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FOR AGENDA

EBS/75/376

CONFIDENTIAL

October 20, 1975

To: Members of the Executive Board

From: The Secretary

Subject: Argentina - Purchase Under the Oil Facility

Attached for consideration by the Executive Directors is a communication from Argentina informing the Fund of Argentina's intention to request a purchase under the oil facility equivalent to SDR 76.09 million, together with the staff's analysis and recommendation.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Argentina - Purchase Under the Oil Facility

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, Research, and Treasurer's Departments)

Approved by Jorge Del Canto

October 17, 1975

## I. Introduction

In a letter dated October 8, 1975 (attached), Argentina has informed the Managing Director of its intention to request a purchase equivalent to SDR 76.09 million under Executive Board Decision No. 4241-(74/67), adopted June 13, 1974, and extended by Executive Board Decision No. 4634-(75/47), adopted April 4, 1975. Argentina has made no previous purchase under the 1974 or 1975 Oil Facility. The proposed purchase of SDR 76.09 million is equivalent to 17.3 per cent of Argentina's quota and to 50 per cent of the calculated maximum access for the current year under the 1975 Oil Facility as permitted by Executive Board Decision No. 4769-(75/133), adopted July 28, 1975. In June 1975 Argentina made a gold tranche purchase equivalent to SDR 110 million. A waiver of the conditions of Article V, Section 3(a)(iii), will be required.

In the communication, the Government of Argentina has stated that this purchase is needed to meet a balance of payments deficit in 1975. It has also stated that Argentina is following policies consistent with the understandings set forth in paragraph 2 of the Rome Communique and in Executive Board Decision No. 4134-(74/4), adopted January 23, 1974. It stated further that while the purchase is outstanding, Argentina will refrain from imposing or intensifying restrictions on current international payments inconsistently with its obligations under the Fund Agreement and from imposing or intensifying restrictions on current international transactions.

Argentina accepted the obligations of Article VIII, Sections 2, 3, and 4, in May 1968. There is at present a multiple exchange rate system in Argentina with rates in the three exchange markets ranging from $a 37.70 per U.S. dollar to $a 68.99 per U.S. dollar. Argentina has established a representative exchange rate with the Fund which is the midpoint between the buying and selling rates for the U.S. dollar in the "special" financial market which has the most depreciated rate. On October 15, 1975, the representative rate was $a 68.90 per U.S. dollar. Argentina has a quota of SDR 440 million and the Fund's total holdings of pesos are presently at 114.5 per cent of quota, of which 14.5 per cent corresponds to a purchase under the Compensatory Financing Decision. Argentina is a participant in the Special Drawing Account and has received allocations totaling SDR 152.5 million. Current holdings are SDR 1.5 million, or 1.0 per cent of net cumulative allocation. There is a need to reconstitute in an amount of SDR 57.5 million although there is no immediate obligation for Argentina to take action to obtain SDRs.

The Staff Report for the 1974 Article VIII consultation with Argentina (SM/74/212, 8/27/74) was discussed by the Executive Board at EBM/74/127 (10/16/74).

## II. Energy

Argentina possesses a large hydroelectric potential and also has reserves of uranium, oil, gas, and coal. Until recently Argentina had hardly begun to develop its hydro potential, which is mostly located far from the major consuming centers, but rather relied mainly on oil and natural gas for its energy requirements. In 1974 oil accounted for 65 per cent and natural gas for 22 per cent of total energy consumption; by contrast hydroelectric generation provided only 4 per cent of the total.

Argentina's domestic oil and natural gas resources have been intensively exploited in recent decades. Domestic production of crude petroleum reached a peak in 1972 and has been slowly declining since that time. Production in the past three years averaged about 24.5 million cubic meters (154 million barrels) per year, sufficient to cover 85-90 per cent of total consumption of petroleum products. Despite intensive exploration efforts, the rate of discovery of new oil deposits has barely matched the rate of extraction in recent years; proven oil reserves presently total some 390 million cubic meters, or 16 years of production at the present rate of extraction. Of these reserves, approximately 45 per cent consists of oil that requires the use of costly secondary recovery techniques.

About one fifth of the consumption of petroleum products is for electric generation, another fifth is used in industry, and about 35 per cent in transportation. Almost half of Argentina's electric generating capacity is steam turbine equipment, almost all of which is oil fired, and a further 26 per cent is made up of diesel or gas turbine units. Hydroelectric capacity accounts for some 20 per cent of the total, and the nuclear power station accounts for the remaining 4 per cent.

The somewhat unpromising prospects for domestic oil production led Argentina to begin shifting its energy policies in the latter part of the 1960s, increasing its reliance on hydroelectric power, nuclear energy, and coal, so as to reduce the relative role of petroleum products. The 1,650 MW Chocon-Cerros Colorados hydroelectric project entered into production in 1973-74, and other large projects are in process of implementation, including Salto Grande 1,460 MW (joint project with Uruguay: completion 1979-80) and Yacyreta 1,125 MW (joint project with Paraguay: completion 1982-83). According to present plans, hydroelectric capacity will increase 3.5 times between 1975 and 1980 and the share of hydroelectric energy in total generating capacity will rise from 20 per cent to 40 per cent in the same period.

Argentina has speeded plans for increasing output of natural gas and has also embarked on a nuclear program using local unenriched uranium. A 320 MW nuclear power station was inaugurated in 1974, and a second unit is scheduled for 1981. Furthermore, expansion of the Patagonian coal mines will substitute for oil in power generation as well as replacing imported coal in steel production.

Despite its heavy dependence on oil, the relatively high level of self-sufficiency in oil production meant that the fourfold rise in international oil prices at the end of 1973 had somewhat less of a balance of payments impact, proportionally, on Argentina than on other oil-importing countries. In response to the international developments, the authorities took several measures to discourage consumption of petroleum products, of which the most important was a sharp increase in the price of gasoline. In March 1974 the price of high-grade gasoline was doubled from the equivalent of US$0.72 per gallon to US$1.44 per gallon. Beginning in January 1974, the circulation of automobiles in Buenos Aires was prohibited one day per week on a staggered basis and speed limits were reduced on highways. Overall consumption of petroleum products declined by about 1.5 per cent in 1974, but domestic production fell by 1.6 per cent, and the volume of net oil imports declined only slightly. The value of net imports of petroleum and petroleum products rose from SDR 104 million in 1973 to SDR 356 million in 1974 (Table 1).

Table 1. Argentina: Petroleum and Petroleum Products

(Value in millions of SDRs, volume in millions of barrels, and unit value in SDRs per barrel)

| | 1972 | 1973 | 1974 | Proj. 1975 |
|---|---|---|---|---|
| Imports | | | | |
| Value | 45.0 | 108.2 | 369.1 | 329.0 |
| Volume | 15.8 | 29.0 | 27.7 | 25.2 |
| Unit value | 2.9 | 3.7 | 13.2 | 13.0 |
| Exports | | | | |
| Value | 5.4 | 4.5 | 12.9 | 8.1 |
| Volume | 1.9 | 0.7 | 1.1 | 0.8 |
| Unit Value | 2.9 | 6.5 | 12.4 | 10.2 |
| Net imports | | | | |
| Value | 39.6 | 103.7 | 356.2 | 320.9 |
| Domestic production | | | | |
| Volume | 158.5 | 153.7 | 151.5 | 145.6 |

Sources: INDEC: Argentine Commercial Trade; Secretariat of Energy; and State Petroleum Corporation.

After a small adjustment in January 1975, gasoline prices again were raised sharply at midyear to accompany the rapid depreciation of the peso which is described below. Prices of heavy fuels have been increased much less than those of gasoline, but as explained below, the Government intends to raise these prices sharply in the near future, and thereafter to adjust them in accordance with the rate of domestic inflation.

Following the mid-1975 price increase, consumption of gasoline declined, and total utilization of petroleum and petroleum products is now expected to contract by about 4 per cent in 1975. Domestic oil production, however, also has continued to fall, and after allowing for this fall and for a reduction in stocks, imports of petroleum and petroleum products are expected to total 25.2 million barrels in 1975, about 9 per cent lower than in 1974. Total net imports of petroleum and petroleum products are expected to decline to SDR 321 million in 1975, or 11 per cent of total imports.

## III. Balance of Payments Adjustment and Need

### 1. Adjustment

Because of its heavy dependence on agricultural exports, Argentina historically has been subject to large swings in its balance of payments. From 1973 to the middle of 1974, the payments position was exceptionally favorable. Production of most grain crops was well above average in 1973-74, and prices were high for both grains and beef. Total export earnings almost doubled between 1972 and 1974 in terms of SDRs, and both the current account and the overall balance of payments showed surpluses.

The balance of payments position began to weaken in mid-1974. Exports leveled off in the second half of the year, and then fell abruptly in 1975 (Table 2). This resulted partly from difficulties in marketing beef exports following the EEC ban on beef imports in mid-1974. The total value of beef exports in 1975 is estimated at less than SDR 300 million compared with almost SDR 800 million in 1973. Also, production of grains declined by 15 per cent or more in the 1974/75 crop year, apparently because of a combination of unfavorable weather and inadequate price stimulus.

While exports peaked and declined in late 1974 and early 1975, imports continued to rise. This was due mainly to the overvalued currency and lax domestic policies, particularly the large fiscal deficit. Between April 1973 and March 1975, the exchange rates in all markets were held constant despite inflation of about 70 per cent during the period, and the inadequacy of these exchange rates became increasingly obvious as the world demand for Argentine exports receded. Argentina's budget imbalance also grew larger during this period and prevented the development of an adequate domestic financial program. In 1974 the fiscal deficit was equivalent to 53 per cent of expenditure (or about 6.5 per cent of GDP) and in 1975 it increased to about 70 per cent (some 10.5 per cent of GDP). This weakness was due to several causes, including particularly the reduction of export taxes and the increase in export subsidies

Table 2. Argentina: Summary Balance of Payments by Semesters

(In millions of SDRs)

| | 1973 | | 1974 | | 1975 | |
|---|---|---|---|---|---|---|
| | 1st Half | 2nd Half | 1st Half | 2nd Half | 1st Half | 2nd Half1/ |
| Exports, f.o.b. | 1,266 | 1,478 | 1,625 | 1,688 | 1,230 | 1,239 |
| Imports, c.i.f | 783 | 1,095 | 1,238 | 1,730 | 1,799 | 1,139 |
| Trade balance | 483 | 383 | 387 | -42 | -569 | 100 |
| Services and transfers | -143 | -122 | -81 | -81 | -200 | -118 |
| Current account balance | 340 | 261 | 306 | -123 | -769 | -18 |
| Net capital movements2/ | -213 | 126 | 178 | -291 | 193 | -243 |
| Surplus or deficit (-) | 127 | 387 | 484 | -414 | -576 | -261 |

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

1/ Projected.
2/ Includes errors and omissions.

necessary to alleviate the effects of the overvalued exchange rates and the asymmetrical effects on budget revenue and expenditure of the acceleration in inflation from 27 per cent in the year ended in September 1974 to over 250 per cent in the year ended in September 1975.

In the second half of 1975, an abrupt adjustment in the balance of payments appears to be in progress. Imports are expected to decline from SDR 1.8 billion in the first half of the year to less than SDR 1.2 billion in the second half. This adjustment became necessary because of the near-exhaustion of Argentina's foreign assets, which declined from over SDR 1.5 billion in mid-1974 to SDR 0.3 billion in September 1975. By September, and excluding gold holdings and certain earmarked assets which cannot be used, the liquid reserves of the Central Bank were below SDR 100 million, and early adjustment of the balance of payments was essential in order to avoid arrears on external payments.

The marked adjustment currently taking place in the balance of payments has been accomplished largely through restrictions on trade and payments, as explained more fully in Section IV below.

The authorities during the past month have adopted a financial plan for the next 15 months that they believe will lead to a considerable improvement in the balance of payments and permit a relaxation of the emergency trade and payments restrictions imposed in 1975. The exact timing of the reduction in these restrictions, however, will depend on grain crops in early 1976, the recovery in world demand for and the reopening of foreign markets to Argentine beef, and the promptness with which the balance of payments responds to the new policies, none of which can be estimated with precision. For this reason, the Managing Director has decided to request a consultation with Argentina, in accordance with paragraph 5(a) of Decision No. 4241-(74/67) on the Oil Facility, no later than mid-April 1976, in order to provide an opportunity for the Executive Board to review the balance of payments policies and prospects, and in particular the Argentine Government's progress in reducing restrictions on trade and payments.

The principal elements of the recently adopted financial program are a prompt movement toward realistic exchange rates and an increase in taxes to reduce the budget deficit. In this context the authorities have presented a credit program which they believe to be consistent with their announced goal of reducing inflation to well below 100 per cent next year. Finally, while maintaining their commitment to keep real wages at the maximum consistent with the present productivity and continued growth of the economy, the authorities have emphasized their intention to keep nominal wage increases substantially smaller in the coming months than earlier in 1975.

The exchange rate policy adopted for the 1975/76 program represents a continuation of the policy started in March of this year. Since March, and particularly since August, the exchange rate has been depreciated frequently in all markets and products have been shifted into exchange markets where the rate is more depreciated. This has produced an effective rate of depreciation of the peso at a considerably faster rate than the rise in the cost of living, as explained more fully in Section IV below. The authorities have said that they will continue this policy of prompt and frequent exchange rate adjustments in order to provide domestic producers with an adequate rate of return on their export activities, taking due account of changes in domestic costs.

The new fiscal revenue measures, which the authorities have presented to the legislature for approval before the end of the year, are expected to produce receipts in 1976 equivalent to about 3 per cent of GDP. The measures include, roughly in order of declining yield, (1) reintroduction of a provincial turnover tax at a rate of 1.6 per cent (this must be approved by the provincial governments, but the Argentine authorities have indicated that provinces responsible for about two thirds of the collections already have agreed to the change); (2) a 250 per cent increase in the price charged for heavy fuel oil, with the proceeds going to the Treasury; (3) a once-and-for-all 2 per cent capital tax on the revalued net worth of enterprises; (4) a permanent capital tax on the net worth of enterprises; and (5) a special amnesty for evaders and delinquent taxpayers, which would permit payment of overdue taxes at the 1975 rates with a discount for prompt payment. The Government is also hoping to raise small amounts of additional revenue from a new 7 per cent tax on distributed dividends, indexation of tax arrears, increased interest charges for late payments, and changes in various existing specific taxes to ad valorem rates. In addition, the authorities expect a considerably larger yield from export taxes in 1976, because a realistic exchange rate will permit higher taxes on the traditional products and lower subsidies on nontraditional products while at the same time ensuring adequate returns to producers.

Mainly as a result of these revenue measures and the beneficial effect on the budget from the projected deceleration of inflation, the authorities expect that budget revenue will cover over 50 per cent of budget expenditure in 1976 compared with only about 30 per cent in 1975.

The authorities also plan to restrain credit in the next 15 months to the maximum extent consistent with avoiding a major recession. GDP appears to have declined by perhaps 2 per cent in the past six months, with a rise in unemployment from about 4 per cent to 7 per cent of the work force and a sharp reduction in overtime hours in manufacturing. The authorities said that the decline in production was caused by many factors, including, in particular, poor crops and the distortions and uncertainties arising from the steep acceleration of inflation during the period June-August 1975. They did not believe that an attempt to maintain liquidity at the 1974 level would be a proper response in the circumstances. According to their plan the money supply (broadly defined) in 1975 is projected to rise by just over 150 per cent and the net domestic credit of the banking system (defined as money supply minus net foreign assets) is to rise by 170 per cent, both considerably less than the projected increases in wholesale prices and cost of living of about 300 per cent over the same period. The authorities regard this decline in the liquidity of the economy as inevitable in view of the sharp acceleration of inflation. In 1976, with inflation projected at 65 per cent along with some real growth, the plan envisages an increase in both money supply and credit of approximately 75 per cent.

With regard to wage policy, the authorities regard the wage increases ultimately granted last June of about 165 per cent in the public sector and about 135 per cent in the private sector as having been a near-disaster for the economy--without having produced any benefits to wage earners because they were followed immediately by equivalent or even larger increases in prices. After this experience, they said, there is a widespread recognition that massive nominal wage increases are counterproductive, and that real wage increases depend on the efficient functioning of the economy. For this reason, the authorities at the beginning of October took action to break the automatic link between prices and wages which existed in some private sector wage agreements. This was done by creating a National Institute of Wages to establish rules for wage adjustments and by declaring that all existing adjustment clauses in wage agreements will be subordinated to these new rules. The authorities envisage that, under the new regulations, wages in the private sector will be adjusted at about 90-day intervals, with the first adjustment of no more than 15 per cent occurring on November 1. Subsequent adjustments will take into consideration price developments, but the exact manner will depend on the guidelines developed by the Institute.

With regard to public sector wages, the authorities explained that the 165 per cent increase granted in June was not paid fully in the third quarter of the year; only 50 percentage points of the increase was paid in June and July, and 100 percentage points in August, with the remainder accumulated in a special fund. In the final months of 1975, the full wage increase will be paid, and in the first quarter of 1976 the Treasury will pay not only the full increase but also the portion withheld in June-August 1975. In this way, the authorities expect to be able to delay any new adjustments in wages of civil servants until March of next year.

Based on this strengthening of fiscal, credit, and wage policies and the movement toward more realistic exchange rates, the authorities expect a substantial improvement in the balance of payments position in 1976. Assuming continued good weather for the forthcoming grain crops and a gradual improvement in world demand for beef, they believe that exports in 1976 will recover to around the SDR 3.3 billion level recorded in 1974. This would permit an increase in imports from the unsustainably low level of SDR 1.1-1.2 billion projected for the second half of 1975 to about SDR 1.5 billion per semester next year, while at the same time achieving approximate balance in the current account of the balance of payments. The projected rise in imports would be consistent with a relaxation of the emergency restrictions imposed in 1975, particularly since, according to the program, the exchange rate in 1976 will be at a realistic level and, therefore, will be playing a larger role in the adjustment process. After taking into account the heavy debt amortization, the overall balance of payments deficit is projected at about SDR 300 million in 1976 compared with a prospective deficit of SDR 837 million in 1975.

2. Need

As noted above, balance of payments projections for 1975 show an overall deficit equivalent to SDR 837 million. To cover this deficit, the monetary authorities expect to borrow abroad in 1975, mainly in the last quarter of the year from foreign commercial banks, a net amount of SDR 213 million. This leaves an unfinanced deficit of SDR 624 million, which in the absence of any purchases from the Fund would produce a decline in gross reserves of this amount (Table 3). It is possible that as much as SDR 110 million of this gap (25 per cent of Argentina's quota) can be financed by a drawing under the Compensatory Financing Facility late this year, but the exact timing of this purchase still is uncertain. Even if this compensatory purchase were to be made in 1975 the remaining unfinanced gap will still exceed SDR 500 million.

At the end of September 1975, Argentina's gross foreign assets totaled SDR 292 million, a decline of SDR 782 million from the end of 1974 levels of SDR 1,074 million. On the basis of the above projections, gross reserves at the end of 1975 would be SDR 450 million (equivalent to less than two months of this year's imports) in the absence of any purchases from the Fund and SDR 636 million after the proposed purchase under the Oil Facility and the estimated maximum purchase under the Compensatory Financing Facility.

Table 3. Argentina: Balance of Payments

(In millions of SDRs)

| | 1972 | 1973 | 1974 | Proj. 1975 |
|---|---|---|---|---|
| Exports, f.o.b. | 1,788 | 2,744 | 3,313 | 2,469 |
| Of which: petroleum and petroleum products | (5) | (5) | (13) | (8) |
| Imports, c.i.f. | 1,754 | 1,878 | 2,968 | 2,938 |
| Of which: petroleum and petroleum products | (45) | (108) | (369) | (329) |
| Trade balance | 34 | 866 | 345 | -469 |
| Services (net) | -235 | -274 | -162 | -320 |
| Transfers (net) | -4 | 9 | -- | 2 |
| Current account balance | -205 | 601 | 183 | -787 |
| Private capital (net) 1/ | 148 | 80 | -110 | -85 |
| Of which: amortization | (329) | (336) | (520) | (...) |
| Official capital (net) | -110 | -84 | 88 | 73 |
| Of which: amortization | (109) | (179) | (270) | (55) |
| Nonmonetary capital balance | 38 | -4 | -22 | -12 |
| Commercial banks (net) | -41 | -83 | -91 | -38 |
| Total capital | -3 | -87 | -113 | -50 |
| Allocation of SDRs | 47 | -- | -- | -- |
| Surplus or deficit (-) | -161 | 514 | 70 | -837 |
| Financing | | | | |
| Monetary authorities | 161 | -514 | -70 | 837 |
| Gross reserves (increase -) | -161 | -702 | 18 | 624 |
| Liabilities (increase +) | 322 | 189 | -88 | 213 |
| Of which: IMF position | (174) | (--) | (-110) | (--) |
| Oil Facility | (--) | (--) | (--) | (--) |
| Other | (174) | (--) | (-110) | (--) |
| Memorandum items | | | | |
| Maximum access to 1975 Oil Facility (SDR millions) | | | | 152.2 |
| Proposed purchase (SDR millions) | | | | 76.09 |
| Fund holdings of Argentina's currency as per cent of quota (end of period) | 139.5 | 139.5 | 112.0 | ... |
| Gross official international reserves (SDR millions, end of period) | 428 | 1,092 | 1,074 | 450 |
| Net official international reserves (SDR millions, end of period) | -112 | 405 | 475 | -362 |

Source: Central Bank of Argentina.

1/ Includes errors and omissions.

## IV. Restrictions

Despite the emerging balance of payments problems after mid-1974, Argentina did not take steps to restrain imports and other current payments--either through depreciating the peso or intensifying restrictions--until March 1975. Between April 1973 and early March 1975, the multiple currency practices were maintained substantially without any change in rates,1/ mixing arrangements, or market coverage. Since that time, however, there have been frequent changes in all exchange rates, amounting to cumulative depreciations of between 77 per cent for most merchandise trade and 81 per cent for transactions in the financial market (Table 4). When these rates of depreciation are inverted to make them comparable to changes in the cost of living, they are equivalent to between 334 per cent and 385 per cent, which is considerably faster than the increase in the cost of living of 173 per cent in this seven-month period. Also in recent months, further changes have been made in market coverage, involving shifts of transactions to more depreciated exchange rates. As of October 2, 1975, the Argentine authorities estimate that about 60 per cent of exports and imports pass through the commercial market, with the remainder in the financial market. All invisibles, except for financial loans and interest payments thereon (which continue to be channeled through the financial market), have since August 26, 1975 been assigned to the special financial market. The authorities have indicated that by means of frequent changes in exchange rates and shifts in market coverage they will ensure that exchange rates in 1976 are fully realistic.

In March 1975 the authorities also began to tighten restrictions on imports and import payments. As of October 1975, these new measures included (1) the temporary suspension until December 31, 1975 of about 1,300 customs sub-items, representing some 2 per cent of total imports according to the Argentine authorities; (2) rigorous screening of all sworn declarations of import need, which in most cases have to be made within the framework of approved and registered semiannual import programs; and (3) negotiated global import quotas covering the current needs until year-end for some 26 branches of industry. With regard to import payments, the most important changes introduced in 1975 were (1) an increase in the minimum maturity for current import payments, from 180 days to an average of 240-270 days in the case of imports covered by sectoral agreements;2/ (2) a tightening of minimum terms on the importation of capital goods, by abolishing the option of full cash payment upon delivery, basing the minimum terms on the cumulative value of imports effected during the year rather than on the value of the individual transactions, and lengthening the

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1/ Certain profit remittances were, after May 1974, subject to a 20 per cent to 40 per cent tax, thus implying new exchange rates for these transactions.

2/ In their June 1975 sectoral agreement with the Government, the automobile companies agreed during the next 24 months to accept one- and two-year promissory notes in lieu of exchange for payments of imports. With regard to current invisibles, they agreed to accept negotiable external bonds of up to seven years' maturity for their royalty and technical assistance payments, and to refrain from any profit remittances until June 30, 1977. Similar but less far-reaching provisions are apparently included in all the 26 sectoral agreements concluded thus far.

Table 4. Argentina: Exchange Rates, December 1972-October 1975

(In Argentine pesos per U.S. dollar)

| | Commercial Market Buying/Selling 1/ | Financial Market Buying/Selling 2/ | Special Financial Market |
|---|---|---|---|
| 1972 | | | |
| December 31 | 8.65-8.69 | 9.93-9.98 | -- |
| 1973 | | | |
| February 20 | 8.65-8.69 3/ | 9.93-9.98 | -- |
| April 26 | 8.65-8.69 4/ | 9.93-9.98 | -- |
| 1975 | | | |
| March 3 | 13.03-13.06 | 15.05-15.10 | -- |
| April 14 | 13.03-13.06 | 15.05-15.10 | 21.00 |
| June 5 | 26.00 | 30.00-30.09 | 41.00 |
| July 16 | 28.08 | 35.40-35.50 | 50.00 |
| August 11 | 33.50 | 42.50-42.64 | 60.00 |
| August 26 | 34.45 | 44.20-44.34 | 63.00-63.18 |
| September 15 | 35.65 | 45.75-45.90 | 65.20-65.39 |
| September 26 | 36.40 | 46.70-46.85 | 66.50-66.69 |
| October 13 | 37.70 | 48.30-48.45 | 68.80-68.99 |

Source: Central Bank of Argentina.

1/ Prior to June 1975, the rate shown is not the commercial rate but rather the "mixing rate" applicable to most imports and exports.

2/ An exchange tax is applied to sales of exchange for foreign travel, which were negotiated in the financial market until April 1975 and in the special financial market thereafter. This tax was $a 2.00 per U.S. dollar from September 19, 1972 to February 28, 1975. Since March 1, 1975 it has been $a 4.00 per U.S. dollar.

3/ The mixed rate for nontraditional exports was depreciated to $a 9.46 per U.S. dollar.

4/ Nontraditional exports were shifted to the financial market.

minimum payment terms to up to six years for annual imports of US$500,000 or more; and (3) the introduction on most imports of an obligatory peso deposit equivalent to the full value of the import, which--together with a payment of interest at 21 per cent per year--serves to guarantee the exchange rate between the date of opening the letter of credit abroad and the date of payment for the import.

The Argentine authorities have stated that they intend to substantially reduce by December 31, 1975 the number of items covered by the temporary suspension. With regard to the other restrictions on trade and payments, they have said that they regard them as emergency measures, highly damaging to the economy but necessary to avoid payments arrears. They said that they wish to remove them as quickly as possible, but will not have a precise schedule until early next year.

With regard to current invisibles payments, a number of measures also have been taken this year to reduce use of exchange for foreign travel. In January 1975 the exchange tax was doubled from $a 2 to $a 4 per U.S. dollar, and only passages and freight (not package vacations) could be sold to Argentine residents against pesos. During 1975 the maximum entitlements for foreign travel, which had been raised in August 1974, were reduced and stand now at US$70 per trip to neighboring countries and US$210 per trip to other countries. Also, since June 1975 travelers are required to pay the difference in pesos between the exchange rate in effect at the time of ticket purchase and the one in effect five days prior to initiation of travel.

There has been a delay this year in issuing the five-year external Treasury bonds, which since 1971 have been sold in lieu of foreign exchange to firms wishing to make transfers of profits, dividends, royalties, and technical assistance payments; the authorities said that the issuance of these bonds would be brought up to date before the end of the year.

## V. Staff Appraisal and Proposed Decision

Argentina has informed the Managing Director of its intention to request a purchase for the equivalent of SDR 76.09 million under Executive Board Decisions No. 4241-(74/67), adopted June 13, 1974, No. 4634-(75/47), adopted April 4, 1975, and No. 4769-(75/133), adopted July 28, 1975. This is equivalent to 50 per cent of its maximum entitlement for 1975, as shown in SM/75/194, Sup.1 (7/29/75). Argentina's net expenditures on petroleum and petroleum products in 1975 are estimated to be SDR 321 million, an increase of SDR 217 million over 1973. Current balance of payments projections for 1975 indicate a deficit of SDR 837 million. After taking into account all available financing, an uncovered need of SDR 624 million still exists. During 1975 Argentina has increased considerably its restrictions on trade and payments. These restrictions are highly damaging to the Argentine economy and should be removed as soon as possible. In view of the long delay in adopting an adequate corrective program, however, the restrictions appear at the time to have been unavoidable as a temporary emergency measure. Argentina now has adopted a financial program for the period October 1975-December 1976 which is designed to gradually reduce inflation and to strengthen the balance of payments. The staff believes that the policies included in this program, particularly the intention to ensure realistic exchange rates, will bring about an improvement in the balance of payments in the short- and medium-term and permit the progressive elimination of the emergency restrictions on trade and payments. The precise schedule for reducing these restrictions will depend on developments in world demand for meat and the size of the forthcoming grain crops, which can be estimated with more certainty in the early months of 1976. The Managing Director will, therefore, request a consultation with Argentina, in accordance with paragraph 5(a) of the Decision on the Oil Facility, to be held no later than April 15, 1976, regarding its balance of payments policies and specifically its progress in reducing restrictions.

Therefore, in light of the representations of Argentina on various aspects of its policies and the intentions expressed concerning restrictions, the staff believes that the member's restrictions on trade and payments should not preclude the purchase of the equivalent of SDR 76.09 million under the Oil Facility decisions, and the following decision is submitted for consideration by the Executive Directors:

1. The Fund has received a letter, dated October 8, 1975, from the Government of Argentina informing the Fund of Argentina's intention to request a purchase equivalent to SDR 76.09 million under Executive Board Decisions No. 4241-(74/67), adopted June 13, 1974, No. 4634-(75/47), adopted April 4, 1975, and No. 4769-(75/133), adopted July 28, 1975. Argentina has made representations in accordance with paragraph 5 of Decision No. 4241-(74/67).

2. Since the Rome Communique Argentina has introduced and intensified restrictions on payments for current international transactions and imports as described in EBS/75/376(10/20/75). The Fund looks forward to a consultation with Argentina early in 1976 regarding its balance of payments policies including its progress and policies in removing restrictions. In the present circumstances of Argentina and in view of the intentions expressed by the Argentine authorities concerning the restrictions, the Fund feels that the restrictions should not preclude Argentina's use of the 1975 Oil Facility.

3. The Fund determines that the purchase would not be inconsistent with the purpose of these Decisions, agrees to the purchase, notes the representations made by Argentina in accordance with paragraph 5 of Decision No. 4241-(74/67), adopted June 13, 1974, and grants the necessary waiver of the conditions of Article V, Section 3(a)(iii), of the Articles of Agreement on the repurchase terms set forth in the letter dated October 8, 1975.

October 8, 1975

Mr. H. Johannes Witteveen
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Witteveen:

1. I am submitting this letter on behalf of the Government of Argentina to inform the Fund of the intention of Argentina to request a purchase equivalent to 76.09 million Special Drawing Rights (SDR 76,090,000) under the Oil Facility established by Executive Board Decision No. 4241-(74/67), adopted June 13, 1974 and extended by Executive Board Decision No. 4634-(75/47), adopted April 4, 1975, to meet a balance of payments need in 1975. If the Fund finds that the intended request would be in conformity with the Oil Facility for 1975, the request for the purchase will be submitted promptly.

2. In accordance with paragraph 4 of Executive Board Decision No. 4634-(75/47), I submit the attached statement which describes in a condensed way the "Guidelines of the 1975/76 Program" recently announced by the Argentine Government. The statement indicates the 12-months' balance of payments objective of Argentina and outlines the economic and financial policies designed to achieve this objective as well as to contribute to achieving a medium-term solution to the balance of payments problem; the statement also describes the energy policies that Argentina intends to follow in the coming year. Argentina represents that it will exchange views on and carefully consider with the Fund from time to time during the period it has purchases outstanding under the Oil Facility, at the initiative of Argentina or at the request of the Managing Director, Argentina's balance of payments policies.

3. In connection with the proposed request for a purchase, Argentina represents that it is following policies consistent with the understandings set forth in paragraph 2 of the Rome Communique of the ad hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Issues and in Executive Board Decision No. 4134-(74/4), adopted January 23, 1974, and that, while the purchase are outstanding, the Government will refrain (1) from imposing new, and from intensifying existing, restrictions on current international payments inconsistently with its obligation under the Fund's Articles of Agreement, and (2) from imposing new, or intensifying existing, restrictions on current international transactions.

4. Argentina represents that it will make repurchases corresponding to the proposed purchase, or any further purchases, to the extent that the amounts resulting from each purchase are still outstanding as soon as the balance of pyaments problem for which the purchase was made has been overcome, and in any event in 16 equal quarterly installments to be completed not later than seven years after each purchase. Repurchases with respect to purchases under the Oil Facility, other than those arising under Article V, Section 7(b) will be made in media specified by the Fund at the time of repurchase.

5. Argentina will wish to request further purchases from any amounts that may be available under the Oil Facility with respect to 1975 to the extent that a balance of payments need exists later in the year, and the representations made in paragraphs 2, 3, and 4 apply with respect to any further requests under the Facility. When submitting its intention to request a further purchase, Argentina will inform the Fund of any significant changes in its economic and financial policies described in the attached statement.

/s/
G. Di Tella
Secretary of Economic
Programing and Coordination

Memorandum of the Government of Argentina on Certain Aspects of its Economic Policy

1. Argentina's balance of payments deteriorated sharply in the year ended June 1975. The current account shifted from a surplus of about US$0.7 billion in the year ended June 1974 to a deficit of about US$1.1 billion. Regarding the overall balance of payments, there was a decline in gross official international reserves from the equivalent of about US$2.0 billion on June 30, 1974 to US$0.9 billion at the end of June 1975 and a further decline to US$0.7 billion at the end of August 1975. This deterioration reflects both domestic and international problems, particularly the well-known marketing difficulties affecting exports of beef.

2. During the same period, and especially after the large depreciation of the peso and increases in public sector tariffs and wages in June 1975, the rate of inflation also accelerated sharply, reaching over 240 per cent in the 12 months ended in September 1975, a figure without precedent in Argentina's recent economic history.

3. The comprehensive program that the Argentine Government has recently adopted and begun to implement is designed to reduce the rate of inflation and to redress the deterioration of the balance of payments, while maintaining at the same time acceptable levels of economic activity and employment. It is expected that this program in 1976 will reduce the rate of inflation to well below 100 per cent and produce a surplus in the balance of payments on current account of US$225 million.

4. This economic program attempts not only to solve the short-term economic problems confronting Argentina, but it is also geared to eliminate many of the economic distortions that affect Argentina's growth potential, among them the marked anti-export biases which have played an important role in Argentina's recurrent balance of payments problems. To achieve these objectives the program contemplates action in the external, incomes, fiscal, and monetary fields.

5. In the external field, the Government has started a policy of realistic exchange rates which intends to assure domestic producers at all times an adequate rate of return on their export activities, taking due account of changes in domestic costs. In addition, it is a stated government policy to stimulate agricultural production partly as a quick way of boosting exports and reversing the present current account difficulties, but mainly with a view to making better use of Argentina's export possibilities. Finally the Government intends to continue with its policy of market diversification.

6. In relation to imports, it is a government policy to assure a flow of imports consistent with reserve availabilities and an adequate level of economic activity. It is expected that the above-mentioned exchange rate policies will greatly contribute to this effort and in particular will eliminate incentives for speculative imports.

It is estimated with the effective implementation of the above policy that, after allowing for private capital flows, heavy debt repayments, and presently envisaged long-term official borrowing abroad, the overall balance of payments deficit will amount to US$0.4 billion in the second half of 1975 (US$1.1 billion for the full year 1975) and to US$0.3 billion in 1976.

7. The 1976 fiscal program provides for a decrease of about 50 per cent in the public sector deficit, in proportion to GDP (from 13.0 per cent of GDP in 1975 to about 7.2 per cent). The Treasury deficit will be reduced from 10.5 per cent of GDP in 1975 to 6.0 per cent in 1976. These targets result from reductions in expenditure in real terms and increases in revenues in real terms, in relation to the extremely low tax burden registered in 1975. To achieve these objectives, the Government will introduce several specific measures in the tax field and will also intensify efforts to reduce tax evasion.

8. The acceleration of the rate of inflation during 1975 resulted in a continuous reduction of the demand for real monetary balances. However, the extraordinarily high increases in prices during June, July, and August were accompanied by relatively small increases in the nominal supply of money, sharply reducing the real supply of money even beyond the reduction in demand and resulting in a noticeable lack of liquidity and the emergence of serious problems in the real sector of the economy. The program for the next 15 months envisages a monetary policy consistent with the objective of reducing the rate of inflation. To this end, the program contemplates a gradual restoration of equilibrium in the monetary sector and an expansion of net domestic credit during 1976 consistent with the programed reduction in the rate of inflation. The rate of growth of net domestic credit during 1976 will be equivalent to half the expansion registered during 1975, falling from a rate of growth of 156 per cent in 1975 to 83 per cent in 1976. This reduction will be accomplished mainly as a result of the improvements in the fiscal situation.

9. The goal of maintaining satisfactory levels of economic activity and employment will be pursued through a variety of means including stimulative prices for agriculture, a thorough review of relative prices and their effects on industrial production, and a balanced construction program which takes full account of needs, resource availability, and the financial position of the public sector.

It is expected that the anti-inflationary measures will contribute toward the achievement of the stated policy of maintaining adequate real wages; the tempering of the price-wage spiral will in itself also contribute to the overall reduction of inflation. In this context, fiscal and monetary policies will be complemented by a price and incomes policy, based on consensus and which will mainly relate to a limited number of key commodities.

10. In the energy field, the Argentine Government has implemented throughout 1974 and 1975 a number of measures designed to reduce oil consumption. These include restrictions on the circulation of vehicles as well as the reduction in speed limits of motor vehicles. Prices paid by domestic fuel users have also been sharply increased to a level well beyond the higher cost of

imported oil. In addition, the Government has started a program to greatly increase domestic production of oil through both secondary recovery and intensive exploration for new oil fields.

The main emphasis, however, has been placed on the expansion of other energy sources, such as nuclear generators and hydroelectric plants. In this regard the construction of several large hydroelectric dams such as Salto Grande, Yacyreta, Corpus, and Parana Medio has already begun or is in an advanced stage of study.