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Argentina: Currency Devalued Over 50%; Price Hikes For Public Goods & Services

by John Neagle

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Last week, Argentines waited in trepidation for new adjustments to the stabilization package to be announced on Dec. 10. In the expectation of hoarding as consumers reacted to expected fuel price hikes of at least 50%, gasoline station owners considered closing down for 96 hours. The Energy Secretariat announced that gasoline stations would be sanctioned if they closed down. An obligatory holiday for public employees was effectively expanded at noon on Friday to the majority of stores and shops in Buenos Aires. Also on Friday, the national government sent 1,000 militarized police to fortify police forces in Rosario. On Sunday, officials announced an over 50% devaluation for the austral, and the establishment of a sanctioned free market exchange system alongside an official rate. When markets closed on Friday, the official rate was 650 australs to the US dollar, with the parallel rate about 1,000 australs to the dollar. The new official rate was set at 1,000 per dollar. Fuel prices were raised 59%. Public employee salaries were increased by 30,000 australs per month, and private sector wages by 24,000 australs a month. Officials said the government would announce average 50% price hikes for state company goods and services, such as electricity rates, on Dec. 11. Price hikes for fuel products average 60%. The adjustment package includes a two-year grace period for principal payments on the government's domestic debt. At present, the national government pays between \$500 million and \$600 million per month in interest on its domestic debt. Since President Carlos Menem took office in July, the internal public debt increased from \$1.5 billion to \$8 billion on Nov. 30. Banks and exchange houses were scheduled for a holiday on Monday. The highest import tariffs were reduced from 40% to 30%, and the lowest from 10% to 5%. Economy Ministry sources said budget tightening measures would also be implemented within the week, including the closing of selected railway stations. The Menem administration's austerity plan managed to reduce consumer price inflation from nearly 200% in July to 5.4% in October. The downward tendency was reversed in November, with a monthly rate of 6.5%. According to the Institute of Economic and Social Policy (Buenos Aires), inflation during the first week of December was 4.8%. (Basic data from Notimex, 12/07/89, 12/08/89, 12/10/89; DPA, 12/10/89)

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