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Developments in Argentina, January-June 1965

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Precis

Economic activity remained vigorous in Argentina during the first half of 1965. During the first quarter, GNP increased at an annual rate of 7.5 per cent. Industrial production was maintained at the level of fourth quarter 1964 and sales were brisk. Both business profits and tax receipts increased. An outstanding wheat harvest was a major feature of successful agricultural developments. Argentina continued to run a surplus on its foreign trade account, but it was smaller than in the comparable period of 1964, when an exceptional surplus was achieved. Imports rose considerably in early 1965, due largely to the raw material needs of industry. In response to the deterioration of the trade surplus and a rapid credit expansion, the Central Bank established a prior deposit requirement for imports.

Despite apparent prosperity, the country was plagued with continuing basic economic problems. The budget deficit remained high, inflation was generally unabated, foreign debt maturities approached, and the foreign exchange picture remained serious. The Government anticipated a 1965 budget deficit of about 115 billion pesos. The prices of public services were advanced during the first quarter, adding to Government revenues but boosting the cost of living. Predictions on the rate of inflation for 1965 ranged upward from 20 per cent. The expansion of the means of payment was projected by the Government at 26 per cent for the year; this would compare favorably with the 39 per cent increase experienced in 1964.

Argentina's external problems in the first half of 1965 revolved around the need for refinancing of the foreign debt due this year and in 1966, and the continuing foreign exchange pressure upon the peso. On June 24 an agreement was reached with the Paris Club of creditor countries on refinancing a portion of 1965 maturities. Earlier, Argentina had achieved a postponement of payments due to international institutions and U. S. and European commercial banks. On April 19 the Central Bank adjusted its support points for the peso, thereby allowing a modest devaluation in an attempt to encourage exports and discourage imports. Retentions, or export taxes, were placed on certain export commodities so as to divert windfall profits to the Treasury. There has been considerable criticism of the retentions by Argentine producers who feel that these taxes will inhibit exports in general and offset the effect of the devaluation.

March elections in Argentina indicated growing Peronist sentiment and a polarization of political strength. Approximately one-half of the seats in the National Chamber of Deputies (99) were subject to contest. The Union Popular Party (UPP), a pro-Peron entity, won 50 of these, and the Government UCRP party took 34. The remaining 15 seats were divided among several groups. Although the Government still has a plurality of 70 in the lower house, the UPP is now the second strongest voting bloc.

Trade and External Financial Position

Argentina experienced a deficit of \$11.3 million in its overall balance of payments in 1964, as compared with a surplus of \$144.1 million in 1963 and an average deficit of about \$36 million for the period 1960-63. The current account was in surplus by about \$129 million in 1964, while the capital account showed a deficit of \$140 million.

The Argentine trade picture in 1964 was dominated by rising imports, due primarily to increasing demand for raw materials deriving from the general economic upturn. Second half 1964 imports were \$601 million, as compared with \$477 million for the first six months of the year. The import expansion continued in 1965 but did not include machinery. This is because the Central Bank regulations on capital goods imports (November 1964) had earlier discouraged potential demand. At that time, the Bank sought to strengthen the Argentine balance of payments by requiring specified deferred payments conditions and long-term credits for equipment imports; but Argentine firms were later largely unsuccessful in obtaining such terms. However, the picture is changing, and significant machinery purchases by the steel and electric power industries may be negotiated. Further, the Government-owned petroleum company, YPF, issued a call for tenders on oil well drilling equipment on February 22, and Aerolineas Argentinas is negotiating for the purchase of commercial jet aircraft.

The Argentine trade surplus for 1964 was \$334 million, compared with \$385 million in 1963. Exports amounted to \$1,410 million, the highest since 1946-48, and imports totaled \$1,077 million. Argentina ran a \$165 million bilateral trade deficit with the United States in 1964; imports from the U. S. were \$255 million, and exports to the U. S. were \$90 million. Imports from the U. S. were up \$12 million from 1963, while exports were down by \$60 million. The 1964 Argentine deficit with the U. S. was almost twice that of 1963, but it was still considerably under those of 1960-62, when U. S. direct investment in Argentina was heavy. Argentina earned a trade surplus with most other major trading areas of the world in 1964, including \$311.2 million with the EEC, \$53.8 million with the EFTA, \$47.6 million with the other LAFTA countries and over \$135 million with the Communist Bloc.

Argentina experienced an \$83 million trade surplus during the first four months of 1965, compared with \$218 million for the same period of 1964. Official predictions for the whole year of 1965 call for exports of \$1.4 billion and imports of \$1.1 billion, figures close to those of last year. In recent months, imports rose markedly and exports declined slightly. There is an exportable grain surplus deriving from the bumper crop of 1964-65, but Argentine port facilities are inadequate to achieve prompt shipment. Declining production of the Government-owned oil company, Yacimientos Petroliferos Fiscales (YPF) has led to increased petroleum imports. Further, foreign-owned oil firms have suspended their development efforts due to protracted negotiations with the Argentine Government. The controversy was initiated in 1963 when the Government suspended all exploration contracts with foreign firms.

Argentina is expected to conclude foreign sales of some 5 million tons of wheat this year. Sales activity was slow early in the first quarter, but it has since accelerated. Satisfactory commercial disposition of most surplus wheat is anticipated, although a significant portion of the crop may not be actually shipped during 1965. One million metric tons of wheat was sold to Communist China during the first quarter, and a like amount was purchased by the Soviet Union in a partial barter transaction. Another 250,000 tons is involved in a barter agreement between Argentina and Italy. Argentine trade missions toured Africa and the Near East and held discussions with Chile. A Yugoslav-Argentine trade agreement was renewed on June 9.

The marketing of cattle turned upward during the quarter and prices were good, but meat exports did not respond. Producers and traders cite National Meat Board controls as the reason. Overall, exports of agricultural products in first half 1965 were disappointing, and the meat packing plants have been laying off many workers. The packers claim that the current exchange rate and prevailing production costs together make operations unprofitable.

By the end of March 1965, Argentina's gold and foreign exchange reserves had fallen to something under \$150 million, including approximately \$45 million in inconvertible currencies. Convertible currency holdings at the end of April were estimated at about \$30 million. However, since the peso devaluation of April 19 the Central Bank has purchased some additional foreign exchange. In view of the declining reserves and maturing external obligations, the Government presented a refinancing proposal to the United States, Japan and other Paris Club countries on April 26 in Buenos Aires. An Argentine refinancing mission visited the creditor countries prior to consultations with the Paris Club in June. Argentina has been scheduled to pay foreign creditors approximately \$533.3 million in 1965 and \$414.3 million in 1966.

While in the United States, the Argentine delegation obtained a rollover of a total of \$107.5 million due the International Monetary Fund, the World Bank, and European and American commercial banks in 1965. The Paris Club (France, Germany, United Kingdom, United States, Italy, Japan, Switzerland, Netherlands) agreed, several weeks later, to refinance some 60 per cent of certain Argentine obligations falling due in 1965. A few creditors with small claims declined to join in the refinancing agreement. The debts involved are largely Government-guaranteed and other suppliers' credits and direct Government or Government agency project obligations. Although bilateral negotiations between Argentina and each of the participating Paris Club members are yet to be concluded, it is estimated that the relief provided will approximate \$90 million. Thus, the total debt rollover would be near \$200 million. The Paris Club may consider refinancing of Argentine obligations falling due in 1966 at a meeting later this year, in the light of subsequent Argentine performance in the realm of exchange rate policy, reduction of the import application (for foreign exchange) backlog, and control over the expansion of new short- and medium-term obligations. The Argentine Government made commitments in these areas which were basic to reaching agreement with the Paris Club. However, Argentina may have to take steps adequate to warrant consideration for an IMF standby before the Paris Club will agree to consider the country's external obligations maturing in 1966.

During early 1965, private businesses had increasing difficulty in achieving external money transfers other than for current import payments. No official figures have been issued, but private sources speculate that current pending applications may total \$150 million or more.

Argentine Foreign Commercial Policy

In late 1964, Government determination to lessen imports led to new Central Bank restrictions on the financing of machinery and other capital goods. In January 1965, the Bank also decided to discourage speculative stockpiling. It did this by establishing a 100 per cent prior deposit requirement for imports other than capital goods. Under its terms, 180-day peso deposits equal to the value of the import had to be placed when the letter of credit was opened. When the April peso devaluation occurred, the deposit requirement was lowered to 75 per cent of the cost and freight value. Thus, importers benefitted from a modest

net reduction in the amount of necessary advance peso deposits. The protests of Argentine businessmen have led to various exemptions from the prior deposit rules (mainly for necessities such as drugs), and to an improvement in the rate of processing applications for capital goods imports, since specific capital goods lists were issued by the Central Bank.

The official exchange rate for the peso was changed from 151 to 173 (selling) to the dollar on April 19, in partial recognition of actual market conditions as reflected in the declining reserves. This devaluation was widely anticipated, and some economists and producers viewed the adjustment as inadequate. The current unofficial (black market) rate is in the vicinity of 280 pesos per dollar. In order for the devaluation to be successful, domestic prices must be held down to enable the rate to stimulate exports and dampen import demand. However, some agricultural producers argue that the increases in government retentions (export taxes) on export profits will materially sap the potential benefits to be derived from the April devaluation. It remains to be seen whether the retentions system will facilitate the officially anticipated increase in exports of previously slow-moving products, such as wool and various manufactures, without damaging the foreign sales of those commodities which have been moving well. The effect of retentions is to maintain the old exchange rate with consequent lower peso proceeds for some exporters.

Fiscal and Monetary Developments

In February, the Argentine Congress approved a Government budget for the current calendar year which anticipated a cash deficit of about 115 billion pesos. If achieved, this would compare favorably with fiscal 1964 (November 1963 through October 1964), in which Argentina experienced a deficit of 144 billion pesos. Expenditures for 1965 are budgeted at 318 billion pesos, a 54 billion rise over 1964. The Government has since sought to reduce expenditures and has promulgated a decree calling for a 16 billion peso cut in official spending, which is designed to reduce the projected budget deficit. Expenditures for January-March 1965 were 75 billion pesos, while revenues were 31.4 billion. The Treasury deficit for the January-March period was 43.6 billion pesos, or 1 billion pesos below the corresponding period in 1964. Public revenues for first-quarter 1965 were markedly above those of a year earlier, chiefly because of business expansion and improved tax collection, including customs. However, the size of the first-quarter deficit indicates that it may be difficult to keep the 1965 budget deficit at the 114.9 billion peso estimate.

The estimated 1965 budget deficit of 114.9 pesos is expected to be financed approximately as follows: (1) 17.4 per cent through foreign debt refinancing; (2) 5.2 per cent through certificates issued to suppliers; (3) 15.2 per cent via bond sales to social insurance funds and the public; (4) 16.5 per cent by means of social insurance funds savings funnelled to the Government by the banking system; (5) 45.3 per cent (52 billion pesos) from the banking system, chiefly the Central Bank (of which 12 billion pesos are to be offset by increasing

non-Treasury, non-social insurance fund public sector deposits in the banking system). In comparison, the FY 1964 budget deficit of 144 billion pesos was financed more heavily by the banking system (about 70 per cent) with the Central Bank alone covering some 50 per cent of the deficit, while Government debt certificates issued to suppliers and personnel accounted for most of the remainder. Thus, if the 1965 deficit is held to the amount budgeted, its financing should be less inflationary in effect than the comparable operations for the preceding year. Commercial bank reserves should experience a smaller expansion due to Central Bank extension of credit to the public sector in 1965. From early April to mid-June, the Central Bank made no new loans to the Government. Long-term fiscal reform is being sought through renewed attempts to rationalize the administration of the publicly-owned Argentine railways.

The 1965 Argentine budget law authorized the Central Bank to loan the Treasury up to 50 billion pesos. Last year Central Bank credit to the Government rose by about 70 billion pesos. In the budget, Congress also authorized the Bank to rediscount, without limit, paper acquired by the National Grain Board in the course of the latter's purchases and marketing of the current crop. At least temporarily, this may partially offset the relatively non-inflationary financing of the 1965 budget deficit.

The growth in the Argentine money supply slowed down in the first quarter of 1965 to 7.6 per cent, compared to 11.0 per cent in the previous quarter. But the expansion of credit was still sizeable. This was partially a result of a continuing Government budget deficit. Also in early 1965, the Central Bank rapidly expanded credit to commercial banks. The National Grain Board was a major recipient of this new credit, which was used to finance the purchase of the 1964-1965 wheat crop. Incomplete data indicate a partial slackening in the rate of money supply growth in the second quarter of 1965. The Government hopes that the expansion in the money supply for this year can be held to only 26 per cent, as compared with one of 39 per cent in 1964, and that the increase in the level of prices will be only 20 per cent in 1965, as compared with a 22 per cent rise in the preceding year.

Commercial Bank claims on the Government and other official entities rose by some 40 per cent in the first four months of 1965, compared with an increase of 36 per cent for the same period in 1964. The expansion of bank credit to the private sector was about 6 per cent and 5 per cent in the first four months of 1965 and 1964, respectively.

The imposition of a 180 day prior deposit requirement for non-capital goods imports in January 1965 helped dampen inflationary tendencies by sterilizing a portion of the expanding money supply. In May the Bank also altered minimum reserve requirements of non-bank financial institutions; effective June 1, 1965, required reserve levels were determined by the type of deposits received, and short-term deposits backed by larger reserves (16 per cent as compared with the previous 10 per cent).

A Government press release of April 18 indicated that there were differences between it and the IMF with respect to Argentina's internal economic policy. The Fund has called for a more stringent anti-inflationary policy than the Argentine Government has been willing to accept; the latter feels that such measures as the Fund advocates would likely trigger a recession and disrupt the country's development efforts. However, negotiations with the Fund are continuing.

Output, Prices and Wages

Business was good in the first half of 1965, with overall industrial output sustained at about the level of the fourth quarter of 1964. Wholesale and retail sales were strong while most corporate profits held at the prosperous level achieved in 1964. The Argentine Government optimistically forecast a 5 per cent increase in real gross domestic product in 1965. There are indications that real GNP was rising somewhat more rapidly than this in the first quarter.

The May, 1965, cost of living index stood 18.8 per cent above the May, 1964, level. From December, 1964, to March, 1965, the index rose by only 3.4 per cent, but price increases for public services and products approved during the first quarter are expected to come into play and accelerate price increases during the remainder of 1965. To bolster its fight against inflationary forces, the Government extended its "state of economic emergency" which was due to expire in February. The current session of the Argentine Congress must decide whether to authorize the maintenance of related extraordinary measures, such as price controls on necessities.

Some business investment decisions appear to have been withheld pending the outcome of the foreign debt negotiations and the presentation of the details of the economic development plan hitherto available only in outline form. Expectations of a peso devaluation may also have inhibited decision-making.

Certain public sector wage agreements reached in the first quarter of 1965 have set the stage for renewed upward pressure on prices. Despite a previous Government declaration that it would seek to hold wage increases for employees of state enterprises to about 22 per cent, union pressures resulted in settlements calling for larger pay hikes. After two months of strenuous negotiations, the state railway and telephone company workers signed a 15-month contract including a pay increase of 25 per cent during the first eight months and an additional 17 per cent for the next seven months. Other settlements with public employees resulted in wage increases in the 30 per cent range.

Relatively speaking, there was little strife between management and labor early in the year. The fact that January and February are traditional vacation months probably contributed to the calm. On the basis of tentative figures, it appears that workers' real wages rose during the first quarter, and that unemployment declined significantly.

On April 22, the minimum monthly wage for workers was revised upward by 17 per cent (over July 1964) in line with the change in the official cost of living index, as prescribed by law.

ARGENTINE GROSS DOMESTIC PRODUCT, 1964

	<u>Base Year 1960 = 100</u>	<u>% Increase over 1963</u>
<u>General Total</u>	<u>108.1</u>	<u>8.4</u>
Agriculture, Forestry, Hunting and Fishing	107.8	8.0
Mining	147.1	4.9
Manufactures	112.2	14.4
Construction	98.5	8.8
Electrical, Gas, Water and Sanitary Services	149.6	10.2
Transportation	103.8	8.5
Communications	97.4	3.6
Commerce	104.8	5.6
Banking, Insurance and Housing	109.9	1.2
Government Services	100.4	0.2
Other Services	102.6	3.2

	1964				Full Year	1965
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1964	1st Qtr.
Trade with U.S. (million dollars)						
Imports (CIF)	56	55	72.3	71.8		n.a.
Cumulative for Year	56	111	183.6	255.4	255.4	n.a.
Exports (FOB)	28	23	17.7	21.8		n.a.
Cumulative for Year	28	51	68.7	90.5	90.5	n.a.
Cumulative Balance with U.S.	- 28	- 60	-114.8	-165	-165	n.a.
Exchange Rate) pesos per dollar)						
Check Buying Rates - Spot						
High	138	139	144	151	151	151
Low	131	136	143	145	131	149.50
End of Period	138	137	143	150.40	150.40	149.50
Average					138.77	
Central Bank (billions of pesos-						
end of period & 1964 average)						
Advances to Treasury	54	50	49	48	50.25	48
Other Loans to Government	58	72	91	112	83.25	134
Rediscounts & Loans to						
Commercial Banks	13	22	26	26	21.75	51
Currency Outstanding	198	214	230	273	228.75	277
Other Banks (billions of pesos--						
end of period & 1964 average)						
Credits to National Government	52	66	66	72	64	76
Credits to Private Sector	255	279	308	338	295	345
Time, Savings & Security Deposits	139	149	168	178	158.5	202
Sight Deposits - Private	142	164	169	168	160.75	195
Sight Deposits - Autonomous Agencies	45	57	64	63	57.25	74
Money Supply						
(billions of pesos)						
(end of period & 1964 average)	348	395	414	459	403.5	493.8
Federal Treasury Expenditures						
(billions of pesos)	67	68	78	83	296	84

ARGENTINA

Economic Indicators, 1964-1965

	1964				Full Year	1965
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1964	1st Qtr.
Cost of living ^{a/} - end period and 1964 average (official index 1960 = 100)	207.8	219.1	221.2	249.2	220.7	257.7
Per Cent Increase: Over Previous Quarter Since Beginning of Year or previous year average	- 1.4	5.4	1.0	12.7	22.1	3.4
Wholesale Prices - end period (Index 1960 = 100)	215	230	240	243.6 ^{b/}	243.6 ^{b/}	n.a.
Per Cent Increase: Over Previous Quarter Since Beginning of Year	5.4	7.0	4.5	1.5 ^{b/}	19.4 ^{b/}	n.a.
Electric Power Production (Billion KWH)	2.47	2.51	2.62	2.62	10.2	2.70 ^{d/}
Crude Steel (Metric Tons - 000)	293	327	338	292	1,250	309
Cement Production (Metric Tons - 000)	636	665	742	774 ^{c/}	2,820	730 ^{d/}
Motor Vehicle Production (Units - 000)	26.5	37.9	48.8	53.3 ^{c/}	166.5	38.0 ^{d/}
Foreign Trade (million dollars)						
Imports (CIF)	236	240 ^{c/}	289	312 ^{c/}		183 ^{e/}
Cumulative for Year	236	477	766	1,077 ^{c/}	1,077	183 ^{e/}
Exports (FOB)	394 ^{c/}	357	323	336 ^{c/}		229 ^{e/}
Cumulative for Year	394 ^{c/}	751	1,074	1,410 ^{c/}	1,410	229 ^{e/}
Cumulative Trade Balance	158	275	309 ^{c/}	333 ^{c/}	333	46 ^{e/}

FOOTNOTES:

- a/ Buenos Aires.
- b/ Through November.
- c/ Revised.
- d/ Estimate based on January-February output.
- e/ Through February.
- f/ Provisional.
- g/ Estimate based on incomplete figures.
- n/ Including redemption of special debt certificates.

ARGENTINA

Physical Volume of Industrial Production
(Monthly Average)

	<u>Full Year 1963</u>	<u>Full Year 1964</u>	<u>First Quarter 1965</u>	<u>April 1965</u>	<u>May 1965</u>	<u>June 1965</u>
Pig Iron (tons) <u>a/</u>	35,350	50,000*	53,300	54,700	65,200*	42,500
Crude Steel (tons) <u>a/</u>	76,050	104,000*	103,400	110,300	119,500*	108,300
Finished steel (tons) <u>b/</u>	52,400	89,500*	83,700	96,700	95,100*	97,600
Cement (tons) <u>c/</u>	207,900	239,800*	244,500	249,600	276,300	n. a.
Automotive vehicles <u>d/</u> (Units)	8,740	13,900	13,700	16,200	16,400	n. a.
Agricultural tractors <u>e/</u> (Units)	950	1,090	730	750	1,180	n. a.
Cotton yarn <u>f/</u>	6,060	7,440*	6,850	8,500	8,000	n. a.
Rayon yarn <u>g/</u>	347	579	653	682	n. a.	n. a.
Nylon yarn (tons) <u>g/</u>	317	488	556	586	n. a.	n. a.
Cigarettes (100 pkgs. of 20 each) <u>h/</u>	99,230	104,900	103,400	104,100	100,300	100,500
Electric Power generation (million kwh) <u>i/</u>	764	852	906	912	935**	n. a.
Petroleum refinery run (1000 barrels) <u>j/</u>	8,598	9,062	9,647	8,879	10,374	n. a.

* Revised

** Provisional

Explanation of Symbols

- a/ Source is the Centro Industriales Siderúrgicos.
- b/ Source is the Centro Industriales Siderúrgicos. The production data for finished steel relate to that of only the primary steel producing companies. These companies produced 83% of the country's finished steel output in 1963 and 78% in 1964.
- c/ Source is the Portland Cement Manufacturers Association.
- d/ Source is the Secretariat of Industry.
- e/ Source is the Secretariat of Industry.
- f/ Source is the National Cotton Board.
- g/ Source is the Chamber of Shilk and Artificial Fibers Producers.
- h/ Source is the Industrial Office of Cigarette Manufacturers. Data relate to sales; however, sales are considered closely parallel to current output.
- i/ Source is the Secretariat of Energy and Fuels.
- j/ Source is Yacimientos Petrolíferos Fiscales.