflows exceeded US\$5 billion. During the final three quarters of 1981--a period of large exchange rate adjustments and, from July through December, a dual exchange market--trade leads and lags produced a net outflow of almost US\$3 billion, which was partially offset by other net private borrowing of US\$2 billion. Most of this borrowing took place after the system of exchange guarantees was introduced in June 1981. These guarantees may, in fact, have induced some of the recorded trade leads and lags, as exporters and importers generated foreign exchange deposits abroad and used those deposits to secure foreign loans to themselves at a guaranteed exchange rate.

With the float of the peso at the end of 1981, short-term private sector capital outflows came to a halt in the first quarter of 1982 and even the trade finance item turned marginally positive. The onset of the conflict in the South Atlantic, however, set off another round of capital flight. Over the second and third quarters of 1982, outflows of US\$2 billion were recorded on account of trade financing and other net private capital outflows approached US\$1.2 billion. While the overall capital account position had been sustained by large public sector borrowing during 1980 and 1981, international markets were virtually closed to Argentina after April of last year. Even the public sector, therefore, showed a net capital outflow for 1982, and the overall capital account registered a deficit of US\$3.2 billion.

Exchange and Trade System

This appendix provides a description of Argentina's exchange and trade system as of December 31, 1982 and a list of the more important changes introduced in that system over the course of 1982.

1. Description of the exchange and trade system

a. Exchange arrangements

The currency of Argentina is the Argentine Peso. The exchange rate for the peso in terms of U.S. dollars is announced daily by the Central Bank and adjusted in accordance with relative price movements and overall balance of payments objectives. On December 31, 1982 the closing rate for the U.S. dollar was \$a 48,570 per US\$1 (selling). Transactions are allowed in certain other currencies,^{1/} 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 per cent. 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.

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

b. 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 institutions may be subject to separate regulation.

c. 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 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). Argentina and Cuba maintain a reciprocal credit arrangement by means of special accounts in each central bank, through which transactions between the two countries are settled; the limit under these accounts is US\$10 million. Transactions with other countries must be settled in freely usable currencies.

^{1/} 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.

d. Nonresident accounts

Authorized banks may open accounts in pesos 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.

e. Imports and import payments

Import payments may be made in any convertible currency. All imports by the private sector require a sworn Declaration of Need to Import (Declaracion Jurada de Necesidad de Importacion) submitted by the importer or to the National Import Directorate, which issues a corresponding Certificate of Sworn Declaration of Need to Import. For goods goods on a list of nonessential imports, these Declarations are subject to a requirement of prior study and Certificates are generally not issued; most consumer goods are in this category. For all other imports, the Certificate is issued automatically. Public sector imports require approval by the Central Bank with regard to financing.

Most imports are subject to minimum financing terms of at least 180 days, calculated from the date of shipment. However, imports originating in and imported from member countries of LAIA, member countries of the Central American Common Market, Cuba, Haiti, Panama, or the Dominican Republic are subject to minimum financing terms of 90 days from shipment. Payment against shipping documents is permitted for the following: goods on the "negotiated list" shipped from and originating in LAIA member countries; goods imported by importers located in the National Territories of Tierra del Fuego, Antarctica, and the Islands of the South Atlantic and destined for the Special Customs Area established by Law No. 19.640; fresh fruit; and periodicals.

Special minimum financing terms apply for capital goods imports valued at more than US\$50,000. No more than 5 per cent may be paid prior to shipment and an additional 10 per cent may be paid upon the submission of shipping documents. The balance of 85 per cent of the f.o.b. value is to be paid in equal installments beginning no more than six months after shipment according to the following schedule:

<u>F.o.b. Value of Import</u> (In thousands of U.S. dollars)	<u>Minimum Financing Terms</u>
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

Capital goods imports for which financing equal to 85 per cent of the f.o.b. value is provided by international organizations or official creditors are exempt from these minimum terms, as are imports by firms located in the National Territories of Tierra del Fuego, Antarctica, and the Islands of the South Atlantic.

Payments for imports may be effected automatically by authorized entities, provided the financing conforms to the established terms; otherwise, prior Central Bank approval is required. In addition to customs duties, imports are subject to the following taxes: a stamp duty of 0.6 per cent and selective internal taxes ranging from 5 per cent to 22 per cent.

f. Payments for invisibles

Interest payments and trade-related freight and insurance payments may be transferred by authorized entities without prior Central Bank authorization. Most other payments for invisibles require prior Central Bank approval. However, authorized entities are permitted to effect certain payments and transfers up to the following limits without prior Central Bank approval: US\$300 per month per beneficiary for expenses of students abroad; US\$200 per month for family transfers; US\$5,000 (one time only) for foreign medical treatment. Automatic sales of exchange for foreign travel are limited to US\$50 per day up to a maximum of US\$500 per year for travel to countries in South America not bordering Argentina and to US\$100 per day up to a maximum of US\$2,000 per year for travel to countries outside South America. Only 10 per cent of the amount of these permitted travel allowances may be taken out of the country in the form of foreign banknotes or traveler's checks. Commissions related to exports can be transferred up to certain limits based on the f.o.b. value of the export. Upon presentation of required documentation, transfers of pensions and payments for medicine can be effected automatically without limit.

The right to transfer profits and to repatriate investments under Argentina's foreign investment regulations has been suspended since April 20, 1982. Profits, dividends, royalties, and technical assistance payments can, at present, be transferred only through the purchase of U.S. dollar-denominated bonds (BONEX) issued by the Government of Argentina, which can be sold in the market at a discount to obtain foreign exchange. The Central Bank may, however, approve the transfer of claims below the equivalent of US\$1,000 through the official exchange market on a case-by-case basis. In cases where either the local debtor or foreign creditor does not accept the cancellation of these obligations with BONEX, the payment of these obligations with foreign exchange will be authorized when the foreign exchange situation permits.

g. 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.

Certain nontraditional exports are eligible for rebates of domestic taxes paid. As of December 31, 1982 rebates of 5 or 10 per cent of the export value were in effect, depending upon the type of export. Exports shipped through certain ports were eligible for additional rebates ranging from 5-9 per cent, and exports to new markets were eligible for an additional rebate of 5 per cent.

Traditional exports are subject to export taxes. The applicable tax rates as of December 31, 1982 were 25 per cent for grains, live cattle, wool, and leather; 20 per cent for certain other agricultural exports; and 10 per cent for all other traditional exports.

Many exports, particularly nontraditional exports, are eligible for export incentives of various kinds. The Central Bank has established a system of special financing, to be granted to Argentine exporters through banks, with a view to promoting exports of certain goods and services.^{1/} 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.

h. Proceeds from invisibles

Exchange derived from invisibles need not be surrendered. Travellers may bring in freely any amount in domestic or foreign banknotes and coin, as well as gold coin and "good delivery" gold bars.

i. Capital

Proceeds from foreign loans must be sold in the exchange market. In general, there are no limitations on inward capital transfers by residents or nonresidents. All amortization payments on loans, other than import-related loans provided in conformity with the established minimum terms, require the prior approval of the Central Bank. All loans extended through December 4, 1982 and covered by swap arrangements with the Central Bank must, upon maturity, be extended for at least 90 days, with the terms of the initial swap contract remaining in force

^{1/} The Argentine Export Credit Insurance Company provides credit insurance against commercial and ordinary risks and also coverage for extraordinary risks and for exports of capital goods and consumer durables and certain other consumer goods.

during that period. All loans for which the domestic borrower had obtained an exchange rate guarantee from the Central Bank during 1981 also must be extended under terms that have been announced by the Central Bank. The foreign creditor has the option either of accepting a bond or promissory note of the Government of Argentina which carries a grace period of about 3-1/2 years and a total maturity of about 5 years or of renegotiating the loan directly with the Argentine borrower on repayment terms no shorter than those for the bonds and promissory notes. These provisions do not apply in cases where the domestic borrower had, by October 22, 1982, obtained both a voluntary extension of the loan of at least one year and a new exchange rate guarantee.

The inflow of financial loans undertaken by local foreign-owned enterprises and originating from foreign enterprises which 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 deposits with minimum maturities of 7 days and lend the proceeds domestically at freely determined rates of interest. Foreign borrowing by the public sector is regulated by Decree-Law No. 19328 of October 29, 1971 and Decree No. 3532 of November 25, 1975. Outward capital transfers are subject to prior authorization by the Central Bank.

The foreign investment regime is regulated by Law No. 21382 (Decree-Regulation No. 283 of February 4, 1977) and by amendments introduced by Law No. 22208 promulgated by Decree No. 1062 of June 30, 1980, as well as by Decree No. 103 of January 19, 1981. Investments may be made in freely convertible foreign currency; new or used capital goods and their spare parts and accessories; profits and capital in Argentine pesos belonging to foreign investors, provided that they are legally transferrable abroad; capitalization of external credits 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, and telecommunications, 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 being permissible only in exceptional cases when it is manifestly beneficial to the national economy), which involve changing the national ownership structure of a local firm belonging to national investors and having net assets exceeding US\$10 million; (c) acquisition of goodwill belonging to national investors and having a value exceeding the abovementioned amount; (d) investments that exceed

US\$20 million; (e) investments where the investor is a juridical person under public law; and (f) investments where special or promotional benefits are requested that can be granted only 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 which the firm was developing 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 per cent 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 per cent 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 definitive 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 Central Bank.

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 ruling in the international market, against provision of the equivalent in Argentine pesos. The right to repatriate capital and to transfer profits has been temporarily suspended since April 20, 1982 under Presidential Decree Nos. 786 and 787; the Central Bank may, however, authorize the transfer of profits in amounts below US\$1,000. While this suspension remains in effect, profits in amounts in excess of US\$1,000 may be transferred through the purchase of U.S. dollar-denominated

Government of Argentina bonds (BONEX); foreign exchange may be obtained by selling such bonds, at a substantial discount, either in Argentina or abroad.

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

j. 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 with customers in Argentina or abroad. Gold exports must be paid for in convertible currencies. Imports of gold by industrial users are subject to a statistical duty of 0.6 per cent, and those by other users are subject in addition to sales tax.

2. Selected changes in the exchange and trade system during 1982

April 5. Sales of foreign exchange were temporarily prohibited except to effect payments for imports and import-related costs (freight, insurance, commissions, and interest) or to pay principal and interest on financial loans. In no case could payments be effected more than two days before the due date. The authority to make payments of up to 20 per cent of the f.o.b. value of capital goods imports in advance of shipment was temporarily suspended (Telephone Communication No. 4614).

April 5. Sales of foreign exchange payable directly or indirectly to natural or juridical persons resident or domiciled in the United Kingdom were suspended (Telephone Communication No. 4615).

April 5. Transactions in Argentine or foreign currency to be debited to accounts maintained in Argentina in the name of natural or juridical persons residing or domiciled in the United Kingdom were suspended (Telephone Communication No. 4618).

April 12. Telephone Communication 4625 established procedures whereby payments designated for residents of the United Kingdom were to be paid into a suspense account in the New York branch of the Banco de la Nacion.

April 19. The Department of External Trade issued a regulation establishing the dates from which prior import licenses were required from the United Kingdom and its possessions, Australia, Canada, and other member countries of the European Community.

April 20. The right to transfer profits and to repatriate investments under Argentina's foreign investment regulations was suspended. Henceforth, foreign obligations arising from profits, dividends, royalties and technical assistance could only be met by acquiring U.S. dollar-denominated bonds issued by the Government of Argentina. The Central Bank was empowered to extend the use of U.S. dollar-denominated Argentine government bonds (BONEX) to other types of external payments. The Central Bank could approve the transfer of claims below the equivalent of US\$1,000 through the official exchange market on a case-by-case basis (Presidential Decrees 786 and 787).

April 27. Controls were established on exports of goods needed for national defense and security (Decree 789).

April 29. Certificates of Sworn Declaration of Need to Import were henceforth required for all imports. Unutilized Certificates issued prior to April 28 were voided; imports from member countries of the Latin American Integration Association were exempted from this action (Communications A 119 and C 192).

April 30. Telephone Communication 4634 of the Central Bank announced that, henceforth, no foreign exchange could be sold, no payment could be made abroad, and no external payment commitment could be entered into without the prior consent of the Central Bank.

May 4. Sworn Declarations of Need to Import were made subject to prior study in the case of goods classified as nonessential. A 45-day ban was imposed on the imports of such goods. The list of nonessential goods includes items representing 10-15 per cent of total imports, including private automobiles, alcoholic beverages, perfumes, apparel, cigarettes, and most food products and other consumer items. Imports on the "negotiated list" from members of the Latin American Integration Association were exempted from the requirement of prior study and the 45-day ban (see July 28 below).

May 5. The exchange rate for the peso was changed from \$a 11,950 (buying) and \$a 12,000 (selling) to \$a 14,000 (buying) and \$a 14,050 (selling), representing a devaluation of 14.6 per cent against the U.S. dollar. Proceeds from nonpromoted exports registered with customs before May 5 were to be surrendered at the exchange rate prevailing on May 4, 1982; however, exports under Law No. 21.453 which had been declared to the National Grain Board prior to May 4 were to be surrendered at a rate communicated daily by the Central Bank (Communication A 120).

May 5. Central Bank Communication A 125 implemented Presidential Decrees 786 and 787 of April 20. The implementing regulations provided that, in cases where either the local debtor or foreign creditor does

not accept the cancellation of these obligations with Argentine government bonds, the payment of these obligations with foreign exchange would be authorized when the foreign exchange situation permitted. The implementing regulations also established that the Central Bank would consider application for cancellation with U.S. dollar Government bonds of external obligations other than those enumerated in Presidential Decrees 786 and 787 (i.e., profits, dividends, royalties, and payments for technical assistance).

May 5. Import duties were reduced by from 1 to 5 percentage points depending upon the initial duty level (Resolution ME 436).

May 5. Export taxes on traditional exports were set at rates of 5 and 10 per cent instead of the single 10 per cent rate previously in effect. Tax rebates on promoted exports were set at rates of 5, 10, and 14 per cent, instead of the single rate of 10 per cent previously in effect. An additional emergency export duty of \$a 1,000 per U.S. dollar was applied to certain traditional exports (Resolution ME 437).

May 24. Minimum financing terms of at least 180 days from the date of shipment were established for most imports shipped on or after May 24, 1982. However, imports originating in and imported from member countries of the Latin American Integration Association (LAIA), member countries of the Central American Common Market, Cuba, Haiti, Panama, or the Dominican Republic were made subject to minimum financing terms of 90 days from shipment. Payment against shipping documents was permitted for the following: goods on the "negotiated list" shipped from and originating in LAIA member countries; goods imported by importers located in the National Territories of Tierra del Fuego, Antarctica, and the Islands of the South Atlantic and destined for the Special Customs Area established by Law 19.640; fresh fruit; and periodicals (Communication A 128).

May 28. Swap operations with the private sector, which had been suspended since December 24, 1981, were resumed. The Central Bank would offer swap contracts with respect to either the renewal of swaps contracted under the provision in effect until December 24, 1981 or financial loans in convertible foreign currency contracted after June 1, 1, 1982. Such operations would have a term of 180 days and carry a charge of 5 per cent per month (Communications A 129 and A 130).

June 10. The provisions governing the premium charged for swap contracts were modified. Under the new provisions, the domestic borrower could choose between either a fixed premium of 3 per cent or a variable premium equal to the difference between the changes in the wholesale price indices in Argentina and in the United States (Communication A 131).

July 5. The exchange market was split into a commercial and a financial market. Payment of the f.o.b. value of imports and exports was to be effected in the commercial market, while other permitted payments

were to be effected through the financial market. Special provisions were established governing the proceeds from exports registered with customs before July 6. The commercial market rate was to be announced daily by the Central Bank; the commercial rate on July 6 was set at \$a 20,000 per U.S. dollar, representing a devaluation of 21 per cent against the U.S. dollar compared to the official rate of \$a 15,750 on July 5. The financial market rate was to be determined freely by supply and demand. Authorization to effect payments was henceforth to be granted automatically for the f.o.b. value of imports conforming to the minimum financing terms established on May 24 and for the following transactions assigned to the financial market: amortization and interest payments on foreign loans, freight and insurance payments associated with exports and imports, specified insurance and reinsurance operations, consular fees, and other payments associated with foreign trade. All other payments continued to be subject to prior approval of the Central Bank.

July 5. The Central Bank announced that it would undertake 180-day swap operations against loan proceeds surrendered in the financial market after July 6, 1982. The premium to be paid by the borrower was to be established monthly by the Central Bank; initially it was set at 4 per cent per month. Domestic financial institutions were allowed to undertake these swaps and relend the funds in the local market at freely determined interest rates (Communication A 136).

July 5. The Central Bank introduced an exchange rate guarantee scheme for financial loans the proceeds of which had been negotiated in the exchange market prior to July 6, 1982. To be eligible for this guarantee, the debtor had to secure an extension of the maturity of the loan of at least one year. The guaranteed rate was the official exchange rate on the day before the introduction of the dual exchange market, i.e., \$a 15,750 per U.S. dollar, to be adjusted thereafter by the difference in the changes in the wholesale price indices in Argentina and the United States. Loans covered under previous guarantee schemes could, upon maturity, be covered under the new scheme provided that a minimum further extension of one year was obtained; the pesos received as the difference between the new and the old guaranteed rates would be applied to the cancellation of loans from the domestic banking system. Applications for exchange rate guarantees under this scheme were to be received by September 4, 1982 (Communication A 137).

July 5. It was clarified that, when external payments were to be effected by means of U.S. dollar denominated Argentine government bonds (BONEX), such bonds would be sold at either the commercial or the financial exchange rate, whichever was applicable for the type of payment being effected (Communication A 138).

July 5. Export taxes on traditional exports (e.g., grains, live cattle, wool, and leather) were raised from 10 per cent to 25 per cent of export proceeds; taxes on other agricultural exports were raised from 10 per cent to 20 per cent; the rate for exports previously taxed

at 5 per cent was changed to 10 per cent; and traditional exports previously subject to no tax were now to be taxed at 10 per cent. At the same time, rebates for promoted exports were reduced from 14 to 10 per cent, from 10 to 5 per cent, or from 5 per cent to zero, depending upon the type of export. The new rates applied only to exports registered with customs after July 5 (Resolution ME 8/82).

July 7. Any payment for which an exchange application was pending as of July 2, 1982 could be effected through the purchase of U.S. dollar denominated government bonds (BONEX) at a rate of \$a 15,750 per U.S. dollar. Applications to utilize this facility were to be received by July 20 (Communication C 274).

July 12. The Central Bank announced that it would intervene as a buyer in the financial market at a rate of \$a 33,000 per U.S. dollar. This same rate would be applied to all nontrade transactions of the public sector and to swap operations undertaken with domestic financial institutions (Communication C 283).

July 15. Import payments for which exchange applications were pending as of July 2, 1982 could be effected in foreign exchange at a rate of \$a 15,750 per U.S. dollar provided that the importer brought in a new loan for an equivalent amount under a swap arrangement with the Central Bank. Applications to utilize this facility were to be received by August 16 (Communication A 162).

July 15. The exchange rate guarantee scheme established on July 5 was extended to trade financing related to imports and to interest payments accruing through December 31, 1982 on loans carrying an exchange rate guarantee under that scheme (Communication A 163).

July 21. Resolution SC 19/82 established a system of U.S. dollar limits for imports. Separate limits were established for imports in each customs category for each importer. These limits were based on the U.S. dollar value of actual imports registered in each customs category by each importer between July 1, 1981 and April 30, 1982. For the three months August through October 1982 these limits were set at 21 per cent of the amount registered during the base period. Imports of capital goods, fuel, health-related products and certain primary materials were exempted from this system. Imports covered by agreements under the Latin American Integration Association were also exempted, as were imports from the Central American Common Market, Cuba, Haiti, Panama, and the Dominican Republic. Importers could apply for exceptions to these limits. Separate resolutions detailed the lists of exempted health-related goods (SC 20/82), primary materials (SC 22/82), and fuels (SC 21/82). This system of U.S. dollar limits for imports was subsequently canceled by Resolution SC 221/82 of October 29, 1982.

July 28. Resolution S.C. 33/82 established a long list of non-essential imports, including most consumer goods, thereby implementing policies which had been announced in the press on May 3. Imports in

this category could be approved only after the Sworn Declaration of Need to Import had been submitted to detailed prior study. This requirement meant, in fact, that most such imports were effectively banned. Imports from member countries of the Latin American Integration Association were exempted from this requirement of prior study, as were imports from the Central American Common Market, Cuba, Haiti, Panama, and the Dominican Republic. This resolution applied to imports for which Sworn Declarations of Need to Import were submitted between May 3, 1982 and August 20, 1982.

August 2. Payments for import-related freight charges were shifted from the financial market to the commercial market (Communication A 188).

August 2. Minimum financing terms were established for capital goods imports valued at more than US\$50,000. No more than 5 per cent could be paid in advance and an additional 10 per cent could be paid upon the submission of shipping documents. The balance of 85 per cent of the f.o.b value was to be paid in equal installments beginning no more than six months after shipment according to the following schedule:

<u>F.O.B. Value of Import (In thousands of U.S. dollars)</u>	<u>Minimum Financing Term</u>
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

Capital goods covered by 85 per cent financing from international organizations or official creditors were exempted from these requirements, as were imports by firms located in the National Territory of Tierra del Fuego, Antarctica, and the Islands of the South Atlantic (Communication A 189).

August 2. Payments of less than US\$10,000 for import-related transactions could be effected directly through authorized agencies at an exchange rate of \$a 15,750 per U.S. dollar if the exchange application had been submitted prior to July 2, 1982. Importers who had obtained financing abroad prior to July 2, 1982 for amounts in excess of US\$10,000 could repay those loans by purchasing BONEX at \$a 15,750 per U.S. dollar, provided the counterpart in pesos was deposited with an authorized agency prior to August 6 (Communication A 191).

August 2. Payments for transactions qualifying for the commercial market exchange rate could henceforth be effected by authorized agencies without prior authorization of the Central Bank, provided that such payments were made no more than two working days before the due date (Communication A 191).

August 2. Interest on foreign loans, which had accrued through July 2, 1982 and for which an exchange application was pending on that date, could be paid at an exchange rate of \$a 15,750 per U.S. dollar without prior authorization of the Central Bank, provided the debtor obtained an extension of at least one year on the loan. Principal payments on foreign loans for which an exchange application was pending on July 2, 1982 could still be effected through the purchase of BONEX at \$a 15,750 per U.S. dollar provided that the counterpart in pesos was paid to an authorized agency by August 6; otherwise such principal repayments could only be made at the current exchange rate and would require the previous authorization of the Central Bank (Communication A 192).

August 6. When loans covered by an exchange guarantee issued in 1981 were extended under the guarantee provisions established on July 5, 1982, the pesos received as the difference between the old and the new guaranteed rates would be applied to the cancellation of loans at regulated rates with the domestic banking system (Communication A 198).

August 6. Authorized agencies were permitted to effect certain payments and transfers up to specified limits without prior Central Bank approval. The following limits were established: US\$300 per month per beneficiary for expenses of students abroad; US\$200 per month for family transfers; US\$5,000 one time only for foreign medical treatment. Automatic sales of exchange for foreign travel were limited to US\$50 per day up to a maximum of US\$500 per year for travel to countries in South America not bordering Argentina and to US\$100 per day up to a maximum of US\$2,000 per year for travel to countries outside South America. Commissions related to exports could be transferred up to certain limits based on the f.o.b. value of the export. Upon presentation of required documentation, transfers of pensions and payments for medicine could be effected automatically without limit (Communication A 199).

August 11. Resolution SC 52/82 extended until September 30 the requirement, introduced on July 28, 1982, that the Sworn Declarations of Need to Import for goods incorporated in the list of nonessential imports be subject to detailed prior study.

August 13. Authorized agencies could, without prior Central Bank approval, effect payments of import-related obligations that fell due during July (Communication A 204).

August 18. The deadline for effecting import payments at an exchange rate of \$a 15,750 in conjunction with new swap arrangements, as provided for in Communication A 163 of July 15, was extended to August 31 (Communication A 205).

September 3. All unutilized Sworn Declarations of Need to Import issued before September 3, 1982 for imports from Uruguay, as well as all related letters of credit, were declared invalid (Resolution SC 112/82).

September 10. Payments for imports of diamonds, pearls, and precious metals were shifted from the commercial market to the financial market (Communication A 218).

September 13. Communication A 219 established that, henceforth, 15 per cent of proceeds from exports (f.o.b.) and payments for imports (f.o.b. or c.i.f.) were to be effected at the financial market rate, with the balance effected at the commercial market rate. The new provisions did not apply to traditional exports registered with customs or the National Grain Board before September 13 (Communication A 219).

September 15. The restrictions imposed on April 5 and April 7 regarding payments and transfers to residents of the United Kingdom were lifted (Telephone Communication 4700).

September 16. All unutilized Sworn Declarations of Need to Import issued before September 16, 1982, as well as all related letters of credit, for imports from Paraguay were declared invalid (Resolution SC 152/82).

September 24. A special lending program was established under which exporters of promoted exports could obtain 180-day loans at regulated rates for an amount up to 30 per cent of the peso equivalent of the exchange proceeds surrendered on account of such exports (Communications A 228 and A 230).

September 24. Resolution ME 95/82 created an Import Price Commission to be presided over by the Under Secretary of Commerce for External Trade and Regional Integration. The Commission is to monitor the unit values declared in the Sworn Declarations of Need to Import.

September 24. The terms associated with the exchange rate guarantee scheme for private sector loans introduced on July 5 were changed. The guaranteed rate for the contract was to be \$a 15,750, adjusted by the change between July 2 and the date of the guarantee contract in an index of the difference in movements in the wholesale price indices in Argentina and the United States. From the date of the exchange guarantee contract until September 30, 1982, the premium to be paid by the local debtor for this guarantee was set equal to the percentage change in that index. From October 1, 1982 until the end of the month in which the exchange markets were unified, the premium was set equal to either the percentage change in that index or the domestic Treasury bill rate, at the debtor's option. Thereafter, the premium was to be

set equal to either (a) the percentage change in that index, or (b) the percentage change in the peso price of the U.S. dollar in the unified exchange market, or (c) the difference between the domestic free deposit rate and one-month LIBOR, at the debtor's option. The premium was to be paid at the maturity of the contract and was to be reduced by 1.25 percentage points for each quarter beyond one year that the loan was extended. The deadline for applying for exchange rate guarantees under the system introduced on July 5 was extended from September 4 to October 15, 1982 (Communication A 229).

September 28. Resolution S.C. 172/82 extended until December 31, 1982 the requirement, introduced on July 28, 1982, that Sworn Declarations of Need to Import for goods incorporated in the list of nonessential imports be subject to detailed prior study. Fifty tariff items were added to the list of nonessential imports and three tariff items were taken off the list.

October 1. The mixed rate applied to the f.o.b. value of exports, the f.o.b. value of imports, and freight charges associated with imports was changed to 80 per cent of the commercial market rate and 20 per cent of the financial market rate. Previously the mix was 85/15 (Communication A 232).

October 1. Proceeds from exports effected through the special customs area of the National Territory of the Great Island of Tierra del Fuego, Antarctica, and the Islands of the South Atlantic were to be surrendered entirely at the financial market rate (Communication A 233).

October 29. The commercial and financial exchange markets were unified into a single official exchange market with an opening rate of \$a 38,950 per US\$1 (buying) and \$a 39,000 per US\$1 (selling). These opening rates represented a devaluation of 13.6 per cent for trade-related transactions previously effected at the mixed rate established on October 1. Special provisions were adopted for proceeds from non-promoted exports registered with customs or the National Grain Board before November 1, 1982 (Communications A 241 and A 242).

October 29. The system of U.S. dollar limits on imports which had been established by Resolution SC 19/82 of July 21, 1982 was abolished. The system of automatic approval of Sworn Declarations of Need to Import for permitted imports was, thereby, reestablished (Resolution SC 221/82). The effective ban on imports on the nonessential list remained in effect.

November 1. The tax rebate on sugar exports was reduced to 10 per cent from 25 per cent (Resolution ME 285/82).

November 17. The Central Bank announced that all external loans carrying an exchange rate guarantee issued by the Central Bank during 1981 must be rescheduled and established the minimum terms for that rescheduling. Under these provisions the foreign creditor either could

accept a U.S. dollar denominated bond or promissory note of the Government of Argentina carrying a grace period of approximately 3 1/2 years and a total maturity of about 5 years or could renegotiate the loan directly with the Argentine borrower, provided that the repayment terms were no shorter than those attached to the bonds and promissory notes. Interest on these loans continued to be fully transferable. These provisions did not apply in cases where the domestic borrower had, by October 22, 1982, obtained a voluntary extension of the loan and a new exchange rate guarantee under the scheme established on July 5, 1982 (Communication A 251).

November 19. Payment of amortization on financial loans to the Argentine private sector was made subject to prior Central Bank approval. Previously such payments could be effected automatically by the authorized entities. The automaticity of transfers of interest payments on such loans was retained (Communication C 482).

December 1. The system of rebates for exports from Patagonian ports was modified. Henceforth, these rebates would apply only to exports produced in the region and exported through any port in the region, with the amount of the rebate being established as a function of the location of the port (Resolution ME 287/82).

December 2. Communication C 533 provided for the renewal of maturing swaps for a maximum period of 180 days and established a premium for such operations of 6 per cent per month.

December 4. The Central Bank announced that all maturing swaps must be rolled over for a period of at least 90 days (Telephone Communication 4748).

December 9. The Central Bank announced that swaps renewed after December 7 under the compulsory provisions established on December 4 would be renewed at the original contract exchange rate and would carry a monthly premium equal to that established in the original contract (Telephone Communication 4751).

December 27. The effective ban on most consumer goods imports (July 28) was extended to March 31, 1983.

External Debt

Argentina's external debt, including short-term debt, rose from US\$12.5 billion at the end of 1978 to US\$35.7 billion at end of 1981, an almost threefold increase within a three-year period. The public and private sectors each accounted for about half of the total expansion in debt during this period, as public sector debt rose from about US\$8 billion to US\$20 billion, and private sector debt increased from US\$4 billion to almost US\$16 billion. International capital markets have, however, been virtually closed to Argentina since April of last year, and by August 1982 (the most recent month for which comprehensive data are available) Argentina's foreign debt had declined to US\$34 billion.^{1/} The private sector accounted fully for that drop. Foreign debt outstanding as of the end of August was equal to 49 per cent of Argentina's estimated 1982 GDP and to 3-1/2 times Argentina's exports of goods and services.

1. Debt by borrower

The foreign debt of the private sector more than doubled in 1979, reflecting in part trade finance associated with higher import levels (Table 27). Over the following two years the annual pace of expansion of private sector debt slowed to about 30 per cent, but the public sector began to borrow heavily abroad. Between 1979 and 1981 the outstanding debt of the public sector doubled. The major borrowers were the Treasury and the enterprises with state participation, particularly the state oil company (YPF) and the water and electricity company (Table 28).

As of August 1982, public sector debt was 60 per cent of Argentina's total external debt. Within the public sector, the national government (Treasury, binational entities, and autonomous agencies) accounted for 42 per cent of the public sector external debt, state enterprises and enterprises with state participation for 43 per cent, official banks for 9 per cent, and state and local governments for the balance of 5 per cent.

2. Debt by creditor

From Argentine sources a breakdown of external debt by type of creditor is available only for the public sector (Table 29). The Bank for International Settlements, however, provides fairly comprehensive data on the international claims and liabilities of banks in the most important capital market countries. According to BIS data, outstanding bank loans to Argentina increased from US\$7.0 billion at the end of 1978 to US\$25.3 billion in June 1982 (Table 30). These numbers would

^{1/} These data do not include external payments arrears. At the end of August 1982 total external payments arrears were US\$1.3 billion, of which an estimated US\$320 million represented arrears on principal on foreign financial loans.

Table 27. Argentina: Disbursed External Debt
by Type of Debt 1/

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

	1978	1979	1980	1981	Aug. 1982	Sept. 1982
<u>Total</u>	<u>12,496</u>	<u>19,034</u>	<u>27,162</u>	<u>35,671</u>	<u>34,060</u>	<u>...</u>
<u>Public sector</u>	<u>8,357</u>	<u>9,960</u>	<u>14,459</u>	<u>20,024</u>	<u>20,385</u>	<u>21,420</u>
Import financing	3,125	3,173	3,335	2,636	2,387	2,388
Financial loans	5,192	6,700	11,044	17,328	17,943	18,979
Other	40	87	80	60	55	53
<u>Private sector 2/</u>	<u>4,139</u>	<u>9,074</u>	<u>12,703</u>	<u>15,647</u>	<u>13,675</u>	<u>...</u>
Import financing	1,796	3,278	3,791	2,759	1,696	...
Financial loans	2,207	5,621	8,710	12,641	11,822	...
Other	136	175	202	247	157	...

Source: Central Bank of Argentina.

1/ Includes short-, medium-, and long-term debt.

2/ Includes publicly guaranteed debt.

Table 28. Argentina: Disbursed External Debt by Debtor

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

	1978	1979	1980	1981	Aug. 1982	Sept. 1982
<u>Total</u>	<u>12,496</u>	<u>19,034</u>	<u>27,162</u>	<u>35,671</u>	<u>34,060</u>	<u>...</u>
Medium and long term	9,849	13,703	16,877	26,067	27,071	...
Short term	2,647	5,331	10,285	9,604	6,989	...
<u>Public sector</u>	<u>8,357</u>	<u>9,960</u>	<u>14,459</u>	<u>20,024</u>	<u>20,385</u>	<u>21,420</u>
Medium and long term	6,747	8,265	10,284	13,901	15,610	16,330
Treasury	1,919	1,994	2,315	3,947	4,993	5,450
State governments	56	332	716	977	906	923
Municipal governments	10	18	27	58	56	55
Autonomous agencies	596	636	687	1,190	1,199	1,218
Binational entities	460	715	1,118	1,111	1,085	1,080
State enterprises	919	855	911	1,097	1,571	1,663
Enterprises with public participation	2,451	3,130	3,560	4,225	4,145	4,281
Official banks	336	585	950	1,296	1,655	1,660
<u>Short term 1/</u>	<u>1,610</u>	<u>1,695</u>	<u>4,175</u>	<u>6,123</u>	<u>4,775</u>	<u>5,090</u>
Treasury	645	599	785	1,187	766	756
State governments	3	35	113	76	65	60
Municipal governments	2	8	17	73	63	56
Autonomous agencies	68	48	440	664	378	516
Binational entities	—	33	126	262	203	248
State enterprises	25	110	459	675	568	586
Enterprises with public participation	823	853	2,144	3,099	2,555	2,672
Official banks	44	9	91	87	177	196
<u>Private sector 2/</u>	<u>4,139</u>	<u>9,074</u>	<u>12,703</u>	<u>15,647</u>	<u>13,675</u>	<u>...</u>
Medium and long term	3,102	5,438	6,593	12,166	11,461	...
Short term 1/	1,037	3,636	6,110	3,481	2,214	...

Source: Central Bank of Argentina.

1/ One year maturity or less.

2/ Includes publicly guaranteed debt.

Table 29. Argentina: Disbursed External Debt of the Public Sector
by Type of Creditor

	1978	1979	1980	1981	June 1982	Sept. 1982
(In millions of U.S. dollars)						
Total public sector debt 1/	8,357	9,960	14,459	20,024	20,620	21,420
Medium- and long-term debt	6,747	8,265	10,284	13,901	15,007	16,330
International organizations	1,095	1,285	1,133	1,210	1,198	1,209
IDB	(638)	(846)	(731)	(804)	(748)	(768)
IBRD	(457)	(439)	(402)	(406)	(450)	(441)
Official institutions	434	473	371	384	353	343
Banks	3,447	4,399	6,526	8,609	9,075	9,431
Bond holders	734	877	1,047	2,605	3,216	4,207
Private firms	1,037	1,231	1,207	1,093	1,165	1,140
Short-term debt	1,610	1,695	4,175	6,123	5,613	5,090
Banks	1,190	1,091	3,733	4,891	4,823	4,331
Bond holders	402	588	414	1,137	746	706
Private firms	18	16	28	95	44	53
(As Per Cent of Total)						
International organizations	100.0 13.1	100.0 12.9	100.0 7.8	100.0 6.0	100.0 5.8	100.0 5.6
Official institutions	5.2	4.7	2.6	1.9	1.7	1.6
Banks	55.5	55.1	71.0	67.4	67.4	64.2
Bond holders	13.6	14.7	10.1	18.7	19.2	22.9
Private firms	12.6	12.5	8.5	5.9	5.9	5.6

Source: Central Bank of Argentina.

1/ Excludes publicly guaranteed private debt.

Table 30. Argentina: Deposits with and Debt to Foreign Banks 1/

(In billions of U.S. dollars)

	Deposits	Total	Debt, by Time Remaining to Maturity					Undisbursed Commitments	
			Over One Year and		Up to and Including Two Years	Over Two Years	Unallocated		
			Up to and Including One Year	Up to and Including Two Years					
December 1978	5.0	7.0	3.6	1.0	2.3	0.2	2.5		
June 1979	7.1	10.6	5.5	0.9	3.8	0.3	3.5		
December 1979	8.1	13.4	6.9	1.1	5.0	0.4	2.9		
June 1980	7.2	17.3	9.2	1.3	6.4	0.4	3.3		
December 1980	6.5	19.9	10.4	1.6	7.3	0.6	4.0		
June 1981	5.8	23.0	11.8	2.1	8.5	0.6	3.2		
December 1981	6.7	24.8	11.6	3.0	9.5	0.8	3.9		
June 1982	5.4	25.3	13.1	2.1	9.3	0.8	2.7		

Source: Bank for International Settlements, The Maturity Distribution of International Lending (various issues).

1/ Includes deposits and debt of both the public and private sectors.

imply that banks funded fully 85 per cent of the increase in Argentina's external debt during this period and that their share in Argentina's debt rose from 56 per cent at the end of 1978 to 74 per cent in June 1982. Argentine data record an increase in public sector debt to foreign banks of US\$9.3 billion during these 3-1/2 years, indicating that banks accounted for 75 per cent of the increase in public sector debt and virtually all of the increase in private sector debt. As of mid-1982, two thirds of the public sector external debt and 85 per cent of the private external debt was owed to banks.

Foreign-currency denominated bonds and bills are the second most important component of Argentina's public sector external debt. In addition to issuing bonds and notes in international capital markets, the Government of Argentina also issues an instrument called BONEX. These medium-term, U.S. dollar denominated bonds are sold in denominations as low as US\$1,000 and carry an interest rate equal to six-month LIBOR. Although BONEX circulate primarily in Argentina, they are also traded abroad, and all BONEX are included in Argentina's reported external debt data. In the second quarter of 1982 the Central Bank also began to issue BONEX as a substitute for providing foreign exchange to meet current payments.^{1/} Between December 1981 and September 1982, bonds reported as part of Argentina's external debt increased from US\$2.6 billion to US\$4.2 billion and their share in public external debt rose from 13 per cent to 20 per cent. BONEX issued in lieu of foreign exchange accounted for almost all of this increase.

Taken together, bank loans and bonds account for fully 87 per cent of Argentina's public external debt. International organizations and private firms each represent about 5.5 per cent of outstanding public sector debt, and foreign official institutions less than 2 per cent. Argentina's debt to international organizations has not increased at all since 1979. It should be noted that, while Argentine data show debt owed directly to foreign official institutions to be very small, the Berne Union reports outstanding export credits to Argentina guaranteed or insured by foreign official institutions at US\$8.5 billion.

3. Terms and maturity structure

Between 1978 and 1980 the maturity structure of Argentina's foreign debt deteriorated rapidly. The share of short-term in total debt rose from 21 per cent to 38 per cent, while the share of obligations with an original maturity of less than 5 years increased from 45 per cent to 68 per cent. This change was particularly marked for the private sector, where the share of short-term debt in the total rose from 25 per cent to almost 50 per cent in two years (Table 31).

Although the data show a large reduction in the short-term external debt of the private sector after 1980, this reduction is, in a sense, artificial. In mid-1981 the Central Bank introduced an exchange rate

1/ See Section II (2).

Table 31. Argentina: Disbursed External Debt
by Original Maturity

	1978	1979	1980	1981	Aug. 1982	Sept. 1982
<u>(In millions of U.S. dollars)</u>						
<u>Total</u>	<u>12,496</u>	<u>19,034</u>	<u>27,162</u>	<u>35,671</u>	<u>34,060</u>	<u>...</u>
Public sector	8,357	9,960	14,459	20,024	20,385	21,420
1 year or less	1,610	1,695	4,175	6,123	4,775	5,090
Over 1 up to 5 years	872	2,090	1,864	2,152	2,593	2,569
Over 5 up to 10 years	1,977	3,780	5,686	8,513	9,480	10,131
Over 10 years	3,898	2,395	2,734	3,236	3,537	3,630
Private sector	4,139	9,074	12,703	15,647	13,675	...
1 year or less	1,037	3,636	6,110	3,481	2,214	...
Over 1 up to 5 years	2,155	3,699	4,331	8,376	7,374	...
Over 5 up to 10 years	602	1,255	1,773	2,653	2,890	...
Over 10 years	345	484	489	1,137	1,197	...
<u>(As per cent of total)</u>						
Public Sector	100.0	100.0	100.0	100.0	100.0	100.0
1 year or less	19.3	17.0	28.9	30.6	23.4	23.8
Over 1 up to 5 years	10.4	21.0	12.9	10.8	12.7	12.0
Over 5 up to 10 years	23.7	37.9	39.3	42.5	46.5	47.3
Over 10 years	46.6	24.1	18.9	16.1	17.4	16.9
Private sector	100.0	100.0	100.0	100.0	100.0	...
1 year or less	25.1	40.1	48.1	22.2	16.2	...
Over 1 up to 5 years	52.1	40.8	34.1	53.5	53.9	...
Over 5 up to 10 years	14.5	13.8	14.0	17.0	21.1	...
Over 10 years	8.3	5.3	3.8	7.3	8.8	...

Source: Central Bank of the Republic of Argentina.

guarantee scheme for private sector loans renewed or contracted for a period of between 540 and 730 days. About US\$5 billion in guarantees were contracted under this program, mostly at terms of about 540 days, or only marginally beyond the short-term category. This scheme also produced a large bunching of maturities in late 1982 and early 1983 (see below). A similar scheme was in effect from July through October 1982 and the 1982 data are, therefore, also distorted.

The public sector continued to rely fairly heavily on short-term funds in 1981, but in the first three quarters of 1982 short-term foreign debt of the public sector dropped by more than US\$1 billion. To some extent, this improvement reflects the efforts made in the first quarter of 1982 to refund short-term debt with medium-term loans. The US\$1.6 billion increase in outstanding public sector debt in the five-to ten-year range in 1982 is the direct result of the BONEX issues discussed above.

World Bank data on the grace periods and maturities for new public sector external loan commitments are provided in Table 32. These numbers indicate no clear trend in terms over the period 1977-81. A very large increase in suppliers credits contracted in 1981, however, raised substantially the average maturity recorded for new commitments in that year. It might also be noted that the BIS series, which provides information on time remaining to maturity, indicates that the ratio of amounts falling due within one year to total debt to banks remained relatively constant at about 50 per cent throughout the period December 1978 to June 1982. The overall deterioration in the maturity structure of Argentina's debt appears, therefore, to have resulted not from a hardening of terms offered by different types of creditors, but rather from a shift away from suppliers and official institutions and toward banks as the source of new credits.

4. Debt service

On a total external debt outstanding of US\$34 billion as of August 1982, fully US\$7.4 billion fell due in the last four months of 1982 and another US\$8.7 billion mature in 1983. Thus, 47 per cent of Argentina's total external debt was scheduled to be repaid within 16 months, including the US\$7 billion in short-term debt plus one third of the debt classified as medium and long term. Thereafter, scheduled amortization payments drop to US\$3.5 billion in 1984 and to about US\$3 billion per year in 1985 and 1986 (Table 33). This bunching of maturities reflected both the public sector's fairly heavy reliance on short-term borrowing in recent years and the impact of the 1981 exchange rate guarantee scheme for private sector debt. Of the US\$11.5 billion in medium- and long-term private sector debt outstanding as of August 1982, US\$6.5 billion fell due within 16 months.

APPENDIX B

Table 32. Argentina: Medium- and Long-Term External Public Debt--
Structure and Average Terms of New Commitments

(Amount in millions of U.S. dollars; maturity
and grace period in years)

	1977	1978	1979	1980	1981
Total commitments					
Amount	1,712.2	2,759.2	3,316.7	3,018.0	3,638.2
Maturity	10.1	9.1	11.5	8.4	13.8
Grace period	2.6	3.2	5.0	4.3	4.5
Suppliers' credits					
Amount	393.6	372.2	581.1	215.5	1,504.7
Maturity	9.0	8.0	10.7	8.2	18.7
Grace period	2.6	1.0	3.3	2.0	5.7
Financial institutions					
Amount	750.8	1,559.7	1,952.1	2,484.7	1,368.2
Maturity	8.8	7.9	9.9	7.9	7.8
Grace period	2.0	3.0	5.1	4.4	3.4
Bonds					
Amount	93.1	345.6	102.7	136.4	70.0
Maturity	6.0	9.0	8.4	9.4	6.0
Grace period	4.6	5.6	8.2	6.8	6.0
Multilateral loans					
Amount	348.0	390.9	629.0	66.7	686.4
Maturity	15.0	14.8	17.5	17.8	16.0
Grace period	3.6	4.3	6.1	4.9	3.9
Bilateral loans					
Amount	126.8	90.9	51.8	114.7	9.0
Maturity	10.6	9.1	9.9	11.6	10.6
Grace period	2.3	2.4	1.8	2.2	1.9
Memorandum item:					
Share in total commitments					
Suppliers' credits	23.0	13.5	17.5	7.1	41.4
Financial institutions	43.9	56.5	58.9	82.3	37.6
Bonds	5.4	12.5	3.1	4.5	1.9
Multilateral loans	20.3	14.2	19.0	2.2	18.9
Bilateral loans	7.4	3.3	1.6	3.8	0.2

Source: International Bank for Reconstruction and Development.

Table 33. Argentina: Scheduled Amortization on External Debt

(In millions of U.S. dollars; based on debt outstanding as of August 31, 1982)

	Debt Outstanding August 1982	Amortization				
		1982 (Sept.-Dec.)	1983	1984	1985	1986
Total debt	<u>34,060</u>	<u>7,417</u>	<u>8,710</u>	<u>3,508</u>	<u>2,903</u>	<u>2,870</u>
Short-term debt	6,989	4,829	2,160	--	--	--
Public sector	4,775	3,549	1,226	--	--	--
Private sector	2,214	1,280	934	--	--	--
Medium- and long-term debt	27,071	2,588	6,550	3,508	2,903	2,870
Public sector	15,610	437	2,246	1,760	1,855	2,120
Private sector	11,461	2,151	4,304	1,748	1,048	750
Total public sector debt, by borrower	<u>20,385</u>	<u>4,986</u>	<u>3,472</u>	<u>1,760</u>	<u>1,855</u>	<u>2,120</u>
Treasury	5,759	1,273	786	636	874	1,097
State governments	971	110	356	135	94	76
Municipal governments	119	48	50	8	7	4
Autonomous agencies	1,577	296	347	89	101	94
Binational entities	1,288	218	93	54	73	107
State enterprises	2,139	394	635	116	135	142
Companies with state participation 1/	6,700	1,996	1,291	560	536	539
Official banks	1,832	165	354	305	209	262
Medium- and long-term public sector debt, by creditor	<u>15,610</u>	<u>437</u>	<u>2,246</u>	<u>1,760</u>	<u>1,855</u>	<u>1,213</u>
Banks	9,184	316	1,734	1,185	1,157	1,213
Bondholders	3,738	10	139	280	435	681
Private firms	1,139	59	227	149	120	87
Official institutions	346	18	38	37	34	26
International organizations	1,203	34	108	109	109	113

Source: Central Bank of Argentina.

1/ Companies with state participation at 50 per cent or more.

In November 1982 the Central Bank established minimum terms for the rescheduling of private sector debts which were covered by the 1981 exchange rate guarantee scheme and which had not been voluntarily renewed. Although it is too early to assess the final impact of this action on the debt service profile, it is likely that about US\$4 billion in debts which would have come due in December 1982 and in 1983 will be deferred to the period between April 1986 and April 1988. Most other obligations which matured in the last four months of 1982 were rolled over on a short-term basis into 1983. Therefore, total maturities now scheduled to come due in 1983 amount to about US\$12 billion, excluding the estimated US\$2.5 billion in external payments arrears outstanding as of December 1982. The Argentine authorities have now initiated talks with foreign creditors on the restructuring of maturities falling due this year. A projection of Argentina's debt service over the period 1983-87, based on debt outstanding as of August 31, 1982, is presented in Table 6 of EBS/83/8, 1/10/83. The actual debt service profile will depend on the final results of the November 1982 actions and the outcome of the current discussions.

Argentina: Summary of the Central Government Tax System, October 1982

(All amounts in Argentine pesos)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. <u>Taxes on net income and profits</u>			
1.1 Taxes on companies, corporations and enterprises (<u>Impuesto a las Ganancias Tercera Categoría</u>) Law No. 20,628 of December 29, 1973; Decree No. 2, 126 of December 30, 1974; Law No. 21,481 of December 30, 1976; Law 21,894 of January 1, 1978; Law No. 21,911 of December 26, 1978; and Law 22,211 of April 29, 1980.	<p>Schedular annual tax payable by companies or enterprises on their accrued income from domestic sources. Occasional income from foreign sources is included in the base but a tax credit is granted for related tax payments according to reciprocity agreements.</p> <p>The tax base includes income from commercial, industrial, mining, and agricultural activities. For foreign companies engaged in transportation, insurance, and news agencies, taxable income is presumed to be between 10 per cent and 50 per cent of their gross receipts depending on the activity. The fiscal year corresponds to the calendar year. Corporations make provisional payments toward their tax liability, and additional tax payments and any outstanding debts are subject to indexation. Proceeds from this tax are shared with provincial and municipal governments. 1/</p>	<p>Government agencies, corporations, and some health, education, religious, and cultural organizations are exempt. Deductions from gross income include normal business expenses and donations to authorized organizations of up to 20 per cent of the taxpayers net income. Income subject to the capital gains tax (<u>Impuesto a las Ganancias Eventuales</u>) is also exempt from the tax.</p>	<p>General rate: 33 per cent For nonresident corporations and companies: 45 per cent</p>

Argentina: Summary of the Central Government Tax System, October 1982 (continued)

(All amounts in Argentine pesos)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.2 <u>Tax on individuals</u> Tax on personal income <u>(Impuestos a las Ganancias, 2a, 4a y 5a Categoría)</u> Law No. 20,628 of December 29, 1973 as modified by Law No. 21,481 of December 30, 1978; Law 21,894 of January 1, 1978; Law 21,911 of December 26, 1978; Law 22,211 of April 29, 1980; and Law 22,530 of January 22, 1982.	Annual tax payable by natural persons on their personal remuneration including wages, salaries, pensions, fees from liberal professions, dividends, interest, rents and shares in company profits. For wages and salaries and some capital income, the tax is paid through withholding at source supplemented by a final settlement. Payments, personal deductions, tax brackets, and any outstanding liability are subject to indexation. This tax is shared with provincial and municipal governments. <u>1/</u>	Personal deductions for spouse and other dependents are allowed.	Progressive marginal rates apply according to the following summary schedule:
1.3 <u>Tax on occasional income and capital gains tax</u> <u>(Impuesto a las Ganancias Eventuales)</u> Law No. 21,284 of April 2, 1976; and Law No. 21,911 of December 26, 1978.	Tax on capital gains derived from the sale of real estate, and other occasional income such as those from lottery gains, or derived from the sale of financial assets. Income from capital gains is determined after adjusting the original purchase price for inflation. Proceeds from this tax are shared with provincial and municipal governments.	Exempt from the tax is income derived from the sale of commercial and industrial properties, buildings which were used in the previous two years, land subdivided for urbanization, and buildings enjoying special exemptions of <u>Ley de Propiedad Horizontal</u> (Law No. 13,512).	15 per cent.

Taxable Income (in thousands)	Basic Tax (in per cent)
0-4,922	7
4,922-11,485	8
11,485-18,048	9
82,036-106,648	17
106,648-131,259	19
131,259-155,870	21
410,183-492,230	41
492,230 over	45

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Argentina: Summary of the Central Government Tax System, October 1982 (continued)

(All amounts in Argentine pesos)

Tax	Nature of Tax	Exemptions and Deductions	Rates												
2. <u>Social security taxes (Regimen nacional de previsión social)</u> Created by several laws	Monthly contributions of employers and employees based on the wage bill.	None.	A 31.5 per cent contribution of which 16.5 per cent is paid by employers and 15.0 per cent by the employees.												
3. <u>Taxes on property</u>															
3.1 <u>Net wealth tax</u>															
3.11 Personal. Personal tax on net wealth (<u>Impuesto al Patrimonio Neto</u>) Law No. 21,282 of April 2, 1976; Law No. 21,911 of December 26, 1978; and Law No. 22, 291 of February 10, 1980.	Annual tax payable on the value of net wealth possessed by individuals on the last day of the year. Wealth held abroad is not taxable. Proceeds from this tax are shared with provincial and municipal governments.	Members of diplomatic missions. Exempted from the tax are assets in the form of Treasury bonds or other financial assets issued by the central or regional governments. Net wealth of under \$a 334,358,500 is exempt from the tax.	Progressive rates according to the following schedule: Additional Tax determined by the marginal rate for wealth in excess of lower bracket <table> <thead> <tr> <th>Net Wealth (in thousands)</th> <th>Basic Tax (in per cent)</th> </tr> </thead> <tbody> <tr> <td>1,475,726-2,951,452</td> <td>-- 0.50</td> </tr> <tr> <td>2,951,452-4,427,178</td> <td>7,379 0.75</td> </tr> <tr> <td>4,427,178-5,902,904</td> <td>18,446 1.00</td> </tr> <tr> <td>5,902,904-8,854,356</td> <td>33,204 1.25</td> </tr> <tr> <td>8,854,356-</td> <td>70,097 1.50</td> </tr> </tbody> </table>	Net Wealth (in thousands)	Basic Tax (in per cent)	1,475,726-2,951,452	-- 0.50	2,951,452-4,427,178	7,379 0.75	4,427,178-5,902,904	18,446 1.00	5,902,904-8,854,356	33,204 1.25	8,854,356-	70,097 1.50
Net Wealth (in thousands)	Basic Tax (in per cent)														
1,475,726-2,951,452	-- 0.50														
2,951,452-4,427,178	7,379 0.75														
4,427,178-5,902,904	18,446 1.00														
5,902,904-8,854,356	33,204 1.25														
8,854,356-	70,097 1.50														
3.12 Corporate. Corporate tax on net wealth (<u>Gravamen Sobre el Capital de las Empresas</u>) Law No. 21,287 of April 2, 1976; Law No. 21,894 of January 1, 1978; Law No. 21,911 of December 26, 1978; and Law No. 22, 291 of February 10, 1980.	Tax on net wealth of companies and corporations. Proceeds from this tax are shared with provincial and municipal governments. 1/	Assets located in Tierra del Fuego and some bonds issued by the State are exempt from the tax. Net wealth of under \$a 5,000,000 is exempt if not less than 49 per cent of the enterprise is owned by residents in Argentina.	1.5 per cent.												

Argentina: Summary of the Central Government Tax System, October 1982 (continued)

(All amounts in Argentine pesos)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.2 <u>Tax on transfers of financial assets</u> <u>(Impuesto a la Transferencia de Titulos Valores)</u> Law No. 21,280 of April 2, 1976.	Tax based on the sale price of shares, debentures, Treasury bonds, and other financial assets.	None.	0.5 per cent.
4. Taxes on goods and services			
4.1 <u>Value-added tax</u> <u>(Impuesto al Valor Agregado)</u> Law No. 20,631 of December 27, 1973 and Law No. 21,376 of August 11, 1976; Law No. 21,911 of December 26, 1978; Law 22,031 of July 23, 1979; Law No. 22,294 of October 13, 1980; Decree 48/82 of August 7, 1982; and Decree No. 697/82 of September 23, 1982.	The tax is levied on most manufactured goods and services according to the destination principle; thus imports are subject to the tax while exports are exempt. Tax credits of exporters can be credited against any other tax liability or reimbursed in cash. Investment goods are exempt from the tax and related credits can be credited against tax liabilities during a period of up to five years; also outstanding tax credits are indexed according to the domestic rate of inflation. Proceeds from this tax are shared with provincial and municipal governments. ^{1/} Agricultural products enjoy a presumptive tax credit of 4 per cent.	Exempt from the tax are exports and some agricultural products. Also goods exempt from import duties.	General rate 20 per cent. Food-stuffs and pharmaceutical products, 8 per cent.
4.2 <u>Selective excises</u> <u>Various excises (Ley de Impuestos Internos, Texto Ordenado por)</u> Decree No. 3,426 of December 27, 1976. Law No. 21,930 of January 19, 1979; Decree 2,682/79 of October 30, 1979; Decree 930/82 of July 7, 1982.	A number of ad valorem taxes are levied on selective goods including tobacco products, alcoholic beverages, wines, and fuel. Proceeds from these taxes are shared with provincial and municipal governments. ^{1/}	Soaps, toothpaste, deodorants and talcum powder; insurance (life, accident, agricultural, medical); medicinal syrup; mineral water; cider, beer, and refreshments or concentrates with a minimum 10 per cent fruit content.	Cigarettes: 75 per cent; cigars: 16 per cent; alcoholic beverages: 12-42 per cent; wines, etc: 10-15 per cent; surcharge of 3 per cent. Fuel oils: 23 per cent; tires: 25 per cent; aircraft gasoline: 20 per cent; aircraft oil: 5 per cent;

Argentina: Summary of the Central Government Tax System, October 1982 (continued)

(All amounts in Argentine pesos)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.2 <u>Selective excises</u> (continued)...of October 30, 1979; Law 22,294 of October 13, 1980; and Decree 212/81 of May 14, 1981.			automotive vehicles: 1.5-19.5 per cent; toiletry items: 22.5 per cent; luxury items: 15 per cent; carbonated beverages: 25 per cent; and insurance: 2.5-8.5 per cent.
5. Taxes on international trade			
5.1 <u>Import duties</u> (<u>Impuestos a las Importaciones</u>)	Import duties are levied on all imports including final goods, raw materials, etc.	Imports of merchandise and household effects under special regimes, e.g., immigrants, handicapped, diplomats, etc. Imports of goods by religious, social assistance, charity, educational, artistic, cultural, scientific and sports institutions.	Various rates apply ranging from 0 to 43 per cent. Representative import duty rates are shown below: (Per cent) Industrial imports 0-38 Clothing 38 Jewelry 10-38 Books 0 Machinery and equipments 10-43
5.2 <u>Exchange taxes</u> (<u>Impuestos a la Compraventa de Divisas</u>) Law No. 18,526 of December 31, 1969; Law No. 20,046; and Law No. 21,647 of September 28, 1977.	Tax levied on the sale or purchase of foreign exchange.	Operations in cash.	0.6 per cent.

Argentina: Summary of the Central Government Tax System, October 1982 (concluded)

(All amounts in Argentine pesos)

Tax	Nature of Tax	Exemptions and Deductions	Rates
6. Other taxes Stamp duties (<u>Impuesto de Sellos</u>) Law No. 18,524, Decree No. 4,606 of May 18, 1973; Law No. 21,407 of September 3, 1976; and Law No. 21,911 of December 26, 1978.	Tax on contracts or documents related to real estate rents and sales, mort- gages, credits, etc.	State, provincial, and municipal governments or their agencies; and state banks, religious, sci- entific, educational institutions, etc., are exempt from this tax.	Various ad valorem rates: <u>Examples.</u> <u>Per cent rate</u> Financial docu- ments 1.0 Sale contracts of agricultural pro- ducts 0.2 Contracts of real estate sales 0.2 to 0.3 Bank credits 0.1

1/ Taxes subject to the revenue sharing scheme (coparticipacion) are distributed as follows:

	<u>Per Cent</u>
National Treasury	48.3
Provinces	48.5
Tierra del Fuego	0.2
Regional Development Fund	<u>3.0</u>
	<u>100.0</u>

The Financial Reform of July 1982

The main objectives of the financial measures of July 1982 were to refinance the high level of corporate indebtedness at sharply negative real interest rates and thus, over time, reduce the real debt of firms; to alleviate the problems for the Central Bank that occurred from time to time in part because of the government guarantee on high-yield short-term deposits; to assure financial institutions greater permanence of the funds they attracted; and to reduce the interest burden of the public sector. The measures that were adopted had major implications for the types of financial instruments that would be available in the economy; the role of the Central Bank in financial intermediation; the financing of the public sector; and the profit and loss position of the Central Bank. These topics will be discussed in turn.

1. Financial instruments

The general principle behind the array of financial institution liabilities that was created in July was that the interest rates on short-term government guaranteed deposits would be regulated and would be substantially negative in real terms; longer term deposits with freely determined interest rates would not be guaranteed and limits would be placed on the amount of such deposits that each bank could accept. One-year cost of living (COL) indexed deposits were given a government guarantee and no limits were placed on the amount of these deposits. Initially, the interest rate on deposits of up to 90 days was lowered to 2-1/2 to 5 per cent a month; the free deposit rate in July was only marginally higher, reflecting the limit that was placed on the amount of free interest deposits.^{1/}

On the lending side, the stock of private sector debt as of June 30 was to be refinanced out of a rediscount facility (the "prestamo basico" or basic loan) from the Central Bank. All deposits as of June 30 were subject to a 100 per cent reserve requirement as were new regulated deposits. The Central Bank would on-lend to financial institutions at least part of the reserves on the new regulated deposits (in the form of another rediscount facility--the "prestamo adicional" or additional loan). The interest rate charged to the private sector borrower for credit financed out of this facility would be equal to the interest rate on the refinancing loan. The interest rate on the refinancing loan was set at 6 per cent a month in July; the loan was to be repaid in 60 equal monthly installments beginning at the end of 1982 but interest could be capitalized.

As for other types of lending to private firms or individuals, financial institutions could lend at freely determined rates out of free interest deposits, their foreign currency resources or their own capital. Financial institutions could use COL-indexed deposits only

1/ For purposes of comparison, the increase in wholesale prices had averaged 10 per cent a month in the second quarter of 1982 (9 per cent a month in the first half of the year).

to make indexed loans. These loans would be for two years, and could be indexed to one of seven optional price or cost indexes--consumer prices, wholesale prices, nonagricultural wholesale prices, wholesale prices of animal products, wholesale prices of vegetable products, construction costs or average wages. It was initially anticipated that long-term indexed deposits and loans would become increasingly important as financial instruments.

In the months following the reform, a number of changes were made, including increases in regulated interest rates, but the basic institutional framework was maintained. In late July the authorities resumed open market operations to reduce excess liquidity in the system and to set a floor for the free deposit rate. In September and again in November, regulated deposit rates were increased and, to increase the demand for COL-indexed deposits, in late September the maturity on these deposits was reduced to 180 days. The general characteristics of financial institution liabilities as of November 1 is shown in Table 34. The interest rate on the refinancing loan was raised to 7-1/2 per cent in September and to 9 per cent in November. There was also a general reluctance on the part of firms to take out indexed loans under the original terms and in November the Central Bank introduced a special rediscount facility for credits to small- and medium-sized enterprises; the maturity was one year and the maximum annual interest rate was 4 percentage points less than the increase in the chosen index (for ordinary indexed loans, there was a maximum annual interest rate of 6 percentage points above the increase in the chosen index).

In November 1982, the basic and additional loans were consolidated into one line of credit, the "prestamo consolidado," or consolidated loan. Subsequently each financial institution would determine that part of its portfolio on which interest would be paid monthly (nonadjustable loans) and that part on which interest would be capitalized (adjustable loans). The Central Bank would charge financial institutions the equivalent (less a spread) of the interest on the nonadjustable loans and would capitalize the monthly interest of the adjustable loans up to an amount no greater than the interest on what remained of the former basic loan. With the exception of this capitalized interest, no increases in the consolidated loan were to be made.

The consolidated loan was subject to the following interest rates as of November 1, 1982:

Table 34. Argentina: Characteristics of Financial Institution Liabilities 1/

(In per cent)

	Maximum Monthly Interest Rate	Legal Reserve	Guarantee		
			Individuals	Corporations	Other
Currency	--	--	--	--	--
Current account	2.5	100	100	99	
Savings deposits, transferable and nontransferable time deposits at less than 90 days transferable at more than 90 days	<u>Savings deposits</u> Normal 4.5 Special 6.5 <u>Time deposits</u> Transferable 8.5 Nontransferable 7-14 days 4.5 15-22 days 5.5 23-29 days 6.5 30-59 days 8.5 60-89 days 8.7 90-more 8.9	100	100	99	Minimum on transferable time deposits is 30 days
Nontransferable time deposits of more than 90 days	Free	--	100 per cent up to \$a 1 million plus 1 per cent of excess of \$a 1 million	1	For each bank, the maximum amount that can be accepted cannot exceed a fixed amount (presently 20 per cent of the total stock of regulated deposits on June 30, 1982).
Index linked nontransferable deposits of more than 180 days	Free	100	100	99	Deposits are indexed to the CPI. In the case of corporations, only nonprofit organizations and insurance companies may hold these deposits.
Index-linked deposits of 90-100 days	Interest plus adjustment must not exceed 8.5	100	100	99	

Source: Central Bank of Argentina.

1/ As of November 1, 1982.

		Monthly Central Bank Discount Rate	Monthly Rate to Client
1.	General		
	Banks and saving entities	8.7	9.0
	Nonbank financial institutions	8.4	9.0
2.	Mortgage Credits		
	Banks and saving entities	8.7	9.0
	Nonbank financial institutions	8.4	9.0
3.	Debtors whose foreign currency debt increased by more than 30 per cent in the 2 years up to 6/30/82. Leading enterprises not included in "price agreement" or any that do not comply with "price agreement". Com- mercial enterprises that do not abide by the "precios indicativos" (state-determined prices). 1/	Free	11.2

2. The intermediary role of the Central Bank

The 100 per cent reserve requirement on the stock of deposits as of June 30 and the introduction of the basic loan greatly increased the amount of credit that was channelled through the Central Bank. The 100 per cent reserve requirement on new regulated deposits increased the discretionary power of the Central Bank as the reserves deposited by financial institutions on account of this requirement would be on-lent as part of the additional loan in an amount determined by the Central Bank and only to firms which met a series of requirements set by the Central Bank. However, the additional loan was to be increased by an amount at least equal to the interest cost to financial institutions on the basic loan (the counterpart of financial institutions' capitalizing the interest on their refinancing loans to firms).

Deposits indexed to the cost of living were also subject to a 100 per cent reserve requirement, and the Central Bank would pay the cost of living adjustment on reserves; provided that the financial institution had a client for an indexed loan, the institution was automatically entitled to a rediscount linked to the price or cost index chosen by the institution's client. In this way the Central Bank assumed the risk associated with having deposits and loans linked to different indexes. If the financial institution could not on-lend the indexed deposit, the Central Bank would pay the cost of living adjustment plus a small commission on the reserves deposited with the Central Bank.

1/ An important aspect of the price agreement implemented in August 1982 was an interest rate subsidy (from 2 to 4 percentage points depending on the type of firm) for firms that adhered to the scheme.

3. Credit to the public sector

After the reform, financial institutions could no longer invest in external bonds, index-linked public bonds, and mortgage bonds, except using their own capital. Any holdings over this amount as of July 1982 had to be sold within a maximum period of six months and the proceeds were to be used to cancel the basic loan. The Government was able to make use of credit from the Central Bank (at a 10 per cent annual interest rate) to repurchase existing financial assets (which carried much higher interest rates); there thus was a saving in interest expenditure of the public sector and the loss was absorbed by the Central Bank. After July 1982, private financial institutions could not increase or roll over credit to public enterprises. All credit for public enterprises, including the amortization of credit with private institutions, was to come from public sector banks at a maximum lending rate equal to the general regulated one; public sector banks had access to a special rediscount facility for purposes of lending to public enterprises.

4. Profit and loss of the Central Bank

As a result of the financial reform, the expenses of the Central Bank increased markedly and the net cash flow of the Central Bank, which constitutes autonomous or uncontrolled credit expansion, is likely to be a very important source of monetary base creation in 1983. The Central Bank pays the deposit rate plus a commission on required reserves (through the interest equalization fund), and interest payments increased sharply because of the 100 per cent reserve requirement on the June 30 stock of deposits and all new regulated deposits. This cost is only partially offset by the increase in interest collected by the Central Bank on the consolidated loan as interest due on the original basic loan can be capitalized. Expenses of the Central Bank also increased because of commissions and features such as the interest subsidy to enterprises that adhere to the price agreement, commissions to financial institutions that accept but do not on-lend COL-indexed deposits, and subsidies on indexed credit to small- and medium-sized enterprises. The Central Bank also assumed the risk for differences in movements of the cost of living and the indexes to which indexed loans can be linked.

STATISTICAL APPENDIX

Table 35. Argentina: Exchange Rate Indices

	Exchange Rate (\$a per US\$)1/ Commercial Rate 2/	Financial Rate 2/	Export Weighted Effective Rate (December 1969=100)	Import Weighted Effective Rate (December 1969=100)
<u>1978</u>				
December	1,007		91.6	88.4
<u>1979</u>				
December	1,622		75.3	72.0
<u>1980</u>				
December	1,996		65.5	64.0
<u>1981</u>				
January	2,036		65.3	63.9
February	2,265		67.5	66.5
March	2,373		67.5	66.5
April	3,170		78.4	77.5
May	3,284		74.1	73.6
June	4,389	4,974	75.6	77.0
July	4,707	6,490	78.2	77.9
August	5,119	7,466	77.2	77.1
September	5,578	7,455	80.9	80.0
October	6,037	8,191	83.8	82.4
November	6,507	10,683	82.4	80.9
December	7,669	10,723	79.7	78.5
<u>1982</u>				
January	9,964		98.7	97.0
February	10,053		92.3	91.4
March	10,872		94.3	93.4
April	11,815		95.9	95.2
May	14,021		106.3	105.0
June	15,188		97.3	96.6
July	20,160	37,422	100.0	99.4
August	23,256	39,000	97.8	97.4
September	27,882	39,000	99.9	99.4
October	32,383	39,000	99.2	98.8
November	41,145		110.6	110.2
December	46,021		111.5	111.0

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

1/ Selling rate for the U.S. dollar average of the period.

2/ From June 22, 1981 to December 24, 1981 and from July 5, 1982 to November 1, 1982 the foreign exchange market was split into a commercial and a financial market. For effective exchange rate calculations, the rate actually applicable to trade transactions (i.e., commercial or mixed rate) was used.

Table 36. Argentina: Net Deviations of Selected Export Receipts from Exchange Rate 1/

(In per cent at end of period)

	1980		1981		1982	
	June	Dec.	June	Dec.	June	Sept.
Wheat	-5.5	-1.0	-9.0	-10.0	-10.0	4/ -25.0
Wheat flour	-3.0	9.0	--	-10.0	-5.0	-15.0
Corn	-5.5	-1.0	-9.0	-10.0	-10.0	4/ -25.0
Sorghum	-5.5	-1.0	-9.0	-10.0	-10.0	4/ -25.0
Sunflower oil	7.0	9.0	--	10.0	--	-10.0
Peanut oil	7.0	9.0	--	10.0	--	-10.0
Olive oil	7.0	9.0	10.0	2/	10.0	--
Beef (quarters)	0.6	2.6	-2.0	-10.0	-10.0	-20.0
Beef manufactures	0.6	2.6	-2.0	-10.0	-10.0	-20.0
Beef (cuts)	0.6	2.6	-2.0	-10.0	-5.0	-15.0
Beef (cooked, frozen, or extract)	10.6	12.6	2.0	4.0	5.0	--
Horsemeat	-3.0	-1.0	-2.0	-10.0	-5.0	-15.0
Leather (unprocessed)	-9.0	-6.0	-5.0	-10.0	-10.0	4/ -25.0
Leather (cut)	-3.0	9.0	10.0	2/	10.0	--
Tobacco leaf	-3.0	-1.0	--	-10.0	-10.0	4/ -25.0
Tobacco manufactures	-2.0	-1.0	--	-10.0	-10.0	-20.0
Sugar	-1.0	-1.0	--	10.0	5.0	25.0
Wool (unwashed)	-3.0	-1.0	--	-10.0	-10.0	-20.0
Wool (washed)	-3.0	-1.0	5.0	5.0	-5.0	-15.0
Fruits (fresh)	7.0	9.0	7.0	7.0	--	-10.0
Fruits (canned)	7.0	9.0	10.0	10.0	5.0	10.0
Cheese	2.0	9.0	7.0	7.0	5.0	--
Casein	2.0	9.0	10.0	2/	10.0	5.0
Wire and iron sheet	14.0	14.0	15.0	2/	10.0	14.0
Tools (power)	24.0	24.0	24.0	2/	10.0	14.0
Agricultural machines	24.0	24.0	24.0	2/	10.0	14.0
Tractors	24.0	24.0	24.0	2/	10.0	14.0
Memorandum item						
Buying rate for U.S. dollar	1,851.0	1,989.0	4,525.0	3/	7,248.0	15,700.0
					30,332.0	5/

Source: Central Bank of Argentina.

1/ Refers to net deviations from the buying rate for the U.S. dollar due to export duties, nonduty taxes, and rebates (reembolsos).

2/ Fifteen per cent of the foreign exchange receipts could be sold in the financial market (\$a 6,550) and the rest in the commercial market.

3/ Commercial rate.

4/ Also subject to an additional tax of \$a 1,000 per U.S. dollar.

5/ Fifteen per cent in the financial market (\$a 38,950); 85 per cent in the commercial market (\$a 28,810).

Table 37. Argentina: Public Sector Operations

(In billions of Argentine pesos)

	1978	1979	1980	Prel. 1981	Est. 1982
I. Central Administration					
Current revenue	3,633.7	7,861.6	15,764.7	30,615.1	86,560.0
Current expenditure	2,884.0	7,003.5	15,727.3	32,097.5	80,470.0
<u>Current account surplus</u>	<u>749.7</u>	<u>858.1</u>	<u>37.4</u>	<u>-1,482.4</u>	<u>6,090.0</u>
Net intertransfers	-1,539.6	-2,999.7	-8,047.8	-22,992.9	-48,600.0
Special accounts	-370.6	-1,638.2	-2,916.0	-7,241.2	-18,340.0
Decentralized agencies	-629.1	-1,384.8	-3,628.3	-8,064.8	-22,190.0
Social security	-13.8	-50.3	-101.2	--	--
Provinces and municipality of Buenos Aires	-230.6	-19.4	-1,014.2	-7,094.9	-10,960.0
State enterprises	-295.5	93.0	-388.1	-592.0	2,890.0
Capital receipts	--	5.0	--	2.4	--
<u>Capital expenditure</u>	<u>468.7</u>	<u>1,024.4</u>	<u>1,425.0</u>	<u>3,761.4</u>	<u>7,370.0</u>
Fixed capital formation	457.0	1,017.3	1,307.6	2,895.4	6,310.0
Other	11.7	7.1	117.4	866.0	1,060.0
<u>Overall surplus or deficit (-)</u>	<u>-1,258.6</u>	<u>-3,161.0</u>	<u>-9,435.4</u>	<u>-28,234.3</u>	<u>-49,880.0</u>
Interest as amortization	854.9	2,435.7	4,268.2	9,626.9	33,760.0
Extrabudgetary expenditure 1/	60.2	594.9	1,346.8	5,935.7	8,923.0
<u>Financing needs</u>	<u>2,173.7</u>	<u>6,191.6</u>	<u>1,505.4</u>	<u>43,796.9</u>	<u>92,563.0</u>
External (net)	191.2	421.1	893.6	8,126.3	--
Internal (net)	1,982.5	5,770.5	14,156.8	35,670.6	92,563.0
II. Special Accounts					
Current revenue	1,596.1	4,836.6	10,856.9	13,488.7	44,860.0
Current expenditure	450.6	1,696.0	3,816.2	7,192.0	16,390.0
<u>Current account surplus</u>	<u>1,145.5</u>	<u>3,140.6</u>	<u>7,040.7</u>	<u>6,296.7</u>	<u>28,470.0</u>
Net intertransfers	-701.3	-1,215.2	-2,933.2	-4,203.6	-9,700.0
Central Administration	370.6	1,638.2	2,916.0	7,241.2	18,340.0
Decentralized agencies	-59.9	-220.1	71.7	214.0	890.0
Provinces and municipality of Buenos Aires	-629.2	-1,681.9	-3,721.3	-7,409.6	-17,370.0
State enterprises	-382.8	-951.4	-2,199.6	-4,249.2	-11,560.0
Capital receipts	7.1	14.9	70.4	154.1	320.0
<u>Capital expenditure</u>	<u>454.8</u>	<u>1,323.4</u>	<u>1,929.6</u>	<u>4,331.2</u>	<u>11,320.0</u>
Fixed capital formation	436.5	1,215.3	1,667.0	3,612.5	9,230.0
Other	18.3	108.1	260.6	718.7	2,090.0
<u>Overall surplus or deficit (-)</u>	<u>-3.5</u>	<u>616.9</u>	<u>2,248.3</u>	<u>-2,084.0</u>	<u>7,770.0</u>
Interest as amortization	0.4	39.7	3.4	2.7	4,571.0
<u>Financing needs</u>	<u>3.9</u>	<u>-577.2</u>	<u>-2,251.7</u>	<u>2,086.7</u>	<u>-3,199.0</u>
External (net)	4.3	6.0	-386.0	-587.2	-3,880.0
Internal (net)	-0.4	-583.2	-1,865.7	2,673.9	681.0

Table 37. Argentina: Public Sector Operations (Continued)
(In billions of Argentine pesos)

	1978	1979	1980	Prel. 1981	Est. 1982
III. Decentralized Agencies					
Current revenue	1,106.4	2,779.8	4,433.6	7,031.2	22,050.0
Current expenditure	1,010.6	2,391.9	5,217.9	10,160.7	26,230.0
<u>Current account surplus</u>	<u>95.8</u>	<u>387.9</u>	<u>-784.3</u>	<u>-3,129.5</u>	<u>-4,180.0</u>
Net intertransfers	680.1	1,585.4	2,933.0	7,697.4	19,320.0
Central Administration	629.1	1,384.8	3,628.3	8,064.8	22,190.0
Special accounts	59.9	220.1	-71.7	-214.0	-890.0
Provinces and municipality of Buenos Aires	-8.9	-19.5	-614.8	-142.5	-1,960.0
State enterprises	--	--	-8.8	-10.9	-20.0
Capital receipts	4.0	11.9	33.2	46.9	540.0
<u>Capital expenditure</u>	<u>925.8</u>	<u>1,862.7</u>	<u>3,314.5</u>	<u>6,636.1</u>	<u>22,900.0</u>
Fixed capital formation	772.5	1,592.5	2,860.5	6,085.8	21,940.0
Other	153.3	270.2	454.0	550.3	960.0
<u>Overall surplus or deficit (-)</u>	<u>-145.9</u>	<u>122.5</u>	<u>-1,132.6</u>	<u>-2,021.3</u>	<u>-7,220.0</u>
Interest as amortization	124.8	312.4	574.4	3,097.0	17,544.0
<u>Financing needs</u>	<u>270.7</u>	<u>189.9</u>	<u>1,707.0</u>	<u>5,118.3</u>	<u>24,764.0</u>
External (net)	46.1	8.7	-381.8	2,080.3	-3,540.0
Internal (net)	224.6	181.2	1,325.2	3,038.0	28,304.0
IV. Social Security					
Current revenue	2,261.8	6,849.7	16,275.5	33,363.3	74,200.0
Current expenditure	2,417.3	6,966.0	16,457.1	32,792.0	74,200.0
<u>Current account surplus or deficit (-)</u>	<u>-155.5</u>	<u>-116.3</u>	<u>-181.6</u>	<u>571.3</u>	<u>--</u>
Net intertransfers	13.8	50.3	101.2	--	--
Central Administration	13.8	50.3	101.2	--	--
Capital receipts	146.3	93.0	--	--	--
Capital expenditure	--	--	--	--	--
<u>Overall surplus or deficit (-)</u>	<u>4.6</u>	<u>27.0</u>	<u>-80.4</u>	<u>571.3</u>	<u>--</u>
<u>Financing needs</u>	<u>-4.6</u>	<u>-27.0</u>	<u>80.4</u>	<u>-571.3</u>	<u>--</u>
Internal (net)	<u>-4.6</u>	<u>-27.0</u>	<u>80.4</u>	<u>-571.3</u>	<u>--</u>
V. Provinces and Municipality of Buenos Aires					
Current revenue	4,564.4	12,398.9	26,884.8	44,225.8	110,130.0
Current expenditure	3,379.1	9,283.9	22,456.4	45,680.4	103,380.0
<u>Current account surplus</u>	<u>1,185.3</u>	<u>3,115.0</u>	<u>4,428.4</u>	<u>-1,454.6</u>	<u>6,750.0</u>
Net intertransfers	868.7	1,667.0	5,350.3	14,647.0	30,290.0
Central Administration	230.6	19.4	1,014.2	7,094.9	10,960.0
Special accounts	629.2	1,681.9	3,721.3	7,409.6	17,370.0
Decentralized agencies	8.9	19.5	614.8	142.5	1,960.0
State enterprises	--	-53.8	--	--	--
Capital receipts	32.5	69.7	155.1	259.3	800.0
<u>Capital expenditure</u>	<u>2,206.2</u>	<u>5,148.7</u>	<u>10,685.5</u>	<u>19,690.4</u>	<u>36,960.0</u>
Fixed capital formation	2,141.3	4,982.7	10,132.7	15,772.8	35,080.0
Other	64.9	166.0	552.8	3,917.6	1,880.0
<u>Overall surplus or deficit (-)</u>	<u>-119.7</u>	<u>-296.8</u>	<u>-751.7</u>	<u>-6,238.7</u>	<u>880.0</u>
Interest as amortization	7.7	64.9	204.0	1,015.1	2,703.0
<u>Financing needs</u>	<u>127.4</u>	<u>361.7</u>	<u>955.7</u>	<u>7,253.8</u>	<u>1,823.0</u>
External (net)	--	--	--	--	-1,580.0
Internal (net)	127.4	361.7	955.7	7,253.8	3,403.0

Table 37. Argentina: Public Sector Operations (Concluded)
(In billions of Argentine pesos)

	1978	1979	1980	Pre. 1981	Est. 1982
VI. General Government (VI = I through V)					
Current revenue	13,162.4	34,726.6	74,215.5	128,724.1	337,800.0
Current expenditure	10,141.6	27,341.3	63,674.9	127,922.6	300,670.0
Current account surplus	<u>3,020.8</u>	<u>7,385.3</u>	<u>10,540.6</u>	<u>801.5</u>	<u>37,130.0</u>
Net intertransfers	-678.3	-912.0	-2,596.5	-4,852.1	-8,690.0
State enterprises	<u>-678.3</u>	<u>-912.0</u>	<u>-2,596.5</u>	<u>-4,852.1</u>	<u>-8,690.0</u>
Capital receipts	189.9	194.5	258.7	462.7	1,660.0
Capital expenditure	4,055.5	9,359.2	17,354.6	34,419.1	78,550.0
Fixed capital formation	<u>3,807.3</u>	<u>8,807.8</u>	<u>15,969.8</u>	<u>28,366.5</u>	<u>72,560.0</u>
Other	248.2	551.4	1,384.8	6,052.6	5,900.0
Overall surplus or deficit (-)	<u>-1,523.1</u>	<u>-2,691.4</u>	<u>-9,151.8</u>	<u>-38,007.0</u>	<u>-38,450.0</u>
Interest as amortization	987.8	2,852.7	5,050.0	13,741.7	58,578.0
Extrabudgetary expenditure 1/	60.2	594.9	1,346.8	5,935.7	8,923.0
Financing needs	2,571.1	6,139.0	15,548.6	57,684.4	115,951.0
External (net)	241.6	435.8	-125.8	9,619.4	-9,000.0
Internal (net)	2,329.5	5,703.2	15,674.4	48,065.0	124,951.0
VII. State Enterprises					
Current revenue	5,794.9	12,485.0	24,476.7	56,238.3	156,690.0
Current expenditure	4,419.5	10,957.6	22,106.5	47,017.6	124,000.0
Current account surplus or deficit (-)	<u>1,375.4</u>	<u>1,527.4</u>	<u>2,370.2</u>	<u>9,220.7</u>	<u>32,690.0</u>
Net intertransfers with General Government	678.3	912.0	2,596.5	4,852.1	8,690.0
Capital receipts	142.0	250.7	603.4	892.3	3,450.0
Capital expenditure	2,664.6	5,482.4	10,107.4	19,132.9	54,490.0
Fixed capital formation	<u>2,448.4</u>	<u>5,157.6</u>	<u>9,683.4</u>	<u>17,375.4</u>	
Other	216.2	324.8	424.0	1,757.5	
Overall surplus or deficit (-)	<u>-468.9</u>	<u>-2,792.3</u>	<u>-4,537.3</u>	<u>-4,167.8</u>	<u>-9,660.0</u>
Interest as amortization	561.0	1,409.6	4,214.4	16,005.3	74,650.0
Financing needs	<u>1,029.9</u>	<u>4,201.9</u>	<u>8,751.7</u>	<u>20,173.1</u>	<u>84,310.0</u>
External (net)	<u>776.4</u>	<u>2,071.0</u>	<u>4,098.4</u>	<u>14,013.1</u>	<u>37,220.0</u>
Internal (net)	253.5	2,130.9	4,653.3	6,160.0	47,090.0
VIII. Consolidated Public Sector					
Current account surplus or deficit (-)	<u>4,396.2</u>	<u>8,912.7</u>	<u>12,910.8</u>	<u>10,022.2</u>	<u>69,820.0</u>
Capital receipts	331.9	445.2	862.1	1,355.0	5,110.0
Capital expenditure	6,720.1	14,841.6	27,462.0	53,552.0	133,040.0
Overall surplus or deficit (-)	<u>-1,992.0</u>	<u>-5,483.7</u>	<u>-13,689.1</u>	<u>-42,174.7</u>	<u>-58,110.0</u>
Interest as amortization	1,548.8	4,262.3	9,264.4	29,747.0	133,228.0
Extrabudgetary expenditure 1/	60.2	594.9	1,346.8	5,935.7	8,923.0
Payments arrears 2/	--	--	--	--	21,868.0
Financing needs 3/	<u>3,601.0</u>	<u>10,340.9</u>	<u>24,300.3</u>	<u>77,857.5</u>	<u>222,129.0</u>
External (net)	<u>1,018.0</u>	<u>2,506.8</u>	<u>3,972.6</u>	<u>23,632.5</u>	<u>46,854.0</u>
Internal (net)	2,583.0	7,834.1	20,327.7	54,225.0	175,275.0

Source: Ministry of Economy.

1/ Net of extrabudgetary receipts.

2/ Current payments arrears for which breakdown is unavailable as per public sector components.

3/ Financing needs of consolidated public sector adjusted for extrabudgetary expenditure and payments arrears.

Table 38. Argentina: Central Administration Operations 1/

(In billions of Argentine pesos)

	1978	1979	1980	1981	Est. 1982
Total revenue	3,331	9,479	16,984	33,594	98,850 2/
Tax revenue	2,773	6,814	15,257	29,328	87,559
Taxes on income	413	766	2,018	4,396	12,657
Taxes on capital and wealth	146	479	1,034	2,152	8,048
Taxes on production and consumption	1,561	3,689	8,541	21,166	60,825
Sales tax and value-added tax	721	2,118	5,238	12,223	26,674
Excise taxes	840	1,571	3,303	10,943	34,151
Consolidated excises	322	925	2,049	4,383	10,642
Fuel taxes	313	271	585	5,533	20,842
Foreign exchange tax	65	160	364	945	2,492
Other	140	215	305	82	175
Taxes on international trade	436	1,380	3,720	8,466	27,011
Import duties	394	1,295	3,584	7,195	12,111
Export taxes	31	42	75	1,008	13,758
Other	11	43	81	263	1,142
Other taxes	217	501	-56	-8,852	-20,972
Stamp tax	152	488	1,034	1,577	3,330
Tax amnesty	40	4	3	2	3
Law 22,293 3/	--	--	-1,113	-10,431	-24,305
Other	25	48	20	--	--
Nontax revenue	558	2,665	1,727	4,266	11,291
Statistical and port fees	120	294	644	135	...
Consular fees	19	222	268	282	...
Transfers from rest of public sector	370	2,068	370	2,597	...
Other 4/	49	80	445	1,252	...
Total expenditure	4,397	11,749	26,296	62,604	148,730
Current expenditure	2,698	6,863	16,083	32,646	80,470
Personnel wages and salaries	1,571	3,881	9,804	17,682	39,110
Goods and services	518	1,340	2,712	7,429	15,240
Interest	14	23	62	412	2,470
On domestic debt	5	14	45	110	650
On foreign debt	9	9	17	302	1,820
Transfers to private sector	595	1,620	3,504	7,123	23,450
Transfers to rest of public sector 5/	1,276	3,855	8,469	24,774	60,890
Special accounts	239	923	1,888	5,016	18,340
Decentralized agencies	210	434	3,233	7,218	22,190
Provinces	240	1,077	982	7,940	10,960
State enterprises	564	1,313	2,345	3,569	9,400
Other	23	108	21	1,031	--
Capital expenditure	417	975	1,621	4,827	7,370
Other 6/	6	56	123	399	--
Overall surplus or deficit (-)	-1,066	-2,270	-9,312	-29,010	-49,880
Interest classified as amortization	944	2,372	4,140	14,761	33,760
Total financing needs	2,010	4,642	13,452	43,771	83,640
Domestic financing (net)	1,562	4,310	12,478	34,581	83,640
Central Bank (net)	113	48	9,763	27,756	...
Exchange subsidy	187	--	--	--	...
Other (net)	-74	48	9,763	27,756	...
Bond sales (net)	944	3,005	163	4,436	...
Debt cancellation certificates	-44	-42	287	136	...
Changes in Treasury drafts	132	345	1,464	3,160	...
Unified Fund	447	977	1,555	1,564	...
Other (unclassified)	-29	-233	-754	-2,471	...
Foreign financing (net)	448	332	974	9,190	--
Drawings	559	606	1,272	9,773	8,020
Amortization	-11	-274	-298	-583	-8,020

Source: Ministry of Economy.

1/ Corresponds to Treasury cash operations, including budget operations of the previous year and changes in Treasury drafts.

2/ Includes \$a 12,290 billion corresponding to taxes paid by state enterprises.

3/ Corresponds to transfers to the social security system.

4/ Excludes proceeds from sales of foreign exchange at subsidized rates (decree 4901).

5/ Includes net lending operations.

6/ Includes unclassified net nonbudgetary expenditures in 1978-81.

STATISTICAL APPENDIX

Table 39. Argentina: Public Sector Civilian Employment
(End of period)

	1978	1979	1980	1981	Est. 1982
Total	1,649,976	1,639,186	1,615,158	1,605,721	1,590,998
Central administration, special accounts and decentralized agencies	582,714	564,450	557,087	573,518	579,421
Provincial and municipal governments	688,599	725,404	721,035	718,405	713,616
State enterprises and corporations	378,663	349,332	337,036	313,798	297,961

Source: Ministry of Economy.

Table 40. Argentina: Operations of the State Enterprises

(In billions of Argentine pesos)

	1978	1979	1980	1981	Est. 1982
<u>Current revenue</u>	<u>5,794.9</u>	<u>12,485.0</u>	<u>24,476.7</u>	<u>56,238.3</u>	<u>156,690.0</u>
State Petroleum Company (YPF)	2,049.7	4,488.7	7,964.4	20,026.6	61,512.0
State Gas Corporation (GE)	643.3	1,272.4	2,511.4	5,583.3	14,918.0
Electricity Company Greater Buenos Aires (SEGBA)	500.4	1,124.7	2,310.2	5,765.7	12,599.0
State Telecommunications Corporation (ENTEL)	579.4	1,099.8	2,730.1	6,089.7	15,816.0
Argentine Railways (FA)	304.7	807.9	1,519.8	2,765.9	5,633.0
Other	1,717.4	3,691.5	7,440.8	16,001.1	46,212.0
<u>Current expenditure</u>	<u>4,419.5</u>	<u>10,957.6</u>	<u>22,106.5</u>	<u>47,017.6</u>	<u>124,000.0</u>
State Petroleum Company (YPF)	1,263.7	3,235.2	6,522.6	15,122.8	40,430.0
State Gas Corporation (GE)	404.1	869.1	1,836.6	4,647.3	17,510.0
Electricity Company Greater Buenos Aires (SEGBA)	376.3	1,006.4	1,835.0	4,084.0	13,510.0
State Telecommunications Corporation (ENTEL)	263.4	679.6	1,445.0	3,126.5	9,394.0
Argentine Railways (FA)	581.0	1,588.2	3,615.9	5,698.9	13,575.0
Other	1,531.0	3,579.1	6,851.4	14,338.1	29,581.0
<u>Current account surplus or deficit (-)</u>	<u>1,375.4</u>	<u>1,527.4</u>	<u>2,370.2</u>	<u>9,220.7</u>	<u>32,690.0</u>
State Petroleum Company (YPF)	786.0	1,253.5	1,441.8	4,903.8	21,082.0
State Gas Corporation (GE)	239.2	403.3	674.8	942.0	-2,592.0
Electricity Company Greater Buenos Aires (SEGBA)	124.1	118.3	475.2	1,681.7	-911.0
State Telecommunications Corporation (ENTEL)	316.0	420.2	1,285.1	2,963.2	6,422.0
Argentine Railways (FA)	-276.3	-780.3	-2,096.1	-2,933.0	-7,942.0
Other	186.4	112.4	589.4	1,663.0	16,631.0
<u>Net intertransfers with General Government</u>	<u>678.3</u>	<u>912.0</u>	<u>2,596.5</u>	<u>4,852.1</u>	<u>8,690.0</u>
State Petroleum Company (YPF)	--	-449.8	-667.6	-962.3	-6,767.0
State Gas Corporation (GE)	--	-120.1	-114.1	-280.5	-309.0
Electricity Company Greater Buenos Aires (SEGBA)	--	-94.4	-261.4	-699.4	-1,339.0
State Telecommunications Corporation (ENTEL)	--	-100.3	-162.6	-858.7	-1,559.0
Argentine Railways (FA)	224.6	526.7	1,413.7	3,308.9	9,598.0
Other	453.7	1,149.9	2,388.5	4,344.1	9,066.0

Table 40. Argentina: Operations of the State Enterprises (Concluded)

(In billions of Argentine pesos)

	1978	1979	1980	1981	Est. 1982
<u>Capital receipts</u>	<u>142.0</u>	<u>250.7</u>	<u>603.4</u>	<u>892.3</u>	<u>3,450.0</u>
State Petroleum Company (YPF)	—	24.3	20.2	31.2	773.0
State Gas Corporation (GE)	0.9	2.0	5.7	46.9	362.0
Electricity Company Greater Buenos Aires (SEGBA)	58.1	--	--	70.4	--
State Telecommunications Corporation (ENTEL)	—	--	--	--	--
Argentine Railways (FA)	18.4	10.3	20.5	—	59.0
Other	64.6	214.1	557.0	743.8	2,256.0
<u>Capital expenditure</u>	<u>2,664.6</u>	<u>5,482.4</u>	<u>10,107.4</u>	<u>19,132.9</u>	<u>54,490.0</u>
State Petroleum Company (YPF)	822.6	2,058.4	2,623.3	4,708.8	13,973.0
State Gas Corporation (GE)	161.5	250.2	461.5	758.1	3,072.0
Electricity Company Greater Buenos Aires (SEGBA)	121.9	216.6	363.0	1,353.8	2,830.0
State Telecommunications Corporation (ENTEL)	177.3	423.6	1,621.5	2,953.3	7,439.0
Argentine Railways (FA)	137.9	448.0	752.4	1,321.3	5,100.0
Other	1,243.4	2,085.6	4,285.7	8,037.6	22,076.0
<u>Overall surplus or deficit (-)</u>	<u>-468.9</u>	<u>-2,792.3</u>	<u>-4,537.3</u>	<u>-4,167.8</u>	<u>-9,660.0</u>
State Petroleum Company (YPF)	-36.6	-1,230.4	-1,828.9	-736.4	1,115.0
State Gas Corporation (GE)	78.6	35.0	104.9	-49.7	-5,611.0
Electricity Company Greater Buenos Aires (SEGBA)	60.3	-192.7	-149.2	-301.1	-5,080.0
State Telecommunications Corporation (ENTEL)	138.7	-103.7	-499.0	-848.8	-2,576.0
Argentine Railways (FA)	-171.2	-691.3	-1,414.3	-945.4	-3,385.0
Other	-538.7	-609.2	-750.8	-1,286.7	5,877.0
Interest as amortization	561.0	1,409.6	4,214.4	16,005.3	74,650.0
<u>Financing needs</u>	<u>1,029.9</u>	<u>4,201.9</u>	<u>8,751.7</u>	<u>20,173.1</u>	<u>84,310.0</u>
External (net)	776.4	2,071.0	4,098.4	14,013.1	37,220.0
Internal (net)	253.5	2,130.9	4,653.3	6,160.0	47,090.0

Source: Ministry of Economy.

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Table 41. Argentina: Rates of Public Services to Consumers in Constant Prices 1/

(1960 = 100)

	End of Period				
	1978	1979 2/	1980	1981	Nov. 1982
<u>General level</u>	<u>112.7</u>	<u>92.1</u>	<u>117.5</u>	<u>121.6</u>	<u>79.2</u>
Fuels and electricity	105.0	87.3	110.3	118.0	82.3
Fuels	109.4	91.7	113.5	125.1	89.9
State Petroleum Company (YPF)					
Sales price 3/	107.0	90.8	109.2	122.4	90.3
Retention price	98.1	77.5	89.1	93.6	66.9
State Gas Company	128.0	98.0	142.7	144.6	88.5
State Coal Company (YCF)	78.3	69.7	69.9	71.8	48.8
Electricity	87.1	72.1	99.0	93.2	55.5
Buenos Aires Electricity Company	83.3	71.9	100.2	91.2	4/54.3 4/
National Electricity Company	94.7	73.9	98.9	98.0	58.5
Electric Services Administration (ex-CIAE)	...	68.6	94.1
Transport and communications	137.7	109.5	141.5	137.0	74.3
Transport	106.7	92.7	107.7	104.9	64.2
Argentine Railways	109.0	87.3	103.6	93.6	55.0
Buenos Aires Subway	150.8
Argentine Merchant Marine	142.2	116.2	142.4	204.5	...
Argentine Airlines	67.7	64.8	72.8	67.7	49.0
Port Authority	189.6	219.8	244.6	257.8	187.5
Communications	173.9	128.4	179.4	173.1	85.1
ENTEL	128.6	95.6	130.7	139.7	68.9
ENCOTEL	335.2	245.2	352.8	291.9	142.5
Health services	56.3	41.9	67.8	51.0	30.1

Source: State Enterprises Central Office.

1/ The indices in constant prices are obtained using as deflator the nonagricultural wholesale price index.

2/ Beginning in 1979 the index uses different relative weights, reflecting the exclusion of the Buenos Aires Subway, residual coal and river transport to Montevideo, and the inclusion of the Electric Services Administration (ex-CIAE).

3/ The retention price indicates the part of the sales price of fuel products that YPF is allowed to retain. The difference between sales price and retention price is made up by various taxes.

4/ Includes Electric Services Administration (ex-CIAE).

Table 42. Argentina: Summary Accounts of the Financial System 1/

(In billions of Argentine pesos)

	US\$1 = \$a 1,317 Dec. 1978	US\$1 = \$a 1,837 Dec. 1979	US\$1 = \$a 4,409 Dec. 1980	US\$1 = \$a 22,800 Dec. 1981	Oct. 1981	Oct. 1982
I. Consolidated Financial System						
<u>Net international reserves</u> (Central Bank)	6,959	12,625	17,610	12,320	29,569	13,902
<u>Other external assets</u> (Central Bank)	1,171	1,288	1,797	1,960	4,704	5,255
<u>External assets (rest of financial system)</u>	-2,059	-5,133	-7,160	-9,939	-23,854	-27,322
<u>Net domestic assets</u>	18,991	56,970	59,054	123,627	140,735	296,381
Central Government (net)	3,284	6,534	6,534	18,409	18,409)
Rest of public sector (net)	-1,706	-2,493	-2,596	-5,513	-5,513)
Official sector (in foreign exchange, net) 2/	...	440	614	1,264	3,033)
Interest Equalization Fund	1,693	2,912	2,912	1,189	1,189	4,725
Official capital and surplus	-88	-289	-118	-208	-208	-3,950
Private sector	15,297	45,239	47,252	96,575	111,914	216,459
Nonmonetary international agencies (net)	9	12	12	-76	-76	54
Unclassified assets (net)	752	4,702	4,503	8,854	8,854	-6,732
Intersystem float	-250	-87	-59	3,133	3,133	15,697
<u>Counterpart unrequited foreign exchange</u>	4,265	5,391	10,888	12,704	33,355	32,255
Allocation of SDRs	262	361	504	618	1,483	1,631
Valuation adjustment	4,003	5,030	10,384	12,086	31,872	30,624
<u>Liabilities to private sector</u>	20,797	60,360	60,413	115,264	117,799	255,961
Monetary liabilities	5,708	13,748	13,748	27,161	27,161	46,095
Quasi-money liabilities	10,924	35,001	35,001	64,047	64,047	141,963
Mortgage bonds	668	1,591	1,591	2,709	2,709	3,476
Other	681	1,036	1,009	2,656	2,656	8,518
Foreign exchange deposits 2/	...	328	458	1,811	4,346	4,037
Capital and surplus	2,816	8,606	8,606	16,880	16,880	51,872

Table 42. Argentina: Summary Accounts of the Financial System 1/ (Continued)

(In billions of Argentine pesos)

	US\$1 = \$a 1,317 Dec. 1978	US\$1 = \$a 1,837 Dec. 1979	US\$1 = \$a 4,409 Dec. 1980	US\$1 = \$a 22,800 Dec. 1981	Oct. 1981	Oct. 1982
II. Banking System						
<u>Net international reserves</u> <u>(Central Bank)</u>	6,959	12,625	17,610	12,320	29,569	13,902
<u>Other external assets</u> <u>(Central Bank)</u>	1,171	1,288	1,797	1,960	4,704	5,255
<u>External assets (rest of banking system)</u>	-2,058	-5,122	-7,145	-9,928	-23,828	-27,295
<u>Net domestic assets</u>	17,249	51,637	53,721	111,649	128,757	263,517
Central Government (net)	3,243	6,456	6,456	18,339	18,339)
Rest of public sector (net)	-1,707	-2,087	-2,630	-5,555	-5,555)
Official sector (in foreign exchange, net) 2/	614	1,264	3,033)
Interest Equalization Fund	1,693	2,912	2,912	1,189	1,189)
Official capital and surplus	-88	-289	-118	-208	-208)
Credit to rest of financial system	58	161	161	1,712	1,712	5,235
Private sector	12,971	38,856	40,869	82,500	97,839	187,616
Nonmonetary international agencies (net)	9	12	12	-76	-76	54
Unclassified assets (net)	956	5,547	5,348	9,925	9,925	-9,383
Interbank float	114	69	97	2,559	2,559	10,076
<u>Counterpart unrequited foreign exchange</u>	4,265	5,388	10,890	12,703	33,369	32,145
Allocation of SDRs	262	361	504	618	1,483	1,631
Valuation adjustment	4,003	5,027	10,386	12,085	31,886	30,514
<u>Liabilities to rest of financial system</u>	882	1,090	1,090	1,103	1,103	619
<u>Liabilities to private sector</u>	18,174	53,950	54,003	102,195	104,730	222,615
Currency in circulation	3,277	7,789	7,788	16,229	16,229	30,207
Demand deposits	2,302	5,959	5,959	10,932	10,932	15,888
Savings deposits	1,043	2,541	2,541	6,276	6,276) 113,682
Time deposits	7,638	26,607	26,607	46,546	46,546) 113,682
Mortgage bonds	668	1,591	1,591	2,709	2,709	3,476
Other	648	1,037	960	1,877	1,877	7,105
Foreign exchange deposits 2/	...	328	458	1,811	4,346	4,037
Capital and surplus deposits	2,598	8,093	8,098	15,815	15,815	48,220

Table 42. Argentina: Summary Accounts of the Financial System 1/ (Continued)

(In billions of Argentine pesos)

	US\$1 = \$a 1,317 Dec. 1978	US\$1 = \$a 1,837 Dec. 1979	US\$1 = \$a 4,409 Dec. 1980	US\$1 = \$a 22,800 Dec. 1981	US\$1 = \$a 22,800 Oct. 1981	US\$1 = \$a 22,800 Oct. 1982
IIa. Central Bank						
<u>Net international reserves</u>	6,959	12,625	17,610	12,320	29,569	13,907
<u>Other external assets</u>	1,171	1,288	1,797	1,960	4,704	5,255
<u>Net domestic assets</u>	3,228	4,644	4,644	22,146	22,146	64,063
Central Government (net)	1,280	1,332	1,332	11,464	11,464	43,340
Assets	1,323	1,352	1,352	11,494	11,494	43,542
Liabilities	-43	-20	-20	-30	-30	-202
Rest of public sector (net)	--	-38	-38	-6	-6	-65
Interest Equalization Fund	1,693	2,912	2,912	1,189	1,189	4,725
Official capital and surplus	-88	-289	-118	-208	-208	-3,950
Credit to commercial banks	574	789	817	10,112	10,112	36,653
Credit to rest of financial system	58	161	161	1,712	1,712	5,235
Nonmonetary international agencies (net)	9	12	12	-76	-76	54
Unclassified assets (net)	-298	-235	-434	-2,041	-2,041	-21,820
<u>Counterpart unrequited foreign exchange</u>	4,240	5,382	10,876	12,833	32,826	31,897
Allocation of SDRs	262	361	504	618	1,483	1,631
Valuation adjustment	3,978	5,021	10,372	12,215	31,343	30,266
<u>Liabilities to rest of banking system</u>	3,546	5,180	5,180	7,070	7,070	20,502
Currency	993	2,345	2,345	4,074	4,074	9,288
Demand deposits	2,553	2,835	2,835	2,996	2,996	11,214
<u>Liabilities to rest of financial system</u>	295	206	206	294	294	619
Currency	53	81	81	189	189	...
Demand deposits	242	125	125	105	105	619
<u>Liabilities to private sector</u>	3,277	7,789	7,789	16,229	16,229	30,207
Currency in circulation	3,277	7,789	7,789	16,229	16,229	30,207
Advance import deposits	--	--	--	--	--	--

Table 42. Argentina: Summary Accounts of the Financial System 1/ (Continued)

(In billions of Argentine pesos)

	US\$1 = \$a 1,317	US\$1 = \$a 1,837	US\$1 = \$a 4,409	US\$1 = \$a 22,800	
	Dec. 1978	Dec. 1979	Dec. 1980	Dec. 1981	Dec. 1981 Oct. 1981 Oct. 1982
IIb. Commercial Banks					
<u>Net international reserves</u>	-2,058	-5,122	-7,145	-9,928	-23,828 -27,295 -141,149 -129,108 -146,604
<u>Monetary reserves and currency holdings</u>	3,737	5,441	5,441	7,529	7,529 20,549 20,549 26,325 234,600
<u>Net domestic assets</u>	14,481	47,713	49,797	97,056	114,164 225,922 356,185 313,787 712,188
Central Government (net)	1,963	5,124	5,124	6,875	6,875) 25,869) 54,080) 43,525) 141,195
Rest of public sector (net)	-1,707	-2,049	-2,592	-5,549	-5,549)))))
Official sector (in foreign exchange, net) 2/	614	1,264	3,033)))))
Private sector	12,971	38,856	40,869	82,500	97,839 187,616 289,668 269,017 476,998
Unclassified assets (net)	1,254	5,782	5,782	11,966	11,966 12,437 12,437 1,245 93,995
<u>Counterpart unrequired foreign exchange</u>	25	6	14	-130	543 144 -285 5,432 1,715
<u>Liabilities to Central Bank</u>	651	981	981	8,012	8,012 26,624 26,624 26,114 369,920
<u>Liabilities to rest of financial system</u>	587	884	884	809	809 -- -- -- --
<u>Liabilities to private sector</u>	14,897	46,161	46,214	85,966	88,501 192,408 209,246 179,458 428,549
Demand deposits	2,302	5,959	5,959	10,932	10,932 15,888 15,888 12,381 44,916
Savings deposits	1,043	2,541	2,541	6,276	6,276) 113,682) 113,682 9,957 24,104
Time deposits	7,638	26,607	26,607	46,546	46,546)) 92,395 171,320
Mortgage bonds	668	1,591	1,591	2,709	2,709 3,476 3,476 3,124 5,345
Foreign exchange deposits 2/	458	1,811	4,346 4,037 20,875 20,359 14,503
Other	648	1,365	960	1,877	1,877 7,105 7,105 6,520 22,085
Capital and surplus	2,598	8,098	8,098	15,815	15,815 48,220 48,220 34,722 146,276

Table 42. Argentina: Summary Accounts of the Financial System 1/ (Concluded)

(In billions of Argentine pesos)

	US\$1 = \$a 1,317 Dec. 1978	US\$1 = \$a 1,837 Dec. 1979	US\$1 = \$a 4,409 Dec. 1980	US\$1 = \$a 22,800 Dec. 1981	Oct. 1981	Oct. 1982
III. Rest of Financial System						
<u>Net international reserves</u>	-1	-11	-15	-11	-26	-27
<u>Monetary reserves and currency holdings</u>	53	81	81	189	189	4,202
<u>Claims on banks</u>	587	884	884	809	809	--
<u>Net domestic assets</u>	2,164	5,649	5,649	13,116	13,116	32,478
Central Government (net)	41	78	78	70	70	984
Rest of public sector (net)	1	34	34	42	42	984
Private sector	2,326	6,383	6,383	14,075	14,075	28,843
Unclassified assets (net)	-204	-845	-845	-1,071	-1,071	2,651
<u>Counterpart unrequrited foreign exchange</u>	--	3	-2	1	-14	110
<u>Liabilities to Central Bank</u>	180	192	192	1,033	1,033	3,197
<u>Liabilities to private sector</u>	2,623	6,409	6,409	13,069	13,069	33,346
Sight deposits	129	--	--	--	--	--
Savings deposits	42	31	31	56	56	28,281
Time deposits	2,201	5,822	5,822	11,169	11,169	28,281
Other deposits	33	49	49	779	779	1,413
Capital and surplus	218	508	508	1,065	1,065	3,652

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

1/ Totals may differ from the sum of components due to rounding.

2/ Unavailable before 1979.

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Table 43. Argentina: Selected Interest Rates

(In per cent)

	Time Deposits 1/		Reserve Requirements 2/		Treasury Bills 3/		Legal Reserve Ratio
	Nominal	Real 4/	Nominal	Real 4/	Nominal	Real 4/	
1980							
January	5.8	1.5	6.1	1.8	5.6	1.3	15.0
February	5.2	1.1	5.3	1.2	5.1	1.0	13.0
March	4.8	1.0	5.2	1.3	5.0	1.2	11.5
April	4.5	0.7	4.7	0.9	4.8	1.0	11.0
May	4.6	-0.7	4.6	-0.7	5.3	-	11.0
June	5.3	-2.0	4.8	-2.5	5.1	-2.2	12.0
July	6.0	3.1	5.9	3.0	5.6	3.7	13.0
August	5.0	2.1	5.9	3.0	5.6	3.7	13.0
September	4.3	1.4	4.6	1.7	4.2	1.3	11.5
October	4.3	-1.1	4.4	-1.0	4.7	-0.7	11.0
November	4.6	3.0	4.4	1.8	5.0	2.4	10.0
December	5.4	-6.8	5.1	-7.1	5.5	-6.7	10.0
1981							
January	5.6	3.2	5.7	3.3	5.7	3.3	10.0
February	6.6	1.5	5.4	0.3	7.4	2.3	10.0
March	8.1	3.5	7.6	3.0	8.9	4.3	12.0
April	7.5	-4.7	8.1	-4.2	7.1	-5.1	12.0
May	8.0	-9.7	7.6	-10.1	8.6	-9.1	14.0
June	10.2	-8.4	8.9	-9.7	10.3	-8.3	16.0
July	10.8	-1.9	11.1	-1.6	10.1	-2.6	16.5
August	10.5	2.1	10.9	2.5	9.4	1.0	18.0
September	8.5	1.5	9.7	2.7	6.8	-0.2	18.0
October	7.0	0.8	7.7	1.5	6.8	0.6	18.0
November	7.4	-3.3	7.2	-3.4	6.5	-4.1	18.0
December	6.9	-3.4	7.5	-2.8	6.4	-3.8	15.5
1982							
January	7.3	-5.9	7.4	-5.8	6.4	-6.7	16.5
February	7.1	1.4	6.7	1.1	6.8	1.2	16.0
March	6.9	2.1	7.2	2.4	6.8	2.0	16.5
April	8.2	2.0	7.2	1.1	6.8	0.7	17.0
May	7.4	-1.7	8.6	-0.6	4.6	-4.3	15.0
June	5.9	-8.1	6.4	-7.7	4.4	-9.4	13.5
July	5.1	-17.7	5/	--	--	--	100.0
August	5.0	-9.6	5/	--	11.0	-4.4	100.0
September	7.0	-10.2	5/	--	11.0	-6.9	100.0
October	7.0	-2.6	5/	--	11.0	1.0	100.0
November	8.5	-4.7	5/	--	11.0	-2.5	100.0

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

1/ Thirty-day transferable certificates of deposit.

2/ Average interest paid by the Central Bank on reserve requirements for interest bearing deposits.

3/ Twenty-eight days.

4/ Nominal interest rates deflated by the monthly change in the wholesale price index.

5/ Since July 1982 the Central Bank pays an interest equal to the deposit rate that the financial system pays to depositors plus a commission (0.5 for banks and 0.6 for non-bank financial institutions).

Table 44. Argentina: Private Sector Financial Assets

	End of year				Oct. 4/ 1982
	1978	1979	1980	1981	
(In billions of Argentine pesos)					
Total	18,957	54,116	103,263	227,980	396,752
Claims on financial system	17,981	51,807	100,919	220,927	357,123
Money	5,708	13,748	27,161	46,095	98,050
Quasi-money	10,924	35,001	64,047	141,963	214,570
Mortgage bonds	668	1,591	2,709	3,476	5,345
Other	681	1,009	2,656	8,518	24,655
Foreign currency deposits	...	458	4,346	20,875	14,503
Treasury adjustable bonds 1/	907 3/	1,759 3/	2,075	6,095	11,023
Treasury adjustable deposits 1/	1	1	1	1	1
Treasury bills 1/	35	478	216	843	28,562
Acceptances	33	71	52	114	43
(In per cent)					
Total	100.0	100.0	100.0	100.0	100.0
Claims on financial system	94.8	95.7	97.7	96.9	90.0
Money	30.1	23.4	26.3	20.2	24.7
Quasi-money	57.6	64.7	62.0	62.3	54.1
Mortgage bonds	3.5	2.9	2.6	1.5	1.4
Other	3.6	1.9	2.6	3.7	6.2
Foreign currency deposits	...	0.8	4.2	9.2	3.6
Treasury adjustable bonds 1/	4.8	3.3	2.0	2.7	2.8
Treasury adjustable deposits 1/	--	--	--	--	--
Treasury bills 1/	0.2	0.9	0.2	0.4	7.2
Acceptances	0.2	0.1	0.1	0.2	--

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

1/ Includes private sector and other unidentified holdings.

2/ Partially estimated.

3/ Includes variable interest rate bonds.

4/ Estimated.

Table 45. Argentina: Index of Average Wages per Employee
in the Industrial Sector 1/

(1976 = 100)

	Nominal Wage	Consumer Price Index	Real Wage
<u>1978</u>			
1st quarter	480.6	510.7	94.1
2nd quarter	625.4	665.0	94.0
3rd quarter	804.7	819.3	98.2
4th quarter	1,034.9	1,048.5	98.7
<u>1979</u>			
1st quarter	1,383.1	1,377.6	100.4
2nd quarter	1,812.3	1,711.1	105.9
3rd quarter	2,423.4	2,195.1	110.4
4th quarter	3,111.2	2,612.2	119.1
<u>1980</u>			
1st quarter	3,684.8	3,083.3	119.5
2nd quarter	4,433.2	3,654.8	121.3
3rd quarter	5,324.3	4,173.6	127.6
4th quarter	6,092.5	4,934.1	123.5
<u>1981</u>			
1st quarter	6,907.6	5,644.3	122.4
2nd quarter	7,984.1	6,904.4	115.6
3rd quarter	9,354.0	8,859.3	105.6
4th quarter	11,557.8	10,993.0	105.1
<u>1982</u>			
1st quarter	13,600.7	13,991.1	97.2
2nd quarter	14,654.5	15,872.1	92.3
3rd quarter	21,745.2	22,638.1	96.1
1978	736.4	760.9	96.3
1979	2,182.5	1,974.0	109.0
1980	4,883.7	3,961.5	123.0
1981	8,950.9	8,100.2	112.2

Sources: National Statistical Institute; and Fund staff estimates.

1/ The nominal wage index refers to total remuneration (wages and salaries plus supplements, and excludes the annual bonus equivalent to one month's salary which is paid at different times of the year) per employee (on the payroll as of the last working day of the quarter or month). It is based on a stratified sample of 1,328 firms in 27 industrial classifications. The series has been seasonally adjusted by the Fund staff.

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Table 46. Argentina: National Accounts

(In billions of Argentine pesos at 1970 prices)

	1978	1979	1980	Prel. 1981	Est. 1982
<u>Gross domestic expenditure</u>	<u>98.23</u>	<u>109.91</u>	<u>116.25</u>	<u>106.83</u>	<u>95.79</u>
Consumption	76.03	85.53	89.51	85.58	79.93
Private	63.15	72.32	74.05	70.74	66.86
Government	12.88	13.21	15.46	14.84	13.07
Gross domestic investment	22.20	24.38	26.74	21.26	15.86
Fixed capital formation	22.87	24.34	25.82	22.00	15.86
Private	12.18	13.65	15.49	12.77	8.00
Public	10.69	10.18	10.33	9.23	7.86
Change in inventories	-0.67	0.04	0.92	-0.73	--
<u>Foreign balance</u>	<u>5.38</u>	<u>1.07</u>	<u>-4.51</u>	<u>-1.85</u>	<u>4.71</u>
Exports of goods and nonfactor services	13.22	12.92	12.42	13.42	13.44
Imports of goods and nonfactor services	-7.84	-11.85	16.93	15.27	8.73
<u>Gross domestic product at market prices</u>	<u>103.61</u>	<u>110.98</u>	<u>111.74</u>	<u>104.98</u>	<u>100.50</u>
Net factor payments abroad	-1.06	-1.18	-1.82	-6.04	-7.16
<u>Gross national product at market prices</u>	<u>102.55</u>	<u>109.80</u>	<u>109.92</u>	<u>98.94</u>	<u>93.34</u>
Subsidies	0.98	1.05	1.06	0.99	0.95
Indirect taxes	-12.79	-13.70	-13.90	12.96	12.43
<u>Gross national product at factor cost</u>	<u>90.74</u>	<u>97.15</u>	<u>97.08</u>	<u>86.97</u>	<u>81.86</u>
Depreciation	-5.18	-5.43	-5.71	-6.00	-6.30
Terms of trade effect	-1.42	-0.75	0.47	1.47	-1.12
<u>Net national product at factor cost = national income</u>	<u>84.14</u>	<u>91.00</u>	<u>91.84</u>	<u>82.44</u>	<u>74.44</u>

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

Table 47. Argentina: Saving and Investment

(In billions of Argentine pesos)

	1978	1979	1980	Prel. 1981	Est. 1982
<u>National saving</u>	14,382	32,794	63,655	97,522	199,932
Private sector	11,203	27,698	59,146	115,892	280,098
Nonfinancial public sector	3,179	5,096	4,509	-18,370	-80,166
<u>Gross domestic investment 1/</u>	12,844	33,502	72,433	119,867	268,968
Private sector	6,064	18,066	43,624	60,379	127,005
Public sector	6,780	15,437	28,809	59,488	141,963
<u>External saving</u>	-1,538	708	8,778	22,345	69,036
Capital inflow	953	6,315	4,026	5,450	-86,296
Nonfinancial public sector	1,109	1,613	5,444	26,160	-17,260
Private 2/	-156	4,702	-1,418	-20,710	-69,036
<u>Valuation adjustment 3/</u>	104	271	-256	-1,389	-3,138
<u>Change in net international reserves (increase -)</u>	-2,595	-5,878	5,008	18,530	158,470

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

1/ Public sector capital transfers to the private sector and extra-budgetary expenditure are included as public sector investment and subtracted from private sector investment as defined in the national accounts.

2/ Includes trade credits of the nonfinancial public sector and the private sector, direct investment, trade-related leads and lags, and errors and omissions.

3/ Includes SDR allocations.

Table 48. Argentina: National Accounts

(In billions of Argentine pesos at current prices)

	1978	1979	1980	Prel. 1981	Est. 1982
<u>Gross domestic expenditure</u>	<u>49,752</u>	<u>138,772</u>	<u>287,809</u>	<u>546,305</u>	<u>1,506,961</u>
Consumption	36,908	105,270	215,376	426,438	1,237,993
Private	30,756	88,820	174,546	351,593	1,071,637
Government	6,152	16,450	40,830	74,845	166,356
Gross domestic investment	12,844	33,502	72,433	119,867	268,968
Fixed capital formation	13,117	33,481	70,721	123,918	268,968
Private	7,015	20,358	43,975	76,227	141,272
Public	6,102	13,123	26,746	47,690	127,696
Change in inventories	-273	21	1,712	-4,051	--
<u>Foreign balance</u>	<u>2,046</u>	<u>334</u>	<u>-6,109</u>	<u>-1,305</u>	<u>62,039</u>
Exports of goods and nonfactor services	6,099	12,579	19,514	51,661	212,717
Imports of goods and nonfactor services	4,053	12,245	25,623	52,966	150,678
<u>Gross domestic product at market prices</u>	<u>51,798</u>	<u>139,106</u>	<u>281,700</u>	<u>545,000</u>	<u>1,569,000</u>
Net factor payments abroad	-547	-1,219	-2,762	-20,959	-123,584
<u>Gross national product at market prices</u>	<u>51,251</u>	<u>137,887</u>	<u>278,938</u>	<u>524,041</u>	<u>1,445,415</u>
Subsidies	2,438	4,873	4,565	7,300	14,500
Indirect taxes	-8,032	-21,630	-48,860	-84,580	-210,404
<u>Gross national product at factor cost</u>	<u>45,657</u>	<u>121,130</u>	<u>234,643</u>	<u>446,761</u>	<u>1,249,511</u>
Depreciation	-2,589	-6,806	-14,633	-31,149	-98,355
<u>Net national product at factor cost = national income</u>	<u>43,068</u>	<u>114,324</u>	<u>220,010</u>	<u>415,612</u>	<u>1,151,156</u>

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

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Table 49. Argentina: Rates of Price Increases

(In per cent)

	Consumer Price Index		Wholesale Price Index	
	Change over preceding month	Change over 12 months	Change over preceding month	Change over 12 months
<u>1977</u>				
December	7.3	160.4	4.2	147.1
<u>1978</u>				
December	9.1	169.8	6.4	143.3
<u>1979</u>				
December	4.5	139.7	2.5	128.9
<u>1980</u>				
January	7.2	127.9	4.3	116.9
February	5.3	123.5	4.1	109.2
March	5.8	119.4	3.8	101.1
April	6.2	117.7	3.8	96.1
May	5.8	115.4	5.3	71.4
June	5.7	107.6	7.3	84.1
July	4.6	102.6	2.9	76.4
August	3.4	88.0	2.9	58.3
September	4.5	84.0	2.9	54.7
October	7.6	80.5	5.4	61.4
November	4.7	88.9	2.6	60.2
December	3.8	87.6	0.9	57.7
<u>1981</u>				
January	4.9	83.5	2.4	54.6
February	4.2	81.6	5.1	56.2
March	6.0	81.9	4.6	57.4
April	7.9	84.8	12.2	70.3
May	7.5	87.9	8.0	74.4
June	9.4	94.3	18.7	93.2
July	10.2	109.8	12.7	111.8
August	7.9	113.8	9.2	124.9
September	7.1	119.1	7.0	134.5
October	5.8	115.4	6.1	135.8
November	7.2	120.7	11.0	155.3
December	8.8	131.3	10.6	180.2
<u>1982</u>				
January	11.9	146.8	14.0	211.9
February	5.3	149.4	5.7	213.4
March	4.7	146.4	4.6	212.6
April	4.2	138.0	6.1	195.0
May	3.1	128.0	9.3	198.4
June	7.9	125.0	15.3	189.7
July	16.3	137.2	27.9	229.1
August	14.7	152.1	16.2	249.1
September	17.1	175.5	19.2	287.9
October	12.7	193.4	9.9	302.1
November	11.3	204.6	13.9	312.8

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Table 50. Argentina: Industrial Origin of Gross Domestic Product

	1978	1979	1980	Prel. 1981	Est. 1982
(In millions of Argentine pesos at 1970 prices)					
GDP at factor cost	91,797	98,327	98,999	93,016	89,013
Primary sector	14,948	15,605	14,041	15,305	15,690
Agriculture, forestry, and fishing	12,759	13,277	12,424	12,883	13,272
Mining	2,189	2,328	2,417	2,422	2,418
Secondary sector	32,890	35,754	35,477	30,898	28,555
Manufacturing	23,248	25,616	24,644	20,706	19,627
Construction	6,697	6,877	7,319	6,718	5,334
Electricity, gas, and water	2,945	3,261	3,514	3,474	3,594
Service sector	43,959	46,969	48,682	46,814	44,768
Commerce	12,592	13,891	14,272	12,987	11,962
Transportation and communications	9,959	10,800	10,862	10,410	9,976
Finance and banking	7,381	7,969	8,928	8,515	7,806
Government	9,150	9,287	9,364	9,454	9,540
Other	4,878	5,021	5,256	5,448	5,484
(Percentage change)					
GDP at factor cost	-3.4	7.1	0.7	-6.0	-4.3
Primary sector	1.4	4.4	-4.9	3.1	2.5
Agriculture, forestry, and fishing	1.4	4.1	-6.4	3.7	3.0
Mining	1.9	6.3	3.8	0.2	-0.2
Secondary sector	-7.5	8.7	-0.8	-12.9	-7.6
Manufacturing	-10.5	10.2	-3.8	-16.0	-5.2
Construction	-0.6	2.7	6.4	-8.2	-20.6
Electricity, gas, and water	3.3	10.7	7.8	-1.1	3.5
Service sector	-1.8	6.8	3.6	-3.8	-4.4
Commerce	-7.6	10.3	2.7	-9.0	-7.9
Transportation and communications	-3.6	8.4	0.6	-4.2	-4.2
Finance and banking	6.7	8.0	12.0	-4.6	-8.3
Government	--	1.5	0.8	1.0	0.9
Other	2.6	2.9	4.7	3.6	0.7
(Percentage distribution)					
GDP at factor cost	100.0	100.0	100.0	100.0	100.0
Primary sector	16.3	15.9	15.0	16.5	17.6
Agriculture, forestry, and fishing	13.9	13.5	12.5	13.9	14.9
Mining	2.4	2.4	2.4	2.6	2.7
Secondary sector	35.8	36.3	35.8	33.2	32.1
Manufacturing	25.3	26.0	24.9	22.3	22.0
Construction	7.3	7.0	7.4	7.2	6.0
Electricity, gas, and water	3.2	3.3	3.5	3.7	4.0
Service sector	47.9	47.8	49.2	50.3	50.3
Commerce	13.7	14.1	14.4	14.0	13.4
Transportation and communications	10.9	11.0	11.0	11.2	11.2
Finance and banking	8.0	8.1	9.0	9.1	8.8
Government	10.0	9.5	9.5	10.2	10.7
Other	5.3	5.1	5.3	5.9	6.2

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

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Table 51. Argentina: Index of Agricultural Production

(1970 = 100)

	1978	1979	1980	Prel. 1981
<u>Total</u>	<u>123.9</u>	<u>128.9</u>	<u>120.6</u>	<u>125.1</u>
<u>Agriculture and hunting</u>	<u>124.2</u>	<u>128.3</u>	<u>120.7</u>	<u>125.3</u>
<u>Agriculture</u>	<u>129.6</u>	<u>137.8</u>	<u>130.8</u>	<u>141.5</u>
Cereals	117.2	111.6	103.8	135.9
Oilseeds	233.0	287.5	265.4	271.8
Industrial crops	130.9	132.3	129.9	122.2
Fruits and flowers	114.5	125.7	124.1	119.1
Vegetables	97.9	119.3	112.8	110.0
<u>Livestock</u>	<u>117.2</u>	<u>118.0</u>	<u>110.0</u>	<u>108.6</u>
Cattle	116.2	116.3	105.6	103.3
Wool	99.6	100.9	98.5	86.0
Milk	127.7	128.0	127.7	130.5
Poultry	133.8	155.6	174.3	201.1
<u>Hunting</u>	<u>731.4</u>	<u>740.3</u>	<u>715.1</u>	<u>858.1</u>
<u>Forestry</u>	<u>116.9</u>	<u>128.1</u>	<u>95.0</u>	<u>90.0</u>
<u>Fishing</u>	<u>243.9</u>	<u>264.2</u>	<u>173.3</u>	<u>167.2</u>

Source: Central Bank of Argentina.

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Table 52. 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)

	1977/78	1978/79	1979/80	1980/81	Prel. 1981/82
Cereals					
Wheat					
Planted area	4,600	5,230	5,000	6,196	6,473
Harvested area	3,910	4,685	4,787	5,023	5,790
Production	5,300	8,100	8,100	7,780	7,900
Yield	1.36	1.73	1.69	1.55	1.36
Corn					
Planted area	3,100	3,300	3,310	4,000	3,690
Harvested area	2,660	2,800	2,490	3,456	3,170
Production	9,700	8,700	6,400	12,900	9,600
Yield	3.65	3.11	2.57	3.91	3.03
Oats					
Planted area	1,480	1,545	1,680	1,718	1,615
Harvested area	430	500	410	350	298
Production	570	676	522	433	339
Yield	1.33	1.35	1.27	1.24	1.14
Barley					
Planted area	890	761	592	555	409
Harvested area	310	355	246	172	115
Production	353	554	339	217	132
Yield	1.14	1.56	1.38	1.25	1.15
Rye					
Planted area	2,140	1,722	1,494	1,489	1,338
Harvested area	240	260	225	210	162
Production	170	210	202	155	149
Yield	0.71	0.81	0.89	0.74	0.92
Rice					
Planted area	100	116	88	85	101
Harvested area	95	102	82	82	99
Production	310	312	266	296	413
Yield	3.26	3.05	3.24	3.60	4.16
Sorghum					
Planted area	2,640	2,530	1,884	2,400	2,710
Harvested area	2,254	2,044	1,279	2,078	2,510
Production	7,200	6,200	2,960	7,550	8,200
Yield	3.19	3.03	2.31	3.63	3.27

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Table 52. 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)

	1977/78	1978/79	1979/80	1980/81	Prel. 1981/82
<u>Oilseeds</u>					
<u>Linseed</u>					
Planted area	950	893	1,070	780	851
Harvested area	884	817	978	726	818
Production	810	600	743	585	585
Yield	0.92	0.73	0.76	0.81	0.73
<u>Sunflower seeds</u>					
Planted area	2,200	1,766	2,000	1,930	1,620
Harvested area	2,000	1,577	1,855	1,880	1,564
Production	1,600	1,430	1,650	1,260	1,810
Yield	0.80	0.91	0.89	0.67	1.16
<u>Soybeans</u>					
Planted area	1,150	1,640	2,100	1,925	2,041
Harvested area	1,100	1,600	2,030	1,912	1,988
Production	2,400	3,700	3,500	3,770	3,900
Yield	2.18	2.31	1.72	1.97	1.96
<u>Groundnuts</u>					
Planted area	452	400	287	201	160
Harvested area	425	393	279	200	160
Production	260	470	206	170	161
Yield	0.62	1.20	0.74	0.84	1.00
<u>Industrial crops</u>					
<u>Cotton</u>					
Planted area	621	702	585	343	404
Harvested area	607	669	568	279	...
Production	714	573	485	282	482
Yield	1.18	0.86	0.85	0.97	...
<u>Tobacco</u>					
Planted area	70	78	65	50	53
Harvested area	62	75	57
Production	63	70	62	52	53
Yield	1.02	0.93	1.09
<u>Sugarcane</u>					
Planted area	356	351	337	351	350
Harvested area	343	306	314	324	...
Production	13,600	14,120	17,200	15,500	15,210
Yield	39.65	46.14	54.78	46.30	...

Sources: National Statistical Institute; Ministry of Economy; Secretariat of Agriculture and Livestock; and Central Bank of Argentina.

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Table 53. Argentina: Average Producer and Export Prices
for Major Crops 1/

(In U.S. dollars per ton)

	1978	1979	1980	1981	1982
<u>Wheat</u>					
Producer's price	71.07	83.30	123.16	159.30	138.95
Export price	117.00	127.75	192.25	213.00	176.50
Producer's share	60.74	65.21	64.06	74.79	78.73
<u>Corn</u>					
Producer's price	70.57	73.51	96.45	89.43	77.81
Export price	103.83	109.17	151.33	139.67	112.17
Producer's share	67.97	67.34	63.73	64.03	69.37
<u>Sorghum</u>					
Producer's price	48.99	55.71	84.16	72.69	61.53
Export price	83.40	89.00	142.40	122.80	96.80
Producer's share	58.74	62.60	59.10	59.19	63.56
<u>Soybeans</u>					
Producer's price	137.65	179.01	142.72	173.98	172.52
Export price	247.50	257.25	213.50	259.75	229.25
Producer's share	55.62	69.59	66.85	66.98	75.25

Source: Secretariat of Agriculture and Livestock.

1/ Producer's prices are quoted at the farm gate, and export prices are f.o.b. Buenos Aires; producer's share is producer's price as per cent of export price.

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Table 54. Argentina: Output, Man-Hours, and Labor Productivity in Manufacturing

(1970 = 100, period averages)

	Manufacturing Output	Hours Worked	Output per Hour
1978	110.8	101.0	109.7
1979	122.1	102.3	119.4
1980	117.5	93.3	125.9
1981	98.7	78.4	125.9
<u>1980</u>			
1st quarter	105.0	87.4	120.1
2nd quarter	120.0	98.5	121.8
3rd quarter	124.8	97.5	128.0
4th quarter	120.0	90.1	133.2
<u>1981</u>			
1st quarter	99.2	76.8	129.2
2nd quarter	104.3	83.9	124.3
3rd quarter	95.3	77.9	122.3
4th quarter	96.1	75.1	128.0
<u>1982</u>			
1st quarter	86.1	70.6	122.0
2nd quarter	89.1	75.4	118.2

Sources: National Statistical Institute; and Fund staff estimates.

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Table 55. Argentina: International Reserves of the Monetary Authorities

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

	1977	1978	1979	1980	1981	June	1982	Sept.	Nov.
Total net international reserves	<u>1,659</u>	<u>4,908</u>	<u>9,361</u>	<u>6,641</u>	<u>2,731</u>	<u>-155</u>	<u>-1,740</u>	<u>-2,422</u>	
Central Bank	<u>2,130</u>	<u>5,284</u>	<u>9,598</u>	<u>6,735</u>	<u>2,746</u>	<u>329</u>	<u>-278</u>	<u>-907</u>	
Assets	3,425	5,305	9,684	6,935	3,498	3,222	3,304	3,164	
Gold <u>1/</u>	176	181	184	185	185	185	185	185	
SDRs	90	211	327	327	404	399	--	--	
IMF reserve tranche	--	170	203	335	278	257	247	245	
Foreign exchange	3,064	4,573	8,879	6,055	2,584	2,283	2,731	2,694	
LAIA <u>2/</u>	95	170	91	33	47	99	140	40	
Liabilities	1,295	21	86	200	752	2,893	3,582	4,071	
IMF	419	--	--	--	--	--	--	--	
LAIA <u>2/</u>	19	21	86	194	271	25	62	193	
Payments arrears	--	--	--	--	--	2,100	1,722	1,976	
Foreign currency swaps	--	--	--	--	478	404	1,168	1,330	
Balance of payments support loans	856	--	--	--	--	193	157	128	
To central bank	(856)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	
Via residents <u>3/</u>	(--)	(--)	(--)	(--)	(--)	(193)	(157)	(128)	
Other liabilities	1	...	--	6	3	171	473	444	
Treasury liabilities	<u>471</u>	<u>376</u>	<u>237</u>	<u>94</u>	<u>15</u>	<u>484</u>	<u>1,462</u>	<u>1,515</u>	
External bonds <u>4/</u>	<u>471</u>	<u>376</u>	<u>237</u>	<u>94</u>	<u>15</u>	<u>484</u>	<u>1,462</u>	<u>1,515</u>	

Source: Central Bank of Argentina.

1/ Valued at US\$42 per fine troy ounce.

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

3/ 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.

4/ Foreign currency bonds issued in lieu of providing foreign exchange to effect external payments. Such bonds are issued upon the surrender of the peso equivalent of the external payment.

Table 56. Argentina: Balance of Payments
(In millions of U.S. dollars)

	1978			1979			1980			1981		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Current account												
Merchandise trade 1/	8,100 6,400	6,267 3,834	1,833 2,566	10,364 7,810	10,900 6,700	-536 1,110	12,099 8,021	16,867 10,540	-4,768 -2,519	12,532 9,143	17,124 9,380	-4,592 -237
Nonfactor services	1,314	1,414	-100	1,792	2,553	-761	2,743	3,483	-740	2,416	3,072	-656
Freight and insurance	357	--	357	571	--	571	1,059	--	1,059	982	--	982
Other transportation	317	363	-46	415	616	-201	562	931	-369	584	811	-227
Travel	279	586	-307	266	1,264	-998	345	1,791	-1,447	413	1,471	-1,058
Other government, n.i.e.	186	170	17	293	285	8	449	147	301	140	204	-64
Royalties	15	151	-136	16	160	-144	19	246	-226	30	234	-204
Other services	160	144	16	230	228	2	309	367	-58	268	352	-84
Investment income	321	1,002	-681	696	1,616	-920	1,249	2,781	-1,531	903	4,580	-3,677
Profits and dividends	6	282	-276	15	442	-427	22	606	-584	17	730	-713
Interest	315	720	-405	681	1,174	-493	1,228	2,175	-947	886	3,850	-2,964
Unrequited transfers	65	17	48	67	32	35	85	62	23	69	92	-22
Capital account	1,250	4,784	2,187	975
Banking	-33	-175	-518	39
Central bank 2/	-107	-89	-89	-125
Other	74	-86	-429	164
Other long-term capital	4,383	1,929	2,453	4,286	1,208	3,077	6,148	1,465	4,682	12,006	2,518	9,488
Direct investment	316	42	274	491	226	265	903	115	788	965	61	904
Trade finance	19	220	-201	193	34	159	195	57	138	--	683	-683
Financial loans 3/	4,048	1,667	2,380	3,602	948	2,653	5,050	1,293	3,756	11,041	1,774	9,267
Government 4/	(259)	(75)	(184)	(433)	(91)	(342)	(818)	(63)	(755)	(2,246)	(78)	(2,168)
State enterprises	(2,181)	(1,317)	(863)	(1,170)	(477)	(693)	(2,140)	(266)	(1,873)	(3,078)	(1,144)	(1,934)
Private sector	(1,608)	(275)	(1,333)	(1,999)	(380)	(1,618)	(2,092)	(964)	(1,128)	(5,717)	(552)	(5,165)
Other short-term capital		-1,170			1,882			-1,977			-8,552	
Trade Finance		-222			619			-253			-2,821	
Other public sector		341			187			329			433	
Other private sector 5/		-1,289			1,076			-2,053			-6,163	
Allocation of SDRs		--			73			74			70	
Valuation adjustment 6/		166			132			-213			-363	
Change in net international reserves (increase -)		-3,249			-4,453			2,720			3,910	

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/ Includes Argentine Government bonds denominated in foreign currency.

4/ Includes Central Government and provincial and municipal governments

5/ Includes errors and omissions.

6/ Changes in net international reserves due to exchange rate movements.

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Table 57. Argentina: Structure of Tariff Schedule

Ad Valorem Tariff Rate <u>(In per cent)</u>	July 31, 1981	July 31, 1982
<u>(Percentage of tariff lines)</u>		
Total	<u>100.0</u>	<u>100.0</u>
0	3.1	9.3
More than 0 up to 10 inclusive	29.3	26.4
More than 10 up to 20 inclusive	5.6	3.3
More than 20 up to 40 inclusive	28.8	58.7
More than 40	33.2	2.3

Source: Central Bank of Argentina.

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Table 58. Argentina: Direction of Trade

(In per cent)

	1978	1979	1980	1981 1/
Exports	100.0	100.0	100.0	100.0
LAIA 2/	23.6	25.8	23.0	17.7
Of which: Brazil	9.0	11.3	9.5	6.2
Chile	3.2	2.0	2.7	1.8
EEC	33.5	32.7	27.6	20.5
Of which: Italy	7.9	7.9	6.5	4.0
Netherlands	10.5	10.5	8.9	7.5
Germany	6.4	5.6	5.1	3.5
United Kingdom	3.1	3.0	2.5	2.2
Rest of Europe 3/	10.2	10.1	6.6	5.6
Of which: Spain	5.2	5.4	2.1	2.1
United States	8.4	7.3	8.7	8.3
Japan	5.9	5.1	2.6	1.6
U.S.S.R.	6.0	5.3	20.1	37.1
Rest of world	12.4	13.7	11.4	9.2
Imports	100.0	100.0	100.0	100.0
LAIA 2/	21.7	21.8	20.3	19.6
Of which: Brazil	8.9	9.8	10.2	9.4
Chile	4.6	3.9	2.4	2.0
EEC	31.1	26.6	25.9	25.9
Of which: Germany	11.8	9.2	9.3	9.7
Italy	7.7	8.8	5.5	5.0
United Kingdom	4.4	3.3	3.3	3.3
Rest of Europe 3/	11.4	10.2	9.4	5.5
United States	18.4	21.1	22.4	22.1
Japan	7.0	5.3	9.3	10.8
Rest of world	10.4	15.0	12.7	12.6

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

1/ EEC includes Greece.

2/ Latin American Integration Association countries.

3/ Does not include U.S.S.R.

STATISTICAL APPENDIX

Table 59. Argentina: 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)

	1978	1979	1980	1981	Jan.-June 1982
<u>Total</u>	<u>6,400</u>	<u>7,810</u>	<u>8,021</u>	<u>9,143</u>	<u>4,525</u>
<u>Major agricultural products</u>	<u>3,041</u>	<u>4,070</u>	<u>4,081</u>	<u>5,113</u>	<u>2,362</u>
Cereals	1,222	1,607	1,631	2,831	1,352
Wheat	173	605	815	763	624
Volume	1,608	4,275	4,491	3,763	3,452
Unit price	108	141	181	202	181
Corn	587	606	512	1,306	389
Volume	5,895	5,960	3,478	9,162	3,389
Unit price	99	101	147	142	115
Sorghum	358	322	208	637	305
Volume	4,494	3,885	1,543	4,951	3,062
Unit price	79	82	134	128	100
Other cereals	104	74	96	125	34
Seeds and oilseeds	551	730	633	591	197
Volume	2,421	2,892	2,768	2,246	853
Unit price	228	253	229	263	231
Beef	426	737	568	564	269
Volume	350	365	236	260	158
Unit price	1,215	2,019	2,403	2,169	1,703
Vegetable and animal oils	391	540	524	395	285
Volume	732	790	874	640	530
Unit price	534	683	599	616	538
Fresh fruit	213	207	180	163	92
Volume	521	454	355	317	243
Unit price	409	456	508	514	379
Wool	184	184	234	287	149
Volume	90	74	80	101	68
Unit price	2,045	2,486	2,915	2,823	2,191
Sugar	54	65	311	282	18
Volume	338	349	479	732	71
Unit price	160	186	648	385	254

STATISTICAL APPENDIX

Table 59. Argentina: Export Values, Volumes,
and Unit Prices (Concluded)

(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)

	1978	1979	1980	1981	Jan.-June 1982
<u>Other agriculture and agro-based products</u>	<u>1,625</u>	<u>1,995</u>	<u>1,801</u>	<u>1,545</u>	<u>805</u>
Animal and fishery products	464	596	477	453	265
Meats other than beef	110	140	120	115	71
Fish and seafood	149	202	140	138	83
Dairy products	72	40	40	54	41
Other	133	214	177	146	70
Vegetable products	704	797	836	638	326
Coffee, tea, mate	29	27	38	33	17
Milled products	38	40	23	11	3
Other	637	730	775	594	306
Prepared foods, beverages and tobacco	457	602	488	454	214
Beef preparations	213	300	259	231	100
Vegetable preparations	85	86	69	63	35
Tobacco	27	31	27	28	17
Other	132	185	133	132	62
<u>Mineral products</u>	<u>74</u>	<u>70</u>	<u>315</u>	<u>658</u>	<u>287</u>
Fuel and lubricants	53	50	280	622	267
Other	21	20	35	36	20
<u>Industrial products</u>	<u>1,660</u>	<u>1,675</u>	<u>1,824</u>	<u>1,827</u>	<u>1,071</u>
Chemical products	160	195	324	320	170
Plastics	29	24	24	32	33
Hides, skins, and leather manufactures	404	460	500	436	205
Paper and paper products	54	59	69	58	29
Textiles (excluding wool)	129	95	105	73	49
Metals and metal manufactures	294	263	217	414	285
Machinery (mechanical and electrical)	285	300	339	297	160
Transport material	218	182	174	126	99
Other	87	97	72	71	41

Source: Central Bank of Argentina.

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Table 60. Argentina: Promoted Exports

	1978	1979	1980	1981
(In millions of U.S. dollars)				
Total	2,300	2,380	2,555	2,467
Dairy products	42	18	21	27
Fish and shellfish	139	190	139	116
Tea	24	22	28	26
Wheat and other flours	33	35	21	9
Promoted fat and oil byproducts	10	11	9	11
Meat and seafood preparations	139	202	282	254
Fruit and vegetable preparations	85	26	69	63
Beverages	37	49	52	44
Fuels and lubricants	53	-- 1/	-- 1/	-- 1/
Chemicals	160	195	324	320
Tanned leather	251	426	310	338
Leather manufactures	72	7	45	18
Furs	80	26	145	81
Books and magazines	33	37	52	46
Combed wool	37	30	35	24
Other textiles	92	62	66	46
Metal products	294	263	198	414
Agricultural machinery	6	1	--	1
Office machinery	43	50	63	99
Electric motors	48	59	52	36
Other machinery	188	183	213	149
Automobiles	35	33	37	9
Trucks	35	13	14	8
Tractors	30	38	15	8
Other transport equipment	118	78	91	74
Other	216	326	274	246
(In per cent of total)				
<u>Memorandum item:</u>				
Total promoted exports as a percentage of total exports	35.9	30.5	31.9	27.0

Source: Central Bank of Argentina.

1/ No longer promoted.