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John Neagle

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Argentina Announces Economic Policy Measures: Free Exchange Rate, Fiscal Deficit Reduction

by John Neagle

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On the evening of April 13, Argentine Economy Minister Juan Carlos Pugliese announced the implementation of new economic policy measures, including the lifting of controls on the currency exchange market. The central bank decreed a bank holiday for April 13. The minister said, "In a demonetized and dollarized economy, exchange fluctuations can alter from one day to the next the value and income of citizens' assets." Pugliese said the government had adopted measures to prevent free and floating exchange rates from affecting prices of basic consumer goods. Next, the minister announced a 14% average price hike for public goods and services to go into effect April 13. Fuel prices were raised 16%, for a total of 28% this month alone. Other measures adopted to reduce the fiscal deficit, said Pugliese, include a renewed efforts to "combat tax evasion." Pugliese pledged a reformulation of the budget for the second half of the year that could be "the first step in a fiscal pact" among party factions in the national legislature until Dec. 10 when the new administration takes power. The minister denied that the government planned to implement price freezes. He added, however, that the Secretary of Interior Commerce had been ordered to adopt a "rational, but inflexible policy that will permit only legitimate costs of production" to be passed on to consumers. Pugliese said the measures were necessary in the context of uncertainty regarding the political future after the May elections, the persistent aggravation of the fiscal deficit, currency speculation, and spiralling inflation. On the same day in separate statements, presidential candidates for the ruling Radical Party, Eduardo Angeloz, and for the Justicialista (Peronist) party, Carlos Menem, requested the government to implement an emergency salary hike. Inflation this month is expected to reach 30%. At present, Argentina's central bank reserves total \$600 million. Under existing debt repayment arrangements, the national government is expected to make payments this month totaling \$700 million. Analysts and currency exchange house administrators said that on April 17 when the markets reopen the "mix" of previous exchange rates would likely shake down to a single rate of 40 australs per US dollar. (Basic data from Diarios y Noticias, Notimex, 04/13/89)

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