

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

SM/83/12
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

January 20, 1983

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

The attached pages 63 through 66, which were incorrectly assembled in SM/83/12 (1/17/83), are now printed in the proper order.

Att: (4)

Other Distribution:
Department Heads

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