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Appendix 5

Instituto Movilizador de Inversiones Bancarias

In 1935 the Congress approved a specially created institution, the Instituto Movilizador de Inversiones Bancarias (IMIB), to bail out the banking sector. The main source of funds for the operation were seigniorage profits of the Banco Central arising from the decision to devalue the peso parity from 2.27 paper pesos per gold peso to 4.96 in 1935. Suddenly, a huge accounting profit of 701 million paper pesos accrued to the government. This was allocated to various uses as follows: to retire some of the Treasury's floating debt, around 95 million; to augment the banking reserves in the central bank, 216 million; and to supply IMIB with funds for the bailout operation, 390 million pesos.

That is, IMIB received 55 percent of the proceeds of the gold revaluation, which in itself represented a 58 percent increase in the quantity of outside money. How costly was this operation to Argentine households? Such a massive seigniorage tax amounted to about 7 percent of 1935 gross domestic product, around 10 billion paper pesos. If one allows that the retirement of some treasury debt with this operation constituted no change in the net wealth of households, the figure falls to 6 percent of output, still a huge sum.

How did this clean-up operation work? In Table A5.1 we show first the details, starting with the seigniorage operation. IMIB was created to "buy fixed assets, loans, and other investments immobilized or frozen in the banks, and to make good on them gradually" (Article 1). To that end, IMIB performed three big asset swaps to salvage the financial system:

1. It purchased (at book value) the "lemons" at the Banco de la Nación (the rediscunts to private banks) for 301 million pesos, swapping these for 150 million in cash and 151 million in promissory notes;
2. It purchased from four big ailing banks 385 million pesos in assets, and then gave to a newly created merged bank (the Banco Español Limitado) 193 million of these assets, absorbing the remaining 192 million of bad loans in exchange for 129 million in cash and 63 million in promissory notes;¹ and
3. It did a final bailout operation with the private sector by absorbing 61 million pesos of assets in exchange for cash.

1. The bank merger arose because IMIB insisted that the four big banks should be broken up according to function. The newly merged bank took over their traditional commercial banking operations (and the assets and liabilities associated therewith) and the original four banks were left to undertake only investment banking operations or else quit the system.

Table A5.1. *Actions of the Instituto Movilizador de Inversiones Bancarias*

		House- holds	Public Sector				Private Sector					New Bank
			Treas- ury	BCRA	IMIB	BNA	Old Private Banks					
							Esp.	Torn.	Hog.	A-U	Other	
<i>(a) Financing of the Scheme</i>	Gold revaluation (seignorage)	-701	95	216	390							
	Change in Fiduciary Issue			-216								
	Change in Value of Reserve Backing			216								
<i>IMIB Rescue of Banco de la Nación</i>	Private Banks' redisc. from BNA					-301	142	54	40	62		3
	Private Banks' bad assets to BNA					301	-142	-54	-40	-62		-3
	BNA bad assets taken over by IMIB				301	-301						
	Cash from IMIB to BNA				-150	150						
	Promissory note, IMIB to BNA				-150	150						
<i>IMIB 1st Bailout of Big 4 Private Banks</i>	Deposits, Private Banks to IMIB				-385		273	29	55	27		
	Deposits, IMIB to New Bank				385							-385
	Assets, Private Banks to IMIB				385		-273	-29	-55	-27		
	Assets, IMIB to New Bank				-193							193
	Cash, IMIB to New Bank				-129							129
	Promissory note, IMIB to New Bank				-63							63
<i>IMIB Second Bailout</i>	Cash from IMIB to Old Banks				-61			10				51
	Private Banks' Assets to IMIB				61			-10				-51
<i>Total</i>	Net	-701	95	216	390	0	0	0	0	0	0	0
<i>Transfers</i>	Net, Allowing for Bad Loans	-701	95	216	0	0		390				0
<i>(b) Final Balance Sheet of IMIB</i>	Loans					553	Promissory Notes					-213
	Cash in Reserve					50	"Liability" of IMIB for Cash					-390
	Assets					603	Liabilities					-603

Notes and sources: See text. Data are from various confidential reports, Ministerio de Hacienda, República Argentina. Units are millions of paper pesos. BCRA = Banco Central de la República Argentina; IMIB = Instituto Movilizador de Inversiones Bancarias; BNA = Banco de la Nación Argentina; Esp. = Banco Español y Río de la Plata; Torn. = Banco Tornquist Co.; Hog. = El Hogar Argentino; A-U = Banco Argentina-Uruguayo.