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Argentina's Economic and Financial Record

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This paper reflects the personal opinion of the author and must not be interpreted as representing the opinion of the Board of Governors.

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Argentina's Economic and Financial Record ^{1/}

In the past 25 years, Argentina experienced stop-and-go economic growth and severe inflation. Its real gross domestic product went through six complete cycles, each consisting of about 2 years of economic advance at a rate higher than that of population growth, followed by one or two years of stagnation or absolute decline. In 1967, real gross domestic product was only about twice as high as in 1943. Meanwhile, prices advanced rapidly with little let-up and there were persistent balance of payments pressures. The cost of living index rose on the average by about 27 per cent a year until, in December 1967, it was more than 200 times as high as in December 1943. The substantial reserves of gold and foreign exchange accumulated during the second world war were largely drained away and a huge external public debt was incurred, tying down an increasing and at times intolerably high proportion of current foreign exchange earnings for annual debt service payments.

This dismal record mainly reflects the damage done to the economic and social life of the country by the policies of Dictator Juan D. Peron, who ruled Argentina between 1945 and 1955, and the difficulties encountered by Peron's successors in their efforts to correct the economic distortions and social maladjustments which he left behind. Peron's policies, which were based on a pervasive state control of the national economy, were designed to achieve industrial self sufficiency and to provide ever increasing social and economic benefits for the urban working class. Since Peron's overthrow, two attempts have been made to introduce needed reforms. The latest attempt is still in progress.

While reliance on the free play of market forces has largely been restored and a partial rebuilding of external reserves has occurred, the fight against inflation and against the frequent interruptions to growth has had only limited success until now. This is partly because the need to increase productivity and economic efficiency has not received as much attention as might have been desirable. It is also because, in the last 13 years, political considerations have impelled the Government at times to delay taking some needed measures, and at other times to take steps which either weakened the recovery effort or amounted to its virtual abandonment.

^{1/} The author is indebted to David C. Redding for assistance in the preparation of the material dealing with recent economic and financial developments, especially pp. 21-25, and for help with the statistical data.

Argentina's economic history of the last 25 years provides abundant evidence of the fact that economic realities cannot indefinitely be ignored by policy makers and that it is far easier to disrupt and distort the economic mechanism of a country than to restore its health once it has been impaired. The new forms of economic activity and the new patterns of economic and social behavior fostered by the disruptive policies constitute rigidities which cannot be eliminated or blended into a sound economic framework except at a great cost. Perhaps the single most important lesson of Argentina's experience in this period is that the success of a recovery effort undertaken in the wake of a long period of faulty policies depends to a large extent on the country's willingness and ability to bear this cost of readjustment.

The Peron Period

The Argentine economy was badly distorted by the policies of Dictator Juan D. Peron, who ruled the country from 1945 to 1955. Peron gained power by using his position as Minister of Labor to build political support among the urban masses for whom he obtained a series of economic and social benefits. Once in power, he established sweeping Government controls over the economy and sponsored a wide variety of state interventions in the country's economic life. He set about to achieve industrial self-sufficiency regardless of cost and to eliminate the influence of foreign capital. He nationalized the banking system and set up a state monopoly of export trade through which he hoped to generate revenues to pay for industrialization and for the purchase of important foreign-owned enterprises. At the same time, he continued to provide generous social and economic benefits to the working classes. He forced employers to increase wages and salaries far beyond any increase in productivity, promoted the employment of superfluous labor and the adoption of uneconomic work rules, and sponsored a variety of other welfare reforms which further raised labor costs and lowered productivity.

The result was to fan the flames of inflation, already burning because of the effects of the Second World War. Prices in Argentina were virtually stable before 1941 and experienced a relatively moderate advance in the ensuing four years. But by the end of 1951, the cost of living index was nearly 5 times as high as at the end of 1944, even though price controls and consumer subsidies were used to slow down the rise. The advance tapered off in 1952 and stopped completely in 1953, partly because of intensified direct controls and partly because of bumper crops in 1953. But it was resumed in 1954.

Argentina--Cost of Living (1944-55)

	<u>Index</u> <u>Dec. 1944=100</u>	<u>Percentage Increase</u> <u>from Previous Dec.</u>
December 1945	122.4	+22.4
" 1946	145.5	+18.9
" 1947	167.2	+14.9
" 1948	198.8	+18.9
" 1949	265.8	+33.7
" 1950	324.3	+22.0
" 1951	487.4	+50.3
" 1952	580.0	+19.0
" 1953	576.0	- 0.7
" 1954	668.2	+16.0
" 1955	718.3	+ 7.5

SOURCE: Fundación de Investigaciones Económicas Latinoamericanas, Comparaciones de Indices de Costo de Vida en la Argentina, Buenos Aires, December 1966, p. 38.

The successive wage and salary increases were so large that they produced a 62 per cent increase in real wages in industry between 1945 and 1949. While real wages declined somewhat in the next three years, they again turned up and were 52 per cent above the 1945 level when Peron was overthrown. The deficits of the public sector grew enormously, especially those of the state enterprises. These enterprises were often inefficiently managed. They absorbed large numbers of superfluous labor, and experienced sharp increases in their payroll and other costs, but they were prevented from raising their prices or rates in an effort to hold down the rise in the cost of living. In addition, the consumer subsidies became an increasingly serious budgetary burden.

The bulk of the public sector deficits were financed by the nationalized commercial banks, mainly with reserves generated by a rapid expansion of Central Bank credit. In fact the commercial and mortgage banks were so well supplied with reserves that credit to the private sector rose far in excess of the real needs of economic growth.

In 1947 and again in 1948, the increase in net Central Bank credit, most of which went to the commercial and mortgage banks, amounted to more than one third of money supply outstanding at the beginning of the year. In subsequent years, the proportion was more moderate, but still quite substantial.

Argentina--Central Bank Net Domestic Credit
and Money Supply (1945-55)

End of	Central Bank Net Credit				Money Supply		
	To Public Sector (million pesos)	To Com- mercial Banks (million pesos)	To Mort- gage Banks (million pesos)	Total (million pesos)	Increase as Per Cent of Money Supply on January 1	Amount Out- standing (million pesos)	Per Cent In- crease
					--	6,771	--
1945	514	- 1,736	--	- 1,222	+ 2.0	9,042	+33.5
1946	735	- 3,301	1,480	- 1,086	+34.0	11,908	+31.7
1947	- 218	461	1,742	1,985	+38.1	16,440	+38.1
1948	1,196	2,560	2,760	6,516	+21.9	20,370	+23.9
1949	1,650	4,430	4,040	10,120	+13.1	24,720	+21.4
1950	1,893	5,530	5,360	12,783	+24.8	30,380	+22.9
1951	1,837	10,440	6,630	18,907	+16.2	34,280	+12.8
1952	2,033	13,300	8,500	23,833	+ 9.9	43,130	+25.8
1953	3,827	12,700	10,700	27,227	+14.3	51,880	+20.3
1954	4,140	15,050	14,220	33,410	+17.7	61,190	+17.9
1955	4,100	19,840	18,650	42,590			

SOURCES: International Monetary Fund, International Financial Statistics, and Central Bank of Argentina, Statistical Bulletin.

The expansion of banking system credit to the public sector ranged between 30 and 60 per cent a year in the period 1946-49. It slowed to less than 10 per cent in each of the next three years, even giving way to a small decline in 1951, but accelerated again in 1953. The 1950-52 restraint in financing for the public sector had little effect on the trend of prices, mainly because it was not matched by a similar restraint in private sector financing. In the whole period, only once did the expansion of bank credit to the private sector fall below 20 per cent, and this occurred in 1953, after the public sector restraint ended.

Argentina--Credit to the Public and Private Sectors
(1945-55)

End of	<u>Net Credit to Public Sector</u>			<u>Credit to Private Sector</u>			
	From Commercial Banks (million pesos)	From All Banks ^{1/} (million pesos)	Per Cent Increase	From Commercial Banks (million pesos)	From Mortgage Banks (million pesos)	Total (million pesos)	Per Cent Increase
1945	2,482	2,996	--	3,314	n.a.	n.a.	-- ^{2/}
1946	3,759	4,494	+50.0	4,022	n.a.	n.a.	+21.3 ^{2/}
1947	6,742	6,254	+39.2	6,414	n.a.	n.a.	+59.5 ^{2/}
1948	8,768	9,964	+59.3	9,290	3,170	12,460	+44.8 ^{2/}
1949	11,490	13,140	+31.9	10,770	4,440	15,210	+22.1
1950	12,200	14,093	+ 7.2	14,390	5,810	20,200	+32.8
1951	11,890	13,727	- 2.6	20,510	7,130	27,640	+36.8
1952	12,790	14,823	+ 8.0	24,680	8,970	33,650	+21.7
1953	14,830	18,657	+25.9	27,210	11,220	38,430	+14.2
1954	17,180	21,320	+14.3	31,560	14,870	46,430	+20.8
1955	20,140	24,240	+13.7	36,560	19,470	56,030	+20.7

^{1/} Includes credit extended directly by the Central Bank (taken from previous table) and a negligible amount of credit extended by mortgage banks.
^{2/} Commercial banks only.

SOURCES: International Monetary Fund, International Financial Statistics, and Central Bank of Argentina, Statistical Bulletin.

As prices rose, so did production costs. But the State export trade monopoly organization did not correspondingly increase the prices at which it purchased meat and grain from farmers. The resulting squeeze on agricultural profits led to a decline in agricultural production and to disinvestment in agriculture. Grain acreage was reduced and herds were allowed to decline in size; agricultural machinery and equipment became increasingly run down and its modernization was postponed.

Argentina--Agricultural Production (Prewar and 1946-55)
(in thousands of metric tons)

	<u>Meat</u>	<u>Wheat</u>	<u>Corn</u>	<u>Wool</u>	<u>Linseed</u>
1935-39 average	1,675 ^{1/}	6,634	7,892	186 ^{2/}	1,702
1946-50 average	1,942	5,273	3,775	211	824 ^{3/}
1951-55 average	1,879	5,834	3,051	183	454

^{1/} 1936-45; ^{2/} 1937-41; ^{3/} 1945-49.
SOURCES: National Meat Board of Argentina, Argentine Grain Exchange and U. N. Economic Commission for Latin America.

Industrial production surged ahead at first, but began to level off in 1948. Six years later, it was only about 3 per cent larger, having experienced sharp declines in 1949 and in 1952-53. In spite of the artificial stimulation given to industry by official policies, including heavy protection from foreign competition through quantitative import controls and exchange restrictions, further output growth was hampered by the deteriorating condition of the agricultural sector (which might have provided a growing market for industrial output) and by shortages of imported supplies (which resulted from a tightening of direct controls to deal with a deteriorating balance of payments). The stop-and-go pattern of industrial production was reflected in the movements of the real gross domestic product. As a result, in 1955, real gross domestic product was only 3.3 per cent higher than in 1947. Employment in manufacturing hit a peak in 1948, twice the 1937 level, but declined slowly for the next five years.

**Argentina--Industrial Production and Employment
and Real Gross Domestic Product
1944-55**

	<u>Industrial Production</u>		<u>Industrial Employment</u>		<u>Real GDP</u>	
	<u>Index 1943=100</u>	<u>% Increase Over Previous Yr.</u>	<u>Index 1943=100</u>	<u>% Increase Over Previous Yr.</u>	<u>Index 1943=100</u>	<u>% Increase Over Previous Yr.</u>
1944	112.2	+12.2	108.9	+8.9	109.8	+ 9.8
1945	112.2	--	115.1	+5.7	104.4	- 4.9
1946	125.3	+11.7	123.7	+7.5	113.1	+ 8.3
1947	143.5	+14.5	130.3	+5.3	128.8	+13.8
1948	146.2	+ 1.9	131.7	+1.1	130.2	+ 1.1
1949	141.4	- 3.3	130.4	-1.0	124.3	- 4.5
1950	146.0	+ 3.2	128.2	-1.7	126.1	+ 1.4
1951	150.1	+ 2.8	128.9	+ .5	131.3	+ 4.1
1952	140.6	- 6.3	124.5	-3.4	122.9	- 6.4
1953	139.2	- 1.0	117.4	-5.7	131.6	+ 7.1
1954	150.9	+ 8.4	118.5	+ .9	136.6	+ 3.8
1955	164.0	+ 8.7	123.1	+3.9	146.0	+ 6.9

SOURCE: Dirección General de Estadística and Central Bank of Argentina.

To hold down advances in the cost of living, the authorities did not allow the transport and public utility agencies to raise their rates in proportion with their costs. While these services were still privately owned, they did not earn enough to finance needed equipment purchases. Later, the State lacked the necessary funds. As a result, a chronic shortage of electricity developed and transport equipment became increasingly run down.

On the external side, the strong foreign demand for meat and grain to meet the needs of war-torn Europe enabled Argentina to build up large gold and foreign exchange reserves immediately after the war. These reserves reached a peak of nearly \$1.7 billion at the end of 1946. The authorities used a large part of these gains to pay off virtually all of the country's external public debt and to acquire such foreign-owned assets as the railroads and certain public utility companies. The purchase of the railroads alone cost Argentina \$600 million.

But the basic trade position of the country soon began to deteriorate. Exports surged upwards until 1948 to a peak level of \$1,629 million, about three times the annual average of the 1937-39 period, but imports also soared and the merchandise trade surplus began to decline in 1947. Even before exports hit their peak, the deterioration of the agricultural sector coupled with a rapidly rising domestic consumption of meat, bread, and other foodstuffs, stimulated by the sharp increase in the real wages of the growing industrial work force, began to cut into agricultural export availabilities. Little relief resulted from the institution of meatless days for domestic consumers. Drought aggravated the situation in 1950-52. At the same time, there was little possibility of developing new industrial exports because of high production costs. In the six years 1949-54, exports averaged about \$1,038 million per year, and the volume of exports averaged only about 63 per cent of the 1935-39 level.

With the collapse of the export sector, there came a severe tightening of import and exchange restrictions and an intensified use of multiple exchange rates. These measures enabled Argentina to record trade surpluses in 1950 and 1953, but they did not prevent serious trade deficits in 1951, 1952 and 1955. In the six years 1949-54, imports averaged about \$1,096 million, slightly more than the average annual exports of that period, and well below the 1948 import peak of about \$1,560 million. In these six years, the volume of imports averaged only about 79 per cent of the 1935-39 level. Because of the advancing industrialization of the country, the contraction of imports inevitably had adverse effects on the level of industrial activity and employment. It also involved the postponement of needed modernization and improvement of plant and equipment. This affected most seriously the railroads and the electric power industry.

Argentina--Merchandise Trade

	<u>Value of Trade</u> (in millions of dollars)			<u>Volume of Trade</u> (1935-39 average=100)	
	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>	<u>Exports</u>	<u>Imports</u>
1945	739	295	+ 444	82.1	37.1
1946	1,167	588	+ 579	95.2	68.0
1947	1,614	1,345	+ 269	89.4	135.6
1948	1,629	1,561	+ 68	75.3	138.1
1949	1,043	1,180	- 37	56.1	97.5
1950	1,177	964	+ 213	77.4	83.5
1951	1,169	1,480	- 311	60.8	95.3
1952	688	1,179	- 491	39.5	68.7
1953	1,125	795	+ 330	69.1	54.3
1954	1,027	979	+ 48	74.9	73.4
1955	929	1,173	- 244	65.0	87.7

SOURCES: International Monetary Fund, International Financial Statistics; U. N. Economic Commission for Latin America, Economic Bulletin for Latin America; and Government of Argentina, Producto e Ingreso de la República Argentina, 1955.

Even with the severe import and exchange controls in effect beginning in 1949, the reserves continued to decline. By the end of 1955, they were less than \$460 million and the Central Bank had contracted nearly \$400 million in external debts (including overdrafts on bilateral payments agreements), whereas these debts were less than \$100 million at the end of 1948. In addition, there were commercial arrears of more than \$300 million and a Government external debt outstanding amounting to nearly \$200 million, most of which was incurred after 1949.

Argentina--International Reserves, 1943-55
(in millions of dollars)

<u>End of</u>	<u>Foreign Exchange Balances</u>				<u>Total</u>	<u>Central Bank Liabil.</u>	<u>Net Reserves</u>
	<u>Gold</u>	<u>Convert.</u>	<u>Other*</u>	<u>Total</u>			
1943	838	n.a.	n.a.	197	1,035	n.a.	n.a.
1944	992	n.a.	n.a.	348	1,339	n.a.	n.a.
1945	1,197	n.a.	n.a.	466	1,663	n.a.	n.a.
1946	1,072	n.a.	n.a.	624	1,696	n.a.	n.a.
1947	322	n.a.	n.a.	749	1,071	n.a.	n.a.
1948	143	115	447	561	704	99	605
1949	210	90	176	266	477	141	336
1950	210	206	240	445	655	153	502
1951	267	128	125	253	520	351	169
1952	287	56	78	133	420	424	- 4
1953	372	47	112	160	531	256	275
1954	372	67	85	152	524	282	242
1955	372	30	56	85	457	390	67

SOURCE: International Monetary Fund, International Financial Statistics.

The First Recovery Effort

Peron was overthrown by a military coup in September 1955, leaving to his successors a country with a badly distorted economy and with an unstable political situation.

The economy had a decapitalized and stagnant agricultural sector, an overexpanded and high cost industrial sector, a rundown rail-road and urban transport system, a severe shortage of electric power, a labor movement accustomed to generous rewards and insufficiently aware of the need for efficiency and matching productivity gains, a business community gripped by an inflation mentality, a mismanaged group of state enterprises including a state oil company which had failed to develop the country's substantial petroleum resources, extensive price controls which made it necessary to subsidize agricultural and pastoral production, a severe fiscal deficit requiring heavy financing by the banking system, acute balance of payments difficulties, stringent exchange controls, and depleted international reserves. The country, which fifty years earlier had ranked among the most prosperous countries in the world, had fallen far behind, its development thrown out of balance.

Politically, while Peron had always had many opponents who were glad to see the end of his regime, about a third of the population, including organized labor and the urban working classes, had never had it so good as under Peron and bitterly resented his departure. They admired him not only for bringing about tangible improvements in their welfare but also for being given the feeling, for the first time in Argentine history, that they were important and that the Government cared about them. For them, the appeal of Peron's policies remained strong. They were sufficiently numerous and well organized to make a return to democratic processes a delicate operation involving the risk that any division among the anti-Peron forces might produce Peronist election victories.

The Provisional Government set up by the military after Peron's overthrow made the return to constitutional and democratic processes its principal objective. But the military were opposed to handing the country back to Peron or to his followers at the ballot box and the Government took precautions to make sure that this did not happen. In particular, they postponed action on many of the country's basic economic problems so as not to arouse social or political opposition. The delicate nature of the political balance was underscored by two attempted military counter-coups and by widespread labor unrest including many politically inspired strikes.

The Provisional Government did adopt some corrective measures. In 1956, they held down the public sector deficit and sharply restrained banking system financing of the public sector. In spite of this, the advance of prices accelerated, reflecting in part a substantial devaluation in November 1955 and in part the fact that the expansion of bank credit to the private sector became more rapid. In 1957, the Government denationalized the commercial banks and abolished meat and grain subsidies and the state monopoly on meat and grain exports. But to compensate for the abolition of subsidies, they allowed larger wage increases. They also stepped up public spending to stimulate economic activity which, in 1956, rose at a rate barely equal to the rate of increase of population. As the public sector deficit grew, so did the public sector recourse to financing by the banking system. Economic activity picked up, but the advance of prices accelerated further.

The November 1955 devaluation gave some stimulus to agricultural production, but much of the gain in output went into domestic consumption and exports changed little. Imports declined slightly in 1956, but turned up in 1957, reflecting the resurgence of domestic demand and the greater availability of foreign financing. The commercial arrears and the bilateral payments overdrafts were funded in an agreement with Argentina's principal European creditors and there was a rapid increase in official medium- and long-term external debt, which exceeded \$1.2 billion by mid-1958. Nevertheless, Argentina's international reserves continued to decline.

In 1958, Argentina returned to democratic processes. The new President promptly decreed a 60 per cent increase in minimum wages above the February 1956 level. Because of increases granted in the interval, this had the result of boosting money wages by 25-40 per cent depending on the sector of the economy. Subsequent increases achieved through collective bargaining brought money wages at the end of 1958 to a level averaging more than 65 per cent higher than a year earlier.

This set off a new burst of inflation and intensified pressures on the balance of payments. In 1958 alone, the increase in the Central Bank's net domestic credit amounted to 28 per cent of money supply at the beginning of the year. This enabled banking system credit to the public sector to rise about 79 per cent, far more than in any year during Peron's time, and commercial bank credit to the private sector to increase by about 40 per cent, more than in seven of Peron's ten years in office. Money supply and the cost of living also rose more rapidly than at any time during the Peron era. Imports continued at a high level while exports remained depressed and it became increasingly more difficult to find new external financing. International reserves fell more rapidly and approached exhaustion by the end of the year. While economic activity boomed, the balance of payments situation became critical.

However, the Government was already beginning to turn its attention to the country's basic problems. It chose to make major changes in economic policy designed to seek economic and financial recovery through a strengthening of the private sector and a return to the free play of market forces in economic decision making.

In July 1958, the Government negotiated agreements with foreign oil companies to participate in the development of the country's petroleum resources. The state oil monopoly (YPF) had been unable to increase production enough to keep up with rising domestic demand and Argentina was then importing large amounts of petroleum and petroleum products (more than \$300 million, or 25 per cent of total imports, in 1958). The new policy called for foreign companies to produce oil for the account of YPF. This held the promise of large foreign exchange savings from increased domestic output and brought Argentina substantial investments by the foreign companies involved to carry out the program. In addition YPF was able to obtain large credits to finance the construction of pipelines and the purchase of drilling equipment.

The Government also moved to improve the climate for private foreign investment by reaching a settlement with the foreign-owned power companies whose properties had been seized or expropriated in earlier years without a compensation agreement.

The most comprehensive reform took place in December 1958, when the Government abruptly dismantled all exchange and import controls and most other direct controls over the economy and launched a drastic stabilization effort designed to end inflation and restore external balance. A single fluctuating exchange rate was introduced involving a substantial initial devaluation, and measures were adopted to reduce the deficit of the public sector, restrict credit expansion, and hold down wage increases. The stabilization effort was supported by a large amount of assistance from international and foreign official and private institutions.

The freeing of the economy resulted in the rise of prices, long held down by controls, to economic levels. The rates charged for public services were also raised substantially. The result of this 'catching up' was a more than doubling of the cost of living in 1959. Money wages rose further, and at year-end were nearly 60 per cent higher, on the average, than a year earlier. At the same time, economic activity experienced another setback. But the monthly cost of living increases began to taper off in the second half and the 1960 increase amounted to only 12 per cent. The rise of money wages also slowed but not as much, and real wages partially recovered after their substantial decline of 1959.

Argentina--Prices, Wages, Output and Employment, 1955-63
(Annual Rates of Change)

	Cost of Living Index <u>1/</u>	Index of Money Wages <u>2/</u>	Index of Real Wages <u>3/</u>	Real Gross Domestic Product	Index of Industrial Production	Index of Manufacturing Employment <u>1/</u>
1955	+ 7.5	+ 8.8	+ 1.2	+ 6.9	+ 8.7	+ 2.3
1956	+16.6	+15.3	- 1.2	+ 1.6	- 0.5	- 3.4
1957	+25.7	+24.7	- 0.8	+ 5.5	+ 0.2	+ 0.6
1958	+50.7	+68.0	+11.5	+ 7.3	+ 3.2	- 2.2
1959	+101.6	+57.0	-22.2	- 5.8	-11.1	- 6.3
1960	+12.1	+26.3	+12.7	+ 8.0	+ 4.1	- 7.2
1961	+18.8	+27.3	+ 7.1	+ 7.0	+10.9	- 1.6
1962	+29.3	+26.4	- 4.0	- 1.9	- 6.9	- 9.9
1963	+27.7	+22.0	- 4.4	- 3.5	- 8.4	- 7.8

1/ December to December changes.

2/ Derived by deflating index of wage payments by index of man-hours worked. Changes refer to averages for October-January.

3/ Derived.

SOURCES: International Monetary Fund, International Financial Statistics; Central Bank of the Argentine Republic, Statistical Bulletin, Supplement, June 1966 and November 1967; National Statistical Office of the Argentine Republic, Monthly Statistical Bulletin.

The public sector deficit was reduced from more than 30 per cent of total expenditures to less than 20 per cent and recourse to financing by the banking system was drastically curtailed. The expansion of net Central Bank credit was slowed significantly. In 1960, it represented less than 10 per cent of money supply outstanding at the beginning of the year, a ratio lower than in all except two of the previous fifteen years. In that year, total bank credit to the public sector (net of public sector deposits) increased only about 6.3 per cent.

Argentina--Selected Monetary and Credit Data
(1955-1963)

End of	Central Bank Total Net Credit		Money Supply		Total Banking System Net Credit to Public Sector	
	Amount Outstanding (million pesos)	Increase as % of Money Supply on Jan. 1	Amount Outstanding (million pesos)	Per-cent Increase	Amount Outstanding (million pesos)	Per-cent Increase
1955	42,590	+17.7	61,190	+ 17.9	24,240	+13.7
1956	47,540	+ 8.1	71,280	+ 16.5	21,930	- 9.5
1957	57,840	+14.4	82,810	+ 16.2	28,090	+28.1
1958	81,040	+28.0	118,850	+43.5	50,210	+78.7
1959	103,740	+19.1	170,130	+43.1	68,100	+25.6
1960	120,420	+ 9.8	218,460	+28.4	72,380	+ 6.3
1961	145,730	+11.6	243,150	+ 11.3	87,210	+20.5
1962	173,860	+11.6	250,340	+ 3.0	123,040	+41.1
1963	211,220	+14.9	322,350	+28.8	177,020	+43.9

SOURCES: International Monetary Fund, International Financial Statistics, and Central Bank of Argentina, Statistical Bulletin.

The exchange depreciation carried out at the outset of the stabilization efforts, when the multiple exchange rate system was replaced by a freely fluctuating unitary rate system, amounted to about 50 per cent for most imports. It was followed by a further depreciation of 23 per cent during the first seven months of 1959. The combined effect of exchange depreciation on this scale and of the economic slowdown which accompanied the first year of the stabilization effort was a 20 per cent contraction in imports in 1959, compared to the 1958 level. Although exports did not rise, this was enough to produce a virtual balance of the merchandise trade account in 1959 for the first time in five years. In combination with the large stabilization credits obtained at the start of the stabilization effort, this made it possible for international reserves to begin to recover. In August 1959, the exchange rate was stabilized at about 83 pesos per dollar.

Argentina--Merchandise Trade
(1955-63)

	Value of Trade (in millions of dollars)			Volume of Trade (1935-39 average = 100)	
	Exports	Imports	Balance	Exports	Imports
1955	929	1,173	-244	65.0	87.7
1956	944	1,128	-184	71.6	81.0
1957	975	1,310	-335	76.6	90.5
1958	994	1,233	-239	83.3	95.3
1959	1,009	933	+ 16	85.0	82.0
1960	1,079	1,249	-170	85.0	100.1
1961	964	1,460	-496	77.5	121.0
1962	1,216	1,357	-141	110.8	110.5
1963	1,365	981	+384	114.9	82.0

SOURCE: International Monetary Fund, International Financial Statistics; U. N. Economic Commission for Latin America, Economic Bulletin for Latin America.

The improvement of the external position continued in 1960 and into 1961. The merchandise trade account deteriorated once again as economic recovery resulted in a return of imports to the prestabilization level. But there was a substantial inflow of private investment capital. With the help of further stabilization credits, reserves continued to rise, reaching a peak of more than \$700 million in March 1961.

Argentina--International Reserves (1955-63)
(in millions of dollars)

End of	Foreign Exchange Balances				Total Gross Reserves	Central Bank Liabil.	Net Re- serves
	Gold	Convert- ible	Bilat- eral ^{1/}	Total			
1955	372	30	56	85	457	390	67
1956	224	13	144	158	382	334	48
1957	126	36	124	160	286	298	-12
1958	60	38	37	75	135	388	-253
1959	56	220	104	224	380	548	-168
1960	104	422	172	594	698	621	77
1961	190	196	111	307	497	582 ^{2/}	-85
1962	61	54	77	131	192	574 ^{2/}	-382
1963	78	192	53	245	323	587 ^{2/}	-264

^{1/} Balances under payment agreements, net of liabilities.

^{2/} Including debts assumed by the National Treasury mainly in connection with refinancing operations.

SOURCE: International Monetary Fund, International Financial Statistics; and Central Bank of the Argentina Republic, Informe Económico.

But the stabilization effort was weakened by an excessively rapid expansion of commercial bank credit to the private sector in 1960 and 1961. This credit, which did not increase nearly as fast as prices in 1959, rose by nearly 50 per cent in 1960, more than four times the rate of increase in the cost of living that year. This increase occurred mainly on the basis of bank reserves created by the inflow of foreign exchange, as the rate of expansion of Central Bank credit continued to contract. The economic recovery which this made possible in 1960 turned into a roaring boom in 1961. As a result, in 1961, imports rose 17 per cent above the already high 1960 level and external reserves turned down. This did not materially reduce the banks' ability to increase loans because the Central Bank followed an increasingly easy money policy: commercial bank reserve requirements were reduced four times between December 1960 and December 1961, and the banks were allowed to draw their reserve deposits at the Central Bank sharply down, even below the reduced minimum required levels in some cases. Commercial bank borrowings from the Central Bank also increased in 1961.

**Argentina--Commercial Bank Credit
to the Private Sector,
Borrowings and Reserves (1955-63)**

End of year	Credit to Private Sector		Borrowings from Central Bank (millions of pesos)	Cash Reserves at Central Bank (millions of pesos)
	Amount Outstand- ing (millions of pesos)	Change since last year-end (%)		
1955	36,560	+15.8	65,630	45,790
1956	45,700	+25.0	80,550	60,280
1957	53,030	+16.0	9,010 ^{1/}	13,070 ^{1/}
1958	74,400	+40.3	9,160	15,180
1959	95,620	+28.5	9,900	18,790
1960	142,420	+48.9	9,820	15,840
1961	197,110	+38.4	12,390	3,170
1962	218,090	+10.6	14,700	-
1963	250,520	+14.9	22,940	12,550

^{1/} In 1957, the commercial banks were denationalized. In this connection, deposits of the public, which the banks had redeposited in the Central Bank, were returned to them and the Central Bank took over from the banks about 22.5 billion pesos of advances to State agencies. At the same time, an equivalent amount of bank indebtedness to the Central Bank was cancelled.

SOURCE: International Monetary Fund, International Financial Statistics.

The rapid rate of expansion of credit to the private sector and the high tempo of economic activity in 1961 were accompanied by new wage increases which brought money wages at year-end to a level more than 27 per cent higher than a year earlier. This increase which exceeded that of 1960, was not compatible with further progress in reducing the rate of price increases below the 12 per cent recorded in 1960.

At the same time, in 1961, the fiscal situation began to deteriorate. The export "retentions" (taxes) were reduced to maintain the competitiveness of exports. Some surcharges on imports were also reduced. Public investment spending was stepped up and the operating deficit of the State railroads rose further. Toward the end of the year, the Government's effort to reduce the huge railroad deficit by firing surplus personnel, abandoning uneconomic lines, and turning certain workshops and other auxiliary facilities to private enterprise, ended in nearly total

failure after a costly 40-day railroad strike. For all these reasons, public sector recourse to Central Bank financing increased.

The combined effect of these developments in the areas of private sector credit, wages, and fiscal policy under boom conditions was an acceleration in the rate of price advances in spite of the greater availability of imports.

The deteriorating domestic financial situation weakened confidence and triggered an outflow of capital which intensified the decline in international reserves. To alleviate the situation, the Argentine authorities sought partial relief from the burden of amortizing the huge external debt. Eight Western European countries and Japan agreed to reschedule certain Argentine debts falling due in 1961 and 1962, but this was not enough to stem the reserve drain.

Stabilization Abandoned

The gubernatorial and congressional elections of March 1962 were the first, in the post-Peron era, in which Peronist candidates were allowed to run. When they won several important provincial governorships and provincial assemblies as well as the largest single bloc of seats in Congress (though not an absolute majority), the military demanded that the President annul the elections. After about two weeks, during which he failed to do so, they deposed him and closed down the country's democratic institutions.

These events and the resulting uncertainty as to what future economic and financial policy would be dealt a further blow to confidence in the currency and intensified the capital flight. In April 1962, the exchange rate was allowed to float once again and, in the ensuing six months, the currency depreciated about 37 per cent. Part of the demand for exchange involved the repayment of a very large amount of supplier credits and other short-term foreign borrowings obtained during the boom. The burden of servicing external debts was so heavy that another debt relief operation became necessary. Five Western European countries and Japan agreed to reschedule certain Argentine debts falling due in 1963 and 1964. Payments due in 1962 and 1963 under the 1957 refinancing were also postponed. A separate debt rescheduling was negotiated with the Export Import Bank,

Following the military coup of March 1962, the Government undertook to reduce its recourse to Central Bank financing by limiting cash disbursements to the level of cash receipts. This resulted in a rapid build-up of public sector arrears. Payments to suppliers fell behind as much as one year in some cases. Payment of public sector wages and pensions was delayed as much as two months. This produced a squeeze on many businesses, already hard pressed to meet their extensive short-term debt obligations contracted during the boom years, and triggered another sharp decline in economic activity. In the impaired state of confidence then prevailing, access to further credit from ordinary sources became increasingly difficult. Businessmen unable to get sufficient credit at banks increasingly put off the payment of taxes, preferring to pay the eventual fines to gain access to what in effect was cheap credit. The growing lag in tax collections made it unworkable to continue limiting expenditures to the level of cash receipts, since a further build-up of public sector arrears would only produce a further drop in tax collections. The attempt was gradually abandoned, causing the fiscal deficit to rise sharply both in absolute terms and as a percentage of total expenditures. Although efforts were made to secure non-inflationary financing by selling gold-denominated bonds in the market, recourse to Central Bank financing rose once again.

Central Bank net credit to the public sector rose about 23 per cent in 1962 and 34 per cent in 1963, compared to less than 10 per cent in 1961. Much of the newly created liquidity tended to leak out of the country, rather than providing an increased base on which the banks might expand loans. The banks did expand credit to the private sector by about 10 per cent in 1962, far less than the rate at which prices were rising and far less than in 1960 and 1961, but they did so mainly by drawing down their reserve deposits to the vanishing point and increasing their indebtedness at the Central Bank. The reserve deposits fell increasingly short of the minimum required levels during the year. The capital outflow was so large in 1962, that in spite of the large expansionary pressure originating in the fiscal area money supply rose only about 3 per cent that year.

At the same time, wage increases continued unabated and price advances accelerated. Thus Argentina, paradoxically, underwent a sharp recession accompanied by an accelerating price inflation.

The 1962-63 recession brought 1963 imports down at a time when the price incentives, provided by the restoration of the free play of market forces, were beginning to produce significant increases in exports. The volume of exports topped the 1935-39 level for the first time in 1962, and the next year a substantial merchandise trade surplus reappeared for the first time since 1953. In combination with the relief afforded by the

external debt rescheduling, this helped to produce an upturn in international reserves in 1963. Uncertainty about the future course of economic and financial policy continued as the political situation remained unsettled, but the capital outflow diminished significantly.

Credit conditions, which had been extremely tight, began to ease noticeably around the middle of 1963. The commercial banks were able to begin rebuilding their reserve deposits at the Central Bank and to work toward compliance with the minimum reserve requirements. At the same time, they increased credit to the private sector somewhat more than in 1962, though not as rapidly as prices were continuing to advance.

During the 16 months following the events of March 1962, two military factions fought (at times through armed action) over the question of whether to move rapidly toward new elections or to establish a long-lasting military government. The "democrats" prevailed and a new President was elected in July 1963 under an electoral law that promoted the fragmentation of the traditional political parties. The new President won with less than 30 per cent of the total votes cast in a field of seven candidates and did not achieve a Congressional majority. This did not facilitate the task of the new administration.

Moreover, the return to democratic processes late in 1963 was followed by new setbacks on the economic front. First, the new President, fulfilling a campaign promise, annulled the petroleum contracts negotiated in 1958 with foreign companies. Argentina had reached self sufficiency in petroleum in 1963, but the annulment of the contracts was followed by a levelling off of production and the country again began to import petroleum and petroleum products.

Second, the new President openly abandoned the stabilization effort, which had already lost most of its meaning in 1962 and 1963. He set about to eliminate the public sector arrears and to step up public investment to promote economic recovery. This raised public spending by 45 per cent in 1964, while revenues lagged because of the previous year's recession. ^{1/} As a result, the 1964 public sector deficit reached nearly

^{1/} Argentina shifted its fiscal year in 1964, so that the 1964 fiscal year lasted 14 months. Even allowing for this, the increase in spending was very substantial. On a 12-month basis, there was an absolute decline in revenues from the 1963 level.

55 per cent of total public expenditures. Recourse to the Central Bank, which financed half of this deficit, represented nearly 24 per cent of money supply at the beginning of the year.

Third, when new pressures began to develop on the balance of payments, exchange controls were reintroduced. These controls applied mainly to capital transfers and profit remittances. A large overdue amount of profit remittances developed. The exchange rate gradually became overvalued in spite of a series of small devaluations.

In the period 1964-66, inflation was largely unchecked, although substantial increases in public revenues reduced the size of the public sector deficit to 29 per cent of total expenditures in 1965 and 34 per cent in 1966. Public sector recourse to the Central Bank was cut substantially in 1965, but rose sharply in 1966. Credit to the private sector continued to expand rapidly, even in 1966 when the banks substantially reduced their indebtedness to the Central Bank. After slowing down somewhat in 1964, the advance of prices picked up momentum in 1965 and 1966. Under a 1964 law, the minimum wage began to be adjusted every six months and was, in fact, repeatedly raised as much as the cost of living had increased in the previous six months. This tended to produce equivalent or larger increases in wage brackets above the minimum level.

Although the merchandise trade surplus continued to be large, the balance of payments remained under pressure, because payments for services (including transfer payments) rose and there was an outflow of non-bank private capital. The burden of debt servicing continued very heavy and, in 1965, 60 per cent of the maturities due that year to six Western European countries, the United States and Japan, on publicly guaranteed commercial credits and on certain official credits (but excluding previously refinanced external debt) were stretched out over a five year period. The arrears on profit remittances were funded. The Central Bank's gross international reserves fell further in 1964, as official external liabilities were reduced, but recovered in 1965, when external debt reduction tapered off, then levelled off in 1966 at a relatively low level as external debt repayment picked up. Over these three years, net reserves improved somewhat.

While substantial growth in real gross domestic product occurred in 1964 and 1965, helped by excellent crops and rising demand, there was another interruption in 1966 and Argentina once again experienced a recession in the midst of inflation. In part, this interruption stemmed from a setback in the cereal crop which had adverse repercussions on the demand for agricultural machinery and equipment and indirectly on other industries. In real terms, fixed investment declined by 3 per cent, following a 9 per cent increase in 1965. Investment in machinery and equipment was especially reduced, but there was also some inventory liquidation.

The decline in investment in 1966 may also have resulted in part from uncertainties generated by the growing political agitation of the labor unions in the first half of the year and the subsequent military coup. The labor agitation took the form of repeated work stoppages and slowdowns and public demonstrations staged in accordance with the "Struggle Plan" adopted by the General Labor Confederation. This "Plan" was aimed more at promoting a climate favorable to political gains by organized labor and its friends, including the Peronists, than at securing economic benefits for the working people. With congressional and provincial elections scheduled for early 1967, this agitation may have dampened business confidence in 1966, as the country increasingly wondered what role the Peronists would be allowed to play in the elections and what policy changes might follow should the issue reach a climax. When a military coup did come, in June 1966, the future course of economic policy remained in doubt for several months thereafter.

The Second Recovery Effort

The military coup of June 1966 was motivated, at least in part, by fears that the President would allow the Peronists to run in the 1967 elections. But it drew support from those who deplored the Government's failure to make a vigorous effort to solve the country's economic and social problems. Many people had become impatient with the disruptive tactics of organized labor and with the Government's tolerance of this agitation which was being used to block reforms needed to promote economic recovery. There was also growing dissatisfaction with the parliamentary situation in which Government supporters were in the minority and Congress often blocked Government proposals.

The coup not only ousted the President but once again closed down all of the country's democratic institutions. It brought to power a government determined to make another attempt at curing the country's economic and social ills. The new regime realized that this would take time and relegated the return to democratic process to the indefinite future.

At first, the new Government hesitated between a policy of promoting recovery through economic controls and one relying on the free play of market forces and the strengthening of the private sector. The advocates of the second course eventually prevailed, and the Government then launched a new comprehensive anti-inflationary program, while using its authority backed by military power, to initiate changes in work rules and other structural conditions so as to increase productivity and efficiency in public enterprises, especially the railroads, urban transport, and the country's ports.

In March 1967, the currency was devalued by 28.6 per cent and exchange and import controls were abolished with only a few minor exceptions. This eliminated the overvaluation of the currency which had developed since 1964. At the same time, export taxes were imposed to soak up windfall profits and produce increased revenues for the Government, and most import tariffs were lowered to induce greater efficiency in Argentine industry. A program of containment of public spending was implemented, recourse to Central Bank financing was reduced, a wage freeze was imposed after a last round of wage increases, and a variety of incentives were offered to businessmen to hold down price increases. During 1967, the Government also took steps to negotiate new contracts with foreign petroleum companies so as to increase petroleum production.

This vigorous effort received the support of and financial assistance from international institutions, the U. S. Government and United States and European commercial banks. At the same time, the atmosphere of confidence that the program generated produced a substantial inflow of private capital, mainly in the second quarter of 1967. In this quarter alone, Argentina's gross reserves rose by more than \$400 million, and its net reserves by more than \$250 million. After mid-year, there were further reserve gains, but on a modest scale.

Argentina - International Reserves Since 1963
(in millions of dollars)

End of	Gold	IMF Gold Tranche	Foreign Exchange			Total	Central Bank Liabil's. ^{2/}	Net Re-serves
			Convertible	Bilateral ^{1/}	Total			
1963	78	-	192	53	245	323	587	-264
1964	71	-	82	39	121	192	486	-294
1965	66	-	170	29	199	265	465	-200
1966	84	-	132	36	168	252	415	-163
1967	84	18	625	27	652	754	480	274
3/67	84	-	172	24	196	280	381	-101
6/67	84	-	586	28	614	698	532	166
9/67	84	2	614	19	633	719	505	214
12/67	84	18	625	27	652	754	480	274
3/68	84	47	557	25	629	713	456	257
6/68	84	89	549	n.a.	n.a.	n.a.	n.a.	n.a.

^{1/} Balances under payments agreements, net of liabilities.

^{2/} Including debts assumed by the National Treasury, mainly in connection with refinancing operations.

SOURCES: International Monetary Fund, International Financial Statistics; Banco Central de la República Argentina, Informe Económico.

This improvement occurred even though the trade surplus declined somewhat. Exports were off by 8 per cent, chiefly because adverse weather cut the wheat crop. Imports were down 2 per cent.

Argentina-Merchandise Trade Since 1963

	<u>Value of Trade</u> (in millions of dollars)			<u>Volume of Trade</u> (1935-39 average =100)	
	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>	<u>Exports</u>	<u>Imports</u>
1963	1,365	981	+384	114.9	82.0
1964	1,410	1,077	333	107.4	89.6
1965	1,493	1,198	+295	116.6	98.2
1966	1,593	1,124	+469	n.a.	n.a.
1967	1,465	1,095	+370	n.a.	n.a.
OI '67	1,620 ^{1/}	970 ^{1/}	+650 ^{1/}	n.a.	n.a.
OI '68	1,354 ^{1/}	944 ^{1/}	+410 ^{1/}	n.a.	n.a.

^{1/} Annual rate not seasonally adjusted.

SOURCE: International Monetary Fund, International Financial Statistics.

In 1967, fiscal performance improved markedly. The new export taxes and better enforcement of existing taxes helped increase tax revenues by 66 per cent. Public expenditures rose far less (not at all in real terms) and the deficit was cut to 13 per cent of total expenditures, the lowest in many years. The rates charged by public enterprises for their services were raised to more economic levels. This reduced their deficits and enabled the Treasury to hold down transfers to them. But the railroad deficit remained large, as little progress was made toward reducing surplus personnel or eliminating uneconomic lines.

Public sector borrowing from the Central Bank rose by only about two thirds as much as in 1966, and the increase represented only about 8.6 per cent of the money supply outstanding at the beginning of the year. This was the lowest percentage since 1961.

Argentina - Net Central Bank Credit
to Public Sector, 1963-67

<u>End of</u>	<u>Amount Outstanding (billions of pesos)</u>	<u>Change as Per Cent of Money Supply at start of year</u>
1963	164.4	16.6
1964	242.9	+24.4
1965	299.2	+12.3
1966	410.5	+18.8
1967	478.0	+ 8.6

SOURCE: International Monetary Fund, International
Financial Statistics.

Commercial bank credit to the private sector rose nearly at the same rate as in 1966. The authorities seemed to fear a serious recession such as accompanied the credit squeeze of 1962-63, and, in view of the sluggish performance of the economy in 1966, they consciously tried to avoid giving the economy too abrupt a dose of stabilization. The large gain in international reserves during the year was not offset, and was instead allowed to bolster bank reserves. There was also a very large increase in public sector deposits at the commercial banks, far surpassing the increase in the latter's credit to the public sector. The banks were so liquid that they were able, during most of the year, to build up large balances at the Central Bank while reducing their borrowings from the Central Bank.^{1/}

^{1/} However, this trend was reversed in the fourth quarter when the year-end demand for currency brought about a large loss of deposits.

Argentina - Commercial Bank
Credit, Deposits of the Public Sector,
Borrowings and Reserves
Since 1963

End of	<u>Credit to Private Sector</u> Amount Out- standing (billions of pesos)	<u>Change</u> Since 12 mos. earlier (%)	<u>Credit</u> to Public Sector (billions of pesos)	<u>Deposits</u> of Public Sector (billions of pesos)	<u>Borrowings</u> from Central Bank (billions of pesos)	<u>Cash</u> Reserves at Cen- tral Bank (billions of pesos)
1963	250.5	+14.9	57.1	44.5	22.9	12.5
1964	337.9	+34.9	99.2	69.9	34.3	22.9
1965	430.1	+27.3	150.2	105.8	84.9	63.1
1966	584.6	+35.9	162.8	129.6	78.5	59.6
1967	766.9	+31.2	217.2	234.8	102.8	117.9
3/67	604.8	+32.6	171.2	144.5	73.1	118.3
6/67	659.5	+35.0	190.1	199.1	69.2	142.7
9/67	706.3	+33.3	206.0	258.4	66.0	141.2
12/67	766.9	+31.2	217.2	234.8	102.8	117.9
3/68	798.5	+32.0	244.4	248.5	105.1	150.7

SOURCE: International Monetary Fund, International Financial Statistics;
Banco Central de la República Argentina, Boletín Estadístico.

This shift in the commercial banks' net position at the Central Bank was an important reason why the increase in the Central Bank's overall net domestic credit in 1967 was less than half as large as in 1966, and represented less than 6 per cent of money supply at the start of the year. Although this was the lowest this percentage had been in over 20 years, the large gain in foreign exchange reserves and the large increase in commercial bank credit to the private sector helped to produce a more than 37 per cent increase in money supply, somewhat in excess of the 1966 increase.

Argentina - Central Bank Overall Net
Credit and Money Supply
1963-67

End of	Central Bank Overall Net Credit		Money Supply	
	Amount Out- standing (billions of pesos)	Change as Percent of Money Supply on January 1	Amount Out- standing (billions of pesos)	Change since 12 months earlier (%)
1963	211.2	+14.9	322.3	+28.8
1964	291.5	+24.9	459.1	+42.4
1965	358.1	+14.5	592.0	+28.9
1966	462.4	+17.6	787.2	+33.0
1967	507.9	+ 5.8	1,082.0	+ 37.4

SOURCE: International Monetary Fund, International Financial Statistics.

In spite of the reluctance of the authorities to tighten credit to the private sector, real gross domestic product rose only about 2 per cent, barely more than the increase in population. While this was better than the small absolute decline recorded in 1966, it was well below the rate of some 8 per cent reached in each of the previous two years. The private sector appeared reluctant to respond to the tax incentives provided in 1967 to stimulate private investment. But the cost of living rose nearly as much in 1967 as in 1966. In part, this is because the wage freeze did not take effect until after some rather significant wage increases had been granted and because it was circumvented to some extent by job reclassifications. Another factor was the poor weather which led to scarcities of many food items heavily weighted in the index.

Argentina - Prices, Wages and Production
1964-67
(Annual Rates of Change)

	Cost of Living Index	Index of Wholesale Prices	Index of Money Wages	Real Gross Domestic Product	Index of Manufacturing Production
1964	+18.1	+13.4	+30.5	+8.0	+15.1
1964	+38.2	28.3	+35.0	+8.5	+12.7
1965	+30.0	+22.3	+36.3	-0.5	- 1.3
1967	+27.3	+20.6	+ 23.9	+2.0	- 0.4

SOURCE: International Monetary Fund, International Financial Statistics; Banco Central, Boletín Estadístico; Dirección Nacional de Estadística y Censos, Boletín de Estadística.

The Government is continuing to work toward financial stabilization, but it is beginning to encounter difficulties similar to those which plagued the 1959-61 stabilization effort. In the area of public finance, it has already been necessary to reduce export taxes to maintain export competitiveness, and public investment has been stepped up in an effort to produce a higher rate of real growth. Moreover, the effort to rationalize the public sector slowed down, after the changes in work rules in the ports and railroads were implemented late in 1966. In particular, the rehabilitation of the railroads, which run huge deficits requiring heavy transfers from the Treasury, has made only limited progress. The Government has not found it expedient to press for a transfer of significant numbers of excess personnel of the public sector, especially railroad employees, to private occupations, in part because unemployment was estimated at 6-7 per cent of the labor force. All of this is making it difficult to make substantial further cuts in the public sector deficit.

In the credit area, the desire to stimulate economic activity has already led to a substantial easing of commercial bank reserve requirements, effective on June 1, 1968. For most banks, the basic cash reserve ratios have been lowered by 11 or 14 percentage points against sight deposits and ^{1/}by 2.5 or 8 percentage points against time and savings deposits. In addition, the marginal reserve requirement, which was being satisfied partly in cash, ^{2/} has been eliminated.

The wage freeze remains in effect until the end of 1968, but in January 1968 the authorities lowered the workers' social security contributions by 6 percentage points to increase their take home pay and help offset the decline in real wages. In addition, beginning this year, the annual bonus previously paid to workers in one lump sum in December is being paid in two installments. The first one was paid in June, so that its effect was felt six months earlier than usual.

The cost of living index virtually ceased rising in the first half of 1968. This was partly because of the levelling off of wholesale prices since the third quarter of 1967, and partly because of the greater availability of seasonal products. But, the index may again turn up when seasonal scarcities reappear in the second half. While the inflationary psychology, rooted in 25 years of sad experience with runaway prices, had diminished, it could flare up again under the realization that the fiscal deficit is not easily yielding to efforts to reduce it. The magnitude of the wage increases which will be granted after the freeze is lifted next year will also, of course, have a profound influence on the future trend of prices.

^{1/} The percentage applicable depends on the bank's location. For a small group of banks, the ratio against sight deposits has been lowered by 3 percentage points, while that against time and savings deposits has been raised by 2.5 percentage points.

^{2/} To the extent that the specified securities which could be counted toward meeting this requirement were not available.

The authorities are borrowing abroad to help cushion the impact on international reserves of a further deterioration in the country's trade position. Already, exports have fallen off in the early part of 1968, partly as a result of a British ban on Argentine meat following an outbreak of hoof-and-mouth disease in the British Isles. The stimulation of economic activity would seem likely, later on, to produce a rise in imports.

It remains to be seen whether Argentina is merely about to embark on another expansionary leg of its long series of stop-and-go growth with frequent interruptions, or whether it is getting ready to turn the corner toward sustainable growth with reasonable price stability. Until now, it has done little to face up to the industrial and labor rigidities inherited from the Peron era. Argentine industry remains high cost and unable to make a significant contribution to export earnings. It has much unused capacity and is burdened by labor practices that are not conducive to efficiency or helpful in raising productivity. Government enterprises, especially the railroads, continue to operate with a swollen work force which puts job security ahead of cutting costs. It will not be easy to eliminate these handicaps or at least reduce them to manageable proportions. But this may well hold the key to whether Argentina will continue to jump from one crisis to the next or will at last experience a complete return to economic health.