

25X1

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010012-4

Approved For Release 2006/09/26 : CIA-RDP85T00875R001900010012-4

12 November 1973

25X1

MEMORANDUM FOR:  
25X1A

SUBJECT : The Argentine Economy

25X1

Attached is the material you requested in support  
of your liaison efforts. If we can be of further  
assistance, please contact

25X1A

Chief,  
Latin American Branch, OER

Attachment:  
As stated

- Distribution: (S-5655)
- Orig. & 1 - Addressee
  - 1 - D/OER
  - 1 - D/D
  - 1 - SA/ER
  - 1 - St/P
  - 1 - D/LA

25X1A

OER/D/LA: (12 Nov 73)

25X1

The Argentine Economy

1. With GDP expected to register a 4%-4.5% increase in 1973 and trade surpluses of \$600-\$800 million, Argentina's economic state has improved over last year. Price freezes and rollbacks instituted in June appear to have reduced inflation for the year to the point where it will probably end up at around 35% to 45%, compared with the 56% registered in 1972.

2. Despite these improvements, problems continue to plague the Argentine economy which, if not corrected, could lead to a serious deterioration. Public spending continues to outpace revenues and the total deficit for 1973 could well exceed 8% of GDP. Treasury outlays traditionally have amounted to 8%-9% of GDP. In addition, artificially low prices for agricultural products, combined with increasing disincentives to production threaten to seriously undermine the chief source of Argentina's foreign exchange earnings. Argentina is expected to have only about 700,000 tons of exportable wheat surplus from the December/January harvest, compared with 3.2 million tons exported from the 1972/73 harvest. It is clear that a good corn crop and continued high world prices will be essential if Argentina is to avoid serious balance of payments problems in 1974. At present, Argentina's external debt

25X1

CONFIDENTIAL

stands at some \$3.2 billion and service payments plus inelastic demand for the import of intermediate goods will make adequate export earnings essential if an economic recession is to be avoided.

3. Peron has aggressively continued and expanded previous regimes' policies of promotion of non-traditional exports. This is evident in a \$200 million credit granted Cuba in August, as well as substantial credits to Chile for the purchase of Argentine goods -- mainly manufactures. While this policy will help offset revenue losses from lowered wheat and beef exports, the financing mechanisms may further exacerbate domestic inflationary pressures. If present price controls continue, the decline in agricultural production and disincentives to domestic production caused by low profit margins will lead to greater and more frequent shortages of both consumer and producer goods. If wage demands lead to large increases in early 1974 while prices remain frozen, the situation will worsen.

CIA/OER

9 November 1973