

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/81/132

CONFIDENTIAL

June 19, 1981

To: Members of the Executive Board
From: The Acting Secretary
Subject: Argentina - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on recent changes in Argentina's exchange arrangements.

Att: (1)

INTERNATIONAL MONETARY FUND

Argentina - Exchange Arrangements

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

(In consultation with the Legal Department)

Approved by E. Walter Robichek and Manuel Guitian

June 17, 1981

The Executive Director for Argentina has requested that the Fund be informed of a series of modifications in Argentina's exchange arrangements, as described in the attached communications from the Central Bank of Argentina dated June 2, and June 5, 1981.^{1/} Effective June 2, 1981 the regulation spot selling and buying rates of the Argentine peso vis-a-vis the U.S. dollar were changed from \$a 3,284 to \$a 4,269 per U.S. dollar and from \$a 3,274 to \$a 4,249 per U.S. dollar, respectively, which represents a depreciation of about 30 per cent in terms of pesos per U.S. dollar (about 23 per cent in U.S. dollars per peso). At the same time, the authorities indicated that they intended to depreciate the Argentine peso by a further 6 per cent in terms of pesos per U.S. dollar over the course of the month of June, and thereafter, to adjust the exchange rate to maintain the real exchange rate of the peso at its June 30, 1981 level. The Central Bank will continue to determine daily the spot selling and buying regulation rates of the peso for the U.S. dollar.

The previous arrangement under which the Central Bank stood ready to sell foreign exchange when the regulation selling rate (the upper limit) was reached, and to buy foreign exchange when the regulation buying rate (the lower limit) was reached, will be continued. Transactions at rates within this band will continue to be effected freely. As in the past, the difference between buying and selling rates in the market will be related to the cost of exchange transactions; on June 2, 1981 this difference was 0.23 per cent of the buying rate.

With effect from June 2, 1981, the requirement to declare the purpose of purchases of foreign exchange was fully reinstated, irrespective of the amounts involved (previously this requirement applied only to purchases in excess of US\$20,000). As of the same date, the maximum delay permitted for the surrender of foreign exchange receipts from traditional merchandise exports was shortened from 180 calendar days to 30 calendar days from the date of shipment.

^{1/} Previous changes in Argentina's exchange arrangements were described in EBS/81/31, (2/9/81), and EBS/81/89, (4/10/81).

Effective June 4, 1981, registered private financial loans contracted after January 1, 1981 with original or rolled over maturities falling due between May 29 and December 31, 1981, which are renewed for a period of at least a year, will be entitled to the exchange rate differential resulting from the June 2, 1981 devaluation adjusted by the movements of the peso vis-a-vis the U.S. dollar between such date and the date of expiry of the loan.

With effect from June 5, 1981, the Central Bank has established an exchange rate guarantee scheme in U.S. dollars to apply to private financial loans contracted or renewed from that date onward. To be eligible for the guarantee, financial intermediaries must surrender the proceeds of new loans to the Central Bank at the exchange rate at which the borrower sold the loan proceeds to them. Renewed loans that mature or matured after June 1, 1981 are eligible for the guarantee for the amount of the renewal. The guarantee will be extended to loans with maturities of at least 540 days; guarantees to loans with maturities longer than two years will be considered on a case-by-case basis. The scheme's cost will be based on the regulation selling rate and for the first 180 days of the guarantee period, it will be fixed and published daily. Subsequently, it will vary with the difference between inflation in Argentina (measured in terms of wholesale prices) and in the rest of the world.

In other areas of economic policy, the proportion of the f.o.b. value of nontraditional exports eligible for prefinancing was increased, and the terms of prefinancing loans as well as of other credit lines for specified promoted exports were also extended, with effect from June 4. The authorities also have stated that fiscal, monetary, and trade policies would be adjusted so as to ensure that the targets for the Treasury and public sector deficits in terms of GDP that were announced on April 1, 1981, would remain within reach.

The staff will discuss the policy measures outlined above with the Argentine authorities during the forthcoming Article IV consultation with Argentina.

Attachments

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FROM THE CENTRAL BANK OF THE ARGENTINE REPUBLIC, BUENOS AIRES
TO THE INTERNATIONAL MONETARY FUND, WASHINGTON

JUNE 2, 1981

ATT.: MR. JUAN CARLOS IAREZZA, EXECUTIVE DIRECTOR

THE FOLLOWING SUPPLEMENTS INFORMATION TRANSMITTED TODAY:

THE CENTRAL BANK FIXES DAILY THE SCHEDULE OF SPOT BUYING AND SELLING RATES
FOR TRANSFERS OF U.S. DOLLARS, TODAY'S RATES BEING FIXED AT
PESOS 4,249 AND PESOS 4,269 PER DOLLAR, RESPECTIVELY.

FROM THE CENTRAL BANK OF THE ARGENTINE REPUBLIC, BUENOS AIRES
TO THE ARGENTINE FINANCIAL REPRESENTATION, WASHINGTON
JUNE 2, 1981

Activities of the Exchange Market are Re-Initiated as of Today,
Telephone Communication No. 4511

This is to inform you that, for all sales of exchange (foreign currencies, notes, gold, etc.) conducted as from today's date, regardless of amount or purpose, an individual sworn statement (form 4002A or 4002B) must be completed and forwarded to this bank on the date the sale is effected, accompanying the overall report (form 4032A or 4032B and 4033).

Intermediaries must take the necessary precautions to ensure that the sworn statements are properly codified according to the real purpose of the operation, thus avoiding generic grouping, for which purposes the codes listed in Circular Reflex 1, Chap. I, Item 6, Para. 6.3, Appendix I shall be used.

"We are sending you the text of Circular Communication A No. 30 of this date, which will be made available to institutions in the usual manner."

Communication "A" 30

Buenos Aires

To financial institutions authorized to deal in exchange and exchange brokers

Ref.: Circular [on] foreign
collections and payments--
COPEX 1

We are writing to you with regard to the arrangements announced by the circular under reference, to inform you of the changes that will come into effect as from today, namely:

- (a) for entry of the foreign exchange referred to under Chap. I, Item 1, Para. 1.2, a term of up to 30 consecutive days is established, as from date of shipment;
- (b) the provisions of Chap. II, Item 1, Para. 1.3.1 (final paragraph), and Item 2, Para. 2.3 are annulled.

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FROM CENTRAL BANK OF THE ARGENTINE REPUBLIC, BUENOS AIRES
TO INTERNATIONAL MONETARY FUND, WASHINGTON

JUNE 2, 1981

ATT.: DR. JUAN C. IAREZZA, EXECUTIVE DIRECTOR

QUOTATIONS CLOSE OF BUSINESS TODAY BANK OF THE ARGENTINE NATION
BUYING PESOS 4,259 AND SELLING PESOS 4,269 PER U.S. DOLLAR.

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FROM CENTRAL BANK OF THE ARGENTINE REPUBLIC, BUENOS AIRES
TO INTERNATIONAL MONETARY FUND, WASHINGTON

JUNE 2, 1981

ATT.: MR. JUAN CARLOS IAREZZA, EXECUTIVE DIRECTOR

This is to inform you that Dr. Lorenzo Sigaut, Minister of Economy and Finance, announced in a radio and television address last night measures designed to reactivate businesses and production, rehabilitate the financial system, reduce State participation in the national economy, restore equilibrium in the external sector, halt and reverse recessive trends, and increase the demand for labor in this context. As from today, the following measures would be implemented:

- (a) a 30 per cent devaluation of the peso, without compensation
- (b) a 6 per cent peso devaluation during June;
- (c) the resulting real parity at the end of June would be observed in subsequent months;
- (d) exchange parity would be guaranteed for foreign credits taken up by the private sector at more than 18 months;
- (e) financing and prefinancing of nontraditional exports would be improved;
- (f) the situation of firms with debts in foreign currencies, contracted between 1/1/81 and 5/29/81 would be taken into account;
- (g) the availability of lines of rediscount for business firms would be accelerated;

- (h) budgetary, monetary, and customs tariff targets would be maintained in a manner compatible with the objective announced on 4/1/81 of maintaining the amount and ratio of the Treasury deficit with the level of domestic economic activity.

We are sending you, also by telex, a summary of the measures already implemented by this bank, in accordance with the measures announced by Dr. Lorenzo Sigaut.

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FROM: CENTRAL BANK OF THE ARGENTINE REPUBLIC, BUENOS AIRES

TO: INTERNATIONAL MONETARY FUND, WASHINGTON

JUNE 5, 1981

ATTENTION: MR. JUAN CARLOS IAREZZA, EXECUTIVE DIRECTOR

For your information and dissemination as appropriate, we report the adoption of the following new measures in connection with the announcement made by the Minister of Economy and Finance, Dr. Lorenzo Sigaut, on 6/2/81:

Financial Liabilities in Foreign Currencies

By means of Communication "B" 69 of 6/4/81, this Bank has informed authorized institutions of the text of Decree No. 377/81, which provides that for financial loans to the private sector in foreign currencies negotiated in the exchange market since January 1, 1981 and having original due dates, or due dates resulting from later rollovers, between May 29, 1981 and December 31, 1981, this Central Bank is authorized to honor, for borrowers which have registered their debts with this institution and renew them for a term of not less than one year, the peso exchange differential between the exchange market rates of May 29, 1981 and those of June 2, 1981, adjusted in accordance with the U.S. dollar exchange rates in the same market on June 2, 1981 and on the due date of the new

liability, at which time the disbursement will take place.

Exchange Insurance

By means of Communication "A" 31 of 6/5/81, this Bank established an exchange insurance system (in U.S. dollars) for coverage of private-sector financial loans in foreign currencies contracted or rolled over starting on this date. For new loans, the participating institutions will negotiate on the spot market the amount of foreign currency to be received by the borrowers, surrendering the foreign exchange to the Central Bank at the same exchange rate, and if they so desire, simultaneously arranging the exchange insurance with this Bank. For renewals of earlier operations falling due on or after 6/1/81, exchange insurance may be arranged with this Bank for the amount of the rollover. Insurance coverage will be arranged for maturities of not less than 540 days. Maturities of more than 2 years will be considered by this Bank on a case-by-case basis. The exchange insurance rate will be applied against the selling rate; it will be a fixed rate for the first 180 days of the guarantee and it will be announced daily. For the remainder of the period it will fluctuate in accordance with wholesale prices (general level) less international inflation.

Prefinancing and Financing of Promoted Exports

Circule RF of 6/4/81 was also published. As regards prefinancing it increases the financial support for goods included in the lists attached to Circular RC 704/RF 98, as follows:

Production of capital goods (List 1) and conversion, modernization, repair and adjustment of transportation components, equipment and machinery temporarily brought into the country for this purpose, may

be financed up to 80 per cent of the f.o.b. value (previously 70 per cent).

Building of ships classified as "capital goods" may be financed up to 80 per cent of the real value, provided it does not exceed the sum of the f.o.b. value plus rebates (previously 70 per cent).

Production of durable and semidurable goods (List 2), up to 70 per cent of the f.o.b. value (previously 60 per cent).

Production of goods included in Lists 3 and 4, up to 60 per cent of the f.o.b. value (previously 55 and 40 per cent, respectively).

The prefinancing period for products included in List 4 is increased to 120 days (previously 90 days).

These changes will apply to all transactions whose initial authorization takes place on or after this date.

In addition, the financing period is increased to 1 year for products included in List 4 (previously 180 days).

Circular RF 1423 of 6/4/81 adds NADE position 76.01.02.00, "Raw Aluminum," to List 4.

REGARDS

ANTONIO E. CONDE

FOREIGN AND EXCHANGE MANAGER

Received in Cable Room
June 5, 1981