

April 1998

IMF Staff Country Report No. 98/38

Argentina: Recent Economic Developments

This Recent Economic Developments report on Argentina was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Argentina or the Executive Board of the IMF. In releasing this document for public use, confidential material has been removed at the request of the member.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431

Telephone: (202) 623-7430 • Telefax: (202) 623-7201

Telex (RCA): 248331 IMF UR

Internet: publications@imf.org

Price: \$15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ARGENTINA

Recent Economic Developments

Prepared by Messrs. Traa, Catão, Franks (all WHD),
Gerson (FAD), and Gruenwald (PDR)

Approved by the Western Hemisphere Department

January 16, 1998

	Page
I. Supply and Demand Aspects of the Convertibility Regime, 1991–97	4
A. The Convertibility Plan	4
Convertibility	4
Trade	5
Deregulation	5
Privatization	5
Financial system reform	6
Labor market reform	6
B. Fiscal Policy	7
II. Financial Policies and the Consolidation of the Banking System	10
A. Financial Policies in the Aftermath of the 1995 Crisis	11
Background	11
Measures	13
B. Recent Trends in Financial Intermediation	18
III. Social Expenditure	23
A. Overall Trends	23
B. The Social Safety Net in Argentina	24
C. Trends in Social Spending	24
Education	25
Health	26
Housing programs	27
Other programs	27
D. Developments in Key Social Indicators	27

Contents	Page
IV. Foreign Direct Investment	35
V. Private Sector Borrowing	40
International Bond Issues	40
Syndicated Loan Commitments	41
Tables	
1. Functional Distribution of Public Expenditure for the Consolidated Public Sector (in percent of GDP)	30
2. Functional Distribution of Public Expenditure for the Consolidated Public Sector (in constant pesos)	31
3. Functional Distribution of Public Expenditure for the Consolidated Public Sector (percent of expenditure)	32
4. Spending by Federal Government, Social Security Institutions and Government Corporations as a Share of Total Expenditure	33
5. Social Expenditure as Percent of Total Social Spending	34
6. Foreign Direct Investment and Related Items	37
7. Foreign Direct Investment by Sector of Destination	38
8. Foreign Direct Investment by Country/Region of Origin	39
9. International Bond Issues	42
10. International Bond Issues, Selected Details	43
11. Maturity Structure of Private Sector International Bond Issues	44
12. International Bond Issues and Syndicated Loan Commitments by Sector	45
13. Loan Commitments by Year and Currency	46
Figures	
1. Bank Deposits, Credit, and Spreads	19
2. Private Banks—Return on Equity (Annualized)	22
Text Boxes	
1. Main Measures implemented during 1996 and 1997 to strengthen the banking system and promote financial deepening	17
Statistical Appendix Tables	
14. GDP and Prices	47
15. National Accounts in Constant Prices	48
16. National Accounts in Current Prices	49
17. Sectoral Origin of Gross Domestic Product	50
18. Index of Agricultural Production	51
19. Selected Data on Planted and Harvested Area, Production, and Yield	52
20. Industrial Production Index	54

Contents

Page

Statistical Appendix Tables (continued)

21.	Automobile Production, Domestic Demand, Exports, and Imports	55
22.	Price Indices	56
23.	Rates of Price Increases	57
24.	Urban labor Force, Employment, and Unemployment	58
25.	Unemployment and Labor Force Participation Rates	59
26.	Consolidated Public Sector	60
27.	Summary of Federal Government Operations, 1991-96	61
28.	Federal Government Revenue, 1991-96	62
29.	Summary of Provincial Public Finances, 1991-96	63
30.	Registered Outstanding Debt of the National Public Sector	64
31.	Annualized Interest Rates	65
32.	Summary Operations of the Financial System	66
33.	Legal Reserve Requirements and Legal Liquidity Requirements	67
34.	Financial Assets	70
35.	Balance of Payments	71
36.	Exchange Rates	72
37.	Exports by Principal Product Category	73
38.	Principal Agricultural Exports	74
39.	External Trade by Principal Countries and Regions	75
40.	External Trade: Value, Volume, and Price Indices	76
41.	Imports by Economic Classification	77
42.	International Reserves of the Central Bank	78
43.	International Bond Issues	79
44.	Outstanding Government External Debt by Creditor	80

I. SUPPLY AND DEMAND ASPECTS OF THE CONVERTIBILITY REGIME, 1991-97¹

The Convertibility Plan and associated reforms introduced in Argentina starting in 1991 succeeded in accelerating growth, stopping a protracted inflation—that had twice already resulted in hyperinflation—and fundamentally changing the nature of the economy. The Plan is regarded as a successful exchange-rate based stabilization program, which indeed it was. What is not usually noted is that a substantial part of this program was focussed on the **supply side**, i.e., on shifting the aggregate supply schedule outward and thus making attainment of low inflation consistent with a resumption of growth. The role of **aggregate demand policy** in this Plan (essentially reflecting the fiscal balance) changed markedly over time. As is shown below, fiscal policy was actually expansionary in the early years through 1994, i.e., in the years when inflation came down rapidly to single digit levels. Only since 1995 did fiscal policy and supply reforms pull in the same direction to limit inflation, which then disappeared altogether. This note describes the main elements of the economic strategy put in place since 1991, highlighting the relation between supply and demand aspects of this strategy.

A. The Convertibility Plan

The Convertibility Plan involved at least five distinct areas of policy initiatives or **regime shifts**, that had clear effects on improving supply conditions in the economy. These regime shifts included the convertibility proper, liberalization of foreign trade, deregulation, privatization, and the reform of the financial system.

Convertibility

The first regime shift, began with the launching of the **Convertibility Plan** at end-March 1991, contained the reform of the exchange rate system and, subsequently, that of the central bank charter. In the exchange rate reform, the currency was pegged to the U.S. dollar, the stock of currency issued was tied to the stock of foreign exchange held by the Central Bank (BCRA), and full convertibility of the peso for both current and capital transactions was established.² These steps increased transparency in the economy, set the exchange-rate anchor, and had an early effect in sorting out efficient from inefficient enterprises.

¹ Prepared by Bob Traa.

²While the new monetary and exchange rate arrangements are usually described as implying a currency board, this is not strictly the case because in an emergency, and unlike in a pure currency board, the stock of monetary liabilities of the Central Bank can exceed the stock of foreign exchange by a maximum of 33 percent (20 percent between 1991 and 1995). However, in practice, except during the Mexican exchange rate crisis in 1995, the foreign exchange cover of monetary liabilities has been maintained close to 100 percent.

In 1992, to support the independence of the central bank, its charter was rewritten to prohibit the financing of public sector deficits and to remove lender-of-last-resort functions in the bank's relations with the rest of the financial system. The central bank retained some policy instruments that it uses in its relations with banks, such as repurchase agreements, but in practice these facilities have remained small and are used mostly at the margin for overnight liquidity management.

Trade

Very early in the Plan,³ a second regime shift comprised a **trade reform** designed to reduce distortions and to integrate the economy with external markets. Export tariffs and nontariff import barriers were eliminated (except those for automobiles, textiles, and shoes); and average import tariffs were cut from a level in excess of 40 percent in 1989 to some 9 percent by the end of 1991, with a zero rate for capital goods and raw materials. The trade reform in particular helped improve profitability in the agricultural sector, where Argentina has a comparative advantage. Also, the removal of tariffs and nontariff barriers on capital goods and other inputs was important, as it affected relative factor prices and improved the investment climate at the outset of a period of strong demand for new capital stock.

Deregulation

A third regime shift involved **deregulation** of the economy. Between 1989 and 1992, the Government abolished all price controls, some of which had been in place for decades; and closed down a number of regulatory and marketing bodies and boards, mainly in the agricultural area. In 1992, the Government deregulated wholesale and retail trade; and in 1993, restrictions that had regulated access to professional services were relaxed. The deregulation and privatization of ports, public utilities, transport, and the oil and gas sectors resulted in important cost reductions in production, shipping, and transportation; while the availability and quality of gas, water, electric, and telephone services improved, favoring a more dynamic economy.

Privatization

Within about three years (1991-94), the Government **privatized** some 90 percent of all state enterprises for the equivalent of more than US\$20 billion, which for the most part was used to clear arrears and for other forms of debt reduction. The privatization program brought about considerable gains in economic efficiency. At the same time, it made visible previously hidden unemployment, as the new owners typically reduced manpower to increase productivity and improve competitiveness, thereby making available labor to increase output elsewhere in the economy (relative factor prices permitting). Between 1989 and 1994, employment in

³ Some of the trade reform preceded the launching of the Convertibility Plan, but the Plan greatly intensified the drive for trade liberalization.

privatized enterprises was reduced from 302,000 to 138,000 with particularly large reductions in the railways, and the oil and steel sectors. Also, privatization reduced the size of the public sector and its influence in allocating overall resources in the economy.

Financial system reform⁴

The transformation of the **financial system** was a fifth regime shift, contributing to make more efficient the intermediation of financial resources in the economy. Banking and financial intermediation services had shrunk during the hyperinflation years of the 1980s, with broad money amounting to just 6 percent of GDP by the end of the decade. With the return of price stability, the conditions for banking improved, at a time when banks were also placed in a more competitive environment. The drive for modernization accelerated with the financial crisis of early 1995 when a run on deposits resulted in the shake-out of the weakest financial institutions while further progress was made in the privatization of (provincial) public sector banks.⁵ Furthermore, to provide banks with a liquidity cushion that could reduce the need for a lender of last resort, nonremunerated reserve requirements were replaced by remunerated liquidity requirements (mostly held off-shore), and a schedule was established to bring these requirements to 20 percent of deposits by February 1998. Also, in late 1996, the BCRA negotiated a US\$6.1 billion contingent repurchase facility with international banks to provide the banking system in Argentina with liquidity in the event of a systemic liquidity crisis. At the same time, capitalization ratios were boosted to 20 percent of assets in the banking system. The stock of nonperforming loans was reduced from 17 percent of total credit at its peak in mid-1995 to 11.4 percent by mid-1997. As a result, and with the increase in confidence in the banking system, by 1997 the ratio of broad money to GDP had increased to 24 percent of GDP. Also, there was renewed interest from foreign direct investors and by end-1997, foreign banks had purchased several large private banking institutions in Argentina and had increased their share in total deposits to about 40 percent. In turn, this strengthened the linkage of the Argentine financial system with the world economy.

Labor market reform

Notwithstanding the progress made in improving supply conditions in the economy, Argentina still faces considerable pressure in its macroeconomic balance, as witnessed by the simultaneous occurrence of a large and growing current account deficit and a very high rate of unemployment. Given that labor services represent 2/3 of the total value added in the economy,

⁴ For a more in-depth discussion of financial system reform in Argentina, see "Financial Policies and the Consolidation of the Banking System" in this paper.

⁵ Between 1994 and 1997, the number of financial institutions in Argentina declined from 202 to 143; and 13 provincial government banks were privatized (another five are in the process of being sold).

these circumstances underscore the need for a substantive labor market reform that would help reduce labor costs and improve labor productivity.

Modernization of the labor markets would have constituted a sixth major regime shift. Although some progress was made in this area, a significant part of the pre-Convertibility labor legislation has not yet been updated.⁶ Current labor laws and regulations inhibit flexibility in job assignments within the enterprise; make part-time work contracts expensive (through provisions that require full-time equivalent job benefits); result in costly severance payments; inhibit entry in certain professions or impose additional costs in certain sectoral branches through “special statutes”; and impede the renegotiation of contracts, as contracts remain legally binding after their expiry if there is no agreement to renegotiate between unions and employers (the “ultra-actividad” clause). Also, while infrastructure and other conditions can be different between regions in Argentina, thereby giving rise to regional differences in productivity, most contracts are negotiated at the central level in Buenos Aires (the most productive region) and are binding nationwide, thereby creating standards that are too demanding for substantial employment growth in other less productive areas of the country.

B. Fiscal Policy

Fiscal policy also had important aspects that supported the supply-side orientation of the early Convertibility regime, such as tax cuts and the removal of tax and expenditure distortions. Indeed, in the early years of the Plan the contribution of fiscal policy to the reduction of inflation was more associated with these supply-side aspects than with its impact on aggregate demand. During these early years, fiscal policy was pro-cyclical, with the public-sector deficit declining by less than what would have been consistent with the operation of automatic stabilizers during the upswing of 1993–94. Only in 1995, when the country slipped into a recession, did the contribution of fiscal policy turn restrictive, prompted by the need in order to maintain confidence and to adapt to financing constraints.

Compared with the base year of 1992, the **fiscal stance was expansionary throughout the period 1992–97.**⁷ However, the **fiscal impulse**, which is indicative of the year-on-year impact

⁶There have been some partial reforms, such as special labor legislation for small and medium-sized enterprises (the PYMES) and newly invested firms, a new working place accident law, flexible opening hours in commerce, and a new bankruptcy law. However, these reforms have not been as far-reaching as the reforms in other parts of the economy.

⁷The stance of fiscal policy is defined here as the difference between the actual fiscal balance and an estimate of the cyclically adjusted balance, calculated using revenue and expenditure ratios in a base year in which actual and potential output were deemed to be about equal. Staff estimates suggest that actual and potential GDP were approximately equal in 1992. After that year, a positive output gap opened up in 1993–94 when the economy grew faster than its potential rate, and a negative output gap existed during 1995–97, following the recession in 1995. The fiscal impulse considers the change in the fiscal stance from year-to-year. For a

(continued...)

of the fiscal stance on aggregate demand, was **positive** (i.e., had a pro-cyclical effect on aggregate demand) **during the early years** of the Convertibility Plan (1992–94, when the economy was growing above potential), and **negative in the later years** (1995–97, when a negative output gap developed as a consequence of the recession in 1995). In other words, in the early years of the Plan through 1994, the exchange rate anchor together with supply improvements in the economy appeared to have been strong enough significantly to reduce inflation notwithstanding an expansionary fiscal stance and impulse; in contrast, during the period 1995–97, fiscal policy, at least as measured by the year-on-year impulse, contributed to the reduction and eventual elimination, of inflation.

Fiscal Stance and Impulse, 1992–97

	1992	1993	1994	1995	1996	1997
(In billions of pesos)						
Public sector balance (deficit-) 1/	-0.8	-0.6	-4.8	-8.5	-10.4	-6.5
Cyclically adjusted balance (deficit-)	-0.8	0.7	1.0	-5.2	-7.7	-5.2
Fiscal stance	0.0	1.3	5.8	3.3	2.7	1.3
(In percent of GDP)						
Fiscal stance (expansionary +)	0.0	0.5	2.1	1.2	0.9	0.4
Fiscal impulse (expansionary +)	...	0.5	1.5	-0.9	-0.3	-0.5
Memorandum items						
Actual GDP growth	10.3	6.3	8.5	-4.6	4.2	8.0
Potential GDP growth	5.0	5.0	5.0	5.0	5.0	5.0

Source: Fund staff calculations.

1/ Public sector balance on a cash basis comprising the federal government, off-budget funds and programs, and the balance in provincial governments.

These calculations of the fiscal stance and impulse assume that the structure of the public finances remained the same throughout the period of analysis. In fact, this was not the case. In mid-1994, the Government implemented a **pension reform** comprising a scaled down public

⁷(...continued)

more detailed exposition on the recent fiscal stance and impulse in the case of Argentina, see “Cyclically Adjusted Fiscal Position”, p. 15–18, of Selected Issues and Statistical Appendix (SM/96/259) prepared for the 1996 Article IV consultation with Argentina.

pay-as-you-go pension facility, designed to grant a basic minimum pension for all current and future old-age pensioners and financed with employer social security contributions, and a complementary private capitalized system for supplementary pensions funded by employee social security contributions. Although this reform resulted in a reduction of future liabilities of the public system, during the transition period it widened the fiscal deficit by an amount equal to the contributions shifted to the private system by those individuals that signed up for the capitalized pension system. These transition costs are estimated to amount to about 1 percent of GDP a year. Without these additional expenditures, the stance of fiscal policy in 1996–97 would have been approximately neutral to slightly contractionary, instead of expansionary as indicated above, highlighting further the coincidence of supply improvements and demand management in maintaining low inflation.

As regards the contribution of fiscal policy to improving supply conditions, early in the Convertibility Plan the Government introduced tax measures aimed at eliminating smaller taxes and shifting the relative tax incidence from output and productive factors to consumption. These measures included the elimination of some 21 federal taxes and levies (including those on bank debits, assets, and exports) with a yield of about 3 percent of GDP, the removal of exemptions (notably from the VAT), and the elimination of subsidies (including under regional incentive programs). Also, to help reduce labor costs, effective January 1994, employer payroll tax rates were reduced by 30 to 80 percent, mostly in the traded goods sector.⁸ On the expenditure side, the Government undertook steps to downsize and improve the efficiency of the national civil service, as well as transferring to the provinces responsibilities for health and education. As a result, core employment at the national administration was reduced from 526,000 to 300,000 employees, and on balance, there was a transfer of labor from the public to the private sector.

⁸ The reductions in employer social security contributions were partially rolled back in early 1995 to limit the increase in the deficit that resulted from the sudden downturn in revenue in the recession of 1995. Later in 1995, employer social security contributions were reduced again.

II. FINANCIAL POLICIES AND THE CONSOLIDATION OF THE BANKING SYSTEM⁹

On the eve of the introduction of the Convertibility plan in March 1991, financial intermediation in Argentina had reached its lowest point in more than a decade. Years of high inflation and large-scale capital flight had brought the ratio of broad money (M3) to GDP down to 6 percent in 1990 from around 20 percent in the early 1980s, while commercial bank credit to the private sector fell to 12 percent of GDP from some 28 percent a decade earlier.

With the advent of macroeconomic stabilization, real interest rates on deposits became positive, capital repatriation bolstered deposits in the banking system, and broad money (M3) increased to 19 percent by GDP by 1994. During the same period, bank credit to the private sector rose at an average rate of 12½ percent a year in real terms. Financial deepening was accompanied by significant productivity improvements in the banking industry. Notwithstanding a rapid expansion of financial services, the number of employees in the banking system fell by 10 percent between end-1990 and end-1994, reflecting not only widespread computerization of banking services, but also streamlining and elimination of inefficient institutions, the privatization of a number of provincial public banks and greater competition amongst financial intermediaries.

The rapid expansion of financial intermediation during 1991-94 was interrupted by the crisis triggered by the devaluation of the Mexican peso in December 1994. Between December 1994 and March 1995, the banking system lost about 18 percent of its deposits while the Central Bank of Argentina (BCRA) lost over a third of its liquid international reserves. In response to these events, a comprehensive set of monetary and fiscal measures was introduced in early 1995 to help shore up confidence in the financial system. By end-1995, bank deposits and BCRA's gross international reserves were virtually back to pre-crisis levels. However, the recovery of deposits was concentrated in the twenty largest banks and a number of provincial, cooperative and small private banks continued to experience problems.

The 1995 financial crisis prompted a tightening of prudential regulations and the introduction of structural measures to accelerate the consolidation of the banking system and foster financial intermediation. This note describes these measures and their impact on financial sector developments in Argentina, and provides an assessment of the present strength of the Argentine banking system relative to that before the 1995 crisis.

⁹Prepared by Luis Catão.

A. Financial Policies in the Aftermath of the 1995 Crisis

Background

The currency board arrangement introduced by the Convertibility Law of March 1991 imposed strict limits on the Central Bank as a lender of last resort. There was an allowance for central bank intervention through repo operations, but this was limited to the smoothing of seasonal fluctuations in the interbank market; the extension of rediscounts and credit advances to financial institutions beyond a 30-day period was virtually prohibited. Direct lending to national, provincial or local governments as well as to the nonfinancial private sector was ruled out.¹⁰ The BCRA was allowed to purchase government bonds at market prices under the proviso that BCRA's bond holdings cannot grow by more than 10 percent a year.

Given such limits, and in light of the fragile state of the financial system after years of high inflation and monetary disarray, financial policies since 1991 have been directed toward strengthening the banking system and removing institutional obstacles to financial intermediation. To this end, a comprehensive regulatory framework was developed along three main lines: i. measures to ensure that banks operate with high liquidity margins and capital adequacy ratios; ii. measures to reduce banks' exposure to credit, market, and trading risk through stricter bank supervision and high provisioning requirements; iii. efforts to minimize information asymmetries in credit markets and reduce structural costs of financial intermediation.

Starting in 1991 reserve requirements were simplified—with uniform rates being set for domestic and foreign currency transactions—and compliance with these requirements was made more stringent; new capital adequacy requirements were introduced and progressively tightened on the basis of a more stringent weighting system and by incorporating a risk factor related to the interest rate charged on loans. Also, a comprehensive system of loan classification, portfolio risk rules and provisioning rules was introduced from mid-1994. As a result, by late 1994, the outstanding stock of BCRA credit to financial institutions had fallen markedly from 1990 levels, reserve requirements averaged 17½ percent of deposits, and the risk weighted capital-asset ratio for the financial system as a whole rose well above the 8 percent Basle standard.

Despite the substantial progress made during 1991–94, the crisis triggered by the devaluation of the Mexican peso in December 1994 brought into sharp relief the remaining weaknesses of Argentina's banking sector. Notwithstanding nearly three years of buoyant economic activity, the stock of problem loans of the banking system still exceeded 10 percent of the loan

¹⁰In case of an emergency, the Convertibility Law provides room for extending credit to financial institutions, thus reducing the foreign reserves coverage of the money base, for up to 33 percent (20 percent through 1995) of the money base. This room (i.e., nearly 20 percent) was used only once, during the 1995 crisis.

portfolio by late 1994 and was asymmetrically distributed, with small private and provincial banks accounting for a disproportionately high share of the total. In these circumstances, the run on deposits caught several banks short of liquid assets and the ensuing contagion spread to a number of apparently solvent institutions.¹¹ The authorities responded to the growing banking crisis with measures that included lowering reserve requirements, providing distressed banks with fresh Central Bank credit through swaps and rediscounts of lengthened maturity,¹² setting up two fiduciary trust funds to foster the privatization of provincial banks and help the capitalization and restructuring of private banks, the establishment of a temporary safety net coordinated by the largest national bank (Banco Nación) to redistribute liquidity within the system,¹³ and by creating a privately managed deposit insurance scheme (SEDESA) funded with compulsory contributions from financial institutions.¹⁴

These measures, coupled with fiscal adjustment efforts and financial support from multilateral institutions, proved effective in shoring up public confidence in the banking sector. Deposit recovery speeded up in the second half of 1995 and by early 1996 deposits had risen above pre-crisis levels.¹⁵ By late 1995, the country risk premium and domestic interest spreads had declined sharply and, although remaining above pre-crisis levels, clearly signaled that the worst of the crisis was over. The authorities took advantage of this reprieve, and began to put in place a **“second generation” of prudential measures** to consolidate and deepen further the 1991–94 reforms. The new measures aimed at raising banks’ liquidity margins and capital-

¹¹See D’amato, L. E. Grubisic and A. Powell, 1997. “Contagion, Bank Fundamentals or Macroeconomic Shock? An empirical Analysis of the Argentine 1995 Banking Problems”, Banco Central de la Republica Argentina, working paper number 2.

¹²This was possible through an amendment in the Central Bank charter which allowed rediscounts beyond the 30-day window in the case of systemic liquidity problems (Law 24,485 of April, 1995).

¹³To this end, the authorities charged the Banco Nación with purchasing high-quality loans from ailing banks with funds obtained by a two percent surcharge on reserve requirements for all banks.

¹⁴ These are calculated as a surcharge of 0.03 percent or 0.06 percent (depending on the assessed riskiness of the institution) on deposits. To limit moral-hazard the scheme is limited to a maximum restitution of US\$20,000 per depositor.

¹⁵ For a concise description of financial developments in Argentina during 1995, see IMF (1996), *International Capital Markets: Development, Prospects and Key Policy Issues*, IMF, Washington D.C., pp. 112–113. A more detailed account of events is provided in Banco Central de la República Argentina, “Managing a Liquidity Shock: Regulating the Financial System in Argentina, December 1994 to July 1995”, BCRA, August 1995, mimeo.

asset ratios further, and placed emphasis on addressing information asymmetries in credit markets and overhauling the country's payments system.

Measures

In the third quarter of 1995, reserve requirements were replaced by a system of remunerated liquidity requirements which was gradually tightened. High **legal liquidity requirements (LLRs)** are regarded by the authorities as a vehicle to improve depositors' confidence and a bulwark against imprudent lending policies—a view corroborated by developments during the 1995 crisis, when it was observed that banks with weak liquidity positions proved to be the ones more likely to witness a run on deposits.¹⁶ At the same time, higher LLRs are deemed to provide an incentive for the recapitalization of banks by raising the relative cost of deposits relative to banks' own capital as a source of funding. Under the new system, banks were allowed to hold LLRs either at the BCRA under a repo agreement renewed on a daily basis (“pases pasivos”), or in deposit accounts at the New York branch of the Deutsche Bank, or in OECD countries' government bonds rated ‘A’ or above held at the same international custodian.¹⁷

Subsequent to the introduction of this new system, LLRs were tightened by extending their applicability to banking liabilities other than deposits and through the establishment of a scheduled increase of 2 percentage points a year, to reach 20 percent of most banking liabilities by February 1998—a rate substantially higher than that prevailing in most countries.¹⁸ Banks' capacity to withstand liquidity shortages was enhanced further through an agreement between the BCRA and a group of 13 major international banks on a **contingent repo facility** which allows the BCRA to swap a collateral (Argentine government securities owned by the BCRA or by domestic financial entities) for up to US\$ 7.3 billion in cash—an amount equivalent to 11¾ percent of total deposits in December 1996, when the contract was signed. The scheme works as a put option which can be exercised at the BCRA's discretion during the period of the contract (currently with a minimum maturity of two years and a

¹⁶See BCRA (1995), *op. cit.*, for evidence on the extent to which the public discriminated between “good” and “bad” banks on the basis of their relative liquidity position during the 1995 crisis.

¹⁷Initially banks were required to hold at least 50 percent of LLRs at the BCRA but this minimum threshold was gradually reduced to 20 percent. At end-1997, 48 percent of banks' liquidity requirements were held at the BCRA.

¹⁸ For instance, reserve requirements stand at 10 percent on time deposits in Chile, Venezuela and Peru, 6 percent in Germany and 0.35 percent in the U.K. See Rojas-Suarez, Liliana and Steven Weisbrod, “Banking Crisis in Latin America: Experience and Issues”, Paper presented in the Conference on Banking Crisis in Latin America, Inter-American Development, October 6–7, 1995.

maximum maturity of five years), subject to a margin call¹⁹ and a commitment fee of 33 basis points. In the event of a drawing, the implicit cost would be equivalent to the U.S. dollar LIBOR plus 205 basis points.

Capital-asset ratios were raised through the introduction of a new weighting system which takes into account market risk factors (besides the usual counterparty risk)²⁰ as well as the institution's CAMEL rating in determining the minimum coverage of banks' assets with own capital.²¹ The CAMEL rating of a bank is determined by the superintendency of banks on the basis of information provided by financial entities and monitored on the basis of quarterly inspections by authorized external auditors.

Information asymmetries are widely acknowledged to be a main determinant of high interest rate spreads in Argentina and a hindrance to efficient credit allocation. In particular, information deficiencies have long affected small but financially viable agricultural producers in the countryside and small and medium industrial enterprises ("PYMES"), which are charged high lending rates and are often subject to credit rationing.²² At the root of the problem lies

¹⁹The margin call under the agreement specifies that if the price of the collateral falls by more than 5 percent, further bonds or U.S. dollars must be delivered to reach 125 percent of the amount of cover to be provided; if the price of the collateral falls by more than 20 percent the BCRA is obliged to top up the difference with U.S. dollars. This implies that the transaction would turn increasingly more expensive as the market price of the collateral drops beyond 20 percent and would eventually unwind itself. A description of the terms of this contingent repo facility is provided in Banco Central de la República Argentina, "Main Features of the Regulatory Framework of the Argentine Financial System", April 1997.

²⁰Market risk is calculated on the basis of the observed asset volatility, so that the higher the price volatility of a bank's assets, the higher the coverage with the bank's own capital that is required.

²¹The CAMEL system establishes a rating of 1 to 5 on the quality of Capital, Assets, Management, Earnings and Liquidity. A sound bank, with CAMEL rating of 1 (2), will have its assets multiplied by 0.97 (1.00) to determine its minimum capital coverage. A bank with CAMEL rating of 5 will have its assets multiplied by 1.125, thereby being required to increase the capital coverage of its assets by an additional 12.5 percent relative to a bank with CAMEL rate of 2.

²²Bank credit is estimated to finance about 55 percent of total production in the capital, but only 11 percent of output in the remainder of the country. See Pou, Pedro. "La Argentina Interior", paper presented at the conference of the Association of Private Provincial Banks of the Republic of Argentina (ABAPPRA), November 24, 1997, mimeo. Main issues on the financing of PYMES are discussed in Vicens, Mario. 1997. "El Crédito en la Argentina:

(continued...)

the difficulty faced by financial institutions in Argentina in assessing the creditworthiness of new borrowers in the absence of a comprehensive nationwide system of credit information. Limited access to credit information has hindered competition amongst financial intermediaries for creditworthy clients, has contributed to the segmentation of the system and exacerbated adverse selection effects, as banks—when faced with difficulties to screen out “bad” from “good” borrowers—tend to raise interest rates across the board and thus crowd out the creditworthy borrower. To promote the dissemination of credit information amongst financial institutions, a credit risk bureau was established in the BCRA in September 1996 with a mandate to centralize information from all financial entities on the credit history of their debtors, which can then be passed on to any individual institution that so requests.

Steps were also taken to disseminate information about the performance of individual banks and foster market-driven monitoring of bank’s performance. The authorities’ objectives in this area are to increase public awareness of riskier institutions, impose market discipline on their management and enhance competition in the supply of banking services.²³ To this end, a monthly publication containing individual banks’ balance sheets, together with a set of performance indicators, has been given wide circulation and made available to the general public through the BCRA internet site. The accuracy of such information has been enhanced through quarterly external audits and rating reports based on the CAMEL evaluation system. Starting in 1998, all financial institutions will be obliged to print their rating on billboards, deposit certificates and other publications related to raising funds from the public. Moreover, also starting in 1998, banks (with exception of branch offices of foreign banks with ‘investment grade’ and foreign bank subsidiaries with explicit backing of their parent institution) will need to issue debt for at least 2 percent of their deposit base, with a minimum two-year maturity, under the form of publicly-offered bonds, or loans or time-deposit certificates to be held by a foreign bank with rating “A” or higher.

The **high cost of financial services** has been a long-standing constraint on financial deepening in Argentina. High reliance on cash as a means of payments and the limited use of banking services by the public through the early 1990s reflected years of macroeconomic disarray and a general lack of confidence in the financial system after episodes of asset confiscation and freezing of private sector deposits by previous administrations. With macroeconomic

²²(...continued)

Factores de Sobrecosto”, paper presented at the conference of the National Association of Argentine Banks (ADEBA), Buenos Aires, May 1997.

²³The importance of good bank-specific information has been emphasized in the recent academic and policy-oriented literature on bank runs and contagion effects. In the case of the U.S., for instance, it has been documented that the availability of reliable information on banks’ fundamentals to depositors helped to prevent runs in the years prior to the set up of the Federal Reserve. See Park, S. 1991. “Bank Failure Contagion in Historical Perspective”, *Journal of Monetary Economics*, 28, pp. 271–86.

stabilization and the gradual strengthening of public confidence in the system, the use of banking services in Argentina has risen rapidly since 1991; yet, it remains well below industrial country levels, both on a per capita basis and as a ratio to GDP. A main factor is the relatively high cost of financial services in Argentina which, in turn, has been attributed to three main variables:²⁴ i. the composition of payment instruments demanded by the public, which in Argentina is highly skewed toward labor intensive tasks, leading to higher operating costs;²⁵ ii. low monetization, which entails a proliferation of low-value deposit accounts that are expensive to manage; iii. the high cost of interbank transfers and settlement of financial transactions.

The impact of low monetization on the cost of financial intermediation is being gradually corrected by the effect that price stability, tighter prudential regulations and further strengthening of the currency board arrangement are having on agents' confidence in the domestic financial system. In addition, the authorities have taken a number of steps to spread the use of bank accounts and interbank payment transfers, which include making it compulsory for enterprises of over 100 employees to pay wages and salaries through bank accounts, heftier penalties on default on checks and stricter regulations on direct debit instruments.

In the area of **interbank payments and settlement system**, substantial advances have been made toward a comprehensive reform. Prior to 1997, interbank settlements were based on a multilateral net settlement system for large value transactions managed by the BCRA. The system operated on the basis of a form that financial institutions had to submit to the BCRA, which was processed semi-manually before the transfer of funds was authorized at the close of each business day (system 4090). Low value transactions were settled in 83 clearing houses around the country,²⁶ not interlinked electronically and relying on physical transfers of

²⁴See Vicens, M., op. cit., as well as Villar A. 1996. "Sistema de Pagos en la Economía Argentina", BCRA, mimeo, August 1996, and Corrigan, E. G. 1996. "Building a Progressive and Profitable National Banking System in Argentina, Goldman, Sachs and Co., New York, mimeo.

²⁵For instance, cash withdrawals and payments through a manual cashier is still the operation most relied upon by the public, accounting for 42 percent of the total, according to a 1995 survey. The remainder is distributed as follows: payments by check (29 percent), ATM (5 percent), automatic debit/credit (4 percent) and interbank transfers (20 percent). The high cost of the latter, however, implies that this instrument is used mostly by enterprises, rather than by the general public. See Villar, A., op.cit.

²⁶The most important of which is located at the BCRA, accounting for over 60 percent of nationwide checking clearing operations. The remaining regional clearing houses have been operated by the Banco Nación on behalf of the BCRA.

cash balances for the final settlement of net outstanding positions—an arrangement that was both risky and costly. Starting in the second half of 1997, a system of real time gross settlement (RTGS) for high value interbank transfers was introduced, replacing the previous

Box 1. Main Measures implemented during 1996 and 1997 to strengthen the banking system and promote financial deepening

- Extension of legal liquidity requirements to liabilities other than deposits (such as lines of credit from abroad, interbank repo operations and commercial paper) together with a pre-announced timetable for increasing LLR from 15 percent of most banks' liabilities in February 1996 to 20 percent by February 1998;
- A tightening of minimum capital requirements through the introduction, from September 1996, of a more stringent criterion for calculating the risk-weighted stock of assets, which in addition to the usual criteria for "counterpart risk", also includes a measure of "market risk" and takes into account the CAMEL rating of the respective institution;
- The establishment from September 1996 of a credit information bureau at the BCRA with the purpose of providing information to financial institutions about the credit rating of borrowers nationwide;
- A contingent line of credit set up in December 1996 with a group of foreign financial entities, whereby the BCRA and participating local banks have the option to engage in a repurchase agreement with Argentine government securities for up to US\$ 7.3 billion;
- A reform of the payments system, including replacement of a semi-manual clearing system by a real time gross settlement system from the second half of 1997;
- Obligation, starting in late 1997, for all enterprises with more than 100 workers to pay their employees through deposit accounts in financial institutions;
- Introduction, in December 1996, of compulsory quarterly external auditing; and requirement, from January 1998 for all financial entities to publish their ratings on billboards, deposit certificates and all other publications aimed at raising funds from the public;
- Obligation, starting in 1998, for all financial institutions to issue debt for at least 2 percent of their respective deposit base in the form of bonds or loans to be placed with institutions with a 'A' rating or higher.

net settlement system (system 4090). Stand alone computers at the different institutions have been linked via a gateway to a terminal connected to the BCRA, which coordinates debit/credit operations of the respective institutions' current account at the BCRA. Since no

transactions are posted if the bank's current account funds are insufficient to cover the electronic payment order in full, the new system imposes greater discipline on the liquidity management of financial institutions, while also eliminating the main source of credit risk underlying the previous system—a particularly desirable feature under a currency board arrangement. In the area of retail payments, the reform involved the setting up of two automated clearing houses (ACHs)—one comprising the large private banks and the Banco Nación, while the other ACH includes small private banks as well as provincial public banks. The BCRA is responsible for regulating the operations of the ACHs, and the settlement of the ACH's net positions takes place over the current accounts of banks at the BCRA. As with the reform of the wholesale payments system, the overhaul of the retail payments network is expected to bring about a substantial reduction in credit risk and banks' operating costs.

B. Recent Trends in Financial Intermediation

Figure 1 (top panel) depicts trends in banking system deposits, credit to the private sector and total credit (private sector plus government). Deposits grew at an average annual rate of 21 percent since end-1995 and at end-September 1997 stood 42 percent above end-1994 levels, while credit to the private sector grew at an annual average rate of 8½ percent. After having nearly doubled during the 1995 crisis,²⁷ net bank credit to the public sector declined by some Arg\$2.5 billion (or 30 percent) between end-1995 and mid-1997 (Statistical Appendix Table 32). Thus, notwithstanding an acceleration in recent months, overall credit expansion remained well below the growth of deposits. This reflected the tightening in LLRs, a sharp reduction in the bank's net foreign liabilities, as well as a more prudent attitude on the part of banks toward new lending in the aftermath of the 1995 crisis. Despite the rapid growth of deposits, indicators of financial deepening such as broad money (M3) and credit to the private sector to GDP, remain well below industrial country levels.²⁸

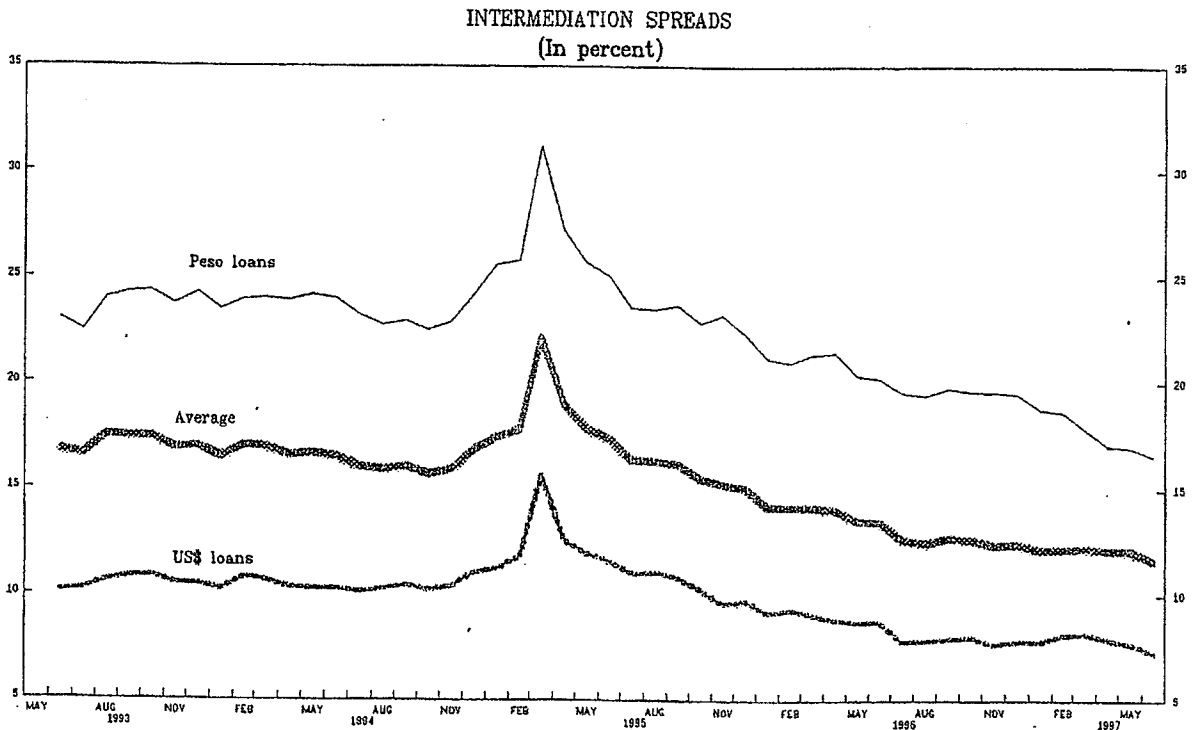
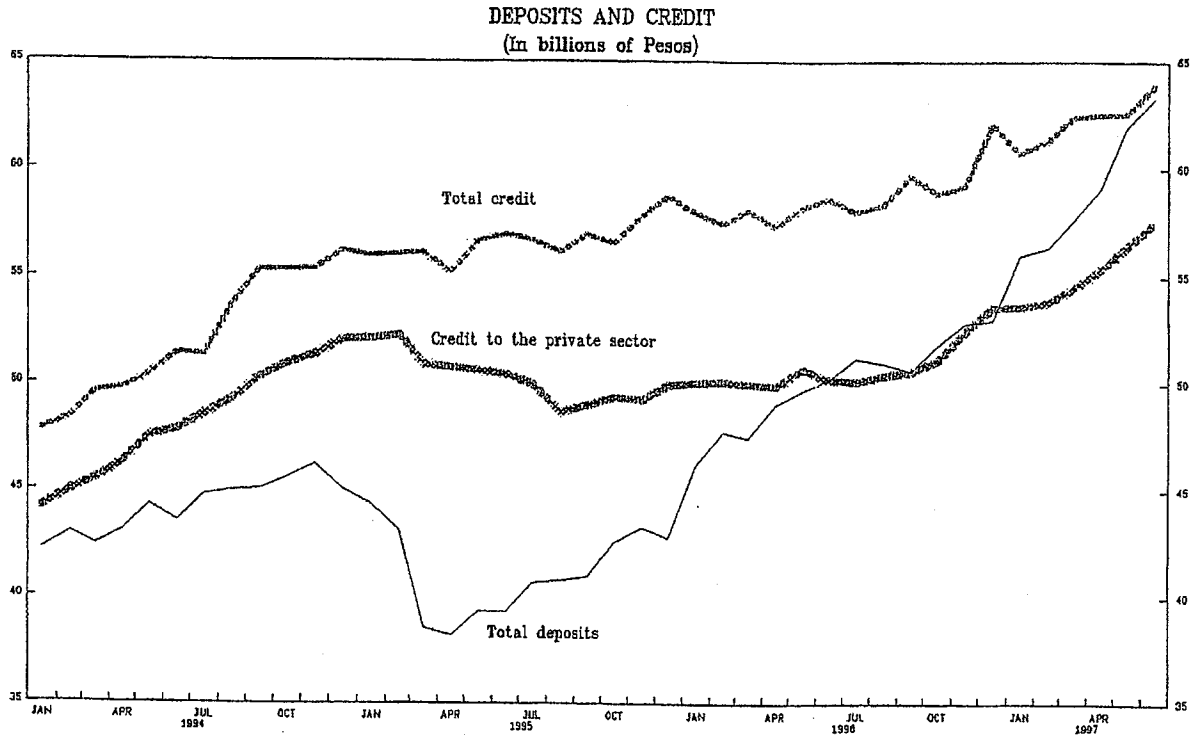
The increase in banks' liquidity margins resulted in a wider coverage of total deposits with liquid foreign assets. Liquidity requirements, plus the BCRA's contingent line of credit and the banks' cash in vault amounted to 33 percent of deposits in September 1997, up from 23 percent in end-1994.²⁹ The BCRA's liquidity position also strengthened during the period with the recovery of rediscounts that were granted during the 1995 crisis and some sale of

²⁷As fiscal balances deteriorated and foreign borrowing became increasingly expensive during 1995, the participation of domestic banks in net public sector financing increased markedly, thus reverting the 1991-1994 trend, when net bank credit to the public sector declined in absolute terms.

²⁸For instance, while M3/GDP reached 22 1/2 percent in Argentina during 1997, it stood around 67 percent in Germany, 59 percent in the USA, 79 percent in Spain, and 40 percent in Chile at end-1996. In Argentina it had stood at over 40 percent in the 1940s.

²⁹In addition, the possibility under the convertibility law that the BCRA extend extra liquidity to banks for up to 33 percent of gross international reserves would entail as of September 1997 an extra coverage of 6 percent of total deposits.

Figure 1. Argentina: Bank Deposits, Credit and Spreads



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

government bonds, which resulted in a reduction in the Bank's net domestic assets of about Arg\$1.8 billion since end-1995. As a result of such improvements in the liquidity position of both the BCRA and the rest of the financial system, the coverage of broad money (M3) with liquid foreign assets rose by 6 percentage points between end-1994 and September 1997, to 46 percent.

The gradual strengthening of Argentina's banking system can also be gauged from a number of solvency and capital-adequacy indicators. The stock of problem loans for the aggregate system fell from 16½ percent of total loans in the second half of 1995 to 11.4 percent in August 1997 or, when measured net of provisions, from 7¾ percent to 4¾ percent. Although the stock of problem loans as a percentage of total loans remained substantially higher among public banks than among private banks, both groups witnessed a similar improvement. The number of checks with no funds—an important indicator of private sector solvency in Argentina—declined markedly over the past two years, partly reflecting the macroeconomic recovery but also the stiffer penalties on defaults on checks introduced by the new checking law. The risk-weighted capital-asset ratio for the banking system rose from 18.2 percent in December 1994 to 20.1 percent in July 1997 on the basis of the Basle criterion. Growing domestic liquidity has been accompanied by a marked reduction in the stock of net foreign liabilities of commercial banks and nonbanking financial institutions, which declined from US\$7.4 billion at end-1995 to 2.7 billion at mid-1997 (Statistical Appendix Table 32).

Both deposit and lending interest rates fell substantially from end-1995 levels, partly due to improved macroeconomic prospects and a decline in exchange-rate and relative country risk, but also due to a reduction in banking spreads (Figure 1, bottom panel). The decline in intermediation spreads since late 1995 reflected a decline in problem loans as well as an improvement in operational efficiency—the two most important determinants of domestic intermediation spreads in Argentina.³⁰ Although the tightening of prudential rules—notably in legal liquidity requirements—increased the cost of funding during the period, its adverse effect on banking spreads was minor, reflecting the fact that LLRs are fully remunerated.

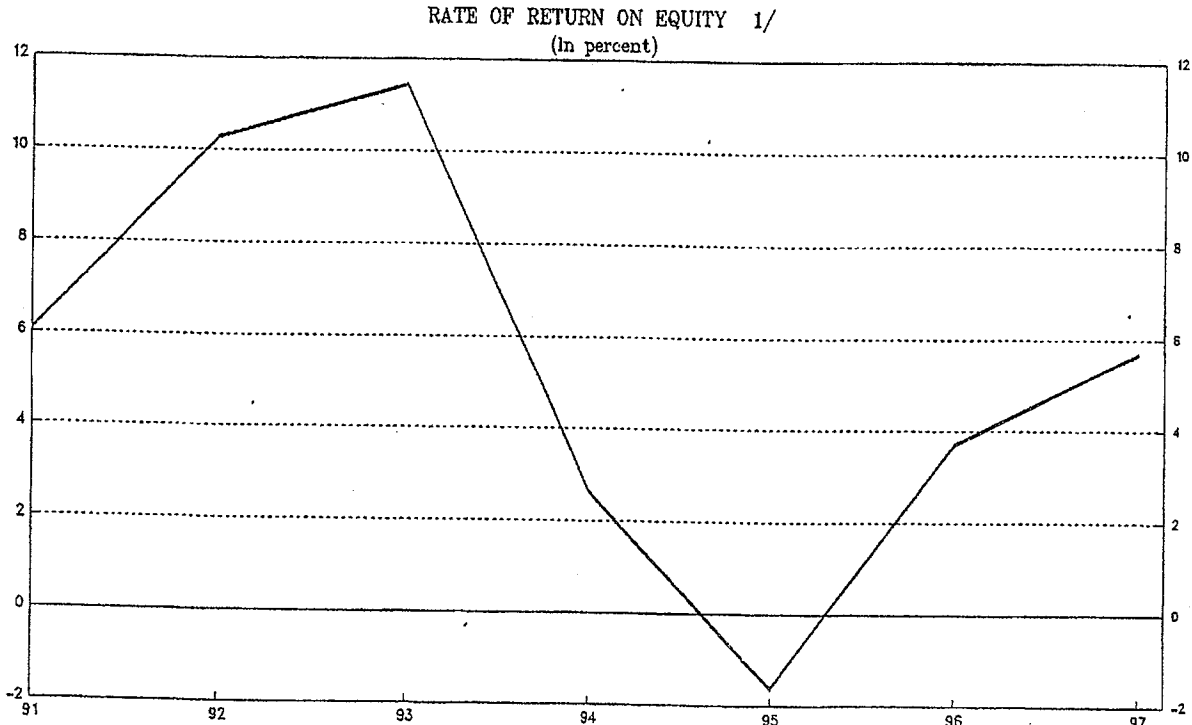
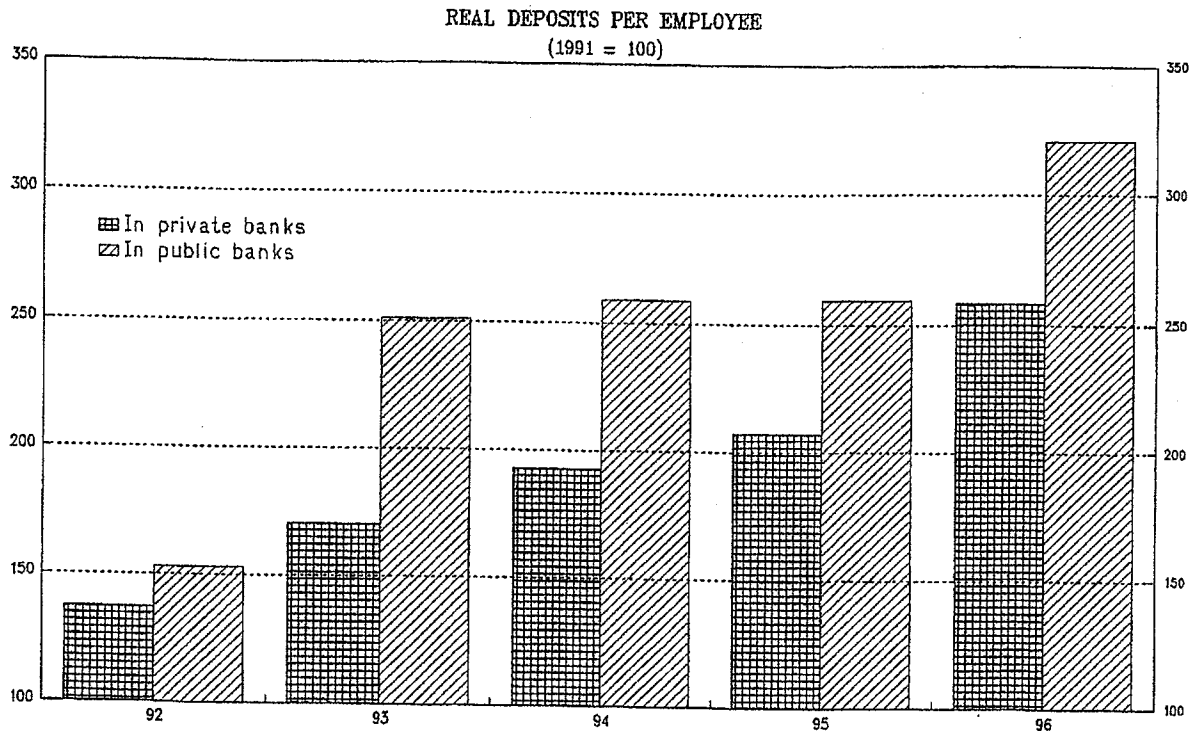
³⁰Based on income statement data from the consolidated banking system and using balance-sheet identities, it is possible to estimate the relative contribution of the distinct factors accounting for intermediation spreads. Staff estimates for the 1995-96 fiscal year are as follows (in percent):

Taxes on financial intermediation	0.8
Cost of LLRs	0.2
Cost of deposit insurance	0.3
Operating costs	10.1
Cost of loan recovery and provisioning	5.3
Minus: Net service income	5.0
Other income (net)	<u>2.8</u>
Equal: Implicit intermediation spread	8.9

After bottoming out in the second quarter of 1995, the rate of return on equity (ROE) for the banking system as a whole increased markedly, from an average of -1.6 percent in 1995 to an average of 6 percent in the first half of 1997 (Figure 2). This reflected both the reduction in average costs accruing from higher monetization and computerization of bank operations, as well as the consolidation of the banking sector. Not only the total number of institutions fell markedly—from 205 in end-1994 to 143 in September 1997—but also the share of deposits accounted for the 15 largest institutions in total deposits increased from 58 percent in end-1994 to 69 percent in September 1997. Several loss-making provincial banks were privatized and a number of private banks were merged or taken over by financially sounder institutions. Competition amongst the latter, stemming in particular from the greater penetration of foreign banks in the Argentine market, became stiffer. Three large domestic banks and two mid-sized ones had their majority ownership taken over by international financial groups, whose share in total deposits in the financial system rose from 16½ percent in end-1994 to 39 percent in end-September 1997. The increased competition for the supply of banking services appears to have exerted a disciplinary effect on management policies, while also providing further incentives for the search of new clients. Consultations to the BCRA credit rating bureau have increased rapidly since late 1996, while information made available by financial institutions already covers some 4.2 million borrowers. A swift expansion of the banking network, particularly toward the inner regions of the country, has been underway.³¹

³¹Between end-1996 and November 1997, a total of 430 requests for the opening of new branches have been placed with the BCRA, representing an eleven percent increase over the previous year. Of these 251 branches are to be located outside the Great Buenos Aires area. See, Pou (op.cit).

Figure 2. Argentina: Efficiency Indicators of the Banking System



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

1/ Data available up to first half of 1997.

III. SOCIAL EXPENDITURE³²

Argentina has a history of generous spending on its social sector. This note examines recent developments in social spending. It begins by looking at overall expenditure by the public sector on a functional basis, in order to put aggregate social spending in the context of total public expenditure. It then goes on to examine the distribution of spending within the social sector, and looks at some of its most important (in terms of the level of expenditure) elements. Finally, it examines the recent development of some key social indicators, including the distribution of income.

A. Overall Trends

Reductions in public expenditure have played a major role in the fiscal restructuring that has occurred in Argentina in recent years. At the beginning of the decade, total public sector expenditure (including the federal government, provinces, municipalities, and state enterprises) on a commitment basis reached nearly one-third of GDP (see Table 1). In 1996, total public sector expenditure had fallen to 27 percent of GDP, its lowest level in many years. However, this decline largely reflects growth in GDP. Between 1990 and 1994 spending by the consolidated public sector rose by nearly 25 percent in constant peso terms, and although real spending fell in 1995 and 1996, spending by the consolidated public sector was nevertheless 18 percent greater in constant peso terms in 1996 than in 1990 (Table 2).³³

Virtually all of the decline in spending relative to GDP can be traced to two categories: interest and economic services.³⁴ In 1989—the year of the hyperinflation—spending on these categories equaled more than 40 percent of total expenditure (Table 3), but since then this figure has fallen to a little less than 15 percent of total spending (in 1996). Relative to GDP, these categories of expenditure have fallen from about 17 percent to about 4 percent over the same period. The decline in interest expenditure primarily reflects the decline in inflation, and the accompanying fall in domestic interest rates. The decline in spending on economic services (more than 70 percent in constant pesos since the late 1980s) can be traced in part to the authorities' privatization program. Currently, more than 45 percent of spending on economic services goes for transportation and communication, spending on which is divided more or less equally between the federal government, on one hand, and provincial and municipal

³²Prepared by Philip Gerson.

³³Nominal expenditure amounts are deflated using the implicit GDP deflator. Real expenditure figures obtained using the CPI differ substantially from those reported here.

³⁴Economic services includes a variety of activities that are either directly productive—such as transportation and communications—or promote or regulate private sector activity, such as tourism promotion and environmental regulation. Over the last few years, transportation has accounted for more than half of the total expenditure in this category.

governments on the other. Expenditure on defense and internal security including pensions outlays amounted to less than 2 percent of GDP in 1990, and has remained fairly constant relative to GDP since then.

Because much of the decline in total expenditure occurred in the category of interest expenditure, declines in primary expenditure have been much more modest than those in total expenditure. Relative to GDP, primary expenditure remained essentially constant between 1990 and 1995, before falling by about 2½ percent of GDP in 1996. In constant peso terms, primary expenditure grew by nearly 40 percent between 1990 and 1994, before declining in 1995 and 1996. In essence, the decline in interest rates and high levels of real GDP growth in the early 1990s allowed the authorities to increase real primary expenditure significantly while still recording a decline in total expenditure relative to GDP.

The distribution of expenditure at the various levels of the public sector has also changed in recent years. Since 1989 the share of the federal government, the social security institutions and the public corporations in total spending has declined from nearly 73 percent to about 56 percent (Table 4). To some extent, this reflects the privatization of a number of public sector enterprises and the decline in the importance of interest expenditure, which is predominantly (though decreasingly) an area of federal government expenditure. However, it also reflects a shift in most other categories of expenditure toward increasing local (provincial and municipal) participation, including in the social sector.

B. The Social Safety Net in Argentina

The official social safety net comprises the social security system, which provides pensions to about 3½ million retirees; the public education system, which provides free education at the pre-school, primary, secondary, and university levels; and the public health system, which provides free health care for the indigent and uninsured. In addition, the Government has established a number of programs to assist the poor and the unemployed, including programs in the areas of training, special education, emergency social assistance, employment, income support for families, food, and housing. The most important social programs include health care for the elderly (PAMI) and housing programs (principally FONAVI). While unemployment benefits exist, eligibility requirements are strict and the length of coverage is limited (to between four and twelve months).

C. Trends in Social Spending

Social spending has increased faster than GDP (by about 45 percent in real terms since 1990). Coupled with the sharp declines in expenditure on interest and on economic services, social expenditure now represents two-thirds of total public expenditure, compared to less than one-half in 1988 and 1989. The two-thirds ratio of social to total expenditure applies at each of the national, provincial and municipal levels. Nearly three-quarters of public primary expenditure now goes to the social sector, compared to about 55 percent in 1988 and 1989.

Within the social sector, the relative shares of different categories of expenditure have remained fairly constant in recent years. Social security expenditure accounts for about 40 percent of total social spending, health care about 25 percent and education about 20 percent (Table 5). Within subsectors, spending on basic education constitutes about two-thirds of total spending on education and culture, and spending on secondary and university education about one-fifth. The balance is made up by spending on science and technology, and by other cultural expenditures. Slightly more than one-third of health expenditures go for the direct provision of medical services, about one-third toward obras sociales,³⁵ and the balance for medical care for retirees (PAMI).

The shift in expenditure from the national to the local level has been particularly marked in two areas: education and housing. Beginning in 1992 responsibility for expenditures on secondary and university education was transferred from the federal to the local level.³⁶ In addition, while expenditure on housing has always been almost exclusively within the domain of the provinces, by 1996 virtually all public expenditure on housing occurred at the local level. About three-quarters of expenditure on welfare and social security occurs at the national level, along with about half of health expenditure. Provincial health expenditure goes primarily for direct medical services, although provinces do have some expenditures on the obras sociales for their own employees.³⁷

Education

Primary school coverage in Argentina is virtually universal, and secondary school coverage is about 59 percent, which is about average for a medium-income country. Relative to GDP, spending on education in Argentina is about the same as in comparable countries. However, there are problems with the efficiency of spending. Despite the 60 percent increase in real spending on education between 1990 and 1996, neither enrollments nor graduation rates have increased, and achievement levels remain low, especially for poor children. At least in urban areas, enrollment ratios for students from poor families have fallen over the last several years, while those from better-off families have grown. As a result, the gap between enrollment rates

³⁵Obras sociales are medical insurance schemes that are linked to places of employment. Participation in an obra social is mandatory for formal sector workers and their dependents. About 300 national obras with approximately 10 million beneficiaries exist, with one serving each occupation and industry. They are financed by a compulsory payroll contribution from workers and their employers, at a combined rate of 6 to 9 percent, depending on the geographical location of employment. In addition, each of the 24 provinces has a provincial obra social for its public sector workers. Altogether, these cover an additional 5 million workers and are also financed by wage taxes.

³⁶Responsibility for primary education was transferred to the provincial level in 1978.

³⁷Municipal governments finance only direct provision of medical services.

for children aged 14 to 19 from the highest and lowest income quintiles has widened from 14.4 to 31.8 percentage points between 1990 and 1996. When students do go to school, the quality of the education they receive is questionable: at both the primary and the secondary level, nationwide achievement exams have found that students are learning only 60 percent of what they are expected to know in the areas of mathematics and science. In addition, the ratio of graduates to total university enrollment has declined from 8 percent to 5 percent over the last decade. By contrast, Brazil, Chile and Mexico all have ratios of graduates to enrollment of between 12 and 15 percent. Moreover, the ratio of science graduates to total population in Argentina is less than half the OECD average, and about one-quarter of the ratio in Australia, Ireland, Japan and Korea.

During the 1990s the authorities have adopted a number of reforms to the education sector. In 1993 a new Ley Federal de Educación extended the mandatory period of schooling from 7 to 10 years. A national system has been established to measure the quality of primary and secondary education nationwide, and universities have been given the right to raise their own resources by instituting charges for some services.

Health

Argentina has a highly developed health system, with broad coverage, a wide range of preventive and primary care services available, and nearly 80 percent of young children vaccinated. The ratios of doctors and of hospital beds to inhabitants are similar to those in many OECD countries. About 70 percent of the population has health insurance, and the remainder of the population receives free care in government hospitals. About 90 percent of those with health insurance are members of obras sociales, while the remainder of the insured population is covered by private programs, some of which are for-profit. In recent years the authorities have introduced reforms to allow competition among obras sociales, for example by allowing workers some flexibility in changing affiliations among union-led obras sociales.

Overall health expenditures are financed primarily by earmarked social security taxes and by private payments (in the form of contributions to private insurance plans or pre-pagas, plus copayments, deductibles and out-of-pocket expenses for medications, etc.). To a lesser extent, general tax revenues, primarily from provincial governments, also finance health spending.

Health care delivery is shared about equally between the public and private sectors. The public sector accounts for about 40 percent of total hospital beds and also provides immunization programs, maternal health care, and nutrition programs for mothers and children. Nearly all public hospitals are owned by provincial or municipal health ministries rather than by the federal government. However, most insured individuals receive their health care from private sector providers, and most physicians have either full- or part-time private practice.

Health care insurance for most retirees and disabled persons—totaling about 3½ million individuals—is provided by PAMI. PAMI is financed by a portion of the payroll tax as well as by transfers from the social security system and own revenues. Over the years PAMI has run

large deficits, and the program has accumulated a stock of debt estimated at about Arg\$1.3 billion. PAMI's financial problems are due to a number of factors, including declining revenues due to reductions in required employer contributions; overstaffing; and a lack of emphasis on cost containment. With the support of the World Bank, PAMI has undertaken a number of cost control measures, which have combined to reduce its monthly cash flow deficit from Arg\$71 million in December 1995 to about Arg\$35 million a month in the first half of 1997. Among these measures are a reduction in staffing by 24 percent since 1995, an umbrella agreement with the pharmaceuticals industry that reduces monthly pharmaceutical spending by nearly 20 percent, and the signing of other contracts with providers to reduce unit costs. In March 1997 the Government approved a decree to transfer all PAMI debts to the treasury, and in 1998 the program is to be converted into an autonomous institution within the public sector.

Housing programs

The FONAVI housing program is a lending program funded by the Federal Government via a portion (currently 42 percent) of the revenue generated from fuel taxes and by reflows from previous loans. In 1996, FONAVI benefitted about 150,000 individuals and had total costs of about Arg\$1.1 billion. FONAVI is a significant player in the housing market: in 1995, FONAVI loans accounted for 20 percent of the total stock of housing loans, while 35 percent of houses were financed with FONAVI loans. FONAVI was established as a revolving loan fund, but with very generous terms. In practice the collection rate on FONAVI loans has been extremely low, converting the program largely into a pure transfer program. Although reforms introduced in 1993 have improved the collection rate on loans, and the quality of FONAVI-financed houses has improved, problems remain. For example, the recovery ratio on loans is still only about 50 percent.

Social Security

Social security accounts for about 40 percent of social expenditure (Table 5), and in recent years the social security system has undergone a dramatic transformation. Starting in July 1994, participants in the public, defined-benefit social security system were given the opportunity to opt out of part of the public system and instead contribute to a privately administered (although publicly regulated), defined contribution retirement scheme. While employer contributions would continue to accrue to the public system, and all employees would retain coverage for disability insurance and a minimum pension under the public system, the employee contributions of those who elected to join the new, capitalized system would be credited to their accounts with private investment firms (Administradoras de Fondos de Jubilaciones y Pensiones). Retirement benefits for these individuals will be paid from the accrued balances of their individual accounts, and will therefore depend both on their contributions and the performance of their investment portfolios. At the same time, the retirement age was increased by five years, to ages 65 for men and 60 for women. By mid-1997 more than two-thirds of contributors had chosen to affiliate with the privatized scheme.

Other programs

A variety of other social programs exist, including health care for needy mothers and infants; feeding for needy young children (PRANI); assistance for street children (PROAME); assistance to needy elderly (ASOMA); schooling opportunities for children; employment opportunities for heads of households (TRABAJAR, supported by the World Bank); and salary subsidies for heads of households who are over the age of 45. In addition, there are programs to provide low-cost housing for at least 50,000 needy families each year, and basic infrastructure for the 1,000 poorest municipalities.

D. Developments in Key Social Indicators

Most social indicators show significant improvement with respect to their levels in 1990, likely reflecting the more serious adverse impact hyperinflation had on the living standards of the poor than on those of the wealthy. However, since 1994 many indicators have worsened, reflecting the impact of the recession that followed the Mexican crisis of late 1994 and the resulting high unemployment rate. However, it appears that the ongoing economic recovery, and associated recent decline in the unemployment rate, has led to a renewed reduction in poverty rates. Between May 1990 and May 1994 the poverty rate in Greater Buenos Aires (defined as the percentage of the population below the poverty line) declined from about 43 percent to about 16 percent, only to increase to 26 percent in May 1997. The rate of indigence—those whose incomes are insufficient to afford a minimum consumption basket of foodstuffs—fell from 9.2 percent in May 1990 to 2.6 percent in May 1994, but rose to 4.1 percent in May 1997.³⁸

Looking beyond incomes, the performance of several indicators closely linked to poverty has also improved over recent decades. For example, the infant mortality rate has declined steadily from nearly 52 per 1,000 live births in 1970 to 27 in 1987 and to 22 in 1995. This figure is significantly better than the average of 37 for Latin America and the Caribbean, or 35 for upper-middle-income countries. Similarly, life expectancy at birth has grown from 67 years in 1970 to 71 years in 1987 and to nearly 73 years in 1995, compared to the 69 year average in Latin America and the Caribbean and in upper-middle-income countries. Progress has also been made in reducing adult illiteracy, which has fallen from 4.7 percent of the population aged 15 and over in 1990 to 3.8 percent in 1995.³⁹

Throughout the early 1990s income distribution figures documented the improving relative status of the middle class, with the share of national income accruing to the middle 60 percent of the income distribution (in Greater Buenos Aires) rising from 54.6 percent in 1990 to 57.3 percent in 1994. Over the same period, the share of national income accruing to the poorest 30 percent of the population rose marginally, from 8.8 percent in 1990 to 9.0 percent in

³⁸Ministerio de Economía y Obras y Servicios Públicos (1997).

³⁹World Bank (1997).

1994. Thus, the significant increases in per capita incomes that occurred in the early 1990s appear to have been relatively larger for the lower and especially the middle classes than for the wealthy, and by the mid-1990s the distribution of income in Argentina was generally more equal than in most Latin American countries. However, the groups that benefitted from the economic growth of the early 1990s were those that suffered the most from the downturn in 1995. That year, the last for which data are available, the share of income accruing to the poorest 30 percent of the population stood at 8.1 percent, lower than their share at the beginning of the decade. The overall improvement in poverty indicators between 1990 and 1995 reflects the fact that while the poor were receiving a smaller slice of the economic pie, several years of economic growth that were only partially offset by the recession of 1995 resulted in a much larger pie. High levels of social spending might not translate into permanent improvements in social indicators if there are inefficiencies or substantial leakage of social expenditures to middle or upper classes. A study conducted by the Ministerio de Economía [de Flood and others (1994)], which attempts to measure the redistributive impact of public sector social expenditure, suggests that social expenditure in Argentina is in fact mildly progressive. Using data from 1991 and 1992, the authors found that on a per capita basis, total social expenditure was oriented disproportionately toward upper income groups: the highest income quintile received benefits worth US\$1,112 on a per capita basis, compared to US\$752 for the lowest income group. However, the benefits received by lower income groups tended to be much larger as a share of per capita income. Moreover, the higher absolute benefits received by the better-off were due to the fact that social security benefits are much higher for upper income groups than for lower income ones. Excluding social security benefits, the authors found that the lowest income decile received substantially greater benefits than higher income groups both in per capita dollar terms and as a percentage of per capita income. In particular, they find that spending on health and education are highly progressive, while spending on housing is mildly regressive.

References

de Flood, M. Cristina V. and others (1994). *El Gasto Público y su Impacto Redistributivo*. Buenos Aires: Ministerio de Economía y Obras y Servicios Públicos.

Deininger, Klaus and Lyn Squire (1996) "A New Data Set Measuring Income Inequality." *World Bank Economic Review* 10:565-591.

Ministerio de Economía y Obras y Servicios Públicos (April 1997) *Informe Económico Numero 20, Año 1996*. Buenos Aires: Ministerio de Economía y Obras y Servicios Públicos.

World Bank (1997) *World Development Indicators CD-ROM*. Washington: The World Bank.

World Bank (1997a) *Argentina: The Fiscal Dimension of the Convertability Plan*. Washington: The World Bank.

World Bank (1997b) *Argentina: Second Generation Reforms*. Washington: The World Bank.

Table 1. Argentina: Functional Distribution of Public Expenditure for the Consolidated Public Sector
(In percent of GDP)

	General Admin.	Defense & Security	Education & Culture	Health	Housing	Labor	Soc. Ass. & Welfare	Other Social	Economic Services	Primary Expenditure	Interest	Total
1980	2.4	3.6	3.3	4.0	0.9	0.9	6.3	0.7	7.6	29.6	2.5	32.1
1981	2.5	3.6	3.4	5.2	0.5	0.6	6.8	0.7	7.5	30.7	5.4	36.1
1982	1.8	3.3	2.5	4.0	0.5	0.4	4.6	0.4	7.7	25.2	7.0	32.2
1983	1.9	2.9	2.8	3.8	0.8	0.5	4.3	0.5	7.8	25.3	4.3	29.7
1984	2.0	2.2	3.3	4.0	0.6	0.4	4.9	0.4	7.2	25.3	3.7	28.9
1985	2.5	2.3	3.5	4.5	0.7	0.5	7.0	0.7	7.8	29.5	3.9	33.4
1986	2.7	2.5	3.8	4.7	0.8	0.7	7.0	0.7	7.1	29.9	3.2	33.1
1987	3.0	2.6	4.1	4.8	0.9	0.6	7.8	0.8	7.8	32.4	4.0	36.3
1988	2.8	2.4	3.7	4.5	0.6	0.4	6.6	0.7	7.9	29.6	5.0	34.6
1989	2.7	2.3	3.4	4.2	0.5	0.4	8.3	0.7	7.9	30.4	8.9	39.3
1990	2.8	1.9	3.3	4.4	0.7	0.4	8.0	0.8	5.0	27.2	4.9	32.2
1991	3.1	2.1	3.3	4.4	0.6	0.6	8.2	0.8	3.4	26.6	3.2	29.8
1992	3.4	2.1	3.5	4.4	0.4	0.6	8.4	0.8	2.8	26.5	2.2	28.6
1993	3.5	2.1	3.7	4.6	0.4	0.8	7.9	0.9	3.0	26.9	1.6	28.5
1994*	3.6	2.1	3.8	4.8	0.4	0.8	8.2	0.9	2.3	26.9	1.6	28.5
1995*	3.6	2.1	3.9	4.9	0.4	0.9	8.4	0.8	2.3	27.3	2.0	29.3
1996*	3.1	1.9	3.8	4.4	0.4	0.8	8.0	0.7	1.7	24.9	2.2	27.1

* Preliminary

Source: Ministry of Economy and Public Works.

Table 2. Argentina: Functional Distribution of Public Expenditure for the Consolidated Public Sector

(In constant pesos, 1990=100) 1/

	General Admin		Defense & Security		Education & Culture		Health	Housing	Labor	Social Assis. & Welfare		Other Social	Total Social	Economic Services	Primary Expenditure	Interest	Total	
1980	98.3	248.5	111.3	100.3	143.7	266.5	87.6	98.3	101.7	170.9	121.6	57.1	111.7					
1981	95.0	238.0	107.3	123.8	82.5	175.2	88.8	97.3	103.1	159.0	119.4	115.9	118.8					
1982	66.5	175.8	77.2	92.4	80.6	112.3	58.3	59.6	72.5	158.7	94.8	145.1	102.5					
1983	74.2	164.2	89.4	92.9	120.8	149.4	57.4	65.7	77.1	167.3	99.3	93.1	98.4					
1984	78.7	127.1	109.4	98.8	104.6	128.5	66.8	62.3	85.4	158.9	101.1	80.3	97.9					
1985	93.0	123.5	106.7	102.8	99.6	141.1	87.6	86.5	96.6	159.9	109.6	80.6	105.2					
1986	106.4	143.8	123.6	114.7	122.7	211.1	94.0	102.3	108.7	154.6	119.3	70.4	111.8					
1987	121.0	152.7	137.7	120.9	142.5	179.6	107.8	117.5	120.0	173.9	132.2	89.6	125.7					
1988	109.0	139.2	121.7	111.9	102.7	105.7	89.3	96.8	102.3	172.8	118.4	110.3	117.2					
1989	99.2	119.9	102.3	96.7	80.9	107.3	105.1	88.1	100.9	162.4	113.2	182.2	123.8					
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0					
1991	124.3	124.5	109.8	111.0	93.2	187.0	112.8	116.9	112.8	75.1	107.9	71.6	102.3					
1992	149.4	137.4	129.2	122.5	76.9	191.1	126.7	133.6	125.9	67.9	118.5	53.4	108.5					
1993	164.8	140.8	144.5	135.1	74.3	270.3	127.7	150.8	134.7	78.7	128.0	42.3	114.8					
1994*	185.8	152.0	161.4	152.4	88.8	307.8	142.6	159.4	150.8	65.9	139.0	44.7	124.5					
1995*	173.3	150.1	159.2	148.3	80.6	313.0	139.7	146.9	147.3	61.4	134.5	54.3	122.1					
1996*	156.8	142.8	161.1	140.6	80.0	303.5	138.7	135.8	144.5	48.1	128.1	62.7	118.0					

1/ Deflated by the implicit GDP deflator.

* Preliminary.

Sources: Ministry of Economy and Public Works and Fund Staff Estimates.

Table 3. Argentina: Functional Distribution of Public Expenditure for the Consolidated Public Sector

(Percent of expenditure)

	General Admin.	Defense & Security	Functions of State	Education & Culture	Health	Housing	Labor	Soc. Ass. & Welfare	Other Social	Total Social	Economic Services	Primary Expenditure	Interest	Total
1980	7.5	11.2	18.7	10.3	12.3	2.7	2.8	19.6	2.1	49.8	23.6	92.1	7.9	100.0
1981	6.9	10.1	16.9	9.3	14.3	1.4	1.7	18.7	2.0	47.4	20.6	85.0	15.0	100.0
1982	5.6	10.1	15.7	7.8	12.4	1.6	1.3	14.2	1.4	38.7	23.9	78.2	21.8	100.0
1983	6.5	9.9	16.3	9.4	13.0	2.6	1.8	14.6	1.6	42.9	26.2	85.4	14.6	100.0
1984	6.9	7.7	14.6	11.6	13.9	2.2	1.5	17.1	1.5	47.8	25.0	87.4	12.6	100.0
1985	7.6	7.0	14.5	10.5	13.4	2.0	1.5	20.8	2.0	50.2	23.4	88.2	11.8	100.0
1986	8.2	7.6	15.8	11.4	14.1	2.3	2.2	21.0	2.2	53.2	21.3	90.3	9.7	100.0
1987	8.3	7.2	15.4	11.3	13.2	2.4	1.7	21.5	2.2	52.2	21.3	89.0	11.0	100.0
1988	8.0	7.0	15.0	10.7	13.1	1.8	1.0	19.1	2.0	47.8	22.7	85.5	14.5	100.0
1989	6.9	5.7	12.6	8.5	10.7	1.4	1.0	21.2	1.7	44.6	20.2	77.4	22.6	100.0
1990	8.6	5.9	14.5	10.3	13.7	2.1	1.2	25.0	2.4	54.7	15.4	84.6	15.4	100.0
1991	10.4	7.2	17.6	11.1	14.9	1.9	2.1	27.6	2.7	60.3	11.3	89.2	10.8	100.0
1992	11.8	7.5	19.3	12.3	15.5	1.5	2.0	29.2	3.0	63.5	9.6	92.4	7.6	100.0
1993	12.3	7.3	19.6	13.0	16.1	1.3	2.7	27.8	3.1	64.2	10.6	94.3	5.7	100.0
1994*	12.8	7.2	20.0	13.4	16.8	1.5	2.9	28.7	3.1	66.3	8.2	94.5	5.5	100.0
1995*	12.2	7.3	19.4	13.5	16.7	1.4	3.0	28.6	2.9	66.0	7.8	93.2	6.8	100.0
1996*	11.4	7.2	18.6	14.1	16.3	1.4	3.0	29.4	2.8	67.0	6.3	91.8	8.2	100.0

* Preliminary

Source: Ministry of Economy and Public Works.

Table 4. Argentina: Spending by Federal Government, Social Security Institutions and Government Corporations as a Share of Total Expenditure

(In percent of public sector expenditure)

Year	Function of State	Education & Culture		Health	Housing	Soc. Sec. & Welfare		Labor	Other Social		Total Social	Economic Services	Primary Expenditure	Interest	Total
		Education & Culture	Education & Culture			Soc. Sec. & Welfare	Soc. Sec. & Welfare		Other Social	Other Social					
1980	55.0	48.0	63.8	6.1	78.9	100.0	0.0	62.7	71.8	63.5	96.9	66.1			
1981	55.8	46.4	64.2	15.4	75.8	100.0	0.0	62.5	77.7	64.8	96.5	69.6			
1982	63.4	46.8	66.4	25.2	77.7	100.0	0.0	63.6	84.5	69.9	98.6	76.2			
1983	61.3	48.0	67.3	18.7	77.1	100.0	0.0	62.3	82.3	68.3	97.3	72.5			
1984	54.3	40.4	61.8	10.8	75.3	100.0	0.0	58.3	78.2	63.3	99.2	67.9			
1985	50.7	40.8	57.8	17.5	75.7	100.0	0.0	59.1	78.4	62.9	98.1	67.0			
1986	48.6	36.8	57.3	13.7	72.9	100.0	0.0	56.6	75.2	59.6	98.6	63.4			
1987	49.6	37.5	59.8	10.0	74.7	100.0	0.0	57.6	80.7	61.7	97.8	65.7			
1988	50.2	39.1	60.6	8.6	73.2	100.0	0.0	57.2	84.1	63.1	95.3	67.8			
1989	50.2	36.1	58.6	7.3	78.4	100.0	0.0	60.8	86.0	65.7	96.5	72.7			
1990	44.4	37.1	60.5	6.1	76.2	100.0	0.0	59.4	81.2	60.8	98.4	66.6			
1991	45.2	36.1	55.6	8.3	74.3	100.0	0.0	58.1	69.1	56.9	95.8	61.1			
1992	44.7	21.9	52.2	4.7	72.2	100.0	0.0	53.5	65.8	52.9	92.8	56.0			
1993	42.2	22.9	51.0	6.3	68.4	95.2	0.0	51.3	60.0	50.4	88.7	52.5			
1994*	43.6	22.7	53.4	8.7	72.2	94.3	0.0	53.6	49.8	51.2	86.6	53.1			
1995*	43.7	22.7	53.5	1.1	72.3	99.5	0.0	54.0	45.7	51.2	87.3	53.6			
1996*	46.8	24.5	51.6	0.8	77.0	100.0	0.0	56.0	45.2	53.4	86.9	56.1			

Source: Ministry of Economy and Public Works.

Table 5. Argentina: Social Expenditure as Percent of Total Social Spending
(In percent)

	Education				Health				Labor				Urban Services	Total				
	Total	Basic Ed.	Sec. & Uni.	Sci/Tech.	Unspec.	Total	Med Serv.	Ob. Soc.	PAMI	Environm't	Housing	Welfare			Soc. Sec.	Total	Rel. Lab.	Asig. Fam.
1980	20.7	14.0	3.1	1.8	1.8	24.8	7.8	11.9	3.1	2.0	5.4	3.4	36.0	5.5	0.2	5.4	4.2	100.0
1981	19.7	12.4	3.2	2.5	2.3	30.1	8.3	16.3	3.7	1.9	3.0	3.6	35.8	3.6	0.2	3.4	4.1	100.0
1982	20.1	12.4	3.2	2.1	2.5	32.0	8.3	17.5	4.2	1.9	4.2	3.1	33.8	3.3	0.1	3.1	3.6	100.0
1983	21.9	14.1	3.2	1.9	2.7	30.2	8.5	15.2	4.6	1.9	6.0	3.4	30.7	4.1	0.1	4.0	3.7	100.0
1984	24.2	16.5	3.4	1.5	2.8	29.0	9.3	13.2	4.4	2.1	4.7	4.0	31.8	3.2	0.1	3.0	3.2	100.0
1985	20.9	13.7	3.0	1.6	2.5	26.7	8.2	12.9	4.0	1.6	3.9	4.7	36.8	3.1	0.1	2.9	3.9	100.0
1986	21.5	14.7	2.9	1.6	2.2	26.5	8.7	12.5	3.8	1.4	4.3	4.5	35.1	4.1	0.1	4.0	4.1	100.0
1987	21.7	14.4	3.4	1.6	2.5	25.3	8.1	12.4	3.4	1.4	4.5	4.5	36.6	3.2	0.2	2.9	4.3	100.0
1988	22.5	14.6	3.7	1.7	2.5	27.4	8.3	13.9	3.8	1.4	3.8	4.3	35.6	2.2	0.1	2.1	4.1	100.0
1989	19.2	12.7	2.9	1.5	2.0	24.1	7.8	12.1	3.0	1.1	3.1	5.1	42.6	2.2	0.1	2.2	3.8	100.0
1990	18.9	12.6	3.0	1.4	1.9	25.1	7.5	12.9	3.7	1.0	3.8	3.2	42.6	2.1	0.1	2.0	4.4	100.0
1991	18.4	12.9	2.7	1.2	1.6	24.7	7.8	11.5	4.0	1.4	3.1	3.0	42.7	3.5	0.1	3.4	4.5	100.0
1992	19.4	12.9	3.2	1.0	2.3	24.4	8.7	10.4	4.5	0.9	2.3	3.1	42.9	3.2	0.2	3.0	4.6	100.0
1993	20.3	13.1	3.5	1.1	2.6	25.2	9.5	10.0	4.6	1.0	2.1	3.8	39.5	4.2	1.1	3.2	4.9	100.0
1994*	20.2	13.4	3.3	1.1	2.4	25.3	9.4	9.4	5.4	1.1	2.2	3.6	39.7	4.3	1.2	3.1	4.6	100.0
1995*	20.4	13.1	3.8	1.1	2.4	25.3	9.0	9.3	5.6	1.3	2.1	3.5	39.9	4.5	1.2	3.3	4.4	100.0
1996*	21.1	13.6	4.1	1.0	2.3	24.4	9.2	9.1	4.9	1.1	2.1	3.3	40.5	4.4	1.4	3.0	4.1	100.0

Source: Ministry of Economy and Public Works.

IV. FOREIGN DIRECT INVESTMENT⁴⁰

Foreign direct investment (FDI) now constitutes a substantial proportion of capital flows into Argentina. This note presents an overview of FDI and related items in Argentina over the period 1992–95, based in large part on the results of a first-ever study undertaken by the Ministry of Economy.⁴¹ The study indicates that the increase in FDI in the 1990s occurred in response to: (i) the prevailing international environment; (ii) the structural reforms put in place in Argentina favoring its insertion into the international economy; (iii) privatizations; and (iv) the elimination of restrictions on foreign investors in particular and capital transactions in general.

Table 6 includes summary data on **foreign direct investment** (the capital account item comprising new investment inflows and reinvested income from existing investment stocks); the **accumulated investment position** (the aggregate existing investment stock); and **investment income** (a current account entry reflecting income generated from the accumulated investment position).⁴² FDI averaged some US\$3½ billion per year over 1992–95, or US\$4.2 billion per year if the portfolio investment element of the privatization program is included.⁴³ While aggregate FDI under either measure exhibited virtually no growth over the period, the disappearance of privatization opportunities implies that other FDI grew rather briskly, at 23 percent per annum. The substantial jump in FDI in 1994–95 was due in large part to (i) the creation of the private pension funds (AFJPs), which reportedly generated direct investment by nonresidents of around US\$300 million, and (ii) the category of other investments, which reflects the sale of private firms. The latter has replaced privatization as the main component of FDI.

The accumulated investment position over 1992–95 increased by 18½ percent per annum, from US\$14.8 billion to US\$24.6 billion. It should be noted that the change in this item does not precisely correspond to the flow data owing to valuation effects. Investment income, which is

⁴⁰ Prepared by Paul Gruenwald.

⁴¹ “**Inversión Extranjera Directa en Argentina 1992–95**”, Ministry of Economy, December 1996. The study did not cover FDI into agro-industrial firms or firms producing fixed investment goods. Available evidence indicates that these items, particularly the former, are sizeable; the intent is to include them in subsequent annual versions of the report. Also omitted was direct investment by Argentines into the rest of the world. Indications are that FDI outflows, like inflows, increased sharply in the 1990s.

⁴² Due to subsequent revisions, the data appearing in the balance of payments table in the 1998 Article IV consultation staff report do not entirely match those presented here.

⁴³ This distinction stems from the modality of the privatization of YPF (the state petroleum company), which resulted in a large increase in portfolio, rather than foreign direct, investment. That is, no investor obtained a share exceeding 10 percent of the enterprise’s capital and therefore these flows were not counted as FDI. Portfolio investment flows stemming from privatization activities are shown as a memorandum item in Table 6.

disaggregated by ultimate use into either cash distributions or reinvested returns, grew by some 15 percent per annum over the period, with most of the growth and variability accounted for by cash distributions. Investment income declined somewhat in 1995 reflecting the contraction in economic activity.

Table 7 shows FDI and related items by sector of destination. FDI grew mostly rapidly in the communications (99 percent per annum) and manufacturing (55 percent per annum) sectors. Large privatizations took place in electricity, gas and water (1992, 1993, and 1995) and petroleum (1992), while FDI growth in manufacturing and communications (1994, 1995) reflected the installation of a new plant and the purchase of existing facilities. Manufacturing had the largest accumulated investment position (available on a comprehensive basis only through end-1994) at 35 percent of the total, followed by electricity, gas and water at 18 percent, with petroleum, communications and banking each accounting for 10-13 percent. With regard to investment income, there were marked outflows related to the petroleum, manufacturing, and trade sectors over 1992-94, all of which declined in the recession year of 1995. Profits generated by electricity, gas, and water, and communications grew steadily over the period, while flows associated with the banking sector were somewhat erratic, with the drop in 1994 mirroring that of the stock market, in which the banks had invested heavily.

FDI data by country and region of origin are presented in Table 8, which show the United States as the main single country foreign investor into Argentina. Close to 40 percent of the more than US\$14 billion of FDI over 1992-95 originated in the United States. Chile was the second largest individual country investor with over 10 percent. Europe accounted for about 30 percent of the total, with sizeable shares coming from France, Italy, the Netherlands, and the United Kingdom. Regarding the accumulated position, at end-1994, the United States comprised about one-third of the US\$20.4 billion total, while Europe comprised over 40 percent, led by France, the Netherlands, and Spain. The distribution of investment income flows broadly mirrored that of the accumulated stocks.

Preliminary data for 1996 and a substantial part of 1997 indicate that the decade long trends in FDI and related items just described have continued. FDI is estimated to have topped US\$4 billion in 1996 with continued growth in intra-private sector flows (privatization proceeds comprised less than US\$500 million). FDI in 1997 is projected at some US\$6½ billion reflecting the privatization of ESEBA (the electricity utility of the Buenos Aires province) and sizeable investments into the banking sector. The accumulated investment position is estimated to have increased to US\$28½ billion at end-1996 and to US\$30¾ billion at end-June 1997. Investment income has grown apace.

The inclusion of FDI and related items into the balance of payments statistics has improved the coverage and transparency of these statistics, particularly in the capital account, and confirmed the importance of FDI in total capital inflows into Argentina. At an annual average of around US\$3½ billion over 1992-95, FDI constituted some 40 percent of the capital account surplus over this period. This would increase to 47 percent if portfolio investments related to the privatization process were included. Moreover, further revisions to the data, in particular the inclusion of FDI into the agro-industrial sector, should raise this percentage even higher.

Table 6. Argentina: Foreign Direct Investment and Related Items
(In millions of U.S. dollars)

	1992	1993	1994	1995
Foreign direct investment	4,044	2,556	3,066	4,179
Reinvested returns from investment income	834	872	814	738
Direct purchases	484	667	1,262	860
Privatizations	2,342	916	122	1,034
Other changes of ownership	384	101	868	1,574
Accumulated investment position	14,829	16,476	20,401	24,630
Investment income	1,154	1,681	1,795	1,740
Cash distributions	320	809	981	1,002
Reinvested returns	834	872	814	738
Memorandum items				
Composition of privatization proceeds	2,608	3,270	385	1,034
Foreign direct investment	2,342	916	122	1,034
Portfolio investment	266	2,354	263	0
FDI plus portfolio investment from privatizations	4,310	4,910	3,329	4,179

Source: Ministry of Economy.

Table 7. Argentina: Foreign Direct Investment by Sector of Destination

(In millions of U.S. dollars)

	1992	1993	1994	1995
Foreign direct investment	4,044	2,556	3,066	4,179
Petroleum	1,013	240	435	316
Manufacturing	438	677	1,601	1,628
Electricity, Gas, and Water	2,102	1,050	165	942
Trade	88	31	206	135
Communications	66	-46	335	516
Banks	216	484	110	483
Other	122	121	216	160
Accumulated investment position	14,829	16,476	20,401	24,630
Petroleum	2,400	2,182	2,566	...
Manufacturing	5,213	5,732	7,056	...
Electricity, Gas, and Water	2,304	3,165	3,685	...
Trade	535	540	754	...
Communications	1,896	1,808	2,024	...
Banks	1,457	1,875	2,035	2,600
Other	1,025	1,175	2,280	...
Investment income	1,154	1,681	1,795	1,740
Petroleum	333	273	430	380
Manufacturing	444	576	811	332
Electricity, Gas, and Water	-18	186	258	381
Trade	133	163	294	221
Communications	162	203	257	267
Banks	83	226	-137	182
Other	17	53	-118	-23

Source: Ministry of Economy.

Table 8. Argentina - Foreign Direct Investment by Country/Region of Origin

	Foreign Direct Investment				Accumulated Investment Position				Investment Income			
	1992	1993	1994	1995	1992	1993	1994	1995	1992	1993	1994	1995
In millions of U.S. dollars												
Total	4,044	2,556	3,066	4,179	14,829	16,476	20,401	24,630	1,154	1,680	1,795	1,740
Europe	1,605	462	1,171	1,036	6,337	6,720	8,360	...	497	646	607	667
France	182	46	462	145	1,021	1,041	1,315	...	87	55	152	116
Germany	130	163	192	60	704	829	1,095	...	49	107	173	21
Italy	499	-226	75	368	1,170	923	1,061	...	67	108	77	92
Netherlands	178	92	259	169	1,032	1,098	1,394	...	162	207	285	257
Spain	290	62	-200	156	865	1,120	1,423	...	-24	44	-151	65
United Kingdom	223	278	113	96	746	887	1,003	...	28	93	31	83
Others	103	47	270	42	799	822	1,069	...	128	32	40	33
North America	897	1,391	1,404	2,055	5,175	5,971	7,481	...	459	721	796	818
United States	646	1,246	1,383	2,020	4,554	5,276	6,699	...	410	672	827	748
Others	251	145	21	35	621	695	782	...	49	49	-31	70
South America	512	396	288	647	760	1,115	1,364	...	24	45	41	0
Chile	436	291	119	595	553	801	878	...	-4	11	16	42
Others	76	105	169	52	207	314	486	...	28	34	25	-42
Other Regions	1,031	307	204	442	2,557	2,670	3,197	...	174	268	351	255
Percentage Distribution												
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Europe	39.7	18.1	38.2	24.8	42.7	40.8	41.0	...	43.1	38.5	33.8	38.3
France	4.5	1.8	15.1	3.5	6.9	6.3	6.4	...	7.5	3.3	8.5	6.7
Germany	3.2	6.4	6.3	1.4	4.7	5.0	5.4	...	4.2	6.4	9.6	1.2
Italy	12.3	-8.8	2.4	8.8	7.9	5.6	5.2	...	5.8	6.4	4.3	5.3
Netherlands	4.4	3.6	8.4	4.0	7.0	6.7	6.8	...	14.0	12.3	15.9	14.8
Spain	7.2	2.4	-6.5	3.7	5.8	6.8	7.0	...	-2.1	2.6	-8.4	3.7
United Kingdom	5.5	10.9	3.7	2.3	5.0	5.4	4.9	...	2.4	5.5	1.7	4.8
Others	2.5	1.8	8.8	1.0	5.4	5.0	5.2	...	11.1	1.9	2.2	1.9
North America	22.2	54.4	45.8	49.2	34.9	36.2	36.7	...	39.8	42.9	44.3	47.0
United States	16.0	48.7	45.1	48.3	30.7	32.0	32.8	...	35.5	40.0	46.1	43.0
Others	6.2	5.7	0.7	0.8	4.2	4.2	3.8	...	4.2	2.9	-1.7	4.0
South America	12.7	15.5	9.4	15.5	5.1	6.8	6.7	...	2.1	2.7	2.3	0.0
Chile	10.8	11.4	3.9	14.2	3.7	4.9	4.3	...	-0.3	0.7	0.9	2.4
Others	1.9	4.1	5.5	1.2	1.4	1.9	2.4	...	2.4	2.0	1.4	-2.4
Other Regions	25.5	12.0	6.7	10.6	17.2	16.2	15.7	...	15.1	16.0	19.6	14.7

Source: Ministry of Economy.

V. PRIVATE SECTOR BORROWING⁴⁴

This note presents an overview of borrowing by the Argentine private sector from international capital markets from 1990 through the third quarter of 1997 employing data from the Fund's DCBEL database. In line with trends across emerging markets in general, and Latin America in particular, private sector borrowing in the form of both international bond issues and syndicated loan commitments increased sharply during the decade. At the same time, developments in private sector bond issues over this period have broadly paralleled those of the sovereign in terms of the overall trend, the declining spreads, the lengthening maturity, and the fixed rate nature of the debt.

It should be emphasized that the data on private sector borrowing presented here relate only to international bond issues and syndicated loan agreements—i.e., the aim is to measure access to international capital markets. Bond data are on an “at issue” basis while the loan data are on a commitment basis and may not reflect actual disbursements. Private sector borrowing from official sources, borrowing in the form of commercial paper (including CDS), and trade-related credits are not included.

Total external private sector debt at end-1997 is estimated at 9½ percent of GDP. The size of the debt consistent with the data identified in this note would be equivalent to some 6 percent of GDP (3½ percent for bonds and 2½ percent for loans), taking into account the identified bond issues and assuming full disbursement of the loan commitments. Regarding the volatility of private sector flows, these range from relatively stable foreign direct investment (see note on Foreign Direct Investment above) and portfolio flows, to highly volatile cross-border deposits. Broadly speaking, syndicated loans would appear to be in the less volatile end of the spectrum, while bond issues, which show some correlation with both the business cycle and developments in global capital markets, would be somewhat more volatile.

International Bond Issues

Since 1990, the Argentine private sector has tapped the international bond market for some US\$14¾ billion (Table 9). The bulk of private sector issues came in the two episodes of robust macroeconomic expansion: 1993–94 and 1996 to date, with annual average issuance in those periods of over US\$3.0 billion. Private sector bond issues fell sharply to below US\$1 billion in 1995, the year of the Mexican exchange crisis, with the drop in the financial sector being particularly pronounced. The denomination of choice of Argentine private sector bonds has been the U.S. dollar, which accounts for over 90 percent of the total. This contrasts with the denomination of sovereign Argentine issues, which have moved increasingly toward yen and Deutsche mark, and, more recently, lira.

⁴⁴Prepared by Paul Gruenwald.

On the details of bond issues (Table 10), the average U.S. dollar amount has risen from about US\$50 million early in the decade to US\$150 million by 1997. As is the case with the sovereign, the terms of borrowing for the private sector have generally improved throughout the 1990s, again with the exception of 1995. The weighted average maturity at issue lengthened to about five years in 1993–94 before falling to 3.3 years in 1995, and recovering thereafter to some 5½ years in 1997. Weighted average spreads were in the area of 400 basis points over the comparable instrument in the country of the currency denomination in 1993–94, but jumped to 570 basis points in 1995 before falling to under 300 basis points through the first three quarters of 1997. More than 90 percent of the private sector bonds have been issued at fixed rates. Regarding maturities at issue (Table 11), some 8 percent of the total private sector bond issues over the decade were short-term, while about two-thirds had maturities between one and five years, with the remaining 25 percent having maturities of more than five years. In 1997 the percentage of bonds with maturity of more than five years exceeded 40 percent.

As to the composition of private sector international bond issues by sector of origin, about one-third of the total over the period or US\$5 billion were placed by the financial sector (Table 12). The telecommunications and the coal, gas and oil sector have each issued some US\$3 billion in bonds this decade, or about 20 percent of the total. Of note, over half of the amount for the telecommunications sector was issued by Telecom Argentina. Utilities is the remaining sector with a significant share of bonds issued over the period with 10 percent of the total.

Syndicated Loan Commitments

After a decade of stagnation in the 1980s in which the total amount of loans syndicated per year averaged some \$50 million, new loan commitments signed by the Argentine private sector rose sharply to over US\$2.9 billion over the first nine months of 1997 (Table 12).

Unlike in the case of bond issues described above, there was no slow down in loan commitments in 1995, the year of the Mexican exchange crisis. As in the case of private sector international bonds, the overwhelming majority (over 99 percent) of syndicated loans contracted (by value) were denominated in U.S. dollars (Table 13). The vast majority of the loan commitments, however, carried a floating interest rate.

The financial sector appears to have shied away from syndicated loans, comprising only 3 percent of the value of loan commitments. The coal, gas and oil sector had the largest amount of loans over the period at just under US\$2 billion or about one-quarter of the total. The utilities and telecommunications sector also had significant loan commitments over the period at around US\$1.5 billion each or 18–19 percent the total. Of note, the US\$542 million mining sector loan contracted in 1997 (comprising 18 percent of the total for that period) was for the Bajo de la Alumbrera copper mine, which began operation in the fall of 1997. Projected exports from this project are expected to be some US\$600 million a year.

Table 9. Argentina—International Bond Issues

(In millions of U.S. dollars)

	U.S. dollar	Yen	Lira	Swiss Franc	Total
1990	21	0	0	0	21
1991	265	0	0	0	265
1992	1,220	0	0	0	1,230
1993	3,902	0	0	0	3,902
1994	2,580	0	0	0	2,580
1995	526	0	373	53	952
1996	2,446	93	0	0	2,539
1997	2,871	0	414	0	3,285
Total	13,830	93	788	63	14,774

Source: DCBEL database.

Table 10. Argentina - International Bond Issues, Selected Details

Year	Average Issue US\$ mn	Amount Issued US\$ mn	Weighted Average Maturity	Average Spread 1/	Bonds Issued	Reported Spreads	Floating Rate Bonds	(percent of total bonds)
1990	21	21	4.92	...	1	0	0	...
1991	53	265	4.24	355	5	1	1	100.0
1992	59	1,230	3.69	399	21	12	1	8.3
1993	98	3,902	5.21	373	40	39	2	5.1
1994	89	2,580	4.68	416	29	27	4	14.8
1995	79	952	3.29	570	12	4	1	25.0
1996	102	2,539	3.64	405	25	22	1	4.5
1997	149	3,285	5.44	273	22	19	3	15.8

Source: DCBEL database.

1/ DCBEL reports spreads on some 80 percent of the bonds in the database.

Table 11. Argentina - Maturity Structure of Private Sector International Bond Issues

(In millions of U.S. dollars)

Year	Maturity up to one year	Maturity one to five years	Maturity more than five years	Total
1990	0	21	0	21
1991	0	265	0	265
1992	25	1205	0	1230
1993	217	2375	1310	3902
1994	75	2055	450	2580
1995	111	641	200	952
1996	200	2084	255	2539
1997	550	1406	1329	3285
Total	1178	10052	3544	14774

(In percent of total)

1990	0.0	100.0	0.0	100.0
1991	0.0	100.0	0.0	100.0
1992	2.0	98.0	0.0	100.0
1993	5.6	60.9	33.6	100.0
1994	2.9	79.7	17.4	100.0
1995	11.7	67.3	21.0	100.0
1996	7.9	82.1	10.0	100.0
1997	16.7	42.8	40.5	100.0
Total	8.0	68.0	24.0	100.0

Source: DCBEL database.

Table 12. Argentina - International Bond Issues and Syndicated Loan Commitments by Sector

	1990	1991	1992	1993	1994	1995	1996	Q1-Q3 1997	Cumu- lative
International Bond Issues									
Financial	0	75	620	1,335	615	95	1,093	1,180	5,013
Coal, Gas and Oil	0	125	150	785	350	171	213	976	2,770
Iron and Steel	0	50	30	0	0	60	0	0	140
Manufacturing	0	0	0	300	0	0	0	100	400
Mining	0	0	0	0	0	0	75	150	225
Telecommunications	0	0	300	850	620	573	298	488	3,129
Transportation	0	0	0	172	0	0	0	0	172
Utilities	0	0	0	80	865	0	480	0	1,425
Other	21	15	130	380	130	53	380	391	1,500
Total	21	265	1,230	3,902	2,580	952	2,539	3,285	14,774
Syndicated Loan Commitments									
Financial	0	0	41	28	0	0	0	200	269
Coal, Gas and Oil	0	74	136	65	250	103	511	840	1,979
Construction	0	0	0	0	0	250	0	140	390
Iron & Steel	0	0	0	0	0	0	0	244	244
Mining	0	0	0	0	0	0	0	542	542
Telecommunications	0	0	0	56	274	475	400	250	1,455
Utilities	0	0	0	526	390	110	0	506	1,532
Other	0	0	103	86	51	350	927	218	1,734
Total	0	74	280	761	965	1,288	1,838	2,940	8,145
(In percent of total)									
International Bond Issues									
Financial	0.0	28.3	50.4	34.2	23.8	10.0	43.0	35.9	33.9
Coal, Gas and Oil	0.0	47.2	12.2	20.1	13.6	18.0	8.4	29.7	18.7
Iron and Steel	0.0	18.9	2.4	0.0	0.0	6.3	0.0	0.0	0.9
Manufacturing	0.0	0.0	0.0	7.7	0.0	0.0	0.0	3.0	2.7
Mining	0.0	0.0	0.0	0.0	0.0	0.0	3.0	4.6	1.5
Telecommunications	0.0	0.0	24.4	21.8	24.0	60.2	11.7	14.9	21.2
Transportation	0.0	0.0	0.0	4.4	0.0	0.0	0.0	0.0	1.2
Utilities	0.0	0.0	0.0	2.1	33.5	0.0	18.9	0.0	9.6
Other	100.0	5.7	10.6	9.7	5.0	5.6	15.0	11.9	10.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Syndicated Loan Commitments									
Financial	...	0.0	14.6	3.7	0.0	0.0	0.0	6.8	3.3
Coal, Gas and Oil	...	100.0	48.6	8.5	25.9	8.0	27.8	28.6	24.3
Construction	...	0.0	0.0	0.0	0.0	19.4	0.0	4.8	4.8
Iron & Steel	...	0.0	0.0	0.0	0.0	0.0	0.0	8.3	3.0
Mining	...	0.0	0.0	0.0	0.0	0.0	0.0	18.4	6.7
Telecommunications	...	0.0	0.0	7.4	28.4	36.9	21.8	8.5	17.9
Utilities	...	0.0	0.0	69.1	40.4	8.5	0.0	17.2	18.8
Other	...	0.0	36.8	11.3	5.3	27.2	50.4	7.4	21.3
Total	...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: DCBEL database.

Table 13. Argentina - Loan Commitments by Year and Currency

(In millions of U.S. dollars)

Signature Year	U.S. dollars	DM	British Pound	Total
1990	0	0	0	0
1991	74	0	0	74
1992	229	51	0	280
1993	753	0	8	761
1994	965	0	0	965
1995	1,288	0	0	1,288
1996	1,838	0	0	1,838
1997	2,940	0	0	2,940
Total	8,086	51	8	8,145

Source: DCBEL database.

Table 14. Argentina: GDP and Prices

(Percentage changes from preceding year)

	1991	1992	1993	1994	1995	1996
GDP at 1986 prices	10.5	10.3	6.3	8.5	-4.6	4.3
Real GDP per capita	8.3	8.8	4.8	7.1	-5.8	2.9
GDP deflator	137.5	13.7	6.9	0.8	4.0	2.0
Consumer prices						
Average	171.7	24.9	10.6	4.1	3.4	0.2
End of period	84.0	17.5	7.4	3.9	1.6	0.1
Wholesale prices						
Average	110.5	6.0	1.6	0.6	6.5	3.2
End of period	56.7	3.2	0.1	3.0	5.8	2.1
Nominal GDP						
(billions of pesos)	180.9	226.8	257.6	281.6	279.5	297.4

Sources: Ministry of Economy; INDEC.

Table 15. Argentina: National Accounts in Constant Prices

	1991	1992	1993	1994	1995	1996
(In millions of pesos at 1986 prices)						
Gross domestic expenditure	10,019.6	11,682.9	12,572.1	13,810.8	12,652.9	13,400.9
Consumption 1/	8,398.8	9,518.8	10,061.6	10,753.9	10,093.0	10,629.2
Gross domestic investment	1,620.8	2,164.1	2,510.5	3,056.9	2,559.9	2,771.7
Foreign balance	160.6	-454.1	-641.4	-863.1	-297.5	-520.2
Exports of goods and nonfactor services	1,121.0	1,144.6	1,171.9	1,358.3	1,667.0	1,775.0
Imports of goods and nonfactor services	960.4	1,598.7	1,813.3	2,221.4	1,964.5	2,295.2
Gross domestic product	10,180.2	11,228.8	11,930.7	12,947.7	12,355.4	12,880.7
Net factor payments abroad	-184.4	-152.5	-194.2	-221.4	-190.8	-232.3
Gross national product	9,995.8	11,076.3	11,736.5	12,726.3	12,164.6	12,648.4
(Percentage changes)						
Gross domestic expenditure	16.8	16.6	7.6	9.9	-8.4	5.9
Consumption 1/	14.3	13.3	5.7	6.9	-6.1	5.3
Gross domestic investment	31.5	33.5	16.0	21.8	-16.3	8.3
Foreign balance 2/	-5.1	-6.0	-1.7	-1.9	4.4	-1.8
Exports of goods and nonfactor services	-5.1	2.1	2.4	15.9	22.7	6.5
Imports of goods and nonfactor services	75.6	66.5	13.4	22.5	-11.6	16.8
Gross domestic product	10.5	10.3	6.3	8.5	-4.6	4.3

Sources: Ministry of Economy.

1/ Includes changes in inventories.

2/ Percentage points contribution to growth.

Table 16. Argentina: National Accounts in Current Prices

(In millions of pesos)

	1991	1992	1993	1994	1995	1996
Gross domestic expenditure	177,926	230,524	262,723	288,813	279,447	298,130
Consumption 1/	151,448	192,670	215,350	232,557	229,018	245,704
Gross domestic investment	26,478	37,854	47,373	56,256	50,429	52,426
Foreign balance	2,974	-3,675	-5,153	-7,168	95	-761
Exports of goods and nonfactor services	14,048	15,138	15,993	18,919	24,247	27,491
Imports of goods and nonfactor services	11,074	18,813	21,146	26,087	24,152	28,252
Gross domestic product	180,900	226,849	257,570	281,645	279,542	297,369
Net factor payments abroad	-2,301	-2,066	-2,708	-3,169	-2,829	-3,519
Gross national product	178,599	224,783	254,862	278,476	276,713	293,850
GDP deflator						
Percentage change	137.5	13.7	6.9	0.8	4.0	2.0

Source: Ministry of Economy.

1/ Includes changes in inventories.

Table 17. Argentina: Sectoral Origin of Gross Domestic Product

	1991	1992	1993	1994	1995	1996
(In millions of pesos at 1986 prices)						
Total	10,180	11,229	11,931	12,948	12,355	12,881
Primary sector	1,088	1,106	1,159	1,216	1,258	1,301
Agriculture, livestock, and fishery	847	839	865	896	917	932
Mining	241	267	294	320	341	369
Secondary sector	3,347	3,722	3,963	4,277	3,983	4,160
Manufacturing	2,619	2,888	3,036	3,224	3,000	3,156
Construction	526	615	685	788	703	710
Electricity, gas, and water	202	219	242	265	280	294
Service sector	5,631	6,202	6,593	7,216	6,996	7,308
Commerce	1,665	1,905	1,985	2,153	1,983	2,071
Transportation and communication	503	568	599	657	658	696
Finance and banking	1,515	1,661	1,814	2,052	2,047	2,160
Other services	1,948	2,068	2,195	2,354	2,308	2,381
Plus: Import taxes minus imputed financial services 1/	114	199	216	239	118	112
(Percentage changes)						
Total	10.5	10.3	6.3	8.5	-4.6	4.3
Primary sector	3.9	1.7	4.8	4.9	3.5	3.4
Agriculture, livestock, and fishery	4.2	-0.9	3.1	3.6	2.3	1.6
Mining (including oil extraction)	3.0	10.8	10.1	8.8	6.6	8.2
Secondary sector	11.6	11.2	6.5	7.9	-6.9	4.4
Manufacturing	9.9	10.3	5.1	6.2	-6.9	5.2
Construction	25.2	16.9	11.4	15.0	-10.8	1.0
Electricity, gas, and water	3.6	8.4	10.5	9.5	5.7	5.0
Service sector	10.3	10.1	6.3	9.4	-3.0	4.5
Commerce	15.3	14.4	4.2	8.5	-7.9	4.4
Transportation and communication	10.3	12.9	5.5	9.7	0.2	5.8
Finance and banking	14.8	9.6	9.2	13.1	-0.2	5.5
Other services	3.3	6.2	6.1	7.2	-2.0	3.2
(Percentage distribution)						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Primary sector	10.7	9.8	9.7	9.4	10.2	10.1
Agriculture, livestock, and fishery	8.3	7.5	7.3	6.9	7.4	7.2
Mining	2.4	2.4	2.5	2.5	2.8	2.9
Secondary sector	32.9	33.1	33.2	33.0	32.2	32.3
Manufacturing	25.7	25.7	25.4	24.9	24.3	24.5
Construction	5.2	5.5	5.7	6.1	5.7	5.5
Electricity, gas, and water	2.0	2.0	2.0	2.0	2.3	2.3
Service sector	55.3	55.2	55.3	55.7	56.6	56.7
Commerce	16.4	17.0	16.6	16.6	16.0	16.1
Transportation and communication	4.9	5.1	5.0	5.1	5.3	5.4
Finance and banking	14.9	14.8	15.2	15.8	16.6	16.8
Other services	19.1	18.4	18.4	18.2	18.7	18.5
Plus: Import taxes minus imputed financial services 1/	1.1	1.8	1.8	1.8	1.0	0.9

Sources: Ministry of Economy; and staff calculations.

1/ Includes residual.

Table 18. Argentina: Index of Agricultural Production 1/

(1986=100)

	1991	1992	1993	1994	1995	1996
Total 2/	109.1	109.6	112.8	117.1	122.3	126.0
Agriculture	120.4	114.3	115.3	123.8	131.4	138.0
Cereals	94.2	90.3	108.9	108.1	101.4	124.2
Oilseeds	155.4	146.1	141.4	158.2	175.8	178.3
Industrial crops	125.8	111.7	95.1	108.9	131.7	130.1
Fruits	121.5	133.7	128.6	137.4	147.6	149.0
Vegetables	102.4	100.4	103.5	110.4	112.1	113.1
Flowers	74.9	84.1	72.6	75.0	67.9	62.3
Livestock	99.6	101.1	105.0	103.7	104.1	103.7
Cattle	101.0	102.0	105.8	104.8	105.3	105.4
Other livestock 3/	89.1	94.6	99.0	95.8	95.1	91.0
Wool	77.7	78.9	76.2	69.3	66.3	64.4
Milk	104.2	113.6	120.3	134.2	147.4	150.7
Forestry	122.0	122.8	107.0	114.6	124.6	124.6
Fishing	150.9	229.4	306.9	297.6	311.5	390.7

Sources: Ministry of Economy, National Accounts Office.

1/ Value added.

2/ Includes hunting.

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

Table 19. 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 harvested hectare)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Cereals						
Wheat						
Planted area	4,751	4,548	4,910	5,308	5,087	7,344
Harvested area	4,547	4,255	4,777	5,221	4,878	7,076
Yield	2.2	2.3	2.0	2.2	1.9	2.3
Production	9,884	9,874	9,659	11,306	9,450	15,983
Corn						
Planted area	2,686	2,963	2,781	2,958	3,412	3,952
Harvested area	2,365	2,503	2,445	2,522	2,601	3,243
Yield	4.5	4.4	4.2	4.5	4.0	4.5
Production	10,701	10,901	10,360	11,404	10,499	14,496
Oats						
Planted area	2,180	2,006	1,971	1,972	1,848	1,870
Harvested area	456	372	303	259	214	246
Yield	1.3	1.6	1.4	1.4	1.2	1.3
Production	610	600	437	357	260	310
Barley						
Planted area	233	239	202	147	231	243
Harvested area	230	226	196	146	217	196
Yield	2.5	2.6	2.3	2.3	1.8	2.3
Production	570	580	459	341	385	441
Rye						
Planted area	452	463	460	473	390	380
Harvested area	51	48	73	56	51	42
Yield	0.9	0.7	0.9	1.0	0.8	0.9
Production	46	34	64	54	40	36
Rice						
Planted area	139	144	148	189	211	227
Harvested area	132	140	141	185	193	225
Yield	5.3	4.3	4.3	5.0	5.0	5.4
Production	701	608	606	926	974	1,222
Sorghum						
Planted area	823	810	670	622	671	805
Harvested area	764	723	612	477	550	686
Yield	3.6	4.0	3.5	3.5	3.9	3.7
Production	2,767	2,860	2,148	1,650	2,132	2,552

Table 19. 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 harvested hectare)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Oilseeds						
Linseed						
Planted area	431	215	148	156	196	93
Harvested area	416	207	142	153	193	89
Yield	0.8	0.9	0.8	1.0	0.8	0.8
Production	343	177	112	152	153	72
Sunflower seeds						
Planted area	2,694	2,187	2,206	3,010	3,411	3,055
Harvested area	2,562	2,060	2,153	2,954	3,235	2,936
Yield	1.3	1.4	1.9	2.0	1.7	1.7
Production	3,408	2,956	4,095	5,800	5,556	5,021
Soybeans						
Planted area	5,004	5,320	5,817	6,011	5,988	6,668
Harvested area	4,936	5,116	5,748	5,935	5,899	6,366
Yield	2.3	2.2	2.0	2.0	2.1	1.7
Production	11,310	11,045	11,720	12,134	12,436	11,013
Groundnuts						
Planted area	153	110	134	155	239	312
Harvested area	153	110	134	155	239	282
Yield	1.4	2.1	1.6	1.5	1.9	1.0
Production	221	233	208	238	462	282
Industrial crops						
Cotton						
Planted area	615	378	504	762	1,011	956
Harvested area	529	302	484	680	969	884
Yield	1.2	1.4	1.5	1.7	1.4	1.2
Production	652	431	706	1,123	1,347	1,017
Tobacco						
Planted area	80	78	56	57	57	...
Harvested area	71	69	50	49	51	...
Yield	1.5	1.6	1.6	1.6	1.9	...
Production	109	112	82	79	98	120
Sugarcane						
Planted area	332	307	312	310	311	...
Harvested area	255	226	239	295	297	...
Yield	50.3	45.6	47.2	46.6	45.9	...
Production	12,834	10,310	11,275	13,736	13,637	14,000

Source: Ministry of Economy, National Accounts Office.

Table 20. Argentina: Industrial Production Index

Base 1984=100

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
(With Seasonality)													
January	88.2	94.0	99.0	95.7	90.3	81.6	88.1	93.3	95.9	107.8	98.7	87.3	99.5
February	69.0	73.5	78.2	87.0	88.4	73.1	75.5	82.7	80.0	86.3	103.8	97.2	103.5
March	92.5	97.0	107.3	105.7	103.4	81.3	83.0	105.0	107.6	113.9	117.3	112.2	118.1
April	91.2	101.8	109.6	96.9	101.6	82.3	89.6	106.3	107.4	110.0	104.2	112.4	123.1
May	91.1	106.7	108.2	108.5	90.5	91.2	99.1	106.2	108.8	118.2	112.2	118.6	126.7
June	79.9	94.1	112.5	106.1	89.5	92.7	94.3	110.2	112.9	114.8	106.5	110.1	124.7
July	84.9	109.5	119.1	108.5	87.4	89.4	106.5	109.6	116.4	115.5	107.0	119.7	131.6
August	87.1	114.1	114.4	108.7	92.8	106.7	106.1	105.7	114.6	120.7	109.3	121.8	130.5
September	95.3	115.6	113.6	100.2	91.6	101.2	104.5	111.0	116.7	122.4	105.5	114.1	131.9
October	101.7	118.5	113.6	100.8	98.4	105.0	108.6	109.1	116.6	122.3	108.5	123.1	140.5
November	100.5	109.9	103.3	102.4	98.1	100.5	106.2	106.4	115.8	122.7	106.9	119.0	129.4
December	98.8	105.9	102.3	98.4	95.8	99.4	102.2	105.4	110.7	114.7	101.0	111.9	...
Average	90.0	103.4	106.8	101.6	94.0	92.0	97.0	104.2	108.6	114.1	106.7	112.3	...
Percent change	-10.0	14.8	3.3	-4.9	-7.5	-2.1	5.4	7.5	4.2	5.1	-6.5	5.2	...
(Deseasonalized)													
January	88.4	96.3	103.6	100.4	94.6	86.7	94.6	101.2	105.1	119.5	117.6	105.4	116.9
February	85.7	92.1	102.8	115.3	118.4	94.6	101.8	103.3	101.6	109.6	118.7	104.8	117.4
March	91.0	97.5	106.5	106.1	103.3	81.4	82.9	110.9	106.0	111.8	112.4	109.6	118.9
April	90.5	104.6	110.2	96.6	99.8	83.0	87.3	108.0	108.7	111.9	107.9	113.0	120.4
May	91.0	107.5	105.4	105.2	87.9	87.5	96.6	102.9	108.5	114.0	106.8	111.9	121.7
June	81.1	93.8	113.3	111.1	93.3	92.1	91.6	107.7	109.9	113.5	104.8	112.2	125.9
July	84.3	105.8	116.3	105.8	83.5	82.4	101.0	101.3	112.2	111.3	104.9	113.7	125.4
August	84.6	106.0	109.5	103.2	88.2	98.4	99.7	99.9	109.0	113.5	103.2	116.0	125.0
September	90.8	109.5	106.8	93.9	84.8	95.8	101.1	103.8	109.9	115.9	102.2	111.9	127.8
October	98.3	111.0	104.3	89.6	88.7	98.5	101.6	101.8	109.9	117.3	102.3	114.7	130.0
November	93.5	102.9	95.9	96.2	94.2	99.1	101.4	102.3	110.7	116.4	102.7	114.8	127.4
December	97.1	106.9	101.5	96.1	94.6	100.7	99.6	104.3	109.0	116.8	103.6	114.5	...
Average	89.7	102.8	106.3	101.6	94.3	91.7	96.6	104.0	108.4	114.3	107.3	111.9	...
Percent change	-10.0	14.6	3.4	-4.4	-7.2	-2.7	5.4	7.6	4.3	5.5	-6.2	4.3	...

Source: FIEL.

Table 21. Argentina: Automobile Production, Domestic Demand, Exports, and Imports

(In units)

	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	342,344	421,006	29,976	109,793
1994	408,777	508,152	37,858	147,431
1995	285,196	327,983	52,747	103,021
1996	313,152	376,143	108,990	161,000
1997	445,870	426,341	208,250	171,345

Source: Argentine Automobile Manufacturer's Association.

Table 22. Argentina: Price Indices

Percentage change during the year

	Consumer Prices for Buenos Aires	Wholesale Price Index 1/			
		General	Agricultural Goods	National Nonagricultural 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	387.7	431.6	456.1	430.3	412.9
1989	5,103.7	5,386.4	5,023.6	5,138.0	7,600.3
1990	1,344.4	798.4	656.7	879.5	406.5
1991	84.0	56.7	62.0	54.8	69.5
1992	17.5	3.2	9.5	2.0	4.4
1993	7.4	0.1	0.1	0.6	-5.4
1994	3.9	3.0	3.1	2.3	8.9
				Manufactured	
			Primary	Products and	Imported
			Products	Electricity	Goods
1995	1.6	5.8	11.0	4.7	4.3
1996	0.1	2.1	6.1	1.9	-6.2
1997	0.3	-0.9	-1.6	-0.4	-0.1

Source: National Institute of Statistics.

1/ The wholesale price index was revised in 1995.

Table 23. Argentina: Rates of Price Increases

	(In percent)			
	Consumer Price Index		Wholesale Price Index	
	Change over Preceding Month	Change over 12 months	Change over Preceding Month	Change over 12 months
1994				
January	0.1	6.6	0.0	-0.6
February	0.0	5.8	-0.2	-1.7
March	0.1	5.0	-0.2	-1.3
April	0.2	4.3	0.5	-1.6
May	0.3	3.3	0.6	-1.4
June	0.4	3.0	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	0.3	1.2
October	0.3	3.4	0.7	1.5
November	0.2	3.6	0.9	3.9
December	0.2	3.9	0.7	3.0
1995				
January	1.2	5.0	1.4	7.4
February	0.0	5.0	0.4	6.0
March	-0.4	4.4	-0.6	5.3
April	0.5	4.6	3.3	8.4
May	0.0	4.3	0.1	7.3
June	-0.2	3.7	0.3	6.8
July	0.4	3.2	0.4	6.6
August	-0.2	2.7	0.3	7.1
September	0.2	2.2	0.0	7.1
October	0.3	2.2	-0.1	6.7
November	-0.2	1.7	-0.2	6.7
December	0.1	1.6	0.3	5.8
1996				
January	0.3	0.7	0.2	4.6
February	-0.3	0.3	-0.1	4.1
March	-0.5	0.2	0.8	5.5
April	0.0	-0.2	1.5	3.6
May	-0.1	-0.3	0.2	3.7
June	0.0	-0.1	-0.8	2.6
July	0.5	0.0	-0.1	2.1
August	-0.1	0.2	-0.3	1.5
September	0.2	0.2	1.2	2.6
October	0.5	0.4	0.4	3.2
November	-0.2	0.4	-0.8	2.5
December	-0.3	0.1	-0.1	2.1
1997				
January	0.5	0.2	0.4	2.2
February	0.4	0.9	-0.2	2.1
March	-0.5	1.0	-0.3	1.0
April	-0.3	0.6	-0.4	-0.9
May	-0.1	0.7	0.7	-0.4
June	0.2	0.9	-0.4	-0.1
July	0.2	0.5	-0.4	-0.3
August	0.2	0.8	0.6	0.6
September	0.0	0.6	0.0	-0.5
October	-0.2	-0.1	0.0	-1.0
November	-0.2	-0.1	-0.2	-0.4
December	0.2	0.3	-0.6	-0.9

Source: National Institute of Statistics.

Table 24. Argentina: Urban Labor Force, Employment, and Unemployment

(Thousands of persons)

	Labor Force	Employment	Unemployment
1980 April	8,516	8,282	234
October	8,623	8,381	242
1981 April	8,698	8,312	386
October	8,774	8,296	478
1982 April	8,861	8,305	556
October	9,042	8,587	455
1983 April	9,013	8,497	516
October	8,925	8,507	418
1984 April	9,147	8,676	471
October	9,193	8,734	459
1985 May	9,335	8,718	617
November	9,523	8,910	613
1986 April	9,682	9,059	623
November	9,804	9,249	555
1987 April	10,039	9,398	641
October	10,045	9,440	605
1988 May	10,186	9,503	683
October	10,345	9,688	657
1989 May	10,595	9,654	941
October	10,482	9,738	744
1990 May	10,546	9,657	889
October	10,618	9,937	681
1991 June	10,927	10,134	793
October	11,005	10,310	695
1992 May	11,197	10,411	786
October	11,411	10,585	826
1993 May	11,727	10,607	1,120
October	11,722	10,659	1,063
1994 May	11,941	10,687	1,254
October	11,929	10,530	1,399
1995 May	12,477	10,307	2,170
October	12,307	10,348	1,959
1996 May	12,387	10,343	2,044
October	12,589	10,542	2,047
1997 May	12,863	10,861	2,002
October	13,084	11,352	1,729

Source: Ministry of Economy.

Table 25. Argentina: Unemployment and Labor Force Participation Rates

(In percent of active population)

		Unemployment Rate			Under-employment Rate 1/			Labor Force Participation Rate 2/		
		Greater		Total	Greater		Total	Greater		Total
		Buenos Aires	Other areas		Buenos Aires	Other Areas		Buenos Aires	Other Areas	
1983	April	5.2	6.1	5.5	4.6	8.0	5.9	38.0	37.4	37.4
	October	3.1	5.8	3.9	4.9	8.0	5.9	37.5	36.5	37.3
1984	April	4.1	5.9	4.7	4.5	6.9	5.4	38.4	36.8	37.8
	October	3.6	6.0	4.4	4.7	8.0	5.9	38.4	36.5	37.9
1985	May	5.5	7.4	6.3	5.5	8.6	7.5	38.9	36.4	37.9
	October	4.9	7.5	5.9	6.6	7.9	7.1	38.8	37.1	38.2
1986	April	4.8	7.6	5.9	6.4	9.7	7.7	39.6	37.1	38.6
	November	4.5	6.5	5.2	6.1	9.5	7.4	40.0	36.9	38.7
1987	April	5.4	7.1	6.0	8.0	8.7	8.2	40.9	37.3	39.5
	October	5.2	6.6	5.7	7.8	9.6	8.5	40.0	37.3	38.9
1988	May	6.3	7.0	6.5	7.7	8.7	8.9	40.4	37.2	38.7
	October	5.7	6.8	6.1	7.4	9.0	8.0	40.5	37.6	39.4
1989	May	7.6	9.8	8.1	8.5	10.8	8.6	41.9	37.5	40.2
	October	7.0	7.2	7.1	8.0	9.3	8.6	40.8	37.0	39.3
1990	May	8.6	8.3	8.6	8.4	10.9	9.3	40.9	36.6	39.1
	October	6.0	6.7	6.3	8.1	10.4	8.9	40.3	36.9	39.0
1991	June	6.3	7.9	6.9	7.7	9.9	8.6	40.9	37.5	39.5
	October	5.3	7.0	6.0	7.0	9.4	7.9	40.8	37.6	39.5
1992	May	6.6	7.3	6.9	7.6	9.5	8.3	41.4	37.6	39.8
	October	6.7	7.6	7.0	7.3	9.4	8.1	41.7	38.1	40.2
1993	May	10.6	8.8	9.9	8.2	9.9	8.8	44.2	37.6	41.5
	October	9.6	8.7	9.3	9.1	9.5	9.3	43.3	37.6	41.0
1994	May	11.1	10.1	10.8	10.2	10.3	10.2	43.4	38.0	41.1
	October	13.1	10.8	12.2	10.1	10.9	10.4	43.1	37.6	40.8
1995	May	20.2	15.4	18.4	10.7	12.4	11.3	45.9	38.1	42.6
	October	17.4	15.5	16.6	12.6	12.4	12.5	44.2	38.0	41.4
1996	May	18.0	15.9	17.1	12.6	12.6	12.6	43.5	38.0	41.0
	October	18.8	15.0	17.3	13.8	13.1	13.6	44.9	37.8	41.9
1997	May	17.0	14.9	16.1	12.7	13.8	13.2	45.0	38.6	42.1
	October	14.3	12.5	13.7	13.0	13.4	13.5	45.1	38.7	42.3

Source: Ministry of Economy, National Accounts Office.

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 26. Argentina: Consolidated Public Sector

	1991	1992	1993	1994	1995	1996
(In billions of pesos)						
Public sector balance 1/						
Federal Govt., all included	-4.4	-0.7	-0.1	-4.0	-7.6	-9.5
Federal Government	-4.4	-0.5	2.3	-1.3	-3.9	-5.9
Trust Fund for banks	0.0	0.0	0.0	0.0	-0.8	-0.7
Severance payments	0.0	0.0	0.0	0.0	0.0	0.0
Trust Fund prov. pension funds	0.0	0.0	0.0	0.0	0.0	-0.5
Capitalized interest	0.0	-0.2	-0.7	-1.0	-1.2	-1.2
Debt consolidation	0.0	0.0	-1.7	-1.7	-1.7	-1.2
INDER, PAMI, BHN	0.0	0.0	0.0	0.0	0.0	0.0
Provinces, all included	-1.4	-0.5	-2.1	-2.4	-3.6	-1.9
Provincial governments	-1.4	-0.5	-2.1	-2.4	-3.6	-1.9
Fonavi, BHN	0.0	0.0	0.0	0.0	0.0	0.0
Total	-5.8	-1.2	-2.2	-6.4	-11.2	-11.4
Public sector debt 1/ 2/	64.7	68.8	77.6	90.3	101.5	114.4
Federal Government	58.7	62.4	69.6	80.0	87.5	98.5
Provinces	6.0	6.4	8.0	10.4	13.9	16.0
(In percent of GDP)						
Public sector balance	-3.2	-0.5	-0.8	-2.3	-4.0	-3.8
Public sector debt	35.8	30.3	30.1	32.1	36.3	38.5
Federal Government	32.4	27.5	27.0	28.4	31.3	33.1
Provinces	3.3	2.8	3.1	3.7	5.0	5.4
Memorandum item (billions of pesos)						
Gross domestic product	180.9	226.8	257.6	281.6	279.5	297.4

Source: Fund staff estimates.

1/ Public sector balance excludes some debt operations below-the-line such as payments of government guarantees or court-ordered liabilities; they are included in the debt.

2/ The total debt is consolidated for provincial debt owed to the Federal Government.

Table 27. Argentina: Summary of Federal Government Operations, 1991-96 1/

	1991	1992	1993	1994	1995	1996
(Millions of pesos)						
Revenue	27,895	38,570	46,066	48,719	46,757	47,256
Taxes 2/	18,082	26,454	29,310	32,089	31,558	33,486
Social security contributions 3/	7,757	9,833	13,042	13,608	11,844	11,198
Nontax revenues 4/	1,382	1,755	2,879	3,101	3,328	2,501
Operating surplus of enterprises	603	423	690	-153	-58	-56
Capital revenue	71	105	145	74	85	127
Expenditure (excluding interest payments) 5/	27,595	35,737	40,911	46,631	46,441	49,049
Wages	4,959	5,652	6,963	7,794	7,770	7,898
Goods and services	1,767	2,482	2,393	2,295	2,356	2,426
Pensions 3/	9,070	12,653	12,513	15,241	15,627	15,410
Provincial pension funds	0	0	0	0	0	547
Transfers to the private sector 3/	697	492	3,250	4,568	4,680	5,720
Transfer to provinces	9,199	12,620	13,802	14,771	14,511	15,888
Other current expenditure	0	0	148	311	357	152
Capital	1,903	1,838	1,842	1,651	1,140	1,008
Interest payments 6/	4,744	3,324	2,917	3,450	4,213	4,704
Primary balance	300	2,833	5,155	2,089	316	-1,793
Overall balance	-4,444	-491	2,238	-1,361	-3,897	-6,497
(In percent of GDP)						
Revenue	15.4	17.0	17.9	17.3	16.7	15.9
Taxes 2/	10.0	11.7	11.4	11.4	11.3	11.3
Social security contributions 3/	4.3	4.3	5.1	4.8	4.2	3.8
Nontax revenues 4/	0.8	0.8	1.1	1.1	1.2	0.8
Operating surplus of enterprises	0.3	0.2	0.3	-0.1	0.0	0.0
Capital revenue	0.0	0.0	0.1	0.0	0.0	0.0
Expenditure (excluding interest payments) 5/	15.3	15.8	15.9	16.6	16.6	16.5
Wages	2.7	2.5	2.7	2.8	2.8	2.7
Goods and services	1.0	1.1	0.9	0.8	0.8	0.8
Pensions 3/	5.0	5.6	4.9	5.4	5.6	5.2
Transfers to the private sector 3/	0.4	0.2	1.3	1.6	1.7	1.9
Transfer to provinces	5.1	5.6	5.4	5.2	5.2	5.3
Other current expenditure	0.0	0.0	0.1	0.1	0.1	0.1
Capital	1.1	0.8	0.7	0.6	0.4	0.3
Interest payments 6/	2.6	1.5	1.1	1.2	1.5	1.6
Primary balance	0.2	1.2	2.0	0.7	0.1	-0.6
Overall balance	-2.5	-0.2	0.9	-0.5	-1.4	-2.2

Sources: Ministry of Economy.

1/ Excludes privatization receipts.

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

3/ Prior to 1993 includes only the balance of various social security operations (e.g. PAMI); since 1993, revenue and expenditure of these operation are included separately. Similarly, from 1996 onward, includes revenue and expenditure of family benefits on a gross bases; prior to 1996 these are included on a net basis.

4/ Includes quasi-fiscal result of the BCRA.

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

6/ Accrual basis.

Table 28. Argentina: Federal Government Revenue, 1991-96 1/

	1991	1992	1993	1994	1995	1996
(Millions of pesos)						
Tax revenue 1/	18,082	26,454	29,310	32,089	31,558	33,486
Direct taxes	1,809	3,299	4,720	6,196	6,677	7,498
Income tax	1,085	2,526	4,272	5,822	6,239	6,799
Other	724	773	448	374	438	699
Indirect taxes	16,273	23,155	24,590	25,893	24,881	25,988
Value-added taxes	6,693	13,349	16,267	17,366	17,442	18,897
Excise tax	1,990	2,154	2,101	2,146	2,059	1,678
Export taxes	181	50	1	31	37	29
Import taxes	543	1,963	2,371	2,753	1,970	2,020
Fuel Tax	2,714	2,493	2,060	2,069	1,793	2,216
Other	4,152	3,146	1,790	1,528	1,580	1,148
Social security contributions 3/	7,757	9,833	13,042	13,608	11,844	11,247
Nontax revenue	1,453	1,860	3,024	3,175	3,413	2,628
Operating surplus of the non-financial public enterprises	603	423	690	(153)	(58)	(56)
Total	27,895	38,570	46,066	48,719	46,757	47,305
(In percent of GDP)						
Tax revenue 1/	10.0	11.7	11.4	11.4	11.3	11.3
Direct taxes	1.0	1.5	1.8	2.2	2.4	2.5
Income tax	0.6	1.1	1.7	2.1	2.2	2.3
Other	0.4	0.3	0.2	0.1	0.2	0.2
Indirect taxes	9.0	10.2	9.5	9.2	8.9	8.7
Value-added taxes	3.7	5.9	6.3	6.2	6.2	6.4
Excise tax	1.1	0.9	0.8	0.8	0.7	0.6
Export taxes	0.1	0.0	0.0	0.0	0.0	0.0
Import taxes	0.3	0.9	0.9	1.0	0.7	0.7
Fuel Tax	1.5	1.1	0.8	0.7	0.6	0.7
Other	2.3	1.4	0.7	0.5	0.6	0.4
Social security contributions 3/	4.3	4.3	5.1	4.8	4.2	3.8
Nontax revenue	0.8	0.8	1.2	1.1	1.2	0.9
Operating surplus of the non-financial public enterprises	0.3	0.2	0.3	-0.1	0.0	0.0
Total	15.4	17.0	17.9	17.3	16.7	15.9

Source: Ministry of Economy.

1/ Excludes privatization receipts.

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

3/ Prior to 1994, only the net revenue (revenue minus expenditure) of various social security operations, e.g., the Medical Fund for Pensioners (FAMI) is included. Since 1994, gross revenue is shown amounting to 0.7 percent of GDP. From June 1994, contributions to private pension funds are excluded, amounting to 0.8 percent of GDP on an annual basis.

Table 29. Argentina: Summary of Provincial Public Finances, 1991-96 1/

	1991	1992	1993	1994	1995	1996
(In millions of pesos)						
Revenue	14,861	21,949	24,982	27,222	26,422	28,282
Current	13,479	20,415	23,017	24,993	24,129	25,693
Own tax revenue	4,678	7,364	8,781	9,663	9,136	9,713
Own nontax revenue	730	1,182	1,483	1,910	1,835	1,811
Transfers from Fed. Government	7,611	11,329	12,206	12,844	12,513	13,376
Royalties	460	540	547	576	645	793
Capital	1,382	1,534	1,965	2,229	2,293	2,589
Own capital revenue	85	130	258	300	309	285
Transfers from Fed. Government	1,297	1,404	1,707	1,929	1,984	2,304
Noninterest expenditure	15,981	22,073	26,592	29,022	29,284	29,220
Current	13,793	19,659	23,307	25,046	25,033	24,692
Wages	8,431	11,944	14,097	15,044	15,206	14,831
Goods and services	1,722	2,375	2,778	3,140	3,177	2,920
Transfers	3,640	5,340	6,432	6,862	6,650	6,941
Provincial social security	661	1,035	1,086	918	941	711
Education	261	597	736	964	1,057	1,087
To municipalities and other	2,718	3,708	4,610	4,980	4,652	5,143
Capital	2,188	2,414	3,285	3,976	4,251	4,528
Interest	267	353	490	594	722	950
Primary balance	-1,120	-124	-1,610	-1,800	-2,862	-938
Overall balance	-1,387	-477	-2,100	-2,394	-3,584	-1,888
(In percent of GDP)						
Revenue	8.2	9.7	9.7	9.7	9.5	9.5
Current	7.5	9.0	8.9	8.9	8.6	8.6
Capital	0.8	0.7	0.8	0.8	0.8	0.9
Noninterest expenditure	8.8	9.7	10.3	10.3	10.5	9.8
Wages	4.7	5.3	5.5	5.3	5.4	5.0
Goods and services	1.0	1.0	1.1	1.1	1.1	1.0
Transfers	2.0	2.4	2.5	2.4	2.4	2.3
Capital	1.2	1.1	1.3	1.4	1.5	1.5
Interest	0.1	0.2	0.2	0.2	0.3	0.3
Primary balance	-0.6	-0.1	-0.6	-0.6	-1.0	-0.3
Overall balance	-0.8	-0.2	-0.8	-0.9	-1.3	-0.6

Sources: Ministry of Economy.

1/ Figures for provinces are only available on an accrual basis.

Table 30. Argentina: Registered Outstanding Debt of the National
Public Sector at the End of the Period

(In billions of U.S. dollars)

	1991	1992	1993	1994	1995	1996	Prel.-June 1997
Foreign commercial banks	30.1	28.9	25.9	26.9	27.3	24.0	23.9
International organizations 1/	7.7	7.6	10.9	11.6	15.4	16.3	17.0
Paris Club creditors	8.8	8.9	8.9	8.0	8.0	6.7	5.3
BONEX	4.6	4.0	3.6	5.1	5.3	4.4	5.7
New money bonds	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Euronotes and other titles	0.5	0.8	2.5	5.1	8.4	22.5	28.3
BOCON	0.0	5.3	8.4	16.0	15.5	17.9	17.9
To pensioners	0.0	3.7	6.1	11.0	11.0	11.8	11.7
To suppliers	0.0	1.6	2.3	5.0	4.5	6.1	6.2
Hydrocarbon bonds	0.0	0.4	0.4	0.0	0.0	0.0	0.0
Other	6.6	3.1	7.1	6.7	9.8	7.9	10.6
Total	58.4	59.1	67.8	79.5	89.7	99.7	108.7
Local currency	1.2	0.7	5.9	7.3	6.7	10.7	15.6
Foreign currency	57.2	58.4	61.9	72.2	83.0	89.0	93.1
External debt	57.2	57.4	60.3	69.6	68.2	72.5	73.3
Domestic debt	0.0	1.0	1.6	2.6	14.8	16.5	19.8

Sources: Ministry of Economy; and Fund staff estimates.

1/ IMF, World Bank, and IDB.

Table 31. Argentina: Annualized Interest Rates
(In percent)

	Deposit Rates 1/		Lending Rates 2/	
	Pesos	U.S. dollars	Pesos	U.S. dollars
1994				
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
1995				
January	10.65	6.54	18.06	11.51
February	11.64	6.88	19.06	12.11
March	19.38	9.91	34.05	23.03
April	19.07	11.09	26.45	20.14
May	15.54	10.84	22.13	17.81
June	10.83	8.45	16.19	13.61
July	10.24	8.05	14.57	12.37
August	9.17	7.42	13.29	11.79
September	9.21	7.22	13.26	11.35
October	8.92	7.21	12.55	11.03
November	9.02	7.31	12.31	10.93
December	9.16	7.41	12.24	10.82
1996				
January	8.62	7.15	11.54	10.31
February	7.62	6.53	10.65	9.58
March	7.27	6.27	10.23	9.27
April	7.11	6.14	9.99	8.97
May	6.66	5.90	9.74	8.74
June	6.55	5.74	9.70	8.76
July	6.67	5.78	9.98	8.99
August	7.45	5.89	11.30	9.10
September	7.76	5.96	11.50	9.10
October	7.44	5.92	10.60	8.90
November	7.50	5.92	10.50	8.90
December	7.60	5.98	10.50	8.80
1997				
January	7.33	5.90	10.15	8.57
February	6.92	5.78	9.56	8.27
March	6.77	5.74	8.74	7.67
April	6.67	5.75	8.02	7.32
May	6.49	5.69	7.92	7.34
June	6.43	5.67	7.77	7.26
July	6.42	5.68	7.66	7.21
August	6.38	5.71	7.83	7.32
September	6.43	5.71	7.79	7.33
October	6.70	5.88	8.67	7.83
November	8.89	6.36	14.17	9.41
December	8.38	6.59	12.60	8.62

Source: Central Bank of Argentina.

1/ Weighted average of rates on 30-59 day time deposits.

2/ 30-day prime lending rates.

Table 32. Argentina: Summary Operations of the Financial System

(In millions of pesos)

	December					June
	1992	1993	1994	1995	1996	1997
I. Consolidated Financial System						
Net foreign assets	5,122	7,878	6,389	2,512	6,955	11,741
Central Bank (NIR)	8,541	11,766	11,818	9,832	13,452	14,443
Rest of system	-3,419	-3,888	-5,429	-7,320	-6,497	-2,702
Net domestic assets	23,695	34,617	43,650	46,221	50,736	52,902
Credit to public sector (net) 1/	9,453	10,525	12,059	17,784	16,960	14,807
Credit to private sector	34,988	43,243	52,029	49,945	53,512	57,542
Private capital and surplus	-10,809	-12,705	-13,755	-13,970	-15,038	-16,246
Official capital and surplus and unclassified assets (net)	-9,937	-6,446	-6,683	-7,538	-4,698	-3,201
Liabilities to private sector	28,767	42,493	50,039	48,733	57,691	64,643
Monetary liabilities (M1)	9,999	13,475	15,196	15,404	17,139	17,547
Quasi-money	8,088	11,859	13,222	11,811	14,053	18,047
Foreign exchange deposits	10,680	17,159	21,621	21,518	26,499	29,049
II. Central Bank 2/						
Net international reserves 2/	8,541	11,766	11,818	9,832	13,452	14,443
Net domestic assets	2,469	3,224	5,124	8,334	7,105	6,743
Credit to public sector (net) 1/	3,940	5,750	8,039	10,460	9,951	9,823
Credit to financial system	2,410	1,495	1,514	3,061	1,957	1,488
Official capital and surplus and unclassified assets (net)	-3,881	-4,021	-4,429	-5,187	-4,803	-4,568
Monetary liabilities	11,010	14,989	16,943	18,166	20,557	21,185
Currency issued	9,648	12,173	13,318	13,050	14,030	14,041
Currency in circulation	7,682	10,061	11,219	11,148	11,750	11,598
Cash in vault	1,966	2,112	2,099	1,902	2,280	2,443
Government deposits	0	0	674	1,464	2,242	1,341
Reserve deposits 4/	1,362	2,816	2,951	3,652	4,285	5,803
III. Banks and Nonbank Financial Institutions						
Net foreign assets	-3,419	-3,888	-5,429	-7,320	-6,497	-2,702
Net claims on BCRA	918	3,433	3,535	2,493	4,608	6,759
Net domestic assets	23,586	32,888	40,714	42,412	47,830	48,988
Credit to public sector (net) 1/	5,513	4,775	4,694	8,788	9,251	6,325
Credit to private sector	34,988	43,243	52,029	49,945	53,512	57,542
Capital and reserves	-10,969	-12,705	-13,755	-13,970	-15,038	-16,246
Other (net)	-5,946	-2,425	-2,254	-2,351	105	1,367
Liabilities to private sector	21,085	32,432	38,820	37,585	45,941	53,045
Local currency deposits	10,405	15,273	17,199	16,067	19,442	23,996
Sight deposits	2,317	3,414	3,977	4,256	5,389	5,949
Time and savings deposits	8,088	11,859	13,222	11,811	14,053	18,047
Foreign currency deposits	10,680	17,159	21,621	21,518	26,499	29,049

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

1/ All public sector entities, including provincial governments.

2/ The BCRA net international reserves comprise gold, foreign currency holdings, Aladi (net) and IMF liabilities.

3/ Includes current account deposits, swaps ("pases pasivos") and treasury liquidity notes ("Lelibans") held by financial institutions at the Central Bank.

Table 33. Argentina: Legal Reserve Requirements and Legal Liquidity Requirements

(In percent)

	Domestic Currency Deposits													
	Demand Deposits			Savings Deposits			To 59 Days			Time Deposits				
	Res. Req.	Liq. Req.		Res. Req.	Liq. Req.		Res. Req.	Liq. Req.		Res. Req.	Liq. Req.		Res. Req.	Liq. Req.
1995														
May	33.0	...	...	33.0	...	2.0	...	2.0	...	...	0.0	...	0.0	...
June	33.0	...	...	33.0	...	2.0	...	2.0	...	...	0.0	...	0.0	...
July	33.0	...	...	33.0	...	2.0	...	2.0	...	...	0.0	...	0.0	...
August	30.0	...	...	30.0	...	...	6.0	...	2.0	...	...	2.0	...	2.0
September	20.0	6.0	6.0	20.0	6.0	...	6.0	...	6.0	...	...	3.0	...	3.0
October	10.0	10.0	10.0	10.0	10.0	...	10.0	...	10.0	...	...	7.0	...	5.0
November	...	15.0	15.0	...	15.0	...	15.0	...	15.0	...	...	10.0	...	5.0
December	...	15.0	15.0	...	15.0	...	15.0	...	15.0	...	...	10.0	...	5.0
1996														
January	...	15.0	15.0	...	15.0	...	15.0	...	15.0	...	...	10.0	...	5.0
February	...	15.0	15.0	...	15.0	...	15.0	...	15.0	...	...	10.0	...	5.0
March	...	15.0	15.0	...	15.0	...	15.0	...	15.0	...	...	10.0	...	5.0
April	...	15.0	15.0	...	15.0	...	15.0	...	15.0	...	...	10.0	...	5.0
May	...	15.0	15.0	...	15.0	...	15.0	...	15.0	...	...	10.0	...	5.0
June	...	15.0	15.0	...	15.0	...	15.0	...	15.0	...	...	10.0	...	5.0
July	...	16.0	16.0	...	16.0	...	16.0	...	16.0	...	...	11.0	...	6.0
August	...	16.0	16.0	...	16.0	...	16.0	...	16.0	...	...	11.0	...	6.0
September	...	16.0	16.0	...	16.0	...	16.0	...	16.0	...	...	11.0	...	6.0
October	...	17.0	17.0	...	17.0	...	17.0	...	17.0	...	...	12.0	...	7.0
November	...	17.0	17.0	...	17.0	...	17.0	...	17.0	...	...	12.0	...	7.0
December	...	17.0	17.0	...	17.0	...	17.0	...	17.0	...	...	12.0	...	7.0
1997														
January	...	17.0	17.0	...	17.0	...	17.0	...	17.0	...	...	12.0	...	7.0
February	...	18.0	18.0	...	18.0	...	18.0	...	18.0	...	...	13.0	...	8.0
March	...	18.0	18.0	...	18.0	...	18.0	...	18.0	...	...	13.0	...	8.0
April	...	18.0	18.0	...	18.0	...	18.0	...	18.0	...	...	13.0	...	8.0
May	...	18.0	18.0	...	18.0	...	18.0	...	18.0	...	...	13.0	...	8.0
June	...	18.0	18.0	...	18.0	...	18.0	...	18.0	...	...	13.0	...	8.0
July	...	18.0	18.0	...	18.0	...	18.0	...	18.0	...	...	13.0	...	8.0
August	...	19.0	19.0	...	19.0	...	19.0	...	19.0	...	...	14.0	...	9.0
September	...	19.0	19.0	...	19.0	...	19.0	...	19.0	...	...	14.0	...	9.0
October	...	19.0	19.0	...	19.0	...	19.0	...	19.0	...	...	14.0	...	9.0
November	...	19.0	19.0	...	19.0	...	19.0	...	19.0	...	...	14.0	...	9.0
December	...	19.0	19.0	...	19.0	...	19.0	...	19.0	...	...	14.0	...	9.0

Table 33. Argentina: Legal Reserve Requirements and Legal Liquidity Requirements (Continued)

	Foreign Currency Deposits											
	Dom. Curr. Deposits				Savings Deposits				Time Deposits			
	Time Deposits 365 Days or More		Demand Deposits		Res. Req.		Liq. Req.		To 59 Days		60-89 Days	
	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.
1995												
May	0.0	...	33.0	...	33.0	...	...	...	2.0	...	2.0	...
June	0.0	...	33.0	...	33.0	...	...	...	2.0	...	2.0	...
July	0.0	...	33.0	...	33.0	...	...	...	2.0	...	2.0	...
August	...	0.0	30.0	...	30.0	...	...	...	...	6.0	...	2.0
September	...	0.0	20.0	6.0	20.0	6.0	...	6.0	...	6.0	...	6.0
October	...	0.0	10.0	10.0	10.0	10.0	...	10.0	...	10.0	...	10.0
November	...	0.0	...	15.0	...	15.0	...	15.0	...	15.0	...	15.0
December	...	0.0	...	15.0	...	15.0	...	15.0	...	15.0	...	15.0
1996												
January	...	0.0	...	15.0	...	15.0	...	15.0	...	15.0	...	15.0
February	...	0.0	...	15.0	...	15.0	...	15.0	...	15.0	...	15.0
March	...	0.0	...	15.0	...	15.0	...	15.0	...	15.0	...	15.0
April	...	0.0	...	15.0	...	15.0	...	15.0	...	15.0	...	15.0
May	...	0.0	...	15.0	...	15.0	...	15.0	...	15.0	...	15.0
June	...	0.0	...	15.0	...	15.0	...	15.0	...	15.0	...	15.0
July	...	0.0	...	16.0	...	16.0	...	16.0	...	16.0	...	16.0
August	...	0.0	...	16.0	...	16.0	...	16.0	...	16.0	...	16.0
September	...	0.0	...	16.0	...	16.0	...	16.0	...	16.0	...	16.0
October	...	0.0	...	17.0	...	17.0	...	17.0	...	17.0	...	17.0
November	...	0.0	...	17.0	...	17.0	...	17.0	...	17.0	...	17.0
December	...	0.0	...	17.0	...	17.0	...	17.0	...	17.0	...	17.0
1997												
January	...	0.0	...	17.0	...	17.0	...	17.0	...	17.0	...	17.0
February	...	0.0	...	18.0	...	18.0	...	18.0	...	18.0	...	18.0
March	...	0.0	...	18.0	...	18.0	...	18.0	...	18.0	...	18.0
April	...	0.0	...	18.0	...	18.0	...	18.0	...	18.0	...	18.0
May	...	0.0	...	18.0	...	18.0	...	18.0	...	18.0	...	18.0
June	...	0.0	...	18.0	...	18.0	...	18.0	...	18.0	...	18.0
July	...	0.0	...	18.0	...	18.0	...	18.0	...	18.0	...	18.0
August	...	0.0	...	19.0	...	19.0	...	19.0	...	19.0	...	19.0
September	...	0.0	...	19.0	...	19.0	...	19.0	...	19.0	...	19.0
October	...	0.0	...	19.0	...	19.0	...	19.0	...	19.0	...	19.0
November	...	0.0	...	19.0	...	19.0	...	19.0	...	19.0	...	19.0
December	...	0.0	...	19.0	...	19.0	...	19.0	...	19.0	...	19.0

Table 33. Argentina: Legal Reserve Requirements and Legal Liquidity Requirements (Concluded)

	Foreign Currency Deposits					
	Time Deposits					
	90-179 Days		180-365 Days		365 Days or More	
	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.	Res. Req.	Liq. Req.
1995						
May	2.0	...	2.0	...	0.0	...
June	2.0	...	2.0	...	0.0	...
July	2.0	...	2.0	...	0.0	...
August	...	2.0	...	0.0	...	0.0
September	...	3.0	...	2.0	...	0.0
October	...	7.0	...	3.0	...	0.0
November	...	10.0	...	5.0	...	0.0
December	...	10.0	...	5.0	...	0.0
1996						
January	...	10.0	...	5.0	...	0.0
February	...	10.0	...	5.0	...	0.0
March	...	10.0	...	5.0	...	0.0
April	...	10.0	...	5.0	...	0.0
May	...	10.0	...	5.0	...	0.0
June	...	10.0	...	5.0	...	0.0
July	...	11.0	...	6.0	...	0.0
August	...	11.0	...	6.0	...	0.0
September	...	11.0	...	6.0	...	0.0
October	...	12.0	...	7.0	...	0.0
November	...	12.0	...	7.0	...	0.0
December	...	12.0	...	7.0	...	0.0
1997						
January	...	12.0	...	7.0	...	0.0
February	...	13.0	...	8.0	...	0.0
March	...	13.0	...	8.0	...	0.0
April	...	13.0	...	8.0	...	0.0
May	...	13.0	...	8.0	...	0.0
June	...	13.0	...	8.0	...	0.0
July	...	13.0	...	8.0	...	0.0
August	...	14.0	...	9.0	...	0.0
September	...	14.0	...	9.0	...	0.0
October	...	14.0	...	9.0	...	0.0
November	...	14.0	...	9.0	...	0.0
December	...	14.0	...	9.0	...	0.0

Source: Central Bank of Argentina.

Table 34. Argentina: Financial Assets 1/

(In millions of pesos)

	Currency in Circulation	M-1	M-2	Foreign Currency Deposits	M3
1991					
I	2,426	3,980	7,913	3,530	11,443
II	3,452	5,986	9,865	4,749	14,614
III	3,743	6,380	10,885	5,893	16,778
IV	5,219	8,785	13,432	6,583	20,015
1992					
I	4,782	8,807	14,615	7,993	22,608
II	5,600	10,743	17,746	9,002	26,748
III	5,660	10,733	18,951	10,384	29,335
IV	7,682	12,852	21,465	10,842	32,307
1993					
I	6,653	12,671	23,891	12,290	36,181
II	7,502	13,938	25,444	13,822	39,266
III	8,064	14,319	26,945	16,484	43,429
IV	10,061	17,318	30,377	17,532	47,909
1994					
I	9,118	17,255	31,590	19,959	51,549
II	9,085	16,993	31,477	21,174	52,650
III	9,402	16,040	32,082	22,382	54,464
IV	11,219	18,229	32,714	23,555	56,269
1995					
I	9,154	15,366	26,848	20,872	47,720
II	9,240	16,092	27,722	20,810	48,532
III	9,311	16,136	27,864	22,392	50,256
IV	11,148	18,338	30,346	23,590	53,936
1996					
I	10,099	17,747	31,966	25,608	57,575
II	10,801	19,851	34,918	26,118	61,037
III	10,064	18,627	32,751	27,908	60,659
IV	11,751	21,708	36,275	28,405	64,680
1997					
I	10,916	21,595	38,510	30,008	68,518
II	11,596	23,057	42,409	32,470	74,879
III (Prel.)	11,741	23,917	43,770	33,475	77,245

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

1/ End of period. M-1 includes currency in circulation and local currency demand deposits; M-2 comprises M-1 plus time and savings deposits in pesos; and M-3 in addition includes all foreign currency deposits.

Table 35. Argentina: Balance of Payments

(In millions of U.S. dollars)

	1993	1994	1995	1996	January- June 1996	January- June 1997
Current account 1/	-7,853	-10,341	-4,302	-5,781	-1,993	-4,888
Trade balance	-2,427	-5,750	844	49	633	-1,336
Exports (f.o.b.)	13,117	15,841	20,967	23,811	11,344	12,583
Imports (f.o.b.)	-15,544	-21,591	-20,123	-23,762	-10,711	-13,919
Nonfactor services	-2,633	-1,333	-780	-827	-488	-757
Receipts	2,507	2,668	2,925	3,313	1,587	1,717
Expenditures	-5,140	-4,001	-3,705	-4,140	-2,075	-2,474
Factor services	-3,204	-3,578	-4,798	-5,337	-2,312	-2,968
Profits and dividends	-1,273	-1,270	-1,871	-2,106	-931	-1,149
Interest due	-3,231	-4,177	-5,446	-5,950	-2,666	-3,377
Nonfinancial public sector	-2,419	-2,913	-3,539	-3,950	-1,758	-2,268
Financial system	-605	-796	-1,196	-1,134	-495	-625
BCRA	-251	-223	-299	-237	-92	-140
Other	-354	-573	-897	-897	-403	-485
Nonfinancial private sector	-207	-468	-711	-866	-413	-484
Interest earnings	1,300	1,869	2,519	2,719	1,285	1,558
Nonfinancial public sector	134	237	261	238	114	111
Financial system	531	727	1,001	1,185	552	716
BCRA	452	641	778	767	377	484
Other	79	86	223	418	175	232
Nonfinancial private sector 1/	635	905	1,257	1,296	619	731
Transfers (net)	411	320	432	334	174	173
Capital account	11,002	10,393	2,315	9,201	3,101	5,879
Nonfinancial public sector	7,117	3,513	5,884	8,886	4,564	3,695
National government	6,472	4,219	6,394	8,743	4,583	3,068
Multilateral organizations	2,239	395	1,590	1,024	106	423
Bilateral and commercial	5,000	2,516	3,671	7,205	3,700	3,561
Privatization receipts	2,429	351	981	219	219	0
Other	-3,196	957	152	295	558	-916
Rest of NFPS	645	-706	-510	143	-19	627
Private sector	1,884	6,177	6,596	4,108	424	1,121
Foreign direct investment	1,640	2,759	2,990	3,624	1,603	1,481
Change in financial system NFA (- increase)	-3,131	1,542	1,901	-866	-1,935	-2,468
Debt flows	3,375	1,876	1,705	1,350	756	2,108
Other capital 2/	2,001	703	-10,165	-3,793	-1,887	1,063
Net international reserves (- increase)	-3,149	-52	1,987	-3,420	-1,108	-991
Assets	-4,377	-743	66	-3,782	-1,393	-1,089
Liabilities	1,228	691	1,921	362	285	98
Of which: IMF	1,228	460	1,915	367	267	92
Purchases	1,612	875	2,410	797	487	291
Repurchases	-384	-415	-495	-430	-220	-199
Memorandum items						
Current Account (percent of GDP)	-3.0	-3.7	-1.5	-1.9	...	...
Export Volume (percentage change)	8.0	15.0	25.3	6.6	-1.6	13.6
Import Volume (percentage change)	11.5	26.9	-11.6	19.6	5.7	33.2
Terms of Trade (percentage change)	-1.9	3.6	0.2	7.9	5.1	0.9
Total FDI (private and public)	4,910	3,110	3,971	4,080	1,971	2,251
External public debt/GDP (percent)	23.4	24.7	24.4	24.4	...	...

Sources: Ministry of Economy.

1/ Efforts to estimate private assets abroad are currently underway, which the authorities believe will imply higher interest receipts and a lower current account deficit, by about 0.5 percent of GDP a year.

2/ Includes errors and omissions.

Table 36. Argentina: Exchange Rates

(Annual Average)

	Official Exchange Rate (Arg\$ per US\$) 1/2/	Parallel Exchange Rate 3/	Parallel Exchange Rate Spread (In percent)	Real Effective Exchange Rate (Index 1990=100) 4/
1984	0.06774	0.08831	30.3	102.8831
1985	0.60156	0.69423	15.4	95.0144
1986	0.94150	1.05410	12.0	98.9799
1987	2.14600	2.73300	27.3	92.5712
1988	8.72100	10.98900	26.0	83.6190
1989	397.15750	475.81250	19.8	69.4048
1990	4,876.45480	...	...	100.0000
1991	9,541.32270	...	...	142.4076
1992	0.99065	...	...	164.0269
1993	0.99946	...	...	177.3968
1994	0.99996	...	...	168.9436
1995	1.00000	...	...	154.6282
1996	1.00000	...	...	151.9164
1996				
January	1.0000	...	...	154.0840
February	1.0000	...	...	153.2149
March	1.0000	...	...	152.4094
April	1.0000	...	...	152.1505
May	1.0000	...	...	151.5778
June	1.0000	...	...	151.2860
July	1.0000	...	...	151.1645
August	1.0000	...	...	150.5490
September	1.0000	...	...	151.2122
October	1.0000	...	...	152.3289
November	1.0000	...	...	151.4520
December	1.0000	...	...	151.5679
1997				
January	1.0000	...	...	152.9472
February	1.0000	...	...	155.2951
March	1.0000	...	...	155.0128
April	1.0000	...	...	154.5769
May	1.0000	...	...	154.0307
June	1.0000	...	...	154.3169
July	1.0000	...	...	155.8137
August	1.0000	...	...	157.4791
September	1.0000	...	...	156.1609
October	1.0000	...	...	...
November	1.0000	...	...	...
December	1.0000	...	...	...

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

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

2/ Period averages of selling rates.

3/ 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 ratio 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.

4/ Based on nominal exchange rates, consumer price indices seasonally adjusted and trade shares of most trading partners; increase denotes appreciation. Based on trade weights of 1996.

Table 37. Argentina: Exports by Principal Product Category

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	January-May	
						1996	1997
Primary products	3,301	3,499	3,279	3,742	4,816	5,817	3,016
Live animals	8	9	13	51	98	45	18
Fish and seafood	200	312	435	446	498	609	327
Honey	43	52	50	54	70	91	52
Fresh fruits	262	282	215	244	417	476	271
Cereals	1,067	1,548	1,454	1,333	1,863	2,560	1,834
Oil seeds and beans	1,081	790	696	952	884	964	171
Tobaccos	137	143	117	89	101	146	95
Wool	55	41	49	75	86	65	29
Cotton fibers	203	76	26	176	433	497	54
Other	245	246	224	322	366	366	166
Manufacture of agricultural origin	4,927	4,827	4,924	5,800	7,472	8,439	3,288
Meat	892	767	748	918	1229	1074	406
Fish and seafood products	246	237	271	279	416	395	175
Milk and milk products	67	35	76	135	260	281	106
Other animal products	9	10	12	17	16	22	8
Dry Fruits	23	24	22	32	26	33	8
Tea, herbs, and spices	45	47	62	60	67	65	32
Oils	1221	1110	1079	1533	2097	1891	803
Sugar and candies	74	65	43	59	122	145	24
Beverages	58	64	64	80	165	153	59
Other food products	1270	1459	1451	1348	1254	2367	810
Extracts	42	40	44	43	40	42	20
Leather	514	475	618	763	937	889	395
Refined wool	87	92	96	113	116	121	48
Other	379	402	338	420	727	964	396
Manufactures of industrial origin	2,982	2,824	3,679	4,647	6,504	6,466	2,677
Chemical products	504	533	559	727	972	980	402
Plastics	146	148	133	181	341	340	129
Rubber products	48	40	55	82	129	130	47
Leather products	77	79	118	157	138	147	35
Paper products	113	127	150	202	414	378	156
Textiles and textile products	148	121	165	210	383	305	128
Shoes and shoe products	59	52	92	87	102	73	41
Ceramics	79	71	79	71	110	107	43
Jewelry and precious stones	4	4	52	252	23	5	1
Metals and their manufacture	912	643	702	760	1214	1190	459
Machinery and electrical products	561	518	755	867	983	962	415
Transportation equipment	266	405	719	918	1308	1642	736
Others	65	83	100	133	387	209	88
Petroleum products	766	1,082	1,236	1,651	2,169	3,089	1,263
Total	11,976	12,232	13,118	15,840	20,961	23,811	10,244

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

Table 38. Argentina: Principal Agricultural Exports

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

	1991	1992	1993	1994	1995	1996
Total agricultural products	8,228	8,329	8,203	9,541	12,290	14,256
Cereals	1,040	1,535	1,461	1,390	1,940	2,593
Wheat	466	635	723	670	987	1,065
Volume	5345	6,047	5,672	5,143	6,782	5,914
Unit price	87	105	127	130	146	180
Corn	401	626	516	479	666	1,224
Volume	3882	6,085	4,864	4,146	5,902	7,069
Unit price	103	103	106	119	113	173
Sorghum	87	90	81	100	95	148
Volume	1316	1,146	910	424	189	672
Unit price	87	90	81	100	95	148
Other cereals	86	184	141	141	192	156
Soy beans	917	641	545	690	536	588
Volume	4430	3,053	2,418	2,909	2,549	2,056
Unit price	207	210	225	237	210	286
Soy oil	513	521	594	844	928	877
Volume	1233	1,308	1,360	1,480	1,524	1,658
Unit price	416	372	437	570	609	529
Soy pellets	941	1,209	1,239	1,146	1,017	1,984
Volume	5476	6,501	6,621	6,671	6,854	8,347
Unit price	172	186	187	172	148	238
Sunflower oil	529	432	335	502	868	735
Volume	1222	1,037	739	872	1,459	1,371
Unit price	433	417	453	576	595	536
Sunflower pellets	132	130	124	120	125	245
Volume	1606	1,375	1,182	1,286	1,898	2,096
Unit price	82	95	105	93	66	117
Beef	389	338	332	496	695	627
Volume	92	60	68	140	218	217
Unit price	4228	5,633	4,882	3,536	3,188	2,891
Beef products	349	261	258	277	368	324
Volume	130	104	96	103	126	141
Unit price	2685	2,510	2,688	2,689	2,921	2,291
Other meat	117	125	141	133	153	155
Fish and fish products	446	558	706	725	915	1,004
Volume	304	326	508	535	584	861
Unit price	1467	1,712	1,395	1,355	1,567	1,518
Fresh fruit	268	292	247	251	426	476
Volume	608	583	503	536	753	799
Unit price	441	501	491	468	586	595
Wool	91	80	93	122	120	98
Volume	38	33	46	53	37	35
Unit price	2395	2,424	2,022	2,302	3,243	2,819
Other agricultural exports (Value)	3,025	2,639	2,463	3,347	5,067	5,285

Sources: Ministry of Economy.

Table 39. Argentina: External Trade by Principal Countries and Regions

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	1996	January-May 1997
Exports							
Total	11,976	12,235	13,118	15,839	20,963	23,811	10,245
LAIA	3,369	2,327	3,684	4,804	6,770	7,918	3,436
Of which: Brazil	1,489	1,671	2,814	3,655	5,484	6,615	2,906
United States	1,245	1,349	1,278	1,737	1,804	1,945	780
EEC	3,956	3,732	2,646	3,891	4,466	4,562	1,660
Japan	454	375	467	445	457	512	248
Other	2,952	4,452	5,043	4,962	7,466	8,874	4,121
Imports							
Total	8,284	14,872	16,784	21,590	20,122	23,762	11,424
LAIA	2,748	3,755	4,214	3,784	4,511	5,800	2,725
Of which: Brazil	1,532	3,339	3,570	4,286	4,175	5,326	2,496
United States	1,871	3,226	3,859	4,373	4,207	4,719	2,374
EEC	2,033	3,633	4,139	6,140	6,025	6,902	3,359
Japan	393	697	669	986	711	725	357
Other	1,239	3,561	3,903	6,307	4,668	5,616	2,609

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

Table 40. Argentina: External Trade: Value, Volume, and Price Indices

	1991	1992	1993	1994	1995	1996
	(1993 = 100)					
Export value	91.3	93.3	100.0	120.7	159.8	181.5
Export price	96.3	99.8	100.0	102.9	108.8	115.9
Export volume	94.9	93.5	100.0	117.4	146.9	156.6
Import value	49.3	88.6	100.0	128.6	119.9	141.6
Import price	104.5	102.3	100.0	101.4	106.9	105.3
Import volume	47.2	86.6	100.0	128.9	112.2	134.4
Terms of trade	92.2	97.6	100.0	101.5	101.8	110.1
	(Percentage changes)					
Export value	-3.1	2.2	7.2	20.7	32.4	13.6
Export price	-0.7	3.6	0.2	2.9	5.7	6.5
Export volume	-2.2	-1.5	7.0	17.4	25.1	6.6
Import value	102.0	79.7	12.9	28.6	-6.8	18.1
Import price	-3.9	-2.1	-2.2	1.4	5.4	-1.5
Import volume	111.7	83.5	15.5	28.9	-13.0	19.8
Terms of trade	3.3	5.9	2.5	1.5	0.3	8.1
Memorandum items						
Export value (in millions of U.S. dollars)	11,976	12,235	13,118	15,839	20,963	23,811
Import value (in millions of U.S. dollars)	8,284	14,872	16,784	21,590	20,122	23,762

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

Table 41. Argentina: Imports by Economic Classification

	1991	1992	1993	1994	1995	January-May	
						1996	1997
(In millions of U.S. dollars)							
Total, c.i.f.	8,284	14,872	16,784	21,590	20,122	23,762	11,424
Consumption goods	1,514	3,205	3,527	3,907	3,174	3,583	1,642
Capital goods	1,637	3,888	4,964	7,409	5,552	5,607	2,951
Fuels	462	416	387	606	809	845	353
Other intermediate goods	4,671	7,363	7,906	9,668	10,587	13,727	6,478
(In percent of total)							
Total, c.i.f.	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumption goods	18.3	21.6	21.0	18.1	15.8	15.1	14.4
Capital goods	19.8	26.1	29.6	34.3	27.6	23.6	25.8
Fuels	5.6	2.8	2.3	2.8	4.0	3.6	3.1
Other intermediate goods	56.4	49.5	47.1	44.8	52.6	57.8	56.7

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

Table 42. Argentina: International Reserves of the Central Bank

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

	1991	1992	1993	1994	1995	1996	1997
Central bank net international reserves	5,839	8,541	11,766	11,818	9,832	13,452	16,347
Assets	7,885	11,221	15,286	16,029	15,963	19,745	22,807
Gold 1/	1,430	1,446	1,672	1,651	1,679	...	...
SDRs	224	413	455	563	539	...	...
IMF reserve tranche	0	0	0	0	0	...	...
Foreign exchange	6,722	9,528	13,339	13,758	13,723	...	...
LAIA (net) 2/	-491	-166	-180	57	22	...	...
Liabilities	2,046	2,680	3,520	4,211	6,131	6,293	6,460
IMF	2,046	2,680	3,821	4,638	6,131	6,545	6,957
Other	0	0	-301	-427	0	-252	-497

Source: Ministry of Economy.

1/ Valued at market prices.

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

Table 43. Argentina: International Bond Issues

	1992	1993	1994	1995	1996	January-September	
						1996	1997
(In millions of U.S. dollars)							
Total bond placement	1,619	6,308	5,320	6,356	13,988	9,025	13,319
Public sector	389	2,406	2,740	5,403	11,448	7,030	10,034
Private sector	1,230	3,902	2,580	953	2,539	1,994	3,285
By currency							
U.S. dollars	1,609	5,688	4,070	2,426	5,526	3,751	8,751
Deutsche marks	0	620	300	1,533	4,004	3,031	891
Yen	0	0	352	1,672	2,029	1,145	397
Other	10	0	598	725	2,429	1,098	3,280
(In years) 1/							
Average maturity							
Public sector							
U.S. dollars	4.7	7.2	4.8	5.0	4.6	3.6	11.8
Deutsche marks	...	5.0	3.0	5.8	11.8	10.2	7.0
Yen	...	...	3.9	3.0	7.7	7.9	7.0
Private sector							
U.S. dollars	3.9	5.2	4.5	2.6	3.9	4.1	4.8
(In basis points) 2/							
Average yield spread at launch							
Public sector							
U.S. dollars	324	313	257	280	408	373	407
Deutsche marks	...	250	220	380	379	398	161
Yen	...	...	281	319	325	328	229
Private sector							
U.S. dollars	392	387	410	570	406	419	273

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

1/ Unweighted average.

2/ 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 44. Argentina: Outstanding Government External Debt by Creditor 1/

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	End-June 1997
Public sector	57,393	60,293	69,587	68,222	72,500	73,300
International organizations	7,970	11,185	11,774	15,099	15,966	16,704
IMF	2,680	3,821	4,638	6,131	6,545	6,957
Other	5,290	7,364	7,136	8,968	9,421	9,747
Paris Club	8,901	8,923	7,978	8,024	6,898	5,295
Commercial banks	28,870	25,887	24,504	23,208	22,668	21,307
Refinanceable 2/	19,397	0	0	0	0	...
Arrears 2/	8,583	0	0	0	0	...
Other	890	25,887	24,504	23,208	22,668	21,307
Public bonds 3/	8,541	9,809	12,377	14,770	23,512	27,573
Other 4/	3,111	4,489	12,954	7,121	3,456	2,421

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 BOCONs which are considered to be held mostly by domestic residents.

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

