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S-08608

WH [Redacted]

CIA/OER/S-08608-75

5 March 1975

HOL

OER [Handwritten signature]

MEMORANDUM FOR:

[Redacted]

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SUBJECT : OER Contribution to the Update of Interagency Memorandum, Argentina: Prospects Over The Next Several Months

Attached is OER's contribution to the subject memorandum. Questions may be addressed to the author, [Redacted]

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[Redacted]

Office of Economic Research

Attachment: As stated

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1 - Chief, DDO/WH/AR
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OER/D/LA: [Redacted] (5 Mar 75)

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Argentina: Economic Prospects Over the Next
Several Months

1. Following achievement of a satisfactory 6% economic growth rate and a balance of payments surplus in 1974 attributable mainly to high prices for agricultural exports, economic problems are again emerging as a major potential source of stress for Mrs. Peron's government. The short-lived period of cautious optimism and renewed business confidence that followed appointment of Gomez Morales to the economy portfolio last October appears to have ended. While loosening of price controls in November saved a number of large firms from bankruptcy, eased shortages of numerous producer and consumer goods, and led to a sharp drop in black market activity, renewed inflation triggered a wage hike of about 15% at the beginning of March. Even so, real wages apparently remain below the May 1973 level, and labor demands for further increases can be expected before the current nationwide wage-price pact expires in June.

2. The nearly 40% rise in the cost of living since the end of October and the recent rise of Peronist labor chief Casildo Herrera^{and} will contribute to increased labor militancy/probably have already doomed Gomez Morales' efforts at public and private austerity. As a result, public sector deficits will continue to grow while more

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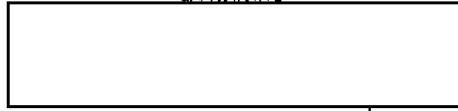
expansionary monetary policy will be needed to help business finance recent salary increases. The net effect, of course, will be further inflationary pressure.

3. In addition to the accelerating wage-price spiral, problems are beginning to emerge in the external sector. The poor wheat harvest this year and weaker world grain prices probably will cause as much as a 25% decline in the value of grain exports. Meanwhile, beef exports continue to be severely depressed by world market conditions while exports of manufactures are facing stiffer competition as a result of the deepening recession in the developed economies. These poorer export prospects, debt service obligations of around \$1.2 billion, and increased imports needed for development projects may generate Argentina's first balance of payments deficit since 1972. The 23% devaluation of the peso (trade rate) on 3 March will not help the balance of payments much this year and, by raising the cost of imports, will add impetus to inflation.

4. High consumer and government demand will probably generate economic growth in the first half at an annual rate of 5-6 percent. Investors, however, will probably continue to defer capital outlays due to the profit squeeze as prices lag behind wages. Meanwhile, the rate of inflation is likely to exceed 60% unless strict price controls are reinstated. Slower growth and increased unemployment are likely during

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the latter part of the year as constraints on industrial capacity come increasingly into play. In sum, the state of the economy appears to be a growing problem but sufficient economic deterioration to produce a serious political crisis is unlikely before mid-year.

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