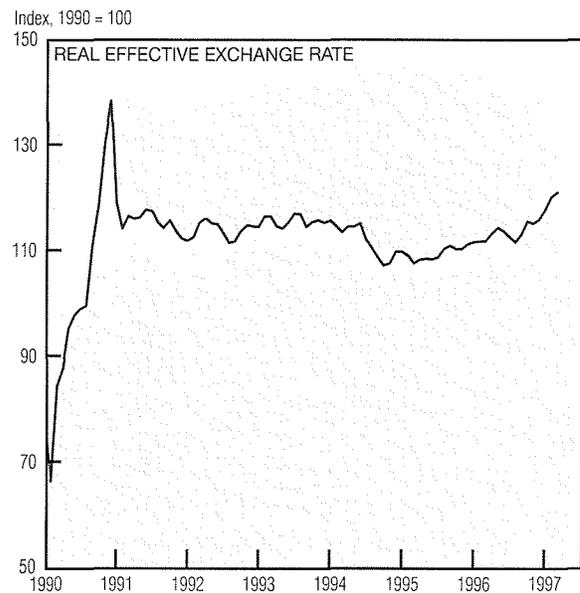
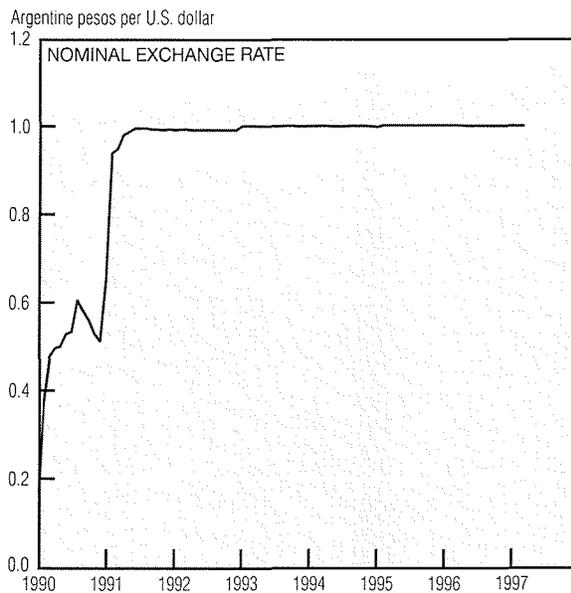
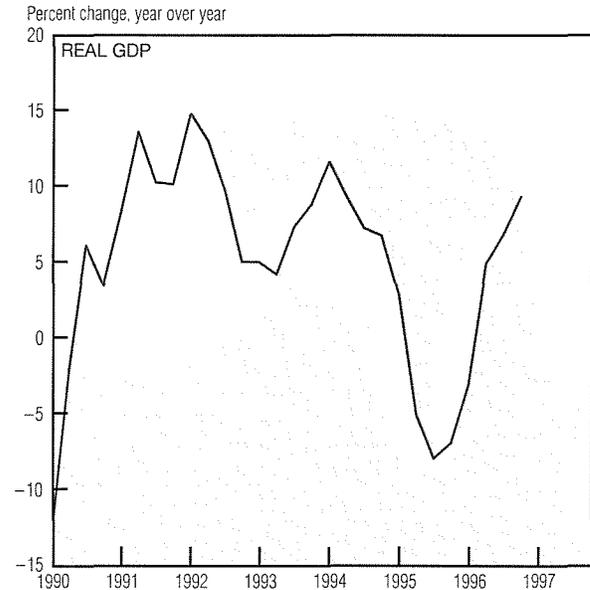
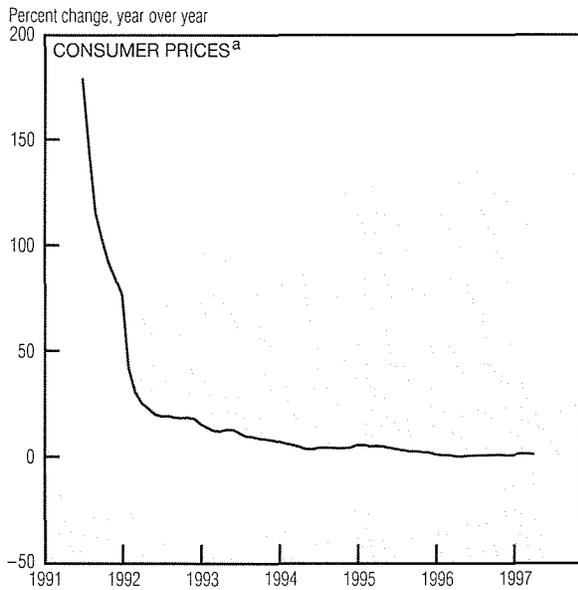


# The Argentine Economy



a. The average inflation rate between January 1990 and June 1991 was 4,816%.

SOURCE: Fundación de Investigaciones Económicas Latinoamericanas (Foundation for Latin-American Economic Research).

Economists' continuing debate about the merits of fixed and floating exchange rates has led them to compare economic developments in Mexico and Argentina. The former country recently abandoned fixed exchange rates; the latter embraces them.

In April 1991, Argentina adopted the Convertibility Plan to reduce its four-digit annual inflation rate. In addition to extensive fiscal and structural reforms, the plan sought to secure monetary policy credibil-

ity by imposing the rigors of a currency board. This required Argentina to fix its peso to the dollar and to maintain dollars on reserve against expansions of its monetary base. The system forced the nation's money growth closely into line with that of the U.S. and successfully lowered Argentina's inflation rate to under 2% by late 1995. The economy grew at an 8% average annual clip between 1991 and 1994.

The December 1994 collapse of the Mexican peso exchange-rate

peg sent ripples of uncertainty through the financial sectors of developing countries, particularly in South America. Following the bank runs and financial institution failures of 1995, Argentine economic growth fell and unemployment soared to 18%.

Economic growth improved last year, but unemployment remains around 17%. An additional cause for concern is the recent appreciation of Argentina's real effective peso exchange rate, up 8.5% since last August.