

Multi-year Expert Meeting on

TRADE, SERVICES AND DEVELOPMENT

Geneva, 15-17 April 2014

SESSION 4:

FINANCIAL SERVICES AND REGIONAL INTEGRATION

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Ministry of Foreign Affairs

Argentina



FINANCIAL SECTOR LIBERALIZATION

Multi -Year Expert Meeting on Trade, Services and Development

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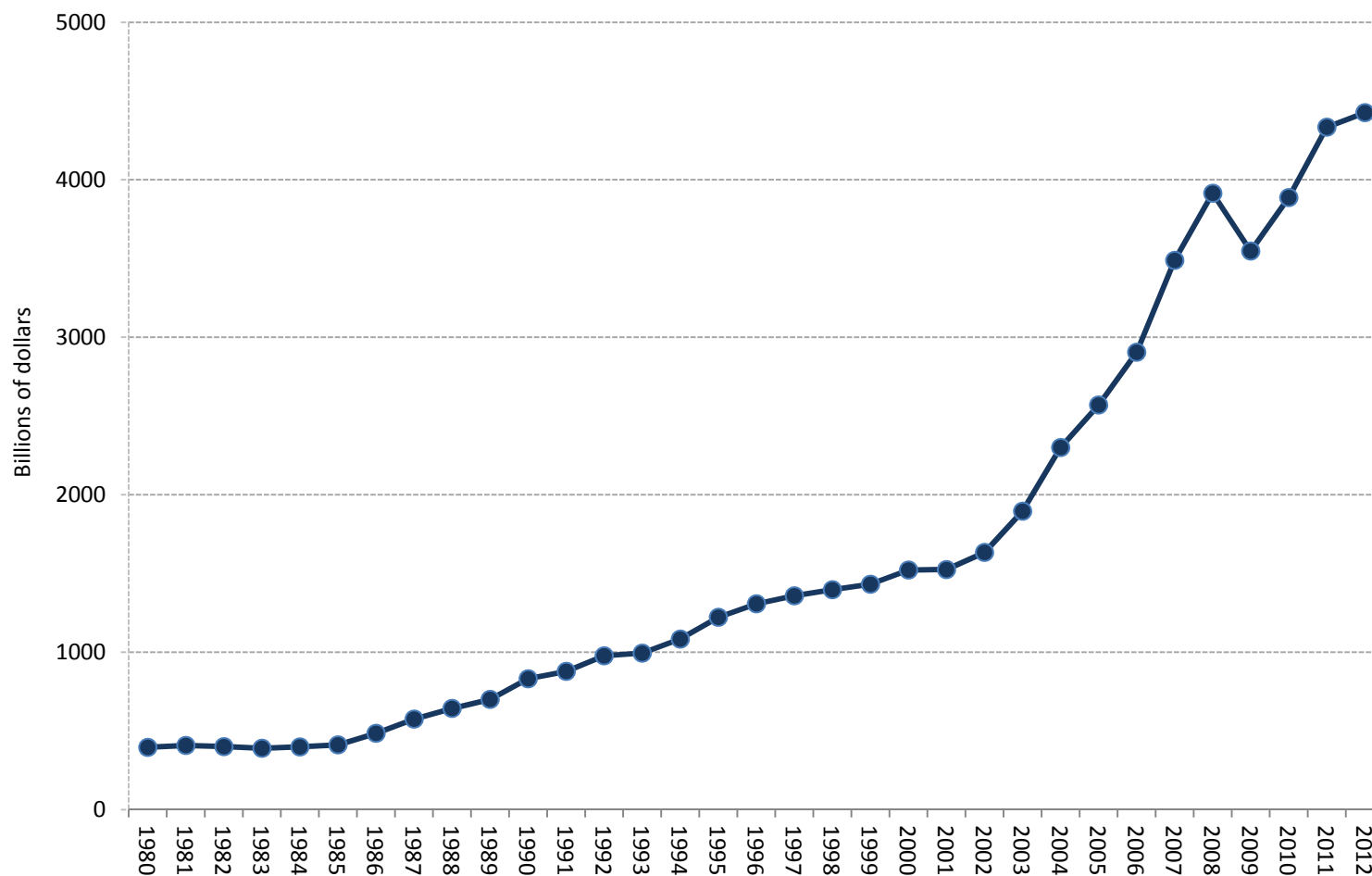
DEMIAN GASTON DALLE

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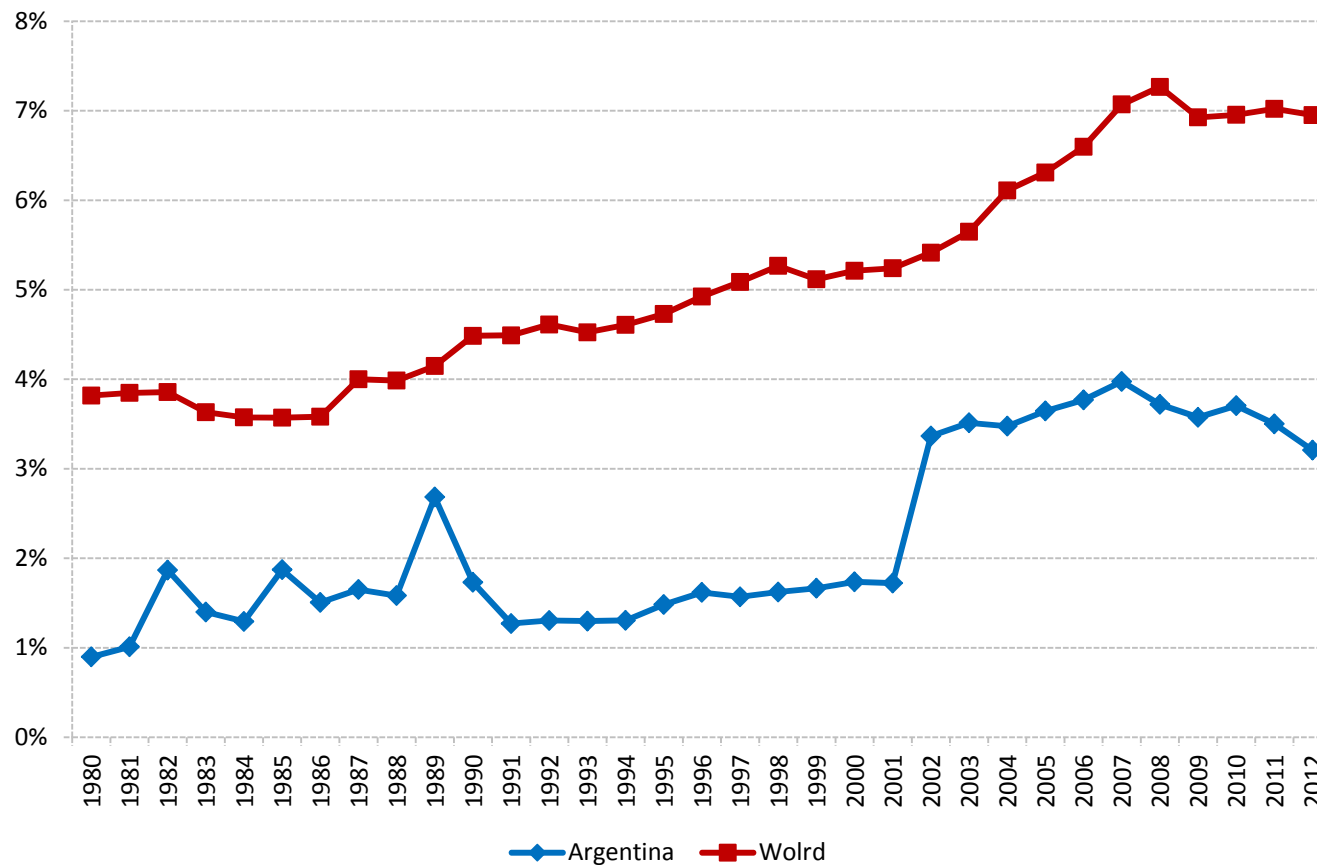
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World Exports of Services



Source: Own elaboration based on data from WTO

Exports in Services (% of GDP)



Source: Own elaboration based on data from WTO and IMF

Exports of Services.

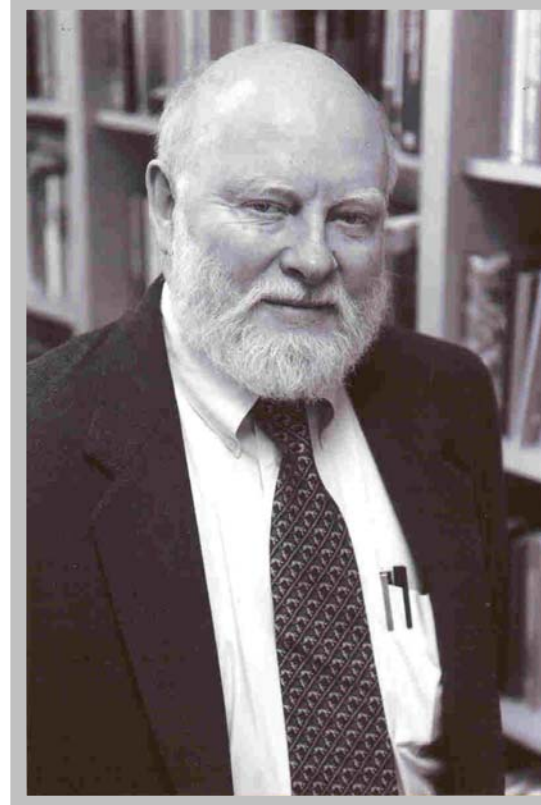
Millions of dollars.

Services	1980		1990		2000		2012	
	Argentina	World	Argentina	World	Argentina	World	Argentina	World
Travel	344	103,500	903	263,200	2,904	476,200	4,895	1,110,700
Transportation	805	133,900	1,156	222,700	1,145	346,400	2,347	891,900
Financial services	0	0	0	0	6	97,600	9	303,100
Other Services	727	158,300	387	345,400	880	601,100	7,988	2,120,100
Services	1,876	395,700	2,446	831,300	4,936	1,521,300	15,239	4,425,800

Source: Own elaboration based on data from WTO

Financial liberalization: in theory

- Financial development as the cause or the effect of development and economic growth (Patrick, 1966).
- **The McKinnon-Shaw hypothesis (1973):**
 - Financial development is one of the driving forces behind economic growth.
 - Government intervention and regulation generates an atmosphere of ‘financial repression’.
 - Low –and even negative– real interest rates discourage savings, thus limiting investment and affecting the accumulation process.



Financial liberalization: in theory

■ Policies proposed:

- Interest rate liberalization.
 - Elimination of barriers to the entry of foreign firms for a more competitive market .
 - Capital account liberalization to get an appropriate supply of savings (domestic savings may not be enough).
- Thus, the spread should decrease, reflecting the greatest efficiency in the intermediation.

Financial liberalization: in theory

■ **However...** (Arestis *et al.*, 2003; Blecker, 1999; Ghosh, 2005)

- The lack of financing is not exclusively explained by relative prices (Taylor, 1983; van Wijnbergen, 1983; Díaz Alejandro, 1985).
- Savings is not the cause but rather the effect of growth. Investment is financed by the financial sector rather than by savings (Burkett and Dutt, 1991; Arestis, 1997).
- Financial markets are not perfectly competitive, which explains why achieving a balance between savings and investment is not always possible (Stiglitz and Weiss, 1981; Stiglitz, 2000).
- Liberalization results in excessive volatility (Patnaik, 2006) and, even more, in foreign currency dependant economies.



Financial liberalization in Argentina

■ Financial reform of 1977 (military government):

- Liberalization of lending and deposit interest rates.
- Liberalization of conditions for the setting up of financial institutions.
- Elimination of geographical preferences.
- Establishment of a minimum level of risk-weighted capitals.
- Central Bank deposit guarantee in local currency.
- Central Bank as a lender of last resort.

Financial liberalization in Argentina

■ Convertibility Law:

- Fixing the exchange rate and commitment to back the monetary base with international reserves.
- Limits to the Central Bank as a lender of last resort.
- Elimination of the deposit guarantee.
- Equal treatment for foreign firms (head offices may act as lenders of last resort).
- Privatization of provincial banks.
- Opening of the capital and financial accounts.

Consequences of liberalization in Argentina

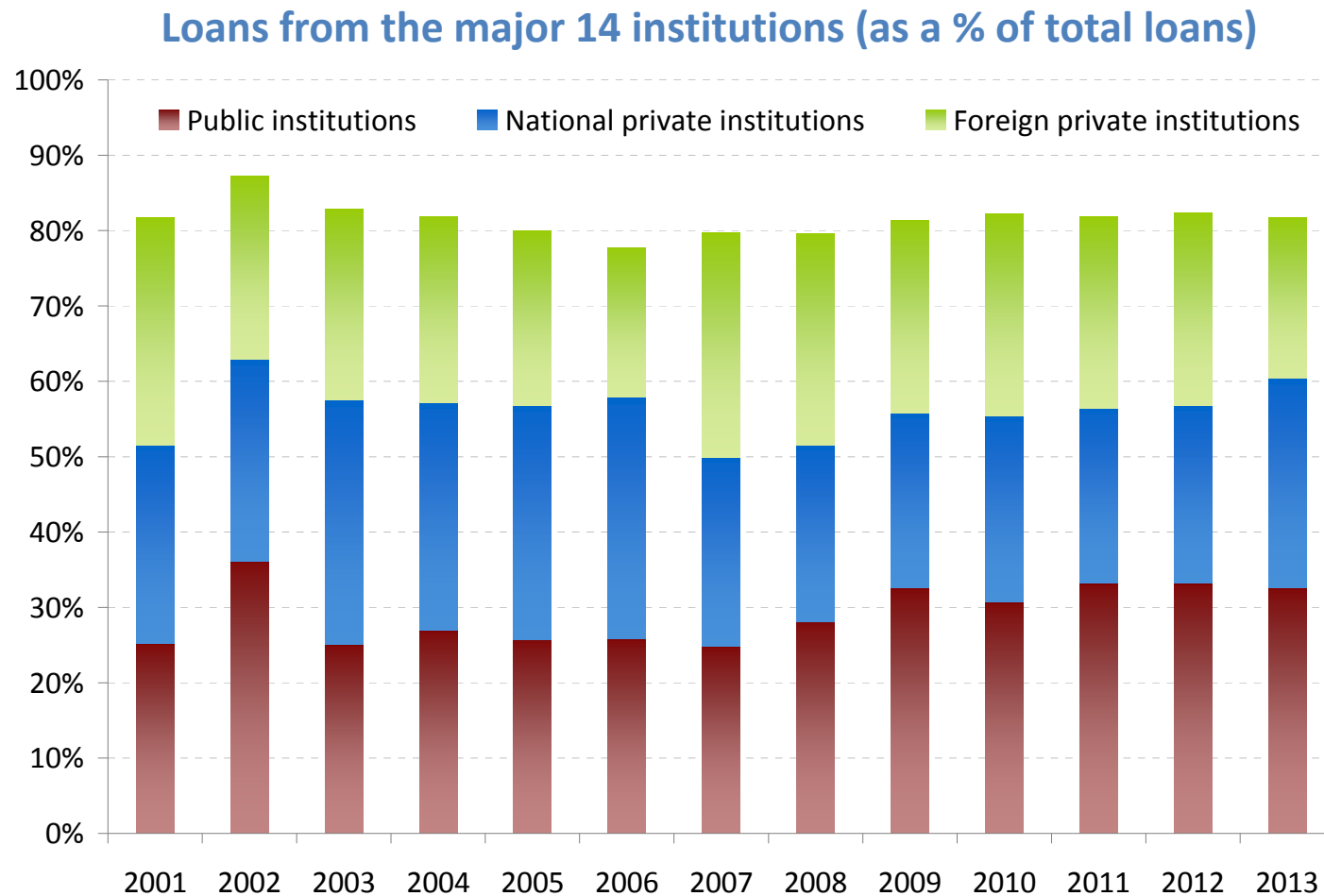
- Less competitive market

Evolution of the number of financial institutions

Year	Total of financial institutions	Non-banking institutions	Banks			
			Total	Public banks	National private banks	Foreign private banks
1977	723	604	119	34	68	17
1980	469	256	213	34	152	27
1984	360	150	210	36	141	33
1987	267	89	178	36	109	33
1991	214	47	167	35	101	31
1994	205	37	168	33	104	31
1995	166	31	135	33	71	31
2000	110	21	89	14	36	39
2001	108	22	86	13	34	39
2002	99	21	78	16	33	29
2003	96	21	75	15	33	27
2004	91	18	73	14	34	25
2005	89	18	71	13	35	23
2013	81	16	65	12	33	20

Consequences of liberalization in Argentina

- Concentrated market

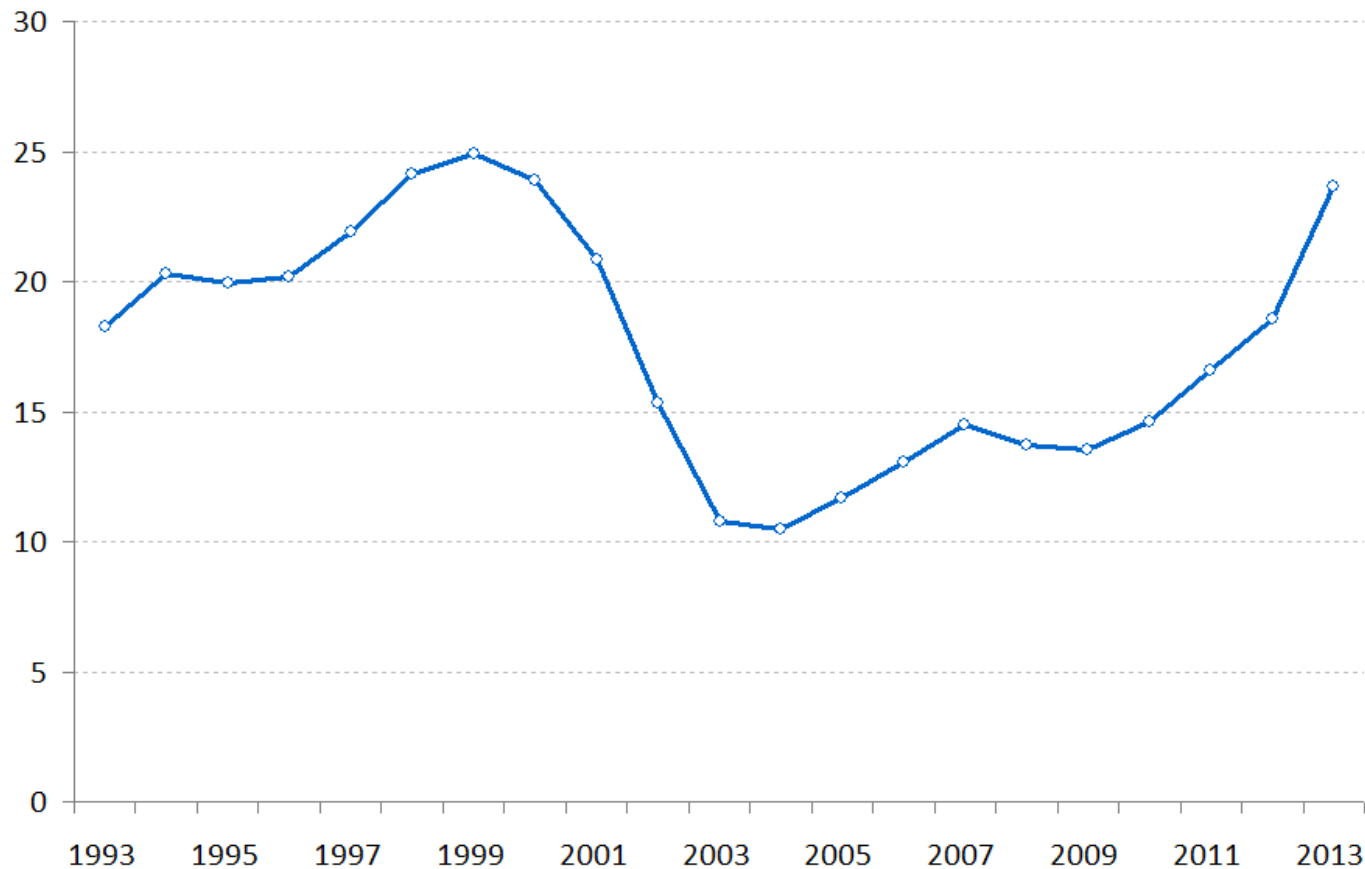


Source: Own elaboration based on data from BCRA

Consequences of liberalization in Argentina

- Despite the increase in interest rates, the financial sector shrinks

Loans to the non-financial private sector (as a % of GDP)

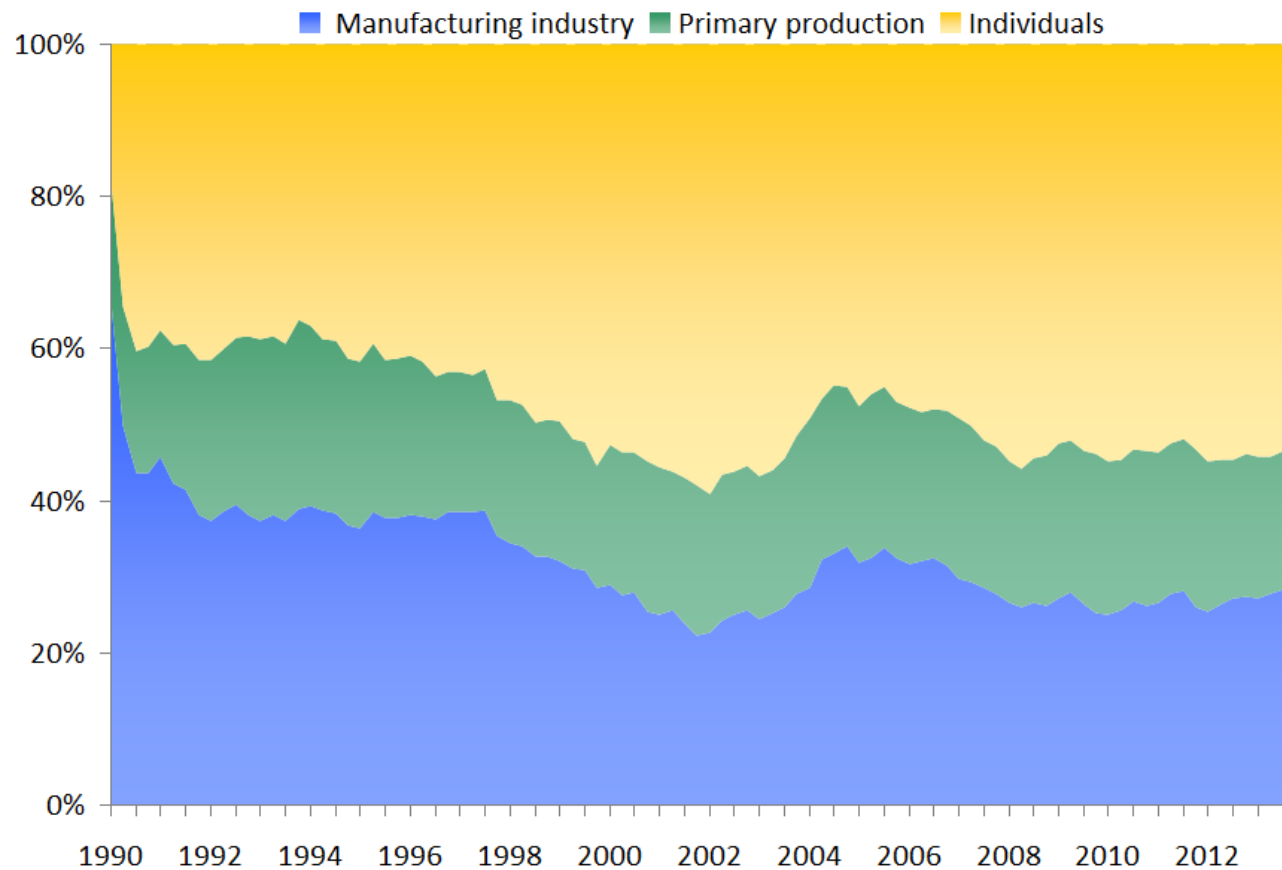


Source: Own elaboration based on data from BCRA

Consequences of liberalization in Argentina

- and loans to the production sector shrink even more:

Financing by type of activity (as a % of total lending)



Source: Own elaboration based on data from BCRA

Conclusions

- Argentina liberalized the financial sector following the McKinnon-Shaw hypothesis.
- Public indebtedness went up.
- Increased market concentration.
- Both interest rates and spread showed a growing tendency.
- Neither the savings nor the loans to the private sector have increased; and nor have the loans to productive activities.
- In a nutshell, the benefits that, according to McKinnon and Shaw, derive from liberalization could not be appreciated in Argentina.

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Thanks!

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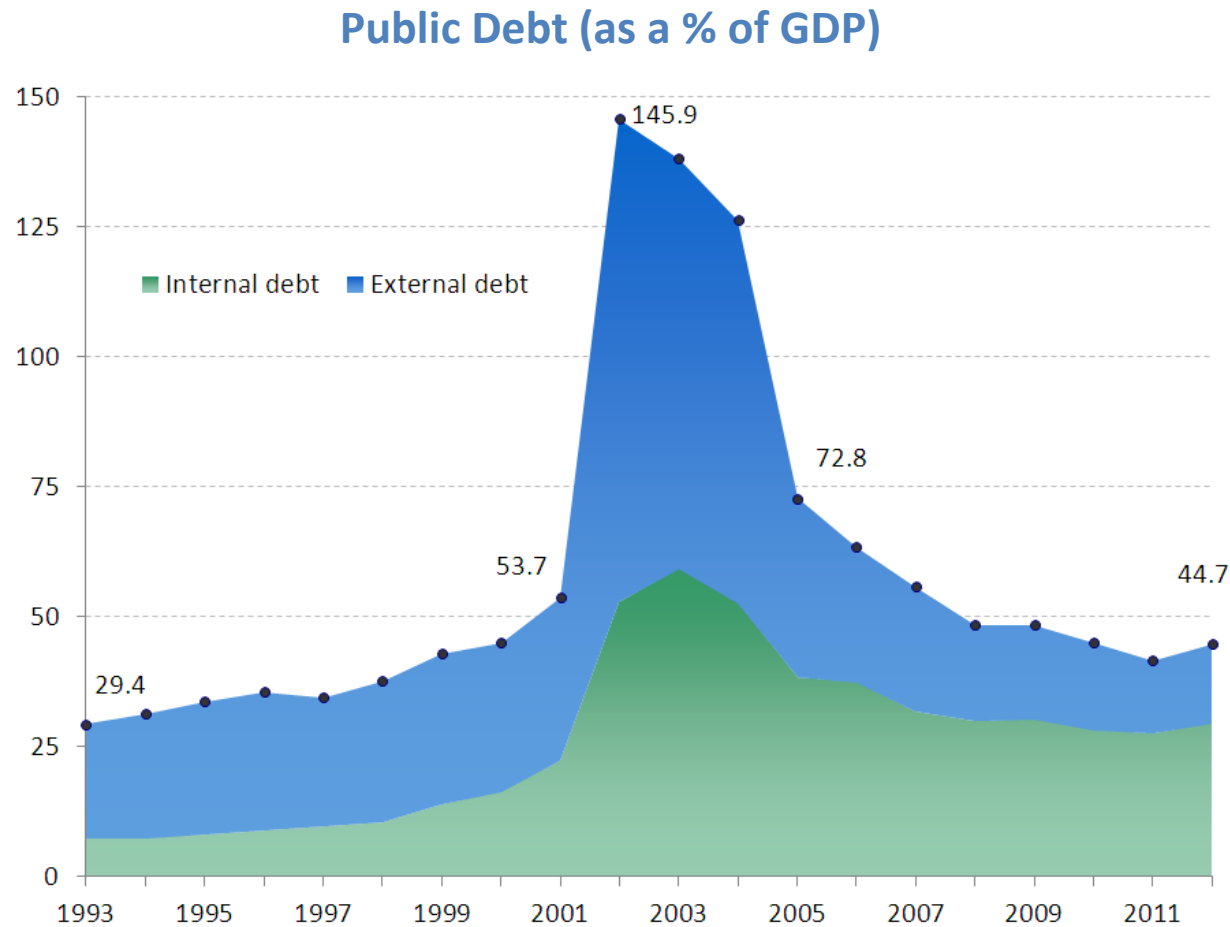
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Consequences of liberalization in Argentina

- Public indebtedness rose



Source: Own elaboration based on data from the Central Bank of Argentina (BCRA)

Argentine Imports of Financial Services.

Million of dollars.

Services	1980	1990	2000	2012
Transportation	1,271	937	2,413	4,650
Travel	1,792	1,171	4,425	5,879
Financial services	0	0	170	80
Other Services	725	1,012	2,212	8,090
Total Services	3,788	3,120	9,219	18,699

Source: Own elaboration based on data from WTO

Argentine exports of financial services



Source: Own elaboration based on data from WTO

Argentine Imports of Financial Services.

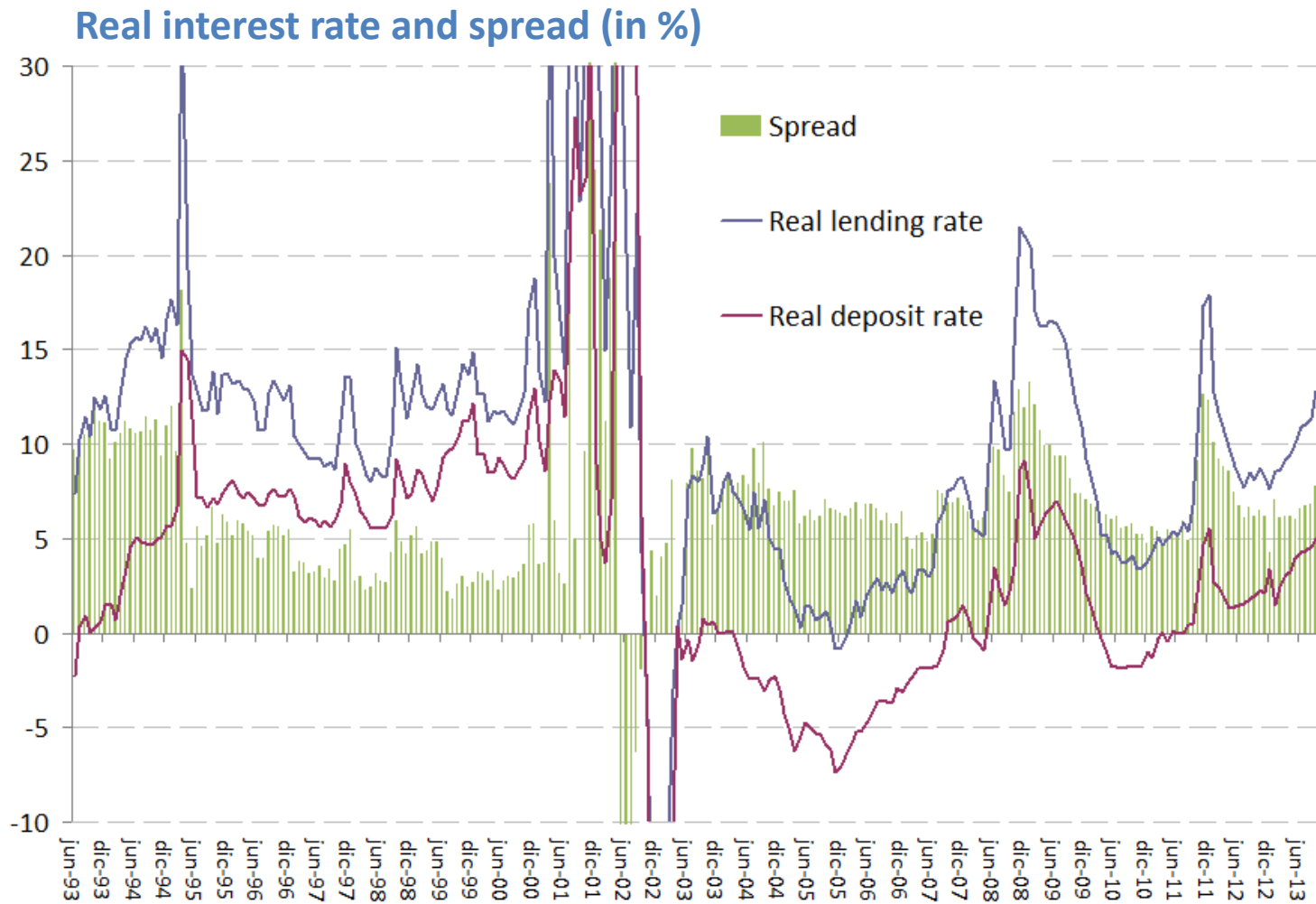
Annual growth rates

Services	1980-1990	1991-2000	2001-2012
Transportation	-26%	79%	121%
Travel	-35%	154%	51%
Financial services	0%	0%	-57%
Other Services	40%	140%	251%
Total Services	-18%	130%	120%

Source: Own elaboration based on data from WTO

Consequences of liberalization in Argentina

- Increase in interest rates and spread:



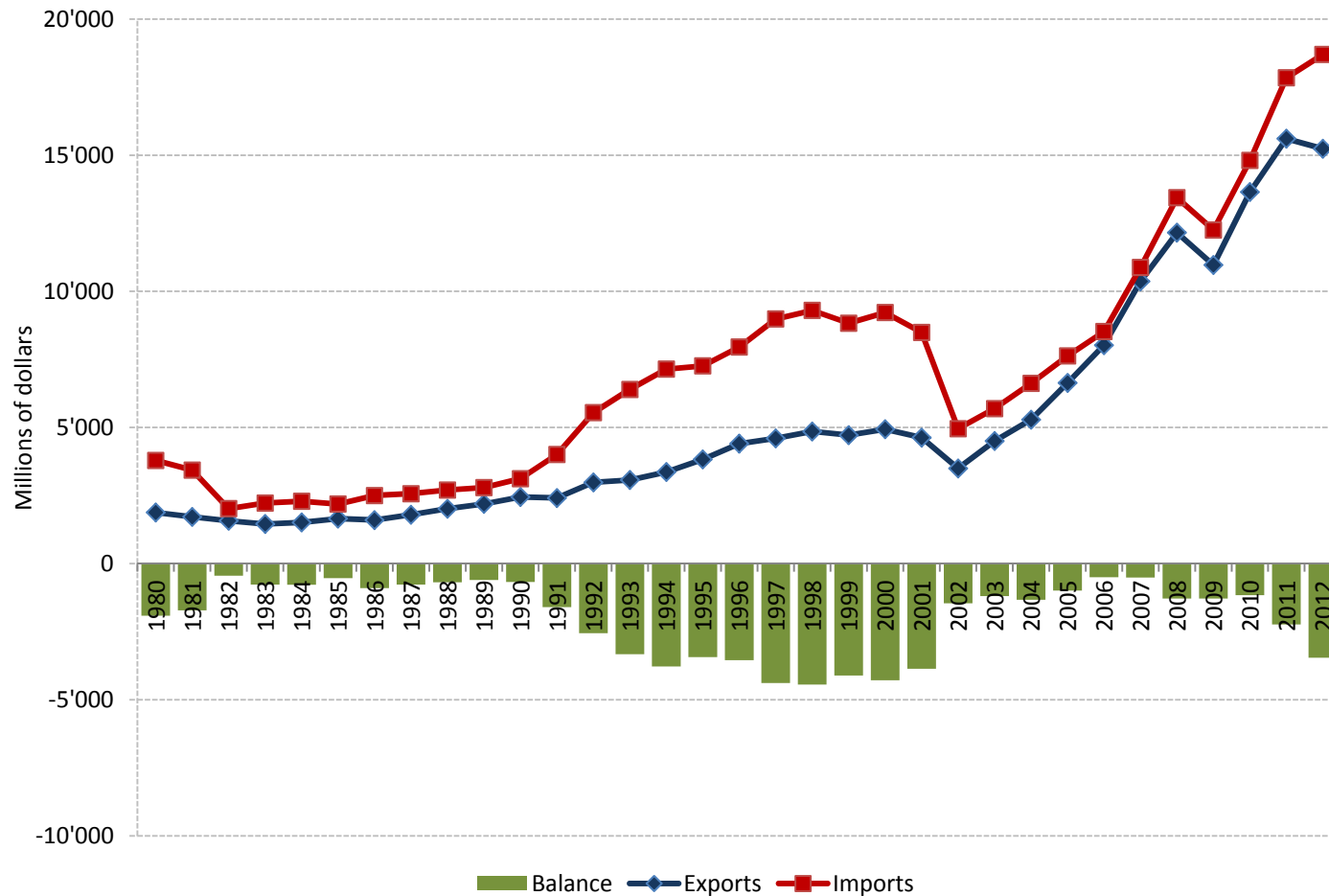
Source: Own elaboration based on data from BCRA

Crecimiento de las exportaciones argentinas de servicios financieros

	1980-1990	1991-2000	2001-2012
Transporte	43.6%	-3.4%	163%
Viajes	163%	271%	85%
Servicios Financieros	0%	6100%	110%
Otros Servicios	-47%	100%	634%
Total	30%	105%	229%

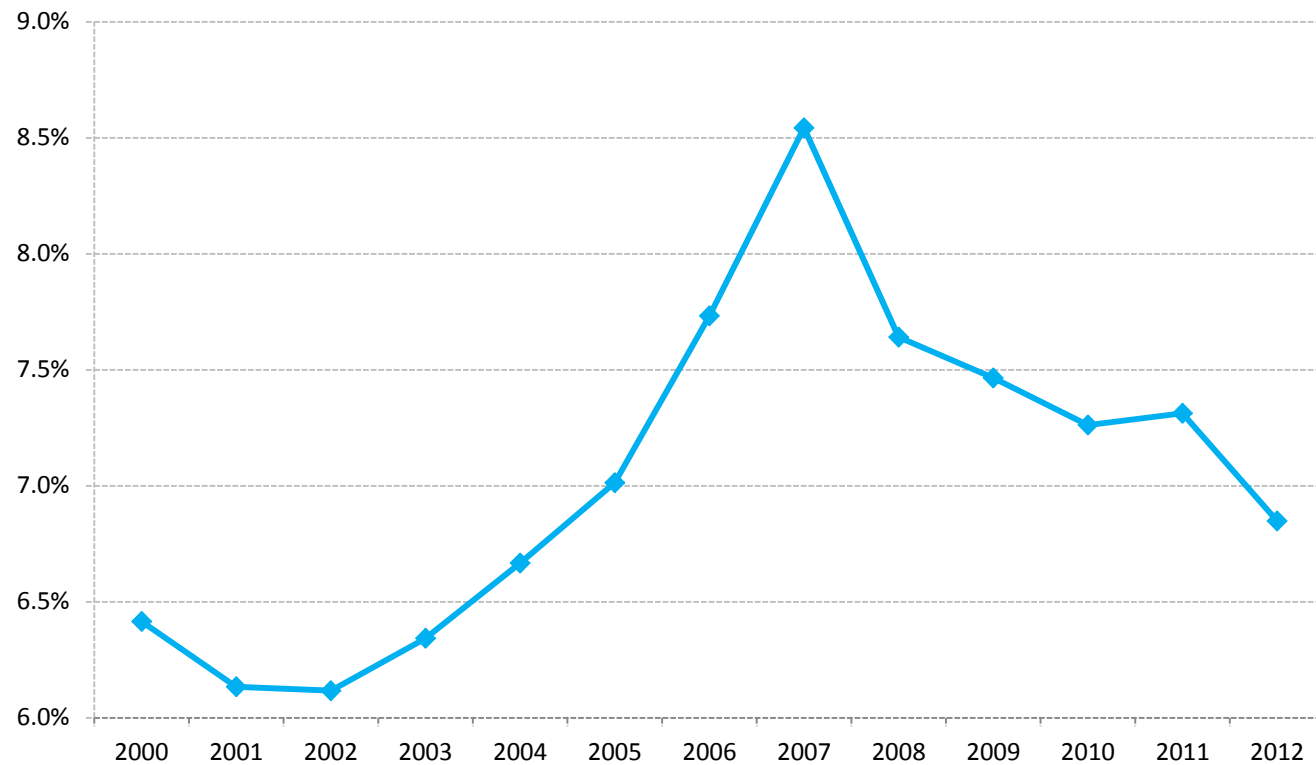
Source: Own elaboration based on data from WTO

Argentina's Trade in Services



Source: Own elaboration based on data from WTO

Share of financial services in global services exports



Source: Own elaboration based on data from WTO