

INTERNATIONAL MONETARY FUND



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## **Argentina-Recent Economic Developments**

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INTERNATIONAL MONETARY FUND

ARGENTINA

Recent Economic Developments

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Approved by the Western Hemisphere Department

September 18, 1995

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Argentina--Basic Data

Social and demographic indicators

Area	2,780.4 thousand sq. km.
Population (1993)	33.8 million
Annual rate of population growth (1980-93)	1.4 percent
Crude birth rate (1992)	20 per 1,000
Crude death rate (1992)	9 per 1,000
Infant mortality (1993)	23.6 per 1,000 live births
Population per physician (1990)	374
Population per hospital bed (1990)	217
Access to electricity (1989)	95 percent of population
Energy consumption per capita (1993)	1,351 kg. of oil equivalent
Per capita intake of calories (1982-85)	119.2 percent of requirement
Per capita protein intake (1990)	101 grams per day
Adult literacy rate (1993)	96.3 percent
Primary school enrollment (1991)	100 percent
Unemployment rate (May 1995)	18.6 percent

GDP (1994)

SDR 197.5 billion  
US\$281.6 billion  
Arg\$281.6 billion

GDP per capita (1994)

SDR 5.826  
US\$8,501

	1991	1992	1993	Prel. 1994
<u>Orisad of GDP</u>			(percent)	
Agriculture, livestock and fishing	8.5	7.8	7.3	7.1
Mining	2.3	2.3	2.3	2.4
Manufacturing	27.4	27.0	26.6	25.8
Construction	5.0	5.6	5.8	6.3
Electricity, gas, and water	2.0	1.9	2.0	2.0
Commerce	16.6	16.7	16.4	16.5
Transport and communications	4.8	5.0	5.0	5.0
Finance and banking	15.1	15.7	16.3	17.1
Other services	18.3	18.0	18.2	17.8
<u>Ratios to GDP</u>				
Exports of goods and nonfactor services	7.8	6.6	6.3	6.8
Imports of goods and nonfactor services	6.3	8.2	8.2	9.2
Factor services (net)	-1.2	-0.9	-0.7	-0.8
Current account of the balance of payments	-0.1	-2.8	-2.8	-3.5
Public sector revenues 1/	15.8	17.1	17.4	17.3
Public sector expenditures 2/	15.3	15.8	15.4	16.5
Primary balance of public sector	0.6	1.4	2.0	0.8
Overall balance of public sector 1/2/	-2.5	-0.2	0.9	-0.5
External debt (end of year)	33.8	28.3	26.4	27.0
Gross national savings	14.4	13.9	15.3	16.4
Gross domestic investment	14.6	16.7	18.2	19.9
<u>Annual changes in selected economic variables</u>				
Real GDP per capita	7.5	7.7	4.8	6.0
Real GDP at constant prices	8.9	8.7	6.0	7.4
GDP at current prices	162.5	25.3	13.7	9.4
GDP deflator	141.0	15.3	7.2	1.8
Wholesale prices (annual average)	110.5	5.9	1.6	0.6
Consumer prices (annual average)	171.7	24.9	10.6	4.1
Wholesale prices (end of period)	56.6	3.1	0.1	5.8
Consumer prices (end of period)	84.0	17.5	7.4	3.7
<u>Financial system liabilities to private sector</u>				
Monetary liabilities 4/	104.1	61.7	47.7	17.5
Other liabilities	146.2	50.4	34.8	13.0
Net domestic assets 1/	85.2	68.5	54.6	19.7
Of which: credit to private sector	48.0 6/7/	51.1 2/	39.2	20.7
credit to public sector	139.1 6/	68.8	31.2	20.9
	10.7 6/	-9.7	9.9	2.8

	1991	1992	1993	Prel. 1994
		(percent)		
Merchandise exports (f.o.b. in U.S. dollars)	-3.0	2.1	7.2	20.6
Merchandise imports (c.i.f. in U.S. dollars)	102.9	79.7	12.9	28.8
Real effective exchange rate (depreciation -)				
Average	36.4	13.8	9.8	-1.3
Year-end	-10.2	17.1	5.7	-5.3
<u>Balance of payments</u>		(billions of U.S. dollars)		
Merchandise exports, f.o.b.	12.0	12.2	13.1	15.8
Merchandise imports, c.i.f.	-8.3	-14.9	-16.8	-21.6
Interest payments (net)	-3.1	-2.7	-2.0	-2.5
Other factor income (net)	-0.8	-0.8	-0.9	-1.2
Other services and transfers (net)	--	-0.2	-0.7	-0.5
Balance on current account	-0.3	-6.3	-7.3	-10.0
Direct investment	2.4	4.2	6.3	1.9
Other capital (net)	0.7	5.0	3.9	8.1
Overall balance	2.8	2.9	2.9	0.1
Change in official assets (increase -)	-2.8	-2.9	-2.9	-0.1
		December 31		
	1991	1992	1993	1994
		(billions of U.S. dollars)		
<u>International reserve position</u>				
Central Bank (gross)	8.6	11.4	15.5	16.0
Central Bank (net)	5.8	8.6	11.5	11.4
<u>IMF data (as of August 31, 1995)</u>				
Article VIII status				
Intervention currency and rate			U.S. dollar at Arg\$1.000	
Quota			SDR 1,537.1 million	
Fund holdings of currency			SDR 5,275.9 million	
From Fund resources				
Credit tranche purchases (including SBA)			SDR 322.3 million	
Extended Fund Facility			SDR 1,990.7 million	
From enlarged access resources			SDR 1,425.8 million	
Fund holdings under tranche policy			34.2 percent of quota	
Total Fund holdings			343.2 percent of quota	
Cumulative SDR allocation			SDR 318.4 million	
Net acquisition or utilization (-) of SDRs			SDR 93.1 million	
Holdings of SDRs			129.2 percent of allocation	

- 1/ Excludes revenue from privatization.
- 2/ Excludes interest payments.
- 3/ Includes quasi-fiscal balance of BCRA.
- 4/ Currency in circulation and demand deposits.
- 5/ Change as a percentage of liabilities to the private sector at the beginning of the period.
- 6/ Adjusted for changes in the exchange rate.
- 7/ Adjusted for changes in the 1992 Central Bank balance sheet.



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## I. The Real Economy

Since the implementation of the Convertibility Plan in early 1991, real GDP grew by more than 7 percent a year (or by a cumulative 35 percent over the years 1991-94), after stagnating for more than a decade. At the same time, consumer price inflation, which had peaked at 3,000 percent in 1989, declined to 4 percent (average) in 1994 (Chart 1 and Table 1). Gross fixed investment, which had fallen from nearly 25 percent of GDP in 1980 to 14 percent in 1990, recovered to nearly 20 percent of GDP by 1994, reflecting a real growth rate of 22 percent a year during the period. During this period, there was a marked shift to more capital intensive production and the economy recorded strong productivity gains. Government policies spearheaded this transformation through fiscal restraint, increased public saving, structural reform and privatization, deregulation of domestic markets, and accelerated integration into the world economy through external trade liberalization. The improvement in policies led to large capital inflows which supported the economic recovery.

By contrast, in the first half of 1995, the Mexico crisis prompted an outflow of capital, a major decline in deposits of the Argentine banking system, and a credit crunch. During the first quarter, economic growth slowed abruptly and became negative in the second quarter. This slowdown contributed to a sharp increase in unemployment, which, after rising steadily from 6.5 percent at the beginning of the decade to 12.2 percent in October 1994, jumped to 18.6 percent in May 1995.

### 1. Aggregate demand

As in other exchange rate based stabilization programs, in the years immediately following the adoption of the Convertibility Plan, there was a strong initial expansion in domestic absorption and an appreciation of the real effective exchange rate which is now being followed by an adjustment in domestic demand and a partial recovery in external competitiveness. Real consumption grew by 12 percent a year in 1991-92 and by 5 1/2 percent a year in 1993-94 (Statistical Appendix Table 13) helped by increased confidence, gains in real incomes, and renewed access to credit, following the remonetization of the economy.

The upsurge in consumption in turn had an accelerator effect on investment as business firms modernized and improved productivity to meet the surge in demand. Higher investment was made possible by recovering profit margins, renewed access to domestic and international credit, and by government policies opening the economy to domestic and foreign competition which lowered the relative price of capital goods. The restoration of solvency in the public sector accounts, which provided credibility to economic policy, the privatization process, and the elimination of domestic and external arrears, further stimulated foreign direct investment and portfolio capital inflows.

During the period 1991-94 gross fixed investment more than doubled in real terms, contributing just over one-fifth of the cumulative increase in real GDP during the period. Investment in residential dwellings and construction increased by over 80 percent, while investment in machinery and equipment almost tripled as import tariffs on capital goods were reduced and then eliminated, real interest rates declined, and access to domestic and external credit was restored. Imports of capital goods increased by more than eleven-fold from US\$0.6 billion in 1990 to US\$7.4 billion in 1994, indicating the scale of the re-equipment that took place in the economy during the period.

Argentina: Real Domestic Demand

(Annual percentage change)

	1991	1992	1993	Prel. 1994
Gross domestic expenditures	14.5	14.6	6.7	8.5
Consumption	12.6	11.4	5.1	6.0
Gross domestic investment	25.1	30.9	13.9	18.2

Source: Ministry of Economy.

The upsurge in investment was facilitated by a strong improvement in profits of enterprises. The Buenos Aires stock market index (Merval) doubled in real terms (deflated by an average of CPI and WPI indices) between early 1991 and end-1994. The restoration of access to international financial markets was helped by the restructuring of commercial bank debt. Direct foreign investment inflows rose from US\$300 million in 1990 to US\$6 billion in 1993 before dropping back to US\$2 billion in 1994. In part, this upsurge reflected the privatization of public enterprises which brought in an estimated US\$12 billion during this period as direct foreign investors accounted for a large share of all privatizations.

Real domestic demand increased by a cumulative 31 percent in 1991-92, and by 16 percent in 1993-94 (Statistical Appendix Table 13). The boom in demand, combined with the lowering of tariffs and the real appreciation of the peso (see Section IV) found their counterpart in a very substantial rise



in net imports of goods and nonfactor services, and a deterioration in the foreign balance which swung from a surplus of nearly Arg\$4 billion in 1990 to a deficit of some Arg\$6.5 billion in 1994 (Statistical Appendix Table 14). After rising sharply in 1991 and 1992, imports seemed to be moderating in the course of 1993 and early 1994, when an easing of financial policies in the second half of 1994 contributed to a new increase in import demand. Exports which stagnated at the beginning of the Convertibility Plan, gradually gathered strength as the relative cyclical position abroad improved, the structural transformation of the economy intensified, and the economy regained competitiveness. Thus, real exports of goods and nonfactor services grew by 5 percent in 1993 and by nearly 15 percent in 1994.

Coming on the heels of the weakening of financial policies in the second half of 1994, the Mexico crisis in December sharply affected confidence in Argentina, and led to an outflow of capital in early 1995. The withdrawal of deposits from the banking system in turn forced banks to raise interest rates and call in loans. As a result, domestic demand declined in real terms by an estimated 4 percent in the first half of 1995 compared with the first half of 1994, with consumption declining by 3 percent and investment by an estimated 9 percent.

#### Argentina: Saving-Investment Performance

	1991	1992	1993	Prel. 1994	2nd. half 1994	1st. half 1995
(In percent of GDP)						
<u>Gross domestic investment</u>	<u>14.6</u>	<u>16.7</u>	<u>18.2</u>	<u>19.9</u>	<u>20.5</u>	<u>19.4</u>
Private	13.7	15.9	17.6	19.4	20.0	19.0
Public 1/	0.9	0.8	0.6	0.5	0.5	0.4
<u>Gross national saving</u>	<u>14.4</u>	<u>13.9</u>	<u>15.3</u>	<u>16.4</u>	<u>17.4</u>	<u>18.3</u>
Private	15.9	13.5	13.8	15.4	16.4	17.4
Public 1/	-1.5	0.4	1.5	1.0	1.0	0.9
<u>External current account</u>	<u>-0.1</u>	<u>-2.8</u>	<u>-2.8</u>	<u>-3.5</u>	<u>-3.1</u>	<u>-1.1</u>

Source: Statistical Appendix Tables 14 and 33; and Fund staff estimates.

1/ National Administration and public enterprises.

The decline in domestic demand in 1995 helped to further reduce inflationary pressures, depreciate the real effective exchange rate, and

release resources for exports. Helped also by strong demand from Brazil, in the first half of 1995 real exports of goods and nonfactor services (especially agricultural products, automobiles, and manufactured goods) increased by 42 percent, while real imports of goods and nonfactor services dropped by 5 percent, sharply improving the foreign balance.

## 2. Aggregate supply

Reacting to the strong growth of domestic demand, the response of aggregate supply over the period 1991-94 shows that growth was heavily concentrated in the nontradable sectors. Tradable sectors such as agriculture and manufacturing declined as a share of GDP whereas strong gains in GDP shares were recorded in nontradable sectors such as construction, and in finance and banking as a result of re-intermediation.

The agricultural sector came under pressure at the beginning of the Convertibility Plan with the reduction in import restrictions, the weakening of world growth, the decline in international commodity prices, and the appreciation of the real exchange rate. As a result, the growth rate of aggregate real value added in agriculture weakened steadily after 1990 and, together with the negative effects of flooding, turned negative 1 percent in 1993 (Statistical Appendix Table 15). These developments initiated a strong process of adaptation in the sector during this period as land holdings were consolidated and the scale of operations expanded. Moreover, the sector benefitted from tariff reductions which lowered prices for imported inputs (including fertilizer and pesticides), leading to improved yields; lower transportation costs owing to the deregulation and privatization of ports and railways; and special credit facilities to help farmers purchase tractors and agricultural machinery.

As a result, the agricultural sector was in a relatively good position to benefit from the firming up of international commodity prices in 1994-95 (especially for wheat), and also enjoyed good climatic conditions in the 1994/95 crop year (Statistical Appendix Table 17). Output growth recovered to nearly 4 percent in 1994 and is projected at 8 percent in 1995.

The mining (including oil) and utilities sectors (gas, water, and electricity) take up a small combined share of GDP (4 1/2 percent) but have performed strongly in recent years, with average growth rates of around 8 percent a year since 1992. Deregulation and privatization played a key role in re-invigorating these sectors, particularly the oil and gas sectors. The privatization of the oil and gas industry began when private operators took over areas previously reserved for the national oil company (YPF). YPF was privatized in 1993 after a restructuring and rationalization. Oil and gas pipelines, power stations, electric transmission facilities, telephone and water utilities were all privatized during these years (the last few remaining installations--nuclear power stations and binational hydroelectric dams--are currently in the process of privatization).

The privatization of the energy sector attracted considerable foreign investment, in part because of its good export potential. There are plans for gas pipelines to Chile and for expanded electricity transmission facilities to Brazil, Uruguay, and Paraguay. During the first half of 1995, the mining and utilities sectors continued to grow strongly, with output of electricity increasing despite the economic slowdown, in part because heavy electricity users, such as the aluminum industry, boosted their exports.

Argentina: Production of Oil, Gas, and Electricity

	1991	1992	1993	1994	<u>1st. half</u> 1995
<u>(Volumes, as indicated)</u>					
Crude petroleum (thousands of cubic meters)	28,621	32,246	34,468	38,732	20,433
Natural gas (millions of cubic meters)	24,643	25,043	26,663	27,697	14,006
Electricity generation (GWH)	50,205	52,406	58,395	62,736	30,638
<u>(Annual percentage changes)</u>					
Crude petroleum	2.0	12.7	6.9	12.4	10.2
Natural gas	7.1	1.6	6.5	3.9	3.5
Electricity	...	4.4	11.4	7.4	4.9

Source: Ministry of Economy.

The manufacturing sector declined as a share of GDP during the period 1991-94 with the opening up of the economy to increased competition from abroad. However, as one of the sectors most exposed to competition, it has undertaken significant adjustment through upgrading and modernizing plant and equipment and rationalizing labor costs through shedding labor and improving labor productivity. Real wages in manufacturing remained relatively stable since early 1991, and employment declined significantly during 1991-94.

The automobile sector continued to be shielded from foreign competition. Despite very strict import restrictions, the industry had weakened steadily during the 1980s, because of depressed demand and the absence of economies of scale (the industry comprises several major producers and each attempted to maintain a wide diversity of models). Production of automobiles reached a low of 99,000 units in 1990 compared to 282,000 in 1980 (Statistical Appendix Table 19 and Chart 2).

In April 1991, representatives of the automobile industry, unions, and the government reached an agreement calling for specialization in a restricted number of models in which the sector could develop a comparative advantage; an import regime to supplement model availability not produced in Argentina, involving tax benefits for automobile imports by manufacturers with plants located in Argentina; limits on wage increases and on pricing for automobiles and domestically produced autoparts; minimum investment requirements; and commitments to expand exports.

The agreement restricted imports by allowing domestic manufacturers to supplement domestically produced models with imported models at a reduced tariff of 2 percent (against the normal 18 percent) up to a maximum of 13 percent of the value of their production in Argentina in the previous year. Such imports would have to be compensated over time with an equivalent value in exports to maintain balance in external automobile trade. The surge in domestic sales during 1991-94, however, caused manufacturers to fall short on (compensatory) export performance and Argentina registered a trade deficit in this category. As a result, in February 1995, the sector was assessed a retroactive tariff of 18 percent on uncompensated imports for a total amount of some Arg\$160 million. A separate quota was established for automobiles imported directly by households for personal use. Licenses under these quotas are auctioned, with the imported automobiles assessed the normal 18 percent import tariff.

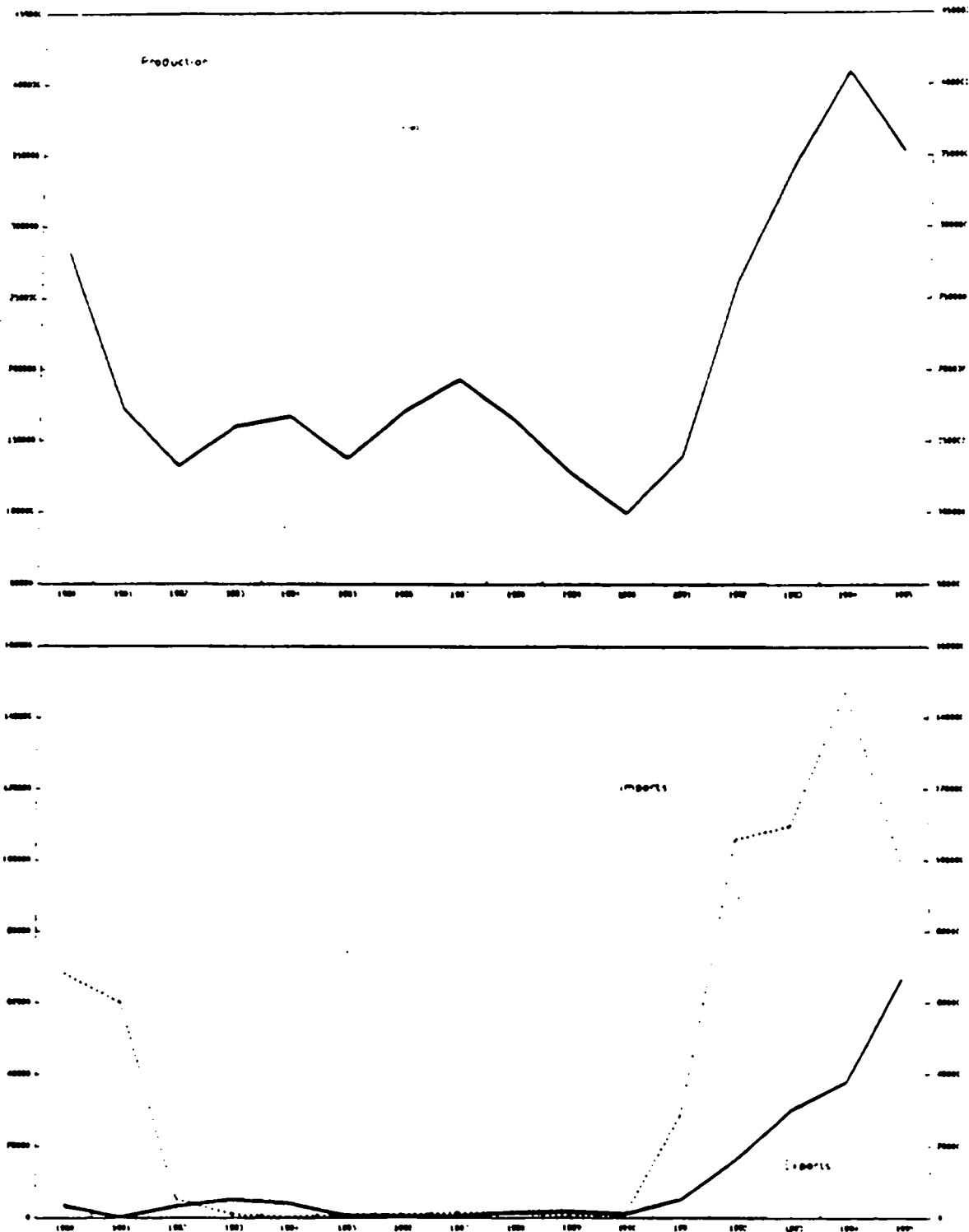
With the boom in consumption and reappearance of consumer credit, the automobile sector made a strong recovery in the period 1991-94. Output quadrupled to 408,000 units in 1994, exports increased from some 5,000 units in 1991 to nearly 38,000 units in 1994, and imports increased sharply from 29,000 units in 1991 to more than 147,000 units in 1994. The industry recorded very large productivity gains during this period and relatively modest employment growth (from 18,000 employees in 1991 to almost 26,000 employees in 1994).

Domestic sales fell by 21 percent in January-June 1995, compared with the corresponding period of 1994, and automobile output declined by 16 percent as producers were able to shift part of their production into exports, especially to Brazil which applies no restrictions on automobiles



CHART 2  
Argentina

Automobile Production, Exports, and Imports  
Units



Sources: Argentine Association of Automobile Manufacturers and Fund staff projections

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produced within MERCOSUR. 1/ The challenge for the industry is to use the MERCOSUR expanded market as a springboard to update its model line and to achieve full international competitiveness by the year 2000 when the special domestic market arrangements are to be phased out. Automobile companies have pledged to carry out about US\$5 billion in direct investment during the remainder of the decade.

Other sectors that have achieved considerable adjustment since the fixing of the exchange rate are the steel industry, which has partially closed down and rationalized the former state-owned plants and integrated them with the private steel plants; and the food processing industry, which has attracted considerable foreign direct investment from multinationals based in Brazil, Europe and the United States, because of its excellent growth potential.

Output of construction and services sectors rose sharply during 1991-94. Construction activity benefitted from the increase in business and residential investment, and output increased 20 percent and some 13 percent a year, respectively, in the two-year periods 1991-92 and 1993-94. With the downturn in early 1995, however, construction activity declined and real value added in the sector is projected to fall by 8 percent in 1995.

Developments in the services sector parallel those of the construction sector--strong growth through mid-1994 and a gain in GDP share, with a gradual slowdown in the second half of 1994 and a sharp drop during the first half of 1995. Finance and banking was especially hard hit during the first half of 1995 in the aftermath of the Mexico crisis, and the sector is now restructuring, reducing its labor force, consolidating branches, and seeking to raise its productivity.

### 3. Wages, prices, and employment

Sectoral wage developments have been uneven since early 1991, and reflect the relative pressures on the tradable and nontradable sectors already noted. Since around mid-1994, there have been downward wage pressures in the nontradables sectors as employment in those sectors started to weaken.

Real wages (as estimated by FIEL) in the manufacturing sector fell by some 10 percent from early 1991 through March 1992 and have remained about stable since then (Chart 3). Real wages in the nontradable sectors moved very differently: in construction rising by nearly 60 percent from early 1991 to end-1993; in commerce by 20 percent during this period; and in

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1/ In the MERCOSUR agreements, automobile trade will be made subject to a common regime and common external tariff by end-1999. In the meantime, Brazil has agreed that no import restrictions will be imposed on imports from Argentina during the remainder of 1995. The negotiations on automobile trade with Brazil are continuing.

domestic services by nearly 40 percent. With the reduction in employment since mid-1994 and emergence of the recession in the second quarter of 1995, nominal wages incurred downward pressures. In some sectors nominal wages have declined, including for upper-income employees in the central government whose wages were cut by 5-15 percent as part of the package of measures of March 1995. However, with prices relatively stable or (for some sectors) declining, the adjustment in real wages in the nontradable sectors in general appears to have been relatively small.

The rate of increase in consumer prices dropped sharply following the fixing of the exchange rate in March 1991, but still remained marginally above monthly levels in industrial countries until end-1993 (Chart 4 and Statistical Appendix Table 21). During 1994, consumer prices rose by 3.7 percent, slackening to 2.8 percent in the year ended August 1995, despite the imposition of a 3 percentage point VAT surcharge in April 1995. During 1994 and the first half of 1995, prices for food and beverages, clothing, and household consumer durables rose by less than the average of consumer prices, whereas rents and other housing costs, prices for health care and education, and especially prices for transportation (bus and metro fares) and telecommunication services increased faster than average.

Wholesale prices slowed more quickly than consumer prices following the fixing of the exchange rate, and wholesale price inflation remained below that in consumer prices until late 1994. This reflected the higher weights in this index, compared to the CPI, of manufactured products and agricultural commodities, whose prices on average have risen less than prices for domestically traded goods (and services). By contrast, since late 1994, wholesale price inflation has been somewhat faster than consumer price inflation suggesting a relative improvement in prices for producers as compared to retailers. This also suggests that the cyclical downturn is increasing the adjustment pressure on the nontradable goods sectors relative to tradable goods sectors.

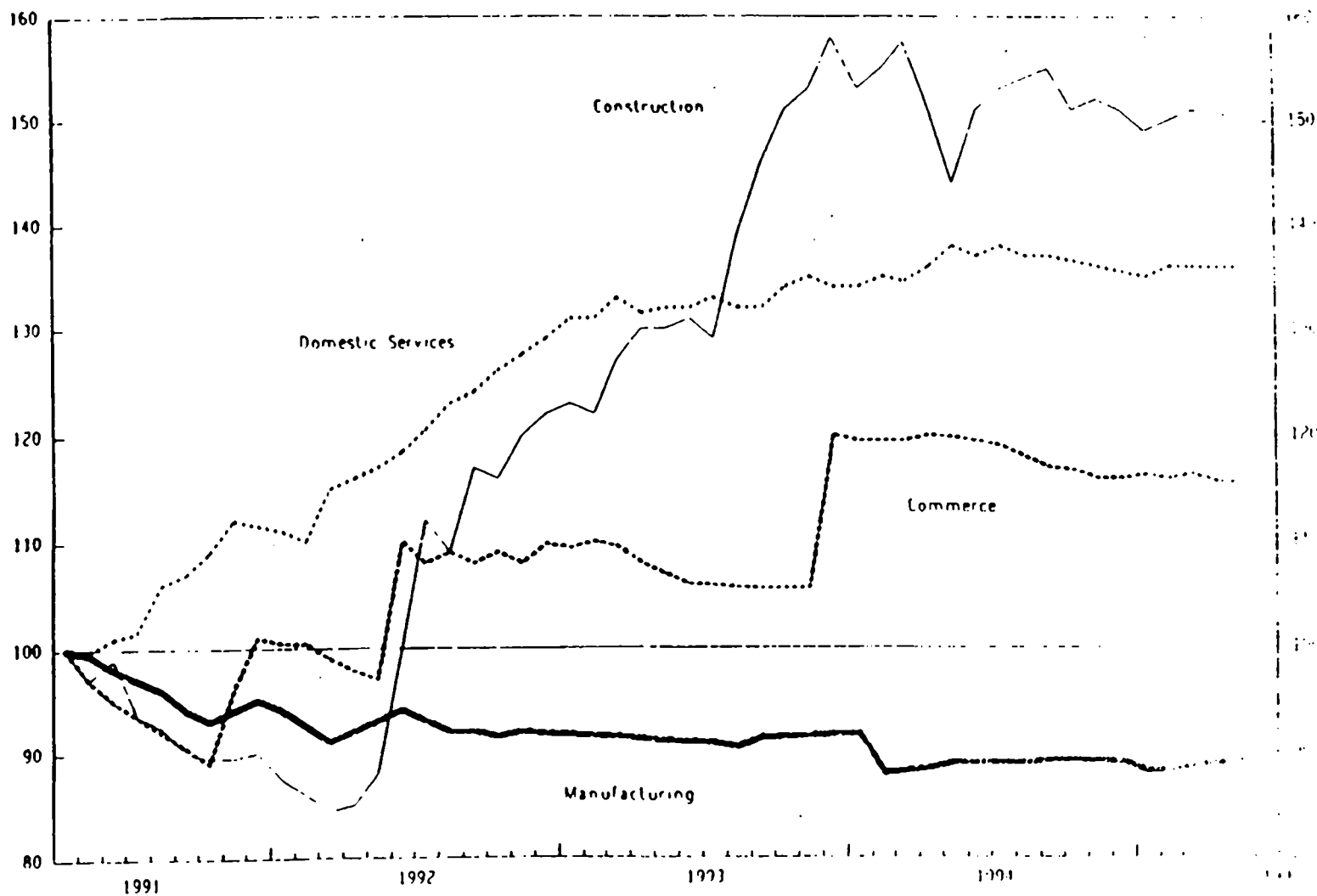
Despite GDP growth of some 7 percent a year on average during 1991-94, overall employment increased by only 1.6 percent a year between early 1991 and early 1994. <sup>1/</sup> Moreover, from around mid-1994 onward, employment started to decline and by May 1995 was 3 1/2 percent lower than in May 1994 (Chart 5). Over the period as a whole, employment declined in manufacturing and agriculture. Employment increased in construction, commerce, and services during 1991-93 but also started to decline in these sectors since late 1994, particularly in construction and banking.

Labor force participation has steadily increased during the Convertibility Plan, and the average annual growth of the labor force was 3 percent, or nearly 2 million individuals from 1991 to 1994 while employment increased by only 800,000 (see Chart 5). The main factors appear to have been the increase in real wages and job opportunities during 1991-92

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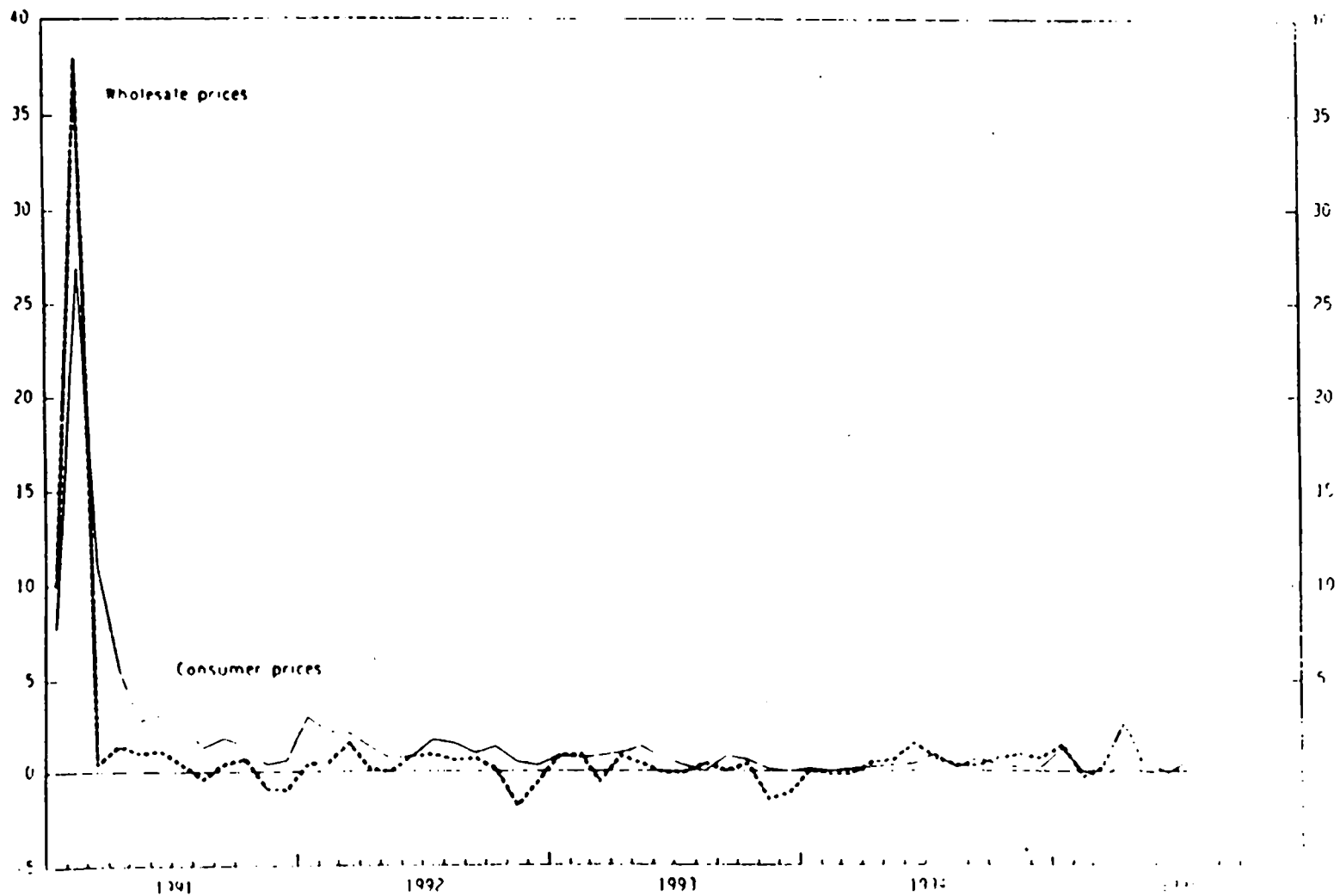
<sup>1/</sup> See Appendix II for a more detailed discussion of labor market issues.

CHART 3  
Argentina  
Real Wages in Selected Sectors  
Index, 1991 (April) = 100



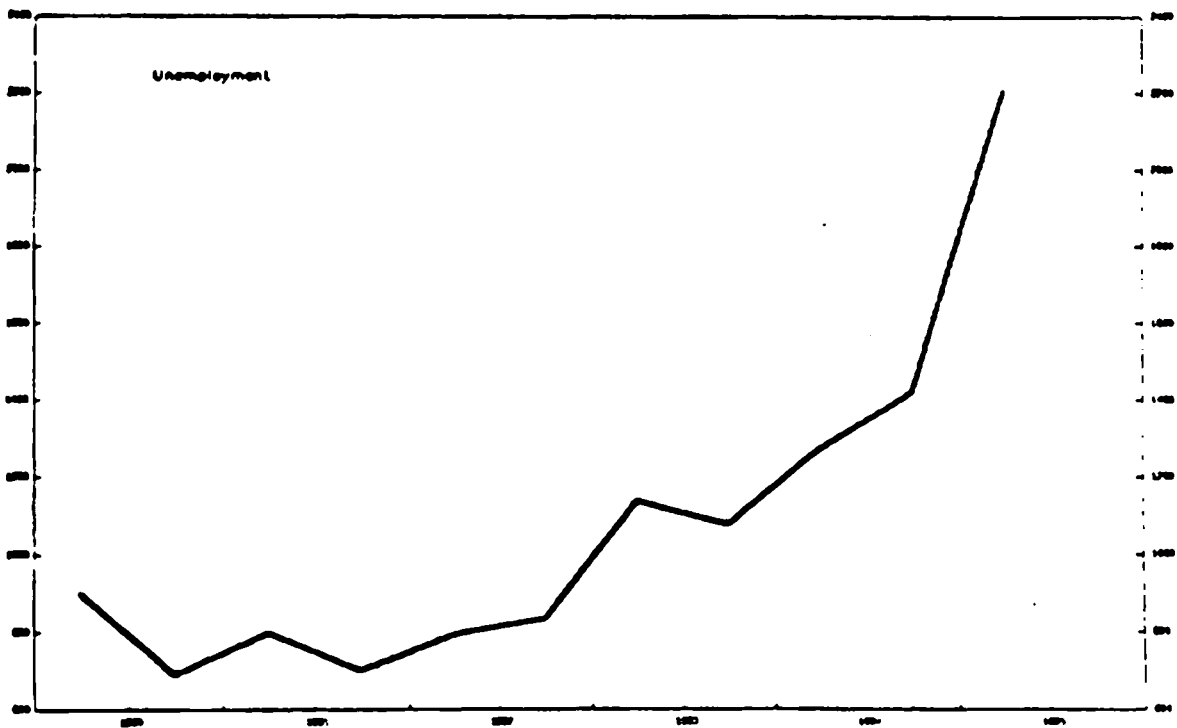
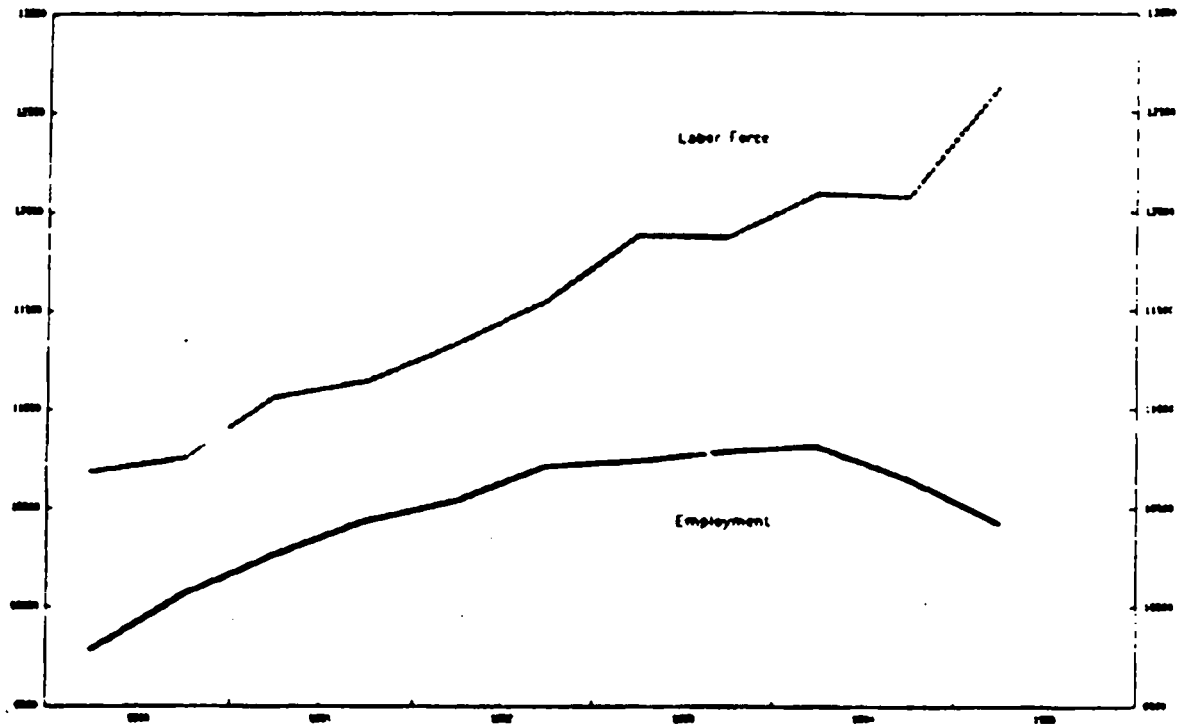
Source: IFL, Indicadores de Coyuntura, June 1995

CHART 4  
Argentina  
Inflation Indicators  
Monthly Percentage changes



Source: Data provided by the Argentine authorities

CHART 5  
Argentina  
**Labor Market Indicators**  
Thousands of Persons



Source: Data provided by the Argentine authorities.

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(relative price effects), followed by efforts to preserve the gains in real family incomes as employment conditions tightened and then deteriorated for breadwinners in 1993-94 (income effects). With the recession in 1995, the incentive to help boost the family income appears to have been particularly strong, and the participation rate increased sharply from 41 to nearly 43 percent of the urban population from 1994 to May 1995 (600,000 persons). Immigration (attracted by the increase in U.S. dollar wages) also has played a role in the labor markets as immigrants tend to have a very high participation rate, and illegal immigrants absorbed jobs in the construction and services sectors, which may be distorting the statistics.

As participation increased faster than job creation, the number of unemployed increased from 700,000 in the early 1990s to 2.2 million in May 1995, and the rate of unemployment rose from 6.4 percent in October 1990 to 12.2 percent in October 1994, and further to 18.6 percent in May 1995.

## II. Public Finances 1/

### 1. Recent developments

The overall balance of the consolidated nonfinancial public sector (NFPS), including the provinces, 2/ shifted from a deficit of 4.1 percent of GDP in 1990 to a surplus of 0.1 percent in 1993, before falling to a deficit of 1.2 percent of GDP in 1994 (Table 2). Total revenues, excluding privatization proceeds, increased by almost 5 percentage points of GDP, from 16.5 percent of GDP in 1990 to 21.3 percent of GDP in 1994, while expenditure increased from 20.6 percent to 22.5 percent of GDP in the same period. These data exclude from expenditure outlays debts issued to regularize domestic arrears to pensioners, suppliers, and provincial governments that had been accumulated through end-March 1991, (i.e., prior to implementation of the Convertibility Law) as well as additional arrears to pensioners which accumulated through end-August-1992. In the accounting, these arrears were considered pre-existing but unregistered debt.

Much of the improvement in the overall public finances during 1990-94 was due to the strong revenue performance of the Federal Government brought about by tax and tax administration reform (see below). Total revenue of

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1/ The public sector in Argentina comprises the Federal Government (National Administration, decentralized agencies, and special accounts, the national social security system, and the Central Bank), national public enterprises, and the provincial governments. The municipal government, provincial banks, provincial social security funds, and the quasi-public health funds (obras sociales) are not included for lack of comprehensive data. The nonfinancial public sector excludes the Central Bank.

2/ The operations of the provincial governments are included in the nonfinancial public sector data presented in this chapter only where it is explicitly mentioned. All data are on a cash basis.

the Federal Government increased from 13.8 percent of GDP in 1990 to 17.3 percent of GDP in 1994. Approximately half of domestic tax revenues are automatically transferred to the provinces under revenue-sharing arrangements. While the provinces benefitted from the improved revenue performance at the national level through these arrangements, they did not reduce their deficit substantially, nor did they increase their own revenue effort to the same extent as the Federal Government. As a result, provincial public finances remain a major focus of fiscal reform (see also below).

a. Federal Government

Tax revenue increased from 8.4 percent of GDP in 1990 to 11.3 percent of GDP in 1992 and leveled off at about 11 percent of GDP during 1993-95 (Table 3). Social security revenue (wage and payroll taxes) performed strongly, notwithstanding the reform of the social security system in mid-1994, which shifted resources equivalent to 0.8 percent of GDP from the public to the private system, as well as reductions in payroll taxes in 1994.

Primary expenditures increased from 12.5 to 15.8 percent of GDP during 1990-92 and remained at around 16 percent of GDP during 1993-95. To a large extent, the increase during 1990-92 reflected a decision to pay pension obligations in full (previously the system had been incurring arrears). Also, the Federal Government absorbed certain provincial social security systems (equivalent to 0.4 percent of GDP) in 1994. Transfers to the provinces increased by 2 percentage points of GDP during 1990-92, to a peak of 5.6 percent of GDP, but declined to 4.4 percent of GDP in the first half of 1995 (Statistical Appendix Table 24). In part, this reflects allocation of a greater share of tax revenue to the social security system in 1993.

The primary balance of the Federal Government weakened from a surplus of 2 percent of GDP in 1993 to a surplus 0.7 percent of GDP in the first half of 1995. The explicit goal of the Argentine authorities, to achieve at least overall balance in the federal government accounts, was only achieved in 1993, when a surplus of 1 percent of GDP was registered. During 1994, however, a deficit of 0.5 percent of GDP emerged.

b. Provincial governments <sup>1/</sup>

As noted, the provincial governments benefitted from the improved revenue performance at the national level. This windfall initially was used to improve their financial position, as provincial deficits declined from 1.4 percent of GDP in 1990 to 0.2 percent of GDP in 1992; subsequently, however, the deficit of the provinces increased to 0.8 percent of GDP in 1994. Provincial expenditures rose from 8.5 of GDP in 1990 to 10.6 percent of GDP in 1993 before declining slightly to 10.1 percent in 1994. Wages

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<sup>1/</sup> Data on the provincial government finances are provided in aggregate form with considerable delay, and are of poor quality.

make up over 50 percent of total provincial government expenditure, and since 1990, the total wage bill of provincial governments has increased significantly in relation to GDP (Statistical Appendix Table 26). To some extent, this growth reflected the transfer of health and education expenditure responsibilities from the Federal Government to the provinces, although the provinces have also transferred some expenditures to the national level, such as certain provincial social security programs. Educational and health care services were transferred in 1991 and 1992, shifting to the provinces more than 200,000 workers. The provinces were compensated for this shift by additional annual transfers equivalent to 0.4 percent of GDP. 1/ Also, in 1992, the government transferred to the provinces the National Housing Fund (FONAVI), which provides affordable housing for low income families. In 1993, the provinces agreed that 15 percent of shared tax revenue would be earmarked for the social security system to help cover its deficit.

In recent years, the Federal Government has encouraged reform of the provincial finances, including privatization and deregulation at the provincial level. The fiscal pact of 1992, in addition to transferring expenditure responsibilities from the federal to the provincial governments in the areas of public health, education, and housing, also sought to promote tax reform at the provincial level. The second fiscal pact of 1993 carried these policies further by encouraging the provinces to carry out deregulation and privatization, and to shift their social security systems to the national system. 2/ In particular, the Argentine authorities encouraged provincial governments to reduce or eliminate local taxes that impinge directly on enterprise costs or impede the development of financial markets. Provinces adhering to the two fiscal pacts committed themselves to eliminate stamp taxes on checking, provincial taxes on the transfer of fuel, gas and electricity, and the cascading provincial turnover tax, replacing the latter by a tax on final retail sales.

Although the own-revenue efforts of the provinces have improved somewhat since 1990, as noted the provinces rely very heavily on the federal-provincial revenue-sharing arrangement (the "coparticipation" scheme), and discretionary and earmarked transfers, and their own tax bases remain relatively weak. With the slowdown in revenue collections in the second half of 1994 and early 1995, the provinces have been under heavy pressures to cut expenditure. A number of provinces have incurred arrears on civil service wages in 1994-95, which led to civil unrest in various provinces, and have begun to undertake significant expenditure reform in 1995.

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1/ Provinces receive a transfer of Arg\$100 million per month for education responsibilities taken over from the central administration, and in addition, were given a monthly minimum transfer guarantee of Arg\$740 million under the 1993 federal-provincial fiscal pact.

2/ See SM/94/177 for a more detailed description of the two pacts.

Provincial civil service employment grew rapidly during the 1980s when the provincial governments tended to operate as an employer of last resort in the prevailing conditions of macroeconomic instability. During that decade provincial civil service employment (including the Municipality of Buenos Aires) expanded by 47 percent (Appendix Table 12), and has apparently remained about unchanged since that time (after adjusting for the effect of positions that were transferred from the national government). Thus, in many provinces the public sector payroll remains bloated. Provinces with the lowest level of own revenue mobilization (relative to total expenditure) tend to have the highest level of civil service employment (in proportion to population), and vice versa. 1/

In support of provincial civil service reform, the national authorities launched a number of initiatives that still have to bear fruit. One of the schemes, the BOCEP program, functions as a marginal employment subsidy that helps provinces implement civil service reduction programs. In June 1995, eight provinces announced plans to reduce public sector employment by a total of 70,000 workers, and another four provinces stated their intentions to reduce their civil service. At least one province cut wages by up to 30 percent and others are contemplating salary and employment reductions.

## 2. Fiscal reform

Since the early 1990s, the fiscal policy framework has been designed to support the economic reform effort and to restore confidence in the Argentine economy. It aimed at increasing public savings and achieving fiscal equilibrium while improving efficiency and reducing the role of the public sector in the economy.

These objectives were to be achieved through reforms in the area of tax policy, tax administration, expenditure policy and management, a sweeping privatization program, public enterprise reforms, and changes in inter-governmental fiscal relations. On the revenue side, policy reforms aimed at simplifying the tax system by eliminating distortionary taxes, and shifting it away from taxes on foreign trade and production in favor of consumption taxes, by widening the base of the VAT and personal income taxes. By removing the anti-export bias of the system and improving the cost structure of the economy, these efforts were also designed to help Argentine producers

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1/ Of the four provinces that in 1992 raised less than 10 percent of their total expenditures through own revenues (Catamarca, Formosa, La Rioja, Santiago del Estero), the first three ranked highest with regard to the level of public employees per inhabitant. Similarly, the four provinces that raised more than 30 percent of their total expenditures through own revenues (Buenos Aires, Córdoba, Mendoza, and Santa Fé), were also the only ones that had less than 10 public employees per 100 inhabitants. Across all provinces, the correlation coefficient between these two variables is minus 0.70.

compete more effectively in international markets. 1/ These efforts were supported by a modernization of the tax administration to improve efficiency and reduce evasion. On the expenditure side, reforms included, inter alia, reform of the social security system, decentralizing responsibilities for social expenditure in health and education to the provinces, and reductions and redeployment of the national civil service.

a. Revenue

(i) Tax reform: during 1991-95 some 21 distortionary federal taxes and levies with a yield of about 3 percent of GDP were abolished. These included taxes on bank debits, assets, financial services and exports (Table 4). At the same time, the tax base was broadened through the removal of exemptions and subsidies, notably exemptions from the VAT and subsidies to companies under regional incentive program.

Tax reform in 1994 continued to focus on reducing production costs and improving equity. Effective January 1, 1994, the 33 percent payroll taxes (employer social security contributions) were reduced by between 30-80 percent on the traded goods sectors depending on the region, with economically weak provinces receiving larger reductions than more advanced provinces. The service and tourism sectors were excluded from the reductions, so that only about half of total output was affected. In August 1994, with the introduction of the new privatized pension system, employee social security contributions were increased by one percentage point, to 11 percent of wages.

In March 1995 a series of tax measures were taken to bolster the budget and help restore confidence, these included: (i) a temporary 3 percentage point increase in the VAT rate to 21 percent that is to expire at end-March 1996 and is exempted from the normal revenue-sharing arrangements with the provinces; (ii) a temporary 3 percent import surcharge 2/ (excluding capital goods, data-processing and telecommunications equipment, and fuels); (iii) a 10 percent tariff on imports of non-MERCOSUR capital goods, data-processing and telecommunications equipment (this was part of the convergence process in MERCOSUR); (iv) tariffs on MERCOSUR imports on 70 items (completing the possible maximum of 200 items) were temporarily exempted from the no-tariff stipulations within MERCOSUR; (v) unifying payroll tax rates across sectors at 16 1/2 percent, depending on provinces. This involved rate reductions for the services and tourism sectors, and a partial rollback of previous reductions in all other sectors; (vi) further broadening the base of the VAT and income taxes, mainly by eliminating deductions and exemptions; (vii) broadening the base and lowering the rate of the wealth tax; and (viii) new facilities for regularizing tax arrears.

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1/ See SM/93/137 and SM/94/177 for a description of the tax system and earlier tax reform measures.

2/ In December 1994, the previous 10 percent import surcharge (or statistical services tax) has been abolished.

and a number of smaller measures, largely in the area of social security. These measures were expected to generate some 2 percentage points of GDP in revenue in 1995.

Wealth tax payments, initially scheduled for September 1995, were brought forward to June 1995, and the Government began a phased reduction of payroll taxes by 30 percent, starting in September 1995 to help boost employment.

(ii) Tax administration: during the 1980s Argentina's tax administration had deteriorated dramatically, largely as a result of high inflation, and evasion, always a problem, became rampant. The tax administration has been modernized since 1991, with the introduction of new systems in about 230 regional and local offices of the national Directorate General of Taxes (DGI). The DGI has invested heavily in computer equipment, software and personnel training, and expanded its processing capacity to about 600,000 tax returns from enterprises annually, and expanded the tax net to 150,000 enterprises from which wage and payroll taxes are now collected. Also, new tax offices were established to tighten control of medium size and small taxpayers. The number of large taxpayers subject to on-line control has increased dramatically, providing direct monitoring of the activities of taxpayers accounting for two-thirds of total tax revenue. By end-1994, the DGI was also in a position to process electronically the approximately 2.8 million non-enterprise tax returns that are filed annually.

The National Tax Office also assumed responsibility for collecting social security contributions in 1993, and it became possible to cross-check information, increasing benefits from efforts and resources invested in control tasks. There are about seven million individual social security accounts maintained by DGI for the purpose of social security tax collections, but only 4.3 million are actually contributing. Efforts are underway to strengthen the administration of this system. At the same time, computerization of all areas of the customs services resulted in better valuation and control of imports. The introduction of a new Tax Code in 1991 that allowed the closing of delinquent business establishments and established fines and prison terms for tax offenders also helped reduce tax evasion.

Although the advances in computerizing the tax office undoubtedly increased the effectiveness of tax administration, as evidenced by the increase in tax collections as a percent of GDP, evasion and noncompliance remain widespread. Noncompliance of social security contributions, for example is of the order of 40 percent (see below) and evasion of income taxes is believed to be as high as 50 percent. Evasion of the VAT is also significant--the VAT, currently at a rate of 21 percent, is generating only some 6 percent of GDP in gross revenues. Similarly, the new wealth tax that was introduced in 1995 was paid by only 70,000 (14 percent) of the estimated 500,000 people with assets in excess of Arg\$100,000 who are subject to this tax.

b. Expenditure

Key areas of expenditure reform undertaken during 1990-95 involved national civil service reform, reform of the social security system, and, more recently, the social safety net. In early 1995, the Government made broad-based cuts in virtually all ministries to cut Arg\$2 billion (0.7 per-cent of GDP) from the original budget.

(i) National civil service reform: since 1990, the Argentine Government has undertaken steps to downsize and improve the efficiency of the national civil service, as well as transferring to the provinces responsibilities for health and education. Downsizing national civil service employment involved hiring freezes, elimination of vacancies, early retirement, dissolution of entire administrative units, reductions in temporary personnel and cutbacks in the number of political appointments and posts. These reforms achieved a net reduction of about 40,000 positions in the National Administration, aside from the transfer of some 200,000 employees in the education and health sectors to the provincial jurisdictions; as a result during 1990-94, core employment at the national administration was reduced from about 526,000 to about 300,000 employees (Appendix Table 12).

Despite these steps, the wage bill of the national authorities remained fairly constant as a percent of GDP, implying a significant increase in real wages from their depressed levels at the end of hyperinflation. In March 1995, nominal wages were reduced by 5-15 percent for some 24,000 national civil servants with earnings over Arg\$2,000 a month. Also, since June 1995, wage payments for civil servants have been delayed from the end of the current month to the beginning of the following month as permitted by law.

(ii) Social security: the reform of the social security system in 1993-94 aimed at redressing the critical situation faced by the public pay-as-you-go system (provincial social security systems were not affected by the reform). The reform, adopted in October 1993, kept the old system in place with streamlined benefits including a gradual increase in retirement age, but gave workers a one-time upfront option of joining a newly-created fully-funded private pension system. <sup>1/</sup> This was expected to boost private savings while maintaining an adequate flow of resources to the state system.

The new integrated pension system (SIJP) became operational in July 1994 with the optional private capitalized pension system alongside the public pay-as-you-go system. The statutory retirement age was to be increased gradually by five years, to 65 years for men and 60 years for women. Participants have a choice between joining either the pay-as-you-go

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<sup>1/</sup> All new entrants in the pension system automatically are allocated to the private system.

public system or the funded private system, with participation in one or the other system compulsory for all workers, including the self-employed.

Workers currently are required to contribute 11 percent of their income (27 percent if self-employed) and employers 16 1/2-33 percent of wages, depending on location (prior to recently announced reductions that will lower them to 11 1/2-23 percent by January 1996). Benefits have three components: (a) a basic universal pension to which every worker has a right; the amount of this pension depends on the average contribution to the system, on a pure pay-as-you-go basis; (b) an additional pension that depends on the average of the last ten annual salaries, and the years of contributions <sup>1/</sup> in the case of those who remained in the state system, or the yield obtained from the 11 percent contribution deposited in the funded system, in the case of those joining the new pension funds; and (c) a benefit ("compensatory pension") for those who switched to the private system to compensate for their contributions made to the old PAYG system.

The public system is financed by employer and employee contributions, and by earmarked taxes and transfers from general revenue. A 1994 law strengthened the state system by limiting the pay-out of compensation for past obligations under the old state system to the amount of available resources.

The private system is operated by private pension funds (AFJPs), and functions as a defined-contribution scheme with individual capitalization accounts. The old-age pension from this system is to be paid in the form of a life annuity or scheduled withdrawals based on the accumulated balance in each account. The system also pays disability and survivors pensions in the form of defined-benefit payments, on the basis of group disability and term life insurance. It is financed by the 11 percent wage tax (employee contribution); about 70 percent of this (7.7 percent of wages) will go toward capital accumulation and the remainder covers administrative expenses and insurance premia for group disability and term life insurance. The AFJPs that manage the private system are supervised by the newly-created Superintendency for Pension Funds, and are subject to a number of (prudential) restrictions in terms of the types of investments they undertake. If, in a given year, the return on investment of any AFJP falls below 70 percent of the average return on investment for the group of all AFJPs, the particular AFJP will be merged with other AFJPs.

Compliance remains a major problem in the Argentine social security system. From September 1994 to June 1995 the number of people insured under the SIJP increased by 22 percent, from 5.7 million to 7 million, with the private system covering 55 percent of all persons enrolled at the latter date. However, while in November 1994 contributions were received for 73 percent of all insured, by June 1995 this had dropped to 63 percent. in

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<sup>1/</sup> 0.85 percent of the average individual salary over the last 10 years of employment for every year of service under the new system.



part as a result of the credit squeeze. Compliance in the private system was particularly weak: in June 1995 contribution payments were received for only 54 percent of those insured under the private system, as compared to 71 percent of those insured under the public system.

Looking further ahead, there are other concerns to be addressed, namely benefit levels and possible budgetary contingent liabilities. The level of benefits that has been promised under the public system appears high compared to what has been found to be sustainable in other economies. <sup>1/</sup> Also, as regards contingent liabilities, the existence of parallel public and private systems that have significantly different funding regimes is likely to give rise to benefit levels that will differ significantly over time. At some stage, therefore, the government may need to intervene to reduce the divergence of pension levels between the two schemes.

(iii) The social safety net: with the increase in the unemployment rate, the adequacy of the social safety net has become a pressing issue. In response, the Government recently announced plans to shift budgetary expenditure toward social spending at the expense of other expenditure categories and involve the private sector in developing certain programs.

(iv) Management--the Integrated Financial Information System: the Government in recent years created an integrated financial information system (SIDIF) that covers the government budget, public debt management, public investment control, the treasury, and public-sector accounting. All previously separate accounts, including extrabudgetary accounts that had been maintained in the 1980s, were integrated into the SIDIF, which can provide information on budget execution, credit operations, expenditure commitments, payment orders, and actual payments. The system also provides up-to-date information on public sector domestic and external debt.

(v) Public debt: registered outstanding domestic and foreign debt of the national public sector (Federal Government and Central Bank) increased by nearly Arg\$22 billion, to Arg\$80 billion or the equivalent of 28 percent of GDP, between 1991 and end-June 1995 (Statistical Appendix Table 27). During this period, debt with a face value of some Arg\$17 billion was reduced through privatization as the Government received part of the privatization proceeds in the form of bonds, and was reduced further and as the result of debt transfers to the private sector in this process. The 1992 debt restructuring under the Brady Plan resulted in some US\$4 billion in debt forgiveness. Debt increased by US\$7 billion on account of program support by the Fund, the IBRD, and the IDB; by Arg\$8 billion as the result

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<sup>1/</sup> See, for example, Dimitri Vittas, "The Argentine Pension Reform and Its Relevance for Eastern Europe" draft, (Washington DC: the World Bank, April 1995), and Monika Queisser, "Chile and Beyond -- The Second Generation Pension Reforms in Latin America" International Social Security Review (forthcoming).

of new Euronote and other bond placements; and by some Arg\$21.4 billion (gross) owing to the regularization of arrears with pensioners, suppliers, and provinces by issuing consolidation bonds (including capitalization of interest, BOCONs) and hydrocarbon bonds (BCRHs). BOCONs trade at a discount and have been used as a means of payment in the privatization process and to settle tax obligations. At the June 1995 the stock of BOCONs was Arg\$13 billion.

Despite the achievements in reducing inflation, strengthening fiscal discipline, and implementing wide-ranging reforms, there is still a significant yield differential between securities in foreign currency or pesos. In mid-1995, U.S. dollar-denominated bonds with some five years remaining to maturity yielded 10-14 percent a year, and the August 1995 placements of Yen- and DM-denominated Euronotes yielded around 9 percent a year, while peso-denominated BICs and BOCONs with comparable remaining maturities yielded 20-30 percent a year.

### III. Financial Intermediation and the Restructuring of the Banking System

#### 1. Introduction

With the stabilization of the economy and decline of inflation following the introduction of the Convertibility Plan in 1991, there was a marked recovery in financial intermediation, funded by large capital inflows. The ratio of broad money to GDP, which had declined from 25 percent of GDP at end 1980 to less than 6 percent of GDP at end-1990, rose to 19.5 percent of GDP at end-1994. However, there was a sharp reversal in early 1995 as the Mexican crisis triggered an outflow of capital from the country. This was reflected in a decline of some Arg\$8 billion or 18 percent of deposits of the domestic banking system from late December 1994 to mid-May 1995 and a loss of over one-third of the Central Bank's gross international reserves during the first quarter of 1995.

In the face of this crisis, in mid-March the Government implemented measures to strengthen the public finances and accelerate structural reforms. Trust funds were set up to facilitate the restructuring of the banking system, a deposit guarantee scheme was introduced, and several banks with serious financial problems were suspended. While these actions effectively stemmed the deposit loss, the reversal of capital outflows got underway only after the reelection of President Menem in May 1995 confirmed the continuity of the Convertibility Plan. Between May and August 1995, the banking system recovered almost half of the deposit outflow, easing the liquidity situation of the banks and lowering interest rates. However, credit to the private sector has recovered only modestly.

The financial crisis in early 1995 revealed the structural weakness of some segments of the financial system, and accelerated the trend toward privatization of provincial banks and the restructuring and consolidation of the private banking system.

## 2. Recent developments

The process of remonetization initiated with the stabilization and reform of the Argentine economy in 1991, slowed down in 1994 as the ratio of broad money to GDP increased by only 1 percentage point to 19.5 percent, and the ratio of foreign currency deposits to total deposits increased further from 47 1/2 percent in 1993 to 51 percent in 1994 (Chart 6). Credit to the private sector increased by only 7.4 percent in 1994 as against 48 percent a year during 1991-93. Interest rates remained stable in 1994 at levels similar to those during the last quarter of 1993. Deposit rates in pesos and U.S. dollars averaged 8 percent and 5 3/4 percent, respectively; and prime lending rates were 9 1/4 percent for peso loans and 8 1/4 percent for loans in U.S. dollars during the year while rates on consumer loans in local and foreign currency averaged 37 percent and 19 percent, respectively.

In late December 1994 and the first few months of 1995, the financial system came under severe pressure as a massive outflow of deposits led to a surge in interest rates, a sharp fall in asset prices, and declining profitability of financial institutions. From mid-December 1994 to end-February 1995, deposits declined by over Arg\$3 billion (or 7 percent), and the decline accelerated in early-March, when deposits fell by a further Arg\$3.5 billion (8 percent). The interbank rate peaked at 70 percent, and prime rates for loans in pesos and U.S. dollars reached 49 percent and 33 percent, respectively. Deposit rates averaged some 20 percent for peso deposits and 10 percent for U.S. dollar deposits compared to 9 percent and 6 percent, respectively, in December 1994.

The Central Bank (BCRA) accommodated the capital outflow by lowering reserve requirements on demand and savings deposits in stages from 43 percent to 30 percent, and those on time deposits by 2 percentage points to 1 percent. In March 1995, banks also were allowed to count up to half of cash-in-vault as reserve requirement as well as resources used to purchase assets from banks in difficulty. As a result, the average legal reserves holdings, including cash-in-vault, declined from 21 1/2 percent in December 1994 to 15 percent in March 1995. The BCRA also created a facility for assisting distressed banks (administered by the Banco de la Nacion-BNA), and facilitated interbank transactions by allowing the trading of excess legal reserves positions ("numerales") among banks. These measures released liquidity equivalent to more than Arg\$4 billion into the economy. In addition, the BCRA extended about Arg\$1.7 billion of rediscounts and swaps to the financial system. 1/ Several banks with serious financial problems were suspended, and a limited deposit guarantee scheme introduced (see below).

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1/ Certain provisions in the Central Bank law were modified in early 1995 to permit the BCRA to provide liquidity assistance to financial institutions for prolonged periods by allowing monthly renewal of rediscounts and for amounts in excess of the banks' capital,

Nevertheless, by mid-March, the BCRA had lost about US\$5 billion of gross international reserves and the ratio of gross international reserves to monetary liabilities was only slightly above 80 percent (Chart 7). The margin for further BCRA support was virtually exhausted without violating the Convertibility Law. <sup>1/</sup> It was at this point that the government implemented a new program with the Fund (extending the EFF arrangement to a fourth year) and sought large scale financial assistance from multilateral organizations and the international financial community to set up trust funds as a backstop to the Central Bank and a way to facilitate the restructuring of the banking system.

Following the announcement of this program and accompanying measures, the decline in peso deposits halted, and after the Presidential elections in mid-May, a strong reflow of deposits began. From mid-May to end-August deposits had recovered by some Arg\$4 billion, or half of the previous withdrawal. This allowed cancellation of some Arg\$0.5 billion of Central Bank swaps and rediscounts, and some recovery in average liquidity holdings.

The events of early 1995 weakened the profitability of financial institutions, raised the share of nonperforming loans and led to severe difficulties in some segments of the banking system, particularly wholesale banks, small private and cooperative banks, and provincial and municipal banks, some of which experienced deposit losses of 50 percent or more. Most of the deposit reflow accrued to the 15-20 largest banks, other banks have recovered only modestly and remain heavily dependent on BCRA rediscounts and loans from the safety net administered by the BNA. Thus, the system has become highly segmented.

### 3. Financial sector restructuring

The events of early 1995 highlighted the need to move expeditiously in restructuring the financial system. As of end-December 1994, the banking system in Argentina consisted of 33 public banks and 172 private financial institutions, of which 66 domestic wholesale and retail banks, 31 foreign banks, 38 cooperative banks, and 37 nonbank institutions (mainly savings and loan organizations and credit unions). The private financial institutions accounted for some 58 percent of total assets and 61 percent of deposits of the total financial system.

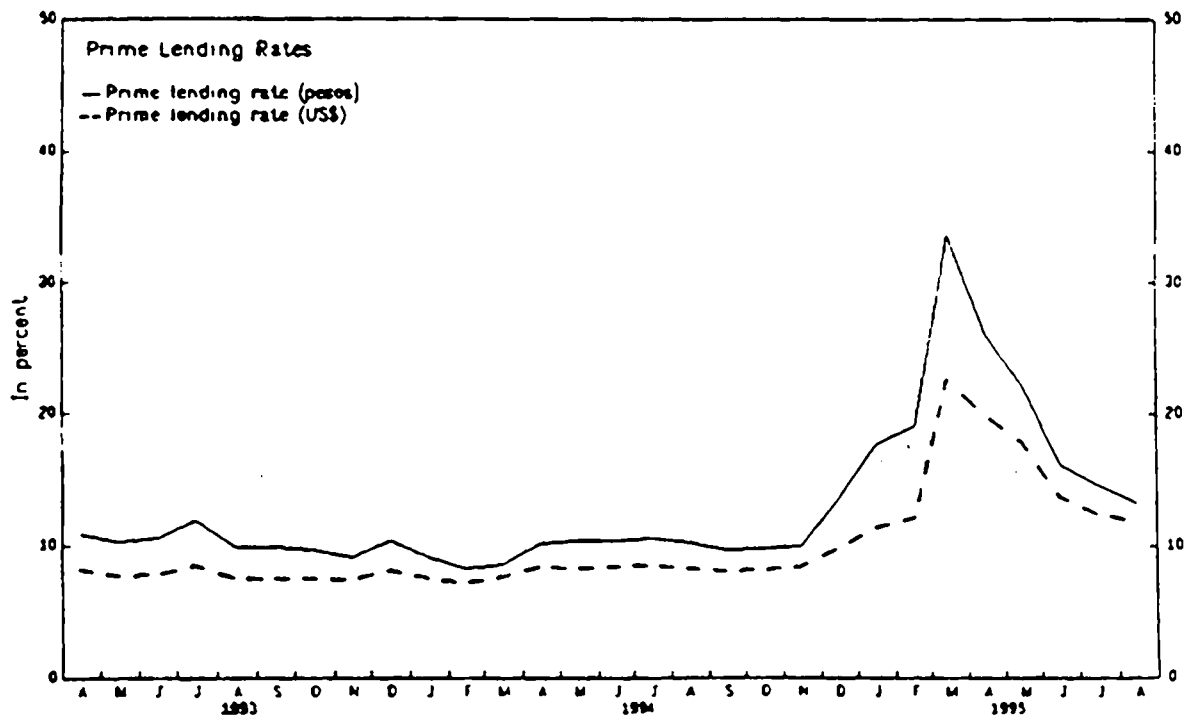
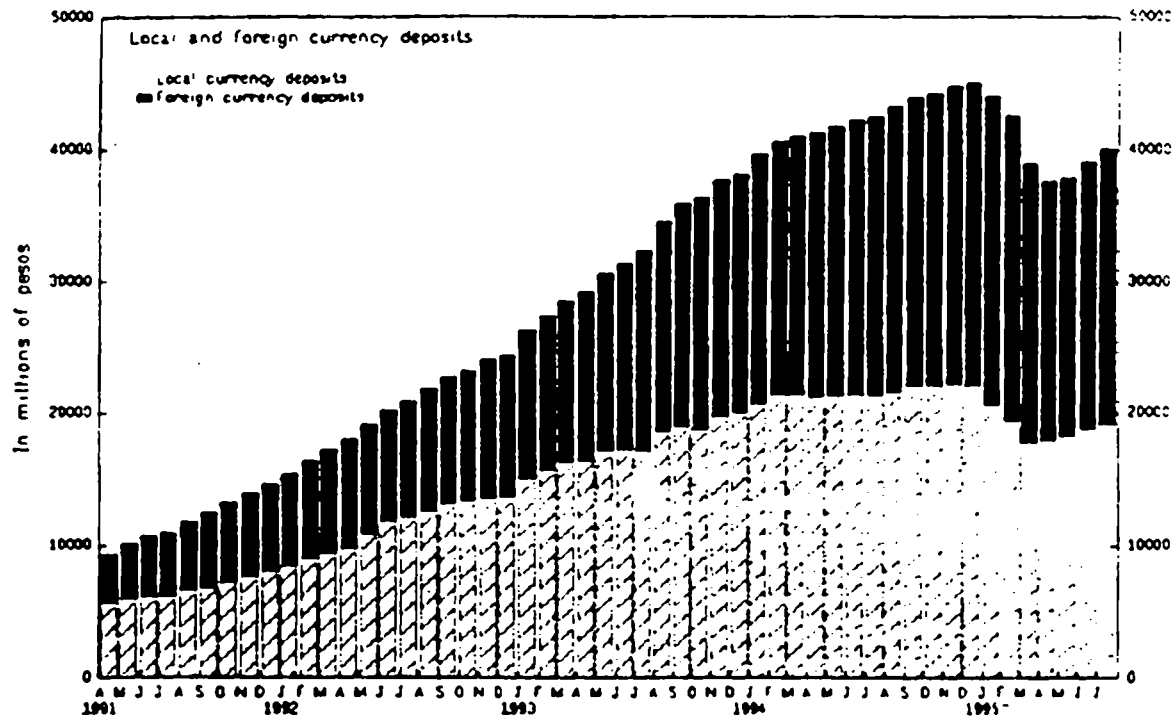
#### a. Restructuring of official national and provincial banks

Between 1991 and 1994, the National Savings Bank was privatized, the National Development Bank was liquidated, and a new investment and foreign trade bank (BICE) was established. The BNA reduced its workforce by more

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<sup>1/</sup> According to the Central Bank law, up to one-third of base money may be covered by holdings of U.S. dollar-denominated domestic debt. However, during the first term of the new Board of Directors, this coverage may not exceed 20 percent except in an emergency.

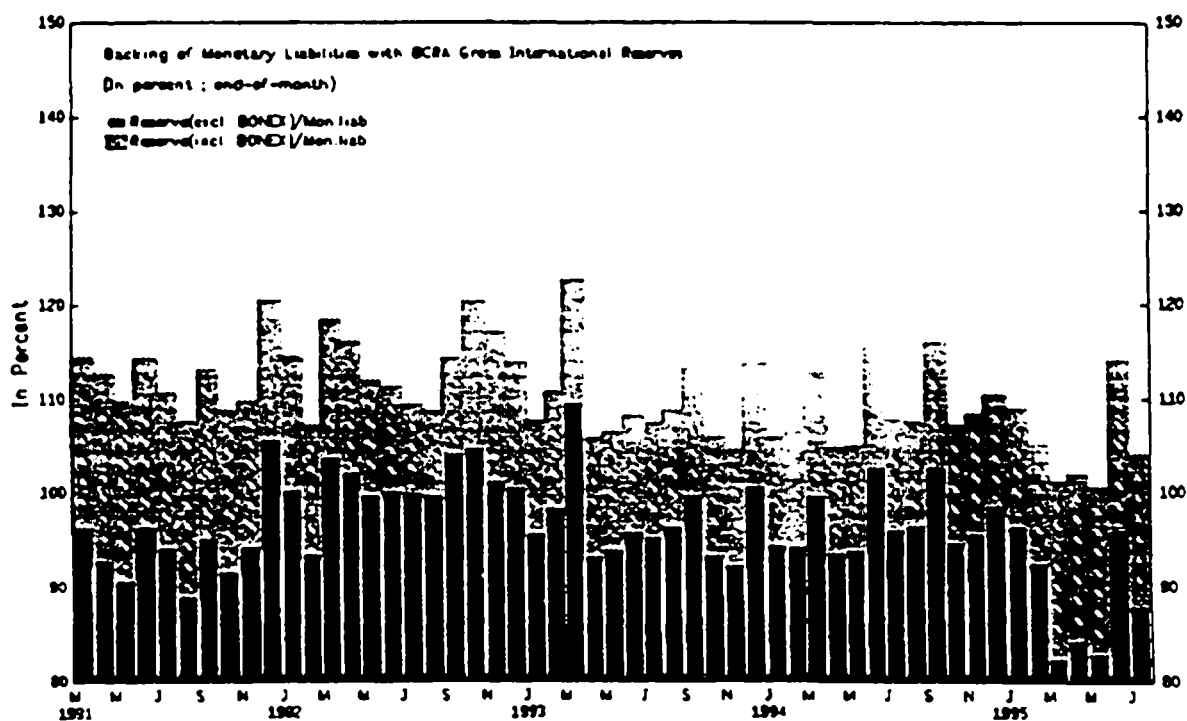
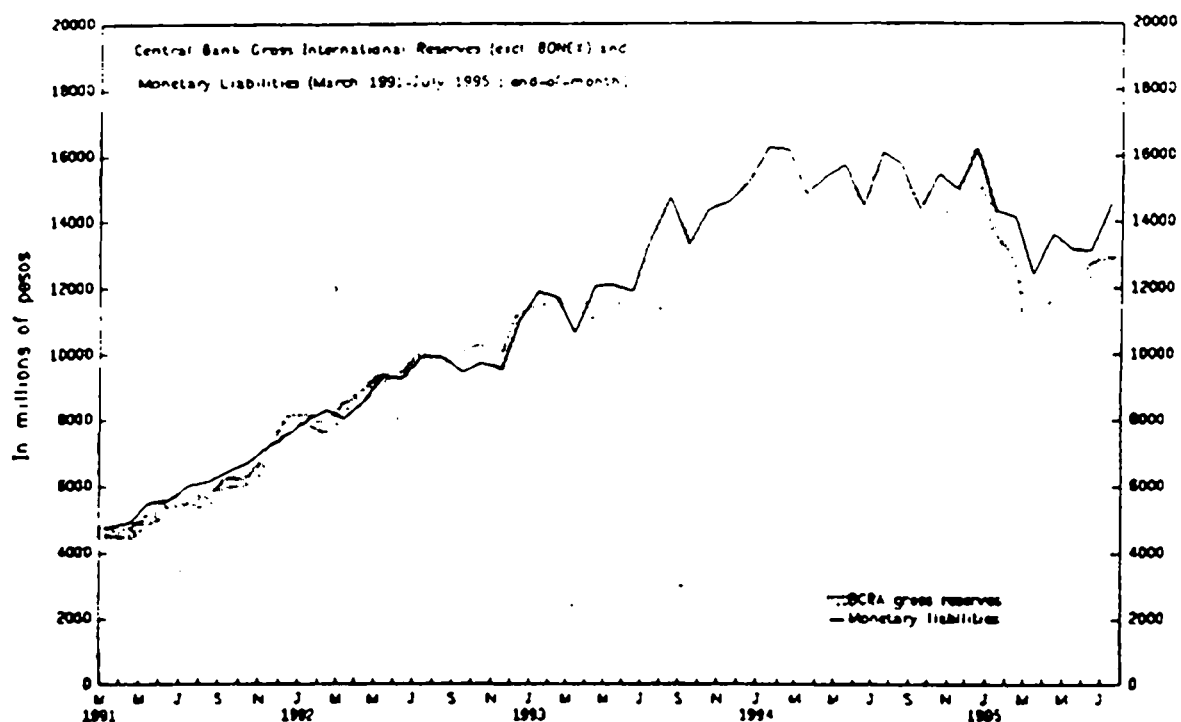
ARGENTINA  
SELECTED FINANCIAL INDICATORS



Source: Central Bank of Argentina.

ARGENTINA

BCRA GROSS INTERNATIONAL RESERVES AND MONETARY LIABILITIES



Source: Central Bank of Argentina.

than 20 percent, closed several branches, and implemented a comprehensive program of computerization to link the branch network with the main office. Also, the National Mortgage Bank was converted to a wholesale bank after reducing staff and closing branches. In all, staffing at the official national and provincial banks has been reduced by 20,000 workers (25 percent of the workforce).

Most of the 27 provincial banks emerged from the hyperinflation period at the end of 1980s with serious problems, and only few provincial banks (Corrientes, Chaco, Entre Rios, and La Rioja) were privatized prior to end-1994. A number of provincial banks were hit hard by the financial crisis in early 1995, and given the difficult budgetary situation in the provinces, several provincial governments accelerated their plans for full or partial privatization. In March 1995, a Trust Fund for Provincial Bank Privatization was established, funded by loans from the World Bank and the Inter-American Development Bank totalling US\$1.25 billion, <sup>1/</sup> to support the restructuring and privatization or closure of the provincial financial institutions. Financial assistance from the Trust Fund could range from US\$50 million to US\$240 million, depending on the assets of the respective provincial bank. Through August 1995, 11 provincial banks with Arg\$4 billion of combined assets (equivalent to about 5 percent of the assets of the financial system) have received commitments amounting to US\$860 million from the Trust Fund in support of their privatization plans (Table 5). Actual disbursement totalled US\$225 million, used mainly to cancel outstanding rediscounts with the BCRA and liabilities to the BNA associated with transactions of the banks' safety net. At the end of this process only a few provincial and municipal banks, such as the Banco de la Provincia de Buenos Aires and the Banco de la Ciudad de Buenos Aires, are likely to remain in full public ownership.

b. Restructuring and consolidation of the private banking system

From end-December 1994 to mid-August 1995, four banks (representing about 0.6 percent of total assets of the banking system) were closed and some 45 financial entities representing about 5 percent of total assets had been merged or taken over. As of end-August, only two private banks (with a market share of less than 0.4 percent of total assets) remained suspended. The number of private financial institutions declined from 172 in December 1994 to some 125 in August 1995. The combined market share of financial entities involved in restructuring and consolidation amounted to some 14 percent of the total assets of the financial system.

To assist in this process, a Trust Fund ("Bank Capitalization Trust Fund") was set up in March 1995, funded by a US\$500 million loan from the World Bank and the proceeds from a US\$2 billion placement of bonds with domestic and foreign banks and enterprises. The Trust Fund provides

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<sup>1/</sup> To be disbursed in three tranches; the first tranche of US\$417 million was disbursed in May-June 1995.

financial assistance to acquiring banks by offering subordinated convertible loans and other loans to refinance the acquired banks' outstanding obligations to the BCRA and the BNA. The subordinated loans, with maturity up to eight years, may only be used to meet capital shortfalls in the acquired banks. The loans are provided in amounts not exceeding 25 percent of the risk-weighted assets for assets being acquired and 15 percent of risk-weighted assets for assets involved in the case of a merger. The Trust Fund also provides secured loans of up to three years to refinance the outstanding debt to the BCRA and the BNA.

Through mid-September 1995, US\$255 million had been disbursed in support of the restructuring of the private banking system. A further US\$0.4 billion may be required during the remainder of 1995, some of which will cancel BCRA rediscounts.

#### 4. Regulatory reform and prudential regulations

Over the past few years, the BCRA maintained relatively high reserve requirements on bank deposits and tightened prudential regulations and minimum capital requirements. Although this policy had an impact on banking spreads and costs, it proved invaluable during the recent crisis as it enabled the banking system to withstand a large liquidity shock without major bank failures.

In recent years, the Central Bank introduced new prudential regulations adopting the Basle framework and tightening minimum capital requirements, including a risk factor related to the interest rate level to reflect default risk; revising loan classifications and loan-loss provisioning standards, including periodic review of the loan portfolio, a higher level of provisioning against nonperforming loans, and a 1 percent provision against normal (i.e., unimpaired) loans; limiting banks' operations with affiliated companies; and restricting credit exposure of large borrowers. It also issued regulations on internal and external auditing, and improved banking supervision by restructuring the Superintendency of Financial Institutions, and establishing a timetable for on-site inspections. 1/

In response to the events in early 1995, several modifications to the regulatory framework were introduced, and a deposit insurance scheme was established. In August 1995, a new system of liquidity requirements was introduced which effectively remunerates the reserve requirement and applies it more uniformly. The new system will be phased in during a three-month period beginning in September 1995. As a result of these changes, the

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1/ The Superintendency of Financial Institutions (SFI) is a department of the Central Bank headed by a Superintendent and a Deputy Superintendent, both of whom are directors of the BCRA. In recent years, the SFI was restructured and the number of trained inspection staff increased. During 1994 and early 1995, more than 80 banks received a full inspection and a further 20 inspections were underway when the financial crisis intervened.



overall average liquidity requirement as a ratio of total deposits is expected to rise from 14 percent in June to some 16 percent by December 1995--still about 1 percentage point below the pre-crisis level. 1/

The new liquidity requirements eliminate the previous high reserve requirements on demand and savings deposits in local and foreign currencies, which discouraged financial institutions from promoting the use of checking accounts and provided incentives in favor of the more volatile term deposits. The liquidity requirements can be satisfied through the purchase of Bank Liquidity Certificates issued by the Treasury that currently yield 5.65 percent. The proceeds of these certificates are to be placed in international reserves of the Central Bank. Banks also have the option to place part of the liquidity requirements in a special account abroad or in the form of reverse repurchase agreements with the Central Bank.

a. Capital adequacy standards

The minimum capital requirements were raised gradually from 3 percent in mid-1991 to 8 1/2 percent by end-1993 and further to 10.5 percent in July 1994 and to 11.5 percent in January 1995. As a result, the level of required capital was raised from Arg\$6.7 billion in December 1993 to Arg\$7.9 billion at end-1994 and to Arg\$8.7 billion in May 1995 (Table 6). These requirements are considerably more stringent than under the Basle formula (8 percent), and incorporate into the weighting scheme a risk factor related to the interest rate level. In practice, the financial institutions have continued to maintain substantial excess capital (compared to requirement) throughout the period, though the difference as a percentage of required capital declined from 83 percent in December 1993 to 50 percent in May 1995.

b. Deposit insurance

To help restore small-savers' confidence in the financial system a deposit insurance scheme ("Deposit Guarantee Fund") was established on April 17, 1995. The scheme covers local and foreign currency deposits with maturities of less than 90 days up to an amount of Arg\$10,000 and term deposits exceeding 90 days up to Arg\$20,000 i.e., about 80 percent of accounts and a quarter of deposits.

The Deposit Guarantee Fund will be managed by a special joint stock company ("Seguro de Depósitos S.A" (SEDESA)) comprising the financial institutions as majority shareholder and the Government of Argentina with a 0.0001 percent ownership. Participation in SEDESA is not mandatory and, so far, some 60 banks (i.e., less than one-half of the financial institutions) have joined. The Guarantee Fund is funded by mandatory contributions from the financial institutions, with monthly contributions equivalent to 0.03 percent of the average daily level of the banks' deposits (equivalent

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1/ Including cash-in-vault, the average liquidity requirement would increase to 18-19 percent by December 1995.

to Arg\$11 million per month) with an additional contribution of up to 0.03 percent of the level of deposits levied on banks according to a set of risk indicators. It is also authorized to request advance payment of up to 12 months of contributions, if needed. By August 1995, the Guarantee Fund had accumulated about Arg\$60 million.

c. Quality of the loan portfolio and provisioning

Also, in mid-June 1994, the system of loan-loss provisioning was revised linking provisioning to the quality of the loan portfolio (i.e., the risk category of the loans), and the quality of the collateral. The provisioning requirements now range from 5 percent for loans with potential risks to 100 percent for nonrecoverable loans (without guarantees) and from 3 percent to 50 percent, respectively, with guarantees. Moreover, a general provisioning against normal (i.e., unimpaired) loans was introduced initially at 0.5 percent, and raised to 0.75 percent in January 1995. This will be further increased to 1 percent by January 1996.

Given the share of nonperforming loans in banks' portfolios, for the financial system as a whole, provisioning imposes a cost equivalent to 300 basis points in the banks' lending rate, and almost 500 basis points for the provincial and municipal banks and nonbank financial institutions. Given that interest spreads averaged some 14 percent in local currency and 6 percent in foreign currency in the second half of 1994, <sup>1/</sup> for the financial system as a whole the cost of provisioning was equivalent to about one third of the interest differential.

From mid-1991 to end 1994, the financial institutions as a group lowered the share of nonperforming loans in the loan portfolio from 37 percent to 16 percent and increased the level of provisioning against nonperforming loans (Table 7). This improvement mainly reflected a reduction in the share of nonperforming loans of national official banks due to the closing of the National Development Bank and the lowering of nonperforming loans in the National Mortgage Bank. The quality of the loan portfolio of provincial banks remains seriously impaired with more than one third of the portfolio classified as nonperforming in December 1994.

Nonperforming loans increased from 16 percent at end-1994 to 18.5 percent in April 1995 for the financial system as a whole, mainly reflecting the increase in nonperforming loans in the portfolios of provincial and municipal banks (from 37 1/2 percent at end-1994 to 44 percent in April 1995), private domestic banks in the interior (from 11 1/2 percent to 16 percent), and the nonbank financial institutions (from 8

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<sup>1/</sup> Compared to interest differentials of 41 percent and 4 percent, respectively, in 1991.

1/2 percent to almost 15 percent). 1/ Some 5 percent of total loans of the financial system was classified as nonrecoverable, which must be written off in six months according to a new directive of the BCRA issued in August 1995. Preliminary information indicates that the share of nonperforming loans increased further in May-June 1995.

d. Capital market reform

In recent years the government also implemented a number of capital market reforms to facilitate the financing of working capital and investments, improve trading transparency, and increase safeguards for domestic and foreign investors. Trading activities were deregulated, allowing commission rates to be set freely, stamp and transfer taxes on shares have been abolished, and stock and market dues were reduced. Limits were established for daily fluctuation in share prices, information of all the country's exchanges was standardized, new risk-rating requirements were introduced, and new Exchanges were authorized. These actions led to a deepening of domestic capital markets. The volume of shares traded rose from US\$1 billion in 1989 to US\$60 billion in 1994, while corporate bond issues rose from less than US\$50 million in 1989 to close to US\$4 billion in 1994.

IV. External Sector

1. Policy framework

Competitiveness The cornerstone of the Convertibility Law enacted in March 1991 is the maintenance of parity between the U.S. dollar and the Argentine peso, and the full coverage of the monetary base with gross international reserves. While the adoption of this nominal anchor combined with a strengthening of the public finances, was instrumental in bringing down inflation to international levels over a relatively short period, it also was associated with a 34 percent appreciation of the real effective exchange rate (REER) during April 1991-January 1994 (Chart 8 and Statistical Appendix Table 35) and a pronounced widening of the external current account deficit which by 1994 reached a level of US\$10 billion, or 3.5 percent of GDP. However, the real effective exchange rate depreciated by almost 10 percent from February 1994 to May 1995, and during the first half of 1995, as the economy entered into recession, the current account deficit narrowed to US\$1.5 billion, from US\$5.4 billion in the corresponding period of 1994.

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1/ Nonperforming loans, net of provisioning, increased from 6.9 percent at end-1994 to 8.3 percent in April 1995 for the total financial system, mainly reflecting an increase of 3 1/2 percentage points to 21.3 percent in the portfolio of provincial and municipal banks, and a 2.1 percentage points increase in the portfolio of private banks in the interior.

A number of factors have tended to mitigate the impact on competitiveness of changes in the real exchange rate, particularly the restructuring of the tax system noted in Section II, and the lowering of import tariffs. According to staff estimates, a significant part of the cumulative appreciation of the REER between April 1991 and May 1995 has been offset by the effects of structural reforms, changes in taxation and by improvements in relative productivity, helped by large investments. Simply adjusting the REER for the elimination of most export taxes, for example, the cumulative appreciation during April 1991-May 1995 would be around 11 percent, compared with 21 percent for the unadjusted REER (see Chart 8).

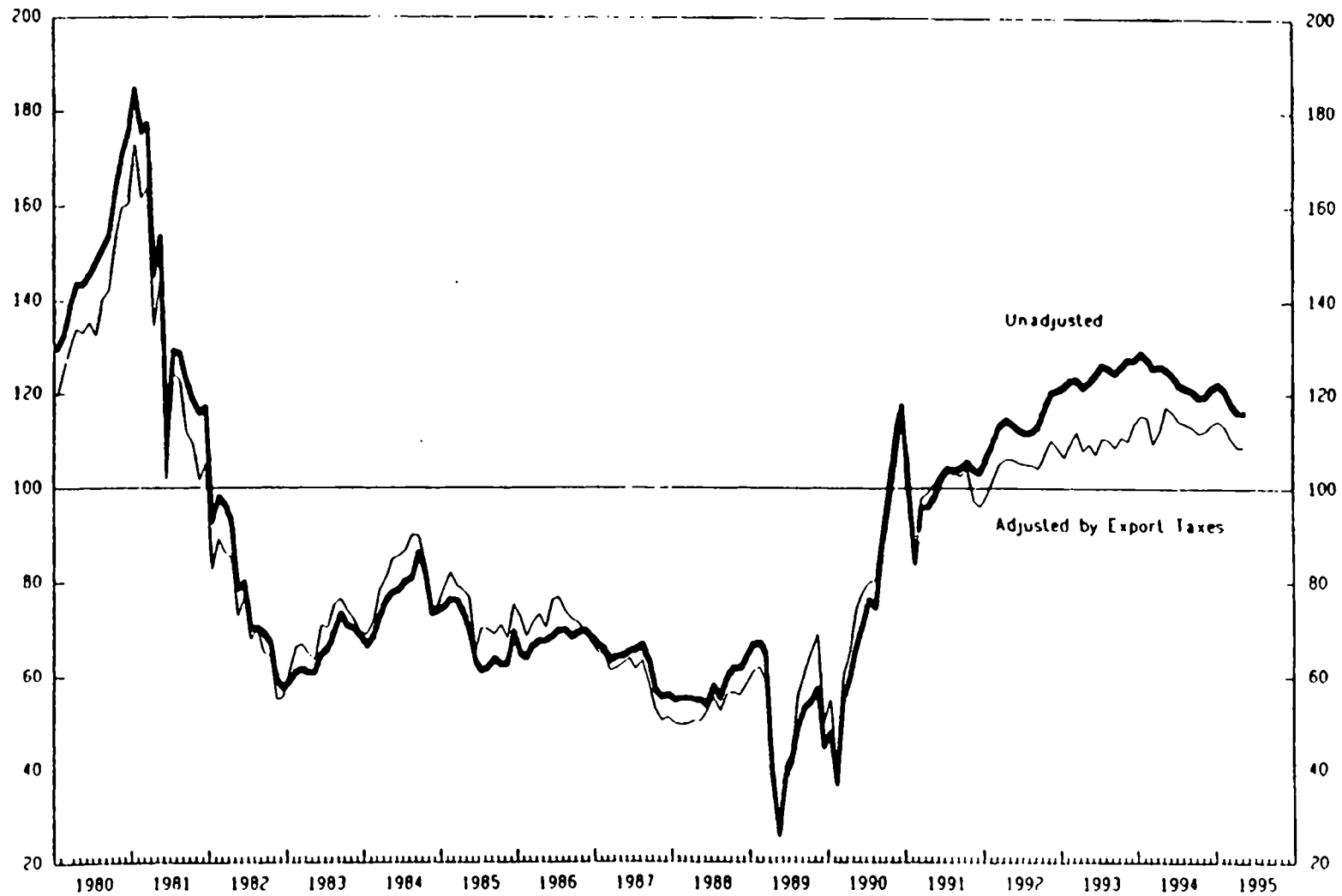
Trade policy In recent years Argentina has opened up its economy to competition, lowering import duties, abolishing quotas and integration into MERCOSUR, a free trade area with a population of over 200 million. Also, in recent years domestic trade was liberalized by eliminating price controls and marketing boards, deregulating ports and maritime transportation, and privatizing roads and railroads (for further information, see Appendix I). In May 1993, capital goods were exempted from both import tariffs and the statistical tax, but in March 1995, import tariffs on capital goods were increased from 0 to 10 percent.

While generally free of restrictions and special arrangements, the Argentine system has included certain transitory arrangements to deal with particular sectoral issues. During the second half of 1993 specific import duties were levied on textiles and apparel, and in line with safeguards allowed under GATT, temporary quantitative restrictions ("cupos") were imposed on imports of paper products. These safeguards are to expire by end-1995. In addition, the automobile sector remains subject to a special import regime with quotas equivalent to about 10 percent of the domestic market (see also Section I).

During 1991-94, under the MERCOSUR agreement, import tariffs for transactions between Argentina, Brazil, Uruguay and Paraguay were gradually eliminated. Argentina was granted a list of 200 possible exemptions, to which intra-regional tariffs may be applied, that will be phased out in four years. Initially Argentina drew up a list of some 130 exemptions, and in March 1995, a further 70 products were included in the list, thereby completing the 200 positions allowed under MERCOSUR.

As of January 1995, the import tariff structure in Argentina was changed to conform with the common tariff structure of MERCOSUR, and the statistical tax of 10 percent was eliminated. As a result, the effective tariff rate fell from 12.8 percent in 1994 to 9.2 percent during the first half of 1995 (Table 8). Capital goods are to converge to a 14 percent tariff by 2001; and telecommunications to 16 percent by 2006. Special regimes continue in effect for the automotive and sugar sectors but are subject to further negotiation and discussion; in principle, trade arrangements for these sectors are to be harmonized by end-1999. In March 1995, Argentina reimposed the statistical tax at a rate of 3 percent, with fuels and capital goods (and all intra-MERCOSUR trade) exempted.

CHART A  
Argentina  
Real Effective Exchange Rate--Unadjusted and Adjusted  
(1991=100)



1/Sources: IMS, and fund staff calculations

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## 2. Recent developments

With the upsurge in domestic demand following stabilization, the current account moved from a surplus of US\$4.8 billion (2.8 percent of GDP) in 1990 to a deficit of US\$7.3 billion (2.9 percent of GDP) in 1993 and US\$10.0 billion (3.5 percent of GDP) in 1994 (Statistical Appendix Table 34). This deterioration reflected the effects of strong domestic demand, trade liberalization, and the appreciation of the real effective exchange rate from 1989 through early 1994. The deficits were more than financed by large inflows of private capital, in substantial part associated with privatization. Gross international reserves increased from US\$6.4 billion in 1990 to over US\$16 billion at end-1994, or 9.3 months of imports.

In the wake of the Mexico crisis, private capital flows turned negative in the early part of 1995. The resulting credit crunch and economic slowdown led to a pronounced turnaround on the trade account and a sharp reduction in the current account deficit, which narrowed to US\$1.5 billion during the first half of 1995 from US\$5.4 billion during January-June 1994. Central Bank net international reserves declined by US\$5 billion during the first half of 1995.

### a. Current account

The trade balance moved from a surplus of US\$8.3 billion in 1990 to a deficit of US\$5.8 billion in 1994, with most of the deterioration resulting from the strong expansion of imports, which quintupled between 1990 and 1994. Exports, after stagnating in 1991-92, showed sizable increases from 1993 onwards. During the first half of 1995, the trade balance shifted into a surplus of US\$1 billion, compared with a deficit of US\$2.9 billion during January-June 1994, as export growth accelerated very strongly and imports declined as a result of the slowdown in domestic demand.

Exports in U.S. dollar terms increased by 7.2 percent in 1993, 20.6 percent in 1994, to US\$15.8 billion with exports of manufactures of industrial origin rising by close to 30 percent a year during the two year period. Exports of petroleum products also rose strongly in 1994. During January-June 1995, exports reached US\$10.8 billion, 47 percent above their level a year earlier. This performance is explained by a more than doubling of exports to Brazil and an increase by over 30 percent in exports to other markets.

Imports in U.S. dollar terms expanded by 12.9 percent in 1993 and by 28.8 percent in 1994, to US\$21.6 billion, or over five-times their level of 1990. Imports of capital goods increased by almost 50 percent in 1994, while imports of consumption goods and intermediate goods increased by 10.5 percent and 22.7 percent respectively. Over the period 1990-94 imports of capital goods rose more than eleven-fold, or from US\$0.6 billion in 1990 to US\$7.4 billion in 1994, increasing as a share of total imports from 16 percent to 34 percent (Statistical Appendix Table 40).

During the first half of 1995, imports totaled US\$9.7 billion, some 5 percent below their level in the same period of 1994. This decline--the first since the implementation of the convertibility plan--mainly reflected the tightening of credit conditions and the decline in domestic demand. The 10 percent depreciation of the real effective exchange rate during January 1994-May 1995 may also have contributed.

The balance of nonfactor services deteriorated steadily over the period 1990-93 to a deficit of US\$1.2 billion, owing mostly to an increase in travel expenditures, but narrowed to US\$0.8 billion in 1994. During the first half of 1995 the deficit of nonfactor services narrowed further to US\$0.4 billion as compared to a deficit of US\$0.8 billion during January-June 1994. On the other hand, the deficit in the balance on factor services narrowed somewhat from 1990 to 1993 to a level of US\$2.9 billion, but widened to US\$3.7 billion in 1994, in line with movements in international interest rates.

b. Capital account

Following the adoption of the exchange rate peg, during 1991-94 Argentina recorded large capital inflows, boosted by the privatization program, the regularization of Argentina's position with external creditors through the Paris Club and Brady operations, and the renewal of access of developing countries to the international capital markets in these years. In 1993, foreign direct investment increased to US\$6.3 billion (mainly privatization), and net financial loans to the private sector totalled almost US\$4.6 billion. In addition, the government received net loans for US\$4.3 billion in 1993, reflecting to a large extent bilateral and multi-lateral disbursements associated with the cost of Brady plan guarantees restructured US\$27.6 billion of commercial bank debt (principal and past due interest).

In 1994, foreign direct investment decreased to US\$1.9 billion reflecting lower privatizations, and net financial loans to the private sector decreased to US\$1.8 billion. Lower access to external financing was explained in part by changes in international capital markets, including higher international interest rates. Excluding amortization payments of compulsory bonds, the Government continued to be a large net borrower raising US\$3.4 billion in 1994.

Argentina's access to the international capital market became much more difficult in the months following the crisis in Mexico, and there was a large outflow of short-term capital. During the first half of 1995, direct foreign investment totaled only US\$0.8 billion and net credit to the private sector (including errors and omissions) registered a deficit of some US\$5.6 billion. The outflow in private capital, however, was offset to some extent by an increase in official disbursements. In April, in the context of the extension of the EFF arrangement with the Fund, Argentina was able to place two US\$1 billion bond issues, with domestic investors and with international banks, respectively. It also received large disbursements from the World



Bank and IDB. In August 1995, the Government of Argentina was able to place a DM 1 billion five-year Eurobond and a ¥ 100 billion five-year Eurobond, evidence of a renewal of access to the market (Statistical Appendix Table 42). Private sector international issues during January-August 1995, totaled only US\$150 million, compared to over US\$1.5 billion during January-August 1994.

### 3. External debt

External debt of Argentina's public sector at end-December 1994 is estimated at US\$61.2 billion at end-1990 or 22 percent of GDP, compared to US\$56.7 billion or 34 percent of GDP (Statistical Appendix Table 43). During the period 1990-94, debt to multilateral organizations increased by US\$3.3 billion to US\$11.8 billion, including US\$4.2 billion in Fund credit. Public sector eurobonds and other public sector bonds increased from US\$8.4 billion in 1990 to US\$11.8 billion in 1994. Debt to commercial banks, including bonds resulting from the Brady Plan, declined from US\$31.2 billion in 1990 to US\$25.1 billion in 1994, but continued to be the largest individual component of the external debt. Arrears to commercial banks, which in 1992 amounted to US\$8.6 billion, were cleared in the context of the Brady Plan in 1993. Debt to the Paris Club members rose from US\$6.6 billion in 1990 to US\$8.9 billion in 1992, before declining to US\$8.0 billion at end-1994. The last rescheduling agreement with the Paris Club in July 1992 consolidated an estimated US\$2.7 billion of external debt, including all pre-cut-off maturities not previously rescheduled through March 1995.

During the first half of 1995, external public sector debt increased by US\$5.8 billion to an estimated US\$67 billion, reflecting higher disbursements and the effects of the depreciation of the U.S. dollar. Debts to international organizations increased by US\$3.0 billion to US\$14.8 billion as a result of large scale support from the Fund, the IBRD and the IDB for the government's emergency measures in March/April 1995. Debt to Paris Club countries increased by US\$0.7 billion, mainly reflecting a disbursement from the Japan Eximbank in support of the government's program.

In 1994, public sector external debt service (interest payments and amortizations, excluding compulsory bonds) totalled US\$6.9 billion, or over 36 percent of exports of goods and nonfactor services. Debt service payments are expected to increase to US\$8.6 billion in 1995, and to an average of US\$10.6 billion a year during 1996-97. As a result, notwithstanding the recent increase in exports, the debt service ratio is expected to remain around 36 percent of exports of goods and nonfactor services during 1995-97.

Table 1. Argentina: GDP and Prices  
(Percentage changes from preceding year)

	1989	1990	1991	1992	1993	Prel. 1994
GDP at 1986 prices	-6.2	0.1	8.9	8.7	6.0	7.4
Real GDP per capita	-7.4	-1.2	7.5	7.7	4.8	6.0
GDP deflator	3,013.7	2,023.7	141.0	15.3	7.2	1.8
Consumer prices						
Average	3,080.5	2,314.7	171.7	24.9	10.6	4.1
End of period	4,928.6	1,344.5	84.0	17.5	7.4	3.7
Wholesale prices						
Average	3,431.4	1,606.0	110.5	5.9	1.6	0.6
End of period	5,386.7	797.5	56.6	3.1	0.1	5.8
Nominal GDP (billions of pesos)	3.2	68.9	180.9	226.6	257.6	281.6

Sources: Statistical Appendix Tables 13, 14, 20, and 21.

Table 2. Argentina: Consolidated Nonfinancial Public Sector, 1990-94 <sup>1/</sup>  
(In percent of GDP)

	1990	1991	1992	1993	Prel. 1994
<b>Revenue</b>	<b>16.5</b>	<b>18.8</b>	<b>21.0</b>	<b>21.6</b>	<b>21.3</b>
Federal Government and enterprises <sup>2/</sup>	13.8	15.8	17.2	17.4	17.3
Provincial governments <sup>3/4/</sup>	2.7	3.0	3.8	4.2	4.0
<b>Expenditure</b>	<b>20.6</b>	<b>22.0</b>	<b>21.4</b>	<b>21.5</b>	<b>22.3</b>
Federal Government <sup>5/</sup>	16.5	18.3	17.4	16.4	17.8
Provincial governments <sup>4/</sup>	4.1	3.7	4.0	5.1	4.7
Wages	6.6	7.4	7.8	8.1	8.1
Pensions	4.0	5.0	5.6	5.1	5.4
Interest <sup>6/</sup>	3.3	2.6	1.5	1.1	1.2
Other current	3.9	4.7	4.6	4.9	4.9
Capital	2.8	2.3	1.9	2.3	2.9
<b>Overall balance</b>	<b>-4.1</b>	<b>-3.2</b>	<b>-0.4</b>	<b>0.1</b>	<b>-1.2</b>
Federal Government and enterprises	-2.7	-2.5	-0.2	0.9	-0.5
Provincial governments <sup>4/</sup>	-1.4	-0.7	-0.2	-0.8	-0.8
<b>Memorandum items</b>					
Clearing of domestic expenditure arrears <sup>7/</sup>	--	--	2.3	4.3	1.8
Principal	--	--	2.3	3.7	1.5
Capitalized interest on BOCONs	--	--	--	0.6	0.3
Privatization receipts in cash	0.4	1.2	0.8	1.5	0.3

Sources: Statistical Appendix Tables 24 and 26; Ministry of Economy; and Fund staff estimates.

<sup>1/</sup> Prior to 1994, only the balance of various social security operations, e.g. the Medical Fund for Pensioners (PAMI), family allowances, and various other operations, is included on the revenue side of the national nonfinancial public sector. Since 1994, revenue and expenditure of these operations are included separately. Similarly, prior to 1994, the National Employment Fund is excluded from the accounts, but it is included since 1994. From 1994 onward, contributions to private pension funds (AFSPs) are excluded.

<sup>2/</sup> Includes enterprises' operating result; excludes privatization receipts.

<sup>3/</sup> Own-revenue only, excludes revenue transfers received from Federal Government.

<sup>4/</sup> 1994 data for the provincial governments are preliminary estimates.

<sup>5/</sup> Includes federal government transfers to provinces.

<sup>6/</sup> Does not include capitalized interest on BOCONs.

<sup>7/</sup> To pensioners, suppliers, and provinces; includes arrears clearance operations with BOCONs and hydrocarbon bonds (BCRBs); excludes arrears clearance operations with cash or via stock distribution. These arrears clearance operations are excluded from expenditures reported in this table.

Table 3. Argentina: Federal Government Revenue, 1990-95

(In percent of GDP)

	1990	1991	1992	1993	Prel. 1994	Prel. January- June 1995
<u>Tax revenue 1/</u>	<u>8.4</u>	<u>10.1</u>	<u>11.3</u>	<u>10.9</u>	<u>11.1</u>	<u>10.8</u>
Direct taxes	0.8	1.0	1.5	1.8	2.2	2.4
Income tax	0.4	0.6	1.1	1.7	2.1	2.3
Other	0.4	0.4	0.3	0.2	0.1	0.1
Indirect taxes	7.6	9.1	9.8	9.0	9.0	8.3
Value-added taxes	2.1	3.7	5.9	6.3	6.2	6.1
Excise tax	0.7	1.1	1.0	0.8	0.8	0.7
Tax on bank debts	0.3	1.1	--	--	--	--
Export taxes	1.0	0.1	--	--	--	--
Import taxes	0.2	0.3	0.9	1.0	1.0	0.6
Fuel tax	0.3	1.3	1.1	0.8	0.7	0.7
Other	2.8	1.2	1.0	0.1	0.3	0.2
<u>Collection of taxes in arrears 2/</u>	<u>---</u>	<u>---</u>	<u>0.4</u>	<u>0.5</u>	<u>0.3</u>	<u>0.3</u>
<u>Non-tax revenue (excluding privatization)</u>	<u>1.0</u>	<u>1.2</u>	<u>0.9</u>	<u>1.0</u>	<u>1.0</u>	<u>1.2</u>
<u>Social security contributions 3/</u>	<u>3.5</u>	<u>4.3</u>	<u>4.3</u>	<u>4.6</u>	<u>4.8</u>	<u>4.3</u>
<u>Operating surplus of the nonfinancial financial public enterprises</u>	<u>0.9</u>	<u>0.3</u>	<u>0.2</u>	<u>0.3</u>	<u>--</u>	<u>--</u>
<u>Total</u>	<u>13.8</u>	<u>15.8</u>	<u>17.1</u>	<u>17.3</u>	<u>17.2</u>	<u>16.6</u>
<u>Memorandum items</u>						
Tax expenditure on export rebates	...	...	...	0.3	0.4	0.5
Privatization receipts in cash	0.4	1.2	0.8	1.5	0.3	0.1

Source: Ministry of Economy.

1/ Adjusted for differences between face and market values of bonds received as a payment of tax liabilities.

2/ Included under other direct and indirect taxes during 1990-91.

3/ Prior to 1994, only the net revenue (revenue minus expenditure) of various social security operations, e.g., the Medical Fund for Pensioners (PAMI) is included. From June 1994, contributions to private pension funds are excluded, amounting to 0.8 percent of GDP on an annual basis.

Table 4. Argentina: National Taxes and Levies Abolished During 1990-95 1/

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Foreign trade taxes and levies

Agricultural export withholdings

Consular levies

Statistical services tax on exports

Export promotion fund contributions

Freight tax (National Merchant Marine Fund)

Tax on the sale, purchase, exchange, and barter of foreign exchange

Levies of Regulatory Agencies

National Grape and Wine Institute

National Meat Board

National Grain Board

National Consolidated Fish Market of the port of Mar del Plata

National Sugar Directorate

Mate Production and Trade Regulation Commission

National Equestrian Institute

National Forests Administration

Miscellaneous taxes and levies

Tax on securities transfers and surcharges

Provincial Deficit Financing Fund

Tax on current account debits and other procedures

Tax on gas oil, diesel oil, aviation fuel, solvents, oil and turpentine, kerosene, and natural gas

Stamp taxes (except in the City of Buenos Aires)

Tax on enterprise assets

An electricity tax

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Source: Tacchi, C.M., Tax Revolution in Argentina, 1994.

1/ Some of the taxes and levies that were abolished were replaced by other, more efficient and equitable tax instruments, that essentially utilize the same tax base.

Table 3. Argentina: Provincial Bank Restructuring

	Share to be Privatized (in percent)	Remaining Shares (in percent)	Trust Fund Commitment (in millions of US\$) <sup>1/</sup>	Status of Privatization
Catamarca	70	30 percent provincial government	50 <sup>2/</sup>	Privatization law approved in January 1995; consultancy report being prepared; privatization expected before end-1995
Formosa	60	20 percent provincial government; 10 percent private shareholders; 10 percent employee participation	80	Privatization law approved in February 1995; transfer of ownership in September/October 1995
Jujuy	70	20 percent provincial government; 10 percent employee participation	50	In June 1995, provincial parliament approved transformation to a stock company; privatization plan and bid documents to be prepared within 3 months; privatization to be completed before end-1995
Mendoza	more than 51	. . .	260 <sup>3/</sup>	Privatization approved by provincial parliament; a consultancy is assessing the banks portfolios; privatization expected before end-November 1995
Misiones	100	. . .	80	Privatization law passed in August 1994; bids for privatization opened in August 1995
Rio Negro	57	34 percent provincial government; 9 percent employee participation	80	Deadline for bids August 21; transfer of majority ownership in September/October 1995
Salta	70	20 percent provincial government; 10 percent employee participation	50	Process ongoing
San Juan	more than 51	. . .	80	The Bank is already a stock company with 50 percent private sector participation. In mid-July, the general assembly agreed to majority ownership of private sector; privatization expected in November 1995
San Luis	more than 51	. . .	50	Consultancy report being prepared
Santiago del Estero	95	5 percent employee participation	50	Privatization law approved in March 1995; process ongoing
Tucuman	60	35 percent provincial government for a period of 360 days; 5 percent employee participation	80	Privatization law passed in March 1995; auction ongoing; transfer of ownership scheduled for mid-October 1995

Sources: Ministry of Economy; and Ministry of Interior.

<sup>1/</sup> Depending on the size of the provincial bank, ranging from US\$50 million for provincial banks with total assets below US\$200 million to US\$240 million for banks with total assets exceeding US\$1.2 billion.

<sup>2/</sup> Not yet approved by Trust Fund.

<sup>3/</sup> US\$160 million for Banco de Mendoza and US\$100 million for Banco de Prevision Social.

Table 6. Argentina: Minimum Capital Requirements

(In millions of pesos unless otherwise specified)

	December 1993			December 1994			May 1995		
	Required	Actual	Excess (in percent of required capital)	Required	Actual	Excess (in percent of required capital)	Required	Actual	Excess (in percent of required capital)
<u>Total financial system</u>	<u>6,693</u>	<u>12,233</u>	<u>83.1</u>	<u>7,897</u>	<u>12,671</u>	<u>60.5</u>	<u>8,732</u>	<u>13,142</u>	<u>50.5</u>
Official banks	2,847	6,576	131.0	2,878	5,855	103.4	3,073	5,802	88.8
Private domestic banks	2,592	3,828	47.7	3,448	4,743	37.6	3,862	4,982	29.0
Foreign banks	1,114	1,619	45.3	1,370	1,788	30.5	1,661	2,189	31.8
Nonbank financial institutions	140	232	65.7	201	285	41.8	136	169	24.3

Source: Central Bank of Argentina.

Table 7. Argentina: Quality of Loan Portfolio

	June 1/ 1991	June 1994	December 1994	April 1995
<u>Nonperforming loans as percentage of total loans</u>				
<u>Total financial system</u>	<u>37.0</u>	<u>17.1</u>	<u>16.1</u>	<u>18.5</u>
National official banks	53.7	23.6	21.9	22.2
Provincial and municipal banks	39.9	38.5	37.6	44.2
Private banks:				
Buenos Aires	6.8	5.9	6.3	8.2
Interior	10.7	10.9	11.4	15.9
Foreign banks	5.7	6.9	6.8	7.2
Nonbank financial institutions	7.0	8.9	8.4	14.7
<u>Nonperforming loans (net of provisioning) as percentage of total loans</u>				
<u>Total financial system</u>	<u>28.5</u>	<u>8.4</u>	<u>6.9</u>	<u>8.3</u>
National official banks	46.3	11.1	8.5	9.5
Provincial and municipal banks	19.3	20.2	17.9	21.3
Private banks:				
Buenos Aires	3.3	2.4	2.5	3.4
Interior	5.4	6.3	6.2	8.3
Foreign banks	3.6	3.8	2.8	2.5
Nonbank financial institutions	4.9	1.8	1.0	2.0
<u>Nonperforming loans (net of provisioning) as percentage of capital</u>				
<u>Total financial system</u>	<u>90.2</u>	<u>42.0</u>	<u>33.8</u>	<u>38.6</u>
National official banks	191.3	39.4	29.9	34.2
Provincial and municipal banks	77.3	151.4	140.2	168.2
Private banks:				
Buenos Aires	6.2	14.8	14.0	16.7
Interior	10.5	36.5	32.5	40.0
Foreign banks	9.5	20.9	16.2	14.2
Nonbank financial institutions	5.8	9.1	4.7	7.3

Source: Central Bank of Argentina.

1/ Based on the classification of nonperforming loans prior to June 1994.



Table 8. Argentina: External Trade Taxes

	1990	1991	1992	1993	Prel. 1994	Preliminary January-June	
						1994	1995
(In millions of U.S. dollars)							
<u>Import Taxes</u>	<u>433</u>	<u>868</u>	<u>1,975</u>	<u>2,441</u>	<u>2,768</u>	<u>1,356</u>	<u>899</u>
Tariffs	327	622	1,435	1,289	1,563	768	823
Statistical tax	106	246	540	1,152	1,205	588	76
<u>Export rebates, net of taxes</u>	<u>-1,172</u>	<u>-147</u>	<u>224</u>	<u>792</u>	<u>847</u>	<u>377</u>	<u>502</u>
Taxes	1,177	238	50	25	31	23	16
Rebates	5	91	274	792	878	400	518
(In percent of merchandise imports)							
<u>Import Taxes</u>	<u>10.6</u>	<u>10.5</u>	<u>13.3</u>	<u>14.5</u>	<u>12.8</u>	<u>13.2</u>	<u>9.2</u>
Tariffs	8.0	7.5	9.6	7.7	7.2	7.5	8.5
Statistical tax	2.6	3.0	3.6	6.9	5.6	5.7	0.8
(In percent of merchandise exports)							
<u>Export rebates, net of taxes</u>	<u>-9.5</u>	<u>-1.2</u>	<u>1.8</u>	<u>6.2</u>	<u>5.4</u>	<u>5.1</u>	<u>4.7</u>
Taxes	9.5	2.0	0.4	0.2	0.2	0.3	0.1
Rebates	--	0.8	2.2	6.0	5.5	5.5	4.8
<u>Memorandum items</u>							
Trade balance (in U.S. dollars)	8,275	3,703	-2,637	-3,666	-5,791	-2,919	1,019
Merchandise exports	12,354	11,978	12,235	13,117	15,821	7,333	10,750
Merchandise imports	4,079	8,275	14,872	16,783	21,612	10,252	9,731

Source: Ministry of Economy; and Fund staff estimates.

Economic Reform in Argentina 1989-95

This note describes the main reforms that have been implemented since 1989 and some of their economic implications. Several areas of public sector reform, such as the reform of the tax system and tax administration, as well as the reform of the social security system, have already been described in Section II. In addition, wide-ranging reforms are being carried out in the financial sector, which were noted in Section III. This section deals with the reform and privatization of the public enterprise sector, the deregulation of the domestic economy, the opening of the economy to foreign competition and the clearing of domestic and external arrears.

1. Privatization of public enterprises

The reform and privatization of the public enterprise sector has been a major component of the reform effort. In the past, this sector had been a source of fiscal imbalances and a focus of government intervention in the economy. By the end of the 1980s, there were 93 major state enterprises, including state monopolies in telecommunications and oil and gas, and a major public enterprise presence in a wide range of sectors. The combined sales of the enterprises exceeded 15 percent of GDP. Over the past six years, the government closed down 18 public enterprises and privatized 67 others. These included electric power plants, the oil and gas sector, water and sewerage plants, airlines, railroads, ports, grain elevators, petrochemicals plants, shipyards, steel mills, telecommunications companies, and television and radio stations. <sup>1/</sup> By 1995, the remaining eight enterprises that are wholly-or majority-owned by the public sector, include the post office, the national mint, three nuclear power plants, and two bi-national electric power projects (Yacyreta and Salto Grande).

Prior to or subsequent to privatization, almost all of the enterprises have undergone restructuring and reforms. Excess employment was eliminated and investment in these companies rose more than four-fold to average US\$2 billion a year in 1991-95, helped by the terms of privatization contracts. This led to major technological improvements, a significant increase in productivity, and a turnaround in their operational results. After running deficits of about 5 percent of GDP in the 1980s, the privatized companies as a group had become profitable by 1994.

Total employment in privatized enterprises was reduced from 302,000 in 1989 to 138,000 in 1994 with particularly large reductions in the railways, and the oil and steel sectors. The social impact of this labor reduction

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<sup>1/</sup> See SM/94/177.

was alleviated by voluntary redundancy programs, which included early retirement (about 50,000 workers) and indemnization for loss of employment. The total cost of these programs exceeded US\$2 billion during these years.

The privatization process provided substantial resources for the public sector, which were used mainly to cancel debt or reduce domestic arrears. These proceeds totalled over US\$15 billion during the period 1991-96--US\$9.3 billion in cash and US\$6 billion (cash equivalent value) in the form of government debt redemptions which canceled US\$17 billion of debt at face value. In addition, US\$2.5 billion of government liabilities were transferred to the new owners or concession-holders. Overall, foreign and domestic holding companies acquired about 50 percent of the equity of the privatized companies, with small investors buying the equivalent of 23 percent. Workers of the enterprises were awarded 7 percent and 20 percent remains in the hands of the federal and provincial governments, which still retain substantial minority interests in some of the privatized enterprises.

The bulk of the privatization transactions was concentrated in a few sectors: petroleum (39 percent), telecommunications (23 percent), electricity (16 percent), and natural gas (12 percent). 1/

Cash privatization proceeds amounted to Arg\$0.6 billion (0.3 percent of GDP) in 1994 compared to Arg\$5.7 (2.3 percent of GDP) in 1993, when YPF was privatized, but are expected to increase again in 1995 as various companies, particularly in energy sector (gas, electricity, nuclear power), are slated for privatization and the government sells its remaining inventory interest in a number of enterprises. In June 1995, the Government signed an agreement with Paraguay to privatize the binational Yacyreta hydroelectric energy project.

Most privatized companies operated in a monopoly or semi-monopoly environment. Privatization was therefore accompanied by the establishment of a comprehensive regulatory framework. In this context, a detailed set of operating rules was established to provide protection for consumers and encourage competition. Also, a number of regulatory agencies was set up.

## 2. Deregulation

Over the past six years the complex and pervasive system of regulations affecting various markets has been dismantled. In 1989 price controls, some of which had been in place for decades, were eliminated, and fuel prices were freed in 1991. Also, in 1991, the main agricultural markets were deregulated with the scrapping of market regulatory bodies, including the

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1/ See also SM/94/177 for further details.

National Grain Board, the National Meat Board, the National Forestry Institute, the Wholesale Fish Market, Liniers National Livestock Market, Yerba Mate Production and Marketing Regulatory Commission, the National Sugar Board, the Milk Policy Agreement Commission, and the Dairy Activity Promotion Fund.

In 1992 the government completed the deregulation of wholesale and retail trade by removing remaining restrictions on retail trade development, such as those blocking the establishment of shopping malls or affecting the pharmaceutical market, and for the first time in decades, granted authorization to establish new wholesale markets for fresh produce. In 1993 a number of restrictions regulating access to professional services markets were removed.

In 1989, domestic and foreign capital was put on an equal footing as regards taxation, and the requirement for foreign investors to obtain permission from the Executive to carry out capital investments in Argentina was eliminated.

Progress toward the deregulation of the labor market, has been much more limited. The national employment law of 1991 tried to foster the creation of new job vacancies by reducing direct and indirect labor costs, such as insurance requirements and taxes. In 1995, a new law for small- and medium-sized enterprises (i.e., up to 40 workers) granted them flexibility in collective bargaining agreements and employment conditions. Also in 1995, a new bankruptcy law allowed the renegotiation of labor contracts in bankrupt firms, and a new job-related-accidents law reduced significantly their incidence in firm costs. Finally, a recent law created more flexible conditions of employment for women, younger workers and the elderly. 1/

### 3. Opening the Economy to International Competition

To open up the economy to international competition, since 1989 the government has carried out a comprehensive unilateral reduction of external trade tariffs and barriers, and joined MERCOSUR (a free trade area encompassing Argentina, Brazil, Paraguay and Uruguay). The maximum trade tariff rate was reduced from 50 percent in 1989 to 20 percent in 1995 and the average tariff rate declined from 40 percent to 12 percent over this period (or to an effective average rate of 9.2 percent in the first half of 1995; see Section IV for further details). Nontariff restrictions, which affected close to one third of domestic production in the late 1980s, had been eliminated by 1993, except in the car industry and in areas related to health and the environment.

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1/ See Appendix II for further details.

At the same time, duties on agricultural exports which until 1990 had been used extensively for fiscal purposes, were largely eliminated (at present, only a few products, mainly oilseeds and rawhide, remain affected by these duties). The statistical tax on exports was eliminated and all quantitative restrictions, permits, authorizations and pre-shipment requirements on exports were removed. Subsidies for industrial exports, which had reached high levels in the 1980s, were replaced by a system of export rebates. These rebates in general are the inverse of the import tariff i.e., for each item in the trade classification the rebate on exports is set at the same rate as the import tariff. Rebates presently amount to over US\$1 billion a year.

In 1991, Argentina, Brazil, Paraguay, and Uruguay signed an agreement (MERCOSUR) to liberalize intraregional trade, to establish a common external tariff, and to coordinate macroeconomic and investment policies. During 1992-94, most tariffs on intraregional trade were gradually removed and on January 1, 1995 member states adopted a common external tariff on extra-regional trade ranging from 5-20 percent. Certain products traded within MERCOSUR are still subject to duties, but they are being gradually phased out by common agreement.

#### 4. Restructuring public sector debt

Regaining access to the international capital markets and restoration of the domestic financial system was an important objective of the reform program. In this context, the government eliminated remaining restrictions on foreign investment and implemented a comprehensive program of consolidation and restructuring of the massive domestic and external public debt obligations that had accumulated during the hyperinflation period.

To regularize obligations vis-à-vis external creditors, the government sought and reached rescheduling agreements that refinanced the outstanding external payments arrears and restructured maturities. In 1992, an agreement was reached with Paris Club creditors to refinance, over a period of 16 years, part of the interest and all principal falling due during the period 1992-94. Also, in 1992 the government reached an agreement within the framework of the Brady initiative for the refinancing of its debt with foreign banks. This agreement restructured, over a period of up to 30 years, interest in arrears and principal, involving a net reduction in debt or debt servicing amounting to about US\$6 billion.

In the domestic area, as part of its efforts to halt inflation, in December 1989, the government decreed a forced conversion of time deposits and public sector debt into U.S. dollar denominated government securities (the BONEX plan). Subsequently, the government consolidated unregistered debts to suppliers and provinces, and to pensioners who had been receiving

benefits that were less than those accorded by the law. To settle these obligations in an orderly manner, during 1992-94 the government issued local and foreign currency denominated consolidation bonds (BOCONs) with 10-16 year maturities for the equivalent of around US\$21 billion. These bonds include capitalization of interest for the first six years.

These steps eliminated internal and external arrears and helped the public sector regain access to the domestic and international capital market. Since 1993, the public sector has placed notes in domestic and international capital markets for more than US\$8 billion, with maturities ranging from 3-10 years and spreads of up to 350 basis points over U.S. Treasury bonds of similar characteristics.

With the creation of the Integrated Financial Information System (SIDIF), public debt management became an integral part of the new system. Up to 1993, there was no systematic register of public debt, and it was necessary to approach individual creditors in order to obtain an overview of outstanding public debt. Moreover, large amounts of debt to pensioners, suppliers, and provinces remained to be documented and funded. At present, information on public sector debt is up to date and reported regularly, although it is still difficult to piece together a complete historic picture of outstanding public debt for the years before 1993.

#### 5. Impact of deregulation and privatization

Deregulation and privatization has spurred major changes in a number of economic sectors. In the oil and gas sectors, privatization opened exploration and production to private sector initiative, including small independent operators and by mid-1995 more than 50 percent of production was already in the hand of independent producers. Oil and natural gas production rose by 38 percent and 20 percent, respectively, over the past five years, and exports trebled since 1990.

In the electricity sector, the dismantling of the state electricity company opened distribution and generation to private sector initiative, both domestic and foreign. Prices were liberalized (although transmission remained regulated) and private distributors now are allowed to negotiate with private producers for the supply of electricity. These changes have contributed to an increase of 30 percent in electricity generation and a lowering of electricity tariffs over the past three years.

The elimination of the state monopoly and privatization also opened the telecommunications sector to competition, especially in the areas of satellite services, telex and data transmission. Deregulation of telephone services is scheduled to be completed by the year 2000 with the full liberalization of tariffs and the removal of remaining restrictions on

market entry. In the meantime, the newly privatized companies have increased the number of telephone lines from 2.4 million in 1990 to 6.4 million in 1994 and reduced the waiting period for a new line from six months to less than a week. Also, the cost of installing a new line has been cut in half.

In the transportation sector, the quality of railway transportation has improved significantly following its transfer to the private sector. In the area of road freight, steps were taken to streamline cumbersome regulations and eliminate taxes as well as quotas and restrictions on international and interprovincial transport. A free access system was introduced, allowing road passenger companies to offer services in all traffic corridors. These actions contributed to a reduction in tariffs of 10-20 percent and an increase in traffic levels of about 30 percent in 1991-94.

The government also opened to private initiative the national highway network. A system of public work concessions through tolls for the construction, repair, and maintenance of national highway corridors was established in 1992, covering nearly 9,000 kilometers for a period of 12 years. In addition, in 1993 construction and maintenance of the road access network to the city of Buenos Aires was granted on concession for a period of 22 years.

With the deregulation of port activities, operating hours of ports were extended, navigation conditions and rules regulating stowage services were relaxed, vessel classification conditions were made more flexible, and the setting of crew levels was liberalized. As a result, port costs were reduced by 8-20 percent between 1989 and 1995.

## 6. Pending Reforms

Despite the accomplishments, of the past six years, the process of reform is by no means completed. In the fiscal area, high tax rates still constitute a heavy burden on private initiative and encourage evasion, which highlights the need to reduce public sector expenditure, particularly in the provincial governments. The provincial governments also need to complete the privatization of their banks and enterprises, and to reduce provincial social security benefits to those at the national level and integrate the provincial social security regimes into the federal system.

In the area of financial intermediation, the outflow of deposits in early 1995 has left a significant segment of the banking system in a seriously weakened condition, and the restructuring of provincial banks and the private banking system needs to be completed expeditiously. Finally, in the labor market, significant rigidities remain as evidenced by the record high level of unemployment. The market continues to be burdened by

cumbersome regulations that undermine the operation of competitive forces, raise the cost of labor, and discourage new hirings. There is a need to decentralize collective bargaining negotiations and liberalize work rules, reduce dismissal costs, and rationalize the present welfare net, including health care benefits and family allowances.



### Labor Market Issues

The Convertibility Plan introduced in March 1991 has encouraged important structural changes, particularly in the tradeable goods sectors. With the current slowdown in domestic activity, adjustments are now accelerating in the nontradable goods and services sectors. These changes have had a pronounced effect on labor markets. The rate of urban unemployment jumped to 18.6 percent of the labor force in May 1995 from 12.2 percent in October 1994 (Chart 9), <sup>1/</sup> with unemployment in the Greater Buenos Aires area at just over 20 percent (up from 13 percent in October 1994) and in other urban areas at 15 percent (up from nearly 11 percent in October 1994). This note describes some factors that have contributed to the increase in unemployment, discusses the short term outlook and the policy responses under consideration by the authorities to alleviate the problem, particularly policies aimed at to improving the flexibility of the labor markets.

#### 1. Background

The increase in unemployment since early 1991 is mainly related to an increase in supply of labor by some 2 million persons between 1991 and early 1995--the result of an increase in labor force participation and immigration--and virtual stagnation in overall employment, despite the rapid expansion of output (Table 9).

In the 1980s, a period of low growth and real wage erosion caused by high and variable inflation, the unemployment rate had remained at around 5.5 percent of the labor force and the labor force participation rate remained at around 38-39 percent of the urban population (Chart 10), with relatively low participation rates among women and youth. By contrast, during the 1990s the participation rate increased sharply from 39.5 percent in early 1991 to 41 percent in 1994 and 42.8 percent in early 1995, increasing the supply of labor by almost 2 million--1.3 million during 1991-1994, and a further 600,000 from October 1994 to May 1995.

From 1991 to mid-1994, the unemployment rate increased from 6.5 to over 10 percent of the labor force. This reflects an increase in structural unemployment. <sup>2/</sup> With the drop in bank deposits, credit squeeze and recession in the first half of 1995, structural unemployment became complemented with cyclical unemployment.

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<sup>1/</sup> The unemployment rate is compiled twice yearly, normally in May and October, by the National Institute of Statistics (INDEC), and is based on the Permanent Household Survey (EPH) of the 25 largest urban areas.

<sup>2/</sup> An often noted symptom of the increase in structural unemployment is the increase in unemployment for breadwinners from 1.5 percent prior to 1991 to 6-7 percent in 1994-95.

## 2. Changes in the labor force--participation

Labor force participation has been boosted by several effects of the Convertibility Plan. Real wages in the nontradable sectors and all wages in U.S. dollar terms increased during the first few years of the Convertibility Plan. At the same time, increased optimism about economic prospects and the chances to find a job drew additional labor resources into the market. Also, the opening up of domestic markets to domestic and foreign competition made available new products, and improved product quality in general, which led to supplementary "demand" for income. However, around early 1993, the nature of the increase in participation appears to have changed from one related to the increased opportunity cost of leisure to one related to sustaining the gains in average real disposable incomes attained during the first two years of the Plan, which had formed the basis for renewed access to consumer credit and stepped-up purchases of consumer durables and automobiles that had been deferred during the hyperinflationary period.

The strong increase in wages in U.S. dollar terms gave rise to increased immigration from abroad particularly for neighboring countries such as Bolivia, Paraguay and Peru. The participation among immigrants is nearly 100 percent which further increased the overall participation rate. For example, immigration in 1993 was estimated at 87,000 persons while domestic (natural) rate of increase of the labor force was about 380,000 a year. Internal migration from the provinces and rural areas to urban areas within the provinces, and to Buenos Aires also has contributed to raise the measured participation rate, as labor surveys are conducted only in the urban areas.

## 3. Changes in labor demand

While the supply of labor was boosted by increased participation, the economic transformation set in motion by the Convertibility Plan required the economy to become more efficient and less labor intensive. In particular, the pegging of the exchange rate and the subsequent real appreciation of the peso, and the simultaneous opening up of product markets to competition from abroad through the reduction in quantitative and tariff restrictions on trade (including through MERCOSUR), pushed the traded goods sectors into making strong efforts to enhance their competitiveness and increase labor productivity.

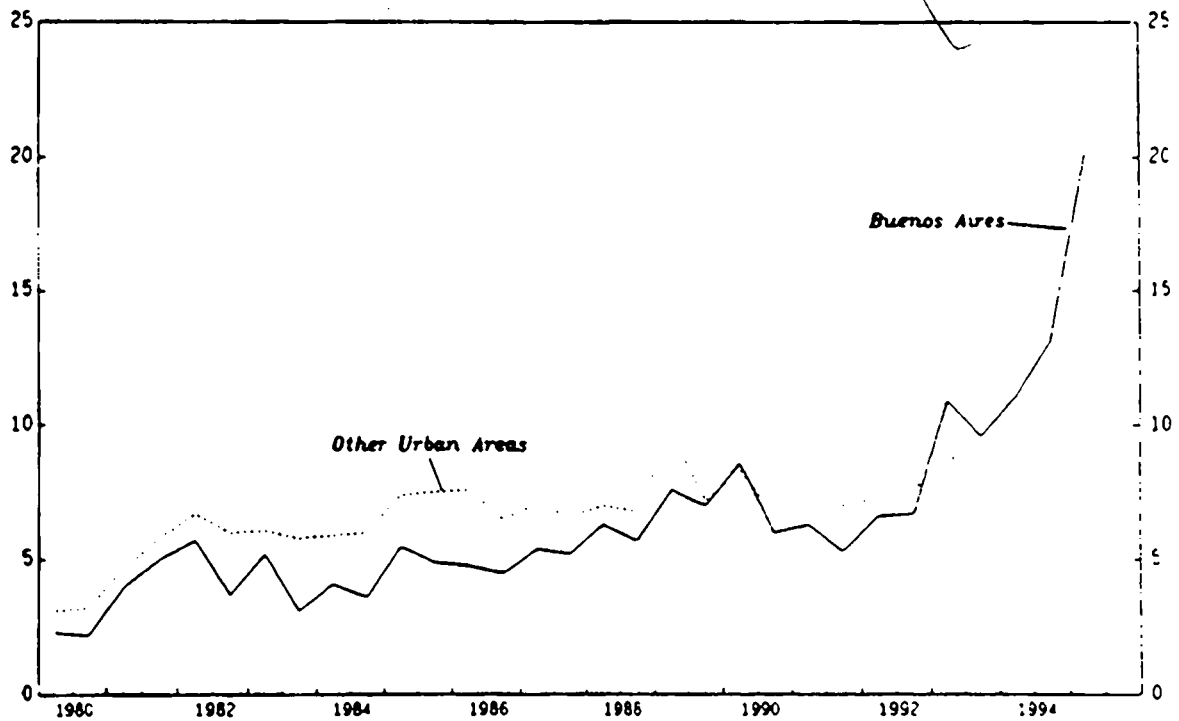
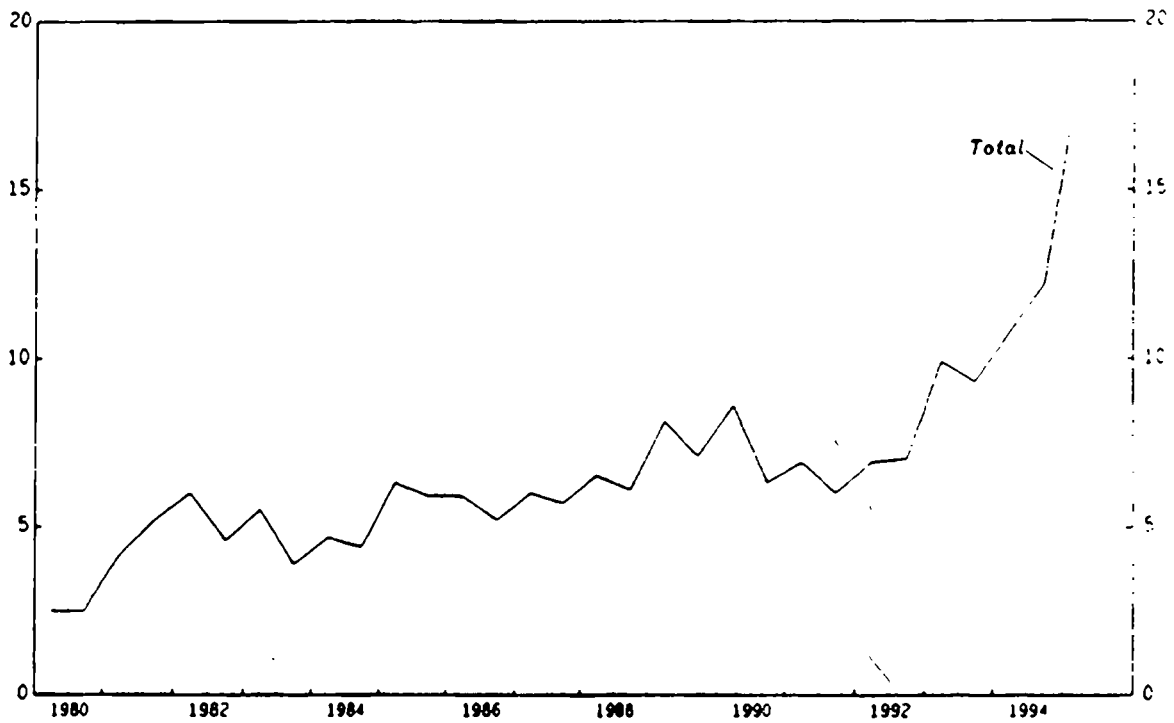
At the same time, between 1990 and 1994 the price of capital relative to labor in manufacturing industry decreased by 30 percent during 1990-94 (Table 10). <sup>1/</sup> This resulted from the elimination of tariffs and the statistical tax on capital goods, the effect on relative prices of the appreciation. Also, real interest rates fell significantly as confidence in the sustainability of the plan increased, and the increased availability of

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<sup>1/</sup> This measurement may understate the relative price effect because it excludes the impact of the improvements in tax administration and the better collection of labor related taxes which raised the de-facto price of labor.

CHART 9  
ARGENTINA

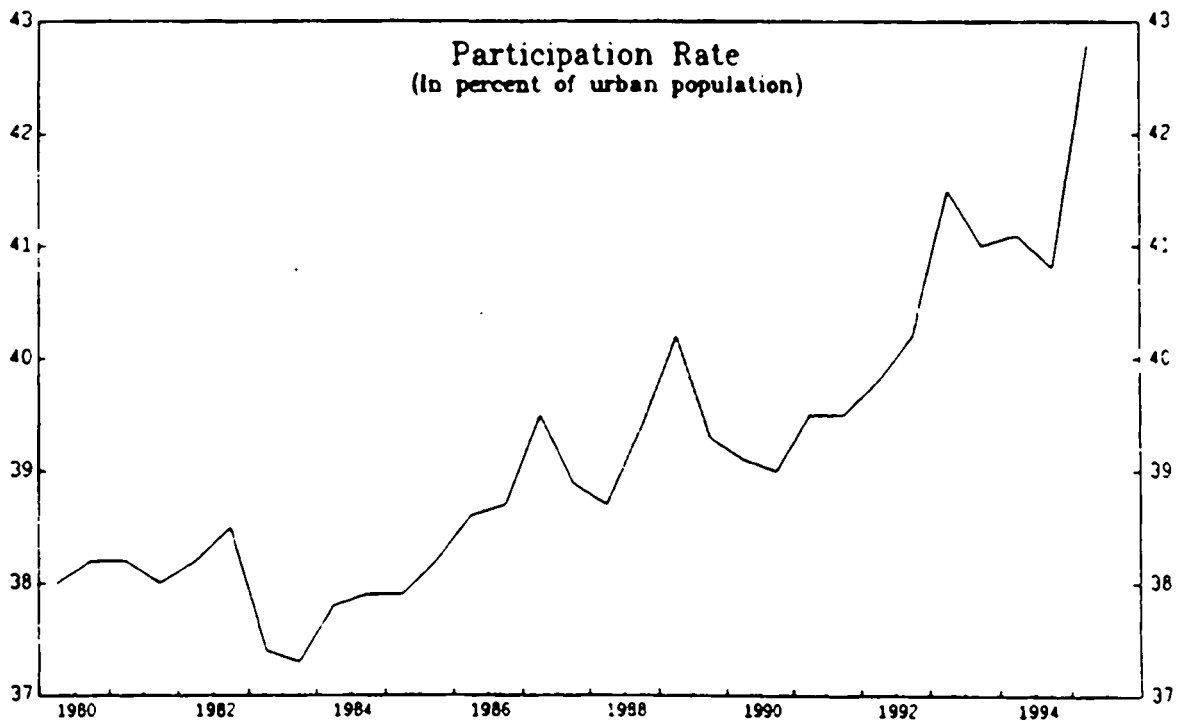
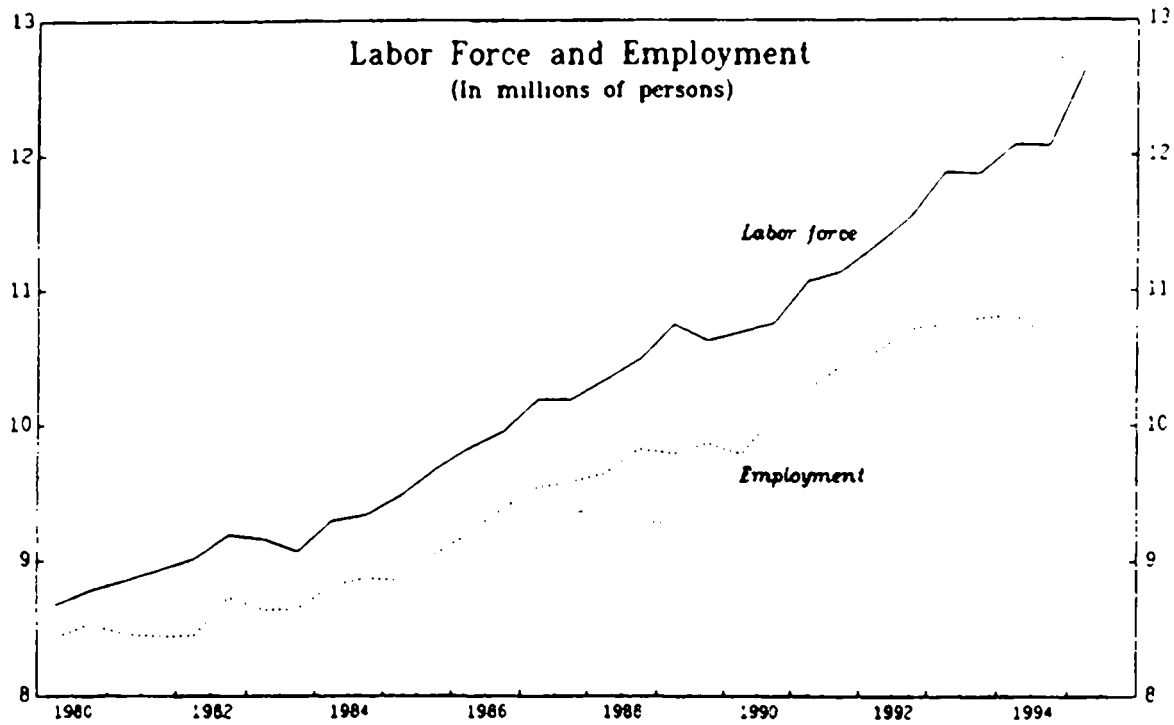
Urban Unemployment Rates  
(In percent of the urban labor force)



Source: Ministry of Economy.

CHART 10  
ARGENTINA

Urban Labor Force, Employment, and Participation Rate



Source: Ministry of Economy.

domestic and foreign credit enabled greater access to capital goods. As a result of these factors, employment in manufacturing industry declined by 300,000 persons between 1990-94 while employment in agriculture fell by 77,000 during the same period. On the other hand, there was a sharp increase in employment in the nontradable sectors, which benefitted from the consumer boom and the gains in real incomes that followed the fixing of the exchange rate. For example, employment in commerce increased by 400,000 persons during 1991-94, in construction by nearly 120,000 persons, and in services (including financial services) by some 316,000 persons (Table 11).

The process of privatization of state enterprises also involved a net reduction in employment. During 1990-95, the national oil company (YPF), the railroads, ports, the national airline, telephone companies, petrochemical companies, utilities, grain elevators, gas companies, military industries, toll roads, shipping companies, the Buenos Aires subway, and agricultural markets were privatized. In preparation for, or following privatization, many of these companies were restructured and rationalized their operations, thereby making visible some previously "hidden" unemployment, and leading to downsizing of the workforce.

In addition, the public sector (including the provinces) ceased to function as an employer of last resort, and reduced employment in contrast to the 1980s when general government employment had increased from 1.4 million persons in 1980 to more than 2.1 million persons in 1990 (Table 12). The recent tightening of financial conditions appears to have accelerated the process of labor shedding in the provinces.

#### 4. Prospects

Unemployment is likely to remain a difficult issue. Despite the considerable investment in plant and equipment in recent years, the capital stock in Argentina is estimated to be still of relatively old vintage with an average age of installed machinery of around 10 years. The continued modernization of the capital stock, coupled with the high productivity of new equipment, is not likely to permit a major rebound in employment in the near future. At the same time, the participation rate may increase further as it is still below the participation rate in comparable middle income countries. <sup>1/</sup>

#### 5. Policy issues

The government is working in several areas to ameliorate the unemployment problem. These initiatives seek to improve the administration of unemployment benefits and employment programs and make them available to a larger number of participants, and to improve the flexibility of the labor market and reduce labor costs.

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<sup>1/</sup> Adjusting for differences in measurement and definition, the participation rate in Argentina appears to be some 2 percentage points below that in Chile and Italy, and about 1 percentage point below that in Spain.

Unemployment and employment programs are supported by the Central Government from the Employment Fund, based on payroll deductions (1.4 percent, paid by employers) which amounted to some Arg\$500 million in 1994. Unemployment benefits are available to individuals who have become involuntarily unemployed after having been employed for a minimum of 12 months in the formal labor market. To register, persons have to be current on social security and tax obligations, register to receive benefits, and observe a two-month waiting period. However, employees in some sectors with high turnover rates such as construction and some rural activities do not qualify for the benefits. Benefits depend on the length of employment, with a maximum of Arg\$300 a month for up to of 12 months. Due to its restricted nature, only 120,000 persons at present are receiving unemployment compensation, with an average benefit of Arg\$120 a month. To improve the services provided by this scheme, the government is strengthening benefits administration to limit fraudulent claims, extending medical insurance coverage to unemployed heads of households, and expanding the maximum duration of unemployment benefits by an additional three months.

To increase the number of beneficiaries of public employment programs, which at present are carried out mostly by municipal governments, without increasing the budgetary cost, remuneration per employee is being reduced from Arg\$350 a month plus family allowances, to Arg\$200 a month without family allowances, and vacation allowances would be eliminated. Under a similar scheme for the private sector, employers would be able to recover Arg\$300 per worker per month from the central government for a maximum duration of three months for qualifying new hires, with an option to extend the subsidy to a fourth month at an additional Arg\$200. Also, a program in the armed forces is to provide 30,000 jobs of a minimum of four hours a week in military or civil support services paying up to up to Arg\$100 a month, and a program in the forestry sector aims at providing 10,000 new jobs. The existing apprentice program is to be expanded to 100,000 youths, for at least two months for each apprentice. The Government will cover accident and health insurance costs for beneficiaries of this program, and has exempted participants in the program from social security contributions and indemnization payments.

A number of longer-term structural initiatives have been implemented or are under consideration to improve the flexibility and functioning of the labor markets. The most important are the reforms of the Law on Work Accidents, the Law on Small and Medium-Sized Enterprises (PYMES), the Law on Collective Bargaining, the Bankruptcy Law, the Labor Reform Law, and the lowering of employer social security contributions.

The existing Law on Work Accidents has given rise to a burgeoning industry of disability litigation, with average settlements that in some industries increased labor costs by as much as 12-13 percent. These costs are expected to be lowered to about 3 percent of the wage bill by converting the existing disability legislation into a compulsory insurance scheme for all enterprises, with optional supplemental insurance coverage. The insurance system would provide caps on litigation settlements depending on

the type of injury. The new Law has been approved in the Lower House and is expected to be fully sanctioned and become effective before the end of 1995.

The Law on Small and Medium-Sized Enterprises which has already been approved by Congress, covers enterprises with fewer than 40 employees and allows such enterprises to deviate from sectoral collective labor agreements. It also reduced the notification period for layoffs from 90 to 60 days, and, under certain circumstances, provides waivers for indemnization payments in case of layoffs.

The authorities intend to introduce a new bill in Congress that would: (a) allow for geographically decentralized collective labor agreements in recognition of productivity differentials and cost of living conditions across the provinces and regions; and (b) would determine that collective labor agreements expire on their anniversary date. The existing Law on Collective Bargaining, which was approved in 1975, makes collective labor agreements binding at the enterprise and sectoral level throughout the country. The 1975 law also introduced the principle of "ultra-actividad", which implies that upon expiration of the existing agreement, its provisions remain in place until a new agreement is reached between employer and employee representatives. In practice, this has meant that labor agreements have become cumulative; i.e. labor representatives may negotiate to increase benefits, but are under no pressure to agree to reduced benefits. The reform of this law is likely to meet with considerable opposition in Congress, and it is not expected to be considered before late 1995.

The Bankruptcy Law that was recently passed by Congress permits collective labor agreements to be suspended during bankruptcy proceedings, while safeguarding acquired rights of existing employees; it also expands the rights of creditors to force enterprises into bankruptcy and allows enterprises under bankruptcy protection to be administered by a panel of experts, rather than by the courts, as was previously the case.

A Labor Reform Law which passed Congress, but still needs to be regulated, further improves the flexibility of employment conditions, by allowing proportionality in the payment of selected social security contributions for part-time work. At present, part-time employment is discouraged as contributions for health care coverage have to be paid on a full-time equivalent basis.

The authorities also are implementing in three equal steps a reduction in the employer social security contributions (aportes patronales), which at present, range from 33 percent in Buenos Aires to 16.5 percent in the outlying provinces. These contributions will be reduced by 10 percent each in September and November 1995, and January 1996, which is expected to reduce labor costs by some 7 percent on average.

Table 9. Argentina: Urban Labor Force, Employment and Unemployment  
(Thousands of persons)

	Labor Force	Employment	Unemployment
1980			
April	8,672	8,433	239
October	8,778	8,531	247
1981			
April	8,852	8,459	393
October	8,926	8,440	486
1982			
April	9,012	8,447	565
October	9,193	8,731	462
1983			
April	9,160	8,636	524
October	9,068	8,644	424
1984			
April	9,291	8,813	478
October	9,335	8,870	465
1985			
May	9,477	8,852	625
November	9,663	9,044	619
1986			
April	9,825	9,194	631
November	9,946	9,384	562
1987			
April	10,184	9,535	649
October	10,185	9,573	612
1988			
May	10,326	9,634	692
October	10,484	9,820	664
1989			
May	10,739	9,788	951
October	10,621	9,865	756
1990			
May	10,684	9,784	900
October	10,753	10,064	689
1991			
June	11,061	10,262	799
October	11,138	10,437	701
1992			
May	11,332	10,538	794
October	11,546	10,712	834
1993			
May	11,877	10,739	1,138
October	11,866	10,788	1,078
1994			
May	12,084	10,813	1,271
October	12,071	10,650	1,421
1995			
May	12,635	10,426	2,209

Source: Ministry of Economy.



Table 10. Argentina: Relative Cost of Capital and Labor <sup>1/</sup>  
(1990 = 100)

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Price of capital/Price of labor	
<hr/>	
1980	84.3
1981	78.3
1982	118.8
1983	106.3
1984	91.7
1985	95.9
1985	85.5
1987	95.3
1988	97.1
1989	122.5
1990	100.0
1991	85.9
1992	72.5
1993	66.2
1994	70.3

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Source: Ministry of Economy.

<sup>1/</sup> Manufacturing sector.

Table 11. Argentina: Employment by Main Sectors

(In thousands)

	Agriculture	Manufacturing	Construction	Commerce	Services 1/	Other 2/	Total
1985	1,207	1,971	768	2,100	3,705	721	10,472
1986	1,173	1,952	720	2,276	3,977	739	10,837
1987	1,178	1,963	756	2,148	4,028	737	10,811
1988	1,157	2,016	765	2,153	4,042	736	10,869
1989	1,137	1,889	735	2,204	4,201	762	10,928
1990	1,117	1,801	701	2,248	4,348	785	10,999
1991	1,097	1,665	805	2,462	4,551	811	11,390
1992	1,077	1,648	772	2,556	4,536	863	11,453
1993	1,058	1,632	804	2,659	4,719	896	11,768
1994	1,039	1,503	818	2,648	4,664	935	11,607

Source: FIEL.

1/ Includes financial services and government.

2/ Includes mining and utilities.

Table 12. Argentina: Public Sector Employment

(In thousands)

	Federal Government			Provinces and City of Buenos Aires	Municipalities	General Government Total	Central Government Enterprises	Public Sector Total
	National Administration	Decentralized Organizations	Total					
1980	256	238	494	723	149	1,367	324	1,692
1981	256	237	494	724	151	1,367	307	1,675
1982	252	231	484	724	151	1,358	312	1,659
1983	268	240	508	713	157	1,380	312	1,693
1984	272	249	521	765	169	1,451	314	1,766
1985	276	263	539	799	169	1,506	304	1,810
1986	286	248	534	856	171	1,562	307	1,869
1987	276	254	531	873	171	1,576	305	1,882
1988	317	247	564	1,017	171	1,753	305	2,058
1989	297	267	565	1,047	172	1,784	302	2,087
1990	265	260	526	1,435	172	2,133	311	2,444
1991	267	342	609	1,004 1/	348 1/	1,962	239	2,202
1992	266	114	380	1,011	348	1,740	176	1,916
1993	245	74	319	1,013	348	1,681	176	1,857
1994	225	76	301	1,013	348	1,663	138	1,801

Source: Ministry of Economy.

1/ As of 1991, the City of Buenos Aires is classified under Municipalities.

Note: data for 1989-91 are subject to inaccuracies owing to reclassification and shifts of employees between the Federal Government and the provincial government. Data prior and after this period are considered reliable.

Table 13. Argentina: National Accounts in Constant Prices

	1989	1990	1991	1992	1993	Prel. 1994
(In thousands of pesos at 1986 prices)						
<u>Gross domestic expenditure</u>	<u>8,952.6</u>	<u>8,775.0</u>	<u>10,050.4</u>	<u>11,520.7</u>	<u>12,297.5</u>	<u>13,340.5</u>
Consumption 1/	7,469.1	7,438.9	8,378.5	9,331.9	9,804.0	10,393.2
Gross domestic investment	1,483.5	1,336.1	1,671.9	2,188.8	2,493.9	2,947.3
<u>Foreign balance</u>	<u>471.7</u>	<u>655.4</u>	<u>219.6</u>	<u>-362.0</u>	<u>-466.0</u>	<u>-630.4</u>
Exports of goods and nonfactor services	990.1	1,177.1	1,079.9	1,066.0	1,119.0	1,285.1
Imports of goods and nonfactor services	518.4	521.7	860.3	1,428.0	1,585.0	1,915.5
<u>Gross domestic product</u>	<u>9,424.3</u>	<u>9,430.4</u>	<u>10,270.0</u>	<u>11,158.7</u>	<u>11,831.9</u>	<u>12,710.1</u>
Net factor payments abroad	-311.5	-155.7	-175.8	-156.8	-130.4	-149.9
<u>Gross national product</u>	<u>9,112.8</u>	<u>9,274.7</u>	<u>10,094.2</u>	<u>11,001.9</u>	<u>11,701.5</u>	<u>12,560.2</u>
(Percentage changes)						
<u>Gross domestic expenditure</u>	<u>-8.2</u>	<u>-2.0</u>	<u>14.5</u>	<u>14.6</u>	<u>6.7</u>	<u>8.5</u>
Consumption 1/	-4.1	-0.4	12.6	11.4	5.1	6.0
Gross domestic investment	-24.4	-9.9	25.1	30.9	13.9	18.2
<u>Foreign balance 2/</u>	<u>1.0</u>	<u>1.9</u>	<u>-4.2</u>	<u>-5.2</u>	<u>-0.9</u>	<u>-1.3</u>
Exports of goods and nonfactor services	6.3	18.9	-8.3	-1.3	5.0	14.8
Imports of goods and nonfactor services	-18.1	0.6	64.9	66.0	11.0	20.9
<u>Gross domestic product</u>	<u>-6.2</u>	<u>0.1</u>	<u>8.9</u>	<u>8.7</u>	<u>6.0</u>	<u>7.4</u>

Source: Ministry of Economy.

1/ Includes changes in inventories.

2/ Percentage points contribution to growth.

Table 14. Argentina: National Accounts in Current Prices

(In millions of pesos)

	1989	1990	1991	1992	1993	Prel. 1994
<u>Gross domestic expenditure</u>	<u>3,032</u>	<u>65,975</u>	<u>177,728</u>	<u>229,993</u>	<u>262,202</u>	<u>288,178</u>
Consumption <sup>1/</sup>	2,529	55,328	151,250	192,139	215,236	232,065
Gross domestic investment	503	9,647	26,478	37,854	46,966	56,113
<u>Foreign balance</u>	<u>211</u>	<u>3,948</u>	<u>3,169</u>	<u>-3,355</u>	<u>-4,633</u>	<u>-6,535</u>
Exports of goods and nonfactor services	424	7,140	13,884	15,271	16,237	19,167
Imports of goods and nonfactor services	213	3,192	10,715	18,626	20,870	25,702
<u>Gross domestic product</u>	<u>3,243</u>	<u>68,923</u>	<u>180,897</u>	<u>226,638</u>	<u>257,569</u>	<u>281,643</u>
Net factor payments abroad	-141	-948	-2,194	-2,102	-1,819	-2,145
<u>Gross national product</u>	<u>3,102</u>	<u>67,975</u>	<u>178,703</u>	<u>224,536</u>	<u>255,750</u>	<u>279,498</u>
GDP deflator	344	7,309	17,614	20,310	21,769	22,159
Percentage change	3,013.7	2,023.7	141.0	15.3	7.2	1.8

Source: Ministry of Economy.

<sup>1/</sup> Includes changes in inventories.

Table 15. Argentina: Sectoral Origin of Gross Domestic Product

	1989	1990	1991	1992	1993	Prel. 1994
(In thousands of pesos at 1986 prices)						
<b>Total</b>	<b>9,424.3</b>	<b>9,430.4</b>	<b>10,270.0</b>	<b>11,158.7</b>	<b>11,831.9</b>	<b>12,710.1</b>
Primary sector	991.9	1,091.3	1,109.2	1,129.2	1,135.7	1,200.7
Agriculture, livestock, and fishing	753.2	839.2	871.6	872.2	863.2	896.4
Mining	238.7	252.1	237.6	257.0	272.5	304.3
Secondary sector	3,144.9	3,132.1	3,526.1	3,854.4	4,081.8	4,336.2
Manufacturing	2,461.2	2,511.5	2,810.8	3,017.0	3,152.8	3,284.6
Construction	501.6	422.6	512.7	623.9	692.0	800.3
Electricity, gas, and water	182.1	198.0	202.6	213.5	237.0	251.3
Service sector	5,281.2	5,254.6	5,630.4	6,066.7	6,501.2	7,049.1
Commerce	1,437.6	1,464.0	1,705.3	1,862.5	1,946.3	2,102.6
Transport and communications	497.3	476.1	496.9	552.5	590.6	636.5
Finance and banking	1,443.5	1,410.3	1,551.5	1,756.5	1,932.3	2,179.4
Other services	1,902.8	1,904.2	1,876.7	1,895.2	2,032.0	2,130.6
Plus: Import taxes minus imputed financial services	6.3	-47.6	4.3	108.4	113.2	124.1
(Percentage change)						
<b>Total</b>	<b>-6.2</b>	<b>0.1</b>	<b>8.9</b>	<b>8.7</b>	<b>6.0</b>	<b>7.4</b>
Primary sector	-6.4	10.0	1.6	1.8	0.6	5.7
Agriculture, livestock, and fishing	-9.2	11.4	3.9	0.1	-1.0	3.8
Mining	3.5	5.6	-5.8	8.2	6.0	11.7
Secondary sector	-10.3	-0.4	12.6	9.3	5.9	6.2
Manufacturing	-7.1	2.0	11.9	7.3	4.5	4.2
Construction	-24.4	-15.7	21.3	21.7	10.9	15.7
Electricity, gas, and water	-4.8	8.7	2.3	5.4	11.0	6.0
Service sector	-3.2	-0.5	7.2	7.7	7.2	8.4
Commerce	-10.1	1.8	16.5	9.2	4.5	8.0
Transport and communications	3.0	-4.3	4.4	11.2	6.9	7.8
Finance and banking	-3.4	-2.3	10.0	13.2	10.0	12.8
Other services	1.2	0.1	-1.4	1.0	7.2	4.9
(Percentage distribution)						
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Primary sector	10.5	11.6	10.8	10.1	9.6	9.4
Agriculture, livestock, and fishing	8.0	8.9	8.5	7.8	7.3	7.1
Mining	2.5	2.7	2.3	2.3	2.3	2.4
Secondary sector	33.4	33.2	34.3	34.5	34.5	34.1
Manufacturing	26.1	26.6	27.4	27.0	26.6	25.8
Construction	5.3	4.5	5.0	5.6	5.8	6.3
Electricity, gas, and water	1.9	2.1	2.0	1.9	2.0	2.0
Service sector	56.0	55.7	54.8	54.4	54.9	55.5
Commerce	15.3	15.5	16.6	16.7	16.4	16.5
Transport and communications	5.3	5.0	4.8	5.0	5.0	5.0
Finance and banking	15.3	15.0	15.1	15.7	16.3	17.1
Other services	20.2	20.2	18.3	17.0	17.2	16.8
Plus: Import taxes minus imputed financial services	0.1	-0.5	--	1.0	1.0	1.0

Source: Ministry of Economy.

Table 16. Argentina: Index of Agricultural Production

(1986 = 100)

	1989	1990	1991	1992	1993	Prel. 1994
<u>Total 1/</u>	<u>96.3</u>	<u>103.7</u>	<u>107.4</u>	<u>106.5</u>	<u>109.1</u>	<u>113.3</u>
<u>Agriculture</u>	<u>95.4</u>	<u>110.4</u>	<u>117.5</u>	<u>111.8</u>	<u>114.2</u>	<u>123.1</u>
Cereals	72.8	83.6	94.1	90.3	108.7	106.9
Oilseeds	100.5	148.7	155.8	146.3	141.7	156.2
Industrial crops	112.1	119.8	125.3	111.2	94.6	109.1
Fruits	109.2	121.5	121.5	132.0	128.4	141.0
Vegetables	95.7	86.5	90.6	99.7	109.0	120.3
Flowers	85.7	67.5	74.9	84.1	72.6	75.6
<u>Livestock</u>	<u>97.5</u>	<u>99.3</u>	<u>98.1</u>	<u>93.8</u>	<u>93.2</u>	<u>92.5</u>
Cattle	98.4	101.0	99.3	93.8	92.4	91.7
Other livestock 2/	91.4	87.3	88.7	94.2	99.4	98.4
<u>Wool</u>	<u>79.2</u>	<u>78.6</u>	<u>77.7</u>	<u>79.4</u>	<u>76.1</u>	<u>69.0</u>
<u>Milk</u>	<u>112.3</u>	<u>106.5</u>	<u>104.2</u>	<u>114.6</u>	<u>121.8</u>	<u>132.5</u>
<u>Forestry</u>	<u>115.8</u>	<u>113.5</u>	<u>122.0</u>	<u>122.8</u>	<u>100.2</u>	<u>100.2</u>
<u>Fishing</u>	<u>117.6</u>	<u>136.8</u>	<u>150.9</u>	<u>229.4</u>	<u>306.9</u>	<u>297.6</u>

Source: Ministry of Economy.

1/ Includes hunting and agricultural construction.

2/ Includes sheep, goats, pigs, and horses.

Table 17. Argentina: Selected Data on Planted and Harvested Area, Production, and Yield

(Area in thousands of hectares; production in thousands of metric tons; yields in tons per hectare)

	1989/90	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
<b>Cereals</b>						
<b>Wheat</b>						
Planted area	5,650	6,178	4,751	4,548	4,887	5,146
Harvested area	5,421	5,797	4,547	4,255	4,754	5,042
Yield	1.90	1.90	2.17	2.32	2.02	2.20
Production	10,294	11,016	9,867	9,874	9,604	11,092
<b>Corn</b>						
Planted area	2,211	2,177	2,686	2,963	2,756	2,896
Harvested area	1,672	1,918	2,367	2,503	2,420	2,516
Yield	3.02	6.05	4.52	4.36	4.23	4.50
Production	5,047	7,770	10,699	10,901	10,246	11,322
<b>Oats</b>						
Planted area	2,100	1,815	2,180	2,006	1,971	1,970
Harvested area	428	458	456	372	303	259
Yield	1.45	1.54	1.34	1.61	1.44	1.38
Production	620	695	610	600	436	357
<b>Barley</b>						
Planted area	257	147	233	285	242	186
Harvested area	173	146	230	228	198	148
Yield	1.81	2.22	2.47	2.56	2.32	2.31
Production	313	324	568	583	459	342
<b>Rye</b>						
Planted area	575	642	590	463	460	473
Harvested area	84	101	92	48	67	56
Yield	0.83	0.95	0.88	0.71	0.96	0.96
Production	70	96	81	34	64	54
<b>Rice</b>						
Planted area	132	98	148	144	148	192
Harvested area	116	86	141	140	141	191
Yield	3.69	4.03	5.21	4.34	4.30	5.20
Production	428	347	735	608	607	993
<b>Sorghum</b>						
Planted area	824	752	823	810	672	623
Harvested area	688	676	764	723	614	513
Yield	2.93	3.33	3.62	3.96	3.51	3.29
Production	2,016	2,251	2,766	2,860	2,158	1,688



Table 17. Argentina: Selected Data on Planted and Harvested Area, Production, and Yield (Concluded)

(Area in thousands of hectares; production in thousands of metric tons; yields in tons per hectare)

	1989/90	1990/91	1991/92	1992/93	1993/94	Prel. 1994/95
<b><u>Oilseeds</u></b>						
<b>Linseed</b>						
Planted area	591	590	431	215	148	148
Harvested area	566	573	416	206	142	145
Yield	0.91	0.80	0.82	0.85	0.79	1.00
Production	514	458	341	176	112	145
<b>Sunflower seeds</b>						
Planted area	2,790	2,372	2,693	2,187	2,136	2,537
Harvested area	2,594	2,301	2,562	2,136	2,082	2,482
Yield	1.45	1.75	1.33	1.38	1.87	1.91
Production	3,758	4,027	3,407	2,956	3,903	4,752
<b>Soybeans</b>						
Planted area	5,093	4,967	5,015	5,320	5,665	5,890
Harvested area	4,918	4,783	4,949	5,116	5,596	5,834
Yield	2.17	2.28	2.29	2.16	2.02	2.19
Production	10,667	10,905	11,333	11,045	11,312	12,776
<b>Groundnuts</b>						
Planted area	167	198	153	110	134	164
Harvested area	162	179	153	110	134	164
Yield	1.41	1.74	1.44	2.12	1.55	1.65
Production	228	311	220	233	208	271
<b><u>Industrial crops</u></b>						
<b>Cotton</b>						
Planted area	570	621	615	378	504	757
Harvested area	540	534	529	302	483	675
Yield	1.72	1.46	1.23	1.43	1.46	1.50
Production	927	751	651	431	706	1,013
<b>Tobacco</b>						
Planted area	54	63	80	70	59	...
Harvested area	47	58	71	68	...	...
Yield	1.45	1.64	1.54	1.65	...	...
Production	68	95	109	112	82	...
<b>Sugarcane</b>						
Planted area	343	341	332	307	312	...
Harvested area	255	292	255	256	239	...
Yield	47.45	49.38	50.33	40.27	45.43	...
Production	12,100	14,420	12,834	10,310	10,857	...

Source: Ministry of Economy.

Table 18. Argentina: Industrial Production Index

Base 1984=100

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
(With Seasonality)													
January	89.3	91.0	88.2	94.0	99.0	95.7	90.3	81.6	88.1	93.3	95.9	106.7	98.3
February	70.3	74.5	69.0	73.5	78.2	87.0	88.4	73.1	75.5	82.7	80.0	85.3	103.1
March	93.0	97.9	92.5	97.0	107.3	105.7	103.4	81.3	83.0	105.0	107.8	113.8	115.5
April	91.7	97.5	91.2	101.8	109.6	96.9	101.6	82.3	89.6	106.3	107.5	110.8	106.5
May	96.8	102.6	91.1	106.7	108.2	108.5	90.5	91.2	99.1	106.2	108.9	117.7	113.6
June	97.3	105.0	79.9	94.1	112.5	106.1	89.5	92.7	94.3	110.2	113.1	114.9	109.0
July	99.7	106.7	84.9	109.5	119.1	108.5	87.4	89.4	106.5	109.6	116.0	115.7	
August	101.6	108.6	87.1	114.1	114.4	108.7	92.8	106.7	106.1	105.7	114.7	120.9	
September	104.4	102.9	95.3	115.6	113.6	100.2	91.6	101.2	104.5	111.0	116.3	121.9	
October	97.6	111.3	101.7	118.5	113.6	100.8	98.4	105.0	108.6	109.1	115.1	120.6	
November	103.2	104.0	100.5	109.9	103.3	102.4	98.1	100.5	106.2	106.4	114.9	120.1	
December	91.6	98.0	98.8	105.9	102.3	98.4	95.8	99.4	102.2	105.4	110.4	113.3	
Average	94.7	100.0	90.0	103.4	106.8	101.6	94.0	92.0	97.0	104.2	108.4	113.5	...
Percent change		5.6	-10.0	14.8	3.3	-4.9	-7.5	-2.1	5.4	7.5	4.8	4.7	...
(Seasonalized)													
January	89.3	91.2	88.4	96.3	103.6	100.4	94.6	86.7	94.6	101.2	104.0	115.7	106.6
February	87.3	92.5	85.7	92.1	102.8	115.3	118.4	94.6	101.8	103.3	99.9	106.5	128.8
March	91.5	96.3	91.0	97.5	106.5	106.1	103.3	81.4	82.9	110.9	113.9	120.2	122.1
April	91.0	96.8	90.5	104.6	110.2	96.6	99.8	83.0	87.3	108.0	109.1	112.5	108.1
May	96.7	102.5	91.0	107.5	105.4	105.2	87.9	87.5	96.6	102.9	105.5	114.0	110.1
June	98.7	106.6	81.1	93.8	113.3	111.1	93.3	92.1	91.6	107.7	110.5	112.2	106.5
July	99.0	106.0	84.3	105.8	116.3	105.8	83.5	82.4	101.0	101.3	107.3	107.0	
August	98.7	105.5	84.6	106.0	109.5	103.2	88.2	98.4	99.7	99.9	108.4	114.3	
September	99.4	98.0	90.8	109.5	106.8	93.9	84.8	95.8	101.1	103.8	108.8	114.1	
October	94.3	107.5	98.3	111.0	104.3	89.6	88.7	98.5	101.6	101.8	107.5	112.6	
November	96.0	96.8	93.5	102.9	95.9	96.2	94.2	99.1	101.4	102.3	110.5	115.4	
December	90.0	96.3	97.1	106.9	101.5	96.1	94.6	100.7	99.6	104.3	109.4	112.2	
Average	94.4	99.7	89.7	102.8	106.3	101.6	94.3	91.7	96.6	104.0	107.9	113.1	...
Percent change		5.6	-10.0	14.6	3.4	-4.4	-7.2	-2.7	5.4	7.6	3.8	4.8	...

Source: FIEL.

Table 19. Argentina: Automobile Production, Domestic Demand, Exports, and Imports

(In units)

Year	Total Production	Domestic Demand	Exports	Imports
1980	281,793	343,419	3,607	68,361
1981	172,363	238,974	285	60,126
1982	132,117	137,144	3,234	5,339
1983	159,876	151,640	5,202	1,075
1984	167,323	165,578	4,243	519
1985	137,675	146,271	774	747
1986	170,490	166,621	357	1,049
1987	193,315	192,357	460	1,530
1988	164,160	163,896	1,662	1,369
1989	127,823	133,563	1,841	642
1990	99,639	95,960	1,126	1,173
1991	138,958	165,806	5,205	28,631
1992	262,022	349,245	16,353	105,882
1993	342,354	421,006	29,976	109,793
1994	408,777	508,152	37,858	147,431

Source: Argentine Automobile Manufacturer's Association.

Table 20. Argentina: Price Indices

(Percentage change during the year)

	Consumer Prices for Buenos Aires	Wholesale Price Index			
		General	Agri- cultural Goods	National Nonagri- cultural Goods	Imported Goods
1985	385.4	363.9	336.3	364.2	405.6
1986	81.9	57.9	83.7	55.9	53.4
1987	174.8	181.8	153.3	182.8	216.0
1988	387.5	431.4	456.1	430.3	412.9
1989	4,928.6	5,386.7	5,023.6	5,138.0	7,600.3
1990	1,344.5	797.5	656.7	879.5	406.5
1991	84.0	56.6	62.0	54.8	69.5
1992	17.5	3.1	9.5	2.0	4.4
1993	7.4	0.1	0.1	0.6	-5.4
1994 Prel.	3.7	5.8	7.9	5.2	19.5

Source: National Institute of Statistics.

Table 21. Argentina: Rates of Price Increase

(In percent)

	Consumer Price Index		Wholesale Price Index	
	Change over Preceding Month	Change over 12 months	Change over Preceding Month	Change over 12 months
<b>1992</b>				
January	3.0	75.9	0.4	42.8
February	2.2	41.6	0.5	4.0
March	2.1	30.2	1.5	5.2
April	1.3	25.0	0.1	3.8
May	0.7	22.5	--	2.8
June	0.8	19.8	0.8	2.5
July	1.7	18.7	0.9	3.0
August	1.5	18.9	0.6	4.0
September	1.0	18.0	0.7	4.4
October	1.3	17.9	0.1	3.7
November	0.5	18.0	-1.9	2.7
December	0.3	17.5	-0.6	3.1
<b>1993</b>				
January	0.8	15.1	0.8	3.5
February	0.7	13.4	0.9	3.8
March	0.8	12.0	-0.6	1.7
April	1.0	11.7	0.8	2.4
May	1.3	12.3	0.4	2.8
June	0.7	12.2	-0.1	1.9
July	0.3	10.7	-0.1	0.9
August	--	9.0	0.4	0.7
September	0.8	8.8	--	--
October	0.6	8.1	0.4	0.3
November	0.1	7.6	-1.5	0.7
December	--	7.4	-1.2	0.1
<b>1994</b>				
January	0.1	6.6	--	-0.6
February	--	5.8	-0.2	-1.7
March	0.1	5.1	-0.2	-1.3
April	0.2	4.3	0.5	-1.6
May	0.3	3.2	0.6	-1.4
June	0.4	2.9	1.5	0.2
July	0.9	3.6	0.7	1.0
August	0.2	3.8	0.3	0.9
September	0.7	3.7	0.2	1.1
October	0.3	3.3	0.7	1.4
November	0.2	3.4	0.9	3.8
December	0.2	3.7	0.7	5.8
<b>1995</b>				
January	1.2	4.8	1.4	7.3
February	--	4.8	-0.3	7.2
March	-0.4	4.3	0.2	7.6
April	0.5	4.6	2.6	9.9
May	--	4.3	0.3	9.6
June	-0.2	3.6	0.1	8.1
July	0.4	3.2	0.1	7.5
August	-0.2	2.8	0.3	7.4

Source: National Institute of Statistics.

Table 22. Argentina: Employment, Wages, and Productivity  
(Annual average percentage change; unless otherwise specified)

	1989	1990	1991	1992	1993	Prel. 1994
<b>I. Wages</b>						
(In nominal terms)						
Central Administration	1,917.4	2,641.1	189.5	74.4	20.1	...
Public enterprises	2,385.0	2,094.7	188.9	31.2	...	...
Average hourly industrial wage	2,369.1	2,641.2	148.7	27.5	11.8	...
Minimum wage	1,396.4	2,062.1	242.8	11.7	52.0	...
Contractual wages 1/						
Industry (average)	2,484.3	2,508.6	143.0	10.9	8.5	11.1
Textile	2,356.1	2,496.1	147.6	9.3	--	--
Chemical	1,945.4	2,787.3	114.9	15.5	1.9	--
Metallurgical	2,505.2	2,555.9	133.8	5.2	0.5	20.0
Construction	2,812.2	2,003.4	147.1	4.6	17.0	20.4
(In real terms) 2/						
Central Administration	-36.6	13.5	6.6	39.6	8.6	...
Public enterprises	-21.9	-9.1	6.3	5.0	...	...
Average hourly industrial wage	-22.4	13.5	-8.5	2.0	1.1	...
Minimum wage	-53.0	-10.5	26.2	-10.6	37.4	...
Contractual wages 1/						
Industry (average)	-18.7	8.0	-10.6	-11.2	-1.9	6.7
Textile	-22.8	7.5	-8.9	-12.5	-9.6	-3.9
Chemical	-35.7	19.6	-20.9	-7.6	-7.9	-3.9
Metallurgical	-18.1	10.0	-13.9	-15.8	-9.1	15.3
Construction	-8.4	-12.9	-9.1	-16.3	5.8	15.7
<b>II. Population, Employment, and Productivity</b>						
Population (in millions)	31.9	32.4	32.6	33.1	33.8	34.2
Urban employment 3/	9,788	9,784	10,262	10,538	10,739	10,813
Urban labor force 3/	10,739	10,684	11,061	11,332	11,877	12,084
Urban unemployment 3/	951	900	799	794	1,138	1,271
Public sector employment (in thousands)	2,034	2,069	1,880	1,807	...	...
Productivity growth 4/	-6.7	-0.6	5.2	8.0	3.2	8.9

Sources: National Institute of Statistics; Ministry of Economy; and Ministry of Labor.

1/ Contractual wages of qualified personnel.

2/ Deflated by the consumer price index.

3/ In thousands. Based on household survey in May of each year.

4/ Calculated as change in real GDP per person employed.

Table 23. Argentina: Unemployment and Labor Force Participation

(In percent of active population)

	Unemployment Rate			Under-Employment Rate 1/			Labor Force Participation Rate 2/		
	Total	Greater Buenos Aires	Other Areas	Total	Greater Buenos Aires	Other Areas	Total	Greater Buenos Aires	Other Areas
<u>1982</u>									
April	6.0	5.7	6.7	6.7	6.4	7.3	38.2	39.1	36.8
October	4.6	3.8	6.0	6.4	5.6	7.7	38.5	39.2	37.4
<u>1983</u>									
April	5.5	5.2	6.1	5.9	4.6	8.0	37.4	38.0	37.4
October	3.9	3.1	5.8	5.9	4.9	8.0	37.3	37.5	36.5
<u>1984</u>									
April	4.7	4.1	5.9	5.4	4.5	6.9	37.8	38.4	36.8
October	4.4	3.6	6.0	5.9	4.7	8.0	37.9	38.4	36.5
<u>1985</u>									
May	6.3	5.5	7.4	7.5	5.5	8.6	37.9	38.9	36.4
November	5.9	4.9	7.5	7.1	6.6	7.9	38.2	38.8	37.1
<u>1986</u>									
May	5.9	4.8	7.6	7.7	6.4	9.7	38.6	39.6	37.1
November	5.2	4.5	6.5	7.4	6.1	9.5	38.7	40.0	36.9
<u>1987</u>									
April	6.0	5.4	7.1	8.2	8.0	8.7	39.5	40.9	37.3
October	5.7	5.2	6.6	8.5	7.8	9.6	38.9	40.0	37.3
<u>1988</u>									
May	6.5	6.3	7.0	8.9	7.7	8.7	38.7	40.4	37.2
October	6.1	5.7	6.8	8.0	7.4	9.0	39.4	40.5	37.6
<u>1989</u>									
May	8.1	7.6	9.8	8.6	8.5	10.8	40.2	41.9	37.5
October	7.1	7.0	7.2	8.6	8.0	9.3	39.3	40.8	37.0
<u>1990</u>									
May	8.6	8.6	8.3	9.3	8.4	10.9	39.1	40.9	36.6
October	6.3	6.0	6.7	8.9	8.1	10.4	39.0	40.3	36.9
<u>1991</u>									
June	6.9	6.3	7.9	8.6	7.7	9.9	39.5	40.9	37.5
October	6.0	5.3	7.0	7.9	7.0	9.4	39.5	40.8	37.6
<u>1992</u>									
May	6.9	6.6	7.3	8.3	7.6	9.5	39.8	41.4	37.6
October	7.0	6.7	7.6	8.1	7.3	9.4	40.2	41.7	38.1
<u>1993</u>									
May	9.9	10.6	8.8	8.8	8.2	9.9	41.2	44.2	37.6
October	9.3	9.6	8.7	9.3	9.1	9.5	41.0	43.3	37.6
<u>1994</u>									
April	10.8	11.1	10.1	10.2	10.2	10.3	41.1	43.4	38.0
October	12.2	13.1	10.8	10.4	10.1	10.9	40.8	43.1	37.6
<u>1995</u>									
May	18.6	20.2	15.4	11.3	10.7	12.4	42.8	45.9	38.1

Source: National Institute of Statistics.

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

2/ In percent of total urban population.

Table 24. Argentina: Summary of Federal Government Operations, 1990-95

(In percent of GDP)

	1990	1991	1992	1993	Prel. 1994	Prel. January- June 1995
<b>Revenues</b>	<b>12.9</b>	<b>15.5</b>	<b>17.0</b>	<b>17.1</b>	<b>17.3</b>	<b>16.6</b>
Taxes 1/	8.4	10.0	11.7	11.4	11.4	11.1
Social security contributions 2/	3.5	4.3	4.3	4.6	4.8	4.3
Non-tax revenues	1.0	1.2	0.9	1.0	1.1	1.2
Capital revenue excluding privatization	--	--	--	0.1	--	--
<b>Expenditure (excluding interest payments) 3/</b>	<b>12.5</b>	<b>15.3</b>	<b>15.8</b>	<b>15.4</b>	<b>16.5</b>	<b>15.9</b>
Wages	2.2	2.7	2.5	2.6	2.8	2.5
Goods and services	0.7	1.0	0.9	1.1	0.8	0.8
Pensions	4.0	5.0	5.6	5.1	5.4	5.1
National administration	0.3	0.4	0.5	0.1	0.1	0.1
Social security administration 2/	3.7	4.6	5.0	5.0	5.3	5.0
Transfer to provinces	3.7	5.1	5.6	4.9	4.5	4.4
Other noncapital expenditure	0.6	0.4	0.4	0.7	1.7	1.8
Capital expenditure	1.5	1.1	0.8	1.0	1.4	1.2
<b>Operating surplus of public enterprises</b>	<b>0.9</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>-0.1</b>	<b>--</b>
Revenue	6.7	5.2	4.0	1.9	0.5	0.4
Expenditure	5.8	5.0	3.8	1.7	0.6	0.4
<b>Primary balance (excluding privatization)</b>	<b>1.2</b>	<b>0.6</b>	<b>1.4</b>	<b>2.0</b>	<b>0.8</b>	<b>0.7</b>
Interest payments 4/	3.3	2.6	1.5	1.1	1.2	1.4
<b>Overall balance (excl. privatization)</b>	<b>-2.1</b>	<b>-2.1</b>	<b>-0.1</b>	<b>0.8</b>	<b>-0.5</b>	<b>-0.7</b>
Central Bank quasi-fiscal balance	-0.7	-0.4	-0.1	0.1	--	--
<b>Overall balance plus quasi-fiscal balance 3/</b>	<b>-2.7</b>	<b>-2.5</b>	<b>-0.2</b>	<b>0.9</b>	<b>-0.5</b>	<b>-0.6</b>
<b>Memorandum items</b>						
Clearing of expenditure arrears 2/	--	--	2.3	4.3	1.8	0.9
Privatization receipts in cash	0.4	1.2	0.8	1.5	0.3	0.1
Military expenditure	2.0	1.8	1.8	1.6	1.7	1.5

Sources: Statistical Appendix Table 25; Ministry of Economy; and Fund staff estimates.

1/ Adjusted for differences between the face value and market value of bonds received as payment of tax liabilities.

2/ Prior to 1994 includes, under social security contributions, only the balance of various social security operations, e.g. the Medical Fund for Pensioners (PAMI). Since 1994, revenue and expenditure of these operations are included separately.

3/ Excludes clearing of expenditure arrears to pensioners, suppliers, and provinces, financed by bonds (BOCONs and BCRBs), and compensation payments to enterprises for the elimination of loss carry-forward provisions on losses accumulated before March 31, 1991, financed by bonds ("quebrantos").

4/ Accrual basis.

5/ To pensioners, suppliers, and provinces financed by bond issues (consolidation bonds (BOCONs) and hydrocarbon bonds (BCRBs)). Excludes cash settlements, and settlements via stock distributions.



Table 25. Argentina: Federal Government Operations, 1990-95 1/

(In percent of GDP)

	1990	1991	1992	1993	Prel. 1994	Prel. January- June 1995
<b>I. National Administration 2/</b>						
<b>Total revenues</b>	<b>9.1</b>	<b>10.4</b>	<b>11.2</b>	<b>10.9</b>	<b>10.7</b>	<b>10.6</b>
Tax revenue 3/	8.0	9.7	10.6	10.0	9.9	9.6
Montax and capital revenue (excluding privatization receipts)	1.1	0.7	0.6	0.9	0.8	1.0
<b>Expenditures excluding interest payments 4/5/</b>	<b>6.6</b>	<b>8.7</b>	<b>9.3</b>	<b>8.4</b>	<b>8.5</b>	<b>8.2</b>
Wages	1.5	2.1	2.3	2.1	2.2	1.9
Goods and services	0.5	0.7	0.8	0.9	0.6	0.6
Transfers 5/	4.4	5.8	6.1	4.9	4.7	4.7
Provinces and Buenos Aires Municipality	3.6	5.0	5.5	4.8	4.4	4.3
Pensions	0.4	0.6	0.5	0.1	0.1	0.1
Other transfers	0.4	0.2	0.1	--	0.2	0.3
Other (including extrabudgetary)	0.1	--	--	--	--	0.1
Capital Expenditure	0.1	0.1	0.1	0.4	1.0	0.9
<b>Primary balance before transfers (excluding privatization receipts) 5/</b>	<b>2.5</b>	<b>1.7</b>	<b>2.0</b>	<b>2.5</b>	<b>2.2</b>	<b>2.4</b>
Net transfers from rest of public sector	-0.5	-0.5	-0.9	-1.6	-1.6	-1.4
<b>Primary balance (excluding privatization receipts) 6/</b>	<b>2.0</b>	<b>1.2</b>	<b>1.1</b>	<b>0.9</b>	<b>0.6</b>	<b>1.0</b>
<b>II. Decentralized Agencies</b>						
<b>Revenue</b>	<b>0.8</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>
Tax revenue	0.4	0.2	0.2	0.3	0.4	0.4
Montax and capital revenue (excluding privatization receipts)	0.4	0.3	0.3	0.2	0.2	0.2
<b>Expenditure 5/</b>	<b>0.8</b>	<b>1.0</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>
Wages	0.2	0.2	0.2	0.4	0.4	0.4
Other goods and services	0.2	0.2	0.1	0.1	0.1	0.2
Capital expenditure	0.3	0.3	0.2	0.2	0.2	0.3
Transfers 5/	0.2	0.2	0.2	0.1	0.1	0.1
Provinces	--	--	--	--	--	--
<b>Primary balance before transfers (excluding privatization) 5/</b>	<b>--</b>	<b>-0.4</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-0.3</b>	<b>-0.4</b>
Net transfer from rest of public sector	-0.5	-0.4	0.3	0.7	0.6	0.6
<b>Primary balance (excluding privatization) 6/</b>	<b>-0.5</b>	<b>-0.7</b>	<b>--</b>	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>
<b>III. Social Security</b>						
<b>Total revenue</b>	<b>3.5</b>	<b>4.6</b>	<b>5.3</b>	<b>5.7</b>	<b>6.0</b>	<b>5.5</b>
Tax revenue	--	0.3	0.9	1.0	1.1	1.2
Social security contributions	3.5	4.3	4.3	4.6	4.8	4.3
Montax and capital revenue (excluding privatization)	--	0.1	--	--	0.1	--
<b>Total expenditure 5/</b>	<b>3.7</b>	<b>4.6</b>	<b>5.2</b>	<b>5.9</b>	<b>7.0</b>	<b>6.7</b>
Pensions	3.6	4.5	5.0	5.0	5.3	5.0
Transfers to provinces	0.1	0.1	--	0.1	0.1	0.1
Other 5/	--	--	0.1	0.7	1.5	1.6
<b>Primary balance before transfers (excluding privatization) 5/</b>	<b>-0.2</b>	<b>--</b>	<b>--</b>	<b>-0.2</b>	<b>-1.0</b>	<b>-1.2</b>
Net transfers from rest of public sector	--	--	0.2	0.7	0.8	0.7
<b>Primary balance (excluding privatization) 6/</b>	<b>-0.2</b>	<b>--</b>	<b>0.2</b>	<b>0.5</b>	<b>-0.2</b>	<b>-0.6</b>

Table 25. Argentina: Federal Government Operations, 1990-95 1/ (concluded)

(In percent of GDP)

	1990	1991	1992	1993	Prel. 1994	Prel. January- June 1995
IV. <u>National Public Enterprises</u>						
<u>Current revenue</u>	<u>6.7</u>	<u>5.2</u>	<u>4.0</u>	<u>1.9</u>	<u>0.6</u>	<u>0.4</u>
<u>Current expenditure</u> 5/	<u>5.8</u>	<u>5.0</u>	<u>3.8</u>	<u>1.7</u>	<u>0.6</u>	<u>0.4</u>
Wages	1.8	1.4	1.4	0.7	0.3	0.2
Other	4.0	3.6	2.4	1.0	0.2	0.2
<u>Operating surplus</u>	<u>0.9</u>	<u>0.3</u>	<u>0.2</u>	<u>0.3</u>	--	--
Capital revenue	--	--	--	--	--	--
Capital expenditure	1.0	0.8	0.5	0.4	0.1	0.1
<u>Primary balance before transfers</u> <u>(excluding privatization)</u> 2/	<u>-0.1</u>	<u>-0.6</u>	<u>-0.3</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.1</u>
Net transfers from rest of public sector	--	0.8	0.4	0.2	0.2	0.2
<u>Primary balance (excluding privatization)</u> 6/	<u>-0.1</u>	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>	--	--
V. <u>Overall</u>						
<u>Primary balance (excluding privatization)</u>	<u>1.2</u>	<u>0.6</u>	<u>1.4</u>	<u>2.0</u>	<u>0.8</u>	<u>0.7</u>
Interest payments 7/	3.3	2.6	1.5	1.1	1.2	1.4
<u>Overall balance</u>	<u>-2.1</u>	<u>-2.1</u>	<u>-0.1</u>	<u>0.8</u>	<u>-0.5</u>	<u>-0.7</u>
Central bank quasi-fiscal balance	-0.7	-0.4	-0.1	0.1	--	--
<u>Overall balance plus quasi-fiscal balance</u>	<u>-2.7</u>	<u>-2.5</u>	<u>-0.2</u>	<u>0.9</u>	<u>-0.5</u>	<u>-0.6</u>
<u>Memorandum items</u>						
Clearing of expenditure arrears 8/	--	--	2.3	4.3	1.8	0.9
Privatization receipts in cash	0.4	1.2	0.8	1.5	0.3	0.1
Military expenditure	2.0	1.8	1.8	1.6	1.7	1.5

Sources: Ministry of Economy; and Fund staff estimates.

1/ Also, prior to 1994, only the balance of various social security operations, e.g., the operations of the Medical Fund for Pensioners (PAMI), is included on the revenue side. Since 1994, revenue and expenditure of these operations are included separately.

2/ Includes the operations of the special accounts.

3/ Adjusted for differences between face value and market value of bonds received as a payment of tax liabilities.

4/ Excludes clearing of expenditure arrears to pensioners, suppliers, and provinces, and compensation payments to enterprises, financed by bonds ("quebrantos"), for the elimination of loss-carry forward provisions on losses accumulated before March 31, 1991.

5/ Not consolidated for transfers within the nonfinancial public sector.

6/ Consolidated for transfers within the nonfinancial public sector.

7/ Interest payments on an accrual basis.

8/ To pensioners, suppliers, and provinces financed by bond issues (consolidation bonds (BOCONs) and hydrocarbon bonds (BCRHs)). Excludes cash settlements, and settlements via stock distribution. These arrears clearing operations are excluded from expenditures.

Table 26. Argentina: Provincial Finances, 1990-94  
(Consolidated accounts of 23 provinces and the  
Municipality of Buenos Aires) 1/

	1990	1991	1992	1993	Est. 1994
(In percent of GDP)					
<u>Total revenues</u>	<u>7.1</u>	<u>8.2</u>	<u>9.7</u>	<u>9.8</u>	<u>9.4</u>
Current revenues	7.1	8.2	9.7	9.5	9.3
From own sources	2.7	3.0	3.8	4.0	3.9
Federal transfers	4.4	5.2	5.9	5.6	5.4
Coparticipation revenues	2.9	3.8	4.4	4.0	3.8
Other transfers 2/	1.5	1.4	1.4	1.6	1.7
National Housing Fund (FONAVI)	0.5	0.4	0.3	0.3	0.3
Tax advances	0.2	0.1	--	--	--
Other	0.8	0.9	1.1	1.3	1.3
Other current revenues	--	--	--	--	--
Capital revenues	--	--	0.1	0.2	0.1
<u>Total expenditures</u>	<u>8.5</u>	<u>9.0</u>	<u>9.9</u>	<u>10.6</u>	<u>10.1</u>
Current expenditures	7.2	7.8	8.8	9.3	8.7
Wages	4.4	4.7	5.3	5.5	5.3
Goods and services	0.9	1.0	1.0	1.1	1.0
Other	1.9	2.2	2.5	2.7	2.3
Capital Expenditures	1.3	1.2	1.1	1.3	1.5
<u>Overall balance</u>	<u>-1.4</u>	<u>-0.7</u>	<u>-0.2</u>	<u>-0.8</u>	<u>-0.8</u>
(In percent of total revenues or total expenditures)					
<u>Total revenues</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Current revenues	99.7	99.4	99.4	97.5	99.2
From own sources	37.9	36.3	38.9	40.5	41.5
Federal transfers	61.8	63.1	60.5	57.0	57.7
Other current revenues	0.1	0.1	--	--	--
Capital revenues	0.3	0.6	0.6	2.5	0.8
<u>Total expenditures</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Current expenditures	84.6	86.5	89.2	87.4	85.4
Wages	51.7	51.9	53.5	52.0	52.5
Goods and services	10.2	10.6	10.4	10.3	9.8
Other	22.7	24.0	25.4	25.1	23.1
Capital expenditures	15.4	13.5	10.8	12.6	14.6
<u>Memorandum item</u>					
Overall balance excluding federal transfers (in percent of GDP)	-5.8	-5.9	-6.0	-6.4	-6.2

Sources: Ministry of Economy; and Fund staff estimates.

1/ On a cash basis; data for 1994 are estimates.

2/ Includes earmarked and discretionary transfers. Also includes federal royalty payments to provinces, which are excluded from the presentation by the national authorities.

Table 27. Argentina: Registered Outstanding Debt of the National Public Sector at Year-End

(In billions of U.S. dollars)

	1991	1992	1993	1994	Prel. end-June 1995
Foreign commercial banks	30.1	28.9	25.9	25.0	25.1
International organizations 1/	7.7	7.6	10.9	11.8	14.8
Paris Club creditors	8.8	8.9	8.9	8.0	8.7
BONEX	4.6	4.0	3.6	2.7	2.8
New money bonds	0.1	0.1	0.1	0.6	0.5
Euronotes and other titles	0.5	0.8	2.5	5.5	6.8
BOCON	--	5.3	8.4	13.5	13.0
To pensioners	--	3.7	6.1	9.1	9.2
To suppliers	--	1.6	2.3	4.4	3.8
Hydrocarbon bonds	--	0.4	0.4	0.2	0.1
Other	6.9	6.4	6.2	8.1	8.7
<b>Total</b>	<b><u>58.7</u></b>	<b><u>62.4</u></b>	<b><u>66.9</u></b>	<b><u>75.4</u></b>	<b><u>80.5</u></b>
Local currency	1.5	4.0	5.0	6.3	5.1
Foreign currency	57.2	58.4	61.9	69.1	75.4
External debt	57.2	55.1	56.6	61.2	67.0
Domestic debt 2/	--	3.3	5.3	7.9	8.4

Sources: Ministry of Economy; and Fund staff estimates.

1/ IMF, World Bank, and IDB.

2/ Consolidation and hydrocarbon bonds which are considered to be held mostly by domestic residents.

Table 28. Argentina: Interest Rates

(Annual in percent)

	Deposit Rates 1/		Lending Rates 2/	
	in pesos	in U.S. dollars	in pesos	in U.S. dollars
<b>1992</b>				
January	17.76	...	...	...
February	15.94	...	...	...
March	15.57	...	...	...
April	15.69	...	...	...
May	15.82	...	...	...
June	14.60	...	...	...
July	14.96	...	...	...
August	15.33	...	...	...
September	15.57	...	...	...
October	16.43	...	...	...
November	18.37	...	...	...
December	25.31	...	...	...
<b>1993</b>				
January	20.07	...	...	...
February	15.94	...	...	...
March	13.02	...	...	...
April	11.61	6.62	10.80	8.20
May	10.51	6.49	10.24	7.71
June	9.91	6.30	10.53	7.80
July	11.01	6.36	11.94	8.43
August	10.01	6.20	9.93	7.49
September	8.84	5.96	9.85	7.45
October	8.36	5.86	9.71	7.50
November	8.14	5.79	9.16	7.33
December	8.67	5.77	10.40	8.09
<b>1994</b>				
January	8.07	5.65	9.12	7.48
February	6.44	5.45	8.21	7.05
March	7.03	5.45	8.57	7.62
April	7.69	5.51	10.18	8.31
May	7.83	5.57	10.32	8.25
June	8.08	5.66	10.32	8.36
July	8.44	5.81	10.60	8.41
August	8.55	5.76	10.28	8.26
September	8.33	5.67	9.71	8.06
October	8.27	5.71	9.83	8.15
November	8.72	5.82	10.00	8.33
December	9.55	6.14	13.56	9.80
<b>1995</b>				
January	10.65	6.54	17.71	11.34
February	11.64	6.88	19.06	12.11
March	19.38	9.91	33.67	22.66
April	19.07	11.09	26.04	19.88
May	15.54	10.84	22.13	17.81
June	10.83	8.45	16.19	13.61

Source: Central Bank of Argentina.

1/ Weighted average rate of time deposits in a sample of banks in Greater Buenos Aires. Through mid-August 1993, the rates for time deposits correspond to those for 30-89 days; thereafter, rates correspond to 30-59 day time deposits.

2/ Prime lending rates for 30 days.

Table 29. Argentina: Summary of Operations of the Financial System

(Percentage change during previous 12 months)

	December			Prel.	Prel.
	1991 1/	1992	1993	1994	April 1995
<b>I. Consolidated Financial System</b>					
<u>Net foreign assets 2/</u>	<u>56.1 3/</u>	<u>10.6 3/</u>	<u>8.5</u>	<u>-3.2</u>	<u>-17.2</u>
<u>Net domestic assets 2/</u>	<u>48.0 3/</u>	<u>51.1 3/</u>	<u>39.2</u>	<u>20.7</u>	<u>14.0</u>
Private sector	139.1	68.8	31.2	20.9	9.5
Public sector	10.7	-9.7	9.9	2.8	8.1
Other	-101.8	-8.0	-1.9	-3.0	-3.6
<u>Liabilities to private sector</u>	<u>104.1</u>	<u>61.7</u>	<u>47.7</u>	<u>17.5</u>	<u>-3.6</u>
Monetary liabilities	146.2	50.4	34.8	13.0	5.1
Other liabilities	85.2	68.5	54.6	19.7	-7.2
<b>II. Central Bank</b>					
<u>Net international reserves 4/</u>	<u>74.1 3/</u>	<u>35.2 3/</u>	<u>26.6</u>	<u>-0.5</u>	<u>-32.9</u>
<u>Net domestic assets 4/</u>	<u>42.2 3/</u>	<u>5.5 3/</u>	<u>11.4</u>	<u>7.6</u>	<u>25.8</u>
Credit to financial system	94.3	70.1	-8.0	-1.0	11.9
Public sector	63.1	0.3	19.9	11.1	21.3
Other	-115.2	-64.9	-0.5	-2.5	-7.4
<u>Liabilities to financial system and nonfinancial private sector</u>	<u>116.3</u>	<u>40.8</u>	<u>37.9</u>	<u>7.1</u>	<u>-7.1</u>
Nonfinancial private sector	131.3	47.2	30.9	11.7	5.0
Rest of financial system	91.3	27.8	54.0	-1.9	-24.0

Source: Statistical Appendix Table 30.

1/ Adjusted for changes in the exchange rate.

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

3/ Adjusted for changes in the 1992 Central Bank balance sheet.

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

Table 30. Argentina: Accounts of the Financial System

(In millions of pesos)

	December				Preliminary	
	1990 1/	1991	1992	1993	December 1994	April 1995
<b>I. Consolidated Financial System</b>						
<u>Net foreign assets</u>	-929	2,236	5,122	7,577	6,281	-2,659
Central Bank (NIR)	1,735	5,786	8,541	11,465	11,385	4,917
Rest of system	-2,664	-2,550	-3,419	-3,888	-5,167	-7,576
<u>Net domestic assets</u>	8,270	14,553	23,650	34,919	43,733	44,971
Credit to public sector (net) 2/	10,278	15,004	12,010	14,871	16,052	18,647
Local currency	5,467	5,189	282	-905	476	284
Lending	6,617	9,464	6,422	7,857	6,784	6,809
Deposits	1,150	4,275	6,140	8,762	6,308	6,525
Foreign currency	4,811	9,815	11,728	15,775	15,576	18,363
Central Bank	3,866	7,546	7,738	9,595	10,160	13,097
Lending	4,004	8,270	8,235	10,116	11,036	13,455
Deposits	138	724	497	521	876	358
Other	945	2,269	3,990	6,180	5,416	5,266
Lending	959	2,412	4,221	6,651	5,891	5,701
Deposits	14	143	231	471	475	435
Credit to private sector	7,157	22,046	34,281	43,243	52,130	50,620
Private capital and surplus	-6,042	-9,582	-10,809	-12,705	-13,628	-13,961
Official capital and surplus and unclassified assets (net)	-3,123	-12,915	-11,833	-10,490	-10,821	-10,335
<u>Liabilities to private sector</u>	7,341	17,787	28,767	42,495	49,945	42,309
Monetary liabilities	2,710	6,650	9,999	13,476	15,222	13,326
Quasi-money	2,693	4,335	7,468	11,206	12,313	9,646
Saving	1,490	2,013	2,963	4,382	4,825	4,216
Fixed term	1,203	2,342	4,505	6,824	7,488	5,430
Foreign exchange deposits	1,665	6,240	10,334	16,705	20,987	17,631
Other deposits	171	464	836	954	1,247	1,506
Accrued interest	102	78	130	154	176	200
<b>II. Central Bank 3/</b>						
<u>Net international reserves 4/</u>	1,735	5,786	8,541	11,465	11,385	4,917
<u>Net domestic assets</u>	1,882	2,037	2,470	3,725	4,882	9,383
Credit to public sector (net)	5,175	9,141	7,894	10,095	11,788	14,854
Local currency	1,301	1,595	156	499	1,628	1,757
Lending	1,326	2,609	1,037	1,316	1,694	1,879
Deposits	17	1,014	881	817	66	122
Foreign currency	3,866	7,546	7,738	9,595	10,160	13,097
Lending	4,004	8,270	8,235	10,116	11,036	13,455
Deposits	138	724	497	521	876	358
Credit to financial system	14,516	17,928	23,413	22,532	22,382	24,325
Official capital and surplus and unclassified assets (net)	-17,809	-25,032	-28,837	-28,902	-29,288	-29,796
<u>Liabilities to financial system</u>	1,361	2,604	3,329	5,128	5,033	4,888
Currency	781	1,677	1,966	2,112	2,083	1,658
Deposits	580	927	1,363	3,016	2,950	3,230
<u>Liabilities to private sector</u>	2,256	5,219	7,682	10,061	11,234	9,412

Table 30. Argentina: Accounts of the Financial System (Concluded)

(In millions of pesos)

	December				Preliminary	
	1990 <sup>1/</sup>	1991	1992	1993	December 1994	April 1995
<b>III. Commercial Banks</b>						
<u>Net foreign assets</u>	-2,668	-2,511	-3,315	-3,894	-5,154	-7,565
<u>Reserves</u>	750	2,899	3,481	5,488	4,948	4,322
<u>Net domestic assets</u>	17,033	30,236	43,500	52,764	60,330	59,432
Credit to public sector (net) <sup>2/</sup>	5,070	5,822	4,085	4,750	4,227	3,755
Local currency	4,136	3,572	109	-1,409	-1,158	-1,484
Lending	5,269	6,833	5,368	6,536	5,084	4,919
Deposits	1,133	3,261	5,259	7,945	6,242	6,403
Foreign currency	934	2,250	3,976	6,159	5,385	5,239
Lending	948	2,393	4,207	6,630	5,860	5,674
Deposits	14	143	231	471	475	435
Credit to private sector	7,107	21,826	33,840	42,599	51,282	49,901
Local currency	3,514	12,706	18,482	21,486	23,644	22,223
Foreign currency	3,593	9,120	15,358	21,113	27,638	27,678
Capital and surplus	-5,966	-9,449	-10,442	-12,503	-13,392	-13,738
Unclassified assets (net)	10,822	12,037	16,217	17,918	18,213	19,520
<u>Liabilities to Central Bank</u>	10,082	18,175	22,850	22,336	21,909	23,596
<u>Liabilities to private sector</u>	5,033	12,447	20,812	32,021	38,211	32,593
Local currency	3,098	5,733	9,645	14,455	16,117	13,484
Demand deposits	445	1,431	2,317	3,415	3,988	3,914
Time deposits	1,172	2,299	4,376	6,681	7,329	5,369
Savings deposits	1,481	2,003	2,952	4,359	4,800	4,201
Foreign currency	1,665	6,179	10,217	16,468	20,681	17,420
Demand deposits	329	511	491	251	308	296
Time deposits	1,336	4,524	7,874	12,843	16,339	13,676
Savings deposits	--	1,144	1,852	3,374	4,034	3,448
Other deposits	170	459	825	949	1,243	1,493
Accrued interest	100	74	125	149	170	196
<b>IV. Other Financial Institutions</b>						
<u>Net foreign assets</u>	4	-32	-104	4	-13	-11
<u>Reserves <sup>3/</sup></u>	2	12	22	24	22	20
<u>Net domestic assets</u>	27	149	360	387	493	318
Credit to public sector (net) <sup>2/</sup>	33	41	31	24	37	38
Local currency	22	22	17	5	6	11
Lending	22	22	17	5	6	11
Deposits	--	--	--	--	--	--
Foreign currency	11	19	14	21	31	27
Lending	11	19	14	21	31	27
Deposits	--	--	--	--	--	--
Credit to private sector	50	220	441	644	848	719
Local currency	50	102	281	280	324	217
Foreign currency	--	118	240	364	524	502
Capital and surplus	-74	-133	-167	-202	-236	-223
Unclassified assets (net)	28	21	55	-81	-156	-216
<u>Liabilities to Central Bank</u>	4	4	2	2	2	26
<u>Liabilities to private sector</u>	44	121	273	412	501	303
Time deposits	31	43	129	143	159	61
Savings deposits	10	10	11	23	25	15
Foreign currency deposits	--	61	117	237	306	211
Other deposits	1	5	11	5	4	13
Accrued interest	2	3	5	5	6	4

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

<sup>1/</sup> Conversion at the end-of-period exchange rate.<sup>2/</sup> All public sector entities, including provincial governments.<sup>3/</sup> In September 1992, the Central Bank published a new balance sheet.<sup>4/</sup> The BCRA net international reserves comprise gold, foreign currency holdings, Aladi (net) and IMF liabilities.<sup>5/</sup> Includes deposits held in the Central Bank and with commercial banks.



Table 31. Argentina: Legal Reserve Requirements on Domestic and Foreign Currency Deposits

(In percent)

	Domestic Currency Deposits							Foreign Currency Deposits			
	Demand Deposits	Savings Deposits		Time Deposits				Demand Deposits	Savings Deposits	Time Deposits Up to 1 Year	Average Reserve Requirements
		Regular	Special	7-29 Days	30-89 Days	90-119 Days	120 Days and More				
<u>1993</u>											
January	71.0	24.0	3.0	23.0	3.0	2.0	2.0	40/71 3/	30.0	5.0	22.9
February	40.0 4/	40.0	... 2/	... 2/	--	--	--	40.0	40.0	--	17.5
March	40.0	40.0	...	...	--	--	--	40.0	40.0	--	15.7
April	40.0	40.0	...	...	--	--	--	40.0	40.0	--	16.0
May	40.0	40.0	...	...	--	--	--	40.0	40.0	--	15.7
June	40.0	40.0	...	...	--	--	--	40.0	40.0	--	15.9
July	40.0	40.0	...	...	--	--	--	40.0	40.0	--	15.9
August	40/43 5/	40/43 5/	...	...	--/3 6/	--	--	40/43 5/	40/43 5/	--/3 6/	16.8
September	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	18.0
October	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	18.0
November	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	17.8
December	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	18.2
<u>1994</u>											
January	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	17.9
February	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	17.9
March	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	18.1
April	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	18.4
May	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	18.4
June	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	18.3
July	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	18.1
August	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	17.6
September	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	17.4
October	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	17.0
November	43.0	43.0	...	...	3.0	--	--	43.0	43.0	3.0	17.0
December	43.0	43.0	...	...	3.0	--	--	43/35 7/	43/35 7/	3/1 7/	16.8
<u>1995</u>											
January	35/30 8/	35/30 8/	...	...	1.0	--	--	35/30 8/	35/30 8/	1.0	13.1 9/
February	32.0	32.0	...	...	1.0	--	--	32.0	32.0	1.0	12.6 9/
March	33.0	33.0	...	...	2.0	--	--	33.0	33.0	2.0	13.7 9/
April	33.0	33.0	...	...	2.0	--	--	33.0	33.0	2.0	14.4 9/
May	33.0	33.0	...	...	2.0	--	--	33.0	33.0	2.0	14.4 9/
June	33.0	33.0	...	...	2.0	--	--	33.0	33.0	2.0	13.8 9/
July	33.0	33.0	...	...	2.0	--	--	33.0	33.0	2.0	13.9 9/
August	30.0	30.0	...	...	-- 10/	-- 10/	-- 10/	30.0	30.0	-- 10/	14.8 9/

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

1/ Beginning on August 15, 1993 30-59 day time deposits.

2/ Beginning on August 15, 1993, 60-119 day time deposits.

3/ 40 percent for sight deposits, 71 percent for checking account.

4/ Beginning in February 1993, excludes cash in vault for compliance with reserve requirement.

5/ Beginning in February 1993, these deposits were no longer offered.

6/ Beginning on August 15, 1993.

7/ Beginning on December 16, 1994.

8/ Beginning on January 15, 1995.

9/ Estimated.

10/ Introduction of liquidity requirements of 6 percent for 30-59 day time deposits and 2 percent for 60-179 day time deposits.

Table 32. Argentina: Financial Assets 1/

(In millions of pesos)

	Monetary Base	M-1	M-3	Foreign Currency Deposits 3/	M-4
<u>1991</u>					
I	3,885.2	3,298.2	6,535.6	3,146	9,194.8
II	5,246.3	4,843.5	8,634.1	4,183	12,761.2
III	6,129.7	5,936.4	10,028.0	5,256	15,248.0
IV	7,097.1	7,038.6	11,766.3	6,342	18,054.2
<u>1992</u>					
I	8,369.6	8,466.0	13,988.1	7,438	21,362.6
II	9,186.3	9,263.2	16,070.4	8,345	24,341.5
III	10,292.5	10,427.3	18,586.2	9,234	27,737.8
IV	10,602.9	11,009.4	19,935.2	10,844	30,695.2
<u>1993</u>					
I	11,871.1	12,328.6	22,651.8	11,741	34,389.1
II	11,937.3	12,677.3	24,270.9	13,447	37,710.3
III	13,872.6	14,048.9	26,628.6	15,954	42,575.0
IV	14,343.7	14,551.2	28,087.0	17,846	45,932.6
<u>1994 (Prel.)</u>					
I	16,075.9	16,038.1	30,638.7	19,205	49,843.6
II	15,288.6	16,115.5	30,474.2	20,457	50,931.0
III	15,953.0	16,569.8	31,583.9	21,609	53,193.6
IV	15,816.2	16,673.9	32,034.6	22,602	54,636.5
<u>1995 (Prel.)</u>					
I	14,867.0 2/	16,543.6	29,242.0	22,719	51,960.6
II	14,023.0 2/	16,510.9	27,832.8	19,998	47,830.6

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

1/ Average stock in the quarter. M-1 includes currency in circulation and local currency demand deposits; M-3 comprises M-1 plus time and savings deposits in pesos; and M-4 in addition includes all foreign currency deposits.

2/ Beginning on January 12, 1995, the Central Bank unified the accounts for legal reserve holdings in pesos and in U.S. dollars. The data include currency in circulation and the financial institutions' legal reserves holdings denominated in U.S. dollars in the Central Bank.

3/ In millions of U.S. dollars.

Table 33. Argentina: Balance of Payments

(in billions of U.S. dollars)

	1991	1992	1993	1994				Year	1995 Prel.	
				Q1	Q2	Q3	Q4		Q1	Q2
<b>Current account 1/</b>	<b>-0.3</b>	<b>-6.3</b>	<b>-7.3</b>	<b>-3.3</b>	<b>-2.1</b>	<b>-1.9</b>	<b>-2.6</b>	<b>-10.0</b>	<b>-2.1</b>	<b>0.6</b>
Trade balance	3.7	-2.6	-3.7	-1.9	-1.1	-1.4	-1.5	-5.8	-0.7	1.7
Exports (f.o.b.)	12.0	12.2	13.1	3.1	4.3	4.3	4.2	15.8	4.5	6.3
Imports (c.i.f.)	-8.3	-14.9	-16.8	-4.9	-5.3	-5.6	-5.7	-21.6	-5.1	-4.6
Nonfactor services	-0.8	-0.9	-1.2	-0.8	0.1	--	-0.1	-0.8	-0.5	0.1
Factor services 2/	-3.9	-3.5	-2.9	-0.7	-1.2	-0.6	-1.1	-3.7	-1.0	-1.4
Transfers (net)	0.8	0.7	0.4	--	0.1	--	0.1	0.3	0.1	0.1
<b>Capital account</b>	<b>3.0</b>	<b>2.2</b>	<b>10.2</b>	<b>2.3</b>	<b>2.3</b>	<b>1.5</b>	<b>4.0</b>	<b>10.0</b>	<b>-3.7</b>	<b>0.2</b>
Public	3.2	-4.4	-0.2	0.1	-0.3	0.2	1.4	1.3	0.2	1.2
Official loans and bonds	0.6	-5.5	1.7	0.4	-0.1	0.6	1.8	2.8	0.5	2.2
Multilaterals	0.3	-0.2	2.0	-0.1	--	--	0.1	-0.1	0.3	0.6
Exceptional financing 3/	2.4	1.2	-3.9	-0.3	-0.1	-0.5	-0.5	-1.4	-0.5	-1.2
Trust funds	--	--	--	--	--	--	--	--	--	-0.4
Private	-0.3	13.6	10.5	2.2	2.6	1.3	2.6	8.7	-3.9	-1.0
Direct Investment	2.4	4.2	6.3	0.3	0.9	0.3	0.4	1.9	0.4	0.4
Other	-2.6	9.4	4.2	1.9	1.7	1.0	2.2	6.8	-4.2	-1.4
<b>Overall balance</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>	<b>-1.0</b>	<b>0.2</b>	<b>-0.5</b>	<b>1.3</b>	<b>0.1</b>	<b>-5.8</b>	<b>0.8</b>
<b>Financing</b>	<b>-2.8</b>	<b>-2.9</b>	<b>-2.9</b>	<b>1.0</b>	<b>-0.2</b>	<b>0.5</b>	<b>-1.3</b>	<b>-0.1</b>	<b>5.8</b>	<b>-0.8</b>
Gross reserves	-2.2	-2.8	-4.1	0.6	--	0.1	-1.2	-0.6	5.8	-2.4
Reserve liabilities	-0.5	-0.1	1.2	0.4	-0.1	0.4	-0.2	0.5	--	1.6
IMF	-0.6	-0.1	1.2	0.4	-0.1	0.3	-0.2	0.5	-0.1	1.5
Purchases	0.4	0.8	1.6	0.5	--	0.4	--	0.9	--	1.6
Repurchases	-1.0	-0.9	-0.4	-0.1	-0.1	-0.1	-0.2	-0.4	-0.1	-0.1
Other liabilities	--	--	--	--	--	--	--	--	0.1	0.1

Sources: Ministry of Economy; and Fund staff estimates.

1/ In an alternative balance-of payments presentation, the authorities use a different residency criterion which results in a lower deficit in factor services and in the current account.

2/ Includes an estimate for interest earnings on assets of Argentines abroad.

3/ This figure has been adjusted downward to exclude net placement of compulsory bonds during 1990-93, and includes refinancing related to the Brady operation and Paris Club agreements and net changes in arrears.

Table 34. Argentina: Detailed Balance of Payments

(In millions of U.S. dollars)

	1990			1991			1992			1993			1994		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
<u>Current account</u> 1/	18,117	13,308	4,809	17,624	17,883	-259	17,579	23,920	-6,341	18,461	25,761	-7,300	21,640	31,599	-9,959
Merchandise trade 2/	12,354	4,079	8,275	11,978	8,275	3,703	12,235	14,872	-2,637	13,117	16,783	-3,666	15,821	21,612	-5,791
Nonfactor services	2,674	2,965	-291	2,762	3,577	-815	3,032	3,945	-913	3,115	4,273	-1,158	3,340	4,171	-831
Freight and insurance	557	--	557	586	--	586	695	--	695	686	--	686	694	--	694
Other transportation	828	775	53	957	901	56	1,064	1,055	9	965	1,094	-129	1,114	991	123
Travel	903	1,171	-268	782	1,739	-957	782	2,211	-1,429	837	2,445	-1,608	936	2,574	-1,638
Other government	182	244	-62	234	238	-4	280	252	28	281	154	127	292	179	113
Royalties	4	409	-405	4	420	-416	1	192	-191	7	187	-180	13	192	-179
Other services	200	366	-166	199	279	-80	210	235	-25	339	393	-54	291	235	56
Investment income	2,074	6,247	-4,173	2,063	6,003	-3,940	1,514	5,054	-3,540	1,632	4,554	-2,922	1,941	5,595	-3,654
Profits and Dividends	2	637	-635	2	807	-805	--	845	-845	29	946	-917	2	1,202	-1,200
Interest	2,072	5,610	-3,538	2,061	5,196	-3,135	1,514	4,209	-2,695	1,603	3,608	-2,005	1,939	4,393	-2,454
Unregistered transfers	1,015	17	998	821	28	793	798	49	749	597	151	446	538	221	317
<u>Capital Account</u>	...	...	-4,092	...	...	663	...	...	8,026	...	...	14,095	...	...	11,426
Long-term capital	2,874	1,630	1,244	4,815	813	4,002	7,885	2,862	5,023	17,356	2,418	14,938	9,593	3,149	6,444
Direct investment	1,836	...	1,836	2,439	...	2,439	4,179	...	4,179	6,305	...	6,305	1,882	...	1,882
Of which: privatization	1,531	...	1,531	1,974	...	1,974	3,661	...	3,661	5,700	...	5,700	605	...	605
Financial loans 3/	1,038	1,630	-592	2,376	813	1,563	3,706	2,862	844	11,051	2,418	8,633	7,711	3,149	4,562
Government 4/	355	1,152	-797	1,106	301	805	574	1,429	-855	4,975	662	4,313	3,729	351	3,378
State enterprises	600	348	252	401	390	11	79	563	-484	367	602	-235	210	779	-569
Private sector	83	130	-47	869	122	747	3,053	870	2,183	5,709	1,154	4,555	3,772	2,019	1,753
Short-term capital	...	...	-5,336	...	...	-3,339	...	...	3,003	...	...	-843	...	...	4,982
Trade Finance 3/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Other public sector	...	...	-230	...	...	-30	...	...	-4,253	...	...	-492	...	...	-72
Other private sector 5/	...	...	-5,106	...	...	-3,309	...	...	7,256	...	...	-351	...	...	5,054
<u>Allocation and FSDRs</u>	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
<u>Valuation adjustment</u> 7/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Exceptional financing 8/	...	...	8,586	...	...	2,347	...	...	1,207	...	...	-3,928	...	...	-1,369
Of which: net change	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
in arrears	...	...	2,050	...	...	1,644	...	...	872	...	...	-9,279	...	...	--
Changes in NIR (increase -)	...	...	-4,303	...	...	-2,771	...	...	-2,892	...	...	-2,867	...	...	-98

Source: Ministry of Economy; and Fund staff estimates.

1/ In an alternative balance-of-payments presentation, the authorities use a different residency criterion which results in a lower deficit in factor services and in the current account.

2/ Exports f.o.b.; imports c.i.f.

3/ Includes Argentina government bonds denominated in foreign currency.

4/ Includes Central Government and provincial and municipal governments.

5/ Includes long-term trade finance.

6/ Includes errors and omissions.

7/ Changes in net international reserves due to exchange rate movements and other adjustments.

8/ This figure was adjusted downward by US\$38 million in 1990, US\$7.6 billion in 1991, US\$6.0 billion in 1992 and US\$3.8 billion in 1993, to exclude net placement of compulsory bonds.

Table 35. Argentina: Exchange Rates

(Annual averages)

	Official Exchange Rate (A per US\$) 1/2/	Parallel Exchange Rate 1/3/	Parallel Exchange Rate Spread (In percent)	Real Effective Exchange Rate (Index 1980=100) 4/
1984	0.06774	0.08831	30.3	49.72
1985	0.60156	0.69423	15.4	44.17
1986	0.94150	1.05410	12.0	44.09
1987	2.14600	2.73300	27.3	40.85
1988	8.72100	10.98900	26.0	37.37
1989	397.15750	475.81250	19.8	32.74
1990	4,876.45480	...	...	48.68
1991	9,541.32270	...	...	66.42
1992	0.99065	...	...	75.56
1993	0.99946	...	...	82.97
1994				81.91
<u>1991</u>				
January	6,492	...	...	66.24
February	9,387	...	...	56.06
March	9,479	...	...	63.70
April	9,793	...	...	63.72
May	9,867	...	...	65.14
June	9,940	...	...	67.64
July	9,939	...	...	69.00
August	9,940	...	...	68.86
September	9,916	...	...	69.15
October	9,915	...	...	70.04
November	9,911	...	...	68.94
December	9,918	...	...	68.59
<u>1992</u>				
January	0.9910	...	...	70.63
February	0.9913	...	...	72.78
March	0.9921	...	...	75.18
April	0.9911	...	...	75.96
May	0.9910	...	...	75.44
June	0.9913	...	...	74.72
July	0.9912	...	...	74.42
August	0.9911	...	...	74.51
September	0.9911	...	...	75.10
October	0.9910	...	...	77.57
November	0.9940	...	...	80.10
December	0.9917	...	...	80.33
<u>1993</u>				
January	0.9995	...	...	80.95
February	0.9998	...	...	81.96
March	0.9997	...	...	82.00
April	0.9993	...	...	81.02
May	0.9995	...	...	81.67
June	0.9993	...	...	83.00
July	0.9990	...	...	84.13
August	0.9995	...	...	83.77
September	1.0000	...	...	83.03
October	0.9997	...	...	84.08
November	0.9992	...	...	85.05
December	0.9990	...	...	84.94

Table 35. Argentina: Exchange Rates (Concluded)

(Annual averages)

	Official Exchange Rate (A per US\$) <sup>1/2/</sup>	Parallel Exchange Rate <sup>1/3/</sup>	Parallel Exchange Rate Spread (In percent)	Real Effective Exchange Rate (Index 1980=100) <sup>4/</sup>
<b>1994</b>				
January	0.9994	...	...	85.33
February	0.9994	...	...	84.61
March	0.9999	...	...	83.29
April	0.9992	...	...	83.59
May	0.9992	...	...	83.19
June	0.9990	...	...	82.35
July	0.9991	...	...	80.90
August	0.9997	...	...	80.44
September	0.9999	...	...	80.08
October	0.9996	...	...	79.18
November	0.9999	...	...	79.44
December	0.9992	...	...	80.48
<b>1995</b>				
January	0.9999	...	...	80.99
February	1.0000	...	...	80.17
March	1.0000	...	...	78.27
April	1.0000	...	...	77.03
May	1.0000	...	...	77.07

Sources: Ministry of Economy; IMF Information Notice System; and Fund staff estimates.

<sup>1/</sup> On January 1, 1992 the peso (Arg\$) replaced the Austral (A) at a ratio of 1:10,000.

<sup>2/</sup> Period averages of selling rates.

<sup>3/</sup> From June to November 1981, July to November 1982, and from October 1987 to May 1989, the exchange market was split into an official and a free market; for this period, the rate shown for the parallel exchange rate corresponds to the free market rate. On December 19, 1989, the foreign exchange market was unified under a floating rate system. A fixed rate system was implemented in late January 1991.

<sup>4/</sup> Based on nominal exchange rates, price indices seasonally adjusted and trade shares of most trading partners; increase denotes appreciation. From August 1988 to May 1989, based on trade-weighted average of exchange rates in the official and free markets.

Table 36. Argentina: Exports by Principal Product Category

(In millions of U.S. dollars)

	1990	1991	1992	1993	1994	Preliminary Jan.-May	
						1994	1995
<b>Primary products</b>	<b>3,339</b>	<b>3,301</b>	<b>3,499</b>	<b>3,272</b>	<b>3,799</b>	<b>1,681</b>	<b>2,372</b>
Live animals	8	8	9	13	50	13	48
Fish and seafood	300	200	312	435	456	204	233
Boney	31	43	52	50	53	27	47
Fresh fruits	204	262	282	215	276	119	213
Cereals	1,374	1,067	1,548	1,453	1,333	693	1,069
Oil seeds and beans	828	1,081	790	696	953	427	398
Tobaccos	95	137	143	116	87	19	42
Wool	94	55	41	49	86	44	63
Cotton fibers	164	203	76	26	175	27	116
Other	241	245	246	219	330	108	143
<b>Manufacture of agricultural origin</b>	<b>4,664</b>	<b>4,927</b>	<b>4,827</b>	<b>4,956</b>	<b>5,771</b>	<b>2,064</b>	<b>2,743</b>
Meat	873	892	767	748	909	322	457
Fish and seafood products	15	246	237	271	278	100	166
Milk and milk products	125	67	35	76	134	23	89
Other animal products	10	9	10	12	17	5	6
Dry Fruits	21	23	24	22	32	6	6
Tea, herbs, and spices	50	45	47	62	61	27	29
Oils	1,151	1,221	1,110	1,078	1,533	549	797
Sugar and candies	151	74	65	43	58	11	21
Beverages	66	58	64	64	79	26	44
Other food products	1,200	1,270	1,459	1,456	1,341	501	435
Extracts	38	42	40	44	43	17	15
Leather	488	514	475	618	762	291	390
Refined wool	110	87	92	96	113	49	55
Other	366	379	402	366	411	137	233
<b>Manufactures of industrial origin</b>	<b>3,364</b>	<b>2,983</b>	<b>2,824</b>	<b>3,465</b>	<b>4,632</b>	<b>1,589</b>	<b>2,610</b>
Chemical products	522	504	533	558	724	247	410
Plastics	171	146	148	130	179	64	139
Rubber products	79	48	40	35	81	25	52
Leather products	70	77	79	118	156	60	44
Paper products	153	113	127	150	201	71	137
Textiles and textile products	212	148	121	165	209	66	174
Shoes and shoe products	49	59	52	92	85	40	38
Ceramics	94	79	71	79	70	26	38
Jewelry and precious stones	2	4	4	52	250	53	17
Metals and their manufacture	1,163	912	643	697	787	289	401
Machinery and electrical products	486	561	518	753	855	316	377
Transportation equipment	223	266	405	718	903	293	524
Others	138	65	83	100	132	39	259
<b>Petroleum products</b>	<b>285</b>	<b>766</b>	<b>1,082</b>	<b>1,224</b>	<b>1,619</b>	<b>542</b>	<b>789</b>
<b>Total</b>	<b>12,354</b>	<b>11,978</b>	<b>12,235</b>	<b>13,117</b>	<b>15,821</b>	<b>5,876</b>	<b>8,515</b>

Sources: National Institute of Statistics; and Ministry of Economy.

Table 37. Argentina: Principal Agricultural Exports

(Value in millions of U.S. dollars; volume in thousands of tons; unit price in U.S. dollars per ton)

	1990	1991	1992	1993	1994
<u>Total agricultural products</u>	<u>8,003</u>	<u>8,090</u>	<u>8,298</u>	<u>8,203</u>	<u>9,570</u>
Cereals	1,374	1,064	1,393	1,454	1,333
Wheat	868	466	635	723	670
Volume	5,805	5,345	6,047	5,685	5,172
Unit price	150	87	105	127	130
Corn	326	401	545	516	492
Volume	2,995	3,882	6,055	4,864	4,154
Unit price	109	103	90	106	118
Sorghum	103	115	93	74	43
Volume	1,076	1,316	1,164	910	424
Unit price	96	87	80	81	100
Other cereals	77	83	120	141	128
Soy beans	686	917	568	545	690
Volume	3,204	4,430	3,105	2,418	2,190
Unit price	214	207	183	225	237
Soy oil	414	513	441	600	859
Volume	977	1,233	1,186	1,372	1,502
Unit price	424	416	372	437	572
Soy pellets	918	940	1,039	1,239	1,146
Volume	5,199	5,476	6,411	6,621	6,671
Unit price	177	172	162	187	172
Sunflower oil	543	529	384	356	571
Volume	1,224	1,222	981	765	971
Unit price	444	433	391	465	588
Sunflower pellets	141	132	107	124	120
Volume	1,456	1,597	1,254	1,182	1,286
Unit price	97	82	85	105	93
Beef	488	416	368	389	628
Volume	190	119	115	138	217
Unit price	2,568	3,495	3,213	2,827	2,896
Beef products	308	384	340	359	281
Volume	129	132	127	122	95
Unit price	2,388	2,915	2,680	2,945	2,970
Other meat	76	91	64	80	42
Fish and fish products	310	414	549	707	734
Volume	252	295	388	508	537
Unit price	1,230	1,404	1,415	1,392	1,367
Fresh fruit	204	262	282	215	276
Volume	636	602	619	460	549
Unit price	321	435	455	467	503
Wool	143	90	70	77	199
Volume	50	39	29	62	74
Unit price	2,860	2,323	2,412	1,242	2,763
Other agricultural exports (Value)	1,706	2,338	2,693	2,058	1,377

Sources: Ministry of Economy.



Table 38. Argentina: External Trade by Principal Countries and Regions

(In millions of U.S. dollars)

	1990	1991	1992	1993	1994	<u>January-May</u>	
						1994	1995
<u>Exports</u>							
<u>Total</u>	<u>12,354</u>	<u>11,978</u>	<u>12,235</u>	<u>13,117</u>	<u>15,821</u>	<u>2,876</u>	<u>8,515</u>
LALA	3,128	3,369	3,918	5,262	6,880	1,525	2,879
Of which: Brazil	1,423	1,489	1,671	2,814	3,596	...	...
United States	1,665	1,245	1,349	1,273	1,719	681	694
EEC	3,741	3,956	3,732	3,650	3,874	1,593	1,758
Former U.S.S.R.	499	224	103	108	43	...	...
Japan	395	454	375	467	444	199	211
Other	2,925	2,730	2,758	2,358	2,861	1,878	2,973
<u>Imports</u>							
<u>Total</u>	<u>4,079</u>	<u>8,275</u>	<u>14,872</u>	<u>16,783</u>	<u>21,612</u>	<u>8,405</u>	<u>8,237</u>
LALA	1,403	2,748	4,981	5,434	6,575	1,868	1,812
Of which: Brazil	718	1,532	3,339	3,568	4,268	...	...
United States	862	1,871	3,226	3,859	4,926	1,816	1,777
EEC	1,119	2,033	3,633	4,141	6,168	2,194	2,468
Former U.S.S.R.	12	15	30	45	68	...	...
Japan	133	393	697	668	627	406	299
Other	550	1,214	2,303	2,638	3,248	2,121	1,881

Sources: National Institute of Statistics; and Ministry of Economy.

Table 39. Argentina: External Trade: Value, Volume, and Price Indices

	1990	1991	1992	1993	1994
	<u>(1980 = 1.00)</u>				
Export value	1.55	1.50	1.53	1.65	1.98
Export price	0.73	0.71	0.71	0.71	0.74
Export volume	2.12	2.12	2.16	2.33	2.68
Import value	0.39	0.79	1.42	1.60	2.06
Import price	1.12	1.13	1.14	1.15	1.17
Import volume	0.35	0.70	1.24	1.39	1.76
<u>Terms of trade</u>	<u>0.65</u>	<u>0.63</u>	<u>0.62</u>	<u>0.61</u>	<u>0.63</u>
	<u>(Percentage changes)</u>				
Export value	29.1	-3.0	2.1	7.2	20.6
Export price	-10.0	-2.9	0.3	-0.7	5.0
Export volume	43.4	-0.1	1.8	8.0	14.9
Import value	-2.9	102.9	79.7	12.9	28.8
Import price	2.5	1.0	1.0	1.2	1.4
Import volume	-5.2	100.9	77.9	11.5	27.0
<u>Terms of trade</u>	<u>-12.2</u>	<u>-3.9</u>	<u>-0.7</u>	<u>-1.9</u>	<u>3.6</u>
<u>Memorandum items</u>					
Export value (in millions of U.S. dollars)	12,354	11,978	12,235	13,117	15,821
Import value (in millions of U.S. dollars)	4,079	8,275	14,872	16,783	21,612

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

Table 40. Argentina: Imports by Economic Classification

	1990	1991	1992	1993	1994	<u>January-May</u>	
						1994	1995
(In millions of U.S. dollars)							
<u>Total c.i.f.</u>	<u>4,079</u>	<u>8,275</u>	<u>14,872</u>	<u>16,783</u>	<u>21,612</u>	<u>8,405</u>	<u>8,237</u>
Consumption goods	330	1,514	3,205	3,527	3,897	1,588	1,342
Capital goods	647	1,637	3,888	4,964	7,422	2,834	2,311
Fuels	316	452	416	386	591	203	284
Other intermediate goods	2,784	4,671	7,363	7,906	9,702	3,780	4,300
(In percent of total)							
<u>Total c.i.f.</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Consumption goods	8.1	18.3	21.5	21.0	18.0	18.9	16.3
Capital goods	15.8	19.8	26.1	29.6	34.3	33.7	28.1
Fuels	7.7	5.5	2.8	2.3	2.7	2.4	3.4
Other intermediate goods	68.4	56.5	49.6	47.1	44.9	45.0	52.2

Sources: Ministry of Economy; and National Institute of Statistics.

Table 41. Argentina: International Reserves of the Central Bank

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

	1990	1991	1992	1993	1994
<u>Central bank net international reserves</u>	<u>2,106</u>	<u>2,839</u>	<u>8,623</u>	<u>11,482</u>	<u>11,391</u>
<u>Assets</u>	<u>6,409</u>	<u>8,563</u>	<u>11,382</u>	<u>15,460</u>	<u>16,029</u>
Gold 1/	1,613	1,430	1,446	1,672	1,651
SURs	107	224	413	455	557
IMF reserve tranche	--	--	--	--	--
Foreign exchange	4,295	6,622	9,528	13,339	13,763
LAIA (net) 2/	394	287	-5	-5	60
<u>Liabilities</u>	<u>3,303</u>	<u>2,824</u>	<u>2,759</u>	<u>3,979</u>	<u>4,641</u>
IMF	3,303	2,824	2,759	3,979	4,641
Other	--	--	--	--	--

Source: Minister of Economy.

1/ Valued at market prices.

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

Table 42. Argentina: International Bond Issues

	1991	1992	1993	1994	<u>Jan. - Aug.</u>	
					1994	1995
<u>(In millions of U.S. dollars)</u>						
<u>Total bond placement</u>	<u>765</u>	<u>1,619</u>	<u>6,308</u>	<u>5,320</u>	<u>2,798</u>	<u>3,304</u>
Public sector	500	389	2,406	2,740	1,268	3,156
Private sector	265	1,230	3,902	2,580	1,530	148
By currency						
U.S. dollars	765	1,609	5,688	4,070	2,430	1,425
Deutsche marks	...	...	620	300	300	725
Yen	...	...	...	352	...	1,031
Other	...	10	...	598	69	123
<u>(In years)</u>						
Average maturity						
Public sector						
U.S. dollars	2.0	4.7	7.2	4.8	5.5	3.0
Deutsche marks	...	...	5.0	3.0	3.0	5.0
Yen	...	...	...	3.9	...	5.0
Private sector						
U.S. dollars	5.0	3.9	5.2	4.5	3.8	...
<u>(In basis points) 1/</u>						
Average yield spread at launch						
Public sector						
U.S. dollars	375	324	313	257	198	300
Deutsche marks	...	...	250	220	220	344
Yen	...	...	...	281	...	315
Private sector						
U.S. dollars	355	392	387	410	394	...

Source: Staff estimates based on Euromoney Database, Euroweek, Financial Times, and International Financial Review (IFR).

1/ Yield spread measured as the difference between the bond yield at issue and the prevailing yield for industrial country government bonds in the same currency and of comparable maturity. All figures are weighted averages.

Table 43. Argentina: Outstanding External Debt by Creditor 1/

(In millions of U.S. dollars)

	1990	1991	1992	1993	1994	Prel. end-June 1995
<b>Public sector</b>	<b>56,708</b>	<b>57,239</b>	<b>55,053</b>	<b>56,596</b>	<b>61,177</b>	<b>66,959</b>
International organizations	8,425	7,704	7,610	10,903	11,773	14,836
IMF	3,231	2,489	2,320	3,539	4,186	5,911
Other	5,194	5,215	5,290	7,364	7,587	8,925
Paris Club	6,642	8,816	8,901	8,923	7,978	8,670
Commercial banks	31,172	30,139	28,870	25,887	25,060	25,098
Refinanceable 2/	23,243	22,259	19,397	--	--	--
Arrears 2/	6,077	7,880	8,583	--	--	--
Other	1,852	--	890	25,887	25,060	25,098
Public bonds 3/	8,408	8,525	8,541	9,809	11,796	12,728
Other 4/	2,061	2,055	1,131	1,074	4,570	5,627
<b>Total</b>	<b>61,770</b>	<b>62,226</b>	<b>59,454</b>	<b>61,489</b>	<b>66,806</b>	<b>72,581</b>

Source: Ministry of Economy.

1/ Excludes BONEX held by the Central Bank.

2/ Total debt eligible for rescheduling under the Brady Plan.

3/ Includes domestic bonds denominated in foreign currency, but excludes consolidation and hydrocarbon bonds, which are considered to be held mostly by domestic residents.

4/ Includes other debt with commercial banks noneligible for rescheduling under the Brady Plan.