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LADB Staff

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Dec. 26: By the close of the business day, the price of the dollar jumped 39% to 1,740 australs. Meanwhile, interest rates dropped by nearly the same proportion. The devaluation was predictable since the Central Bank had authorized a 5% decline in the discount rate with the intent of increasing market liquidity and forcing an interest rate reduction. On Dec. 22, bank interest rates had reached 112% per month. By closing on Dec. 26, interest rates ranged between 45% and 50% per month. As a result, many Argentines transformed austral deposits into dollars. The new Economy Minister Antonio Erman Gonzalez had announced on Dec. 18 total liberation of exchange and financial markets, as well as prices and wage rates. Gonzalez said that the dollar price jump on Dec. 26 was "not justified by reality."

Prices continue to escalate. Government officials admit the likelihood of 50% overall price level inflation for the month of December. Some Argentine economists have said that the greatest inflationary impact in the wake of "liberalizing" the majority of economic variables will be seen in January, when the consumer price index is expected to surpass 60%.

Dec. 27: Gonzalez asserted that the government had not struck a deal with the private sector for "any type of privilege" to control hyperinflation. In a statement broadcast on Radio Nacional, Erman called for calm. He attributed the escalating price of the dollar and "consequent dollarization" of the Argentine economy to "psychological uncertainties, produced by rumors and misinterpretations."

Unidentified government officials cited by Notimex said the apparent reemergence of hyperinflation has also resuscitated fears of social upheaval. According to business sources, food prices increased an average 75% in December.

Dec. 28: On the final business day of 1989, the austral slid to 1,950 to the dollar. As banks struggled to retain funds, interest rates rose to 600% a month. Retail distributors, anticipating inflation, marked up prices drastically or simply closed in response to panic buying.

Dec. 30: Gonzalez told reporters that the government will continue its economic liberalization policies, and structural reforms, including privatization of state-run companies, overhaul of the tax system, and streamlining of state administration. The minister denied the veracity of certain news reports that the government had plans to reestablish substantial taxes on agroexport products, and a 20% reduction of tariffs on industrial products. Next, Gonzalez said that the continual rise in the price of the dollar and tight liquidity conditions are "totally irrational" responses to the liberalization of exchange and financial markets.

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According to Notimex, the local media reported increasing shortages of basic foodstuffs, such as flour, cooking oil and sugar, in greater Buenos Aires. In less than 24 hours, prices for some foods e.g., milk products and eggs jumped 100%. During the last week of the year, consumer price inflation averaged 24%. Compared to the last week in November, prices were 49% higher. A report by the private Economic and Social Policy Institute (IPE), prices on medicines jumped 244% in the last week; meat products, 127%; and, fats and oils, 156%. Gasoline prices were raised another 50%. There were reports of gasoline shortages in the country's interior provinces. La Nacion, Clarin, El Cronista Comercial and other national daily newspapers, citing unidentified government sources, said the so-called New Year Plan would include major rate increases for public services, higher taxes on exports, wage hikes and a salary floor set at the equivalent of about $85 a month. Many pharmacies closed, and some supermarkets limited purchases to three items of a given product per customer. Gas stations limited drivers to 2.6 gallons per car.

Jan. 1: The government decided to cancel an austerity plan hours before it was scheduled to take effect on Tuesday, choosing instead to implement measures to complement its free market scheme launched Dec. 18. In a nationwide broadcast on Monday night, Gonzalez announced that the quantity of australs in circulation would henceforth be limited in the hopes of preventing Argentines from buying US dollars and further devaluing the national currency.

Investors whose certificates of deposit come due beginning Jan. 3 Jan. 2 is a bank holiday will be paid up to 1 million australs (about $500) in cash and will have to accept long-term bonds for the balance, Gonzalez said. Next, Gonzalez said the Central Bank will print only enough australs to cover government salaries, pensions and normal business expenses, he said. As a result, he added, "The price of the dollar should go down." The minister said the recent plunge in the value of the austral and with this, price inflation, has been "totally unjustified, the outcome of collective hysteria."

Despite the current situation, he said, the liberalization policies will continue "because we are convinced that controls don't work in any country in the world." Gonzalez denied the US dollar would be used as a type of alternate currency, as local newspapers and analysts predicted. However, he admitted that the economy "every day is more `dollarized'" in terms of prices. He added that real wages declined by about 60% in 1989, and savings in australs have been "pulverized" by devaluations totaling 99% since February.

Gonzalez said the government had decided to eliminate the periodic flood of australs by paying the interest in long-term, dollar-denominated bonds that will, in turn, pay dollar interest at relatively low international rates. The minister stated that by restricting the austral interest payments, the government hoped to force big companies to sell off some of their dollar hoards to get australs to meet tax payments and pay suppliers. Several billion dollars are believed to circulate in Argentina in a sort of parallel dollar economy. The minister said dollar reserves in the Central Bank totaled $880 million, down from about $2.5 billion two months ago, and gold reserves came to $1.4 billion. He said those resources would be pledged to back up the australs in circulation once the government had obtained emergency credits from the US and the International Monetary Fund to increase hard currency reserves.

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Prior to Gonzalez's address, Juan Carlos Lightowler Stahlberg, director of the Board of Merchant Business Activities, said, "Unfortunately,...every operation in cash (now) is done at a loss" because inflation makes it impossible to estimate prices to charge enough to be able to restock. According to the New York Times (01/03/90), part of the reason for the periodic run on dollars is the glut of cash in australs that comes onto the market every seven days when banks pay off the interest on short-term deposits or when holders of government debt paper collect the interest.

Short-term interest has reached as high as 600% a month in recent weeks. Speculators tend to use the periodic flood of australs to buy dollars, thereby driving up the price of dollars. Retail trade organization, CAME, which represents a million merchants, recommended that its members suspend sales in hopes that prices would stabilize. Service stations continued to ration gasoline sales, leaving thousands of automobiles stranded during the New Year vacation.

Jan. 2: Banks and foreign exchange houses were ordered to remain closed. Jan. 3: At the request of banks, investment brokers and other finance sector businesses, the bank and exchange house holiday was extended for another day.

The New York Times cited Antonio Cafiero, governor of Buenos Aires province and leader of the Justicialista Party, who said Argentina's economic situation "is becoming insufferable for the majority of Argentines." He said the current economic chaos is worse than that preceding the 1976 military coup against the government of Isabel Peron. At that time, said Cafiero, the foreign debt was only 10% of the present $60 billion total, the national economy was producing 15% more in goods and services, and Argentines enjoyed full employment. Jan. 4: Banks and exchange houses opened for four hours in the afternoon. The stock exchange will remain closed until Monday, Jan. 8. The price of the US dollar dropped 34.5%, closing at 1,360 australs, compared to 1,830 of the previous Thursday.

Secretary of Industry and Commerce, Jorge Pereyra de Olazabal, said the new reductions in import tariffs averaging 14% are intended to favor the "export effort." Tariffs range between a maximum 24% for products such as electrical appliances, wool and leather manufactures, to a minimum of 5% for agro-chemicals. A 16% tariff was placed on steel product imports, representing one-half of Argentine industry's imports. The tariff amount for chemicals and selected petrochemicals is 10%. Jan. 5: At closing, the price of the dollar was 1,360 australs.

Meanwhile, consumer prices were reportedly on the decline. Members of President Carlos Menem's economic team met with representatives of the World Bank and International Monetary Fund in search of credit for financial reforms. World Bank spokespersons confirmed the disbursement of $800 million in April, destined to finance the government's administrative reforms and development in the provinces. Participants also discussed the need for a bridge loan from the US. This topic was the principal focus during a meeting between President Menem and US Ambassador to Argentina, Terrence Todman. Jan. 6: Minister Gonzalez told reporters that Argentina's "possibilities" to obtain a bridge loan from the US Treasury were "good." He added that if the IMF mission, currently in Buenos Aires gives the government a fair report card, a bridge loan would follow. The mission is evaluating the government's performance in terms of fulfilling terms contained in a letter of intent

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attached to $1.5 billion stand-by credits. Of the total, Argentina has obtained only $400 million to the present.

The second installment, scheduled for disbursement in March, is contingent on the government's fulfillment of Fund conditions. Since several major economic variables were virtually out of control in late December, receipt of the second installment is hardly guaranteed. Gonzalez pointed out that no government has ever put hyperinflation to rest without foreign assistance. The minister said government officials are currently discussing terms for a $500 million loan from the World Bank for restructuring the public sector. In addition to the "liberalization" of money, exchange, product and labor markets, Gonzalez pointed out that since he took office as economy minister, the government has accelerated its plans for reducing public spending and privatization of the railway and telecommunications companies. (Basic data from AFP, 12/27/89, 01/01/90; Radio Nacional, 12/27/89, 01/03/90, 01/04/90; New York Times, 01/03/90; Notimex, 12/26/89, 12/30/89, 01/01/90, 01/04/90, 01/05/90, 01/06/90; AP, 12/31/89; 01/01/90)

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