Folder Title:	President Wolfensohn - Briefing Book for President's Meetings and Events - Mr Domingo Carvallo - Argentina - November 1, 1996
Folder ID:	30485776
Series:	Meeting and event briefing materials
Dates:	08/20/1996 - 11/01/1996
Subfonds:	Records of President James D. Wolfensohn
Fonds:	Records of the Office of the President
ISAD Reference Code:	WB IBRD/IDA EXC-13-10
Digitized:	05/16/2025

Meeting: Mr. Domingo Carvallo
(Argentina)

Friday, November 1, 1996
3:00 - 3:30 p.m.
JDW Office

President Has Seen

Archive Management for the President's Office

Document Log

Reference # : Archive-00994

1185

Edit Print

A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
- [ ] Speeches
- [ ] Annual Meetings
- [ ] Corporate Management
- [ ] Communications with Staff
- [ ] Phone Logs
- [ ] Calendar
- [ ] Press Clippings/Photos
- [ ] JDW Transcripts
- [ ] Social Events
- [ ] Other

B. SUBJECT: Brief: MR. Domingo Carvallo (Argentina) -- Friday, November 1, 1996 @ 3 p.m.	**DATE:** 11/08/96

C. VPU

Corporate
- [ ] CTR
- [ ] EXT
- [ ] LEG
- [ ] MPS
- [ ] OED
- [ ] SEC/Board
- [ ] TRE

Regional
- [ ] AFR
- [ ] EAP
- [ ] ECA
- [x] LAC
- [ ] MNA
- [ ] SAS

Central
- [ ] CFS
- [ ] DEC
- [ ] ESD
- [ ] FPD
- [ ] FPR
- [ ] HRO

Affilliates
- [ ] GEF
- [ ] ICSID
- [ ] IFC
- [ ] Inspection Panel
- [ ] Kennedy Center
- [ ] MIGA

D. EXTERNAL PARTNER

- [ ] IMF
- [ ] UN
- [ ] MDB/Other IO
- [ ] NGO
- [ ] Private Sector
- [ ] Part I
- [x] Part II
- [ ] Other

*Corruption

E. COMMENTS: This brief contains information on the following:
-Memo from Burki to JDW dated October 30 entitled "Briefing for your meeting with Domingo Cavallo" with notes from Atsuko
- Background note
-Basic Facts & Figures
-Short Term Risk

File Location	Cleared By	Date:
☐ EXC ☐ IISC ☒ Archives		11/08/96

View Update History

Appointments	
1-1-96 .. 11-10-96	ACTING (G. KAJI)

9:00a - 9:30a	**SENIOR MANAGEMENT TEAM MTG. - *JDW not attending - G. Kaji to chair*** • Venue: E1227 (Conf. Rm.) // COFFEE & BAGELS SERVED • In attendance: JDW, Kaji, Einhorn, Koch-Weser, Frank, Sandstrom, MMB, Zhang • 10/25 EMAIL NOTICE SENT OUT • EXC: Atsuko (Hany as back up)
11:30a - 11:45a	**IN TRANSIT: DRIVE FROM HOME TO WESTFIELDS VIRGINIA - ** MAP AND DIRECTIONS FOR DRIVER **** • **ADDRESS: WESTFIELDS INTERNATIONAL CONFERENCE CENTER, 14750 CONFERENCE DRIVE, CHANTILY, VA 22021, TEL: 703-818-0300**
12:30p - 2:00p	**LUNCHEON MEETING: ECONOMISTS WEEK // JDW TO MAKE CLOSING REMARKS // (B) (N)** • VENUE: **WASHINGTONIAN ROOMS II AND III**, WESTFIELDS, INTERNATIONAL CONFERENCE CENTER, VIRGINIA, Tel: 703-818-0300 // Fax: 703-818-3655 • CONTACT: (MR.) LYN SQUIRE @ 36099 // SEC: CAROL BEST • (B) PREPARE BY LYN SQUIRE // DUE ON OCTOBER 28 • NOTE: THIS EVENT IS ATTENDED BY ABOUT 150 ECONOMISTS FROM WORLD BANK GROUP AND 30 ECONOMISTS FROM IMF • JDW GAVE OPENING REMARKS AT THE LAST ECONOMISTS' WEEK IN FEBRUARY 1996 • (B) GEOFF TO PROVIDE BRIEF TALKING POINTS • EXC: ATSUKO //LFG (10/28/96 7:16p)
2:15p - 2:15p	**IN TRANSIT: DRIVE TO WORLD BANK**
3:00p - 3:30p	**MEETING: MR. DOMINGO CAVALLO (N) (B) (Confirmed)** • VENUE: E 1227 (OFFICE) • CONTACT: MR. FERRARI @ 541-418-4787 // FAX: 541-343-9088 • IN ATTENDANCE: JDW, MR. CAVALLO (ONE-ON-ONE) • 10/25 CFMD VIA FAX • (B) PREPARE BY BURKI // DUE OCTOBER 30 • EXC: ATSUKO //LFG (10/24/96 5:49p)
3:30p - 4:00p	**PRE-BRIEF MEETING: ACTION PLAN FOR RURAL DEVELOPMENT (N) (B)** • VENUE: E 1227 (CONF. ROOM) • CONTACT: MCCALLA @ 85028 • IN ATTENDANCE: JDW, KOCH-WESER (TRAVELLING), SERAGELDIN (NOT AVAILABLE) , MCCALLA, BINSWANGER, HANY • (B) CONSISTS OF THE DOCUMENT 'FOOD SECURITY FOR THE WORLD' AND 'RURAL DEVELOPMENT: FROM VISION TO ACTION, SUMMARY' - PRESUBMITTED • EXC: HANY //LFG (10/29/96 5:48p)
4:00p - 4:45p	**MEETING: SVEN SANDSTROM (N)** • VENUE: E 1227 (OFFICE) • CONTACT: MARVA @ 81138 • IN ATTENDANCE: JDW, SANDSTROM // AMONG OTHER THINGS, TO DISCUSS FOUNDATIONS • EXC: HANY //LFG (10/31/96 10:37a)
4:45p - 5:30p	**MEETING: JANE HOLDEN (N)** • VENUE: E 1227 (OFFICE) • IN ATTENDANCE: JDW, JANE
5:30p - 6:30p	**FAREWELL RECEPTION: M. BRUNO (JDW & ERW) // JDW TO MAKE FAREWELL REMARKS (Confirmed)** • VENUE: E BUILDING 12TH FLOOR ATRIUM • CONTACT: KATE ORAM @ 31107 • (10/9) COPIED TO JANE FOR ERW • EXC: JDW // ALI (10/9)
6:30p - 6:30p	**IN TRANSIT: FROM WORLD BANK TO WASHINGTON NATIONAL AIRPORT**
7:00p - 8:00p	**FLIGHT: FROM WASHINGTON, NATIONAL AIRPORT (SIGNATURE AVIATION) TO NEW JERSEY, TETERBORO AIRPORT** • FBO SIGNATURE: (703) 417-3500 • CONTACT FOR HOWARD: 1-603-868-2424 / Pager: 1-800-492-7172

- Plane/Tail No.: Westwind II/ N117AH

8:00p - 8:40p ◦ **ARRIVAL: NEW JERSEY, TETERBORO AIRPORT (ATLANTIC AVIATION) // IN TRANSIT: DRIVE TO ELIOS RESTAURANT, TEL: 212-772-2242**

- FBO ATLANTIC: (201) 288-1740
- CONTACT FOR HOWARD: 1-603-868-2424 / Pager: 1-800-492-7172
- Plane/Tail No.: Westwind II/ N117AH
- London Town Cars: 1-800-221-4009 or 212-988-9700: Conf # 4B03D 10/31 BOOKED BY JANE

10:00p - 10:00p ◦ **IN TRANSIT: DRIVE TO BOTWINICK RESIDENCE**

-
- **ADDRESS: 176 EAST 71ST STREET, NEW YORK**

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: October 30, 1996

TO: Mr. James D. Wolfensohn

FROM: Shahid Javed Burki, Vice President, LACVP

EXTENSION: 8-2332

SUBJECT: **Briefing for Your Meeting with Domingo Cavallo**

JDW: Argentina was categorized as Tier 2 ("close monitoring needed") in the last Short-Term Risk Monitoring Group Report on Countries Vulnerable to Crises in the Next 12 Months — large portion of non-performing loans in banking sector (as much as 25-30%*). → third rail

This brief was not cleared by Javed but by Gobind Nankani.

10/30

Attached is your briefing for this meeting on Friday, November 1. It should be noted that Mr. Domingo Cavallo and several associates are now carrying out a consulting assignment for the new Government of Ecuador, providing advice on the content of the Government's broad economic strategy. Their advice covers such areas as macroeconomic issues, privatization, and modernization of the state. There is now considerable uncertainty and concern, both within Ecuador and abroad, about the content of the Economic Program the Government is now scheduled to announce on November 16. The Cavallo team has provided its advice confidentially and the precise nature of the advice has not been made public. Mr. Cavallo met with Enrique Iglesias during Mr. Iglesias' recent trip to Ecuador.

You might expect Mr. Cavallo to inform you about Ecuador's new economic program and request Bank support. Mr. Koch-Weser has requested a meeting with President Bucaram next week in Santiago. You might wish to ask Cavallo's advice on what issue Caio should discuss in that meeting.

Mr. Cavallo may also raise issues about corruption in light of the World Bank's position on the subject, made known through your speech at the Annual Meetings.

* 25-30% of publicly-owned bank assets ⇒ non-performing.
consolidated (private + public) banking sector: 15% of loans ⇒ non-performing

Background Note

CONFIDENTIAL

ARGENTINA
Briefing for Mr. Wolfensohn's Meeting with Mr. Domingo Cavallo
November 1, 1996

Mr. Cavallo's Concerns

- Since being forced out as Minister of Economy last August, Mr. Cavallo has been giving talks and providing advice to governments in the region, most notably Ecuador. In contrast, after some initial critical remarks he remains relatively low-key regarding current economic policy in Argentina and has been supportive of his successor Mr. Fernandez.

- In the past few weeks, however, Mr. Cavallo has returned publicly to the theme of corruption in government, in particular among the President 's close political allies. His harping on this during his last year ~~of~~ as Minister soured his relations with Menem and led to his eventual replacement. However, it is actually former members of Mr. Cavallo's team that are being most vigorously pursued for alleged corruption.

- Mr. Cavallo has reignited speculation about his presidential aspirations by suggesting that he might run in next October's congressional elections. From congress he would be in better position to run for the presidency in 1999, either challenging Gov. Duhalde for the nomination of the Peronist Party or as a third party candidate.

Business Setting

- Argentina was able to weather the worst of the tequila effect, but the recovery has been weak, aggravating problems in unemployment, banking and the fiscal position of the Government. It has also managed quite well the departure of Mr. Cavallo, and the Bank's public support helped smooth the transition.

- Argentina did not meet its mid-year fiscal targets, but has renegotiated its Stand By Agreement with the Fund. The fiscal deficit for 1996 is now estimated at above $6 billion, more than double the original target. They just agreed with the IMF on a three-year EFF, and the economic team has successfully pushed a package of fiscal reforms through Congress, but the effects of these measures are unlikely to be felt until 1997.

- Bolstered by the persistently high level of unemployment and slow economic recovery, organized labor, has stepped up its pressure on the Government with general strikes in August and September. Pressures have also increased from industrialists, who see the recent change in the economic team as an opportunity to press for increased protectionist trade policies. Political opposition is likely to build leading up to next year's mid-term elections.

- Minister Fernandez is redefining the role of his ministry to a less pro-active one in pushing structural adjustments, in favor of increased focus on the fiscal situation. President Menem, however, has stepped forward to personally lead the effort to pass labor reforms, and has also recently enacted decrees to provide for competition in the financing of health care, long a major source of patronage for the unions.

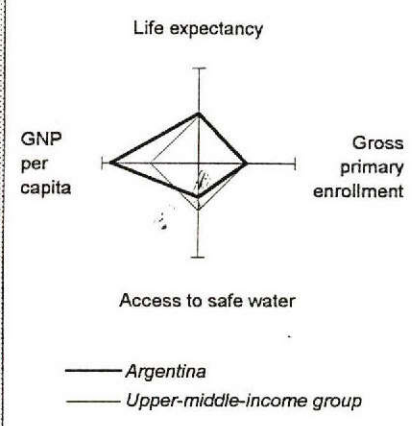
Mark Hagerstrom (39208), Country Officer, Argentina & Uruguay

Basic Facts & Figures

Argentina at a glance

POVERTY and SOCIAL	Argentina	Latin America & Carib.	Upper-middle-income
Population mid-1995 *(millions)*	34.6	480	440
GNP per capita 1995 *(US$)*	7,770	3,300	4,300
GNP 1995 *(billions US$)*	268.8	1,584	1,892
Average annual growth, 1990-95			
Population *(%)*	1.2	1.8	1.7
Labor force *(%)*	2.0	2.4	2.1
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	26	..	..
Urban population *(% of total population)*	88	74	74
Life expectancy at birth *(years)*	73	68	69
Infant mortality *(per 1,000 live births)*	22	41	36
Child malnutrition *(% of children under 5)*	5	..	..
Access to safe water *(% of population)*	64	81	89
Illiteracy *(% of population age 15+)*	4	13	13
Gross primary enrollment *(% of school-age population)*	107	110	107
Male	108	..	..
Female	107	..	..

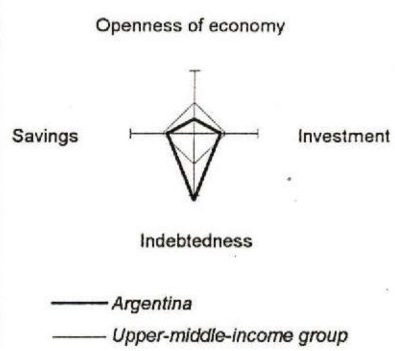
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1975	1985	1994	1995
GDP *(billions US$)*	52.4	88.4	280.5	276.0
Gross domestic investment/GDP	29.4	17.6	19.9	17.8
Exports of goods and non-factor services/GDP	5.8	11.7	6.8	8.9
Gross domestic savings/GDP	29.3	23.1	17.6	18.0
Gross national savings/GDP	26.9	16.5	16.6	17.0
Current account balance/GDP	-2.5	-1.1	-3.3	-0.8
Interest payments/GDP	0.9	5.0	1.3	1.8
Total debt/GDP	14.7	57.6	27.6	30.3
Total debt service/exports	44.7	60.1	32.6	33.6
Present value of debt/GDP	..	..	24.4	..
Present value of debt/exports	..	..	325.8	..

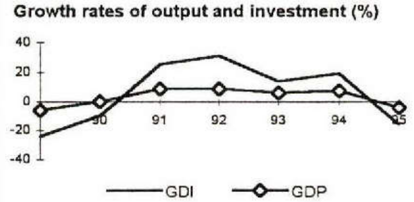
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	1.0	2.8	7.4	-4.4	4.9
GNP per capita	-1.5	2.0	5.9	-5.2	3.7
Exports of goods and nfs	5.1	5.9	14.8	25.7	8.0

Economic ratios*



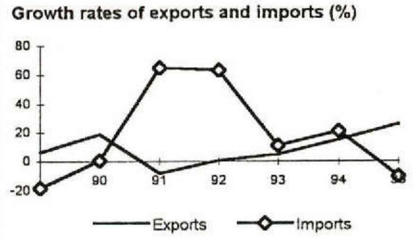
STRUCTURE of the ECONOMY	1975	1985	1994	1995
(% of GDP)				
Agriculture	6.6	7.6	4.9	..
Industry	50.1	39.3	30.1	..
Manufacturing	38.2	29.6	20.0	..
Services	43.3	53.1	65.1	..
Private consumption	58.1	66.5	69.2	69.6
General government consumption	12.6	10.4	13.3	12.4
Imports of goods and non-factor services	6.0	6.3	9.2	8.7

Growth rates of output and investment (%)



	1975-84	1985-95	1994	1995
(average annual growth)				
Agriculture	1.7	1.6	3.8	2.1
Industry	-1.1	2.7	6.5	-6.0
Manufacturing	-1.4	1.4	4.2	-6.5
Services	2.5	3.1	8.5	-3.4
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	-2.4	5.4	19.0	-15.9
Imports of goods and non-factor services	4.5	14.0	20.9	-10.6
Gross national product	0.0	3.4	6.9	-5.0

Growth rates of exports and imports (%)

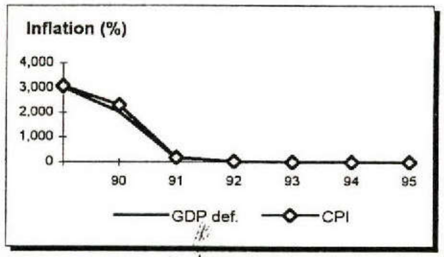


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

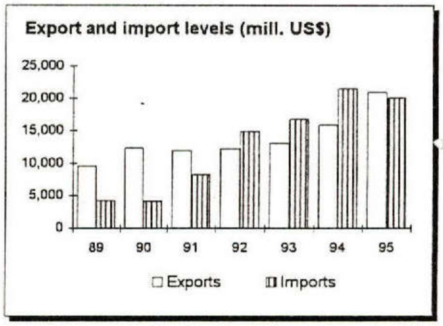
	1975	1985	1994	1995
Domestic prices				
(% change)				
Consumer prices	182.6	..	3.9	1.6
Implicit GDP deflator	198.2	618.0	1.8	2.5
Government finance				
(% of GDP)				
Current revenue	..	..	16.6	16.5
Current budget balance	..	..	0.7	-0.1
Overall surplus/deficit	..	..	0.0	-1.0



Inflation (%)

TRADE

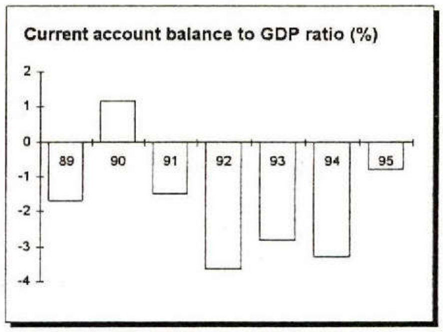
	1975	1985	1994	1995
(millions US$)				
Total exports (fob)	2,961	8,396	15,839	20,968
Food	..	..	1,323	1,956
Meat	..	..	1,546	1,572
Manufactures	..	..	8,059	10,635
Total imports (cif)	3,947	3,814	21,590	20,124
Food	..	..	..	..
Fuel and energy	..	..	591	628
Capital goods	..	..	6,039	4,754
Export price index *(1987=100)*	..	..	118	124
Import price index *(1987=100)*	..	..	115	120
Terms of trade *(1987=100)*	..	..	102	103



Export and import levels (mill. US$)

BALANCE of PAYMENTS

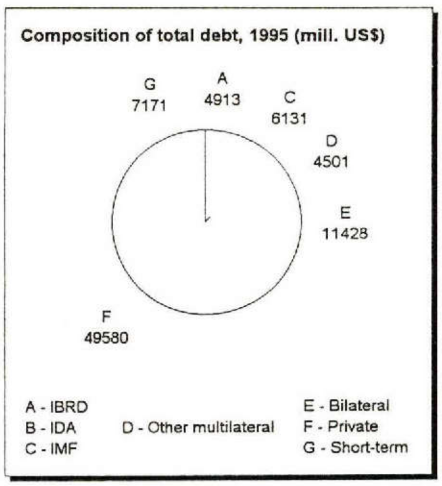
	1975	1985	1994	1995
(millions US$)				
Exports of goods and non-factor services	3,498	10,039	18,507	23,857
Imports of goods and non-factor services	4,324	5,285	25,591	23,724
Resource balance	-826	4,754	-7,084	133
Net factor income	-466	-5,706	-2,547	-2,842
Net current transfers	6	0	320	432
Current account balance, before official transfers	-1,286	-952	-9,310	-2,277
Financing items (net)	208	2,200	9,868	2,208
Changes in net reserves	1,078	-1,248	-558	69
Memo:				
Reserves including gold *(mill. US$)*	848	4,703	19,758	19,888
Conversion rate *(local/US$)*	3.7E-10	6.0E-05	1.0	1.0



Current account balance to GDP ratio (%)

EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
(millions US$)				
Total debt outstanding and disbursed	7,723	50,946	77,457	83,724
IBRD	341	700	4,109	4,913
IDA	0	0	0	0
Total debt service	1,603	6,209	6,847	8,609
IBRD	43	114	709	565
IDA	0	0	0	0
Composition of net resource flows				
Official grants	0	6	16	20
Official creditors	58	217	715	851
Private creditors	-111	2,350	5,805	1,993
Foreign direct investment	0	919	1,200	3,900
Portfolio equity	0	0	1,205	294
World Bank program				
Commitments	0	0	509	2,272
Disbursements	19	144	547	941
Principal repayments	17	68	425	259
Net flows	1	75	122	682
Interest payments	26	46	284	306
Net transfers	-25	30	-162	376



Composition of total debt, 1995 (mill. US$)

Argentina - Selected Indicators of
Bank Portfolio Performance and Management

Indicator	FY94	FY95	FY96	FY97
Portfolio Performance				
Number of projects under implementation	22.00	23.00	31.00	36.00
Average implementation period (years)[a]	3.64	3.19	2.98	2.70
Percent of problem projects rated U or HU[b] (for past years, rated 3 or 4)				
Development objectives[c]	4.55	0.00	3.23	5.55 (est)
Implementation progress (or overall status for past years)[d]	4.55	13.04	19.35	11.11 (est)
Canceled during FY in US$m	17.66	19.79	4.80	0.00 (est)
Disbursement ratio (%)[e]	22.85	22.65	16.17	23.00 (est)
Disbursement lag (%)[f]	20.65	15.37	28.57	20.00 (est)
Memorandum item: % completed projects rated unsatisfactory by OED[g]	50.00	33.00	0.00	0.00
Portfolio Management				
Supervision resources (total US$ thousands)	1222.80	1223.21	1586.57	2246.70
Average supervision (US$ thousands/project)	55.58	53.18	51.18	62.40
Supervision resources by location (in %)				
Percent headquarters	100.00	100.00	100.00	100.00
Percent resident mission	0.00	0.00	0.00	0.00
Supervision resources by rating category (US$ thousands/project)				
Projects rated HS or S	54.69	47.43	48.38	55.00
Projects rated U or HU	74.28	91.56	62.38	70.00
Memorandum item: date of last/next CPPR				Oct-96

a. Average age of projects in the Bank's country portfolio.
b. Rating scale: "HS" denotes "Highly Satisfactory", "S" denotes "Satisfactory", "U" denotes "Unsatisfactory", and "HU" denotes "Highly Unsatisfactory".
c. Extent to which the project will meet its development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590])*.
d. Assessment of overall performance of the project based on the ratings given to individual aspects of project implementation (e.g., management, availability of funds, compliance with legal covenants) and to development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590])*. The overall status is not given a better rating than that given to project development objectives.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.
f. For all projects comprising the Bank's country portfolio, the percentage difference between actual cumulative disbursements and the cumulative disbursement estimates as given in the "Original SAR/PR Forecast" or, if the loan amounts have been modified, in the "Revised Forecast." The country portfolio disbursement lag is effectively the weighted average of disbursement lags for projects comprising the Bank's country portfolio, where the weights used are the respective project shares in the total cumulative disbursement estimates.
g. OED data, available in the statistical appendix to the most recent ARPP reports.

Note:
Disbursement data is updated at the end of the first week of the month.
Supervision resources include Salaries, Benefits, and Travel for "BB" source of funds but excludes FAO staff and PCR task costs.

Argentina - IFC and MIGA Program, FY94-96

Category	Past FY94	Past FY95	Past FY96
IFC approvals (US$m)	300.2	378.7	403.4
Sector (%)			
Cement & Construction	0.0	0.0	10.0
Chemicals & Petrochems	7.0	0.0	0.0
Financial Services	9.0	12.0	24.0
Food & Agro-business	14.0	26.0	6.0
Indust &,consumer Svcs	0.0	7.0	0.0
Infrastructure	45.0	40.0	36.0
Manufacturing	0.0	0.0	2.0
Mining & Metals	0.0	7.0	0.0
Mining & Minerals	13.0	8.0	12.0
Oil Refining	0.0	0.0	5.0
Textiles	8.0	0.0	4.0
Timber, Pulp & Paper	4.0	0.0	1.0
TOTAL	100.0	100.0	100.0
Investment instrument (%)			
Loans	69.0	65.0	78.0
Equity	22.0	14.0	7.0
Quasi-equity[a]	9.0	21.0	15.0
Other	0.0	1.0	1.0
TOTAL	100.0	101.0	101.0
MIGA guarantees (US$m)	129.0	150.0	150.0
MIGA commitments (US$m)	0.0	0.0	10.0

[a] Includes quasi-equity types of both loan and equity instruments.

CAS Annex A2
Run Date: 8/12/96
Data as of: 8/12/96

Argentina - Bank Group Fact Sheet FY 1994-2000
IBRD/IDA Lending Program, FY 1994-2000

	Past			Current	*Planned[a]*		
Category	FY94	FY95	FY96	FY97	FY98	FY99	FY00
Commitments (US$m)	608.5	1425.0	1509.4	850.0	775.0	650.0	500.0
Sector (%)[b]							
Agriculture	0.0	0.0	1.1	13.9	5.1	0.0	0.0
Aids, Stds	0.0	0.0	0.0	0.0	0.0	1.2	0.0
Capital Markets Dev	83.6	0.0	0.0	0.0	0.0	0.0	0.0
Education	0.0	13.3	18.6	0.0	7.7	0.0	0.0
Financial System Dev	0.0	21.1	33.0	0.0	0.0	6.0	20.0
Health	16.4	0.0	31.6	0.0	12.8	15.1	0.0
Industry	0.0	0.0	4.5	0.0	0.0	18.1	0.0
Non-sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Finance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Social Sector	0.0	0.0	10.1	0.0	0.0	0.0	20.0
Population	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power	0.0	0.0	0.0	0.0	15.4	0.0	0.0
Public Sector Management	0.0	35.1	1.1	0.0	30.8	36.1	20.0
Transportation	0.0	0.0	0.0	50.0	0.0	23.5	0.0
Urban	0.0	30.5	0.0	0.0	0.0	0.0	20.0
Environment	0.0	0.0	0.0	18.3	12.8	0.0	20.0
Water Supply & Sewer	0.0	0.0	0.0	17.8	15.4	0.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]	0.0	56.1	56.3	0.0	0.0	0.0	0.0
Specific investment loans and others	100.0	43.9	43.7	100.0	100.0	100.0	100.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)	391.7	831.2	732.6	810.0	692.0	522.0	450.0
Adjustment loans[c]	94.8	466.7	434.0	432.0	100.0	0.0	0.0
Specific investment loans and others	296.9	364.5	298.6	378.0	592.0	522.0	450.0
Repayments (US$m)	440.7	284.6	260.1	385.2	499.7	652.8	650.0
Interest (US$m)	275.5	290.9	316.8	342.6	384.2	390.9	350.0

a. Ranges that reflect the base-case (i.e., most likely) scenario. For IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

b. For future lending, rounded to nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

c. Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

M:96anlmtg\argetina\tables.xls
10/30/963:33 PM

CAS Annex A7
Run Date: 9/16/96

Status of Bank Group Operations in Argentina
IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original amount in US$ millions: IBRD	IDA	Cancellations	Undisbursed	Difference between expected and actual disbursements[a]	Lastest Rating[b]: Development Objectives	Implementation Progress
Number of Closed Loans/Credits: 49											
Active Loans											
AR-PA-5968	L28540	1987	ARGENTINA	SEGBA V	276.00			68.45	68.45	S	U
AR-PA-6005	L32800	1991	ARGENTINA	PROVINC DEV PROJ	200.00			85.66	83.16	S	S
AR-PA-5977	L32810	1991	ARGENTINA	WTR SUPPLY II	100.00			83.34	58.87	S	U
AR-PA-6009	L32970	1991	ARGENTINA	AG SERVCES&INST DEV	33.50			7.31	3.44	S	S
AR-PA-6034	L34600	1992	ARGENTINA	TAX ADMIN II	20.00			2.83	2.16	U	U
AR-PA-6036	L35200	1993	ARGENTINA	YACYRETA II	300.00			4.02	3.10	S	U
AR-PA-6051	L35210	1993	ARGENTINA	FLOOD REHABILITATION	170.00			17.78	17.78	S	HS
AR-PA-6003	L36110	1993	ARGENTINA	RD MAINT & REHAB SCT	340.00			195.11	118.76	S	S
AR-PA-6025	L36430	1994	ARGENTINA	MTNAL CHILD HLTH & N	100.00			71.81	28.21	S	S
AR-PA-5988	L37090	1994	ARGENTINA	CAPITAL MKT DEVT	500.00			484.03	-15.97	S	S
AR-PA-6062	L37100	1994	ARGENTINA	CAPITAL MKT TA	8.50			6.31	2.94	S	S
AR-PA-5992	L37940	1995	ARGENTINA	SECONDARY ED I	190.00			182.85	78.05	S	U
AR-PA-6035	L38360	1995	ARGENTINA	PROV.REFORM	300.00			100.37	0.37	HS	S
AR-PA-6060	L38600	1995	ARGENTINA	MUNIC DEVT II	210.00			202.81	-4.27	S	S
AR-PA-6018	L38770	1995	ARGENTINA	PROV DEVT II	225.00			225.00	13.00	S	U
AR-PA-40826	L38780	1995	ARGENTINA	PROV.BANK PRIV.	500.00			166.00	166.00	S	S
AR-PA-34091	L39210	1996	ARGENTINA	HIGHER ED REFORM	165.00			158.54	25.54	HS	HS
AR-PA-40904	L39260	1996	ARGENTINA	BANK REFORM	500.00			333.00	194.67	S	S
AR-PA-6055	L39270	1996	ARGENTINA	MINING SCTR DEVT	30.00			28.20	0.90	S	S
AR-PA-6030	L39310	1996	ARGENTINA	PROVCL HLTH SCTR DEV	101.40			98.41	3.21	S	S
AR-PA-6040	L39480	1996	ARGENTINA	FORESTRY/DV	16.00			16.00	0.73	S	S
AR-PA-35495	L39570	1996	ARGENTINA	SOCIAL PROTECTION	152.00			66.51	3.21	HS	S
AR-PA-37049	L39580	1996	ARGENTINA	PUB.INV.STRENGTHG	16.00			16.00	1.40	NR	NR
AR-PA-38883	L39600	1996	ARGENTINA	ENT.EXPORT DV.	38.50			38.50	6.92	S	S
AR-PA-6057	L39710	1996	ARGENTINA	SECNDARY ED 2	115.50			115.50	11.17	S	S
AR-PA-40909	L40020-30	1996	ARGENTINA	H. INSURANCE REFORM	350.00			100.00	-136.11	S	S
AR-PA-45687	L40040	1996	ARGENTINA	H.INSURANCE TA	25.00			23.51	-1.49	S	S
TOTAL					4982.40	0.00	0.00	2997.85	734.20		

	Active Loans	Closed Loans	Total
Total disbursed (IBRD and IDA)	1984.55	5565.08	7549.63
Of which repaid	112.17	2664.43	2776.60
Total now held by IBRD and IDA	4870.23	2902.66	7772.89
Amount sold	0.00	12.79	12.79
Of which repaid	0.00	12.79	12.79
Total undisbursed	2997.85	2.01	2999.86

a. Intended disbursement to date minus actual disburseemnts to date as projected at appraisal.

b. HS=highly satisfactory; S=satisfactory; U=unsatisfactory; HU=highly unsatisfactory.

Note: Disbursement data is updated at the end of the first week of the month

Short-Term Risk

THE WORLD BANK/IFC/MIGA

STRICTLY CONFIDENTIAL

OFFICE MEMORANDUM

DATE: September 19, 1996

TO: Mr. James D. Wolfensohn

FROM: John Wilton, Acting Vice President, FPI

EXTENSION: 80551

SUBJECT: **Short-term Risk Monitoring Group Report on Countries Vulnerable to Crisis in the next 12 months**

I attach this month's report of the Short Term Risk Monitoring Group (STRMG) to EXC. The situation in Turkey is deteriorating, and we have moved it into Tier 1. Conditions in Bulgaria and Pakistan have also worsened. The Group discussed the latest measures proposed by the Argentine government and the reluctance of the authorities in Venezuela to move swiftly to tackle problems in the banking system. It also heard that although global conditions are still favorable and market sentiment towards emerging economies has improved, several countries remain vulnerable to shocks, including a rise in international interest rates. Among the main points raised at the Group's meeting were:

- Adverse assessments by rating agencies appear to have curtailed **Turkey's** ability to obtain new medium term external finance. This implies that the growing current account deficit, together with substantial debt repayments due, will have to be financed from short term borrowing or drawing on reserves, currently $16.2 billion. The government in particular is being forced to try to fund its growing fiscal deficit through the issue of domestic bonds linked to the exchange rate. The first auction was well subscribed, but unless the authorities can raise at least $1 billion weekly in the rest of the year, the deficit is likely to be monetized. This would risk a sharp rise in inflation beyond the current rate of 82 per cent, increased capital outflows and an accelerated depreciation of the lira. The reserves could be eroded substantially. The coalition government appears unready to tackle the fiscal problem forcefully, and the Bank may need to devote more resources to monitoring and contingency planning.

- The IMF program in **Pakistan** is effectively inoperative. The Pakistan delegation to the Annual Meetings will apparently propose measures to restore the program, but it is not clear that the Bhutto government is strong enough to implement an adequate package. Financial markets remain nervous and rumors of a freeze on non-resident accounts -- subsequently denied -- sparked a mini run on the rupee last week.

- Fiscal and monetary targets agreed with the IMF in **Bulgaria** have been missed, and the Fund's mid-September disbursement has been postponed. The authorities are considering further closures of banks and state-owned firms in order to re-open negotiations with the IMF and the Bank in Washington ahead of the Annual Meetings, but these measures are politically difficult. The risk is that further credit expansion by the central bank will prompt higher inflation, a loss of foreign exchange deposits and pressure on the lev. External payments due in the rest of this year are modest, but further substantial payments, especially to Brady bondholders, are due in January.

The group also noted:

- In **Venezuela**, the macro-economic program remains on track and higher world oil prices are boosting revenues. The increase in oil receipts, however, may prove temporary, and the authorities' reluctance to restructure the banking system effectively is a concern. The Region is reconsidering Venezuela's need for the Bank's proposed financial sector loan, although technical assistance may still be useful.

- The measures proposed by the **Argentine** authorities to lower the fiscal deficit and reform the labor market are welcome, although these still have to be passed by Congress and the finances of the provinces remain a worry. Even if the measures are implemented, Argentina will remain vulnerable to shocks for some time, especially because parts of the banking system still have a large proportion of non-performing loans. The convertibility system limits the central bank's ability to provide liquidity, although the recent arrangement of credit lines with international banks should be helpful.

In wider discussion, the Group heard that the increasing diversity of economic activity throughout the world was reducing volatility, but world trade was likely to grow less rapidly this year than previously expected. Slower growth in Europe, in particular, was limiting the demand for exports from Bulgaria, Turkey and South Africa among the countries the Group monitors closely. Sentiment towards emerging economies as a whole had improved recently with falling spreads on the Brady debt of a number of countries. Many, however, remained vulnerable to a change in international conditions. A rise in interest rates, in particular, might slow the rate of bond issues by developing countries. US short term rates seemed likely to increase by perhaps 100 basis points over the next year, although it was not clear whether the Fed would tighten before the election.

Attachment

Numbered copies to:
Messrs./Mmes.: Einhorn, Frank, Kaji, Koch-Weser and Sandstrom.

cc: Mr. Wilson (o/r)

9/19/96 .
Strictly Confidential

Table 1

Countries Vulnerable to Short Term Crises or Systematically Important

<u>**Tier 1**</u> *High Risk of Crisis*	<u>**Tier 2**</u> *Close Monitoring Needed*	<u>**Tier 3**</u> *Potential Systemic Crisis/Risk*
Bulgaria	Algeria	Brazil
Pakistan	Argentina	Cameroon
Turkey	India	China
Venezuela	Lebanon	Colombia
	Lithuania	Cote d'Ivoire
	Mexico	Ecuador
	Nigeria	Egypt
	Papua New Guinea	Indonesia
	Russia	Jamaica
	South Africa	Jordan
		Malaysia
		Morocco
		Peru
		Philippines
		Thailand
		Ukraine

<u>*Definitions*</u>
<u>Tier 1</u> - Countries considered most vulnerable to a serious crisis in the near term and warranting continuous monitoring.
<u>Tier 2</u> - Countries vulnerable to a crisis in the near term and meriting monthly monitoring.
<u>Tier 3</u> - Includes a larger group of countries that merit periodic scrutiny, either because of their potential vulnerability or their wider systemic or regional importance.

ARGENTINA

September 1996

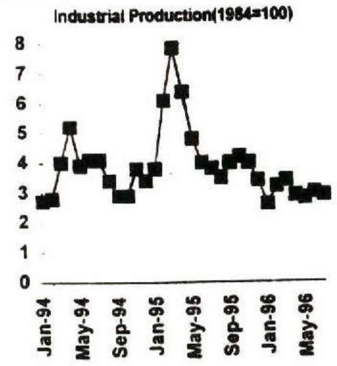
Summary

. *Roque Fernadez replaces Domingo Cavallo as Minister of Economy on July 26.*

. *Initial transition much smoother than feared, but, subsequently, credibility of new economic team hurt by the handling of proposed economic package.*

. *IMF visits Argentina to negotiate waiver and new targets for 1996-97. IMF Board to meet on Argentina after Annual Meetings, but Letter of Intent--prepared with Bank contribution-- likely to circulate before Meetings as sign of support to economic team.*

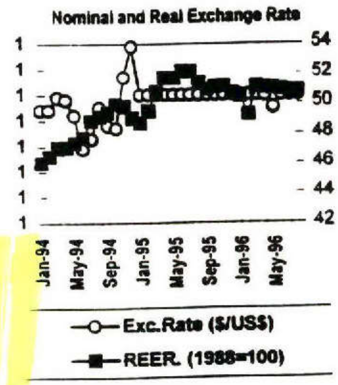
. *Protest against socio-economic conditions intensifies*



Recent Developments

Two months have passed since Mr. Cavallo left the Ministry of Economy, on July 26. The initial transition to a new minister was smoother than feared in the markets.

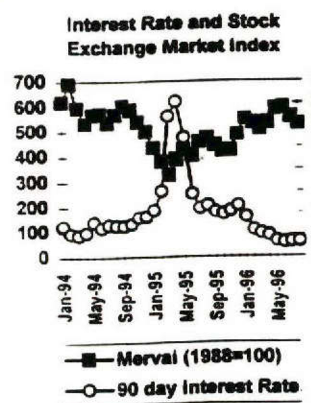
Minister Fernandez initially announced that the fiscal deficit would be \$6.6 billion in 1996, much higher than the IMF-targetted \$2.5 billion deficit. He then presented a new fiscal package focused mostly on higher taxes and little on spending cuts. Hastily put together, the package, which requires Congressional approval, satisfied few. The financial markets reacted negatively, as did labor unions and industrialists. It became evident that the new team will need to work harder to reestablish its tarnished credibility.



In mid-August an IMF mission visited Buenos Aires to address non-compliance with their program and negotiate new deficit targets for 1996 (\$6 billion) and 1997 (\$4.5 billion). The Bank worked with the IMF and contributed in the preparation of the Letter of Intent, recommending the need to address the pending structural reform agenda.

In August, the Central Bank initiated a process to establish a swap arrangement with commercial banks, in order to deal with the limited lender of last resort to the banking system in a financial crisis. In an auction, the Central Bank received offers from 16 banks for a total of \$7.4 billion. The Central Bank is expected to conclude by end-September discussions with banks on the terms of the arrangement.

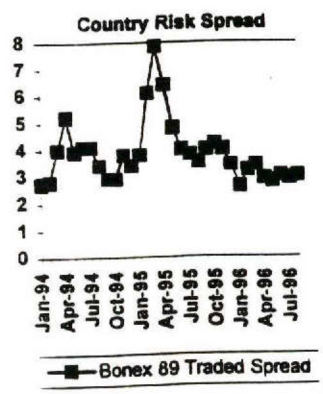
Economic activity picked up strongly during July, over the same month in 1995, with industrial production increasing at an estimated 10 percent, tax collections by 18.8 percent, exports by 21.4 percent, and imports by 48.3 percent.



Regarding monetary/financial indicators, international reserves changed little between end-July and the first week of September. However, interbank interest rates in pesos have increased by 224 basis points. Peso interest rates have risen more than dollar rates, reflecting a higher perceived exchange rate risk. Interbank perceived exchange rate risk rose from nil on July 25, to 220 basis points on August 12. There have not been significant changes in country risk, although there have been fluctuations. Regarding the banking system, there has been increased dollarization, with dollar deposits on August 27 accounting for 53.8 percent of the system (vs. 51.7 percent on July 20). By the first week of September, the stock market index had lost 4.5 percent of its value since July 24.

Policies

The new fiscal package, still evolving in Congress, includes various components, the most important of which are the increase in fuel taxes (non-coparticipated with provinces), and a 10 percent increase in corporate income tax (coparticipated).



Facing growing social displeasure (e.g. strikes) over high unemployment, the President announced the reform of the labor markets, including measures to reduce severance payments, decentralize collective bargaining, expand temporary contracts, and reduce other labor costs.

Prospects and Issues

Congress is expected to approve a new fiscal package in late September, or October at the latest. The Letter of Intent with the IMF is expected to be made public in September, and Board discussion of a waiver in October. In September/October, the Government is expected to present the draft law for labor reform. A general strike against Government economic policies has been announced for September 26-27.

Points to watch include:

. *Congressional approval of fiscal package*

. *Political and economic fallout of continued (end-September) strikes*

. *Draft law to Congress to reform labor markets*

	1994	1995	1996	1995		1996					
	Year	Year	Year	Q3	Q4	Q1	Q2	May	Jun.	Jul.	Aug.
Fiscal and Monetary Policy Indicators											
General government balance (LCU billion)	-0.29	-1.37	..	-1.17	0.54	-1.11	-0.81	..	..	..	..
(%GDP)	-0.10	-0.50	..	-1.70	0.78	-1.54	-1.12	..	..	..	..
Reserve money (% change, previous year)	20.68	-26.69	..	-26.90	-27.71	1.99	10.63	8.56	13.49	13.48	10.44
(% change, previous period)				5.28	-1.73	7.85	-0.87	0.48	2.98	7.67	-3.64
Broad money (% change, previous year)	29.78	-1.96	..	-4.55	-3.29	8.75	23.88	25.29	24.33	24.45	23.25
(% change, previous period)				5.13	3.95	8.47	4.50	1.96	1.33	3.10	-0.26
Domestic credit (% change, previous year)	20.51	2.80	..	-0.97	-2.94	-0.08	5.09	5.62	6.81	9.16	..
(% change previous period)				-1.88	1.92	2.10	2.93	1.00	1.32	0.97	..
3-month interest rate.	8.83	12.61	..	10.41	10.26	8.71	7.54	7.43	7.28	7.38	7.41
Exchange rate (LCU/$, end-period)	1.0	1.0	..	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real effective exchange rate, (1990 = 100)	48.2	50.9	..	51.5	51.0	50.3	51.0	51.0	50.9	50.8	50.8
(% change, previous period)	1.4	5.8	..	-0.7	-1.0	-1.4	1.4	-0.1	-0.2	-0.2	0.0
Financial Market Indicators											
Stock market prices (1992 = 100, end-period)	79.8	78.0	..	70.8	78.0	81.4	95.3	94.2	95.3	89.0	84.4
($ terms, 1990 = 100)	333.2	325.8	..	295.9	325.8	340.0	397.9	393.6	397.9	371.8	352.5
Secondary debt price (par bond, end- period)	65.5	54.8	..	58.1	54.8	52.2	50.7	54.7	50.7	53.2	54.9
International bond traded spread (end-period)	3.4	3.4	..	4.0	3.4	3.4	3.0	2.8	3.0	2.9	3.0
Foreign currency deposits ($ billion)	23.0	23.6	..	22.5	23.6	25.2	25.8	25.8	25.8	26.3	26.8
Output, Demand and Inflation											
GDP (% change previous year)	7.4	-4.4	..	-8.1	-7.7	-3.2	..	..	..	..	..
Industrial production (1990 = 100)	143.4	133.5	..	135.7	131.2	120.7	141.7	146.1	140.3	136.6	..
(change, previous year)	4.2	-6.9	..	-0.7	-3.3	-8.0	17.4	-17.1	-14.2	-18.1	..
Consumer prices (1991 = 100)	147.5	152.4	..	152.6	152.9	152.8	152.0	152.0	152.0	152.7	151.2
(% change, previous year)	4.2	3.4	..	2.7	1.9	0.5	-0.2	-0.3	-0.3	0.4	-1.0
(% change, previous period)	4.2	3.4		0.2	0.2	-0.1	-0.5	-0.1	0.0	0.5	-1.0
Balance of Payments											
Trade balance ($ million)	-5,751	925	..	374	-293	-256	847	195	449	203	..
Exports of goods, fob ($ million)	15,839	20,893		5,257	4,806	4,729	6,536	2,354	2,180	2,237	..
(% change, previous year)	20.7	31.9	..	23.5	13.1	4.3	3.8	3.9	2.0	22.2	..
Imports of goods, fob ($ million)	21,590	19,969	..	4,883	5,099	4,985	5,689	1,905	1,977	2,252	..
(% change, previous year)	28.6	-7.5	..	-13.5	-10.6	-4.6	19.5	11.1	26.1	49.1	..
Current balance ($ million)	-9,365	-2,399	.	-204	-1,319	-1,451	..	..	..	..	..
Amortization ($ million)	2,166	6,377	..	1,075	1,561	1,769	2,318	862	1,190	266	995
Debt service (% exports of goods and services)	36.2	43.9	..	35.2	49.5	..	..	..	..	..	..
International equity issues ($ million)	..	..	..	..	..	..	..	..	..	0	..
International bond issues ($ million)	5,169	..	..	..	..	..	..	1,553	371	564	688
Medium term foreign bank loans ($ million)	..	..	..	..	..	..	..	..	..	..	..
Reserves and External Debt											
Reserves, excluding gold ($ million)	16.3	16.0	..	12.8	16.0	16.1	17.4	15.7	17.4	16.1	16.8
(months of imports of goods and services)	7.6	8.1	..	4.8	5.2	..	..	..	..	..	..
Total external debt ($ million)	79,290	89,413	..	..	..	..	..	..	..	..	..
(% exports goods and services)											
Short-term debt ($ million)	7,171	7,171	..	..	..	..	..	..	..	..	..
(% of imports of goods and services)											
IBRD debt outstanding ($ million)	4,109	4,462	..	4,108	4,462	4,601	..	..	..	..	..